

# Newfoundland & Labrador

## Doldrums after the storm

Indicators suggest that Newfoundland and Labrador’s economic contraction worsened in 2015 as oil production declined significantly for structural and operational reasons. Going forward, we expect oil production to stabilize in 2016, but capital investment spending is set to wane as a number of major projects pass peak activity. This likely will have adverse implications for consumer spending and employment, which would add to economic weakness and come amid public-sector restraint as the government tackles its large deficit. After contracting by an estimated 3.5% in 2015, we expect Newfoundland and Labrador’s economy to edge out 0.3% growth in 2016 and 0.5% in 2017.

### A (hopefully) less turbulent year ahead for oil and gas

The sharp economic contraction in Newfoundland and Labrador in 2015 owes primarily to a 20% year-to-date drop in oil production that has been led by declines at Hibernia and North Amethyst. Declining production and lower prices have caused export revenues from crude oil to plunge by \$3.0 billion (52%) in the first three quarters of 2015. Looking ahead, production should stabilize in 2016 as new wells are brought online offsetting continued depletion-related declines at more mature fields. A large increase in oil production awaits the commissioning of Hebron that is currently expected in late 2017. Despite near-term challenges, the longer-term prospects for the oil and gas sector have received a boost based on a recent round of bids for exploration rights that attracted a commitment of \$1.2 billion for work in the Flemish Pass.

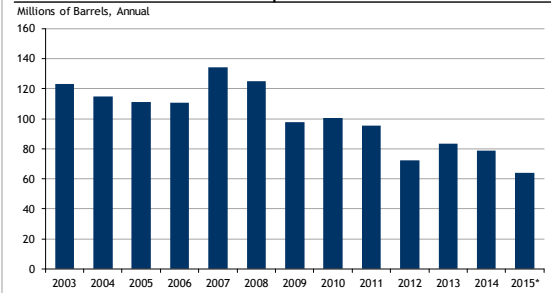
### Mining activity set to pick up despite still-low prices

Despite low iron prices, which led to the closure or delay of mining operations in Newfoundland and Labrador in recent years, iron ore shipments are on track to increase by 16% in 2015 as existing projects boost production. Going forward, capital investment activity in the mining sector is expected to rise in 2016, as a new iron ore mine in Labrador heads toward its construction phase and work begins on a new underground nickel mine at Voisey’s bay late in the year. Nickel from the existing Voisey’s Bay operation is now being shipped to the plant at Long Harbour for processing and export. During 2016, the facility is expected to shift away from imported nickel concentrate from Indonesia and rely solely on Voisey’s Bay for its supply.

### Economy-wide construction activity passing its peak

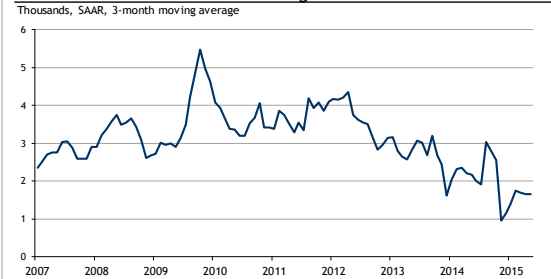
Capital investment is expected to decline in 2016 as Hebron and Muskrat Falls—the province’s two largest construction projects at the present time—pass their peak construction phases. While other planned investments in the mining and offshore oil sectors will provide some offset, the wind up of these projects will deal a blow to the construction sector that is already grappling with weak activity on the residential side. Housing starts were down sharply in the first 10 months of 2015 and are expected to fall further during our forecast horizon as job losses and slow population growth sap demand for new housing supply.

**Newfoundland & Labrador : Oil production**



\* Annual estimate based on January - September production  
Source: C-NLDPB, RBC Economics Research

**Newfoundland & Labrador : Housing starts**



Source: Statistics Canada, RBC Economics Research

### Newfoundland forecast at a glance

% change unless otherwise indicated

	2012	2013	2014	2015F	2016F	2017F
Real GDP	-4.4	5.8	-2.0	-3.5	0.3	0.5
Nominal GDP	-4.5	9.2	-4.2	-9.3	4.2	4.7
Employment	3.8	0.8	-1.7	-1.0	-1.7	-0.6
Unemployment rate (%)	12.3	11.6	11.9	12.7	13.3	13.0
Retail sales	4.5	5.0	3.4	0.3	0.3	0.7
Housing starts (units)	3,885	2,862	2,119	1,900	1,800	1,700
Consumer price index	2.1	1.7	1.9	0.5	2.3	2.1

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