NEW BRUNSWICK - Staying in the slow lane

Softness in exports and manufacturing sector are weighing on the economic growth, and capital spending remains weak. Labour market has displayed strength to begin the year.

New Brunswick’s economy barely budged in 2018, growing by just 0.2%. The goods-producing sector in particular experienced a slowdown with major industries contracting within the sector. An explosion at the refinery in Saint John in Q4 2018 slowed petroleum product production and restrained export growth. This provided a weak base from which to start 2019. We expect growth to expand by 0.8% in 2019 as the refinery resumes normal function. 2020 will see the province grow by 0.9% in 2020.

Construction investment also saw a pullback of 19.7% from a year ago in Q1 2019, with declines in both residential and non-residential structures. The public sector will also provide limited support. The provincial government has committed fewer dollars to capital spending in order to rein in provincial debt.

Both the labour force and employment have been making good gains so far in 2019. The labour force expanded at 0.6% in the first four months of the year while employment grew 0.8%. The services sector led the growth in employment, reaching a decade high level in March 2019. The unemployment rate has remained flat at 8.2%. The job vacancy rate reached a new high at the end of 2018 (3%). Like other regions, wage growth has been softer than would normally be expected given ostensibly tight labour markets, but 2.0% average hourly earnings growth year-to-date is in line with the Canadian average.

Like many provinces, New Brunswick saw record high immigration levels last year. Not only that, immigration was the sole contributor to population growth in 2018. While the growth in 2019 has continued at the same pace as the previous year (0.5%), the province would need to see bigger waves of immigration to compensate for older workers leaving the workforce. Else, New Brunswick’s aging population will continue to be a limiting factor when it comes to GDP growth.

Manufacturing and trade have been a damper on growth prospects. Manufacturing shipments are down 13.4% in 2019 led by non-durable goods. Exports are also down 10.3% led by petroleum products and lumber. While activity has picked up since the explosion, repairs to the Saint John facility will continue to curtail growth in refined oil products in 2019. The softwood lumber dispute with the United States has also adversely affected lumber exports – which fell 18% in Q1 2019.