



ATLANTIC CANADA SET FOR MODEST GROWTH IN 2014: RBC ECONOMICS

TORONTO, June 11, 2014 — Atlantic Canada is positioned for moderate economic growth in 2014, led by accelerated activity in Nova Scotia and New Brunswick, according to the latest [RBC Economics Provincial Outlook](#) released today.

After a year of modest growth in 2013 and a disappointing decline in 2012, **Nova Scotia's** economy is set to accelerate in 2014, driven largely by a full year of production at the Deep Panuke offshore natural gas field. RBC forecasts real GDP growth to quicken to 2.2 per cent in 2014 following an estimated 1.0 per cent in 2013.

“After reaching full production in late 2013, output at Deep Panuke is expected to drive up growth in Nova Scotia and provide a boost to the province’s exports,” said Craig Wright, senior vice-president and chief economist, RBC. “We anticipate this will offset any weakness in the domestic economy – particularly in the labour market after it saw a notable pullback in 2013.”

At the beginning of 2014, international merchandise exports from Nova Scotia surged thanks to a boom in natural gas production and rising demand for seafood products and rubber tires. The offshore energy sector continues to look bright, RBC says, with BP launching a seismic program this year as a part of a \$1 billion exploration commitment off the coast of Nova Scotia and Shell continuing seismic work that began in 2013.

“A recent call for additional exploration bids along with the province announcing funding to support firms’ seismic and geological analysis in the future indicate the energy sector will remain a key driver for growth beyond 2014,” said Wright.

The Outlook notes Nova Scotia will post four more years of deficits before eking out a small surplus in 2017-18, according to the new budget course charted by the province’s government this spring. Despite a weaker fiscal outlook, employment in the public sector has trended upward since last year; however, RBC says this will likely be insufficient to keep total employment afloat as weakness in the private sector in 2013 continued into 2014.

“We don’t anticipate a turnaround in the labour markets until 2015, with employment growth this year expected to match the 0.4 per cent decline in 2013,” added Wright.

The Atlantic Provincial Economic Council estimates that investment in major projects in Nova Scotia is set to reach \$3.4 billion in 2014 – a 13 per cent increase from 2013. Work on the \$1.5 billion Maritime Link project is poised to accelerate with an estimated \$335 million in spending in 2014, and economic benefits stemming from the multi-year \$25 billion shipbuilding procurement contract are also expected to ramp up.

Economic conditions remained mixed in **New Brunswick** at the beginning of 2014; however, RBC anticipates the provincial economy will gain momentum through the year with real GDP accelerating to a modest 1.0 per cent in 2014 from a meagre 0.2 per cent estimated for 2013.

“An anticipated turnaround in goods exports has yet to materialize and has accompanied an extended period of weakness across domestic economic indicators,” said Wright. “Still, there is positive evidence suggesting that a stronger performance is in the cards for New Brunswick in 2014 – notably, a rebound in private investment and related hiring gains.”

RBC says the upward hiring trend that emerged in the latter half of 2013 continued into the early stages of 2014 as job gains in the private sector and rising self-employment more than offset further pullback in the private sector. On an industry basis, job losses in 2014 thus far have been concentrated in the goods-producing sector, most notably in construction.

“This pullback has not prevented activity from rising, however. Non-residential building construction is gaining momentum and recorded its largest year-over-year percentage gain since 2002 in the first quarter of 2014,” noted Wright.

Further gains, along with preliminary work beginning for the \$450 million modernization plan for the Irving pulp and paper mill, bode well for containing employment losses in the goods sector and for private investment to rise in 2014 for the first time since 2008, Wright adds.

The province’s manufacturing sector continues to face challenges with shipments plunging to a two-year low this spring. RBC says there are reasons to be optimistic about the outlook for the province’s mining sector, however, with advances in engineering work for the Caribou mine and mill on track for operations to begin in early 2015 and a two-year construction phase at the Sisson Brook tungsten mine set to begin shortly.

The outlook for the potash sector is less robust given recent production cutbacks, RBC notes. Still, Sussex Potash’s Picadilly project is progressing with completion expected in 2014 and Atlantic Potash is embarking on the drilling phase of its Millstream exploration program.

With nominal merchandise exports remaining below year-ago levels, RBC says New Brunswick’s exports are struggling to gain momentum so far this year. Gains in exports of lumber products and electrical energy are being more than offset by weakness in potash shipments and refined petroleum oils. The province’s international trade balance deteriorated markedly to start 2014, swinging from surplus to deficit in the first quarter for the first time since 2009.

RBC expects economic growth in **Prince Edward Island** to remain steady in 2014, with real GDP growth forecasted to match the estimated 2013 rate at 1.4 per cent.

“A strong tourism season and robust international exports are expected to support steady economic growth in PEI this year,” said Wright. “However, lower capital investment and lingering weakness across domestic economic sectors are expected to temper overall performance.”

Indications of a strong tourism season are already emerging, as events scheduled for the 150th anniversary of the 1864 Charlottetown Conference are expected to boost the number of visitors to the province this year. While this bodes well for accommodation and food services hiring, RBC notes overall employment growth in the province is expected to be subdued as an easing in public-sector hiring weighs down continued private-sector job gains.

After reaching record levels in 2013, PEI exports surged in early 2014 as a weakening Canadian currency and strengthening global demand supported further gains. Potato and seafood exports to the U.S. were robust while softer sales in the U.S. for the province’s aerospace and organic chemical products were more than offset by rising sales to France. RBC says that long-term potential exists for further gains in the flow of international merchandise goods, with the gradual elimination of tariffs under the South Korean trade agreement and the agreement-in-principle with the European Union.

The PEI government’s spring budget maintained a return to surplus in 2015-16 with greater fiscal restraint planned as program expenditures are set to decline across most departments. Capital investment is also set to fall this year following the completion of the \$60-million Hermanville wind farm in 2013.

On the domestic side, RBC notes population growth in PEI edged higher to start 2014 after slowing to a six-year low in 2013. Gains were concentrated in the 65 and older age cohort with further declines across the working-age cohort, however. These shifting demographics may be weighing on demand for housing, RBC says, with the six-month trend falling sharply since January 2013.

In the absence of a surge in crude oil production that drove **Newfoundland and Labrador**’s economy to the top of the provincial growth rankings last year, RBC expects real GDP growth to significantly slow in 2014 at 0.6 per cent.

“Though Newfoundland and Labrador is tapping the breaks this year, we expect activity levels to remain elevated with the advancement of major projects and rising capital investment taking the reins – the province’s growth will remain in positive territory,” said Wright.

After rebounding strongly in 2013 from an 11-year low in 2012, crude oil production was below year-ago levels in the early months in 2014. For the remainder of 2014, RBC expects total production gains to be subdued due to declining production at a majority of the province's offshore oil fields, which should offset expected output increases at Terra Nova.

RBC anticipates capital investment in the province's energy sector to rise, however. The ongoing \$14 billion Hebron offshore oil project and an 18-month drilling program at Bay du Nord offshore oil discovery will provide support. Looking ahead, a recent call for exploration bids on four offshore parcels could potentially spur additional oil and gas investment, RBC says.

The Outlook notes the province's mining sector will not see an imminent upswing this year as iron ore prices have surprised on the downside and production has been weighed down by severe winter weather. Still, RBC expects improving prospects beyond 2014 as major projects in the sector continue to advance, particularly the anticipated mid-year completion of the Iron Ore Company of Canada's concentrate facility expansion and subsequent expected rising production levels.

RBC says public-sector employment in Newfoundland and Labrador has trended downward with recent easing in private-sector hiring compounding the effect on the overall labour market. Employment in the goods-producing sector has disappointed so far this year and should receive support from increasing labour needs as major projects in the province advance, such as preparation work for the Labrador-Island Transmission link and the expected peak in employment in 2015 for the broader Muskrat Falls hydro-electric project.

The RBC Economics Provincial Outlook assesses the provinces according to economic growth, employment growth, unemployment rates, retail sales, housing starts and consumer price indices. The full report and provincial details are available online as of 8 a.m. ET today at rbc.com/economics/economic-reports/provincial-economic-forecasts.html.

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