

### Shipbuilding underpins stronger growth ahead

Recent revisions to Nova Scotia’s economic growth record reveal that the province’s economy has barely grown since 2010, and because of faster than anticipated declines in natural gas production, we believe that 2015 will be another slow growth year. The outlook is brighter for 2016 thanks to stronger construction activity, a full-year’s work on the major shipbuilding contract with the federal government, and rising non-energy exports. We project real GDP growth to accelerate from 0.9% in 2015 to 1.8% in 2016 before an anticipated easing in construction activity tempers growth in 2017 to 1.3%.

#### As natural gas plunges, non-energy exports step in

The Deep Panuke project began producing natural gas again in October 2015 after having been offline since May, thereby reflecting its changed status as a seasonal operation. The seasonal schedule results in sharply lower production totals in 2015 compared to 2014, and when coupled with continued declines at the Sable offshore field as it heads for decommissioning as early as 2017, it means that natural gas will likely pose a continued drag on the economy throughout our forecast horizon. Exploration activity, however, is taking place offshore, which may generate production opportunities in the future for the provincial industry. A drilling program began in 2015 as part of \$2 billion worth of exploration work for new deposits by a number of major energy companies. The decline in natural gas production in 2015 weighed heavily on Nova Scotia’s merchandise exports, which are down year to date despite substantial gains in other categories. Led by gains in seafood, exports of food products are up strongly, and exports of tires have rebounded following the retooling of a production facility in the province. We expect non-energy exports to grow further in 2016, as solid external demand and the low value of the Canadian dollar remain supportive factors.

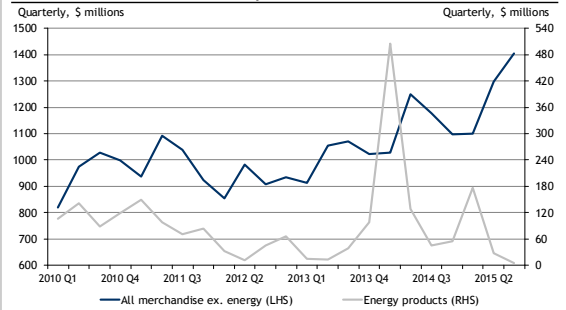
#### Manufacturing to gain from a full year of shipbuilding

First steel was cut in September 2015 for the multi-billion dollar Arctic Offshore Patrol Ships (AOPS) contract with the federal government, and Nova Scotia’s manufacturing activity will see a significant boost from the first full year of shipbuilding work on this contract in 2016. Activity is expected to ramp up during our forecast horizon as ships move through their construction phases. Shipbuilding work will also generate demand along supply chains in other industries around the province particularly metal fabrication. While manufacturing has seen job losses year to date in 2015, there has been an uptick since summer, and increased activity in the industry raises the prospect of further gains ahead.

#### Construction activity up heading into 2016

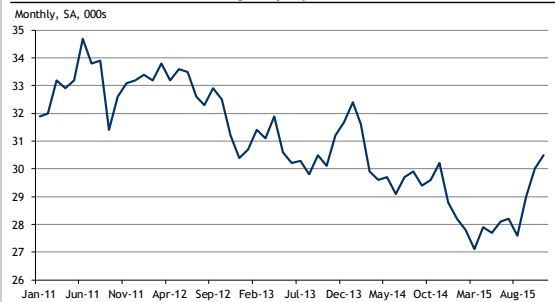
The outlook for the construction sector is bright in the near term, with positive implications for employment in a sector that is on track for its second year of job losses in 2015. Led by construction of new multi-unit structures in Halifax, residential investment has picked up so far in 2015, and a rise in housing starts should keep the industry busy heading into 2016. Further support will come from major projects around the province, as activity peaks on the Maritime Link transmission project linking Cape Breton to Newfoundland and redecking work proceeds on the Macdonald Bridge in Halifax throughout the year. Looking to 2017, the construction sector may become a drag on growth, as activity on major projects winds down and continued demographic weakness impedes residential building.

Nova Scotia : Merchandise exports



Source: Statistics Canada, RBC Economics Research

Nova Scotia : Manufacturing employment



Source: Statistics Canada, RBC Economics Research

#### Nova Scotia forecast at a glance

% change unless otherwise indicated

	2012	2013	2014	2015F	2016F	2017F
Real GDP	-0.9	0.0	0.6	0.9	1.8	1.3
Nominal GDP	0.5	2.0	1.3	2.2	3.5	2.8
Employment	1.0	-1.1	-1.1	0.1	0.5	0.2
Unemployment rate (%)	9.1	9.1	8.9	8.6	8.4	8.3
Retail sales	1.0	2.9	2.3	0.3	3.5	2.1
Housing starts (units)	4,522	3,919	3,056	4,000	3,300	3,000
Consumer price index	1.9	1.2	1.7	0.5	2.1	2.1

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