



BRIGHTER ECONOMIC DAYS AHEAD FOR ATLANTIC CANADA: RBC ECONOMICS

TORONTO, September 10, 2012 – Economic growth in Atlantic Canada has faced some headwinds to date in 2012, but is expected to improve going forward, according to the latest [RBC Economics Provincial Outlook](#) issued today.

RBC expects **Prince Edward Island** to see the strongest economic growth in Atlantic Canada in 2012, enjoying a solid run in its export sector and continued resilience within the province. Overall performance in the province will maintain a moderate pace, with real GDP growth of 1.8 per cent this year.

“After soaring to new heights in 2011, machinery and equipment exports in P.E.I. have continued to glide on the wings of the provincial aerospace industry, rising a remarkable 176 per cent year-over-year in the second quarter of 2012. This helped total nominal exports surge this year,” said Craig Wright, senior vice-president and chief economist, RBC. “We expect the trade sector to continue to support overall growth going forward, especially as U.S. growth is sustained and emerging industries in P.E.I. provide a foundation for long-term expansion.”

Earlier strong provincial population growth has slowed substantially recently, though the impact on the P.E.I. economy has been muted thus far. Home resales, housing starts and retail sales are up this year, while the jobless rate fell to its lowest level in more than two years in July (before rising in August). RBC forecasts provincial retail sales to grow at some of the faster rates in Canada this year and next, rising 5.1 per cent and 4.2 per cent, respectively.

While the private sector is expected to remain healthy, RBC anticipates the impact of fiscal restraint on public sector employment, along with slowing population growth, will weigh on domestic demand next year. Overall growth will be little changed, with the PEI economy expected to grow by 1.9 per cent in 2013.

Maintenance work at two of **Newfoundland and Labrador’s** major oil fields contributed to a decline of 10.5 per cent in crude oil production in the first half of 2012. RBC expects this sizeable drop in oil and gas extraction output – the largest contributor to GDP in the province on an industry basis – will slow economic growth substantially to 1.5 per cent this year, down from 3.0 per cent in 2011.

As both fields resume operation, RBC anticipates a rebound in oil production in 2013. This rebound, along with metal mining production booming in the province, is expected to lead to real GDP growing much faster at 3.3 per cent in 2013.

Solid gains in Newfoundland and Labrador's exports of industrial goods more than offset recent declines in energy exports, driving up overall nominal exports for the province higher by 13 per cent year-to-date. Iron ore exports increased nearly 18 per cent through June, while machinery and equipment exports increased more than ten-fold in the second quarter following four consecutive yearly declines.

"We expect production to ramp up at mining sites in Newfoundland and Labrador, including the Direct Shipping iron ore project, which should support further gains in mineral output in 2013," said Wright. "With all oil fields back in operation by then, the province's exports will be firing on all cylinders."

With the proposed \$5 billion transportation link for iron ore producers and a \$3.1 billion investment in Alderon Iron Ore Corp, RBC expects that business capital investment will also continue to support growth in the province in the years ahead.

Although employment has retreated from an all-time high in the spring, RBC forecasts that job gains will improve and post a 1.7 per cent gain in 2012. Both consumers and businesses will keep Newfoundland and Labrador's domestic economy humming in 2013.

Nova Scotia's economy continues to face significant headwinds this year, which are set to somewhat subside in 2013. RBC projects the provincial economy will grow by 1.3 per cent in 2012 and by 2.3 per cent in 2013.

Delays at the Deep Panuke natural gas project, decade-low natural gas prices and paper mill shutdowns have weighed heavily on the provincial growth thus far and caused a significant drag on Nova Scotia's international exports. Still, RBC anticipates that the province should see improvements in domestic natural resource industries during the remainder of this year, though they will only partly offset earlier weakness.

"Inactivity at the NewPage paper mill and the closure of the Bowater Mersey plant have contributed to the decline in nominal paper exports by 80 per cent year-to-date," explained Wright. "At the same time, we saw ongoing declines in natural gas production and a reorientation of sales toward the domestic market, which led to a drastic 93 per cent fall in gas exports through June."

There are, however, some positive signs that Nova Scotia has sustained moderate domestic growth so far in 2012.

"Employment has been a reasonably bright spot for Nova Scotia, rising by nearly one per cent in 2012 from its 0.3 per cent average over the previous four years, thanks to increased private sector hiring earlier this year," added Wright. "We expect further job creation in the second half of this year, which will stimulate consumer-related activity in the province."

Looking ahead, RBC anticipates that increased spending on major capital projects and a full year of production at Deep Panuke next year will lead to an acceleration in Nova Scotia's economy in 2013.

New Brunswick is expected to yield Atlantic Canada's lowest economic growth rate this year, with real GDP growth forecast to reach 1.0 per cent.

After posting its largest deficit in almost two decades in 2009-2010, the New Brunswick government set out an ambitious plan to balance its books by 2014-2015. This plan generated the first spending cut in 11 years in 2011-2012. Results to-date show that the province is on track to meet its budget targets but RBC anticipates that fiscal restraint at both the provincial and federal levels will continue to drag New Brunswick growth in 2013.

Government austerity measures resulted in lower public sector investment this year. While private sector capital spending was expected to serve as a bright spot for New Brunswick's economy, non-residential construction instead fell sharply so far this year, as work on key projects wound down. In fact, total non-residential construction plunged nearly 27 per cent so far in 2012.

Despite the persistent economic uncertainty thus far this year, RBC's outlook for New Brunswick in 2013 is expected to brighten.

"If the U.S. economic expansion is sustained, we anticipate a further rise in New Brunswick's exports, including its forest products, which should spill-over to other areas of the provincial economy," added Wright. "This lift in overall exports should contribute to an acceleration of economic growth in New Brunswick to a pace of 1.8 per cent in 2013."

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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