



Provincial Economic Overview

The economy of Newfoundland and Labrador has transformed over the last two decades, largely due to developments in the resource sector. The development of the oil industry, combined with expansion in the mining industry, created tremendous growth in capital investment and associated employment and incomes. Currently, the province is passing the peak of development activity from several major projects, specifically the Hebron oil project, Vale's nickel processing facility and the Muskrat Falls hydroelectric project. While Muskrat Falls' construction will continue for the next couple of years, the high point of investment

and employment for this project was recorded in 2016, and levels will gradually decline over the next three years. Both Hebron and the nickel processing facility are mostly completed and are now moving towards the production phase. In addition, low commodity prices have dampened short-term resource investment and contributed to the closure of some mining operations, and Government deficit reduction measures are expected to lower spending in the public sector. As such, there will continue to be a decline in economic activity in the province, as previously forecasted.

Provincial Economic Indicators

	2016e	2017f	2018f	2019f	2020f	2021f
GDP at Market Prices (\$M)	29,967	30,503	31,486	32,905	33,562	34,344
% Change	-0.4	1.8	3.2	4.5	2.0	2.3
% Change, real	-0.7	-3.8	-0.2	0.3	-0.6	0.2
Final Domestic Demand¹ (\$M)	36,951	36,174	34,128	33,941	33,910	33,384
% Change	-1.1	-2.1	-5.7	-0.5	-0.1	-1.6
% Change, real	-3.2	-4.1	-7.5	-2.5	-2.5	-3.6
Household Income (\$M)	25,430	25,348	25,244	25,630	26,091	26,467
% Change	0.7	-0.3	-0.4	1.5	1.8	1.4
% Change, real	-2.0	-3.2	-2.8	-0.7	-1.9	-1.0
Household Disposable Income (\$M)	17,217	17,153	17,107	17,387	17,717	17,987
% Change	-0.3	-0.4	-0.3	1.6	1.9	1.5
% Change, real	-2.9	-3.2	-2.6	-0.6	-1.8	-0.9
Retail Sales (\$M)	8,982	8,966	8,838	8,857	9,018	9,128
% Change	0.9	-0.2	-1.4	0.2	1.8	1.2
% Change, real	-1.6	-3.0	-2.6	-1.4	0.2	-0.3
Consumer Price Index (2002=100)	132.5	136.4	139.7	142.8	148.2	151.8
% Change	2.7	2.9	2.4	2.2	3.8 ²	2.4
Capital Investment (\$M)	12,050	11,116	9,018	8,850	8,371	7,575
% Change	-6.4	-7.8	-18.9	-1.9	-5.4	-9.5
% Change, real	-7.9	-9.1	-20.1	-3.6	-7.1	-10.9
Housing Starts (Units)	1,398	1,350	1,251	1,192	1,105	1,076
% Change	-17.6	-3.4	-7.3	-4.7	-7.3	-2.6
Employment (000s)	232.6	228.3	221.8	217.2	214.5	211.5
% Change	-1.5	-1.9	-2.8	-2.1	-1.2	-1.4
Labour Force (000s)	268.7	265.1	262.5	260.1	257.1	255.5
% Change	-0.8	-1.3	-1.0	-0.9	-1.2	-0.6
Unemployment Rate (%)	13.4	13.9	15.5	16.5	16.6	17.2
Population (000s)	530.1	527.3	525.0	522.1	519.4	516.3
% Change	0.3	-0.5	-0.4	-0.5	-0.5	-0.6

¹ Final domestic demand measures demand in the local economy by summing consumption, investment and government expenditures; it excludes net exports.

² Forecast CPI growth reflects increased electricity rates in 2020. Government has committed to rate mitigation. Budget 2017 includes a preliminary risk adjustment for this purpose, however these measures are not reflected in this forecast.

e: estimate; f: forecast, Department of Finance, March 2017
Source: Statistics Canada; Department of Finance

In 2016, Newfoundland and Labrador's real GDP is estimated to have declined by 0.7% due primarily to lower capital investment. This offset an increase in exports. Real final domestic demand is estimated to have fallen by 3.2%.

While overall economic activity will continue to be dampened by the transitioning of the economy from major project construction to production, there are many positive developments occurring throughout the economy. 2017 will mark the 20th full year of oil production in Newfoundland and Labrador and the start of production of the fourth stand-alone oil project, Hebron. The development of the underground mine at Voisey's Bay has begun and this will significantly extend the life of the operation. Fishing exports are benefitting from the continued development of the aquaculture sector and the manufacturing industry will receive a boost from the ramping up of nickel production from Vale's processing facility in Long Harbour. Tourism continues to flourish, benefitting from new initiatives and the addition of infrastructure throughout the province.

The value of provincial exports (in real terms) increased by an estimated 4.5% last year due primarily to higher oil production. Oil production was 76.7 million barrels in 2016, an increase of 22.5% compared to 2015—this increase stemmed from higher Hibernia output. In nominal terms, the value of exports was relatively unchanged from 2015 as lower prices for oil and minerals offset oil output gains.

Capital investment totalled approximately \$12.1 billion in 2016, a decrease of 6.4% compared to 2015. Lower spending on the Hebron oil project and the Vale nickel processing facility offset higher spending on the Muskrat Falls Project. Total residential spending (including renovations) was \$1.3 billion for 2016, down by 9.6% compared to 2015. Expenditures declined for both renovations and new dwellings. Housing starts fell by 17.6% to 1,398 units.

Consumer spending growth was limited last year. The value of retail sales increased by 0.9% compared to 2015. The category with the greatest increase in the value of sales was Motor Vehicle and Parts Dealers, which increased by 5.9% in 2016. The number of new motor vehicles sold during 2016 was 33,687, a decline of 3.8% compared to 2015. Nonetheless, sales value increased by 1.4%, reflecting some price increases but also a shift in the composition of vehicles purchased (i.e. fewer cars and more trucks/vans/SUVs). Expenditures on services also posted growth last year. Receipts of food services and drinking places increased by 3.2% in 2016 compared to 2015.

Inflation

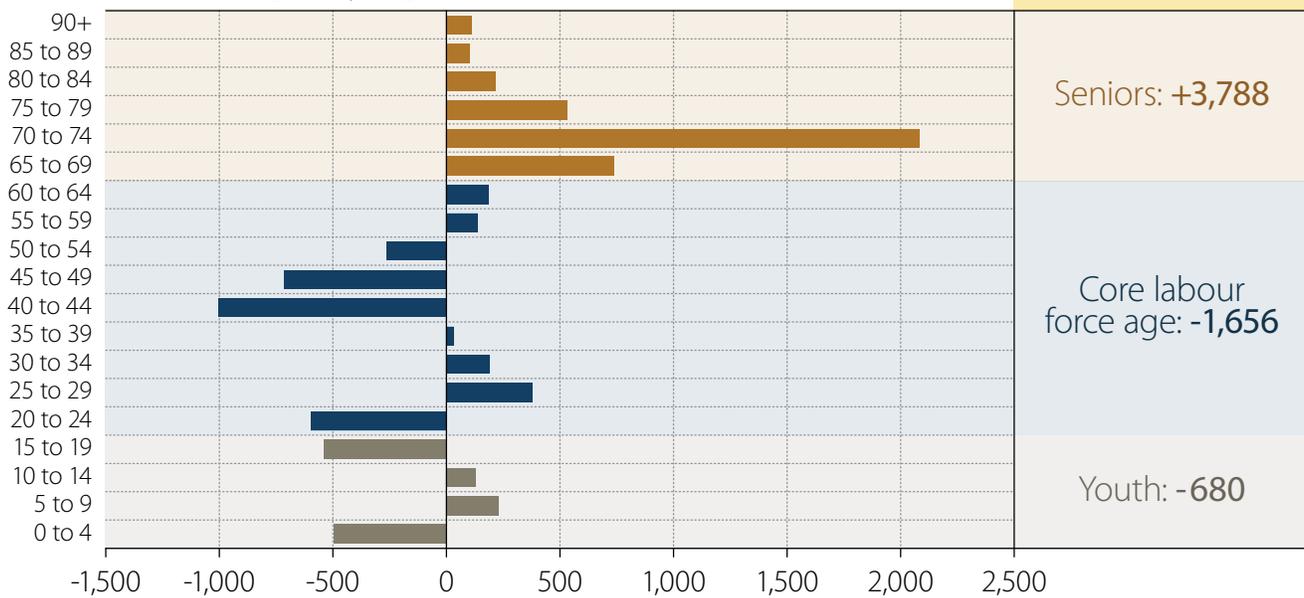
Growth in the Consumer Price Index (CPI), or inflation, averaged 2.7% in 2016. Inflation was notably higher in the second half of 2016 as changes to several consumer taxes, effective June/July 2016, impacted the prices of some consumer goods and services. Nonetheless, lower prices were recorded for some key consumption categories. Electricity prices fell by 1.4% in 2016 due to the Rate Stabilization Plan adjustment (effective July 1, 2016) and fuel oil prices fell by 6.4% due to lower crude oil prices on average in 2016.

Population

Despite weaker economic conditions in the last couple of years, the province's population grew. As of July 1, 2016, the province's population was estimated at 530,128, an increase of 0.3% (or 1,452 persons) from July 1, 2015. This marks the ninth consecutive year of population growth following 15 years of decline. Population growth stemmed from migration—primarily international migration (see table). Total migration added 2,286 to the province's population. This was partially offset by a natural population decline of 834 as there were more deaths than births in the province. Natural

Population Change, by Age, 2016 vs. 2015

Total change: +1,452



Source: Statistics Canada; Department of Finance

2016 Census Results

On February 8, 2017, Statistics Canada released the 2016 Census counts indicating that since 2011 the population of the province increased by 1.0%. This result implies a very similar increase to the gain reflected in Statistics Canada's current population estimates that are prepared on a quarterly basis.

The quarterly population estimates, prepared by Statistics Canada's Demography Division, are the "official" population estimates and are used to determine provincial entitlements from federal transfer programs such as the Canada Health Transfer. They are also used by Statistics Canada

to produce survey estimates for a range of important social and economic data (e.g. Labour Force Survey).

The Census, which is conducted once every five years, is an important tool for computing the "official" population estimates. Before this can occur, several adjustments are made to the Census figures, accounting for people missed during Census enumeration, in particular.

The current 2011 to 2016 official population estimates are based on the 2011 Census. These

population estimates are scheduled to be revised in September 2018 to take into account the 2016 Census results. The expectation is that the 2016 Census estimate will result in relatively minor revisions in the "official" population estimates from 2012 to 2016.

Comparison of Population Estimates & Census Counts

	<u>Population Estimates</u>	<u>Census Counts</u>
2011	525,037	514,536
2016	530,128	519,716
Actual Change	+5,091	+5,180
Percent Change	+1.0%	+1.0%

Newfoundland and Labrador Population

Previous population (July 1, 2015)	528,676
Total net migration	2,286
Interprovincial net-migration	271
<i>Interprovincial in-migration</i>	7,187
<i>Interprovincial out-migration</i>	6,916
Net international migration	2,015
Natural population change	-834
Births	4,235
Deaths	5,069
Population (July 1, 2016)	530,128

Source: Statistics Canada

population change has been negative for several years, reflecting the aging population and a relatively low fertility rate.

The aging trend in the province is evident when examining population growth by age group. While total population increased by 1,452 from 2015 to 2016, the increase was concentrated in the older age groups (see chart). The senior population (those aged 65 or above) in Newfoundland and Labrador increased by 3,788, offsetting a decrease of 1,656 in the core labour force population (those aged 20 to 64) and a decrease of 680 in the youth population (those aged 19 and below). The median age of the province increased from 45.0 years in 2015 to 45.3 years in 2016 and remains the highest in the country.

Participation Rates and Aging

In the absence of structural changes within an economy, labour force participation rates tend to rise and fall in conjunction with changes in employment. As employment opportunities improve, more people enter the labour market and the participation rate increases. Conversely, as employment opportunities deteriorate, people leave the labour force and the participation rate declines. However, in the case of Newfoundland and Labrador, economic conditions have not been the only driver of changes in the participation rate in recent years. The rapidly aging population and the increasing share that retirees (i.e. population 65 plus) constitute of the labour force population (population 15 and over) is putting downward pressure on the overall average participation rate. Between first oil in 1997 and peak employment in 2013, increasing economic activity and the resulting employment growth was more than sufficient to offset the downward pressures from population aging on the participation rate. However, the positive effects of employment growth have ceased and, as a result, population aging is causing the total participation rate to decline.

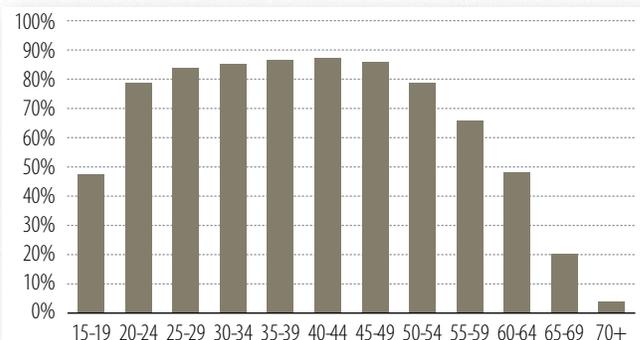
Labour Markets

Most indicators of labour market activity indicated weakness in the labour market during 2016. Both employment and average weekly earnings declined while the unemployment rate and the number of employment insurance beneficiaries increased.

Employment averaged 232,600 in 2016, a decline of 3,600, or 1.5%, compared to 2015. The decline in employment occurred in full-time positions. Full-time jobs fell by 6,800 or 3.4%. This was offset somewhat by an increase in part-time employment of 3,200 or 9.2%. The increase in part-time employment was partially due to individuals being unable to find full-time employment.

The decrease in employment coincided with a decrease in the labour force. The labour force declined by 0.8%, or 2,100, as the participation rate fell from 61.1% in 2015 to 60.5% last year. Lower

Participation Rate by Age Group, 2016



Source: Statistics Canada

participation in the labour market reflected not only fewer job opportunities but also the aging of the labour force. Because participation rates decline as people age, increasing numbers of older people places downward pressure on the overall participation rate (see chart).

The decrease in employment was greater than that of the labour force—consequently, the unemployment rate increased in 2016. The unemployment rate averaged 13.4%, an increase of 0.6 percentage points compared to 2015.

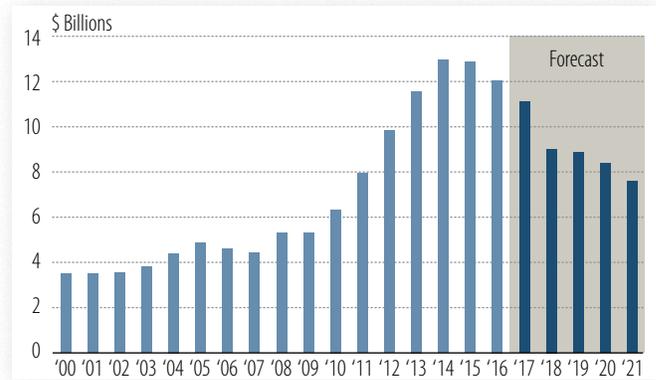
Average weekly earnings fell by 0.3% in 2016 compared to 2015 but were still the second highest among provinces after Alberta at \$1,014. The decline in average weekly earnings reflected a shift in the composition of employment, as high paying construction jobs declined and lower-paying jobs in the service sector increased.

Another indication of weakening labour markets is the increase in Employment Insurance (EI) beneficiaries. After several years of decline, the average number of persons receiving regular EI benefits increased by approximately 4.2% in 2015 and a further 11.9% in 2016. While this reflects fewer employment opportunities locally, it may also be partially due to a decline in jobs available for residents who commute to work outside the province.

Outlook

A contraction in Newfoundland and Labrador’s economy began in 2014 and is expected to continue for several more years. Low commodity prices have dampened short-term resource investment. In addition, private capital investment is forecast to decline due to the winding down of construction of several major projects. This decline will be partially offset by increases in public sector investment through the Provincial Government’s infrastructure plan. Deficit reduction measures are expected to curtail current expenditure growth in the public sector in the future. Combined, these factors are expected to be a drag on economic growth in the province.

Capital Investment



Source: Statistics Canada; Department of Finance

In 2017, the largest impact on the economy will come from a decline in capital investment as Hebron, Vale’s nickel processing facility and Muskrat Falls move closer to completion. Capital investment is expected to decrease by 7.8% (see chart). The completion of these projects will also result in a decline in employment and income which is expected to dampen consumption growth. As well, development activity in Western Canada remains depressed and this will limit employment opportunities for Newfoundland and Labrador residents who traditionally commute to Western Canada to work. Overall, employment is expected to decline by 1.9% in 2017 and real GDP is forecast to decline by 3.8%.

Labour market indicators are expected to remain weak for several years beyond 2017 as further declines in capital investment and provincial government expenditures negatively impact employment levels. However, higher oil production is expected to somewhat offset the impact on real GDP beyond 2017.

Despite the negative outlook in the short to medium term, a number of positive developments are occurring in the provincial economy. Construction on the underground mine at Voisey’s Bay will ramp up this year—this will extend the life of the mine beyond 2030. The completion of the Hebron oil project and the Long Harbour nickel processing plant will add to the long-term productive capacity

in the economy. With the beginning of oil production from Hebron (late 2017), total oil production is expected to increase in 2018 and for several years after that. Output from the nickel processing facility will significantly increase manufacturing shipments. Efforts will continue to advance the development of the West White Rose satellite field. There is significant interest in development opportunities in the aquaculture industry. This interest has the potential to double production and expand the industry into a new area of the province. Furthermore, significant capacity enhancements in transportation infrastructure, such as St. John's International Airport and the Marine Atlantic ferry; the completion of the St. John's convention centre; and the continued addition of new capacity in the accommodations sector should facilitate growth in the tourism sector.

Furthermore, there is significant long-term potential in the provincial economy, particularly in the energy sector. There are substantial oil and gas resources offshore Newfoundland and Labrador. This is evidenced by two recent resource assessments (one in the Flemish Pass and one in the West Orphan Basin). The resource assessment in the Flemish Pass indicated a resource potential of 12 billion barrels of oil and 113 trillion cubic feet of natural gas while the one in the West Orphan Basin estimated a resource

potential of 25.5 billion barrels of oil and 20.6 trillion cubic feet of gas. Land sale results over the last three years show industry's confidence in the offshore potential. More definitively, Statoil has announced plans to drill two exploration wells in the Flemish Pass in 2017 and have also proposed a significant exploration drilling program (up to 10 wells over the course of a 10-year period beginning in 2018) in the Flemish Pass. In addition, both Husky and ExxonMobil are proposing long-term exploration programs for the Jeanne d'Arc and Flemish Pass areas. Husky's program could result in up to 10 exploration wells and ExxonMobil's could be up to 35 exploration and delineation wells. These programs demonstrate considerable commitment to the area. Exploration and development hold significant opportunities for future growth in oil production, and by extension the provincial economy.