News

ATLANTIC CANADA POISED FOR MODERATE GROWTH IN 2015: RBC ECONOMICS

TORONTO, September 22, 2015 — With the exception of **Newfoundland and Labrador**, Atlantic Canada's economy is expected to see mild growth in 2015, according to the latest Provincial Outlook issued today by RBC Economics.

After contracting by an estimated 2.6 per cent in 2014, the economy of Newfoundland and Labrador is at the bottom of provincial rankings again this year with real GDP projected to decline by 3 per cent in 2015. On a more positive note, RBC expects the province will post a modest 0.8 per cent recovery in 2016.

"Newfoundland and Labrador is going through a challenging year, as government-sector restraint, falling oil production and a drop in construction activity are weighing down overall economic performance," said Craig Wright, senior vice-president and chief economist, RBC. "Furthermore, we'll only see limited relief next year as downward pressure persists in the construction sector with work winding down on several major projects."

Capital spending intentions for Newfoundland and Labrador were down modestly in 2015 following the peak of a wave of major capital projects in the province last year. Spending is set to decline in the coming years as two of the largest projects – Hebron and Muskrat Falls – advance towards completion.

The province's construction industry will also face headwinds from the housing sector as job losses depress demand for new housing. Housing starts were down 17 per cent in the first eight months of 2015 compared to the same period last year, and low levels of new building permits provide no indication of an imminent turnaround.

So far in 2015, job losses have been concentrated in the public sector, where year-to-date employment is down by 8 per cent and the outlook remains dim, as the provincial government retrenches in the face of projected serial deficits until 2019 or 2020. There has been some positive offset from the private sector with manufacturing adding workers this year as the Long Harbour nickel processing facility ramps up refining operations at the Voisey's Bay mine.

"Looking ahead, we expect oil production to pick up modestly in 2016 before growing strongly in the following years when the Hebron offshore facility begins operations," added Wright.

Modest growth is expected to continue in **Prince Edward Island**, where real GDP growth is projected to pick up to 1.7 per cent in 2015 before moderating slightly to 1.5 per cent in 2016.

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"PEI's economy is on track for steady growth this year and next as the tourism and export sectors benefit from a weaker dollar, and as construction activity picks up," said Wright. "However, growth in these sectors has yet to impact the labour market, and modest job gains in late 2014 have given way to losses so far this year."

Following a 19 per cent surge in 2014, strong growth in PEI's merchandise exports has continued so far in 2015. Export growth is concentrated in food products, which are offsetting modest declines in machinery and aerospace products following a period of rapid growth since the 2008 recession. However, a new multi-million dollar investment in the aerospace industry bodes well for future growth in the sector.

The weaker Canadian dollar, which is expected to provide a tailwind to exporters through 2016, also supports PEI's tourism industry. Though tourist arrivals fell below seasonal averages during the winter, strong early indicators for the summer suggest tourism will contribute to growth this year.

Despite initially encouraging job numbers this year, conditions have since worsened and RBC projects PEI will see employment decline by 1 per cent in 2015. While the overall jobs picture is gloomy, manufacturing remains a bright spot and is on track for a second year of double-digit employment growth. Additionally, a recent rebound in construction activity will contain job losses in that sector.

New Brunswick's economic indicators remain generally weak so far in 2015, but are expected to improve somewhat during the remainder of the year. Following four years of essentially no growth, RBC projects real GDP growth to expand by 1 per cent in 2015 before accelerating slightly to 1.2 per cent in 2016.

"Growth in New Brunswick is expected to remain slow this year. The housing and employment situations remain challenging, and, despite a weakened Canadian dollar, exports are set to decline as the Saint John oil refinery is partially idled for maintenance and upgrades," added Wright. "Though private and public sector investment spending will provide some positive offset, a difficult fiscal environment will limit public-sector contribution to the province's growth in the coming years."

Declining capital spending has weighed on the province's economy in recent years, but some of the weakness will reverse in 2015. While non-residential investment tumbled in the first half of the year, RBC expects a rebound as the government increases spending on road and bridge construction, and on improvements to the energy efficiency of public buildings. The private sector will also contribute to investment growth as $200 million is spent maintaining and upgrading the oil refinery in Saint John.

Production declines are expected at the Saint John refinery as the facility undergoes a two-month maintenance and upgrade period this fall. Refined petroleum products account for almost two-thirds of the province's nominal merchandise exports meaning lower production from the refinery will delay the province's export recovery. On the upside, RBC says some offset is coming from rapid growth in exports of wood, food, and mineral products.

RBC expects employment in New Brunswick will continue to decline this year as the private sector sheds more jobs. One bright spot in the dreary employment picture is the manufacturing sector, where employment is up nearly 10 per cent to date compared to 2014, and this increase is expected to be sustained thanks to the weaker Canadian dollar fuelling export.

Nova Scotia's economy will face crosscurrents this year as work on a major shipbuilding contract in Halifax begins, and as a pickup in construction activity runs against a significant drop in natural gas production. Following an estimated 1.8 per cent advance in 2014, RBC projects real GDP growth to slow this year to 0.9 per cent.

"We see further declines in natural gas output having a smaller negative effect next year, and job creation will be supported by growing construction and manufacturing sectors, propelling economic growth to a six-year high of 2.1 per cent in 2016," said Wright.

In September, work began in Halifax on the first of six arctic offshore patrol ships. Much of the $3.5 billion budget for this stage of the project will be spent locally in industries including design and technical services, construction, and steel fabrication. Employment at the shipyard now exceeds 800 with room to grow to an expected peak of 1,000 jobs by 2017.

"Aside from increased shipbuilding activity, we expect the province's manufacturing sector to see gains in other segments," said Wright. "We've seen rising exports of tires, and investments in aerospace and pharmaceutical manufacturing are expected to translate into rising production going forward."

RBC says falling natural gas production is weighing on the province's exports, which have declined by 8 per cent in nominal terms so far this year, despite gains in key export categories such as food products, paper, and tires.

RBC notes that public-sector investment intentions are up in the province in 2015, propelled by the 18-month re-decking of the Macdonald Bridge and other infrastructure investments across the province. Private-sector investment is also expected to rise this year, as construction activity peaks on the Maritime Link and major construction projects take shape in Halifax.

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Despite residential construction picking up after falling sharply this winter due to severe weather, housing market indicators remain soft signalling that the rebound in homebuilding activity this spring and summer will likely be short lived. Home resales fell to a 17-year low in the second quarter, and the unabsorbed inventory of newly completed housing units remains high despite some recent improvement.

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.

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