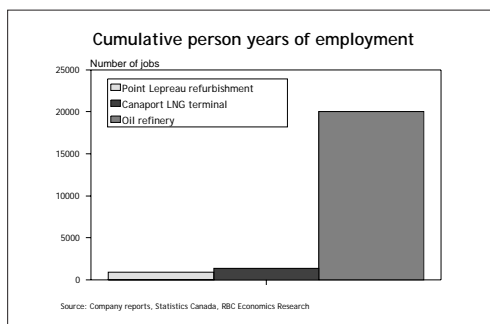
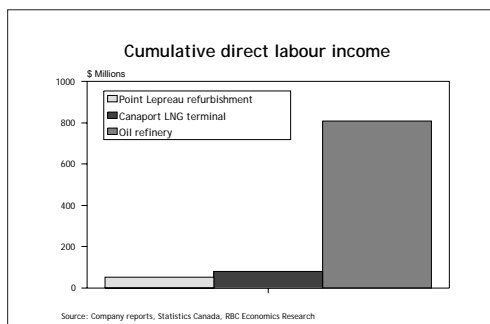
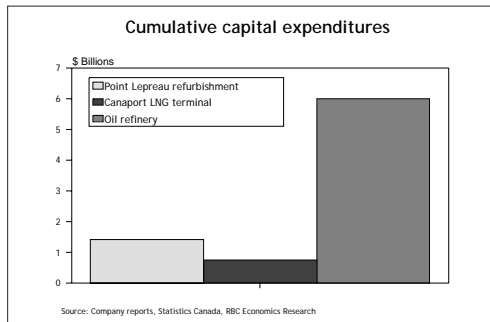


Spotlight on New Brunswick's major energy projects



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ENERGY PROSPECTS FOR NEW BRUNSWICK'S ECONOMY

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The recent buzz about a second major oil refinery in Saint John, New Brunswick has sparked discussion about energy prospects in the province, with headlines speculating about New Brunswick emerging as a critical energy hub servicing the U.S. northeast market for oil and gas. New Brunswick already has the country's biggest oil refinery so the impact of a second one of equal capacity would have significant regional economic implications. To gauge this potential, we estimate the impact of the construction phase of two major energy projects in progress and one in planning. From 2007-2012, we anticipate these projects could add a further \$7.4 billion in capital expenditures, create about 22,000 person years of construction employment and add almost \$900 million in direct labour income to New Brunswick's economy.

The United States has increasingly relied on Canada for energy. Canada currently supplies roughly 16% of U.S. imported oil and oil products and about 85% of its imported natural gas and demand in the northeast is expected to grow significantly in the next decade. Eastern cities are closer to the trans-Atlantic flow of crude oil supply than they are to Houston, making New Brunswick well-positioned to supply the demand.

Non-residential construction still ramping up

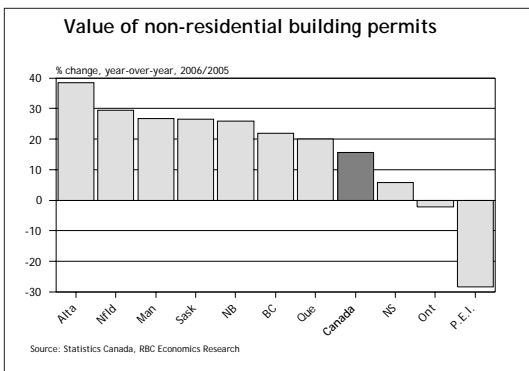
Non-residential construction markets were a firm support to the Canadian economy last year and this year is shaping up to be no exception, with the value of non-residential permits piling up. While the oil-patch related construction boom out west remains the key driver of this strength, there is potential brewing in other parts of the country as well. In New Brunswick, investment in non-residential building construction increased by 18% during the last two years and the rising value of non-residential building permits has sent signals of more strength in the pipelines with permits up 26% in 2006.

New Brunswick is a \$25-billion economy roughly split 70-30 between the services and goods sectors. While several industries remain under pressure, particularly its forestry sector, the province has more recently benefited from the pick-up in its non-residential construction markets. Growth in New Brunswick has been lingering in the 2.5% range and is expected to remain in that range into 2007 and 2008. However, prospects in New Brunswick are shaping up to be more positive for the medium-term (2008-2010) as the construction of current energy projects continues and, especially, if a second proposed oil refinery receives approval to proceed.

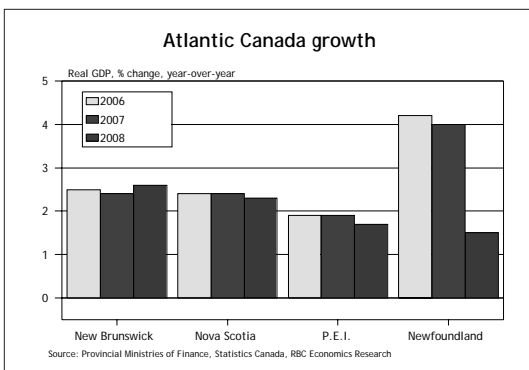
Large-scale energy projects in the pipelines

Major energy-related projects now under way include the refurbishment of the Point Lepreau nuclear plant (\$1.4 billion) and construction of the Canaport LNG terminal in Saint John (\$750 million). The proposed second oil refinery (\$5-\$7 billion) would add an additional, significant boost to the local economy if it proceeds. To estimate the impact, we look only at the capital expenditure phase of these projects. While the production and operations phases are important in terms of the export lift to GDP,

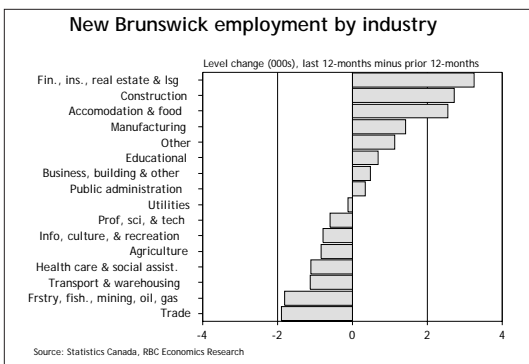
STRENGTH IN NON-RESIDENTIAL CONSTRUCTION...



...TO HELP OFFSET WEAK SPOTS IN ATLANTIC CANADA'S GROWTH ..



...WITH CONSTRUCTION EMPLOYMENT A CRITICAL SUPPORT TO THE LOCAL ECONOMY...



...AS MAJOR CAPITAL PROJECTS CREATE JOBS.

Project	Location	Construction start	Production Start	Construction employees	Capital costs (\$ million)
Canaport LNG import terminal	Saint John	2006	2008	700	750
Point Lepreau refurbishment	Point Lepreau	2006	2009	450	1,400
Second oil refinery	Saint John	2009	2013	5000	5000-7000

the trickle down effects on the local economy in terms of job creation and local investment are much more profound during the construction phase.

Economic impact analysis of construction phases Capital expenditures

We anticipate that the construction phase of these three projects during the next six years will add a further \$7.4 billion in direct capital expenditures to the economy (see *New Brunswick: Economic impact analysis* table on page 3). To estimate the annual impact of construction, we assume a three-year construction phase for Point Lepreau and Canaport and a four-year construction phase for the proposed second oil refinery. In 2006, the start of construction at the Point Lepreau refurbishment and the Canaport LNG terminal added a sizeable 3%, or roughly \$720 million in total capital expenditures, boost to New Brunswick's economy. This level of investment should be sustained through to 2008. In 2009, should the second refinery proceed, the economy is poised for another solid injection of capital, specifically in the Saint John region. Construction at the refinery would add an even bigger 5% lift to the economy in 2009 through estimated annual construction costs of \$1.5 billion spread over four years.

Labour income and job creation

From 2007-2012, approximately 22,000 directly employed person years of energy-related construction employment could earn roughly \$900 million in cumulative wages, assuming growth in present estimated salaries at the rate of inflation. To estimate wages, we use assumptions based on the Canaport LNG terminal to derive a proxy for an average construction wage. In 2006, the construction at Point Lepreau and Canaport provided roughly a \$43 million boost to direct labour income. In 2009, construction at the second oil refinery could add roughly \$200 million in annual direct labour income. With major capital projects, most of the employment prospects are front-loaded and created during the construction phases. In 2006, construction employment in New Brunswick grew from 15,500 jobs at the start of the year to 21,000 jobs by year end. The construction activity at Point Lepreau and Canaport accounted for roughly one-fifth of this gain through the addition of 1150 new construction jobs. The proposed refinery would contribute about four times the employment in construction (5000 jobs) compared to that created by Point Lepreau and Canaport combined.

Job spin-off and multiplier effects

The operations phase of these projects also contributes to job creation, but on a much smaller scale. While Point Lepreau will have minimal impact on operational employment since it is a refurbishment project and therefore already fully staffed, the LNG terminal expects to add 40 full-time positions and the refinery expects to add 1000 full-time jobs. Investments of this size generate significant additional employment and business opportunities during both construction and operation, including billions of dollars in spin-off activity. While the direct effects of these capital projects are significant, spin-off jobs are typically estimated using multipliers in the 2.0 range, doubling job prospects as a result of the projects. Some examples of spin-off employment include jobs in wholesale trade, transportation, construction through repairs and ongoing maintenance and retail services. These projects would generate huge demand for supplies and services, propel the growth of existing companies and foster new companies in the energy business and other technical areas such as engineering and design. Ultimately, these energy-related investments are not one-shot deals for jobs. The investments have the ability to generate sustainable and high quality employment throughout the province and provide promising growth prospects in the region.

Economic impact analysis: New Brunswick

Impact of capital expenditures on GDP (millions of dollars)

	2006	2007	2008	2009	2010	2011	2012	2007-2012
Second oil refinery				1,500	1,500	1,500	1,500	6,000
Canaport LNG terminal	250	250	250					500
Point Lepreau refurbishment	467	467	467					933
Total capital costs (\$ millions)	717	717	717	1,500	1,500	1,500	1,500	7,433
NB GDP (\$ millions)	24,557	25,417	26,332	27,833	29,419	31,096	32,869	
% of GDP	2.92%	2.82%	2.72%	5.39%	5.10%	4.82%	4.56%	

Impact of employment on direct labour income

	2006	2007	2008	2009	2010	2011	2012	2007-2012
Second oil refinery				5,000	5,000	5,000	5,000	20,000
Canaport LNG terminal	700	700	700					1,400
Point Lepreau refurbishment	450	450	450					900
Construction jobs (# of jobs)	1,150	1,150	1,150	5,000	5,000	5,000	5,000	22,300
Construction wages (\$)	37,000	37,740	38,495	39,265	40,050	40,851	41,668	
Total income (\$)	42,550,000	43,401,000	44,269,020	196,323,480	200,249,950	204,254,949	208,340,048	896,838,446

Assumptions

- Capital costs are spread over an assumed three-year construction period for the Point Lepreau refurbishment and the Canaport LNG terminal, but over a four-year construction period for the proposed second oil refinery.
- From 2006 to 2008, New Brunswick GDP estimates are based on RBC's forecasts and from 2009 to 2012 we assume annual GDP growth of 5.7% (New Brunswick's long-run average rate from 1982 to 2005).
- Estimated wages are based on anticipated direct labour income from the LNG terminal and are grown at a 2% annual rate of inflation.

Provincial current economic indicators

Latest month available, year-over-year % change, not seasonally adjusted unless marked S.A.

		Canada	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.
Labour market												
Employment	Jan-07	2.6	2.4	2.9	1.7	-0.1	1.7	1.6	1.0	4.8	6.8	4.3
Labour force	Jan-07	2.1	1.6	2.4	1.7	-1.2	0.8	1.6	1.3	3.4	6.6	3.2
Unemployment rate (% level, S.A.)	Jan-07	6.2	15.4	10.7	7.8	8.1	7.7	6.4	4.1	4.1	3.3	4.3
Average weekly earnings	Nov-06	2.6	2.3	3.9	2.9	2.2	4.0	2.0	3.0	1.3	3.5	1.1
Consumers and business												
Retail sales	Dec-06	4.9	5.1	3.6	2.5	6.5	4.9	3.2	4.3	5.2	10.7	3.9
Retail sales excl. new motor vehicles	Dec-06	4.2	4.9	3.1	3.2	5.2	4.2	2.9	3.3	3.7	9.4	2.5
New motor vehicle sales	Dec-06	10.6	7.6	11.7	-3.9	20.9	11.7	4.8	13.1	18.5	18.6	15.8
Wholesale trade	Dec-06	4.3	18.3	2.9	-1.8	3.9	4.4	6.8	-13.9	11.6	2.8	-3.1
Housing starts (S.A.)	Jan-07	0.7	-15.4	-76.2	-8.6	-26.8	3.9	-12.2	64.6	22.0	19.1	8.8
Existing home sales	Dec-06	-1.0	22.9	12.2	-12.6	5.3	5.2	6.4	0.7	-2.8	6.5	-22.8
Residential building permits (S.A.)	Dec-06	-21.2	53.1	-58.1	73.4	-1.1	-1.0	-50.8	44.3	92.8	-5.3	-19.3
Non-residential building permits (S.A.)	Dec-06	24.5	18.1	21.7	86.8	93.8	62.3	4.6	39.1	-49.3	80.1	-13.5
Manufacturing shipments	Dec-06	-1.7	1.1	22.7	-2.6	-5.0	2.5	-3.2	15.0	-10.7	-4.8	-1.3
Business bankruptcies	Dec-06	-10.0	-66.7	-16.7	-36.0	-15.0	22.8	1.0	20.0	-23.5	-53.2	-38.3
Consumer bankruptcies	Dec-06	-8.7	4.0	-59.5	-17.7	-13.5	-4.3	-6.5	-16.8	18.4	-25.4	-15.5
Domestic trade												
Merchandise exports (S.A.)	Dec-06	-4.2	19.4	15.6	-13.3	7.9	-1.3	3.1	20.4	13.4	-21.4	-13.9
Merchandise imports (S.A.)	Dec-06	2.2	64.2	-15.0	-5.4	-18.6	-4.9	3.1	1.9	11.8	16.6	6.1
Inflation												
CPI	Jan-07	1.2	1.1	1.1	0.7	0.3	0.3	0.3	1.7	1.4	3.9	2.2
CPI ex. food and energy	Jan-07	1.7	1.1	1.0	1.4	0.5	1.0	1.4	1.5	1.2	4.9	2.0
CPI ex. Shelter	Jan-07	0.5	0.5	0.6	0.8	-0.4	-0.1	0.0	1.3	0.8	1.2	2.2

Source: Statistics Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association, RBC Economics Research