

### Oil woes, but growth remains solid

Last year, business investment kept Newfoundland and Labrador's economy going strong at an estimated pace of 4.6% despite declines in offshore oil production. A similar pattern will prevail in 2012, although real GDP growth will moderate due to a much larger drop in oil production related to planned maintenance at two of the major oil fields. We do not expect this easing to be overly dramatic, however, as provincial economic activity will receive substantial support from strong business investment and mining output. We project real GDP growth to be still solid at 2.8%. For 2013, we forecast a slight acceleration in the pace to 3.0%, largely as a result of the completion of offshore oil facility maintenance work.

#### Maintenance will lead to major drop in oil production...

After falling by 3.4% in 2011, crude oil production is expected to see a much steeper decline in 2012 due to planned maintenance at the Terra Nova and White Rose operations. The NEB's forecasts indicate that total oil production in the province will be roughly half of its normal level from June to August, thereby resulting in a projected 22% drop in annual production. Given oil's large share in the provincial economy, this will act as a substantial drag on GDP growth this year. We anticipate that ongoing maturation-related declines will limit any bounce-back in oil output once these operations return to full production, thereby leading to a minimal gain in oil production at best in 2013.

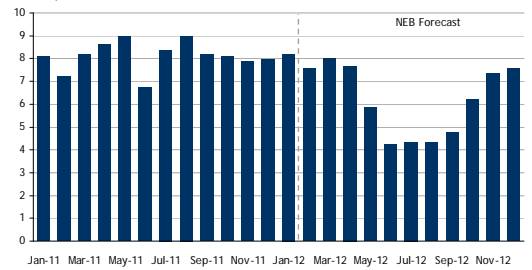
#### ...but businesses and consumers unfazed

Despite the slower GDP growth rate forecasted for 2012 relative to last year, businesses have indicated that they plan to keep increasing investment in the provincial economy at a breakneck pace. Statistics Canada's latest investment intentions survey report showed an impressive 26.9% increase in planned investment spending in Newfoundland and Labrador, with the bulk of the increase coming from investments in the mining, and oil and gas sectors. This is the third year in a row that the survey has shown more than 20% investment gains for the province. Indicators of consumer demand also continue to outpace those in the rest of the country: excluding sales at gasoline stations, provincial retail sales increased at more than 3.5% in 2011, compared to 1.9% nationally. We believe that the recent hectic pace of growth in business investment is unlikely to be sustained next year and forecast a much slower pace of growth for 2013; however, the strong employment trends should keep consumers spending at a healthy pace throughout the forecast period.

#### Mining contributes to growth

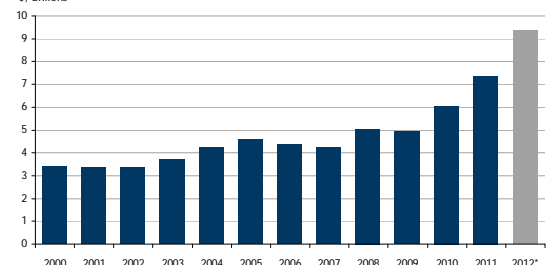
Mining output should see large gains in both 2012 and 2013, due to increases in capacity at new and existing iron ore projects. The Iron Ore Company of Canada's expansion and the first full year of production at the Labrador Iron Mines will lead to strong growth in iron ore production in 2012, and the Direct Shipping project should lead to further growth in 2013. With business investment expected to just offset declines in oil production for the next two years, this mining growth will play a key role in sustaining provincial GDP growth.

N. & L. oil production  
Barrels per month, millions



Source: Canada-Newfoundland and Labrador Offshore Petroleum Board, National Energy Board, RBC Economics Research

N. & L. public and private investment  
\$, billions



Source: Statistics Canada, RBC Economics Research  
\* Intentions.

#### Newfoundland forecast at a glance

% change unless otherwise indicated

	2010	2011F	2012F	2013F
Real GDP	6.1	4.6	2.8	3.0
Employment	3.4	2.7	1.4	1.9
Unemployment rate (%)	14.4	12.7	12.1	11.1
Retail sales	4.6	4.9	4.0	4.7
Housing starts (units)	3,606	3,500	3,400	3,500
Consumer price index	2.4	3.4	2.1	2.1

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