



NEWFOUNDLAND & LABRADOR - Swinging from contraction to growth

Only province to see contraction in 2018 from drop in capital investment; outlook brighter for 2019 as two big projects provide growth opportunities

Newfoundland and Labrador's growth ranking will swing from being the lowest among the Atlantic Provinces in 2018 to the highest in 2019. The winding down of major capital investment projects coupled with slower mining output weighed heavily on activity in 2018 when we expect the provincial economy to contract. Higher oil production from the Hebron plant as well as the ramp-up of major project investments should bring back positive growth in 2019. We project GDP to decline by 1% in 2018 and grow by 2.3% in 2019. Our first peek at 2020 sees oil production continuing to rise from the Hebron facility though a topping up in capital investment will lead to more subdued growth of 0.3%.

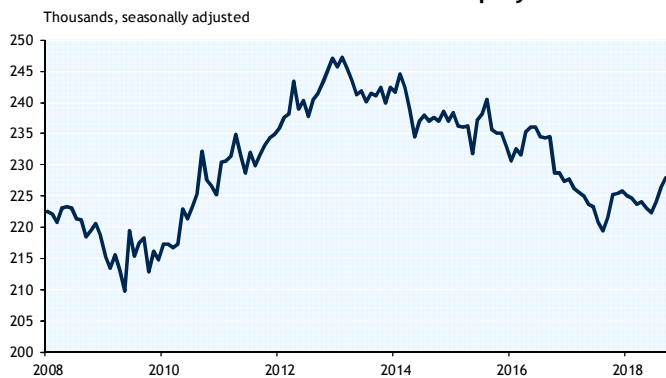
Oil production has been a bright light for Newfoundland in 2018. Increased oil production (6.5%) mainly from the Hebron offshore oil platform more than offset gradual depletion at other deposits, and will continue to do so until reaching full capacity in 2022. Energy exports soared 51% on a nominal basis over the first 10 months of the year. Brent crude prices have been volatile—weakening significantly in October and November—though higher prices in the first half of the year have boosted provincial government revenues.

A key drag on the economy in 2018, however, has been a drop in major capital investment spending. This was mainly a result of the Hebron offshore oil platform being completed in 2017, as well as the Muskrat Falls hydroelectric project winding down. Added to that, a labour dispute at the Iron Ore Company of Canada led to a decline in iron ore production.

The labour market continued to be weak. After four years of net job losses in the province, employment was flat in the first 10 months of the year and the unemployment rate was still in the double-digits despite easing somewhat. This provided little support to the consumer sector, and resulted in lower retail sales (-1.4% year to date). This didn't help the provincial housing market either, which remained soft.

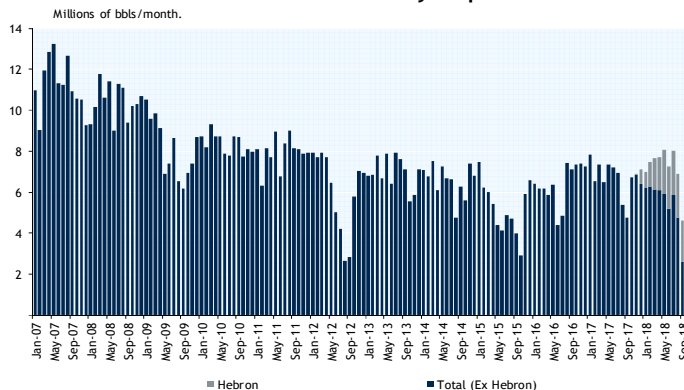
The good news is that two major capital projects will brighten investment prospects in 2019. Work on the Husky White Rose offshore oil platform expansion and Vale's Voisey's Bay nickel mine project will substantially boost capital spending in the province. The Voisey's Bay venture is projected to create 650 direct job opportunities during peak construction and capital investment in the order of \$2 billion while the White Rose expansion (already in construction) is estimated to cost \$3.2 billion and will create 800 construction jobs.

Newfoundland & Labrador: Total employment



Source: Statistics Canada, RBC Economics Research

Newfoundland & Labrador: Monthly oil production



Source: Canada Newfoundland & Labrador Offshore Petroleum Board, RBC Economics Research

Newfoundland and Labrador forecast at a glance

% change unless otherwise specified

	2016	2017	2018F	2019F	2020F
Real GDP	1.8	0.9	-1.0	2.3	0.3
Nominal GDP	1.8	4.3	2.8	3.3	2.9
Employment	-1.5	-3.7	0.3	-0.3	-0.2
Unemployment Rate (%)	13.4	14.8	14.0	14.1	13.9
Retail Sales	0.4	2.4	-1.4	1.9	1.7
Housing Starts (Thousands of Units)	1.4	1.4	1.5	1.0	1.4
Consumer Price Index	2.7	2.4	1.7	2.1	2.6