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ATLANTIC CANADA'S ECONOMY STUCK IN LOW GEAR: RBC ECONOMICS

Newfoundland and Labrador is the exception as one of Canada's growth leaders in 2011

TORONTO, September 12, 2011 — Weighed down by soft export demand and employment losses, Atlantic Canada's growth was stuck in low gear in the second quarter, according to the latest RBC Provincial Outlook issued today. RBC Economics forecasts that the region will continue to grow at a slow pace and remain at the bottom end of the growth rankings in both 2011 and 2012, with Newfoundland and Labrador being the exception this year.

Leading the region in economic growth again this year is Newfoundland and Labrador with a 3.6 per cent rate. The province's economy is being propelled by its booming minerals sector and high levels of non-residential investments. RBC expects that the province will be among the Canada's growth leaders in 2011, although there are now some signs that the economy is beginning to cool.

As refinery operations resume and the next phase of the Hibernia Southern extension begins, RBC expects to see an improvement in energy exports from Newfoundland and Labrador later this year. Despite this, declining output from mature oilfields in the province will start to impact energy production in 2012.

"As with any economy based on natural resources, Newfoundland and Labrador is subject to significant volatility because of its reliance on them," said Craig Wright, senior vice-president and chief economist, RBC. "Though we forecast slower growth of one per cent in 2012, we don't see it as a reflection of any change to the underlying potential of the economy. Ongoing levels of investment in natural resources, and the subsequent boost in incomes means that the province has many years of solid economic performance to come."

Nova Scotia's economy has had its share of challenges so far this year, including declines in energy production, a reduction in major project spending, and a slower growth in demand from the U.S. and other provinces.

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“Disappointing data in recent months has led us to revise Nova Scotia’s forecasts for both this year and next to 1.3 per cent and 1.6 per cent, respectively,” said Wright. “Interestingly, these numbers are slightly faster than normal growth for the province, so we might be moving back toward the norm.”

After five quarters of strong performance, Nova Scotia’s manufacturing sales fell by 1.0 per cent in the second quarter of this year. At the end of 2011, the start of production at the Deep Panuke natural gas field and the resumption of stronger economic growth in the United States and the rest of Canada should provide a boost to exports and manufacturing shipments in 2012.

Employment in Nova Scotia has grown only marginally over the last three years, at an average rate of only 0.3 per cent per year. As the federal and provincial governments continue to restrain expenditures and the province experiences an expected slowdown in residential construction, RBC sees limited scope for employment to sustain any significant momentum in the near term.

In recent months, Prince Edward Island has seen a performance gap emerge between externally-oriented export and manufacturing sectors (which have shown little traction since the recession) and the domestic economy (which has seen some healthy growth). Despite disappointing external data, RBC expects that strength in the domestic sector will allow the province to grow at respectable rates of 2.2 per cent this year and 1.9 per cent in 2012.

The RBC report notes that PEI’s economy has yet to show signs that externally-oriented industries have turned the corner on the recession. Reduced demand from the U.S. and the rest of Canada has weighed on the performance of PEI’s manufacturing and export sectors. A large decline in lobster exports accounted for much of the external weakness.

“Domestic data for PEI has actually generally been more upbeat than the external weakness we are seeing in export and manufacturing,” explained Wright. “Demand is linked to healthy population growth and strong international immigration to the province. PEI’s population has grown at the fastest rate since 1975 and is the top rate in the country for the first half of this year.”

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Next year, RBC expects that the composition of PEI's growth will rebalance, improving external conditions and providing a boost to the agri-food and tourism sectors. On the other hand, construction will still face significant headwinds from cutbacks in public capital spending.

Public sector restraint and lacklustre U.S. demand have weighed on New Brunswick's economy so far this year. A host of weaker-than-expected economic data will dampen real GDP growth in the province to 0.5 per cent in 2011. Next year, RBC expects the pace of economic growth in New Brunswick to pick up to 1.8 per cent.

"New Brunswick's manufacturing and export sectors slowed down significantly in the second quarter," said Wright. "At the same time, cutbacks in public sector jobs have contributed to a declining trend in employment."

Although economic growth in the province is likely to be quite weak this year, prospects are somewhat better when looking at next year; demand from the developing world will keep resource prices relatively firm, while a stronger recovery in the U.S. economy will increase foreign demand for New Brunswick's products. This will feed into the domestic economy and allow for stronger growth.

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 http://www.rbc.com/newsroom/reports.html.

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