



LIGHT HEADWINDS, SAFE HARBOURS AHEAD FOR ATLANTIC CANADA'S ECONOMY: RBC ECONOMICS

- **Private sector steps up in Newfoundland and Labrador, New Brunswick, Prince Edward Island**
- **Brighter 2013 beckons to Nova Scotia**

TORONTO, March 20, 2012 — A re-energized private sector is stepping up across Atlantic Canada, which should boost economic growth in 2012 for the region, according to the latest [RBC Economics Provincial Outlook](#) report.

“With varying sizes of provincial deficits and different timelines to eliminate them, we see greater fiscal restraint generally taking place in Atlantic and central Canada to a greater degree than in the western part of the country,” said Craig Wright, senior vice-president and chief economist, RBC. “Though it is necessary to shore up provincial finances, the government belt tightening will have a restraining effect on Atlantic Canada’s economic growth. Still, we anticipate real GDP growth of between 1.6 per cent and 2.8 per cent in 2012 – a modest but steady improvement.”

In 2011, business investment in **Newfoundland and Labrador** kept the economy going at a strong pace of 4.6 per cent, despite declines in offshore oil production. This trend is expected to continue through 2012, although growth will moderate due to a much larger drop in oil production related to the planned maintenance at two of the major oil fields. Strong business investment and mining output will, however, provide a boost to provincial economic activity in the year ahead.

RBC projects real GDP growth to reach 2.8 per cent in 2012, with a slight acceleration to 3.0 per cent in 2013 – the upper end of economic growth for the Atlantic Canada region.

“Oil is a key industry for the provincial economy and the anticipated drop in production will act as a substantial drag on GDP growth this year,” added Wright. “That said, mining output growth will pick up a considerable amount of the economic slack over the next two years thanks to increases in capacity at new and existing iron ore projects.”

The RBC report indicates that the pace of business investment in 2012 is expected to slow in 2013. At the same time, strong employment trends should keep consumer spending at a healthy pace over the next two years. Provincial retail sales increased by 4.9 per cent in 2011, compared to the national average of 3.6 per cent, and this outpacing trend should continue going forward.

Canada's smallest province is expected to have the second highest growth in Atlantic Canada this year. **Prince Edward Island** is forecast to post real GDP growth of 1.8 per cent in 2012 – down from an estimated 2.2 per cent in 2011 – and to increase slightly to 1.9 per cent in 2013.

“Even though the cool, wet weather last spring and summer weighed on the agriculture, fishing and tourism sectors, it didn't hamper consumer and business spending, which helped keep the economy afloat in 2011,” Wright commented. “We expect some rebound on the supply side in 2012, assuming more normal weather conditions return, while the strengthening U.S. economy will allow for further growth in exports.”

The PEI government has indicated that it plans to significantly reduce its capital expenditures over the next two years from the high levels seen since the recession. “Given that government current and capital spending make up around 41 per cent of nominal GDP in the province, austerity measures are expected to have a significant dampening effect on provincial economic activity,” explained Wright.

Last year's 1.7 per cent population growth rate was the fastest pace of growth ever experienced by PEI, and the fastest such growth among all the provinces. Employment growth and retail sales growth are expected to moderate this year and next, while housing starts should see one more year of strength before falling slightly in 2013.

Weak exports and a sluggish job market brought the **New Brunswick** economy to a slow grind in 2011, with an estimated growth rate of just 0.7 per cent. RBC forecasts some improvement this year and next, with real GDP expected to grow to 1.6 per cent in 2012 and 2.1 per cent in 2013.

“Stronger U.S. growth, private sector investment and consumer expenditures will provide economic benefits that will help outweigh the impact of the expected belt tightening in the public sector this year in New Brunswick,” commented Wright. “The province's improving economic performance will extend into 2013, particularly as positive spill-over effects from Nova Scotia's major shipbuilding contract start to take hold.”

Net trade in energy commodities – the province's biggest export commodities – was a particular drag on GDP in 2011. With the refinery maintenance work that contributed to the export decline last year now completed, RBC expects net energy exports to improve this year, and that New Brunswick's overall trade performance will also benefit from stronger projected U.S. growth.

Additionally, improving economic prospects appear to be boosting business confidence, with private sector investments expected to rise by 3.5 per cent in 2012, the first such increase since 2008. This will more than offset the expected 0.9 per cent drop in public investment, according to RBC.

In **Nova Scotia**, all eyes are on the future as the positive economic impact of a number of projects presently in the works will not be felt in any significant way until 2013.

The Deep Panuke natural gas field is on the verge of production, and investment in shipbuilding infrastructure is expected in preparation for the \$25 billion, 30-year federal shipbuilding contract. Shell's massive \$971 million bid for offshore exploration rights should see surveying work start in 2013 and capital spending on the Donkin coal mine will also be ramping up next year.

On the whole, investment is set to increase by 2.1 per cent in Nova Scotia in 2012. RBC expects that shipbuilding-related investment and continued strength in consumer and business confidence will lead to a much bigger rise next year.

"Fiscal austerity and consolidation in the paper industry will dampen the provincial economy this year, resulting in relatively slow GDP growth of 1.6 per cent," said Wright. "As a number of these highly anticipated projects kick into high gear, Nova Scotia's economy will perk up considerably in 2013, with growth accelerating to 3.2 per cent."

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/provfcst.pdf.

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