

# Provincial Economic Overview

After a decade of significant growth, economic activity in Newfoundland and Labrador has slowed due to weaker commodity markets. Nonetheless, major economic indicators continue to show solid results when compared to 2005 and this province continues to boast the highest income levels in its history and comparatively high employment levels. Economic growth is expected to resume in 2019.

Economic conditions in Newfoundland and Labrador softened in 2014. Deteriorating global commodity market conditions, particularly for oil and iron ore, weighed heavily on the export sector. Prices for both oil and iron ore declined throughout 2014 and for the year as a whole Brent oil prices fell 9% compared to 2013 and iron ore spot prices fell by about 30%. As a result, the value of exports and consequently GDP were negatively impacted. Furthermore, development of both oil and mining projects has been impacted by price declines. In December 2014, Husky announced that the decision to proceed with the West White Rose Extension project would be delayed for a year, although the company indicated that it remains committed to the project. In the mining sector, reduced iron ore prices prevented Labrador Iron Mines from restarting operations in 2014; created delays in the development of the Kami iron ore project; contributed to the permanent closure of Wabush Mines; and just recently played a role in the layoff of 150 employees at the Iron Ore Company of Canada. On a positive note, the lower Canadian dollar relative to the United States dollar has offset to some extent the lower prices received by oil and iron ore producers. Other export industries, such as fish processing and newsprint, have also benefitted from the lower exchange rate. As a result of significant price declines, nominal GDP decreased by more than real GDP. Nominal GDP is estimated to have declined by 2.1% while real GDP fell by only 1.9% (see table of economic indicators), primarily due to lower exports.

# Provincial Economic Indicators

	2014e	2015f	2016f	2017f	2018f	2019f	2020f
GDP at Market Prices (\$ M)	35,094	32,921	34,611	35,045	35,971	38,313	41,342
% Change	-2.1	-6.2	5.1	1.3	2.6	6.5	7.9
% Change, real	-1.9	-0.3	-1.6	-1.6	-0.6	4.1	5.1
Final Domestic Demand* (\$ M)	36,275	36,946	35,539	35,425	33,726	34,808	36,789
% Change	1.8	1.9	-3.8	-0.3	-4.8	3.2	5.7
% Change, real	-0.5	-0.1	-5.1	-1.7	-5.7	1.7	3.8
Household Income (\$ M)	23,096	23,145	23,140	23,553	23,685	24,572	25,823
% Change	4.9	0.2	0.0	1.8	0.6	3.7	5.1
% Change, real	2.9	-0.8	-2.0	-0.1	-1.4	1.7	3.1
Household Disposable Income (\$ M)	17,495	17,531	17,555	17,939	18,066	18,733	19,676
% Change	4.9	0.2	0.1	2.2	0.7	3.7	5.0
% Change, real	2.9	-0.8	-1.8	0.3	-1.3	1.7	3.0
Retail Sales (\$ M)	8,883	8,853	8,823	8,916	8,956	9,320	9,835
% Change	3.4	-0.3	-0.3	1.1	0.4	4.1	5.5
% Change, real	1.8	-1.1	-2.3	-0.2	-0.9	3.0	4.6
Consumer Price Index (2002=100)	128.4	129.7	132.3	134.7	137.4	140.2	142.9
% Change	1.9	1.0	2.0	1.9	2.0	2.0	1.9
Capital Investment (\$ M)	12,249	12,470	10,943	10,444	8,465	8,792	9,640
% Change	-0.7	1.8	-12.2	-4.6	-18.9	3.9	9.6
% Change, real	-3.7	0.2	-13.3	-6.9	-19.1	0.4	5.9
Housing Starts (Units)	2,119	1,915	1,726	1,677	1,657	1,873	2,093
% Change	-26.0	-9.6	-9.9	-2.8	-1.2	13.0	11.8
Employment (000s)	238.6	234.9	228.3	226.7	222.8	226.3	231.4
% Change	-1.7	-1.5	-2.8	-0.7	-1.7	1.6	2.3
Labour Force (000s)	270.9	268.3	262.8	260.6	256.9	259.3	263.3
% Change	-1.3	-1.0	-2.1	-0.8	-1.4	0.9	1.6
Unemployment Rate (%)	11.9	12.4	13.1	13.0	13.3	12.7	12.1
Population (000s)	527.0	526.2	524.1	521.9	520.6	521.2	524.0
% Change	-0.2	-0.2	-0.4	-0.4	-0.3	0.1	0.5

\* 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, April 2015

Source: Statistics Canada; Department of Finance

Provincial exports are estimated to have declined by about 6.6% in 2014 (7.5% in real terms) due primarily to lower oil and iron ore production and prices. Oil production fell by 5.7% last year primarily as a result of lower output from Hibernia. Iron ore shipments decreased by about 20% relative to 2013 mainly due to the closure of Wabush Mines and, to a lesser extent, the shutdown at Labrador Iron Mines.

Capital investment in the province remained at very high levels in 2014. Investment is estimated to have totalled \$12.2 billion in nominal terms last year, slightly lower than the record level of investment recorded in 2013. Lower spending on Vale’s nickel processing facility in Long Harbour was offset by higher spending on the Hebron and Muskrat Falls developments. Solid commercial and residential expenditures also contributed to the high level of investment spending. Total residential spending (including renovations) is estimated at \$1.5 billion in 2014, a decline from the \$1.7 billion recorded in 2013 but still high in a historical context.

Consumer spending grew last year. The value of retail sales increased by 3.4% in 2014 compared to 2013. Growth in retail sales was broad-based with gains across most categories. New motor vehicles sales remained at a historically high level for the second year in a row (see chart). The number of new vehicles sold in the province was 35,440, on par with the record level sold in 2013. In addition to retail sales, expenditures on services also posted growth this year. Receipts of food services and drinking places increased by 2.9% in 2014 compared to 2013.

## New Car Sales

### Newfoundland and Labrador



Source: Statistics Canada

## Inflation

Growth in the Consumer Price Index (CPI), or inflation, was 1.9% in 2014. Consumers paid higher prices for food (2.4%) and there was a notable price increase in tobacco products (11.0%) stemming mainly from an increase in tobacco taxes implemented in March 2014. Minimal growth in energy prices—dampened by declining crude oil prices—kept downward pressure on inflation in 2014.

## Labour Markets

After several years of strong growth, employment in the province declined in 2014. Employment, as measured by Statistics Canada’s Labour Force Survey (LFS), fell by 1.7% (or 4,100) compared to 2013. Newfoundland and Labrador was one of five provinces to record negative employment growth in 2014. The job losses in this province were recorded in full-time employment. Full-time employment declined by 2.5% (or 5,200) while part-time employment actually increased by 3.1% (or 1,100). Lower development activity at Vale’s nickel processing site in Long Harbour and the closure of Wabush Mines were contributing factors to the drop in full-time employment last year.

Along with a decline in employment, the participation rate and subsequently the labour force decreased in 2014. The participation rate fell by 0.7 percentage points, which combined with a slight decline in the population aged 15 and over resulted in a decline of 1.3% (or 3,600) in the labour force. As the drop in employment was greater than the decline in the labour force, the unemployment rate increased. The unemployment rate averaged 11.9% in 2014, an increase of 0.3 percentage points compared to 2013. Still, at 11.9% the unemployment rate remained one of the lowest unemployment rates in recent history.

Despite a decline in employment as estimated by the LFS, other indicators of labour market performance increased during 2014. Average weekly earnings rose by 4.1% in 2014 and at \$991 were the second highest among provinces after Alberta. The increase in wages led to a 4.7% gain employee compensation for 2014. Furthermore, other estimates of employment indicate a stronger employment performance than the LFS. The Survey of Employment, Payrolls and Hours (SEPH) reports an increase in the number of employees every month during 2014 and, on average, an increase of 1.2% for the year.

## Population

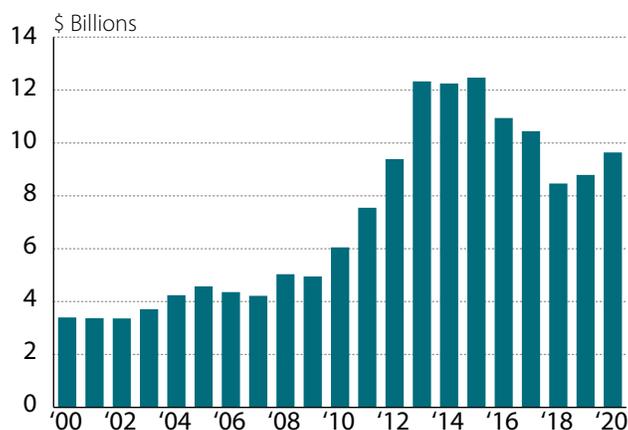
Economic expansion has served to increase the province's population in recent years. Prior to 2008, the population had declined for 15 consecutive years because of high levels of out-migration. However, in recent years net outmigration has fallen and the province recorded increases in population from 2008 to 2013. Although the current population estimate for 2014 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, 2014 was 526,977, a decline of 0.2% compared to one year earlier.

## Outlook

The economy of Newfoundland and Labrador is entering a period of contraction stemming from several factors. The winding down of development of several major projects, in particular Hebron and Muskrat Falls, will act as a drag on investment over the next couple of years. Hebron reached peak investment and employment in 2014 while peak development activity on the Muskrat Falls project is expected to occur this year. Furthermore, current commodity markets have dampened short-term resource development. Taken together, these factors are expected to negatively impact capital investment expenditures in the province. Over the next several years, investment is forecast to decline from \$12.5 billion in 2015 to \$8.5 billion in 2018 (see chart).

### Capital Investment

Newfoundland and Labrador



Source: Statistics Canada

Overall, real GDP growth is forecast to decline by 0.3% in 2015. Exports are expected to increase due to an increase in iron ore and fish products production; however a decline in employment related to lower levels of major project development will curtail consumption and this will act as a drag on GDP growth. Furthermore, while investment is forecast to increase slightly a larger share of spending will be directed towards machinery and equipment (which is largely imported) thus providing less benefit to the local economy. Lower commodity prices, particularly crude oil, will significantly impact the level of nominal GDP which is forecast to fall by 6.2% in 2015, a much greater amount than the decline in real GDP.

Employment is expected to decline by 1.5% in 2015. Lower levels of employment on the Hebron project are expected to more than offset higher employment on the Muskrat Falls project; the current slowdown in the iron ore industry is negatively impacting employment related to the production and development of iron ore in the province; and low oil prices are dampening activity in Western Canada which will likely impact employment of some Newfoundland and Labrador residents who commute to Western Canada. Lower employment will curtail income growth—household income is forecast to increase by just 0.2% in 2015 (down 0.8% in real terms). Lower income is expected to lead to lower consumer expenditures and a 0.3% decrease in retail sales.

From 2016 to 2018, economic growth is expected to be curtailed by declines in capital investment as a result of major projects progressing past peak development. Development of major projects has been a significant source of economic growth over the past several years. As development winds down and projects move toward the production phase, there is often a lull in economic activity, particularly in a relatively small economy such as Newfoundland and Labrador. However, once the production phase commences it usually marks the beginning of an upturn in economic growth.

Beyond 2018, the economy is forecast to grow again. Production from Hebron, Muskrat Falls and the Voisey's Bay underground mine, as well as development of other offshore resources, such as Statoil's Bay du Nord discovery, are expected to provide a boost to the province's economy.

Longer term, the enormous potential of the province's offshore resources is reason for optimism about the economic future of Newfoundland and Labrador. There are believed to be substantial offshore resources in the deeper water basins offshore Newfoundland and deepwater exploration and development hold significant opportunities for future growth in oil production, and by extension the provincial economy. Recent land sale results in the Newfoundland and Labrador offshore indicate industry's confidence in this potential. The bid on one parcel in the Flemish Pass by ExxonMobil Canada Ltd., Suncor Energy Inc. and ConocoPhillips Canada Resources Corp. was \$559 million, the highest bid ever on a land parcel in the Newfoundland and Labrador offshore area. The province's hydrocarbon endowment is vast and the potential for future oil development and production is immense. The future prospects of Newfoundland and Labrador are strong, based in large part on the strength of our oil and gas industry.

