



NEW BRUNSWICK - Slower pace ahead

While the labour market emerged strong in 2018 and workers benefitted from higher wage growth, labour shortages have begun to emerge and will restrict growth over coming years.

New Brunswick's economy enjoyed stronger than expected growth in 2018 with the export sector benefitting from higher commodity prices in the first half of the year as well as robust wage growth. While employment continued to tick higher in 2018, emerging labour shortages will limit growth next year. After growing at 1% in 2018, we anticipate economy growth to slow to 0.7% in both 2019 and 2020.

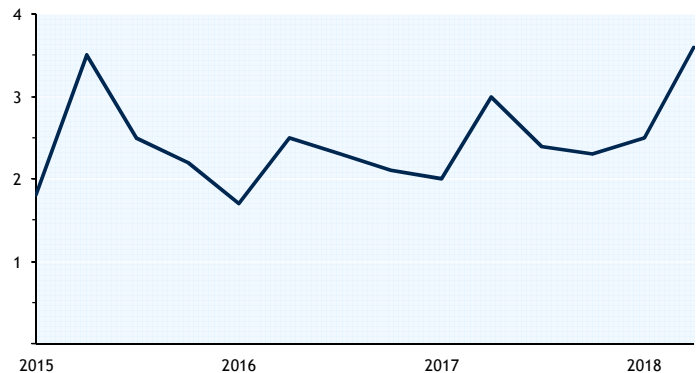
The labour market improved in 2018. Both working age population and employment rose 0.4% in the first 11 months of the year compared to the same period in 2017. The unemployment rate continues on a downward trend close to historic lows. This has translated into better outcomes for workers with average hourly wages increasing by 2.5%. That said, demographic factors remain unfavorable to the provincial economy. Labour shortages are already limiting businesses from expanding with the job vacancy rate reaching 3.6% in the second quarter of 2018 from 3% a year earlier. In fact this issue was front and center in the recent provincial election, with understaffed critical services sectors like nursing getting a lot of attention. While current immigration levels help to partly mitigate these shortage issues in the short term, significantly larger numbers will be required to sustain the economy in the longer run.

Like in most of the Atlantic Provinces, New Brunswick's housing sector has followed an upward trajectory in 2018. Residential investment climbed more than 12% over the first half of the year, led by spending on new dwellings. Real non-residential building construction is also up 18% through the third quarter –almost all the growth came from institutional and governmental building construction work. Residential rental vacancy rates eased to 3.2% due to rising demand in the rental market. We expect housing starts to remain stable in 2019 at 2,100 units.

The second quarter fiscal update from the provincial government showed a lower-than-expected deficit of \$131 million for 2018-2019. The new Conservative government has promised to balance the provincial budget by 2020, a year earlier than the previous Liberal government targeted. In order to do so, however, the new government will tighten the provincial purse strings, which at the margin will restrain the public sector's contribution to growth.

New Brunswick: Job vacancy rate

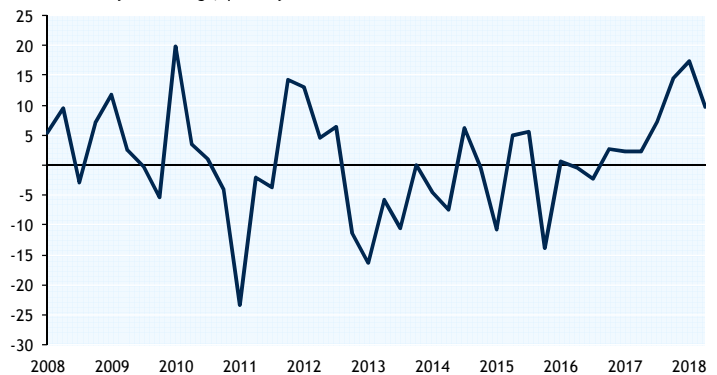
Number of job vacancies expressed as a percentage of labour demand, quarterly



Source: Statistics Canada, RBC Economics Research

New Brunswick: Residential investment

Year-over-year % change, quarterly



Source: Statistics Canada, RBC Economics Research

New Brunswick forecast at a glance

% change unless otherwise specified

	2016	2017	2018F	2019F	2020F
Real GDP	1.4	1.8	1.0	0.7	0.7
Nominal GDP	3.6	4.3	2.2	2.3	2.4
Employment	-0.1	0.4	0.3	0.2	0.3
Unemployment Rate (%)	9.6	8.1	7.9	7.6	7.3
Retail Sales	2.1	6.8	1.8	3.0	2.9
Housing Starts (Thousands of Units)	1.8	2.3	2.1	2.1	2.3
Consumer Price Index	2.2	2.3	2.1	1.9	2.7