



## NEW BRUNSWICK - Current demand backdrop looks solid

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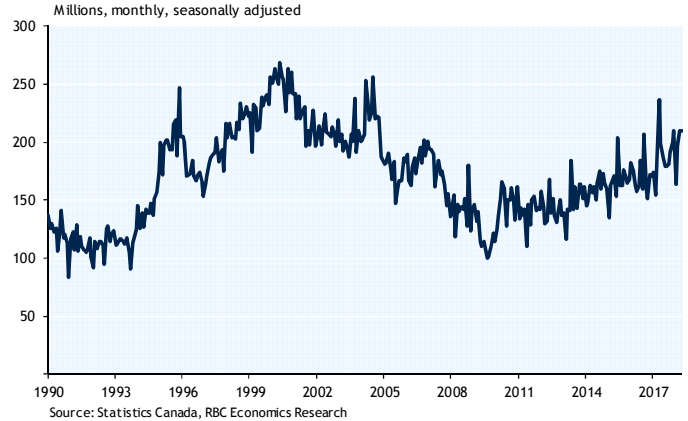
The New Brunswick economy has had a decent run over the last three years and most measures of economic activity still look positive in early-2018. Wood product exports to-date are tracking sharply above year-ago levels despite U.S. tariffs being imposed on the province’s softwood lumber since late last year. Year-to-date manufacturing sales are up a strong 13% boosted by an 18% surge in wood product sales. Home resales are down, but the 3% drop relative to a year ago is much more modest than the 15% decline in Canada as a whole in the wake of new mortgage stress tests implemented in January. And with the provincial market still firmly in ‘balanced’ territory, prices have continued to rise moderately.

Employment is running about 0.6% above year-ago levels so far in 2018. This is still modest to be sure, but nonetheless tracking a second-consecutive annual increase—something we haven’t seen in almost a decade. The unemployment rate continues to trend downward toward decade lows. Indeed, labour shortages are seemingly becoming an issue in spots. About 40% of New Brunswick businesses reported skilled labour shortages were constraining production/sales over the last year, a rate only exceeded in Quebec and B.C. Workers have seemingly been taking advantage of a better bargaining position: hourly wage gains have accelerated to about 3% above year-ago levels to-date in 2018.

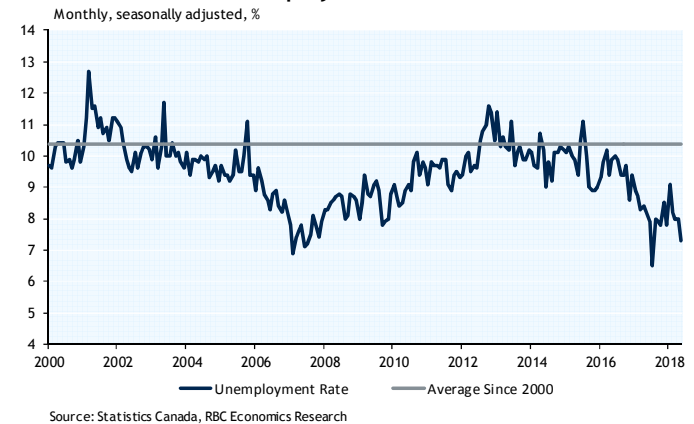
Like in much of the rest of the country, business investment indicators have been mixed. Planned capital expenditures in New Brunswick were up just 2% in 2018—and only because a big 9% increase in the public sector offset a decline in the private sector. Part of the issue could be uncertainty about the future of NAFTA and competitiveness challenges in the wake of large U.S. corporate tax rate cuts this year. More encouragingly, machinery and equipment imports are up solidly to-date in 2018 compared to 2017 levels.

A shrinking working-age population remains a major drag on economic growth in New Brunswick. Even with a tick higher in immigration over the last two years, the population aged 25-54 declined by 1% per year in both 2016 and 2017. 20% of New Brunswick’s population is now over the age of 65, up from 15% just a decade ago. With labour markets already looking somewhat ‘tight’ from a historical perspective, we expect further gains in economic output will be harder to come by. We look for provincial GDP growth to slow to 0.6% in 2018 after averaging almost 2% over the past three years. Still, this would be sufficiently strong to keep the unemployment rate stable.

**New Brunswick: Exports of forestry and building products**



**New Brunswick: Unemployment rate**



### New Brunswick forecast at a glance

% change unless otherwise specified

	2015	2016	2017F	2018F	2019F
Real GDP	2.4	1.2	1.6	0.6	0.6
Nominal GDP	2.0	3.6	3.4	2.3	2.2
Employment	-0.6	-0.1	0.4	0.4	0.0
Unemployment Rate (%)	9.8	9.6	8.1	7.9	7.8
Retail Sales	2.2	2.1	6.8	3.2	2.9
Housing Starts (thous of units)	2.0	1.8	2.3	2.1	1.9
Consumer Price Index	0.5	2.2	2.3	2.3	2.0