News

ATLANTIC CANADA ON PACE FOR MODEST ECONOMIC GROWTH IN 2015: RBC ECONOMICS

TORONTO, June 3, 2015 — Despite a challenging outlook for Newfoundland and Labrador, Atlantic Canada's economy as a whole is poised for modest economic growth in 2015, according to the latest Provincial Outlook released today.

Though **Nova Scotia's** economy faces crosscurrents this year and next, RBC projects real GDP for the province to grow by 1.7 per cent in 2015 and 2.0 per cent in 2016.

"Growth in Nova Scotia is expected to continue in 2015, driven by a boost in manufacturing activity from the start of shipbuilding work. Moreover, a positive outlook for consumer spending will support the provincial service sector," said Craig Wright, senior vice-president and chief economist, RBC. "These favourable developments will help offset drag from restrained government spending and a dimmer outlook for natural gas production."

RBC expects overall employment to rise modestly in the province this year as faster economic growth translates into private-sector job creation. Lower gas prices coupled with an increase in the minimum wage will support customer spending, says RBC, which will flow through to job creation in the service sector. Employment in manufacturing is expected to rebound as output and exports improve. Additionally, construction on the first of the Arctic Offshore Patrol Ships in Halifax starting in September 2015 will launch a multi-year boom for the industry.

Construction is poised to rebound from a soft showing in 2014, as housing starts pick up slightly and work progresses on a number of projects centred in Halifax including the Nova Centre, the re-decking of the Macdonald Bridge, and the King's Wharf development.

RBC says that water infiltration issues at Deep Panuke have dimmed the outlook for natural gas production in the province – total reserves for the project have been marked down by 50 per cent and going forward it may begin operating on a seasonal basis. The province's other major natural gas development at Sable Island will likely see depletion-related production declines.

"The energy sector will be a drag on growth in Nova Scotia this year and next, following a strong contribution in 2014," said Wright. "Still, energy firms are spending $2 billion on offshore exploration activity, which may set the stage for new developments."

After growing by an estimated 0.2 per cent in 2014, RBC expects **New Brunswick**'s economy to grow at its fastest pace in five years. RBC projects real GDP to expand by 1.6 per cent in 2015 before slowing to 1.5 per cent in 2016.

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"Economic indicators for New Brunswick have remained sluggish so far in 2015, with housing starts ebbing in the first quarter and employment and exports yet to pick up," said Wright. "We do expect things to turn around in the latter half of the year with investments in the mining, manufacturing and forestry sectors expected to translate into rising output and exports."

RBC says that after three years of declining output, New Brunswick's mining sector is set for a comeback. Production of both metallic and non-metallic minerals are expected to rise through 2016. Potash production is projected to substantially increase this year, as production ramps up at the $2.2-billion Picadilly project. Moreover, the Caribou zinc mine commenced operations in March and is on track for full recommissioning in the second quarter of 2015. RBC notes that the province's long-term mining outlook remains promising as the proposed Sisson tungsten and molybdenum project advances towards its two-year construction phase.

The report also indicates there are reasons to be optimistic about New Brunswick's forestry sector. Amid strengthening demand for wood products from the U.S., an increase in the allowable cut and investment in mills around the province are expected to support growing production.

"We expect the rejuvenated mining and forestry sectors to help bolster non-energy exports," added Wright.

New Brunswick's manufacturing employment is trending upward and RBC says the sector will continue to benefit from improved competitiveness on the back of a weaker Canadian dollar. Though construction in the province continues to face a decline in housing starts, employment losses in that industry will be contained by ongoing non-residential investment activity.

After expanding by 1.4 per cent in 2014, RBC's forecast for **Prince Edward Island** calls for a slightly accelerated real GDP growth rate of 1.6 per cent in 2015 and 1.7 per cent in 2016.

"Growth for PEI in 2015 is expected to be propelled by the island's fast-growing export sector, which will continue to expand as the lower Canadian dollar enhances competitiveness," added Wright. "In addition, consumer spending will be supported by rising wages, lower gasoline prices and rebounding employment."

RBC notes that since 2011, the province's merchandise exports have grown at a faster rate than any other province, reaching the $1-billion mark for the first time in 2014. To date in 2015, merchandise exports have continued to surge, rising 10 per cent year-over-year in the first quarter thanks to strong sales of industrial machinery, electrical and electronic products, and consumer goods. Another key export for the province – tourism – will also benefit from the lower value of the Canadian dollar.

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External sector strength will likely create jobs in PEI, RBC says, helping to gradually revitalize the province’s labour market following a slowdown last year when employment edged down by 0.1 percent. RBC expects job momentum to build later this year and reach cruising speed by 2016. Job creation is expected to be sufficiently strong to reduce the provincial unemployment rate from 10.6 per cent in 2014 to 10.2 per cent in 2015 and 9.8 per cent in 2016.

“If employment trends the way we expect, 2016 will be the first year that the annual unemployment rate falls into single-digits in 38 years,” said Wright.

RBC’s outlook for construction activity is mixed. The report notes that there is scope for a modest pick-up in residential activity, though non-residential construction is likely to be dampened by a drop in public-sector capital investment. Early indicators of institutional and government construction spending show a substantial drop in the first quarter of 2015, with declines also registered in the industrial and commercial segments. Real non-residential construction activity was down 36 per cent year over year in the first quarter of 2015, which RBC says sets a poor tone for the rest of the year.

RBC forecasts that **Newfoundland and Labrador’s** economy will contract in 2015 and 2016, by 0.2 per cent and 0.4 per cent, respectively. This follows an estimated 2.6 per cent decline in 2014.

“The outlook for Newfoundland’s and Labrador’s economy is challenging, as the province’s public sector and mining industry remain squeezed, and construction activity eases amid lower capital investment activity,” said Wright.

Following a prolonged boom since 2008, non-residential construction activity is set to soften going forward, as major projects begin winding down across the province. Investment and employment related to the construction of the Hebron offshore oil platform crested in 2014 and are expected to trend downward, as the project nears completion and heads for first oil in 2017. RBC says some offset will come from the $7-billion Muskrat Falls hydroelectric project, as it reaches peak construction-phase employment this year.

RBC notes that drag will also come from the residential side, as soft labour market conditions and a declining population weigh on housing starts with additional negative implications for construction activity.

“A dimmer outlook for construction employment has negative implications for overall consumer incomes and will most likely contribute to slumping retail sales in the province this year,” added Wright.

In 2014, over 90 percent of Newfoundland and Labrador’s merchandise exports were related to energy and non-energy mining, and in the first quarter of 2015 low commodity prices contributed to nominal exports plunging 39 percent year-over-year. As the province’s mining industry grapples with low prices, it has reduced both payrolls and shipments so far this year. RBC expects further production and employment losses with a copper-zinc mine in central Newfoundland closing in July.

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RBC says overall oil production will likely be stable over the next two years, as lower production is offset by the start of the South White Rose extension in mid-2015, and a major pick up in the energy sector is expected beyond RBC's current forecast horizon in 2017, with first oil at the Hebron 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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