Newfoundland and Labrador: 2019–20 Outlook

SURGING GROWTH THIS YEAR, BUT LONG-RUN CHALLENGES REMAIN

Newfoundland and Labrador's forecast growth profile remains anchored to major project activity. The province's labour market has long been sensitive to the ups and downs of construction on large ventures, and this year is no exception. Amid peak activity at the West White Rose Extension offshore drilling project and work at multiple mines, full-time job creation is up 3.4% y/y ytd—still more than any other province—and mining, quarrying, and oil & gas extraction account for 41% of net new full-time jobs versus just 5% of the full-time workforce. Accordingly, we anticipate hefty investment and household spending gains on The Rock this year. Both investment and consumer spending are expected to stall in 2020 as work on major projects wanes.

Diversification beyond the natural resources sector remains a key long-term challenge, though exports are set to benefit from stepped-up oil and metals production this year and next. Alongside tourism and ocean technology, the province's recent economic growth strategy identified aquaculture as a high-potential industry; work on a $250 mn* salmon farm in Placentia Bay should assist sectoral investment activity this year and next. Offshore exploration ventures—particularly the Bay du Nord deep water project expected to be sanctioned in 2020—also present upside potential, though execution of the province's electricity rate mitigation plan—some details of which were released in the March 2019 Budget—will be crucial for broader-based investment attraction.

Home buying has picked up amid surging employment growth, but the province's housing market remains mired in an overhang of unsold units that accrued during the last commodity price downturn. January to May home sales are up a robust 6.3% versus a year ago, but both housing starts and residential construction investment hovered near their lowest-ever reported levels during much of H1-2019. The latter trend should persist in the medium-term with near-record numbers of unabsorbed units in St. John's likely to discourage residential construction and dampen home price gains.

Over the longer run, demographic factors will continue to constrain workforce growth. Rapid population aging is expected to persist, as is the drag from net interprovincial migration. As of Jan. 1, 2019, Newfoundland and Labrador witnessed its widest four-quarter outflow of residents to other Canadian jurisdictions since 2007 (chart).

CONTACTS

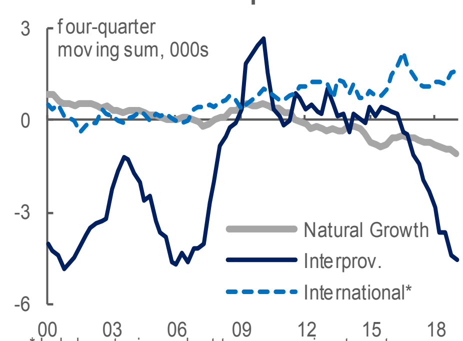
Marc Desormeaux, Provincial Economist
416.866.4733
Scotiabank Economics
marc.desormeaux@scotiabank.com

Newfoundland and Labrador
% change except where noted

Economic Conditions	17	18e	19f	20f
Real GDP	0.9	-2.7	2.0	0.8
Nominal GDP	4.3	0.5	3.0	3.9
Employment	-3.7	0.5	1.9	0.2
Unemployment Rate, %	14.8	13.8	11.8	11.6
Housing Starts, 000s	1.4	1.1	1.0	1.3
Fiscal Situation	**FY18**	**FY19**	**FY20**	
Budget Balance, % of GDP	-2.8	-1.6	5.6	
Net Debt, % of GDP*	44.4	46.3	40.3	

*Nom. GDP fcst: Scotiabank Economics. Sources: Scotiabank Economics, Statistics Canada, CMHC, NL Finance.

Sources of NL Population Growth



* Includes returning and net temporary emigrants, net non-permanent residents. Sources: Scotiabank Economics, Statistics Canada.

* Figures reported in Canadian dollars unless otherwise stated.

Provincial Forecast Summary

	(annual % change except where noted)										
Real GDP	**CA**	**NL**	**PE**	**NS**	**NB**	**QC**	**ON**	**MB**	**SK**	**AB**	**BC**
2000–17	2.1	2.4	1.8	1.3	1.2	1.8	2.0	2.3	2.0	2.8	2.7
2017	3.0	0.9	3.5	1.5	1.8	2.8	2.8	3.2	2.2	4.4	3.8
2018e	1.9	-2.7	2.6	1.2	0.1	2.5	2.3	1.3	1.6	2.3	2.4
2019f	1.4	2.0	2.1	1.3	0.6	2.1	1.4	1.5	1.4	0.5	2.2
2020f	2.0	0.8	2.0	1.3	0.8	1.8	1.8	1.5	1.6	2.5	3.0
Nominal GDP											
2000–17	4.3	5.6	4.2	3.3	3.4	3.7	3.9	4.4	5.4	5.9	4.7
2017	5.6	4.3	4.8	2.9	4.3	5.0	4.1	5.4	4.8	10.0	6.9
2018e	3.6	0.5	4.6	3.2	1.9	4.2	3.5	3.1	3.8	4.5	4.4
2019f	2.7	3.0	4.1	3.0	2.2	3.2	2.6	3.3	3.3	1.3	4.2
2020f	4.2	3.9	3.9	3.3	2.5	3.7	3.7	3.3	4.0	4.6	5.7
Employment											
2000–17	1.4	0.6	1.1	0.6	0.4	1.3	1.3	1.0	1.1	2.2	1.5
2017	1.9	-3.7	3.1	0.6	0.4	2.2	1.8	1.7	-0.2	1.0	3.7
2018	1.3	0.5	3.0	1.5	0.3	0.9	1.6	0.6	0.4	1.9	1.1
2019f	2.1	1.9	1.4	2.3	0.5	1.5	2.5	1.2	1.6	1.0	3.0
2020f	1.0	0.2	0.8	0.3	0.2	0.8	1.2	0.6	0.7	1.0	1.5
Unemployment Rate (%)											
2000–17	7.1	14.3	11.1	8.8	9.5	7.9	7.0	5.1	5.0	5.3	6.5
2017	6.3	14.8	9.8	8.4	8.1	6.1	6.0	5.4	6.3	7.8	5.1
2018	5.8	13.8	9.4	7.6	8.0	5.5	5.6	6.0	6.1	6.6	4.7
2019f	5.7	11.8	9.0	6.8	8.0	5.2	5.6	5.5	5.5	6.7	4.6
2020f	5.9	11.6	9.0	6.8	8.0	5.4	5.8	5.5	5.5	6.8	4.7
Housing Starts (units, 000s)											
2000–17	200	2.5	0.8	4.3	3.4	44	72	5.2	5.2	34	29
2017	220	1.4	0.9	4.0	2.3	46	79	7.5	4.9	29	44
2018	213	1.1	1.1	4.8	2.3	47	79	7.4	3.6	26	41
2019f	202	1.0	0.9	3.9	2.1	46	69	6.8	3.2	26	44
2020f	199	1.3	0.8	3.8	2.0	41	72	6.0	4.8	30	37
Motor Vehicle Sales (units, 000s)											
2000–17	1,657	29	6	48	38	413	635	47	45	216	180
2017	2,041	33	9	59	42	453	847	62	56	245	235
2018	1,984	28	8	51	38	449	853	67	47	226	217
2019f	1,935	30	9	51	39	447	813	60	49	220	217
2020f	1,915	30	9	50	37	440	800	56	48	217	228
Budget Balances, Fiscal Year Ending March 31 (CAD mn)											
2017	-18,957	-1,148	-1	151	-117	2,361	-2,435	-789	-1,218	-10,784	2,727
2018	-18,961	-911	1	230	67	2,622	-3,672	-695	-303	-8,023	301
2019e	-11,815	-522	14	28	5	2,500	-11,700	-470	-380	-6,711	374

Sources: Scotiabank Economics, Statistics Canada, CMHC, Budget documents; Quebec budget balance figures are after Generations Fund transfers.