



Environmental Scan

Nova Scotia

2016



KEY HIGHLIGHTS

The impact of lower energy prices on the world economy has been deep, and continues to be a significant source of global economic uncertainty.

The Canadian labour market has been resilient since the 2009 economic recession, but its overall performance has been slower in the last two years, as economic activity softened.

Nova Scotia's economy has seen little growth in recent years but is expected to expand modestly in 2015 and 2016, supported by gains in exports and additional major project spending.

Nova Scotia's labour market managed to hold steady in 2015, in light of the soft economic environment, although further declines in employment in regions outside of Halifax remains a concerning trend.

Client groups in Nova Scotia face more challenges in the labour market relative to the rest of the population.

GENERAL OVERVIEW / ECONOMIC CONTEXT

The Global Economy: *Global economic activity remain subdued, and recovery is expected to be uneven and modest in advanced economies*

The world economy struggled in 2015, as prices of both energy and non-energy commodities declined to their lowest levels in a decade. Three key transitions continue to influence the global economic outlook: (1) the gradual slowdown and rebalancing of economic activity in China away from investment and manufacturing toward consumption and services, (2) lower prices for energy and other commodities, and (3) a gradual tightening in monetary policy in the United States in the context of a resilient U.S. recovery as several other major advanced economy central banks continue to ease monetary policy.¹

¹ International Monetary Fund, *World Economic Outlook (WEO) Update, January 19, 2016*

The pickup in global economic activity is expected to be modest in 2016, especially in emerging markets and developing economies, while a faster pace of growth that is more in line with its long-term average is projected for 2017. According to the January 2016 World Economic Outlook (WEO) Update, the International Monetary Fund (IMF) expects global economic growth will come in at 3.1% for 2015, and expected to gradually strengthen to 3.4% in 2016 and 3.6% in 2017.

Table 1: Projection for global economic growth

	Projected growth (%)		
	2015	2016	2017
United States	2.4 (2.5)	2.4 (2.6)	2.4 (2.5)
Rest of the World	1.4 (1.3)	2.0 (2.7)	3.2 (3.2)
China	6.9 (6.8)	6.4 (6.3)	6.2 (6.2)
Oil-importing (Emerging Markets Economies)	3.3 (3.2)	3.8 (3.8)	4.4 (4.2)
Euro Area	1.5 (1.5)	1.6 (1.5)	1.6 (1.5)
World	3.1 (3.0)	3.4 (3.4)	3.6 (3.6)

Sources: Bank of Canada, *Monetary policy Report, January 2016* / International Monetary Fund, *World Economic Outlook (WEO) Update, January 19, 2016*

Numbers in parenthesis are projections used for the Bank of Canada's October 2015 Monetary Policy Report

Sustained weakness in global business investment and slow progress in implementing structural reforms in a number of economies will continue to limit growth in world potential output.² Some of the other downside risks which could derail global economic growth include, the potential for further declines in commodity prices, a sharper than expected slowdown in China's economic performance, further appreciation of the US dollar and an escalation of geopolitical tensions in a number of regions.

Against this backdrop, economic growth prospect in the United States, Canada's largest trading partner, is now expected to hold steady rather than gather further steam, as shown in Table 1. The U.S. economy is being challenged by the rapid rise in its dollar which is making its exports less competitive, and a slowdown in its manufacturing sector. Nevertheless, the U.S. economy remains one of the mainstays of global economic growth. Strong domestic demand driven largely by robust consumer spending activity and solid residential construction south of the border could help lift Canada's cross-border trade going forward.

Canada: Economic activity shifts towards the non-resource sector in response to lower commodity prices

According to the Bank of Canada's January 2016 Monetary Policy Report, economic activity in Canada has recently been weaker than was anticipated in its October Report, largely due to lower commodity prices. Real GDP growth is expected to strengthen only gradually over the 2016-17 period, with fourth-quarter-over-fourth-quarter growth of about 2% in 2016 and about 2.5% in 2017.

As a global-scale producer and exporter of many commodities, changes in global commodity prices have significant impacts on Canada's economy. Commodity prices affect the income of firms and their domestic investment and employment decisions. Canada's declining terms of trade has resulted in shifts in economic activity, and the reallocation of labour and capital resources. Since the beginning of the oil price decline, the

² Government of Canada, Federal Department of Finance, *Update of Economic and Fiscal Projections, November 2015*

Canadian economy has been evolving along two tracks. In the resource sector, investment is being scaled back in response to lower commodity prices, resulting in curtailed production and significant job losses. On the other hand, activity in the non-resource sector has been relatively strong and is expected to be the main source of growth going forward.³

The diverging economic conditions between oil-producing and non-oil producing provinces are expected to persist in 2016, but regional differences in economic performances are expected to narrow leading up to 2017, as crude oil prices show some semblance of stability. The fiscal positions of oil-producing provinces, such as Alberta, Saskatchewan and Newfoundland and Labrador, are expected to remain strained this year, and real GDP in these provinces is expected to contract for a second consecutive year with unemployment rates remaining elevated in the coming months. In the non-oil producing provinces, the prospects of continued strong gains in U.S. domestic demand and a further depreciation of the loonie could help accelerate export activity, with additional spin-off effects on non-resource investment and related service industries.

One of the key risks to economic growth and job creation in the country is the fiscal situation of both federal and provincial governments, which has been deteriorating in recent times, largely due to the impact of lower commodity prices on royalties and tax revenues. The weaker outlook for the Canadian economy, along with federal government commitments to boost infrastructure spending increases the likelihood that the federal deficit will be larger than earlier anticipated, and that the government may not return to fiscal balance in 2019/2020 as previously indicated.⁴ Fiscal tightening in the face of rising net debt and modest economic prospects could further dampen an already soft economic outlook in the Atlantic Region.

Nova Scotia: Growing demand and favourable trade conditions helped boost non-energy exports

The low commodity prices were not a major factor impacting Nova Scotia's economic performance in 2015. As resource-intensive provinces, such as Alberta and Newfoundland and Labrador, experienced shutdowns and reduced investment in mineral resource development due to the low prices, the few major resource development projects in Nova Scotia (pertaining to coal mining and offshore drilling) continued to move forward. However, the sector did not go unscathed. Complications in production at the Deep Panuke gas field resulted in mid-year shutdowns and a move to a seasonal operation, impacting provincial revenues and industry support services. Combined with slowing production at the Sable gas field, the value of energy exports for Nova Scotia dropped 71% in 2015, and will likely place further drag on the economy in 2016.⁵

A low Canadian dollar and favourable market conditions helped boost non-energy exports by 12.9% in 2015, essentially offsetting the energy export losses on a nominal basis and putting overall export growth at 1.2%. Growing demand for key manufactured products in the province, including seafood, tires and paper, fueled the export gains, while weak lumber prices held back growth in the value of lumber exports (despite a rebounding U.S. housing market). The tourism sector also appears to be benefitting from the low Canadian dollar and reduced fuel costs, in addition to the continued operation of ferry services, with a handful of key metrics showing slight gains in visitor activity and spending; although it does appear to have translated into job growth.

Weaker-than-expected earnings growth and household consumption, combined with the challenges at Deep Panuke and a slowing global outlook, contributed to tempered expectations for economic growth in Nova Scotia as the year progressed. The provincial government's latest estimates of real GDP growth suggest improving economic conditions, albeit modest at 1.0% in 2015 and 0.8% in 2016, compared to recent years

³ Bank of Canada, *Monetary Policy Report, January 2016*

⁴ Atlantic Provinces Economic Council (APEC), *Pre-Budget Fiscal Update and Tax Policy Overview, Winter 2016*

⁵ Statistics Canada. *Cansim Table: 228-0060*

where growth has been flat.⁶ Further strengthening in exports and increased major project spending are key assumptions behind the positive growth outlook for the province. This includes work now underway on large projects such as the Artic Offshore Patrol Ships (AOPS) contract, the Maritime Link project, and offshore drilling by Shell. Additional projects in Halifax such as the Nova Centre, re-decking of the MacDonald Bridge and the growing number of multi-unit housing developments provided a much needed boost to the construction sector in 2015, and is expected to continue into 2016 and help offset continued weakness in single dwelling starts.

LABOUR MARKET

Canada: *The labour market has been resilient despite weakness in the economy*

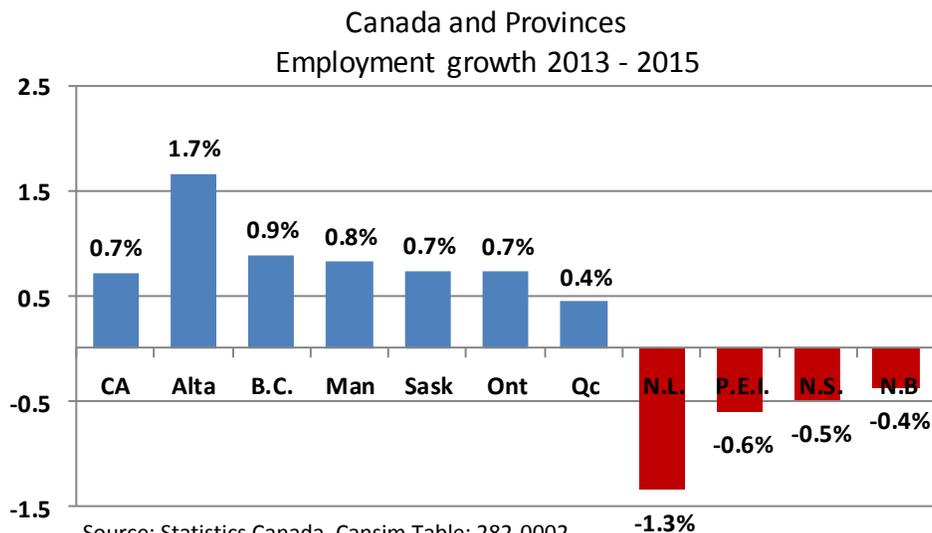
The Canadian labour market has been resilient despite the weakness in its economic performance in recent times. The economy has generated about 1.2 million jobs since the 2009 economic downturn, but the pace of job creation has been slower in the last two years, averaging 128,000 jobs per year, compared to an annual average of 241,000 jobs created between 2010 and 2013. As shown in chart 1, even in the face of falling oil prices, Western provinces have led the country in job creation since 2013, while all of the provinces in Atlantic Canada experienced declines during this period.

In the last two years, the majority (96%) of the jobs created in the country have been in full-time work, and have been more pronounced among older workers (aged 55 years plus) who have seen a seven percent increase (or 234,000 more jobs) since 2013. In comparison,

employment among the core working-age (25-54 years) group was up only slightly by 0.2% or 26,700 jobs, while younger workers (15-24 years) experienced a slight decline (-0.2% or - 5,100 jobs). Compared to the previous year, the Services-producing sector generated more than 295,000 jobs in 2015, while the Goods-producing sector experienced job losses largely due to a 5.7% (or 17,700 jobs) decline in the Mining, quarrying, and oil and gas extraction industry.

The Canadian unemployment rate held steady in the last two years at 6.9%. The national unemployment rate has been trending downward and drawing slowly closer to what it was prior to the 2009 economic downturn. However, resource-based provinces such as Newfoundland and Labrador, Saskatchewan and Alberta have experienced increases in their unemployment rates, of between 1 and 1.3 percentage points, since 2014.

Looking ahead, there is room for improvement in the Canadian labour market as the number of those not participating in labour force increased by more than 390,000, and the rate of employment has been at a



⁶ Nova Scotia Department of Finance and Treasury Board. *Budget Forecast Update, December 2015.*

standstill in the last two years. At 13.2%, the youth unemployment rate remains elevated compared to what it was before the 2009 economic recession. As well, finding employment remains a challenge for under-represented groups, such as Aboriginal peoples, recent immigrants, and persons with disabilities who also have unemployment rates above those of other Canadians aged 15 and over. Furthermore, the labour market will continue to face a number of challenges going forward. Canada, along with other advanced economies, will be affected by the aging of its population, continued globalization and increased skill requirements resulting from continued technological advancements.⁷

Nova Scotia: Additional working-age population in 2015 could not reverse the trend of a shrinking labour force.

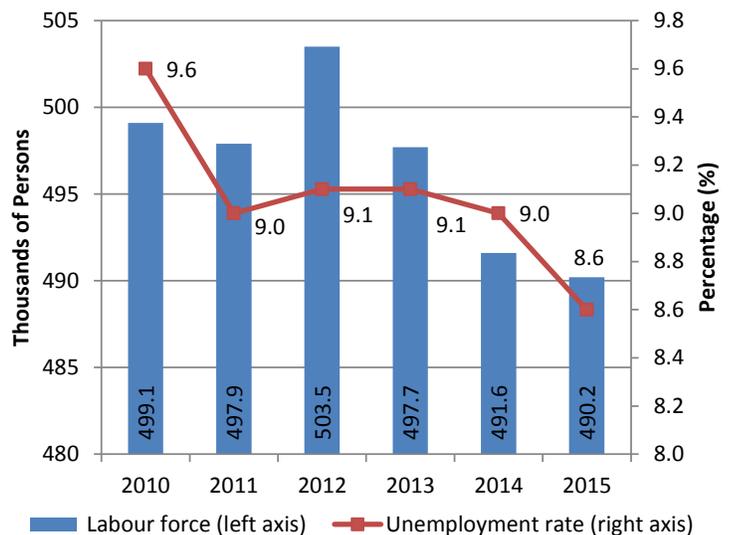
The provincial labour force declined by 1,400 persons in 2015. This is not a large drop nor is it unprecedented, being the fourth decline in the past five years. However, it comes despite a boost in the working-age population of 2,500 and a slim gain in employment of 500. On the surface, the population growth seems encouraging, considering the demographic challenges facing the provincial workforce. Yet the gain in population was largely limited to individuals aged 55 and over, who tend to have lower labour force attachment. The number of persons aged 15 to 54, on the other hand, declined by 5,300 (-1.1%) in 2015, drawing almost equally on those in the labour force and those who are not. This result comes despite some evidence of returning unemployed workers from Western provinces.

At 8.6% in 2015, the provincial unemployment rate dipped to its lowest value since 2008. The largest improvement was seen for youth (ages 15 to 24), whose unemployment rate fell 2.5 percentage points to 15.3%. While it may be difficult not to view the decline in positive light, following six years of elevated unemployment in the province, several other indicators for 2015 suggest cautious optimism is warranted; increases were seen in the number of regular EI beneficiaries and the duration of unemployment, while average hours worked per week fell along with the number of employees holding a permanent job.

Even though overall job growth in 2015 was fairly insignificant, at 0.1%, the trends at an industry level tell a more interesting story. Healthcare and social assistance had been one of the fastest growing industries in the province up until 2012, when growth stalled. Additional hiring in 2015, largely in hospitals and social assistance, supported solid growth of 4.6%, or 3,200 jobs. The Natural resource sector also saw its employment expand in 2015, adding 600 jobs, largely driven by increased activity in Fishing and Forestry.

Several industries shed jobs during the year including Construction (-400) and Trade (-2,100). Also, despite some evidence of an active tourism sector in 2015, employment fell in both Accommodation services (-1,300)

Labour Force and Unemployment Rate, Nova Scotia, 2015



Source: Statistics Canada, Cansim Table: 282-0002

⁷ Government of Canada, Department of Finance, *Jobs Report: The State of The Canadian Labour Market, 2014*

and Amusement, gambling and recreation industries (-600). Lastly, a large drop in employment in Motion picture and sound recording industries, down 44% in 2015, was likely linked to provincial government changes to the Film Industry Tax Credit in the spring of 2015.⁸

Improving export conditions did not materialize into overall job growth in manufacturing, as the sector saw further losses in employment of 1,200 (-4%) in 2015. Industry restructuring and closures of larger food manufacturing facilities contributed to the losses and offset any gains in seafood processing employment. Areas of growth in manufacturing were tied to major industrial projects, such as the federal shipbuilding contract, and to beverage manufacturing – an industry that saw several announcements of openings and expansions of microbreweries and distilleries in 2015.

Wage growth slowed considerably in Nova Scotia in 2015. Average hourly earnings grew by just 0.6% for the year, which falls well below the average annual rate over the past ten years of 3.1%; non-unionized workers, females and older workers appear to have been most affected by the slowing trend. Nova Scotia was not alone in this regard, however, as six other provinces also experienced slower-than-average wage growth, and in the case of Newfoundland and Labrador a decline of 1.3% year-over-year was observed.

Economic Regions: *The North Shore and Halifax saw labour market improvements in 2015.*

Labour market performance has varied across the economic regions of Nova Scotia in past years and 2015 was no exception. With fairly steady employment growth and relatively low unemployment, Halifax has generally stood out as a strong labour market. All other regions in the province, on the other hand, have seen population declines and shrinking employment over the past decade. The largest declines in employment over 2005 to 2015 occurred in Cape Breton and the Southern region, with average annual rates of -1.1% and -0.9%, respectively. The only industry groups in Cape Breton that have seen job gains over this period have been Construction (+1,500) and Healthcare and social assistance (+2,100). And while the Southern region has a longer list of growing industries, they have been unable to offset the impact of large job declines seen in past years in Manufacturing (-3,400) and Natural resource industries (-1,700).

Economic Region	Number Employed			Annual Average % Change, 2005-2015	Year/Year % Change, 2014-2015
	2005	2014	2015		
Nova Scotia	442,100	447,600	448,100	0.1%	0.1%
Cape Breton	55,600	50,900	49,800	-1.1%	-2.2%
North Shore	73,800	67,300	70,800	-0.4%	5.2%
Annapolis Valley	56,800	56,200	54,200	-0.5%	-3.6%
Southern	53,900	49,900	49,300	-0.9%	-1.2%
Halifax	202,000	223,300	224,100	1.0%	0.4%

Source: Statistics Canada, Cansim Table: 282-0123

Employment in the Annapolis Valley economic region has also been trending downward, and in 2015, an additional 2,000 jobs were lost. Unemployment, however, also dropped by 500 persons over the year, suggesting many individuals may have exited the labour force in light of the weakening hiring prospects. The

⁸ The Atlantic Regional Council of the Directors Guild of Canada reported a similar impact for 2015, with a 46% year-over-year decline in total working days. Accessed on March, 31, 2016 at <http://www.dgc.ca/atlanticregion/>

job losses in the Annapolis Valley were mainly spread across Services-producing industries such as Accommodation and food services (-600) and Finance, insurance, real estate and leasing (-1,100); overall employment in the Goods-producing sector in the region rose by 500 in 2015.

Halifax saw a slight net gain in employment of 800 in 2015, which, at 0.4%, is below the average annual growth rate of 1.0% seen since 2005. Despite the added jobs, Halifax's unemployment rate increased from 6.1% to 6.3%, a change likely impacted by a jump in the region's population and labour force in the year. The Accommodation and food services industry added 1,400 jobs, while employment in Finance, insurance, real estate and leasing grew by 1,500 (backed by provincial government efforts to expand the industry). Sizeable job losses in Halifax in 2015 were seen in Wholesale and retail trade (-3,200) and in Information, culture and recreation (-1,700).

The North Shore saw the largest year-over-year labour market improvement among the five economic regions. With growth of 3,500 jobs (+5.2%) in 2015, the North Shore saw its unemployment rate drop from 10.7% in 2014 to 9.2% in 2015, reaching its lowest level since 2008. The job gains were spread across industries in both the Goods-producing sector (+1.9%) and the Services-producing sector (+6.3%). The additional employment in the Goods sector was attributed to job growth in Natural resource industries (+500) and Construction (+400). The Service sector was led by expanding employment in Wholesale and retail trade (+1,400) and Healthcare and social assistance (+1,000).

LABOUR MARKET OUTCOMES – CLIENT SEGMENTS

Immigrants/Newcomers

The aging of Nova Scotia's population, combined with almost stagnant population growth, has generated growing interest in seeing increased numbers of immigrants settling in the province. While Nova Scotia accounted for 2.6% of the national population in 2015, only 1.1% (2,674) of new immigrants to Canada settled in the province.⁹ Also, the province has historically seen lower immigrant retention rates than provinces in 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 of Nova Scotia in 2015 (10.2% vs. 8.5%), while the rate of participation in the labour force was more or less equivalent (62.8% vs. 62.9%). Generally, as time progresses and newcomers begin to integrate economically and culturally into Nova Scotia, both their unemployment rate and participation rate fall.¹⁰

Indigenous Peoples

In the 2011 National Household Survey (NHS), 33,850 persons in Nova Scotia identified as Indigenous peoples.¹¹ This population group is much younger than the overall population of the province, with a median age of 30.8 years as compared to 43.4 years, and is also growing in size at a faster pace. However, Indigenous peoples also faces greater challenges in the labour market, as they have lower levels of educational attainment

⁹ Statistics Canada. *CANSIM Table: 051-0001; CANSIM Table: 051-0004.*

¹⁰ Statistics Canada. *CANSIM Table: 282-0102*

¹¹ The survey actually asked a respondent if they identify as an 'Aboriginal person'. This would include those identifying as either 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.

and tend to reside in more rural parts of the province. For instance, Indigenous peoples have slightly lower labour force participation rates, but significantly higher unemployment rates than the general population, particularly those living on a reserve. At the time of the 2011 NHS, Indigenous peoples had an unemployment rate of 15.0% (5.0 percentage points higher than the overall population) and a participation rate of 62.1% (1.0 percentage point lower than the overall population).¹²

Official Language Minority Communities

In the 2011 Census, 3.8%, or 33,005, of respondents in Nova Scotia identified as Francophone.¹³ 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%).¹⁴

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.¹⁵

Youth

The 15-24 year old population in the province is decreasing, having declined by 8.7% between 2005 and 2015, largely due to net outmigration. Furthermore, population projections forecast the number of youth in the province will continue to decline in future years. Over this historical period, labour market outcomes for youth deteriorated, and in large part due to the 2008/2009 economic recession. The participation rate and employment levels for youth declined, while the unemployment rate rose. While 2015 saw improvements in each of these measures, they have yet to return to their pre-recession values. The labour market challenges have been more severe for males, who experienced an unemployment rate of 18.1% in 2015, as compared to 12.5% for female youth. The youth workforce is increasingly represented in the Services-producing sector, and often in industries such as Retail trade and Accommodation and food services which are characterized by low wages and job instability.¹⁶

Older Workers

From 2005 to 2015, the proportion of the working-age population in the 55 and over age category increased from 32% to close to 40%. During this ten-year period, the number of employed older workers in Nova Scotia

¹² Statistics Canada, 2011 National Household Survey, Catalogue nos. 99-011-X2011026; 99-012-X2011044.

¹³ 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.

¹⁴ Statistics Canada, 2011 National Household Survey, Statistics Canada Catalogue no. 99-010-X2011040.

¹⁵ Statistics Canada. *CANSIM Table 115-0002; CANSIM Table 115-0005.*

¹⁶ Statistics Canada. *CANSIM Table 051-0001; CANSIM Table 282-0008.*

rose from 60,900 to 96,600, or by 59%, while their participation rate climbed from 27.1% to 33.6%. 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 2005, 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 (compared to other age groups), they have been increasing steadily over the past 10 years and are expected to continue to rise. From 2005 to 2015, the labour force participation rates of seniors in Nova Scotia rose from 5.7% to 11.8% - a finding consistent with general trend across the country.¹⁷

¹⁷ Ibid.

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.

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