

# Provincial Economic Overview

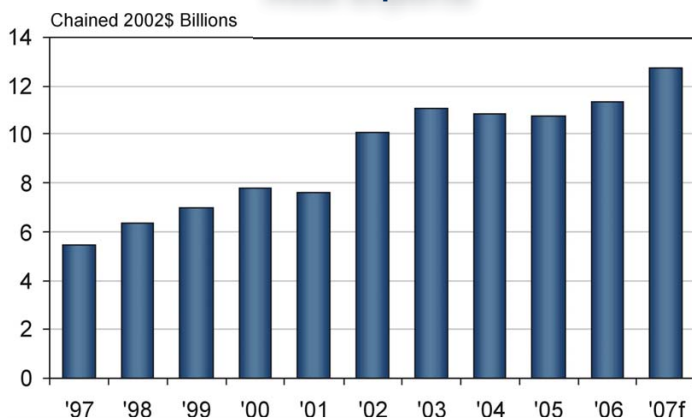
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Real GDP is expected to grow by 8.9% in 2007. Economic growth will stem mainly from gains in mineral and oil production. This GDP forecast has been revised upward slightly from the 8.5% projected in April 2007 because the overall economic performance has been better than expected. In particular, housing starts and retail sales have been much stronger than earlier projected.

Real exports are expected to increase by 12.2% this year, due mainly to higher oil and mineral shipments. Real exports of oil and mineral products are forecast to grow by 24.2% and 22.5% respectively. This is due to increased oil production from Terra Nova and White Rose and increased mineral production from Voisey’s Bay. An increase in refined petroleum exports (from the oil refinery at Come By Chance) is also expected to contribute to growth in exports this year.

## Real Exports



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Consumer spending growth continued in 2007. Retail sales (which account for about 55% of consumer spending) totalled \$4.8 billion in the first nine months of this year, an increase of 9.8% compared to the same period in 2006. On an annual basis, retail sales are forecast to rise by 8.9% in 2007. The increase in retail sales is primarily

due to strong gains in disposable income and growing consumer optimism. Although increases are occurring in most sales categories, new car sales have been the most important contributor to overall retail sales growth this year. The number of new cars sold in the province in the first nine months of the year was up by 19.5% in comparison to the year earlier level.

Investment is forecast to decline by 5.4% in 2007 to \$4.3 billion—construction spending is expected to be lower this year while machinery and equipment spending is expected to remain stable. The completion of some significant development phases in the White Rose oil project and the Voisey’s Bay mining project are largely responsible for the decline in investment. However, residential investment and provincial government capital spending increased, offsetting some of the losses elsewhere. Furthermore, total investment in the province is still high in a historical context.

## Prices

On a year-over-year basis, the CPI (Consumer Price Index) averaged 1.3% higher in the first ten months of 2007. Minimal price increases in: household operations and furnishings; transportation; health and personal care items; and, recreation, education and reading items, along with price declines in clothing and footwear have kept a lid on inflation this year. The strong appreciation in the value of the Canadian dollar (compared to the U.S. dollar) and lower year-over-year changes in energy prices have also contributed to keeping the inflation rate under control.

## Labour Markets

Employment is currently forecast to increase by 0.7% in 2007 to 217,300, due to continued increases in service sector activity. However, the labour force is projected to decline slightly, due to out-migration and growing retirements, leading to a decline in the unemployment rate. The unemployment rate is expected to average 13.5% in 2007, a 1.3 percentage point drop compared to 2006,

| Economic Indicators               |        |        |        |        |        |
|-----------------------------------|--------|--------|--------|--------|--------|
|                                   | 2006   | 2007f  | 2008f  | 2009f  | 2010f  |
| Gross Domestic Product (\$ M)     | 23,655 | 27,380 | 28,314 | 25,129 | 24,034 |
| % Change                          | 10.0   | 15.7   | 3.4    | -11.2  | -4.4   |
| % Change, real                    | 3.3    | 8.9    | 2.4    | -1.8   | -1.9   |
| Personal Income (\$ M)            | 13,814 | 14,363 | 14,908 | 15,486 | 16,155 |
| % Change                          | 4.0    | 4.0    | 3.8    | 3.9    | 4.3    |
| % Change, real                    | 2.2    | 2.6    | 1.7    | 1.9    | 2.4    |
| Personal Disposable Income (\$ M) | 10,849 | 11,429 | 11,855 | 12,309 | 12,842 |
| % Change                          | 4.3    | 5.3    | 3.7    | 3.8    | 4.3    |
| % Change, real                    | 2.5    | 4.0    | 1.6    | 1.9    | 2.4    |
| Retail Sales (\$ M)               | 6,042  | 6,579  | 6,765  | 6,981  | 7,232  |
| % Change                          | 3.7    | 8.9    | 2.8    | 3.2    | 3.6    |
| % Change, real                    | 1.5    | 8.7    | 1.9    | 2.1    | 2.5    |
| CPI (2002=100)                    | 109.5  | 111.0  | 113.3  | 115.5  | 117.7  |
| % Change                          | 1.8    | 1.3    | 2.1    | 1.9    | 1.9    |
| Capital Investment (\$ M)         | 4,530  | 4,283  | 4,320  | 4,399  | 4,464  |
| % Change                          | -1.0   | -5.4   | 0.9    | 1.8    | 1.5    |
| % Change, real                    | -1.2   | -9.2   | -4.5   | -0.7   | -2.9   |
| Housing Starts (Units)            | 2,234  | 2,435  | 2,371  | 2,391  | 2,356  |
| % Change                          | -10.6  | 9.0    | -2.6   | 0.8    | -1.5   |
| Employment (000s)                 | 215.7  | 217.3  | 220.0  | 222.5  | 224.7  |
| % Change                          | 0.7    | 0.7    | 1.3    | 1.1    | 1.0    |
| Labour Force (000s)               | 253.1  | 251.2  | 252.8  | 253.9  | 255.2  |
| % Change                          | 0.2    | -0.7   | 0.6    | 0.4    | 0.5    |
| Unemployment Rate (%)             | 14.8   | 13.5   | 13.0   | 12.4   | 11.9   |
| Population (000s)                 | 509.9  | 506.3  | 504.8  | 503.8  | 503.3  |
| % Change                          | -0.8   | -0.7   | -0.3   | -0.2   | -0.1   |

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making it the lowest unemployment rate for the province since 1981. Average employment in the first eleven months of 2007 increased by 0.7% compared to the same period in 2006. Employment growth was concentrated in full-time employment (part-time employment actually declined).

Wages continued to increase at a solid pace this year. Average weekly earnings (including overtime) increased by 3.5% in the first nine months of 2007. Labour income totalled just over \$6.6 billion<sup>1</sup> in the first nine months of the year, 5.6% higher than the same period of 2006. The

increase in labour income reflects both the higher weekly earnings and higher employment. After adjusting for inflation, labour income grew by 4.1%. Total personal income is forecast to grow by 4.0% this year (2.6% in real terms).

## Population

Newfoundland and Labrador's population stood at 506,275 as of July 1, 2007, a decrease of 0.7% compared to July 1, 2006. Migration continued to be the primary factor influencing population change. Net out-migration totalled 3,442 persons in 2006-07 with most people going to Alberta where strong demand for labour and high wages provide strong incentives to migrate.

For the latest information on regional demographic trends readers can consult: *Regional Demographic Profiles, Newfoundland and Labrador, November 2007*.

[www.economics.gov.nl.ca/population/regionaldemographicprofiles.asp](http://www.economics.gov.nl.ca/population/regionaldemographicprofiles.asp)

## Medium-Term Outlook

Production schedules of major projects will continue to have a significant influence on GDP growth over the next three years. Real GDP is expected to expand in 2008 as Hibernia oil production rebounds. However, real GDP is expected to decline beyond 2008 under the assumption that oil production from Terra Nova, Hibernia and White Rose will decrease as reserves are drawn down.

While GDP is forecast to decline in 2009 and 2010, investment begins to benefit from construction activity related to the Voisey's Bay nickel processing facility, and later, the start of the Hebron project in 2010. Furthermore, many other important economic indicators like employment and personal income exhibit growth over the forecast period. The commencement of the development of other major projects, such as the Lower Churchill hydroelectric project or the potential new oil refinery project which are not currently included in the economic forecast, would substantially improve the medium-term outlook.

<sup>1</sup> The stated estimate of labour income removes the provincial government's payments of \$1.953 billion to the teachers' pension plan (in March 2006) and \$982 million to the public service pension plan (\$400 million in March 2007; \$582 million in June 2007) from supplementary labour income.