Environmental Scan

Nova Scotia

2017

KEY HIGHLIGHTS

- After a slow start to 2016, global economic growth strengthened in the second half of the year, and is expected to see further improvements in 2017 and 2018.
- The United States has seen healthy job gains and a pickup in wage growth, helping lift consumer optimism and demand for housing. Economic growth is expected to further strengthen amid the high uncertainty over potential bold measures on tax reform, fiscal policy and trade agreements.
- Economic growth in Canada rebounded strongly in the second half of 2016, following weak performance earlier in the year. The Bank of Canada anticipates real GDP growth in Canada will accelerate in 2017 and 2018, although this outlook is subject to policy uncertainty at the global level.
- Nova Scotia is on track to see its strongest year for growth in real GDP since 2010, supported by increased manufacturing output, peaking major project investment and growth in household spending. Steady, modest growth in real GDP is also expected in 2017 and 2018.
- The population of Nova Scotia grew at its fastest pace in 25 years in 2016, attributed to record-setting numbers of international migrants. Above-average population growth is also expected over the next couple of years, which may help slow or delay the recent trend of declining labour force.
- A fairly stable labour market in 2016 brought lower unemployment across all regions of Nova Scotia. However, the province continues to see weak hiring activity, and job growth largely limited to Halifax. The Annapolis Valley region proved to be the exception in 2016, as it saw 1,200 more jobs during the year.

GENERAL OVERVIEW / ECONOMIC CONTEXT

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

Global economic conditions appear to have strengthened in the second half of 2016, following a slow start to the year where economic activity fell short of expectations. Growth in real GDP is now anticipated to come in just shy of 3% for 2016, which would be slightly weaker than growth in 2015. The mid-year turnaround is partly due to a recovery in manufacturing output and a more general pickup in growth in advanced economies. The euro area, meanwhile, seems to have avoided any dramatic economic consequences following the United Kingdom's vote to exit the European Union. Nonetheless, growth prospects across much of Europe lie below historic rates and remain tempered by lingering concerns over further instability associated with rising protectionism and high debt levels.

The United States economy rebounded strongly after a weak first half in 2016. The recent surge in consumer and business confidence is encouraging moving forward. Meanwhile, investors are showing increased optimism, particularly since the conclusion of the U.S. election and a promise of additional fiscal measures (including tax cuts) and trade policy reforms on the part of the Trump administration. The labour market continues its steady rebound, with the unemployment rate now sitting below 5% and wage growth beginning to accelerate. More money in the hands of consumers has helped boost retail sales and demand for new housing. Despite a rise in mortgage rates since the U.S. election, housing starts in the last quarter of 2016 reached their highest level since the onset of the 2008 global economic recession. Mounting inflationary pressures suggest further U.S. interest rate increases in 2017, which could exert further downward pressure on the Canadian dollar. This should be partly offset by a higher price for oil, however, which is expected to remain fairly stable around $55 per barrel – well off from the $100 per barrel seen in 2014.

Projection for global economic growth

	Projected growth (%)		
	2016	**2017**	**2018**
United States	1.6 (1.5)	2.2 (2.1)	2.3 (2.0)
Rest of the World	1.6 (1.6)	1.3 (1.3)	1.5 (1.5)
China	6.6 (6.5)	6.3 (6.4)	6.4 (6.3)
Oil-importing (Emerging Markets Economies)	3.3 (3.4)	3.6 (3.8)	4.4 (4.3)
Euro Area	1.0 (0.9)	2.1 (1.9)	3.0 (3.0)
World	2.9 (2.8)	3.2 (3.2)	3.6 (3.5)

Sources: Bank of Canada, *Monetary Policy Report, January 2017*
Numbers in parenthesis are projections used in the Bank of Canada's previous Monetary Policy Report (October 2016)

According to the Bank of Canada's latest outlook from January 2017, growth in real GDP in the U.S. is expected to be better in 2017 (+2.2%) and 2018 (+2.3%), after a disappointing year in 2016 (+1.6%). The global economy is also expected to see stronger economic growth over the next two years. Some caution is required however, as most major forecasters express considerable uncertainty in their outlook, largely related to the unknown policy actions of the new U.S. administration and how it could impact international relations and trade flows.

Canada: *Economic activity rebounding slowly*

Following a weak performance in the first half of 2016, which was partly a reflection of the disruption caused by the Alberta wildfires, economic growth rebounded significantly in the second half of the year. The Bank of Canada anticipates real GDP growth in Canada will strengthen from 1.3% in 2016, to 2.1% in both 2017 and 2018.

Activity in the service sector has been relatively healthy and is expected to remain the main source of growth in the medium term. Nevertheless, the goods sector, which has been battered by slumping commodity prices and competitiveness challenges, has begun to grow again following two years of near-steady declines.

Modest expansion of exports and investment will be supported by increased foreign demand, but uncertainty remains due to the new U.S. administration's position on important trade agreements, including NAFTA. Even though Canada does not seem to be the primary focus of the reopening of the agreement, the country could experience collateral damage from new trade restrictions. While stronger economic growth south of the border is supportive, the dollar's recent appreciation versus the U.S. currency will limit net trade's contribution to overall growth.

Household expenditures, with the support of steady but moderate employment gains and low interest rates are projected to be the primary contributor to growth in 2017. Elevated levels of household debt, however, could eventually begin to weigh on consumption, particularly if borrowing costs rise faster than anticipated. As it stands, however, the Bank of Canada is expected to keep interest rates at current levels until the spring of 2018. Otherwise, government stimulus spending should provide some support to economic growth in 2017 and 2018. As commodity prices rebound gradually, the persistent drag from business investment should diminish significantly in 2017, with positive contributions anticipated in 2018. The possibility of significant corporate and personal income tax cuts in the United States, however, could result in the deterioration in Canadian competitiveness and incite businesses to invest in the United States, rather than in Canada.

Nova Scotia: *Expected to see its strongest growth in the past six years*

The provincial economy saw some modest improvements in 2016 and is on pace to see its strongest year for growth in real GDP since 2010. A boost in retail sales supported the growth as consumers increased their spending on items such as motor vehicles and building supplies. This comes despite fewer full-time jobs and slower growth in wages and salaries during the year. Businesses also boosted their expenditures on capital, equipment and machinery, reaching levels not seen since 2011. A low interest rate environment and peaking major project activity is likely contributing to the higher level of investment. Large-scale projects such as the Nova Centre, Maritime Link Transmission Project, and Shell's Offshore Drilling program were active during the year, though are expected to wind down and contribute to a 7% drop in overall major project investment in 2017 (according to the Atlantic Provinces Economic Council).

In light of the significant restructuring and downsizing over the past decade across much of the province's manufacturing sector, activity since 2015 has been more positive, stemming from a rebounding U.S. economy, low shipping costs and a low-valued Canadian dollar. The sector has demonstrated a modest rebound in production, although not as robust as initially expected. Both the value of shipments (+9%) and exports out of province (+4) have risen since 2014, backed by solid growth in wood products, seafood products and tires. Other areas of manufacturing and processing continue to struggle with low market prices, stiff competition and pressure to consolidate operations. A few shutdowns occurred among long-standing food processors in the Annapolis Valley region in 2016, while the economic drag of dwindling production continues at the province's two offshore gas fields. This mixture of results across the goods sector has held back employment from expanding, despite the supportive external conditions.

Any future job growth in manufacturing and supporting industries will be dependent not only on economic conditions and expansion into new markets, but also the outcome of trade agreement re-negotiations. At the present time, it appears likely that many Canadian provinces will face some form of a U.S. sanction, either countervailing duties or quotas, placed on exports of softwood lumber products into the U.S. market. While Nova Scotia appears less likely to have sanctions placed on its exports, given its track record of low government subsidization, the forestry and wood products sector remains at risk of being impacted in other ways, namely through an inflow of competitively-priced lumber entering from other provinces, as mills there respond to sanctions and changing market changes.

The strong year for residential investment in 2015 did not repeat itself in 2016, and the outlook for the coming years is for further weakening. Construction of multi-unit buildings in Halifax returned to more typical levels in 2016, following a surge in 2015, while single-dwelling construction appears to have picked up (though not enough to offset investment reductions in other areas). The housing market in Halifax has been slow over the past few years, seeing a bulk of unsold inventories and stagnant prices. This has been largely due to weak economic and labour market conditions, in addition to changes to mortgage financing rules and shifting demographics.

Population in the province expanded at its fastest pace in 25 years in 2016, seeing growth of 6,100 persons. This occurrence was largely due to increased international migration and, to a lesser extent, weaker net out-migration to other provinces (influenced by weak economic activity in western Canada). It was a record-setting year for both the number of immigrants (5,390) and non-permanent residents (2,795) arriving to Nova Scotia. Stronger population numbers are also expected over the next couple of years, influenced by greater allowances for international migrants under the Provincial Nominee Program and through a new immigration pilot project in Atlantic Canada. While more population is generally viewed in positive terms, the extent to which it will benefit the province's declining rural communities remains unknown, as the majority have resided in Halifax.

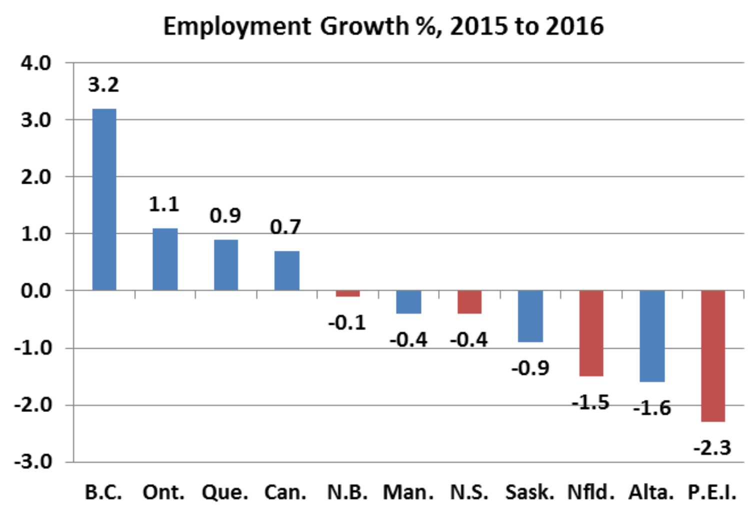
When all the variables affecting the economy are taken into consideration, as done by major forecasters, the consensus outlook suggests Nova Scotia's economy will see further, modest growth in real GDP during 2017 (+1.1%) and 2018 (+1.2%). This is also expected to create additional employment. Although, if the consensus for job growth holds true, at just 2,600 new jobs over two years, the number employed will still remain nearly 9,000 below its peak level seen in 2012.

LABOUR MARKET

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

Labour market conditions deteriorated somewhat in 2016, thanks in part to slumping commodity prices. Although the economy added around 130,000 jobs last year, more than 80,000 were in part-time employment. The increasing shift towards part-time gains intensified during the final months of the year. More generally, the average pace of job gains over the past two years is down sharply from the typical gains seen prior to the recession. In 2016, job losses in 2016 were concentrated in provinces that faced the greatest exposure to the slump in commodity prices earlier in the year, such as Alberta, Newfoundland and Saskatchewan. Otherwise, with the exception of British Columbia, job gains were relatively weak across the board in the other provinces. The unemployment rate, which has been stuck at around 7% for the past four years, was broadly unchanged in 2016 thanks to a bigger rise in the labour force. The participation rate, however, edged down in 2016 and has been on a well-established downward trend since the onset of the recession. Indeed, since 2008, the latter has fallen from 67.5% to 65.7% and is expected to fall further over the outlook period.

The majority of job gains in 2016 were concentrated among older workers (aged 55 plus), a trend which has been firmly in place since the recovery began in 2009. The increasing share of jobs going to those in the older age cohort, which might have a higher propensity to work fewer hours, could explain the shift towards part-time work. 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.



Source: Statistics Canada, Labour Force Survey

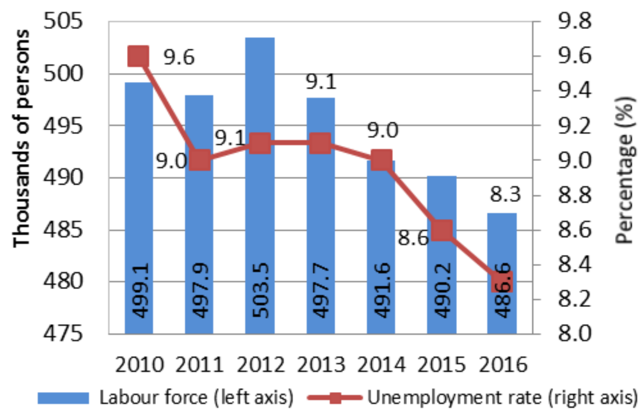
Nova Scotia: *Additional working-age population in 2016 could not reverse the trend of a shrinking labour force.*

The provincial labour force declined for the fourth consecutive year in 2016, bringing the total amount of losses to 17,000 persons since 2012. The decline in 2016 comes despite a record-setting year for international migration and an overall boost in the working-age population of 3,200. On the surface, the population growth seems encouraging, considering the demographic challenges facing the provincial workforce. However, the gain in population was largely limited to individuals aged 55 and over, who tend to have lower labour force attachment. The number of individuals aged 15 to 54, on the other hand, declined by 4,300 (-0.9%) in 2016, drawing almost equally on those in the labour force and those who are not.

At 8.3% in 2016, the provincial unemployment rate dipped to its lowest value since 2008. This change has been partly influenced by reductions in unemployment among youth (ages 15 to 24), who have seen a 3.7 percentage point drop in their rate of unemployment since 2012. This news, however, is not as positive as it may seem. The number of youth in the labour force has been decreasing, as well as the number employed, which has fallen by 3,600 since 2012.

Overall employment in Nova Scotia decreased in 2016 by 1,900, to just over 446,000 persons. This represents the lowest annual employment level since 2006. The employment loss in 2016 was concentrated in full-time positions, while some additional part-time positions were added (or in some cases, came as the result of reduced work hours).

Labour Force and Unemployment Rate, Nova Scotia, 2016



Source: Statistics Canada, Labour Force Survey

The trends at an industry level provide more insight into the changes occurring and the impacts. 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 and 2016 supported solid growth of 8.2%, adding 5,800 jobs since 2014. The industry group classified as Other services also saw its employment level expand in 2016, adding 2,300 jobs, mostly in the Repair and maintenance subsector. A more active manufacturing sector, requiring repair services for machinery and equipment, likely contributed to this growth, in addition to strong sales of automobiles in recent years. Several industries shed jobs during 2016 including Business, building and other support services (-2,800) and Construction (-800). Also, despite some evidence of an active tourism sector, employment in Accommodation and food services has fallen two years in a row, shedding 2,600 jobs (-8%) since 2014. Information, culture and recreation industry group has also seen its employment level decline in each of the last two years, shedding 2,900 jobs since 2014.

The province has experienced a significant decline in manufacturing employment over the last decade although the sector supported more jobs in 2016 than in the previous year. Forecasters have been expecting a rebound in Manufacturing associated with a strengthening global economy and low-valued Canadian dollar. Areas of growth in Manufacturing in Nova Scotia were tied to major industrial projects, such as the federal shipbuilding contract, and growth in Wood products and Food and beverage manufacturing. The latter industry has seen several recent announcements of openings and expansions of microbreweries and distilleries.

Wage growth slowed somewhat in Nova Scotia in 2016. Median hourly earnings grew by 2.4% for the year, which is slightly below the average annual rate over the past ten years of 3.0%. The wages of non-unionized workers have risen at a faster pace than have unionized workers' wages over this period of time. Wages for the youth component of the labour force and for females have shown the most improvement over the last 10 years. Every province in Canada saw lower-than-average median wage growth in 2016 than the past 10 year average. Saskatchewan saw the greatest increase of 3.5% in 2016 although lower than its 10 year average of 4%, and Newfoundland and Labrador was the only province to experience an actual decline in its overall median hourly wage rate in 2016 (-2.9%).

Economic Regions: *The Annapolis Valley and Halifax saw labour market improvements in 2016.*

Labour market performance has varied across the economic regions of Nova Scotia in past years and 2016 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 2006 to 2016 occurred in Cape Breton and the Southern region, with average annual rates of -1.4% and -1.0%, respectively. The only industry groups in Cape Breton that have seen annual average job gains over this period have been Professional, scientific and technical services (+5.8%), Healthcare and social assistance (+0.7%) and Information, culture and recreation (+0.1%). 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 the years since 2006 in Wholesale and retail trade (-1,700 jobs) Manufacturing (-1,700 jobs) and Forestry, fishing, mining, oil and gas (-1,100 jobs).

Economic Region	Number Employed			Average Annual Change (%), 2006-2016	Year-over-Year Change (%), 2015-2016
	2006	2015	2016		
Nova Scotia	441,100	448,100	446,200	0.1%	-0.4%
Cape Breton	55,100	49,800	48,000	-1.4%	-3.6%
North Shore	72,700	70,800	68,600	-0.6%	-3.1%
Annapolis Valley	55,500	54,200	55,400	0.0%	2.2%
Southern	52,900	49,300	48,000	-1.0%	-2.6%
Halifax	204,900	224,100	226,100	1.0%	0.9%

Source: Statistics Canada, Labour Force Survey

Employment in the Annapolis Valley economic region has also been trending downward, but in 2016, an additional 1,200 jobs were generated. The level of unemployment dropped slightly by 200 persons over the year, because of the employment increase. The job gains in the Annapolis Valley were mainly spread across Services-producing industries such as Wholesale and retail trade (+1,500) and Accommodation and food services (+500). An estimated 900 more Manufacturing jobs helped to lessen the overall employment decline in the Goods-producing sector, which dropped by 300 in 2016.

Halifax saw a gain in employment of 2,000 in 2016, which, at 0.9%, is slightly below the average annual growth rate of 1.0% seen since 2006. Due to the additional jobs, Halifax's annual unemployment rate decreased from 6.3% in 2015 to 6.1% in 2016. Although the working-age population rose by over 5,200 during the year, the actual labour force increased by just 1,600. Health care and social assistance and Educational services together added 3,200 jobs to the labour market in 2016 and helped boost overall employment in the Services-producing sector in Halifax by 1,700. The Goods-producing sector also showed a net job gain because of positive employment results in Construction and in the Natural resource sector.

The North Shore region saw the largest year-over-year labour market deterioration among the five economic regions in the province. It lost 2,200 jobs during the past year and all of them were full-time. An even larger labour force decline, reducing the number of job seekers, contributed to a modest drop in the unemployment rate to 8.9% in 2016, which is the lowest rate the region has seen since 2008. The Services-producing sector suffered the bulk of the employment decline as 1,800 jobs were lost in Accommodation and food services and 1,700 fewer workers were employed in Wholesale and retail trade. The Goods-producing sector saw its overall employment level expand, from job gains in Agriculture (+700), Construction (+500) and Forestry, fishing, mining, oil and gas (+100).

KEY CHALLENGES AFFECTING THE ATLANTIC REGION'S LABOUR MARKET

Demographic Challenge

The Atlantic Region is aging more rapidly than the rest of Canada. Coupled with out-migration, population aging is expected to negatively impact the labour market and public finances. As all members of the baby-boom cohort reach age 65, the aging phenomenon will accelerate in Atlantic Canada in the coming decades. Managing pensions and overall public finances will become more challenging with fewer workers and more retirees. In the Atlantic Region, the percentage of seniors living with low-incomes was 6% in 1996. Since then, the proportion has more than tripled to 21% in 2014. If this trend continues, as a higher percentage of the population move into the 65 years + age group, it could lead to higher spending commitments on the Old Age Security (OAS) and the Guaranteed Income Supplement (GIS).

With fertility rates remaining low and continued losses with respect to interprovincial migration, projected international migratory increase would be the main driver of population growth in the Region. Immigration to Atlantic Canada has risen in recent times due to the expanded use of Provincial Nominee Programs and this trend is expected to continue in the years ahead. The Atlantic Provinces Economic Council (APEC) estimates that the total number of provincial nominees in Atlantic Canada could reach 10,600 annually, if the provinces fully use their existing federal allotments.

Trade Uncertainty

International exports represent an important source of revenue to the Atlantic Region, valued at nearly $28 billion in 2015. A number of industries in the region have managed to benefit in recent years from favourable export conditions, namely a lower Canadian dollar and the strengthening economies of key trading partners. Despite this, the Region has seen a 25% drop in the value of international exports in the past two years, primarily due to a large, prolonged decline in commodity prices and reduced production in natural resource and energy industries. The impact on the Region has been most severe in Newfoundland and Labrador and New Brunswick. Furthermore, recent geopolitical events and a growing protectionist sentiment have heightened concerns around international relations and trade stability. Important trade agreements for Canada and the Atlantic Region, such as NAFTA, APTA and the Softwood Lumber Agreement, face uncertain futures, and many Canadian industries stand poised for possible trade barriers (tariffs) to enter the U.S. market. These risk factors, along with a weak outlook for commodity prices, are inevitably impacting businesses as they make investment and hiring decisions.

The implications for the labour market are potentially large, considering roughly 1 in 6 jobs across the country are tied to exports, either directly and indirectly. This issue could pose a higher risk to small communities in Atlantic Canada considering a greater portion of workers, at roughly twice the incidence compared to urban centres, are employed in export-oriented industries (e.g., agriculture, manufacturing). Employers adversely affected by dramatic changes to terms of trade could be forced to adjust their workforce and operations.

Rural-Urban Divide

Atlantic Canada has one of the most rural populations in the industrialized world, and the Region's weaker economic and labour market outcomes compared to the rest of Canada, are largely due to the poorer performances seen in the rural areas. Employment in the core population centres in Atlantic Canada expanded by 41,200 jobs between 2011 and 2016. In comparison, employment in the small population centres and rural areas declined by a similar amount (41,300 jobs) over the same period. While there are no significant gaps in performances between Atlantic Canada population centres and the rest of the country, there exists a wider prosperity gap between rural Atlantic Canada and rural areas in the rest of the country. For example, in 2016, the unemployment rate in rural Atlantic Canada was 14.4% compared to 7.6% for rural areas in the rest of the country. These diverging trends reflect the concentration of export-oriented primary and resource-related manufacturing job losses in rural communities. Furthermore, chronic out-migration of the younger segments of the population is changing the composition of the labour force in rural Atlantic Canada and exerting further pressures on the pool of available labour in these areas. Recent suggestions by the Economic Advisory Council points to demographic groups such as indigenous people, lower income earners, women with young children and Canadians aged 55 to 69 years old as untapped resources that could augment the pool of available labour should the government find ways to get more of them into the job market.

Fiscal Challenges

Rising provincial government debt levels continue to pose a range of challenges to the Atlantic Region. In 2015/16, the net debt-to-GDP ratio across the Atlantic Provinces was 39.8%, which was up significantly from 30.7% in 2011/12. This means that rising shares of provincial government revenues are going towards servicing the debt, potentially at the expense of programs and services. With the exception of Newfoundland and Labrador, provincial governments across the region have made some progress towards lowering their respective deficits and returning to balance. The result of these lower deficits, however, is that households and businesses across the region are now carrying a higher tax burden. In addition to having the highest sales tax rate in the country, the Atlantic Provinces also have the highest corporate and personal income taxes. Personal income taxes across the region are most strikingly high in New Brunswick and Nova Scotia. More generally, the labour market implications of higher income taxes are that it is increasingly difficult for employers in the region to attract and retain workers. This makes addressing certain labour shortages challenging, particularly in some higher-skill and better paid occupations. High corporate income taxes relative to the rest of the country also makes it challenging to attract investment and employment in the region.

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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