



ATLANTIC CANADA'S ECONOMY POSITIONED FOR MODERATE GROWTH IN 2014: RBC ECONOMICS

TORONTO, September 11, 2014 — Atlantic Canada's economy is poised for modest growth in 2014, led by accelerated activity in Nova Scotia and New Brunswick, according to the latest [RBC Economics Provincial Outlook](#) released today.

Nova Scotia's economy is set to accelerate in 2014 as offshore natural gas production hits its stride. RBC forecasts real GDP growth to quicken to 2.4 per cent in 2014 and 2.2 per cent in 2015, up from 1.0 per cent in 2013.

"A full year of production at Deep Panuke is driving energy exports. Couple it with a boost from investment in major capital projects and Nova Scotia's slumping domestic economy will begin to pick up for the remainder of the year and into 2015," said Craig Wright, senior vice-president and chief economist, RBC. "Still, the job market is weak in the province and we expect to see employment declines overall in 2014."

Rising seafood and consumer goods exports have contributed to a broad-based 41 per cent year-over-year increase in nominal merchandise exports so far this year, but an offset may come in the province's largest export category – automotive tires – as Michelin curtails production at its Granton plant.

Rising production at the Deep Panuke offshore project and an uptick at the Sable offshore site prompted a surge in natural gas exports earlier this year. RBC notes the energy industry is optimistic about the potential for natural gas off the shores of Nova Scotia, as BP and Shell plan to spend \$2 billion on exploration in the coming years.

Investment in the province is ramping up this year; the Maritime Link is beginning to take shape as the three-year construction phase moves forward and the \$300-million expansion of the Irving shipyard in Halifax is progressing in preparation for the 'cutting of steel' in mid-2015. Construction continues at a mixed-use development at King's Wharf on Dartmouth and the \$500-million Nova Centre is scheduled for completion next year.

The report notes more projects could be on the horizon, as the Atlantic Provinces Economic Council estimates forthcoming and potential projects have a combined value of \$55 billion, up 36 per cent from last year.

The benefits of rising exports and natural gas production have yet to spill over to Main Street, RBC says, as domestic indicators remain weak. Nova Scotia has shed jobs so far this year led by a recent pullback in the private sector and sharp declines in self-employment. Following historical trends, most job losses were concentrated outside of Halifax, which saw its share of provincial employment rise above 50 per cent in 2013.

“Looking ahead, we expect employment in Nova Scotia to rise modestly in 2015 thanks to increasing hiring in manufacturing, construction and services,” added Wright. “An improvement in the province’s job market would benefit other aspects of its domestic economy – raising consumer confidence, building momentum in retail sales and boosting home construction.”

Early indications of renewed vitality in the **New Brunswick** economy eased in the second quarter, signalling that overall momentum remains weak. An expected rise in exports generated by faster growth in the U.S. economy and its recovering housing market have not yet occurred, and indicators of capital investment remain subdued. Still, RBC projects economic growth in the province to pick up in 2014 to a pace of 1.0 per cent from a 0.2 per cent in 2013.

“We do see some signs of improvement in domestic sectors of New Brunswick’s economy, and we continue to expect increases in capital spending and exports to support job creation and income gains,” said Wright.

In the spring, the province was pushed into a merchandise trade deficit as maintenance related shutdowns at the JD Irving refinery in Saint John held back energy exports. While energy exports have since recovered, RBC says that mining exports have struggled all year and will likely not see a pick up in 2014, as the closure of the potash mine at Penobsquis dampens activity. Looking ahead however, mining output is expected to climb in 2015 as major projects advance, including production at PotashCorp’s \$2.1 billion Picadilly project expected to begin next year.

Gains in the employment sector early this year have largely reversed as the private sector shed jobs recently. On an industry basis, losses were concentrated in goods-producing industries, which steadily lost ground this year. Nevertheless, RBC continues to expect a turnaround in goods-sector employment as exports pick up and construction provides a boost.

RBC says a recovering U.S. housing market is raising the outlook for lumber prices and an increase in the allowable cut by the New Brunswick government is prompting new investment in the forestry sector, setting the stage for future job gains. Investments in boosting forestry sector capacity will total \$1 billion in the coming years and are expected to provide support to the construction industry, which faces weak residential investment as demographic headwinds restrain demand for new housing.

“New Brunswick’s domestic economy is expected to gather momentum for the remainder of 2014, generating the first annual employment gain in five years,” added Wright. “Recent gains in retail sales have provided a boost to services employment this year and suggest support for modest growth in consumer expenditures.”

A slight decline in the labour force and improving job creation are expected to put downward pressure on the province’s unemployment rate, as RBC expects it to ease to 9.8 per cent in 2014.

RBC expects economic growth in **Prince Edward Island** to remain unchanged in 2014, with real GDP growth forecasted at a rate of 1.4 per cent.

“Prince Edward Island will grow modestly in 2014 as strength in exports and a tourism boom are partly offset by some domestic headwinds,” added Wright. “So far this year, indicators of economic activity are pointing to a sluggish domestic economy and capital investment, which are expected to continue into next year. As tourism activity cools and merchandise exports slow, we expect growth to moderate slightly to 1.2 per cent in 2015.”

After reaching historic highs in 2013, nominal merchandise exports continued to expand in the second quarter, rising 28 per cent year-over-year. The increase occurred as export strength from manufacturing – specifically chemicals, electronics and aircrafts – offset ebbing in farm and fish exports, RBC says. Looking to next year, a more competitive Canadian dollar and the expected strengthening of the U.S. economy should support continued export growth.

PEI’s tourism sector is having a banner year in 2014 as the province celebrates the 150th anniversary of the Charlottetown Conference. The governments have spent \$29 million in preparation for the celebrations and indicators suggest that tourist arrivals are up solidly over 2013. RBC notes that continued strength in tourist arrivals during the summer months will likely support sagging employment in accommodation and food services.

“Despite a strong hand-off from last year, labour markets are easing due to continued losses in the public sector as the provincial government looks to balance its budget,” said Wright. “Public investment is also feeling the pinch of fiscal restraints with investment intentions down 25 per cent from 2013 levels.”

Overall investment in the province will likely be lower this year as a harsh winter and demographic headwinds weigh on residential activity, and non-residential capital investment declines sharply after the completion of PEI Energy Corp’s wind farm in Hermanville.

RBC expects lower investment activity to dampen the construction sector this year; however, some scope for a rebound is on the horizon in 2015. Looking ahead, the Atlantic Provinces Economic Council identifies \$2.1 billion worth of upcoming investment projects in PEI, which would be up 10 per cent from 2013.

After **Newfoundland and Labrador**’s economy sprinted through 2013 at an estimated growth rate of 7.9 per cent propelled by surges in capital spending and oil production, RBC expects growth to slow substantially in 2014, eking out real GDP of 0.6 per cent.

“As capital spending levels ease and oil production remains steadier, economic growth in Newfoundland and Labrador is expected to slow drastically this year compared to 2013,” added Wright. “Employment in current capital projects under construction will peak in 2014 and 2015, providing a boost to services, and helping to offset contained fiscal spending.”

Crude oil production has ebbed somewhat in 2014 as production declines at Hiberia and White Rose more than offset production ramp ups at Terra Nova and North Amethyst. However, after undergoing repairs in 2013, a full year of production at Terra Nova should provide a lift for the rest of the year. RBC says that the nominal value of energy exports has increased strongly despite softer production volumes, providing impetus to a sustained provincial merchandise trade surplus with the rest of the world.

Capital investment in the energy sector is expected to remain strong as drilling continues at Bay du Nord and development at the \$14-billion Hebron offshore oil project progresses. With production in the latter scheduled to start in 2017, the addition of production from this field will help offset the anticipated long-term declines at mature oil production sites, RBC says.

Driven by growing Australian capacity and slackening Chinese demand, falling iron ore prices led to the idling of mining capacity in the province earlier this year and weighed on the province’s mining activity. Despite a slowdown in mining activity, RBC expects conditions to improve thanks to strengthening global demand for iron ore and a number of projects ramping up production in the province. Expansion programs by the Iron Ore Company of Canada will boost production and the Direct Shipping Ore project will see a full year of production in 2014, says RBC.

“Newfoundland’s domestic economy remains rather lacklustre to date, with sustained declines in public-sector employment this year compounding job losses in the goods-producing industries,” explained Wright. “Recent job losses continue to weigh on services and housing activity, but as employment recovers next year, both of these sectors should see some revitalization.”

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.

For more information, please contact:

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

[Robert Hogue](#), RBC Economics Research, 416-974-6192

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