



ATLANTIC CANADA'S ECONOMY SET TO IMPROVE IN 2013: RBC ECONOMICS

Newfoundland and Labrador to top provincial growth rankings in 2013

TORONTO, December 13, 2012 — Unexpected production disruptions and delays across Atlantic Canada slowed economic growth thus far in 2012, but the region is well positioned to see this improve next year, according to the latest [RBC Economics Provincial Outlook](#) issued today.

RBC notes that maintenance shutdowns at offshore oil facilities have left **Newfoundland and Labrador's** key energy sector nearly running on empty in recent months, with crude oil production declining by a staggering 28.5 per cent so far in 2012. The projected knock to oil output was amplified by the extended maintenance of province's largest oil field, Hibernia, late this summer.

"The decline in volume of extraction from Hibernia and the significant hit to economic activity lead us to revise our forecast downward for the province. We expect growth in Newfoundland and Labrador to contract by 0.7 per cent this year," said Craig Wright, senior vice-president and chief economist, RBC. "However, the return to full production at Hibernia – the largest contributor to GDP – should provide a sharp rebound in 2013, with growth projected to surge by 4.4 per cent. This will elevate Newfoundland and Labrador to the top spot in the provincial growth rankings."

The mining sector is also expected to support growth in that province in 2013, with other large-scale projects currently under construction advancing toward their production phases. RBC anticipates that a stronger iron ore prices and ownership backing from overseas will sustain investment in the Direct Shipping Iron Ore and Kami projects, while expansion at the Iron Ore Company of Canada will keep the outlook for mining bright in 2013 and beyond.

Natural resources in **Nova Scotia** failed to deliver the boost that RBC expected for the province, significantly weakening international exports in 2012. Unscheduled downtime at the Sable Island natural gas project and the announcement of Deep Panuke natural gas production delayed to mid-2013, are keeping the provincial economy in waiting mode.

However, RBC notes that the start-up of production at the Port Hawkesbury paper mill will provide a lift to 2013 exports, while signs of strength in the U.S. auto sector will shine a bright light on Nova Scotia's largest export commodity, rubber tires.

“While natural gas production setbacks prompted us to lower our near-term outlook for Nova Scotia, we believe that going forward, the province will be on a stronger growth track as delays have simply ‘back loaded’ the anticipated boost to the economy through to 2014,” said Wright. “RBC expects the pace of growth to pick-up— from 0.9 per cent in 2012 to 1.9 per cent in 2013 and to 2.1 per cent in 2014.”

The Outlook notes that despite slowing population growth and fiscal restraint, **Prince Edward Island’s** economy continued to chug along in 2012, supported by dynamic exports and surprisingly resilient domestic demand.

The emerging aerospace industry has been a key source of strength for the province’s economy in 2012, RBC says, fuelling nominal merchandise export growth to the highest rate in the country. Sales of turbo jets and propellers skyrocketed, making aerospace products the province’s second-largest export commodity group, next to potatoes.

RBC also notes that strong gains in U.S.-bound shipments of lobster and french fries contributed to the biggest increase in P.E.I.’s agricultural and fish exports since 2008. Additionally, cruise ship traffic picked up in October, with the scheduled number of ships reaching a record level and leaving expectations for further gains in 2013.

However, a significant pullback in provincial government spending both this year and next will dampen domestic economic activity in P.E.I., says RBC. The provincial government has committed to a three-year plan to return the budget to balance and the public sector, which makes up for 40 per cent of P.E.I.’s economy, will act as a notable drag on growth.

“Despite the strong headwinds facing P.E.I., favourable gusts from south of the border will support the province’s export sectors in 2013 and boost real GDP growth to 1.8 per cent, up from 1.4 per cent in 2012,” added Wright. “Emerging industries of bioscience, aerospace, and renewable energy provide scope for an even better performance in 2014.”

After screeching to a halt last year, economic growth in **New Brunswick** has struggled to regain traction in 2012. RBC notes that the expected strength in private-sector investment and an improvement in the labour market both failed to materialize to date, compounding the impact of public-sector restraint. Planned reductions in public spending in the coming year will add to the expected drag on economic growth in 2013.

On the private side, capital investment is showing recent signs of a pick-up, though the completion of two of the province's major projects – the Point Lepreau refurbishment and the Sussex Potash expansion – will likely restrain the level of business investment in 2013.

As government austerity measures took hold, New Brunswick also experienced a considerable drop in public-sector employment this summer, reversing nearly all of the jobs generated since the end of the recession. RBC expects the labour market to improve slightly next year, with the benefits reviving consumer spending.

“Notable declines in investment and employment have weighed on what we expected to be a promising year for New Brunswick in 2012,” said Wright. “As the U.S. economy gains momentum in the coming year, however, the export sector will kick into a higher gear and contribute to a faster pace of expansion in 2013 of 1.7 per cent.”

RBC notes that a stronger U.S. housing market, in particular, will support the province's forestry exports next year. Mining production prospects will be undermined by the closure of the Xstrata Brunswick zinc mine in 2013, but will improve thereafter with the Sussex Potash expansion ramping up to full capacity in 2014 and production likely commencing at the Sisson Brook tungsten mine in 2015.

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/market/pdf/provcst.pdf.

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