



## ATLANTIC CANADA POISED FOR MODERATE ECONOMIC GROWTH: RBC ECONOMICS

### Newfoundland and Labrador remain at the top of Canada's provincial growth rankings

**TORONTO, September 17, 2013** — Atlantic Canada's economic growth is showing greater strength in comparison to 2012, primarily due to the exceptional economic performance of Newfoundland and Labrador, according to the latest [RBC Economics Provincial Outlook](#) released today.

A rebound in the oil and gas sector, coupled with improving conditions for large-scale mining projects through the remainder of the year, is expected to propel **Newfoundland and Labrador** to the top of provincial growth rankings in 2013. RBC forecasts robust 6.0 per cent growth for the provincial economy in 2013.

"We expect Newfoundland and Labrador to enjoy renewed economic vigour in 2013, on the heels of a significant pullback in crude oil production which hampered economic growth in 2012. Despite lacklustre performance so far this year, crude oil production levels through the end of 2013 are expected to yield a sizeable year-over-year boost in activity," said Craig Wright, senior vice-president and chief economist, RBC. "By next year, oil production will have recovered from depressed levels and will ease real GDP growth to 1.3 per cent in 2014."

Despite the absence of a lift from oil production next year, RBC says the ramping up of work on the Hebron offshore oil project, a recently approved third extension at White Rose and two offshore oil discoveries this summer will pave the way for sustained contributions from the oil and gas sector as key economic drivers through the medium-term.

After reaching a record high at the end of last year, employment in the province has been experiencing a softening trend in recent months. This decline was accompanied by a larger exit of participants from the labour force, resulting in the unemployment rate drifting lower. Comparing closely to national averages, RBC forecasts employment in Newfoundland and Labrador to grow by 1.5 per cent in 2013 and 1.4 per cent in 2014.

"The ramping up of major projects, including Muskrat Falls hydroelectric project and Hebron offshore oil field, is expected to support modest employment growth and could create favourable conditions for the return of skilled labour to the province," added Wright.

Uncertain conditions in the commodities markets weighed on mining activity in Newfoundland and Labrador during the first half of the year, though any adverse impact on prospects for large scale projects has been muted. Prices for iron ore have drifted higher more recently and are expected to sustain historically elevated levels meanwhile boosting production volumes, RBC says. The completion of the Long Harbour nickel processing facility and a subsequent ramp up of production will augment production at the Direct Shipping iron ore project and Iron Ore Company of Canada's phase two expansion in 2014.

**Nova Scotia's** economy remains poised for a recovery this year, though growth will be more modest than previously anticipated because of delays at the new Deep Panuke offshore natural gas facility and a hesitant pick-up in domestic activity. RBC has downwardly revised the province's real GDP growth to 1.2 per cent in 2013 from 1.7 per cent previously, with growth accelerating to 2.3 per cent in 2014.

"The anticipated rebound in the natural gas sector is being pushed back as production of the Deep Panuke offshore facility is now expected to ramp up this fall, instead of the summer – this lowers our expectations for growth in Nova Scotia this year," said Wright. "Momentum in the province will accelerate in 2014, however, as production at the facility and other major projects across the province strengthen and trickle through the data."

RBC notes that maintenance work at the Sable offshore facility alongside ongoing maturation related declines drove natural gas production down by nearly 50 per cent and international exports of the fuel down 88 per cent in the first seven months of 2013. Nominal exports, on the other hand, have weathered the storm, with year-to-date growth surpassing that of other provinces.

With employment in the province down year-to-date in August, earlier indications of improving prospects for the labour market have faded. RBC expects fewer than 500 new jobs in the province in 2013, marking Nova Scotia's fifth consecutive year of employment growth that is less than 1.0 per cent.

RBC anticipates an increase in offshore exploratory work next year, as British Petroleum joins Shell in seismic surveying of deepwater sites as a part of record high exploratory bids in 2011 and 2012. While Nova Scotia waits for the impact associated with the cutting of steel for the \$25-billion, 30-year shipbuilding procurement contract, ongoing preparatory work at the Irving shipyard will provide a positive boost to economic activity, says RBC.

Economic growth in **Prince Edward Island** hit a speed bump this year, RBC says. While the provincial economy is expected to shift into high gear in 2014, the anticipated drivers of economic growth will change, as external trade strengthens and the domestic economy slows. RBC forecasts real GDP growth easing to 1.2 per cent in 2013, with external trade supporting modest acceleration to 1.7 per cent in 2014.

“Indicators of economic activity in PEI suggest the domestic economy hit a soft patch earlier this year, due to easing in labour market activity and cooling housing starts, and is expected to come under increased pressure as demographic challenges persist and fiscal restraints intensify,” added Wright. “That said, we expect this dip in activity to occur amid offsetting pick-up in the export sectors after a sluggish start to 2013.”

RBC indicates that robust employment gains in PEI earlier in the year, have given way to weaker labour market activity, as public sector losses escalated this summer. Despite recent moderation, employment remains up 2.6 per cent on a year-over-year basis in August and is expected to be sustained by an uptick in private sector hiring before easing in 2014.

Demographic challenges in PEI intensify, as population growth dipped to negative territory earlier this year. RBC says that net international migration dropped below zero in the first quarter for the first time in over a decade, while Islanders increasingly relocated to other provinces after 2012 recorded the largest net outflow of migrants to other provinces in 43 years.

After a brief pause earlier this year, exports are expected to take flight in 2014 and offset PEI’s weaker domestic economy. Potatoes, the Island’s agricultural staple, are expected to support year-over-year export gains as a firmer market for the vegetable arises in the U.S. Export growth opportunities – such as a PEI operation winning a federal government contract in the aerospace industry and investments directed to expanding key provincial industries, for example fishing and wind power – suggest activity in these sectors will continue to carry PEI to modest growth this year and next, RBC says.

The rising tide of economic activity in the U.S. this year is expected to lift **New Brunswick’s** economy in 2013; however, RBC expects that the positive boost from exports will be tempered by setbacks in the energy sector and a flat labour market. RBC forecasts real GDP growth of just 0.8 per cent in 2013, as potentially game-changing projects in the province are not expected to impact economic activity in the near-term.

RBC notes that nominal energy exports fell below year-ago levels, hurting the province's international trade balance. As refinery maintenance is expected to curb energy exports in the near-term, continued advances in other key exports will drive economic activity through 2014. Nominal exports of lumber increased solidly so far this year, and RBC says they will keep the momentum as U.S housing starts surge to a seven-year high in 2014. New Brunswick's economy will also benefit from additional gains in electricity exports as production issues at Point Lepreau are resolved.

"In 2014, we expect New Brunswick's rate of growth to nearly double to 1.5 per cent from further improvements in the U.S. outlook," said Wright.

The report notes that earlier gains in New Brunswick's employment data disappointingly gave way for further job losses over the summer. RBC expects the province's labour market to decline for the fourth consecutive year, easing marginally by 0.1 per cent overall in 2013.

"Despite the setback in New Brunswick's employment picture this year, we remain confident that job prospects will improve in 2014, once the economy is on a more firm, upward track," added Wright.

The RBC report notes retail sales rebounded in the first half of the year from the lows at 2012's end. Despite the rebound, however, retail sales continue to track below 2012 levels during most of the year to date, and RBC expects retail sales to grow at the slowest rate in the country both this year and next.

Following a 20 per cent annual decline in 2012, non-residential building construction edged out its first quarterly gain in more than two years. Advancement of the \$12 billion Energy East project is expected to spur a turnaround in confidence and capital investment in the province.

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](http://rbc.com/economics/economic-reports/provincial-economic-forecasts.html).

**For more information, please contact:**

[Craig Wright](#), RBC Economics Research, 416 974-7457

[Laura Cooper](#), RBC Economics Research, 416 974-8593

[Ellyse Lalonde](#), Communications, RBC Capital Markets, 416 842-5635