

Provincial Economic Overview



Greenspond

Review of 2006

Economic growth was moderate in 2006, with real GDP growth estimated at 1.9%. Growth stemmed primarily from gains in mineral exports and consumer spending, although, some stimulus was also provided by higher provincial government spending.

Consumption of goods and services grew by an estimated 3.3% to \$10.6 billion last year (or 2.3% after adjusting for inflation). Retail sales, which account for 55-60% of consumption, increased by 3.0% to \$6.1 billion. Growth in sales by pharmacies, supermarkets, and department and general merchandise stores were largely responsible for the gains. Car sales constrained overall retail sales as the number of new cars sold in the province declined by 2.9%.

Government current expenditures rose by 2.6% in 2006 (0.4% in real terms) as all three levels of government (federal, provincial and municipal) increased spending.

Real exports rose by 2.6% in 2006 due mainly to higher mineral shipments, which more than offset lower oil and newsprint shipments. Miner-

al shipments increased significantly as Voisey's Bay recorded nearly a full year of production. Oil production declined by 0.4% in 2006 because Terra Nova was shut down for six months for repair and maintenance. Newsprint exports declined by about 20% due to the closure of the Stephenville mill in October 2005. Fish products exports increased slightly in 2006.

Total capital investment declined by 1.0% to \$4.5 billion in 2006. The end of the development phases of both the White Rose and Voisey's Bay projects were largely responsible for the decline. Despite the overall decrease, construction activity was positively impacted by a significant increase in provincial government infrastructure spending. In fact, capital investment in 2006 was estimated to be the second highest level ever recorded. While housing starts declined in 2006, residential construction investment increased by 3.1% driven by strong renovation spending and construction of higher valued homes.

Labour Markets

Employment averaged 215,700 last year, an increase of 0.7% compared to 2005. Employment in the first part of the year was negatively

impacted by: the completion of construction of the White Rose and Voisey's Bay projects which began winding down in late summer/early fall of 2005; the closure of the Stephenville newsprint mill in October 2005; and, weakness in the fishing industry. Employment growth resumed in August with the majority of the gains occurring in full-time employment.

The number of people either working or looking for work (labour force) averaged 253,100 last year, up 0.2% relative to 2005. The unemployment rate declined by 0.4 percentage points to 14.8%.

Wages continued to increase last year. Average weekly earnings (including overtime) rose by 4.1%. Higher wages and employment caused labour income to rise by 4.6% to \$8.7 billion¹. Total personal income increased by an estimated 4.1% to \$13.9 billion.

Consumer Inflation

The all-items Consumer Price Index (CPI) rose by 1.8% in 2006 due primarily to higher energy prices, (particularly in the first eight months of the year). The all-items excluding energy index recorded much lower growth than the all-items index, as illustrated in the accompanying diagram.

Outlook for 2007

Real GDP is expected to record strong growth of 8.5% in 2007. Most national forecasters expect Newfoundland and Labrador to be amongst the leaders in economic growth this year. Growth will stem mainly from higher oil and mineral exports.

¹ The stated estimates of GDP, personal income and labour income do not include the provincial government's special payments to public sector pension plans in 2006 and 2007.

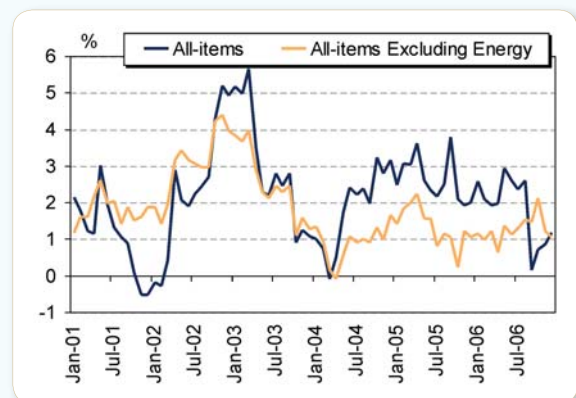
Economic Indicators¹

	2006e	2007f	2008f	2009f	2010f
Real GDP					
at Market Prices (97\$m)	15,589	16,914	17,042	16,898	16,644
% change	1.9	8.5	0.8	-0.8	-1.5
% change, adjusted*	0.4	2.0	1.2	1.6	1.3
Personal Income (\$m)	13,869	14,338	14,874	15,422	15,899
% change	4.1	3.4	3.7	3.7	3.1
% change, real	2.3	2.2	1.8	1.7	1.1
CPI (1997=100)	118.7	120.0	122.3	124.7	127.1
% change	1.8	1.1	1.9	2.0	1.9
Retail Sales (\$m)	6,059	6,213	6,395	6,623	6,774
% change	3.0	2.5	2.9	3.6	2.3
% change, real	0.9	2.1	2.0	2.4	1.1
Housing Starts	2,234	2,051	2,012	2,030	1,983
% change	-10.6	-8.2	-1.9	0.9	-2.3
Capital Investment (\$m)	4,530	4,185	3,992	3,882	4,084
% change	-1.0	-7.6	-4.6	-2.7	5.2
% change, real	-0.4	-8.6	-5.5	-4.1	2.9
Employment (000s)	215.7	218.3	221.2	224.1	225.8
% change	0.7	1.2	1.4	1.3	0.8
Unemployment Rate (%)	14.8	14.3	13.7	13.1	12.7
Population (000s)	509.7	506.6	505.4	504.6	503.8
% change	-0.8	-0.6	-0.2	-0.2	-0.2

Statistics Canada; Economic Research and Analysis Division, Department of Finance
 *Note: Adjusted GDP excludes production income from major projects accruing to non-residents.
 e: estimate; f: forecast; Department of Finance, April 2007

Real exports are expected to rise by 13.5%. Oil output will be buoyed by a rebound in Terra Nova production. Mineral production will be positively impacted by higher output from Voisey's Bay and the start-up of the Duck Pond

Inflation Rate



Note: Depicts percentage change from the same month of the previous year.

Statistics Canada; Department of Finance

mine. Newsprint and fish products exports are expected to remain relatively unchanged from 2006.

Retail sales are expected to increase by 2.5%, driven by income gains. Personal income and disposable income are each expected to grow by 3.4%, spurred by wage gains, employment growth and tax cuts.

Capital investment is expected to decline by 7.6% due to lower major project spending. However, total investment will remain near historical highs at \$4.2 billion. Housing starts are forecast to decline by 8.2% as new starts are constrained by demographics.

Employment is forecast to increase by 1.2% to 218,300. Job growth will likely occur in the service sector and be mostly full-time employment.

Employment gains are expected to outpace labour force growth, resulting in a decline in the unemployment rate from 14.8% to 14.3%. Population decline is expected to continue (-0.6%) as strong labour markets in Western Canada continue to attract workers from this province.

Beyond 2007

Real GDP growth is expected to slow to 0.8% in 2008, as gains in oil and mineral exports taper off. Under current forecast assumptions, real GDP is projected to decline slightly over the following two years as first Terra Nova and then Hibernia exhaust peak reserves. Other indicators such as employment and income continue to show modest growth over the forecast period. The medium-term outlook would be improved by higher than projected oil production and/or the development of Hebron, Lower Churchill or other large-scale projects.

The Census and Population Estimates

On March 13, 2007 Statistics Canada released the 2006 Census counts. The census results indicated that the provincial population had declined by 1.5% from 2001 to 2006.

It is important to realize that the results of the 2006 Census differ from Statistics Canada's Demography Division population estimates which are currently based on the 2001 Census counts, adjusted for net undercoverage (an upward adjustment to take into account people missed during the census process). These estimates are then updated between censuses using information on births, deaths and interprovincial and international migration derived from administrative sources. Population estimates based on the 2006 Census counts, adjusted for net undercoverage, will be available in the fall of 2008.

Since the decline in the census counts (-1.5%) is smaller than that reported in the "current" population estimate produced by Demography Division (-2.4%), it is expected that the revised population estimates, when they become available, will also indicate a smaller decline.

Comparison of Population Estimates and Census Counts		
Year	Population Estimates	Census Counts
2001	521,986	512,930
2006	509,667	505,469
Difference		
Actual	-12,319	-7,461
Percent	-2.4%	-1.5%

The population estimates prepared by Statistics Canada's Demography Division are used to determine provincial entitlements to federal programs such as Equalization. They are also used by Statistics Canada to produce survey estimates for a range of important social and economic data (e.g., Labour Force Survey).