



Petty Harbour (Dept. of Finance)

Provincial Economic Overview

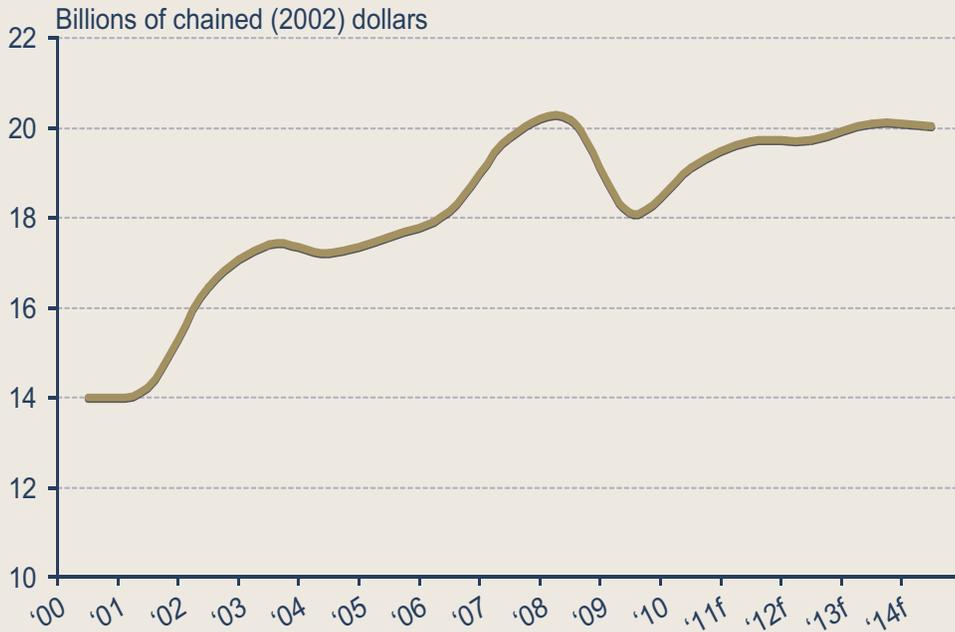
Newfoundland and Labrador posted a solid economic performance in 2010. All major economic indicators recorded increases over 2009 and the province led the country in both GDP and employment growth.

Real GDP grew by an estimated 5.6% in 2010 due mainly to investment and export growth, and to a lesser extent, consumer and government sector growth (see chart). Most private sector forecasters rank Newfoundland and Labrador at the top of the list for economic growth last year.

Investment in the province totalled \$6.5 billion in 2010, an increase of 32.3% compared to 2009. Increased spending on major projects was the primary driver of investment growth. The largest major project expenditures in 2010 were on the Vale nickel processing facility in Long Harbour and the Hibernia South Extension. Additionally, there was significant investment on other oil projects (e.g. Hebron, White Rose expansion) and the Iron Ore Company of Canada (IOC) expansion project. The continuation of government's infrastructure strategy, expansion in the commercial sector, and a robust housing sector also contributed to high levels of investment. Residential investment increased by 20.7% in 2010 and housing starts were up 18.0%.

A rebound in exports from depressed levels in 2009—partly related to the recession—contributed to GDP growth last year. Real exports are estimated to have increased by about 4% in 2010. Mineral production increased substantially as improved market conditions led to higher output

Newfoundland and Labrador's Real GDP



f: forecast

Source: Statistics Canada; Department of Finance

Sector Contribution to Real GDP Growth, 2010



Source: Statistics Canada; Department of Finance

from most mines in the province. In particular, iron ore shipments increased by over 17%. Oil production totalled 100.7 million barrels in 2010, an increase of 3.1% from 2009 due to additional production from the AA Blocks at Hibernia and the start-up of the North Amethyst field. Service exports benefitted from a good tourism year and growth in the general economy that, in turn, boosted transportation activities. Fish products performed reasonably well, however newsprint was down due to the closure of the Grand Falls-Windsor mill in 2009.

Consumer spending continued to support economic growth in 2010. Retail sales increased by 3.7%, fuelled largely by higher spending on motor vehicles. The number of new cars sold in the province rose by 10.1% in 2010 reaching the highest level on record. Continued high levels of consumer confidence—the highest in Atlantic Canada—combined with employment and income growth supported consumer spending in the province.

Labour Markets

Labour markets in the province rebounded in 2010. After posting declines in employment in 2009, Newfoundland and Labrador recorded a 3.3% increase in employment last year. In fact, employment growth was strong enough to completely recover job losses experienced in 2009. This marked the shortest employment recovery in Newfoundland and Labrador from a recession since at least the 1970s¹ (see chart), a reflection of the underlying strength and momentum in the provincial economy. Full-time employment rose by 5,300 or 2.9% and part-time employment increased by 1,900 or 6.2%.

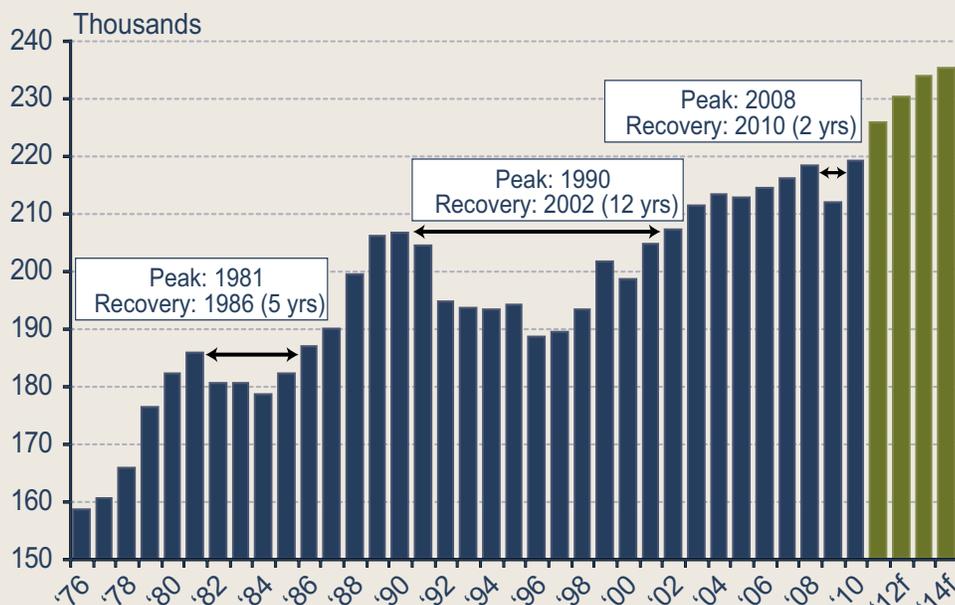
Job gains spurred confidence in local labour markets, leading to an increase in labour force participation. The participation rate averaged 59.9% in 2010, a gain of 0.9 percentage points compared to 2009. The increase in the participation rate combined with a 0.5% increase in the population of labour force age (those aged 15 and over) resulted in labour force growth of 2.0%.

Strong gains in employment led to declines in unemployment and the unemployment rate. The number of unemployed fell by 2,100 or 5.4% compared to 2009 and the unemployment rate decreased to 14.4%, a decline of 1.1 percentage points.

Labour income in the province rose by 5.2% last year supported by both employment and wage growth. Average weekly earnings (including overtime) rose by 4.5% in 2010, reflecting increases in the minimum wage, pay raises in the public sector and general wage growth in the private sector. Total personal income grew by 4.2% and personal disposable income rose by 4.1%.

¹ This statement is based on Statistics Canada's Labour Force Survey data, for which the current series extends back to 1976.

Employment



f: forecast

Source: Labour Force Survey, Statistics Canada; Department of Finance (2011-2014 forecast)

Inflation

Consumers in Newfoundland and Labrador paid 2.4% more for goods and services in 2010, as measured by the all-items Consumer Price Index (CPI). The increase in prices was largely due to increased energy costs. Energy prices increased 6.7% in 2010 compared to 2009 and impacted the costs of transportation (through gasoline) and shelter (through home heating fuel). Higher food costs, up 2.0%, also contributed to the increase in the overall CPI.

Population

Newfoundland and Labrador's population stood at 509,739 as of July 1, 2010. This represents an increase of 0.3% compared to July 1, 2009 and marks the second consecutive year of population increases following 16 years of declines. Population growth stemmed from positive net in-migration and reflects the current strength of the local economy and optimism about future prospects in the province.

Economic Indicators

	2010e	2011f	2012f	2013f	2014f
GDP at Market Prices (\$M)	29,674	32,543	32,998	34,500	34,600
% Change.....	18.8	9.7	1.4	4.5	0.3
% Change, real.....	5.6	3.0	0.2	1.8	-0.2
% Change, real adjusted*	5.7	3.5	2.7	2.2	1.1
Personal Income (\$M)	17,091	18,026	19,045	20,077	20,869
% Change.....	4.2	5.5	5.7	5.4	3.9
% Change, real.....	1.8	2.9	3.3	3.1	1.6
Personal Disposable Income (\$M).....	13,737	14,483	15,301	16,131	16,776
% Change.....	4.1	5.4	5.6	5.4	4.0
% Change, real.....	1.7	2.8	3.3	3.1	1.7
Retail Sales (\$M).....	7,384	7,695	8,073	8,504	8,827
% Change.....	3.7	4.2	4.9	5.3	3.8
% Change, real.....	1.5	2.3	2.8	3.7	2.2
Consumer Price Index (2002=100).....	117.4	120.4	123.2	125.9	128.7
% Change.....	2.4	2.5	2.3	2.2	2.3
Capital Investment (\$M).....	6,549	8,330	8,042	8,625	8,655
% Change.....	32.3	27.2	-3.4	7.2	0.3
% Change, real.....	28.9	28.9	-5.4	3.7	-1.5
Housing Starts (Units).....	3,606	3,294	3,017	3,043	3,063
% Change.....	18.0	-8.7	-8.4	0.9	0.7
Employment (000s)	219.4	226.0	230.6	234.3	236.0
% Change.....	3.3	3.0	2.0	1.6	0.7
Labour Force (000s)	256.3	262.0	266.4	269.7	271.9
% Change.....	2.0	2.2	1.7	1.2	0.8
Unemployment Rate (%).....	14.4	13.8	13.4	13.1	13.2
Population (000s).....	509.7	511.3	513.4	516.4	519.0
% Change.....	0.3	0.3	0.4	0.6	0.5

* Adjusted GDP excludes production related income that will be earned by the non-resident owners of Newfoundland and Labrador 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 2011

Source: Statistics Canada; Department of Finance

Outlook—2011

Economic growth is expected to continue to be robust this year, fuelled largely by investment in major projects. According to Statistics Canada's Public and Private Investment (PPI) Survey, capital investment in the province is expected to increase by 27.2% this year to \$8.3 billion. Of this, \$2.7 billion is expected to be spent by the mining and oil and gas industries. Projects with considerable development activity scheduled this year include Vale's nickel processing facility, Hebron, IOC expansion, Hibernia South Extension and the White Rose expansion fields.

Capital Investment



i: intentions

Source: Statistics Canada; Department of Finance (2012 – 2014 forecast)

Development work on these projects, combined with growth in the rest of the economy, is expected to support a 3.0% increase in employment. This performance will lead to a further reduction in the unemployment rate to 13.8%. Personal income is expected to increase by 5.4%, stemming from higher employment and continued wage gains. Subsequently, retail sales are forecast to increase by 4.2% this year. The current strength of the provincial economy is expected to support continued in-migration to the province, leading to an increase in the population of 0.3%.

Medium-Term Outlook—Beyond 2011

Beyond 2011, the economic outlook remains positive. While GDP growth will vary depending on major project timelines and natural resource production, other indicators such as employment and income are expected to record steady growth. Sustained high levels of capital investment (see chart) stemming primarily from major project development will support these gains. Increased employment and income, combined with high levels of consumer confidence, will bolster consumer spending. Continued economic growth and optimism about the development of major projects is expected to lead to further net in-migration and an increase in the population.