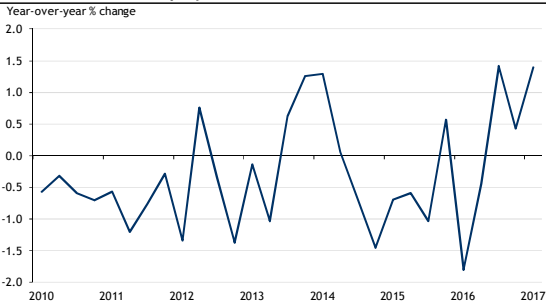
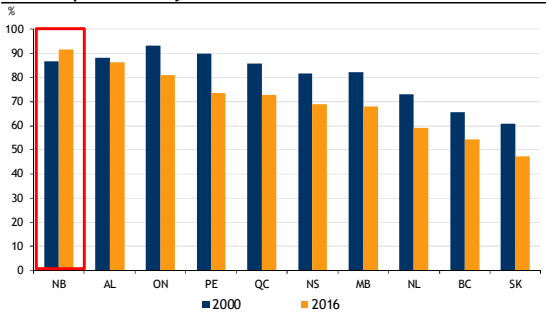


New Brunswick: Employment



Source: Statistics Canada, RBC Economics Research

U.S.: Export Share by Province



Source: Statistics Canada, RBC Economics Research

Economic growth to remain modest and steady

A run of encouraging data has caused us to lift our forecast for New Brunswick’s economy in 2017. Preliminary data showed stronger than expected economic growth in 2016 as a number of consumer service industries benefitted from strong wage growth and the construction industry picked up. This year, we expect higher government capital spending and a strong performance from the natural resources sector to boost jobs and sustain another year of above average growth in the province. We project New Brunswick’s economy to grow by 1.1% in 2017, which would be just slightly slower than the rate of 1.3% estimated for 2016. Our outlook for 2018 is marked by some of New Brunswick’s longer term challenges returning to the fore and causing growth to slip to 0.8%. These challenges include weak underlying demographic factors.

Labour markets strengthening

The rebound in New Brunswick’s labour market, first observed midway through last year, shows every sign of continuing in 2017. After several dreary years, job creation is pointing up this year and the ranks of the unemployed are thinning. The unemployment rate is moving steadily downwards and is on track for 9.0% in 2017, its lowest annual level since 2007. As steady economic growth sustains labour market tightening, we expect wage growth to stay elevated. Total employee compensation rose nearly 4% in 2016, the fastest pace east of Ontario, providing a tailwind for the province’s retail sales and service sector. The near term auspices for the labour market are good, yet over the longer-term the outlook is uncertain. In 2016, New Brunswick saw a temporary reversal of persistent trends in outmigration as Syrian refugees boosted immigration totals and outmigration slowed. There’s growing evidence, however, that those trends were temporary and the rapid decline of the working-age population has resumed. Even as labour markets tighten, a decline in the working-age population reduces the rate of potential economic growth and shrinks the tax base exacerbating fiscal challenges.

Hewing wood and drawing water

New Brunswick’s natural resources sector faces hurdles in the coming years, but in our view the sector’s outlook remains bright overall. New Brunswick’s lumber industry has been spared the brunt of the countervailing duties imposed by the U.S. on Canada’s softwood lumber industry. This will help New Brunswick take advantage of strong U.S. housing activity and continue the expansion seen in recent years. The mining and fishery sectors also are poised to be growth leaders this year. Mining output will be supported by the ramp up of the Caribou mine near Bathurst which has seen output of zinc, lead and silver jump year to date. A positive outlook for mining and forestry should help reverse the industry’s steep 13% job losses recorded so far in 2017. High prices for fish products should support jobs and incomes in that industry. However, a measure of uncertainty exists for all export-oriented industries given the province’s high exposure to the U.S. market in the face of rising protectionist sentiments. Over 92% of New Brunswick’s exports are destined for the United States, the highest share of any province, and uniquely among the provinces, that share has increased since 2000.

New Brunswick forecast at a glance

% change unless otherwise indicated

	2013	2014	2015	2016F	2017F	2018F
Real GDP	-0.3	-0.1	2.3	1.4	1.1	0.8
Nominal GDP	0.3	1.0	2.9	2.6	2.7	2.6
Employment	0.4	-0.2	-0.6	-0.1	0.3	0.1
Unemployment rate (%)	10.3	10.0	9.8	9.6	8.8	8.7
Retail sales	0.6	3.6	2.1	1.8	2.9	2.6
Housing starts (units)	2,843	2,276	1,995	1,838	2,000	2,000
Consumer price index	0.8	1.5	0.5	2.2	2.6	2.4

Gerard Walsh
Economist