



Environmental Scan

Nova Scotia

Spring 2015



KEY HIGHLIGHTS

- Global GDP growth is predicted to be 2.8% in 2015.
- Falling oil prices are expected to alter resource revenues, exchange rates and trade among major global economies.
- U.S. economy is anticipated to lead many mature economies with 3.0% GDP growth in 2015.
- Oil price shocks to the Canadian economy may be somewhat offset by U.S. economic recovery and a low exchange rate.
- Economic performance is expected to weaken in Alberta, Saskatchewan and Newfoundland and Labrador, strengthen in British Columbia and Central Canada, and slowly recover in the Maritimes.
- The economy and labour market in Nova Scotia are anticipated to improve, led by major projects such as shipbuilding and resurgence in export activity.
- Halifax continues to be the main source of growth in the province.

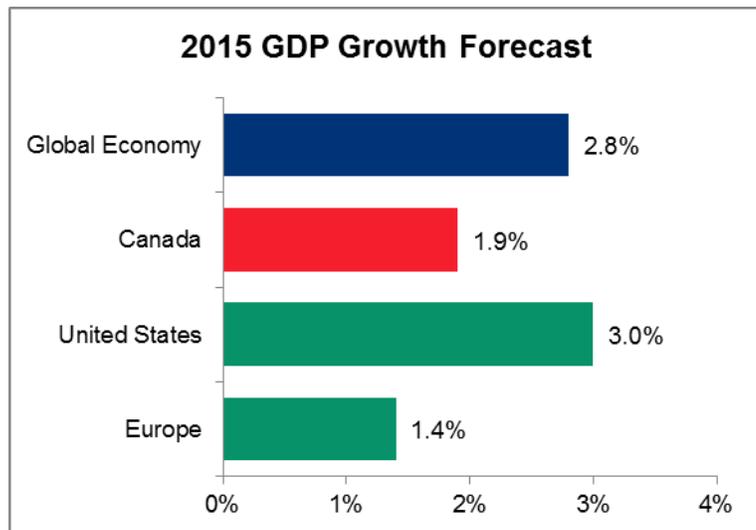
GENERAL OVERVIEW/ECONOMIC CONTEXT

Global Environment

The global economic environment is currently experiencing a high degree of uncertainty, with a number of major developments affecting the global economy. The relatively rapid decrease in the price of oil, falling from over \$100 a barrel in the summer of 2014 to \$45 in the first quarter of 2015 has had an unsettling impact on key oil producing countries, including Russia and a number of developing nations such as Nigeria and Venezuela. In addition, continued unrest in the Middle East, as well as conflicts in Ukraine and other global areas has created instability in the global economy. Concern has also been expressed with the slowdown in growth of other key national economies, including China and to a lesser extent India. A cooling of growth for these large emerging economies is expected to restrain global economic expansion. Correspondingly, the growth rate for the global economy is expected to decelerate in 2015, but still remain fairly strong from an overall perspective compared to recent history. The world economy is expected to grow in the vicinity of 2.8% this year and 3.2% next, relying heavily on a strengthened United States (U.S.) economy.

United States

As Canada's largest trading partner, the performance and outlook for the U.S. economy are key factors in assessing current and expected Canadian economic activity. The U.S. economy has shown signs of strengthening as of late, and growth is expected to accelerate to 3.0% in 2015, an improvement from 2014 and high for the last decade. The U.S. economy has been impacted by the decline in the price of oil in different ways. The oil industry has weakened due to lower oil prices, and the number of rigs has declined as companies cut capital spending. Production of oil through technologies such as fracking has slowed, as a relatively high price of oil is needed to make this expensive extraction process profitable.



Source: The Conference Board of Canada. Canadian Outlook 2015.

However, the drop in the price of oil for domestic consumption has been compared to a very large tax cut for U.S. residents, and should work to strengthen consumer spending and domestic demand. The low price of oil is also anticipated to lower costs for U.S. producers of goods, and should further improve balance sheets as the economy accelerates. A strengthened U.S. dollar has made imports cheaper. With a forecasted improvement in housing markets in the U.S., the demand for imports related to construction should be a particularly lucrative area for filling U.S. industry demand. However, the strong dollar has also made U.S. exports more expensive around the world at a time when the economies of many key trading partners are struggling.

Canada

The most significant factor currently influencing the national economy is the decline in oil prices. Canada is a large producer of oil and the energy sector has evolved into a cornerstone of the economy as a whole, and is vital to several areas of the country, particularly Alberta, Saskatchewan, and Newfoundland and Labrador. With the collapse in oil prices, expectations for the national economy have been revised downward, with growth estimates by major forecasters reduced by as much as a half a percentage point. The biggest impact is expected to be seen on a deterioration of business investment in the country, which is comprised heavily of energy related activity, particularly in engineering. Investment in the oil and gas related sector is expected to decline by 20 to 30 percent in 2015 and deteriorate further in 2016.

This may have a dramatic impact on the economies of those provinces with significant oil related industries, with a particular emphasis on Alberta and the Oil Sands. The expected contraction in the oil related energy sector is expected to have not only a fiscal impact but also a direct impact on the national labour market, as energy projects are major employers of labour and absorb large quantities of interprovincial workers in the country.

Government spending is expected to be weak over the next couple of years. Both federal and provincial governments were already exercising fiscal restraint prior to the decline in oil prices. Since the decline, there

has been a further negative impact on government revenue. This could mean that there will be deeper restraint ahead, particularly for oil-producing provinces.

Although, as in the U.S., the decline in oil prices should be reflected in an increase in purchasing power of Canadian residents through cheaper prices of energy related goods (i.e. gasoline), a weak labour market and high levels of existing consumer debt may offset gains from reduced prices. As well, the decline in oil prices is expected to put further pressure on personal income by contributing to a slowing labour market in Canada, as low oil prices lead to increased layoffs due to a squeezing of corporate profits and investment activity in the country overall.

An important aspect of the fall in oil prices in the country has been a decline in the value of the Canadian dollar against the U.S. dollar, which should work to increase Canadian exports over this year and next, particularly to the expanding U.S. economy. Correspondingly, prospects are improving for areas that have a higher representation of export oriented industries, including the industrial belt of central Canada and in particular Ontario. However, the economic and labour market impact of this may take time to be realized as industrial capacity may be limited in the short term to adjust to the improved scenario. Wood exports are predicted to be in particularly high demand due to an uptick in U.S. residential activity, while total exports are forecasted to increase by 4.7% in 2015 and 3.6% in 2016. Imports, however, are predicted to decline due to the low Canadian dollar. This, combined with the expected increase in exports, should improve the real trade balance.

Despite the increase in exports, the renewed strength of the U.S. economy is not anticipated to improve business investment in Canada. Furthermore, high commercial vacancy rates are expected to discourage building construction. Residential construction has been dampened by a particularly harsh winter in Ontario, Quebec and the Atlantic Provinces; low numbers of housing starts in February have resulted in an anticipated 10.0% reduction in new units compared to 2014. Furthermore, the real estate market is cooling down in some major cities, such as Calgary and Vancouver.

Nova Scotia

The negative impact of falling oil prices should not be as significant in Nova Scotia as in other provinces. GDP growth in the province has averaged just over 1.0% per year since 2007, which is well below the national average of 1.7%. However, 2014 showed promise of improvement with 1.6% real GDP growth, while forecasts for 2015 predict an increase of around 2.2%. While growth in 2014 was largely attributable to peaking natural gas production and a strong increase in exports, the Royal Bank of Canada predicts growth will be more evenly spread across a variety of other industries in 2015.¹

Relatively slow economic growth has also affected the housing market. Residential housing starts have been very low and are reported to have declined 22.0% from 2013 to 2014, but are expected to begin a gradual recovery this year. A more favourable outlook is anticipated for commercial construction, led by major project activity such as the Shipbuilding program, the Nova Convention Centre, and large investments in offshore exploration activity.² Overall, construction output is predicted to increase by 7.1% per year in both 2015 and 2016.

Primary resource output is predicted to slip slightly in 2015 as offshore gas production begins to decline, however Shell and British Petroleum Canada have maintained interest in offshore exploration and will spend \$2

¹ *Metropolitan Outlook 1: Economic Insights into 13 Canadian Metropolitan Economies: Spring 2015.* (Ottawa: The Conference Board of Canada, 2015).

² *Provincial Outlook Winter 2015: Economic Forecast.* (Ottawa: The Conference Board of Canada, 2015).

billion over the next few years. While manufacturing suffered significant declines in output in 2013 and 2014, it is expected to rebound in 2015 and 2016 with predicted growth rates of 8.6% and 9.2% respectively, driven chiefly by shipbuilding activity and a significant expansion of Pratt & Whitney's facility at the Halifax airport.³

The low Canadian dollar should result in an increase in provincial exports to the U.S., mirroring predictions for the country as a whole. In particular, tires and fish products, which represent more than half of the province's exports, are predicted to continue to increase in importance. Transportation, warehousing, retail and trade are also predicted to experience strong growth in 2015 and 2016, especially in Halifax. The depreciated Canadian dollar should assist in a recovery in tourism, aided by marketing targeted at the northeastern U.S.

LABOUR MARKET

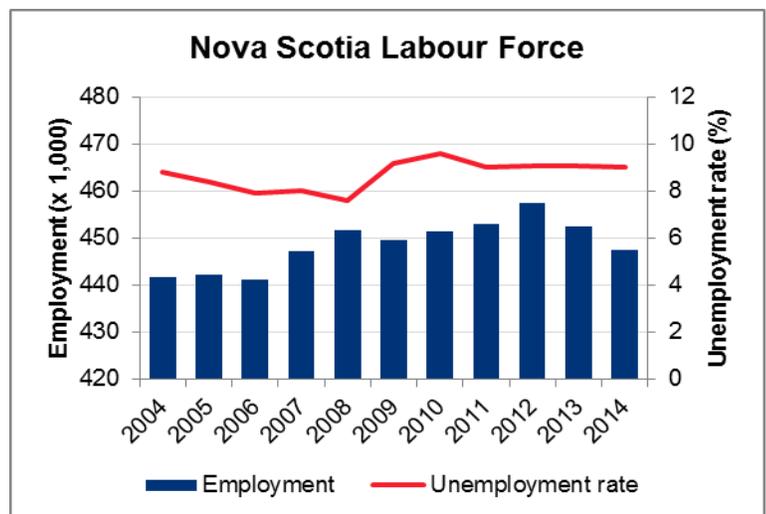
Canada

The Canadian labour market is expected to remain weak in 2015, after sluggish performance in 2014. Employment increased by 0.7% in 2014, one of the lowest rates of growth in the last two decades.⁴ Despite a cooling of the economy in the face of falling oil prices, modest employment growth is expected to reduce the unemployment rate from 6.9% in 2014 to 6.8% this year, with further minor improvement predicted in 2016. Despite slow employment growth, increases in the unemployment rate have been moderated by discouraged workers leaving the labour force.⁵

Labour market conditions in the Atlantic Provinces are expected to slowly improve resulting from forecasted increases in economic growth. A key factor which may affect both the Atlantic economy and labour market is the impact of labour returning to the Atlantic economies, as "fly in- fly out" workers are laid off in oil producing regions as a result of the energy sector contraction.⁶ This may have a significant impact on the supply of labour in the Atlantic Provinces by easing reported labour shortages in engineering, project management, and highly skilled workers in several trades. In addition, softer labour markets in oil producing provinces may reduce interprovincial migration flows from Atlantic Canada and increase both the pool of unemployed workers and unemployment rates.

Nova Scotia

A low birth rate, low levels of immigration and net outmigration have resulted in a stagnant labour market and a population that is among the oldest in Canada. This demographic challenge has lessened provincial tax revenue, lead to an increased need for fiscal restraint, and is seen as a potential obstacle to meeting the labour market outcomes that are necessary for development. Net interprovincial migration has been negative nine years out of 10 between



Source: CANSIM Table: 282-0123

³ *Metropolitan Outlook*.

⁴ Statistics Canada. "Labour Force Survey: Year-end review, 2014." *The Daily*, January 28, 2015.

⁵ *Canadian Outlook 2015: Economic Forecast*. (Ottawa: The Conference Board of Canada, 2015).

⁶ *Provincial Outlook*.

2004 and 2014, accounting for a total loss of 21,492 people, primarily from younger age groups. Net migration flows have typically been negative for those below the age of 50 years old and positive for those above.⁷

Although employment in Nova Scotia fluctuated on an annual basis between 2004 and 2014, the trend was generally upwards until 2012 when employment levels peaked. Since then, the province has recorded two consecutive years of job losses. In 2014, the Services-producing sector accounted for 81.2% of the labour force, while the Goods-producing sector accounted for 18.8%.⁸ The Conference Board of Canada anticipates positive employment growth in 2015 and 2016.

In 2014, there were 10,000 fewer employed than in 2012 in Nova Scotia, a decrease which was evenly split between full- and part-time jobs.⁹ This trend is predicted to reverse this year, with employment anticipated to surpass 2012 levels by 2016. The employment growth is expected to mirror general economic recovery, with several large projects occurring in the region, and the low Canadian dollar strengthening exports and potentially increasing tourism. The provincial unemployment rate is anticipated to decrease slightly over the next few years while still remaining above 8.0%.¹⁰ However, if the flow of labour returning from Western Canada is greater than expected or the provincial economy recovers more slowly than predicted, upward pressure may be exerted on the unemployment rate in the short term.¹¹

Employment in Manufacturing in Nova Scotia has weakened, with a particularly sharp decline in Wood product and Paper and Food manufacturing, resulting from consolidation of production and the globalization of world markets. A recovery in Manufacturing is anticipated over the next few years, driven primarily by the large shipyard contract and associated industrial spin offs such as metal fabrication while innovative manufacturing, i.e. LED lighting, is expected to strengthen and should lead to a growing technology processing industry in the region. Finally, employment in industries in Nova Scotia that provide knowledge intensive services such as information management and processing, is expected to continue expanding in response to global demand.

Other industries which are anticipated to experience employment growth are Health care and social assistance, Retail trade, and Accommodation and food services. Employment in the former has increased steadily over time and should continue to do so as a result of the health care needs of an aging population. However, growth in this sector may be challenged by a provincial commitment to restrained fiscal spending in response to falling revenue. The low Canadian dollar is predicted to stimulate employment in Retail trade and Accommodation and food services due to an expected drop in cross border shopping accompanied by an increase in tourism. However, many jobs in these sectors are often characterized by low wages and high job turnover.

By comparison, Construction and Educational services are two industries in which growth predictions are rather modest. Employment in Construction has stagnated, primarily due to a decline in housing starts, however a gradual reversal of this trend and a series of large commercial projects should contribute to an improvement in Construction employment over the next few years. In Educational services, employment in primary and secondary education has been challenged by a declining student enrolment and provincial fiscal restraint. Employment prospects at universities and other post-secondary institutions are slightly more positive as they have been able to more than offset declining enrolment of Nova Scotian youth by attracting more higher numbers of out-of-province and international students.

⁷ Statistics Canada. *CANSIM Table: 051-0060*

⁸ Statistics Canada. *CANSIM Table: 282-0002*.

⁹ Ibid.

¹⁰ *Provincial Outlook*.

¹¹ Antunes, Beckman, *Regional Shakeup*.

Economic Regions

Labour market performance varies widely between economic regions in Nova Scotia. Halifax experienced the most positive changes from 2004 to 2014: the working age population, labour force, and employment all increased by more than 10.0%. The region added 21,000 jobs over this period, of which the majority were full-time. In 2014, the unemployment rate in Halifax was 6.1%, significantly lower than the provincial average of 9.0%. The Services-producing sector accounts for a larger share of employment in Halifax than in any other region within the province. Industries such as Professional, scientific and technical services and Finance, insurance, real estate and leasing are major employers and have had a strong record of growth over the past decade. Conversely, employment in Manufacturing declined over the last 10 years, a phenomenon that is occurring across the entire province.¹²

ECONOMIC REGION	Employment			Unemployment Rate		
	2004	2014	Change Percent	2004	2014	Change Percentage points
Nova Scotia	441,700	447,600	1.3%	8.8%	9.0%	0.2 ppt
Halifax	202,300	223,300	10.4%	6.0%	6.1%	0.1 ppt
Annapolis Valley	58,100	56,200	-3.3%	8.6%	8.9%	0.3 ppt
Southern	56,700	49,900	-12.0%	10.3%	12.0%	1.7 ppt
North Shore	72,500	67,300	-7.2%	10.1%	10.7%	0.8 ppt
Cape Breton	52,200	50,900	-2.5%	15.5%	15.0%	-0.5 ppt

Source: CANSIM Table: 282-0125

The Annapolis Valley represents the second most robust labour market in the province; however, few real gains have been made over the past decade. The unemployment rate was 8.9% in 2014, up from 7.8% in 2004. Despite an increase in the working age population over the 2004-2014 time period, the labour force and employment both declined by 1,900. This may be attributed to an aging population and lack of employment opportunities. The population in the 65 and older age category increased by more than 5,000, while the number in the 15 to 64 age group decreased by over 1,500 during the 2004-2014 period.¹³ The share of employment in Agriculture in the Annapolis Valley is significantly larger than in any other region in the province. Overall employment levels declined in the Goods-producing sector resulting from substantial declines in Manufacturing. Employment in the Manufacturing industry group declined by more than one-third over the 2004-2014 period.¹⁴ The number employed in the Services-producing sector increased marginally, led by sizeable gains in the Finance, leasing, insurance and real estate industry group since 2004.

The North Shore faces a combination of demographic challenges and deteriorating labour market outcomes. Population decline has been less pronounced than in other regions, but the aging of the population is compounded by net outmigration following a series of major employer closures. The unemployment rate was 10.7% in 2014, marginally higher than the 2004 rate. The labour force and employment both shrank by approximately 5,000 between 2004 and 2014, while participation and employment rates declined by more than three percentage points. The share of employment in Trade, Manufacturing, and Transportation and warehousing was higher in the North Shore than in other economic regions, however employment levels in the latter deteriorated severely over the last 10 years.¹⁵

¹² Statistics Canada. CANSIM Table: 282-0125.

¹³ Statistics Canada. CANSIM Table: 051-0059.

¹⁴ Statistics Canada. CANSIM Table: 282-0125.

¹⁵ Ibid.

The Southern region has the highest proportion of seniors and the second lowest participation and employment rates after Cape Breton. At 12.0%, the unemployment rate in 2014 was higher than the provincial average. Between 2004 and 2014, the population, labour force, and employment declined: the latter two by more than 10.0% each. In 2014, the number of employed was 6,800 lower than 10 years earlier. The Goods-producing sector comprises a larger share of employment than in any other economic region in Nova Scotia, with Forestry and Fishing, and Manufacturing being some of the more significant industries. The only industries to experience meaningful growth between 2004 and 2014 were Health care and Accommodation and food services.¹⁶

Cape Breton suffers from the weakest labour market in the province, with an unemployment rate consistently in the mid-teens. In 2014, the unemployment rate in the region was 15.0%. From 2004 to 2014, the labour force and employment did not decline as severely as in other economic regions; however the working age population decreased by 10,400. While employment and participation rates are still the lowest in the province, the disparity in labour market performance between Cape Breton and other economic regions has lessened. The majority of industries in Cape Breton have seen slight declines in employment since 2004, with Manufacturing experiencing a major reduction of 57.8%, the largest of any industry in the area. However, Professional, scientific and technical services and Public administration experienced employment growth, as did Accommodation and food-services which is a relatively important industry to the region.¹⁷

LABOUR MARKET OUTCOMES FOR CLIENT SEGMENTS

Newcomers

The aging of the population combined with almost stagnant population growth had generated considerable interest regarding increasing immigration levels in the province. While Nova Scotia accounted for 2.7% of the national population in 2014, only 1.0% (2,772) of new immigrants to Canada settled in the province.¹⁸ The province also tends to have a lower immigrant retention rate than the provinces of Central and Western Canada, which may have negative implications for the provincial economy as immigrants tend to be younger and more highly educated than Canadian-born residents. The unemployment rate for newcomers was higher than the Canadian-born population in 2014 (10.7% vs. 8.9%), as was the participation rate (65.9% vs. 62.8%). Generally, as time since immigration increases and newcomers begin to integrate economically and culturally into Nova Scotia, both their unemployment and participation rates fall.¹⁹

Aboriginal People

In the 2011 National Household Survey (NHS), 33,850, or 3.7%, of people in Nova Scotia identified as Aboriginal.²⁰ The Aboriginal population is much younger than the non-Aboriginal population, with a median age of 30.8 years as compared to 43.9 years for the non-Aboriginal population. The Aboriginal population in Nova Scotia is increasing faster than the non-Aboriginal population. The Aboriginal population face greater

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ Immigrants who landed five or less years earlier.

¹⁹ Statistics Canada. *CANSIM Table: 282-0102; CANSIM Table: 051-0004.*

²⁰ 'Aboriginal identity' includes persons who reported being an Aboriginal person, that is, First Nations (North American Indian), Métis or Inuk (Inuit) and/or those who reported Registered or Treaty Indian status, that is registered under the Indian Act of Canada, and/or those who reported membership in a First Nation or Indian band.

challenges in the labour market as they have lower levels of educational attainment and tend to reside in more rural parts of the province than their non-Aboriginal counterparts. The Aboriginal population has slightly lower labour force participation rates, but significantly higher unemployment rates than the non-Aboriginal population, particularly those living on a reserve. At the time of the 2011 NHS, the Aboriginal Population had an unemployment rate of 15.0% (5.1 percentage points higher than the non-Aboriginal population) and a participation rate of 62.1% (one percentage point lower than the non-Aboriginal population).²¹

Official Language Minority Communities

In the 2011 Census, 3.8%, or 33,003, of respondents in Nova Scotia identified as Francophone.²² While Halifax has the greatest number of Francophones, they accounted for a small share of the population (3.1%). However, a number of rural communities have a larger share of Francophone residents, such as Clare and Argyle (65.2% and 47.3%, respectively), northern Inverness County (41.0%), and Isle Madame (46.3%). At the time of the 2011 NHS, there was little difference between the labour force participation rates of the Francophone and non-Francophone population, 61.5% versus 63.1%. By comparison, their unemployment rate, at 7.1%, was significantly lower than the rate of their non-Francophone counterparts (10.2%).²³

Persons With Disabilities

According to the 2012 Canadian Survey on Disability, 18.8%, or 143,760, of Nova Scotians aged 15 years or older and 89,410 (14.2%) aged 15 to 64 years had a disability; the highest rate in Canada.

Persons with disabilities (PWDs) face multiple labour market challenges, including inaccessible workplaces, transportation, and discrimination. The most common barrier to employment was a partial or total inability to work due to the physical limitations of the disability. In 2012, the unemployment and labour force participation rates for PWDs in the 15 to 64 age group were 13.3% and 55.2%, respectively compared with 8.9% and 79.0%, respectively for persons without disabilities.²⁴

Youth

The 15-24 year old population in the province is decreasing, having declined by 6.9% between 2004 and 2014, largely due to net outmigration. Population projections forecast the number of youth in the province will continue to decline in future years. Over this period, labour market outcomes for youth have deteriorated; participation rates and employment levels declined, while the unemployment rate rose. The youth unemployment rate in the province is currently the highest in the country. Labour market challenges have been more severe for males, who experienced an unemployment rate of 22.0% in 2014, as compared to 13.6% for female youth. The youth workforce is increasingly represented in the Services-producing sector, and often in industries such as Accommodation and food services which are characterized by low wages and high levels of job turnover.²⁵

²¹ Statistics Canada, 2011 National Household Survey, Catalogue nos. 99-011-X2011026; 99-012-X2011044.

²² Francophone includes all persons who identify French as a mother tongue, alone or in conjunction with a nonofficial language, and half of those who identify “English and French” and “English, French and nonofficial language” as their mother tongues.

²³ Statistics Canada, 2011 National Household Survey, Statistics Canada Catalogue no. 99-010-X2011040.

²⁴ Statistics Canada. *CANSIM Table 115-0002; CANSIM Table 115-0005.*

²⁵ Statistics Canada. *CANSIM Table 051-0001; CANSIM Table 282-0008.*

Older Workers

From 2004 to 2014, the proportion of the population in the 55 and over age category increased from 30.0% to close to 40.0%. During this 10-year period, the number of employed older workers rose from 57,200 to 96,200, or by 68%, while their participation rate climbed from 26.3% to 34.2%. The aging of the workforce may be attributable to the large number of “baby boomers”, aged 51 to 69, who have entered the older worker age group since 2004, but have not yet retired. As well, the net outflow of migrants from the province and low fertility rates are factor also contributing to the aging of the provincial workforce.

Seniors

Seniors (age 65 years and older) are a growing demographic group among the total population and the labour force. Today’s seniors have a stronger attachment to the labour force than seniors in previous decades. Some seniors may continue to work for enjoyment and social interaction, while others work because of financial need. Although labour force participation rates of seniors are low, they have been increasing steadily over the past 10 years and are expected to continue to rise. From 2004 to 2014, the labour force participation rates of seniors in Nova Scotia rose from 4.7% to 11.3%.²⁶

Note: In preparing this document, the authors have taken care to provide clients with labour market information that is timely and accurate at the time of publication. Since labour market conditions are dynamic, some of the information presented here may have changed since this document was published. Users are encouraged to also refer to other sources for additional information on the local economy and labour market. Information contained in this document does not necessarily reflect official policies of Employment and Social Development Canada.

Prepared by: Labour Market Analysis Directorate, Service Canada, Nova Scotia

For further information, please contact the LMI team at: NC-LMI-IMT-GD@hrsdc-rhdcc.gc.ca

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²⁶ Ibid.