

Newfoundland and Labrador

THE REOPENING VERSUS MAJOR PROJECTS

- Newfoundland and Labrador's COVID-19 situation has improved since a severe second wave stalled economic momentum earlier this year.
- Softening major project activity and crude oil production should pose drags on growth in 2021.

Newfoundland and Labrador's fight against COVID-19 is progressing, and that bodes well for reopening and a return to economic growth this year. With the exception of a three-week surge in late January and early February, infection rates in the province have consistently been among the lowest of any jurisdiction in Canada, and that has enabled easing of strict early-year lockdown measures. Encouragingly, some of the weakness seen in indicators such as full-time employment, hours worked, manufacturing shipments, and auto sales in January and February has now reversed. Looking forward, vaccination rates are climbing, and the province aims to begin reopening in mid-June.

Strengthening iron ore prices and production are also good news. Last year, second half price gains and steady output contributed to a 2.5% gain in related nominal exports and a 9% jump in real iron mining GDP—responsible for about 6% of provincial output in 2020. We expect further ramp-up at key mines and continued strength in iron ore prices to support industry profitability this year.

Despite pricing improvements, the outlook for oil production is less sanguine. Crude oil is by far NL's largest export, and exports made up a larger share of provincial output in 2019 than in any other Canadian jurisdiction. Terra Nova field operations—responsible for 12% of provincial production in 2019—are indefinitely suspended and yields are falling at other platforms. Our forecast assumes that NL offshore output falls by 5% this year—as in the latest provincial government projections—and rises by 5% in 2022—in line with 2020 Canada Energy Regulator expectations. Efforts to restart work at Terra Nova offer upside potential on this front.

We expect soft major project activity to weigh on capital investment. The Muskrat Falls hydroelectric dam is scheduled to be completed this year, and the West White Rose offshore extension venture remains suspended. We expect that work will resume on the latter project next year, in line with provincial government forecasts.

The Come By Chance Refinery remains in idle mode. In 2020, its closure weighed on shipments of upgraded petroleum—the province's second-largest trade product from 2017 to 2019. As long as the facility stays closed, related exports will likely remain low—though the drag may ease in 2021—and import reliance will likely remain high.

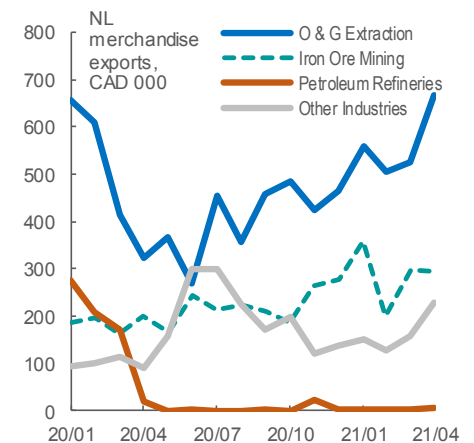
The province's first multi-year fiscal plan since COVID-19 reached Canadian shores takes several important initial steps to address well-documented long-run demographic and financial challenges on The Rock. Read our take [here](#). Significant for near-term growth are efforts to improve integration and retention among newcomers to the province, and \$600 mn in planned fiscal year 2021–22 infrastructure outlays—which may help mitigate the effects of weak capital outlays.

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Key Economic Indicators			
annual % change except where noted			
	20E	21F	22F
Real GDP	-5.3	3.8	2.5
Nominal GDP	-7.0	13.1	5.5
Employment	-5.7	3.4	1.3
Unemployment Rate, %	14.1	12.5	12.1
Housing Starts, 000s	0.8	1.4	1.0
Total CPI	0.2	3.0	2.3

Price Gains Boost Oil, Iron Ore Exports, Refinery Shutdown Weighs on Trade



Sources for tables and chart: Scotiabank Economics, Statistics Canada, CMHC, Industry Canada.

Provincial Forecast Summary

The Provinces	(annual % change except where noted)										
Real GDP*	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
2010–19	2.2	1.0	2.3	1.1	0.7	1.9	2.3	2.1	2.2	2.6	2.8
2019	1.9	4.0	5.1	2.4	1.2	2.7	2.1	0.6	-0.7	0.1	2.7
2020e	-5.3	-5.3	-3.0	-3.2	-3.7	-5.3	-5.8	-4.8	-5.2	-8.2	-3.8
2021f	6.1	3.8	5.0	5.2	5.4	6.9	5.8	5.7	5.5	6.2	6.4
2022f	4.0	2.5	3.2	3.4	3.3	3.8	4.3	3.5	3.6	4.2	4.4
Employment											
2010–19	1.3	0.6	1.5	0.3	0.0	1.2	1.4	0.9	0.8	1.2	2.0
2019	2.2	1.1	3.3	2.3	0.8	2.0	2.8	1.0	1.9	0.7	3.0
2020	-5.1	-5.7	-3.2	-4.7	-2.6	-4.8	-4.8	-3.7	-4.7	-6.6	-6.6
2021f	4.1	3.4	3.3	4.7	4.1	4.3	3.7	3.7	3.3	4.4	5.3
2022f	3.3	1.3	2.5	2.6	2.3	3.2	3.6	3.0	2.9	3.7	3.4
Unemployment Rate (%)											
2010–19	6.9	13.3	10.6	8.7	9.4	7.1	7.0	5.6	5.3	6.2	6.1
2019	5.7	12.3	8.7	7.4	8.1	5.1	5.6	5.3	5.6	7.0	4.7
2020	9.6	14.1	10.4	9.8	10.0	8.9	9.6	8.0	8.4	11.4	8.9
2021f	7.6	12.5	8.3	7.9	8.2	6.3	8.1	6.3	6.2	9.2	6.7
2022f	5.8	12.1	7.4	6.9	7.3	4.9	6.0	4.9	4.9	7.0	4.9
Motor Vehicle Sales (units, 000s)											
2010–19	1,818	33	7	51	41	432	715	55	53	237	194
2019	1,914	34	8	53	41	454	789	53	46	227	214
2020	1,564	28	7	44	34	376	612	46	40	186	180
2021f	1,750	32	9	50	40	425	673	52	45	216	208
2022f	1,973	34	9	55	44	480	764	56	50	244	235
Budget Balances, (CAD mn)											
2019**	-39,400	-1,383	22	3	49	4	-8,672	5	-319	-12,152	-321
2020	-354,200	-1,644	-120	-706	-13	-6,240	-38,468	-2,080	-1,865	-20,192	-8,144
2021f	-154,700	-826	-112	-585	-245	-12,250	-33,100	-1,597	-2,611	-18,221	-9,698
2022f	-59,700	-587	-46	-218	-296	-8,500	-27,700	-374	-1,685	-10,982	-5,484

* Based on preliminary estimates of real GDP by industry for all provinces but Quebec and Ontario. ** NL budget balance in 2019 is net of one-time revenue boost via *Atlantic Accord*.

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

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