NEWFOUNDLAND & LABRADOR - Encouraging start to year bodes well for a return to growth in 2019

Springing back up from an economic contraction in 2018, the province will see a rebound in its resource sector - driving exports higher and supporting a welcome improvement in the labour market.

The winding down of major capital projects and a lower mining output caused Newfoundland and Labrador's economy to contract significantly (-2.7%) in 2018. The good news is that 2019 has already shown signs of a reversal of fortunes, with oil production rising and the labour market off to a sturdy start. We expect the provincial economy to expand by 2.6% in 2019 followed by a more subdued rate of 0.2% in 2020.

The resource sector, which has been a mixed bag for the province in recent years, looks poised to deliver good things in 2019. Oil production is up 4.3% in Q1 2019 as Hebron continues to ramp up to full capacity (150,000 bpd). Energy products are also behind the growth in exports – which rose 9.3% in Q1 2019. Mining shipments are set to increase, after a labour strike at the Iron Ore Company of Canada reduced provincial output last year. This will be accompanied by a 12% rise in capital expenditures by the mining, quarrying, oil and gas extraction industry reflecting growing construction at Vale’s Voisey’s Bay nickel mine and the West White Rose offshore oil project.

The winding down of construction at the Muskrat Falls facility (96% complete at the end of 2018), however, will weigh significantly on overall capital expenditures in the province, which are slated to drop for a fourth-consecutive year in 2019.

The provincial labour market started 2019 on a surprisingly strong note. Employment is up by more than 3% from a year ago with full-time positions representing the bulk of the increase. The unemployment rate is trending down, reaching its lowest point (11.3%) in four years in January. We now expect Newfoundland and Labrador’s annual unemployment rate to fall below 12% for only the second time ever in 2019. So far, the improvement in the labour market has had a limited impact on consumer spending but we expect things to pick up modestly going forward. One factor that continues to be a thorn on the province’s side is demographics. Newfoundland and Labrador is the only province with a declining population. This is due primarily to the significant loss of migrants to other provinces and low immigration levels compared to other parts of Canada.

The recently renewed Atlantic Accord saw the federal government handing an unexpected one-time $2.5 billion transfer to the province this fiscal year. This allowed the provincial government to project a $1.9 billion surplus in its 2019-2020 budget while delaying previously-announced program spending cuts by a year. Fiscal restraint will return over the remaining three years of the fiscal plan, however.

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