

Provincial Economic Overview



Windshaped Tree in St. Lawrence. Courtesy: Newfoundland & Labrador Tourism

The economy of Newfoundland and Labrador experienced a prolonged period of growth beginning with the onset of oil production in 1997. Most economic indicators reached peak levels over the last three years. Employment, capital investment and household income, for example, peaked in 2013, 2014 and 2015 respectively.

While many economic indicators peaked in recent years, economic activity in Newfoundland and Labrador continued at high levels throughout 2015. Consumer and government spending remained at levels similar to 2014. However, investment, while still high in a historical context, declined relative to 2014 due to lower residential investment and lower levels of capital spending on major projects. As well, the export sector was negatively impacted by a decline in oil output. For the year as a whole, final domestic demand declined by 1.6% and real GDP fell by 2.3% (see table).

On an industry basis, performance was mixed last year. The oil sector recorded lower production due to operational issues and natural declines, and lower oil prices eroded the value of production. The value of manufacturing shipments fell, mainly due to a drop in the value of refined petroleum products. In the mining sector, low iron ore prices continued to present a challenge. However, the remaining big player in the iron ore industry, the Iron Ore Company of Canada, is reaping the benefits of its recently completed expansion project as improvements were made in operational performance and productivity. The fishing industry benefitted from record shrimp prices and the decline in the Canadian dollar relative to the U.S. dollar. The construction industry continued to benefit from major project development which supports high levels of employment and income. The tourism sector continued to build on past gains and non-resident visitation remained at high levels in 2015.

The value of provincial exports is estimated to have declined by 20.2% last year due to a combination of lower production and prices. Oil production fell

by 20.5% in 2015 as a result of lower output from all three projects—Hibernia, Terra Nova and White Rose. This drop in output, combined with a decline of 47% in the average price of Brent crude, resulted in a decrease of about 50% in the value of oil exports. The negative impacts of lower oil production and prices were partially offset by higher values for mining and fishing output.

Capital investment totalled approximately \$10.9 billion last year, a decline of 8.1% compared to 2014. Higher spending on the Muskrat Falls development was offset by lower spending on Vale's nickel processing facility in Long Harbour and the Hebron project as well as lower residential investment. Total residential spending (including renovations) was \$1.4 billion in 2015, a decline of 9.4% compared to 2014 and reflective of a 19.9% decrease in housing starts.

Consumer spending growth was moderate in 2015. The value of retail sales grew by 0.4% compared to 2014. A lower value of sales at gasoline stations—mostly due to reduced gas prices—constrained overall growth in retail sales. Sales at furniture and electronic stores were also sluggish in 2015, likely related to lower housing starts. New car sales, despite being down compared to 2014, continued to be robust. The number of new motor vehicles sold in 2015 was 34,960, just 1.4% below the record number of units sold in 2014 and 2013. Vehicle sales have been at very high levels in recent years, reflecting the high level of employment and income in the province. Expenditures on services posted growth last year. Receipts of food services and drinking places increased by 8.1% in 2015 compared to 2014.

Inflation

The increase in the Consumer Price Index (CPI), or inflation, was 0.5% in 2015. Lower crude oil prices resulted in lower prices of gasoline and fuel oil for consumers—down 16.1% and 22.7%, respectively. This constrained overall growth in the CPI. Higher

Provincial Economic Indicators

	2015e	2016f	2017f	2018f	2019f	2020f	2021f
GDP at Market Prices (\$ M)	30,133	29,656	30,301	30,616	31,191	31,902	32,975
% Change	-10.1	-1.6	2.2	1.0	1.9	2.3	3.4
% Change, real	-2.3	1.0	-3.3	-3.4	-1.1	-0.6	1.4
Final Domestic Demand* (\$ M)	35,078	35,337	33,423	30,319	29,812	29,245	29,286
% Change	-1.6	0.7	-5.4	-9.3	-1.7	-1.9	0.1
% Change, real	-2.8	-0.5	-6.7	-10.7	-3.5	-3.6	-1.5
Household Income (\$ M)	24,883	25,139	24,179	23,548	23,841	24,233	24,694
% Change	1.6	1.0	-3.8	-2.6	1.2	1.6	1.9
% Change, real	1.1	-1.2	-5.7	-4.8	-1.0	-0.4	0.1
Household Disposable Income (\$ M)	17,164	17,257	16,522	16,107	16,326	16,603	16,919
% Change	1.7	0.5	-4.3	-2.5	1.4	1.7	1.9
% Change, real	1.2	-1.6	-6.2	-4.7	-0.8	-0.3	0.1
Retail Sales (\$ M)	8,921	9,055	8,890	8,609	8,503	8,546	8,708
% Change	0.4	1.5	-1.8	-3.2	-1.2	0.5	1.9
% Change, real	0.5	-0.7	-3.9	-4.4	-2.4	-0.6	0.6
Consumer Price Index (2002=100)	129.0	131.9	134.6	137.6	140.6	143.5	146.0
% Change	0.5	2.2	2.0	2.2	2.2	2.0	1.8
Capital Investment (\$ M)	10,895	10,958	9,600	7,210	6,930	6,260	5,956
% Change	-8.1	0.6	-12.4	-24.9	-3.9	-9.7	-4.9
% Change, real	-9.9	-0.6	-13.3	-25.7	-5.4	-11.0	-6.5
Housing Starts (Units)	1,697	1,434	1,055	840	786	908	1,059
% Change	-19.9	-15.5	-26.4	-20.4	-6.4	15.5	16.6
Employment (000s)	236.2	233.7	221.9	208.8	203.1	201.3	200.7
% Change	-1.0	-1.0	-5.1	-5.9	-2.7	-0.9	-0.3
Labour Force (000s)	270.8	268.1	261.5	255.6	253.2	250.1	247.4
% Change	0.0	-1.0	-2.4	-2.3	-0.9	-1.2	-1.0
Unemployment Rate (%)	12.8	12.8	15.2	18.3	19.8	19.5	18.9
Population (000s)	527.8	527.1	523.3	517.2	513.6	510.4	507.2
% Change	-0.2	-0.1	-0.7	-1.2	-0.7	-0.6	-0.6

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

e: estimate; f: forecast, Department of Finance, March 2016

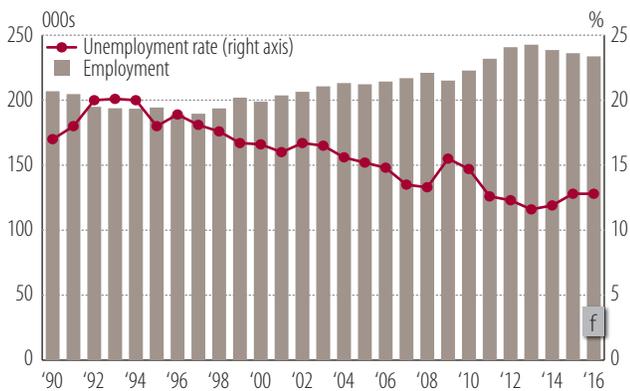
Source: Statistics Canada; Department of Finance

prices for food (3.8%) and tobacco products (4.7%) were the main catalysts for upward pressure on inflation last year.

Labour Markets

Employment, as measured by Statistics Canada’s Labour Force Survey (a household survey), declined by 1.0% in 2015 compared to 2014. Despite the decline in employment, the participation rate increased slightly, rising to 61.1% in 2015 from 61.0% in 2014. The number of people in the labour force also remained relatively steady in 2015. As such, the unemployment rate increased by 0.9 percentage points to average 12.8% in 2015.

Employment and Unemployment Rate



f: forecast
Source: Statistics Canada; Dept. of Finance

On the other hand, Statistics Canada’s Survey of Employment, Payrolls and Hours (an employer survey) depicts a more positive picture of labour market activity. Average weekly earnings rose by 2.6% in 2015 and, at \$1,017, were the second highest among provinces after Alberta. The increase in wages led to a 2.7% gain in total compensation for employees for 2015. The survey also indicated an increase in the number of employees every month during 2015 and, on average, an increase of 0.8% for the year.

Population

Economic expansion has served to increase the province’s population in recent years. Prior to 2008, the population had declined for 15 consecutive

years because of high levels of out-migration. However, in recent years net outmigration has ended and changed to net in-migration. Consequently, the province’s population grew from 2008 to 2014, recording a total gain of about 20,000 over this period. Although the current population estimate for 2015 indicates a slight decline in population from the previous year, it should be noted that this estimate is preliminary and will likely be revised several times. Preliminary data released by Statistics Canada indicates that the population of the province on July 1, 2015 was 527,756, a decline of 0.2% compared to one year earlier.

Outlook

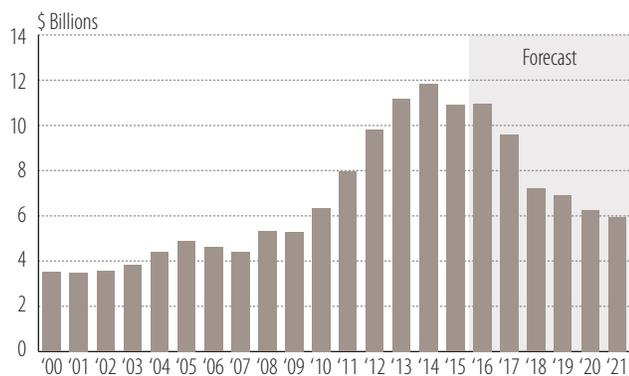
Prior to the most recent collapse of commodity prices, economic activity in the province had been expected to slow over the next few years due to the winding down of the development phases of the Hebron and Muskrat Falls projects. The drastic decline in commodity prices further weakened the economic outlook. Development of several projects in the resource sector has been deferred or delayed (e.g. West White Rose Extension, Alderon iron ore project) due to low commodity prices. As well, significant Provincial Government deficit reduction measures (as outlined in Budget 2016) are required to reign in ongoing budget deficits, stemming from prior increases in government expenditures and the impact of lower commodity prices on revenues. As such, the economy of the province has entered a period of adjustment that is expected to last for several years. Next year, real GDP is forecast to grow. However, economic activity is expected to be dampened thereafter.

In 2016, oil and mining output are expected to rise and provide a boost to exports. This will translate into growth of 1.0% in real GDP. Capital expenditures and employment on major projects are expected to remain at high levels this year as increased activity on the Muskrat Falls project offsets lower development activity on the Hebron project. However, the spillover effects of lower commodity

prices and deficit reduction measures are expected to negatively impact commercial sector employment in the province. As well, the slowdown in development activity in Western Canada will likely impact employment of some Newfoundland and Labrador residents who commute to Western Canada. Total employment is expected to fall by 1.0%. Lower employment is forecast to dampen income and consumption growth. Consequently, final domestic demand (real terms) is expected to fall by 0.5%.

Beyond 2016, economic growth is expected to be curtailed by a combination of factors, including declines in capital investment as major projects proceed past peak development and further provincial deficit reduction measures are required (see chart). Most main economic indicators are expected to be lower in 2021 than current levels.

Capital Investment



Source: Statistics Canada; Dept. of Finance

Despite the negative outlook in the short to medium term, a number of positive developments are occurring in the provincial economy. Construction on the underground mine at Voisey's Bay is expected to begin this year, which will extend the life of the mine beyond 2030. Construction on both the Hebron oil project and the Long Harbour nickel processing plant are expected to be completed over the next few years adding to long-term productive capacity in the economy. With the beginning of oil production from Hebron, total oil production is expected to increase annually for

the next several years, and output from the nickel processing facility will significantly boost manufacturing shipments. Furthermore, significant capacity enhancements in transportation infrastructure, such as those at St. John's International Airport and Marine Atlantic; the completion of the St. John's convention centre; and the continued addition of new capacity in the accommodations sector should facilitate growth in the tourism sector.

While the short to medium term outlook is challenging, there is significant long-term potential in the Newfoundland and Labrador economy, particularly in the energy sector.

There are substantial oil and gas resources offshore Newfoundland and Labrador. This is evidenced by the 2015 resource assessment of 11 parcels in the Flemish Pass. This region alone, which covers less than two percent of the province's 1.5 million square kilometer offshore area, is estimated to have a resource potential of 12 billion barrels of oil and 113 trillion cubic feet of natural gas.

Land sale results in December 2014, and more recently in November 2015, show industry's confidence in the offshore potential. In December 2014, the bid on one parcel in the Flemish Pass by Exxon-Mobil Canada Ltd., Suncor Energy Inc. and ConocoPhillips Canada was \$559 million, the highest bid ever on a land parcel in the Newfoundland and Labrador offshore area. In November 2015, seven parcels were awarded in the Flemish Pass Basin with a total work commitment of \$1.2 billion.

Deepwater exploration and development hold significant opportunities for future growth in oil production, and by extension, the provincial economy.