

household debt servicing ratio—the ratio of debt payments to disposable income—has been on a downward trajectory since 2008, which is a function of both rising incomes and falling borrowing costs. However, this trend is highly sensitive to changes in interest rates.

Provincial Economic Overview

Economic conditions in Newfoundland and Labrador were robust throughout 2012. The development of major projects increased investment spending to record levels, generating employment throughout the province and raising consumer spending. The strong investment and consumer spending, boosted provincial domestic demand by 10.5%. However, real GDP declined slightly, (-0.4%) due to a decline in exports stemming from maintenance shutdowns in the oil industry. A table of selected economic indicators for the province is contained on the next page.

Capital investment totaled \$10.0 billion in 2012, a 33.0% increase over 2011. Continued development of major projects underpinned this growth. Vale's nickel processing facility in Long Harbour was the single largest contributor to investment in 2012, with an estimated \$1.2 billion spent. Advancement of projects in the oil, mining and hydro-electric sectors, as well as solid commercial and residential expenditures, also contributed to high levels of investment spending. Housing starts totaled 3,885, the highest level in 36 years.

Consumer spending was strong last year with the value of retail sales increasing by 4.8% compared to 2011. While gains were recorded in most sales categories, the growth in retail sales was largely attributed to strong car sales. Over 33,600 new cars were sold in the province in 2012, 9.1% more than in 2011 (see chart). New car sales posted the highest number ever recorded in the province, surpassing the previous high registered in 2010. Employment and wage gains, combined with high levels of consumer confidence and low interest rates, continue to support consumer spending.

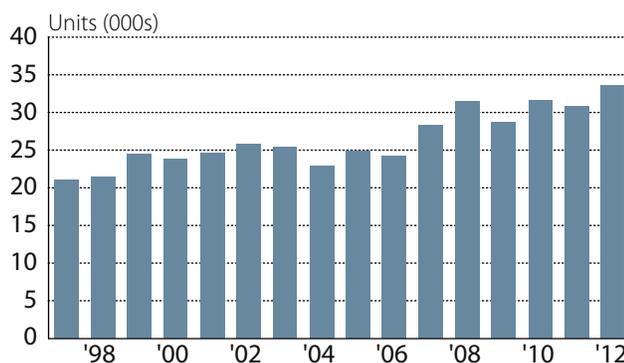
Exports had a dampening effect on GDP growth in 2012. Total exports (in real terms) are estimated to have declined by 3.7% due primarily to lower oil production resulting from maintenance shutdowns at the Hibernia, Terra Nova and White Rose projects (see *Oil and Gas* for more details). Exports of iron ore and refined petroleum saw significant increases while more modest growth was reported in newsprint. Exports of fish products declined.

Labour Market

Labour market performance in 2012 continued to be strong. Employment increased by 2.3% to a record high of 230,500. Employment growth in Newfoundland and Labrador was the second highest among provinces after Alberta. Job gains were concentrated in full-time employment. The strength in the labour market was driven in large part by major project development activity in the resource sector and related spin-offs.

Growth in employment and increasing wages enticed more people to participate in the labour market, reflected in a 1.4 percentage point increase in the participation rate in 2012. This resulted in a 2.1% increase in the labour force. The unemployment rate declined slightly as employment gains offset the increase in the labour force. The rate averaged 12.5% in 2012, 0.2 percentage points lower than 2011.

New Motor Vehicle Sales



Source: Statistics Canada

Rising wages, among other things, have also provided evidence of a strengthening labour market. Average weekly earnings increased by 5.4% in 2012. At \$929, they were the second highest among provinces, behind only Alberta, and 3.5% above the Canadian average (see chart). Gains in employment and wages led to a 9.0% increase in labour income for 2012. Total personal income, which includes not only labour income but also other sources of income such as investments and transfers from various levels of government, rose by 7.0% last year.

Prices

On a year-over-year basis, growth in the Consumer Price Index (CPI), or inflation, was 2.1% in 2012. The increase in the CPI was largely driven by a 4.6% rise in energy prices. Higher energy costs resulted in increases in the shelter (affected by electricity and home heating fuel) and transportation (affected by gasoline) components of the CPI. The “all-items excluding energy” index rose more moderately (+1.7%). Food prices also contributed to inflation last year increasing by 3.5%.

Population

Expansion in the economy and increasing employment have served to stabilize the province's population. Prior to 2008, the population had declined for 15 consecutive years because of high levels of out-migration. However, in recent years net out-migration has fallen and the province recorded increases in population from 2008 to 2011. Migration trends, and subsequently population levels, will continue to be impacted not only by strength in the local economy but also by labour market demand in other provinces, particularly Alberta. Preliminary data released by Statistics Canada indicated that the population of the province on July 1, 2012 was 512,659, virtually unchanged from one year earlier.

Outlook

Economic growth is expected to be strong in 2013 despite the dampening effects of government restraint. Real GDP is expected to increase by 6.8% as increased exports, investment and consumption more than offset a decline in government spending.

Economic Indicators

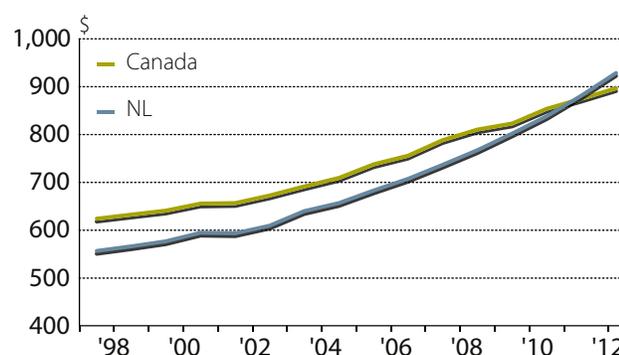
	2012e	2013f	2014f	2015f
GDP at Market Prices (\$ M)	31,601	34,365	33,770	33,993
% Change	-6.0	8.7	-1.7	0.7
% Change, real	-0.4	6.8	-1.6	-0.1
Final Domestic Demand* (\$ M)	32,632	35,662	36,393	36,482
% Change	13.2	9.3	2.0	0.2
% Change, real	10.5	6.1	-0.3	-2.1
Personal Income (\$ M)	20,359	21,835	22,120	22,878
% Change	7.0	7.3	1.3	3.4
% Change, real	4.8	4.5	-1.0	1.0
Personal Disposable Income (\$ M)	15,716	16,831	17,073	17,667
% Change	6.8	7.1	1.4	3.5
% Change, real	4.7	4.4	-0.8	1.1
Retail Sales (\$ M)	8,202	8,550	8,746	8,977
% Change	4.8	4.2	2.3	2.6
% Change, real	3.1	3.1	0.6	1.0
Consumer Price Index (2002=100)	123.9	127.1	130.0	133.1
% Change	2.1	2.6	2.3	2.4
Capital Investment	10,039	11,788	12,023	11,583
% Change	33.0	17.4	2.0	-3.7
% Change, real	25.9	9.5	2.1	-6.3
Housing Starts	3,885	3,520	3,102	2,995
% Change	11.4	-9.4	-11.9	-3.5
Employment ('000s)	230.5	236.9	234.6	236.1
% Change	2.3	2.8	-0.9	0.6
Labour Force ('000s)	263.3	267.6	265.9	267.1
% Change	2.1	1.6	-0.7	0.5
Unemployment Rate (%)	12.5	11.5	11.8	11.6
Population ('000s)	512.7	514.0	513.8	513.4
% Change	0.0	0.3	0.0	-0.1

* Final domestic demand measures demand in the local economy by summing consumption, investment and government expenditures; it excludes exports and imports.

e: estimate; f: forecast, Department of Finance, March 2013

Source: Statistics Canada; Department of Finance

Average Weekly Wages



Source: Statistics Canada

Exports are forecast to increase by 6.0% in real terms mainly as a result of a rebound in oil production and higher iron ore output. Construction activity at Vale’s nickel processing facility is expected to remain at high levels and the Hebron project will ramp up significantly with GBS construction underway and the commencement of topsides fabrication. Furthermore, development of the Muskrat Falls hydro-electric project is expected to accelerate. These major projects will contribute significantly to a 17.4% increase in capital investment.

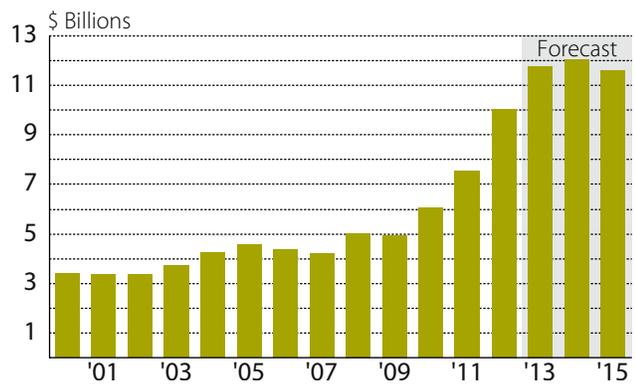
Employment is expected to grow by 2.8%, leading to a 1.0 percentage point decline in the unemployment rate. Employment gains and wage growth are expected to lead to a 7.3% increase in personal income. Increased employment and income will boost consumer spending—retail sales are expected to grow by 4.2%. Population growth is expected to resume in 2013 as demand for labour on major projects should result in a return to net in-migration.

Major project timelines and natural resource production will continue to impact economic growth in the province over the forecast period. Beyond 2013, economic activity is expected to remain at high levels, however growth in many economic indicators will be much more modest than in recent years. Capital investment is expected to decline after 2014 as major projects progress past peak development and move towards the production phase. Employment and income growth will also be dampened by lower major project development activity. Changes in the timelines (and number) of major projects or in oil production, in particular, could alter this forecast significantly.



Hebron GBS Construction at Bull Arm

Capital Investment



Source: Statistics Canada; Department of Finance

Oil and Gas

Oil and gas is the largest contributor to provincial GDP on an industry basis (see table on page 54). Currently, Newfoundland and Labrador has three active offshore oil projects, Hibernia, Terra Nova and White Rose. A fourth project (Hebron), estimated to contain the second largest reserves in the province’s history behind Hibernia, is expected to go into production in 2017. Industry is also continuing with near-field/satellite developments (e.g. Hibernia South Extension, North Amethyst and West White Rose) associated with existing projects and fund exploration efforts to identify new resources.

Oil Production

Oil production decreased by 25.8% to 72.2 million barrels in 2012, compared to 97.3 million in 2011 (see chart). This drop was primarily driven by extended maintenance shutdowns and, to a lesser extent, natural production