



ATLANTIC CANADA ON TRACK FOR MODEST GROWTH IN 2014: RBC ECONOMICS

TORONTO, December 12, 2013 — Atlantic Canada is on track for modest growth in 2014, according to the latest [RBC Economics Provincial Outlook](#) released today.

A significant rebound in **Newfoundland and Labrador's** oil and gas sector that emerged this past summer is expected to fuel real GDP growth to a robust 6.0 per cent pace in that province in 2013.

“Following a sharp pullback in production resulting from maintenance shutdowns in the summer of 2012, oil production in the province was up 21 per cent in the first 10 months of the year,” said Craig Wright, senior vice-president and chief economist, RBC. “In the absence of a similar lift to economic activity next year, we expect Newfoundland and Labrador's real GDP to grow at a much slower pace of 1.5 per cent in 2014.”

RBC notes that elevated levels of capital investment are expected to more than offset a crude oil production pullback in 2014 – engineering is underway on the West White Rose extension, and construction related to the Hebron offshore project will churn on. With the anticipated start-up of the South White Rose Extension, RBC says crude oil production gains could resurface at the end of next year.

RBC notes that despite volatile commodity prices, iron ore has shown resilience with prices and volumes rebounding following uncertain conditions earlier in the year; nominal exports of the metal are on pace to surpass 2012 levels, and have offset the notable declines in copper and zinc exports. A ramp up in production at the second expansion phase for the Iron Ore Company of Canada and at the Direct Shipping iron ore project will set the sector on pace for overall improvement in 2014, RBC says.

The provincial government vowed to cut program spending by 0.2 per cent and 0.9 per cent in the next two years, respectively, following a 1.5 per cent rise in 2013-2014. RBC anticipates the drag from this fiscal restraint will be further amplified by weaker public employment, though the private sector will pick up the slack with overall employment expected to rise by 1.5 per cent annually throughout the forecast.

“Advances in major projects along with positive oil exploration developments are expected to counterbalance rising challenges facing the domestic portion of the economy,” added Wright. “We expect a modest 1.7 per cent GDP growth rate in 2015.”

Following a disappointing contraction (albeit marginal) in 2012, **Nova Scotia's** economy is expected to close 2013 with a growth rate of 1.2 per cent thanks in large part to the ramp up in production from the Deep Panuke offshore natural gas field, RBC says. A full year of production at the field will offset maturation-related declines at the Sable Island field and support provincial growth of 2.1 per cent in 2014. RBC expects 2.3 per cent growth in 2015.

Deep Panuke started production this past summer and registered a notable pick-up in the fall – RBC expects this to accelerate further into 2014. Year-to-date production, however, remained 24 per cent below the corresponding 10 months in 2012 due to significant maturation-related declines at the Sable Island field. Still, RBC notes that this did not negatively impact the province's overall exports.

“The long-anticipated natural gas production lift from Deep Panuke will likely mark a turnaround for Nova Scotia,” said Wright. “With U.S. auto sales expected to gain momentum in 2014, elevated demand for the province's largest export – rubber tires – alongside rising production at Deep Panuke, will support continued improvement in provincial exports.”

RBC says the recent approval of the \$1.5 billion Maritime Link project is also a positive development for Nova Scotia's economic growth. The provincial economy will be further propelled by energy sector developments, with Shell recently completing seismic testing and British Petroleum set to begin its seismic program in 2014.

Prospects for stronger overall economic performance are being weighed down by deterioration in Nova Scotia's labour market. Weakness has permeated throughout the private and public sector, and the province faces an overall pullback in employment in 2013. A surge in self-employment, however, will temper the decline to a mild 0.2 per cent, RBC says.

“Soft job prospects have done little to slow consumer spending, though a delayed HST reduction could soften the retail sales rally in 2014,” added Wright.

Prince Edward Island's economic performance was dampened by softness in the province's exports in the first half of the year, offsetting robustness in the domestic drivers of growth; RBC projects the province will grow at a modest 1.2 per cent in 2013.

However, RBC sees a rotation emerging in 2014 with the domestic economy levelling off and demand for the province's export goods supporting a slightly quicker 1.4 per cent pace in 2014. Looming demographic challenges and a drag from fiscal restraint are expected to slow real GDP to 1.1 per cent in 2015.

"Following robust performance in 2012, export growth has softened in 2013 though overall goods exports edged out a positive, albeit small, gain in the first nine months of the year," said Wright.

Annual potato production gains reached a seven-year high in 2013; this, coupled with supportive demand conditions, renewed export strength for the frozen variety of the vegetable after a sluggish start to the year. Nominal exports of the fresh vegetable fell due to softer prices relative to the same period in 2012. Aerospace exports also took a tumble as uncertainty in the U.S. likely held back orders. RBC expects a retracement of the aerospace decline and continued robust gains for the province's seafood products will be the main drivers in 2014.

"The recently announced Comprehensive Economic and Trade Agreement between Canada and the European Union is expected to support long-term export performance in the province, and with the ratification of the deal expected in 2015, any positive lift caused by exports offers upside potential to PEI's 2015 growth prospects," added Wright.

Following its disappointing performance in 2012, RBC expects **New Brunswick's** economy to continue to face economic challenges as weakness in energy exports has largely impeded the export-oriented growth recovery. RBC is forecasting a minimal 0.3 per cent real GDP growth in 2013. Looking ahead, renewed strength in mining provides some room for improvement; however, domestic headwinds, including fiscal restraints, will likely temper growth to a tepid 1.0 per cent and 1.4 per cent real GDP growth in 2014 and 2015, respectively.

"Despite vigorous demand for the province's lumber exports, weakness in energy, potash and metals exports is causing New Brunswick's international trade balance to deteriorate this year," added Wright. "We anticipate stronger performance from the mining sector next year with the start-up of new Bathurst mining operations, and assuming price pressures are contained, the Sussex Potash expansion is expected to provide a more sizeable lift to the industry in 2015."

New Brunswick's second-quarter budget update and public accounts revealed the government is struggling to maintain its fiscal trajectory set out in its budget earlier this year; weaker-than-expected revenues have pushed the deficit to a larger \$538 million estimate in 2013-2014. RBC believes restraints on provincial government spending will be maintained and will continue to weigh down economic growth.

"New Brunswick's domestic economy is struggling to regain traction with most indicators, such as retail sales and housing starts, tracking close to or below year-ago levels," added Wright.

Private-sector employment has sustained an upward trend in 2013, though a continued moderation in public-sector employment has provided some offset. Despite these challenges, RBC expects the province will edge out its first positive year-over-year employment growth in five years in 2014 as activity in export-oriented sectors picks up and spurs hiring.

With the completion of the Sussex Potash expansion expected in 2013 and the ramping up of construction on the Sisson Brook mine not expected until 2015, RBC says business investment will likely slow in 2014. While New Brunswick's near-term prospects remain soft, the proposed east-west pipeline could begin to heat things up over the medium term, providing a confidence boost to the province by 2015, RBC says.

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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