



Provincial Economic Overview

A. Harvey Marine Base, St. John's Harbour (A. Harvey)

Economic output, as measured by real GDP, declined in Newfoundland and Labrador in 2009. Real GDP fell by 8.9%, directly attributable to a decline in provincial exports.

Total provincial exports are estimated to have declined by about 20% in real terms in 2009. Natural declines in oil production combined with recession related output cuts in mineral, newsprint and fish production are the main factors behind the decline. The volume of oil production fell by 22%, newsprint shipments declined by almost 50%, and the volume of fish landings decreased by 8.5% last year. As well, lower iron ore and nickel production and prices led to a decline of almost 50% in the value of mineral production.

Although the export sector suffered from the fallout of the global recession, domestic demand (consumption, investment and government expenditures) performed well. Consumer confidence remained solid throughout 2009, and business confidence recovered, trending upward throughout most of last year.

Retail sales increased by 2.6% last year supported by income gains and high consumer confidence. Higher sales of building materials contributed to the increase in total sales. Sales by building and outdoor home supply stores rose by 11.4%, partially due to a boost in residential renovation spending stimulated by the Home Renovation Tax Credit. A slight decline in the value of car sales offset some of the gains in other store types. The number of new vehicles sold declined by 8.5%, following a stellar performance in 2008. However, the value of sales decreased by only 0.6% as buyers, on average, purchased more expensive vehicles.

Investment in the province totalled \$5.0 billion in 2009. High levels of spending on major projects, in particular the White Rose (North Amethyst) oilfield and Vale Inco's nickel processing facility, contributed significantly to total expenditures. Higher public sector spending on infrastructure also contributed to investment expenditures last year as both federal and provincial governments rolled out economic stimulus programs to counteract the impacts of the recession. While housing starts declined relative to 2008, residential investment increased as new home prices increased and renovation spending rose.

Economic Indicators

	2009e	2010f	2011f	2012f	2013f
GDP at Market Prices (\$M)	22,912	25,407	27,666	28,436	28,534
% Change.....	-26.7	10.9	8.9	2.8	0.3
% Change, real	-8.9	4.0	3.1	-1.8	0.1
% Change, real adjusted*	-1.1	5.1	1.9	0.3	2.9
Personal Income (\$M)	16,257	16,896	17,733	18,402	19,275
% Change.....	3.9	3.9	5.0	3.8	4.7
% Change, real	3.7	1.7	2.5	1.1	2.1
Personal Disposable Income (\$M).....	13,150	13,588	14,258	14,797	15,494
% Change.....	4.7	3.3	4.9	3.8	4.7
% Change, real	4.4	1.1	2.5	1.1	2.1
Retail Sales (\$M).....	7,244	7,609	7,908	8,178	8,442
% Change.....	2.6	5.0	3.9	3.4	3.2
% Change, real	4.3	3.6	2.6	2.0	1.8
Consumer Price Index (2002=100) ...	114.6	117.1	119.8	123.0	126.2
% Change.....	0.3	2.2	2.3	2.6	2.6
Capital Investment (\$M)	5,042	6,200	7,378	6,528	6,424
% Change.....	0.1	23.0	19.0	-11.5	-1.6
% Change, real	-3.2	21.7	16.0	-12.5	-2.5
Housing Starts (Units)	3,057	3,102	3,121	3,047	2,980
% Change.....	-6.3	1.5	0.6	-2.4	-2.2
Employment (000s)	214.9	219.9	223.3	224.9	229.2
% Change.....	-2.5	2.3	1.5	0.7	1.9
Labour Force (000s).....	254.2	258.3	260.7	261.2	263.4
% Change.....	0.2	1.6	0.9	0.2	0.9
Unemployment Rate (%).....	15.5	14.9	14.4	13.9	13.0
Population (000s)	508.9	511.6	513.7	515.1	516.9
% Change.....	0.5	0.5	0.4	0.3	0.4

* Adjusted GDP excludes production related income earned by the non-resident owners of provincial mega-projects (oil projects and Voisey's Bay) to better reflect growth in economic activity that generates income for residents.

e: estimate; f: forecast, Department of Finance, March 2010
Source: Statistics Canada; Department of Finance

Labour Markets

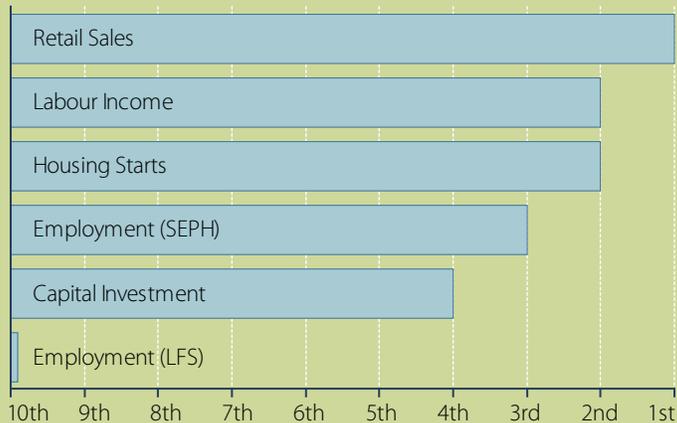
Employment, as measured by Statistics Canada's *Labour Force Survey (LFS)*, declined by 2.5% last year. The impact of the recession resulted in lower employment levels in many resource-based industries in the province. The closure of the Grand Falls-Windsor newsprint mill, layoffs at Corner Brook Pulp and Paper, downtime in the mining industry, and low prices in the fishing industry, together with spin-offs, all contributed to lower employment in 2009.

Employment began falling in December 2008 and recorded nine consecutive months of decline as indicated in the chart on page 13. In September 2009, a slight increase in employment was recorded, however, employment losses resumed in October and November. A noteworthy increase in employment was recorded in December 2009—the first since the losses began. Employment has since increased in both January and February of 2010, which bodes well for labour market performance this year.

2009 Economic Performance Newfoundland and Labrador Relative to Other Provinces

While GDP and employment (as measured by the *LFS*) declined in Newfoundland and Labrador during the recession, the province's domestic economy weathered the downturn better than many others. Several economic indicators fared very well in a provincial context. Newfoundland and Labrador's retail sales growth was the strongest of the Canadian provinces. Labour income and housing starts turned in the second best performance, behind only Prince Edward Island. Capital investment ranked fourth and Newfoundland and Labrador was one of only four provinces to record positive investment growth last year.

Newfoundland and Labrador's 2009 Performance Rank Among Provinces



Source: Statistics Canada; CMHC

There exists an apparent contradiction between employment (as measured by the *LFS*) and other economic indicators such as income and consumption. However, another measure of employment from Statistics Canada does not indicate the same degree of weakness in provincial employment performance as the *Labour Force Survey*. The *Survey of Employment, Payrolls and Hours (SEPH)* estimates that the number of employees in the province increased by 0.4% in 2009. This measure of employment includes employees only (and not self-employed persons) and is based on a survey of establishments in the province. One possible explanation for the discrepancy between the results of the two surveys (besides the exclusion of self-employed) is that there was a decline in employment of residents of Newfoundland and Labrador who commuted to work in other provinces as the global recession decreased employment opportunities in Western Canada. This would not be picked up in *SEPH* as it only surveys firms in this province, but it would be picked up in *LFS* as it surveys households.

The labour force in the province remained relatively stable last year, increasing by 0.2% to 254,200. The combination of employment losses and growth in the labour force led to an increase in the unemployment rate of 2.3 percentage points. The unemployment rate averaged 15.5% in 2009 compared to 13.2% in 2008.

Wages recorded solid gains last year. Average weekly earnings (including overtime) increased by 4.3% in 2009. Some of the factors contributing to the increase in average weekly earnings were hikes in the minimum wage and pay raises in the public sector. Total labour income increased 4.2% in 2009 and total personal income is estimated to have increased by 3.9%. Personal disposable income

grew 4.7%, aided by tax measures at the federal and provincial levels.

Prices

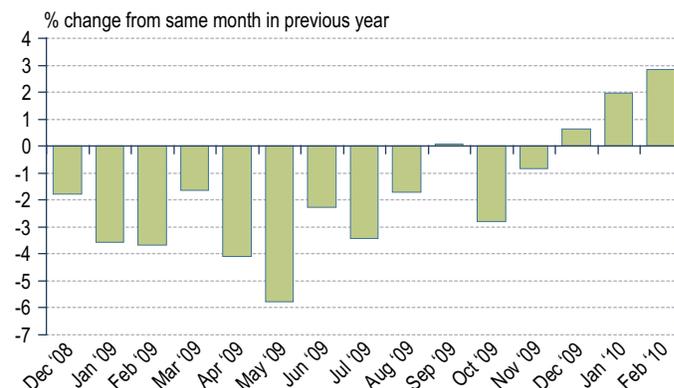
Inflation, as measured by year-over-year change in the Consumer Price Index (CPI), was only 0.3% in 2009. Overall, price increases were dampened considerably by lower energy prices throughout most of 2009—energy prices averaged 13.5% less than in 2008. Lower energy prices resulted in the transportation (influenced by gasoline) and shelter (influenced by home heating fuel) components of the CPI declining relative to 2008 as indicated in the chart. Increased prices for food; health and personal care; and household operations, furnishings and equipment contributed to the overall increase in the CPI.

Population

Annual estimates of population for Canada and the provinces are measured on July 1. Newfoundland and Labrador's population stood at 508,925 as of July 1, 2009, an increase of 0.5% compared to July 1, 2008. This was the largest annual increase in population since 1983. Population growth was the result of positive net migration of 2,800 which more than offset a natural decline in population (more deaths than births). 2009 marked the first significant immigration to the province in over 25 years and the second consecutive year of positive migration flows.

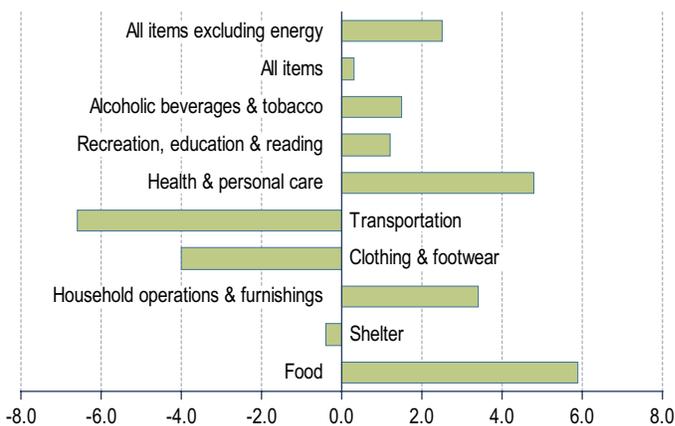
Population also increased in the quarter following the July 1 estimate. On October 1, 2009, the population of Newfoundland and Labrador was estimated at 510,272, an increase of 1,347 persons or 0.3% from July

Employment



Source: Statistics Canada, Labour Force Survey

Percent Change in Consumer Price Index by Component 2009 vs. 2008



Source: Statistics Canada

Total Net Migration



Source: Statistics Canada, Labour Force Survey

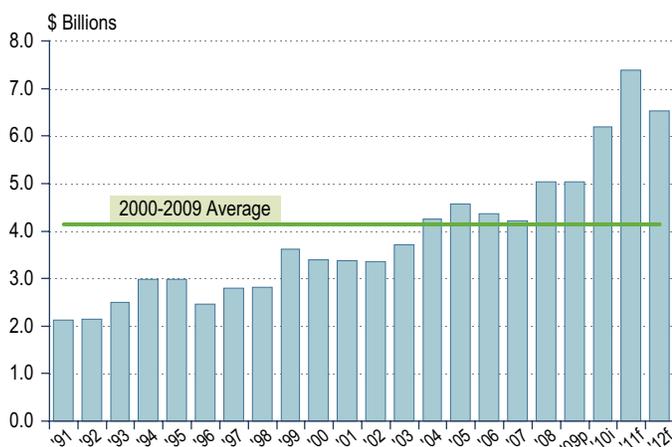
1, 2009. This increase was the result of positive net migration and slightly positive natural population change.

Net migration has been positive for five consecutive quarters. In fact, quarterly net migration reached its highest level since 1971 during the second quarter of 2009 and remained high during the third quarter (latest data available). A number of years of strong economic performance, along with tightening labour markets, are believed to be behind the change in migration trends. During 2009, fewer job opportunities elsewhere, particularly in Ontario and Alberta, positively impacted local migration trends.

Medium-Term Outlook

Real GDP growth is expected to resume this year, increasing by a projected 4.0%. Several private sector forecasters expect Newfoundland and Labrador to lead the country in growth this year. The private sector average of forecasts has Newfoundland and Labrador and British Columbia leading the country in GDP growth in 2010. GDP growth will stem from an anticipated rebound in mineral production and increased construction activity on major projects which will more than offset a decline in oil production. Other economic indicators, such as employment, income, retail sales and housing starts, are also expected to post gains in 2010.

Capital Investment



p: preliminary; i: intentions; f: forecast (March 2010)
Source: Statistics Canada; Department of Finance

Beyond 2010, the economic outlook remains positive. While GDP growth will vary depending on major project timelines and oil production, other economic indicators such as employment and income are expected to continue to increase. In addition, the unemployment rate is expected to resume its downward trend and continued consumer optimism is expected to produce stronger retail sales.

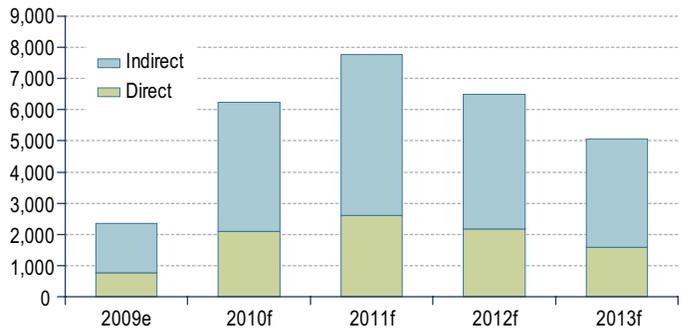
One of the biggest factors behind the province’s positive economic outlook over the medium-term is major project development and the associated high level of capital investment. Capital investment is expected to rise by 23% in 2010 and a

further 19% in 2011—the strongest in the country. Construction of the nickel processing facility in Long Harbour; development of Hibernia South; continued expansion of White Rose satellite fields; and pre-engineering work for the Hebron project will all contribute to higher investment expenditures. The current forecast does not incorporate development of the Lower Churchill project. Development of major projects over the medium-term will contribute significantly to increased employment and

incomes in the province, as outlined in the chart. Employment is expected to rebound quicker from the 2009 recession than after any other recession since the 1970s.

Strength in domestic demand and continued optimism about the development of major projects are factors which have led to recent net in-migration and an increase in the province's population. Population is expected to continue to trend upwards over the medium-term, even though there may be fluctuations in population on a quarterly basis. Overall, the positive economic outlook is expected to lead to modest population growth in the province over the medium-term.

Major Project Construction Employment



e: estimate; f: forecast (March 2010)

Note: Includes Hibernia, White Rose, Hebron, and Voisey's Bay construction employment

Source: Department of Natural Resources; Department of Finance