



## ATLANTIC CANADA'S ECONOMY SET TO GROW NEXT YEAR: RBC ECONOMICS

- **Newfoundland and Labrador, second strongest economy in Canada**
- **Nova Scotia and New Brunswick economies remain subdued**

**TORONTO, December 12, 2011** — As the U.S. economy continues to recover, increasing its demand for Canada's exports, the majority of Atlantic Canada will see a greater contribution to growth from the export sector, according to the latest [RBC Economics Provincial Outlook](#) report. RBC projects faster rates of expansion in 2012 in two of the four Atlantic Provinces relative to this year, yet the pace will remain generally subdued.

Since the beginning of the recovery, Newfoundland and Labrador has been among the growth leaders in Canada. The province's solid performance in 2011 was mainly the result of a surge in major construction spending, which more than compensated for declines in oil production and mixed performance in the mineral sector. By some estimates, capital expenditures are on pace to rise by a remarkable 49 per cent this year relative to 2010.

"Next year, capital investment growth will moderate and offshore oil production will continue to decline. On the other hand, mining production should see a strong increase," said Craig Wright, senior vice-president and chief economist, RBC. "On net, we expect Newfoundland and Labrador to grow at a healthy rate of 2.8 per cent in 2012."

New Brunswick's economy has screeched to a near halt this year; provincial exporters faced tough conditions and employment losses negatively impacted consumers and homebuyers. RBC forecasts real GDP to grow by just 0.5 per cent in 2011 and the pace is expected to accelerate at 1.8 per cent in 2012.

Volumes of refined petroleum exports – by far New Brunswick's biggest commodity export – have been negatively impacted by maintenance work at the Irving oil refinery and gas price increases earlier in the year, which dampened U.S. gasoline consumption. RBC anticipates that completion of refinery maintenance work, a partial reversal of the spike in gasoline prices, and a strengthened U.S. economy will set the stage for stronger energy export volumes going forward.

On the heels of significant job losses in 2010, New Brunswick experienced another 2,900 lost jobs in the first 11 months of this year. Notable declines were evident among the self-employed, in the primary sector, and a number of services-producing industries.

“Weak employment in the province has cast a large shadow over consumer spending – retail sales growth has been marginal so far this year and housing activity has slightly contracted,” noted Wright. “Still, we are confident that job creation will resume next year in New Brunswick, though employment growth will likely remain fairly subdued.”

Prince Edward Island has faced its share of challenges in 2011: output declines in the agricultural and fishing industries, a disappointing tourism season, and decreases in capital spending. Poor weather conditions and a fragile U.S. economy were external factors that also contributed to the island’s economic challenges this year.

Despite these headwinds, PEI’s economy has been surprisingly resilient – the province saw respectable increases in employment and retail sales. Employment in the province was up 2.8 per cent year-over-year in the third quarter, and retail sales ran 6.2 per cent higher (excluding sales at gas stations).

“Rapid population growth has supported the solid demand for goods and services that we are seeing in the province,” commented Wright. “Substantial increases in net international migration in particular, fuelled PEI’s population to its fastest rate of annual growth in 40 years.”

Fiscal restraint will weigh on growth in PEI in the coming years. The latest provincial government five-year capital plan schedules cuts in capital spending of 11 per cent in 2011, 24 per cent in 2012, and 30 per cent in 2013. RBC expects that this fiscal restraint will only partly offset the thrust coming from sustained growth in consumer spending, stronger exports to the U.S., and more normal agricultural and fishing yields. As a result, RBC forecasts PEI’s growth to be moderate, at 1.9 per cent in 2012 and 2.1 per cent in 2013.

The RBC report indicates that Nova Scotia’s economy is in neutral. Ongoing declines in natural gas production and lower investment in major projects have contributed to weak employment growth and consumer spending. Retail sales have barely grown, increasing by just 0.2 per cent relative to last year (when sales at gas stations are removed).

RBC expects that the closure of a major paper mill in September will further strain growth in the province, which will hamper economic activity this year and into next.

“Several key developments on the horizon should lead to faster growth in the medium-to-long term in Nova Scotia,” Wright said. “Until then, we expect to see a relatively muted pace of expansion – 1.3 per cent in 2011 and 1.6 per cent in 2012.”

The RBC report notes that the expected modest acceleration in growth for 2012 partially reflects the commencement of operations for the Deep Panuke offshore natural gas project in the second quarter, which will provide a boost to natural gas production next year. Additionally, capital spending related to the \$25 billion, 30-year shipbuilding contract at Irving Shipyard is also expected to kick-off in 2012.

The most significant annual gains from these projects in Nova Scotia will be registered in 2013, which will also coincide with the assumed ramping up of construction of the \$1.2 billion Maritime Transmission Link – the undersea electricity transmission line between Newfoundland and Labrador and Cape Breton that will link to the Lower Churchill megaproject. Nova Scotia’s real GDP is forecasted to grow more substantially in 2013 by 3.5 per cent.

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/market/pdf/provfcst.pdf](http://rbc.com/economics/market/pdf/provfcst.pdf).

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