Environmental Scan

Newfoundland and Labrador

Spring 2015

KEY HIGHLIGHTS

- Global uncertainty increases due to falling oil prices

- US economy bright spot on the world stage

- Canada negatively impacted by falling oil prices but should benefit from US economic recovery

- Canadian economic performance expected to weaken for oil dependent areas, strengthen in Central Canada and slowly recover in the Eastern provinces

- Newfoundland and Labrador economy and labour market are expected to slow over the next few years, as low oil prices translate to public sector restraint, and major projects move past the peak construction phase.

- The St. John's area has grown considerably over the past ten years and has the province's lowest unemployment rate.

- Newfoundland and Labrador faces notable demographic challenges, with an aging population, and not enough young workers to replace them. Immigration has been one source of growth but results to date are not sufficient to meet the needs. Potentially large migration flows back from areas such as Alberta may also offset the challenge of an aging population. Rural areas are aging faster and their population is decreasing faster than urban areas.

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 the 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 global 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 3.5% this year and next, relying heavily on a strengthened US economy.

United States

As Canada's largest trading partner, the performance and outlook for the US economy are key factors in assessing current and expected Canadian economic activity. The US economy has shown signs of strengthening as of late, and growth is expected to accelerate to three percent in 2015, a considerable improvement from 2014 and high for the last decade. The US 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. The number of rigs has declined as companies cut capital spending. Those who produce oil through technologies such as fracking have slowed, as a relatively high price of oil is needed to make this expensive extraction process profitable. However, the drop in the price of oil for domestic consumption has been compared to a very large tax cut for US residents, and should work to strengthen consumer spending and domestic demand. The low price of oil is also anticipated to lower costs for US producers of goods, and should further improve balance sheets as the economy accelerates. A strengthened US dollar has made imports cheaper. With a forecasted improvement in housing markets in the US, the demand for imports related to construction should be a particularly lucrative area for filling US industry demand. However, the strong dollar has also made US exports more expensive around the world at a time when the economies of many key trading partners are struggling.

Canada

The most significant factor that is currently influencing the national economy is the slide 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 will 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 itinerant 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 will mean that there will be deeper restraint ahead, particularly for oil-producing provinces.

Although, as in the US, 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 will tend to 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 dues 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 leading world currencies, particularly the US dollar. The lower value of the Canadian dollar should work to increase Canadian exports over this year and next, particularly to the expanding US 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.

Newfoundland and Labrador

Gross Domestic Product (GDP) growth has been volatile in recent years in Newfoundland and Labrador. In the past six years it ranked third or better among all provinces three times, while it ranked last for the other three years. This has been primarily due to the price of oil as well as oil production. In recent years, some major oil developments experienced cuts in production due to repairs and scheduled maintenance that would keep a project offline for a number of months.

Oil royalties play a significant role in provincial government revenues, typically representing over thirty percent of every dollar the provincial government takes in. In a period where oil prices have fallen substantially, this has resulted in a negative impact on the provincial government's fiscal position.

Growth in Mining and oil & gas has contributed to the province's strong standing in wage growth over the past seven years. Wage growth in construction has also been a key factor, as employers have competed with other provinces, particularly in Western Canada to attract and retain skilled labour to work on major projects. In the past three years, average weekly earnings for Newfoundland and Labrador workers were ranked second among provinces, only behind Alberta.

One of the biggest challenges to the Newfoundland and Labrador economy is the changing demographics of the region. A relatively low birth rate, as well as relatively low levels of immigration into the province and net outflows of youth to other provinces has resulted in an aging population that is among the oldest in Canada. In addition, rural parts of the province are older and aging faster than urban areas. The aging population is seen as a challenge to providing necessary labour input for developments in the province, and may constrict economic activity in general.

After a strong period of growth between 2008 and 2012, residential housing starts have fallen considerably in the past two years as demand for new housing has been met by strong building activity over a sustained period. In addition, population growth and the labour market have both slowed, contributing to fewer housing starts. In 2014, housing starts were down by 26% from a year earlier. Moving forward, housing starts may experience a small decline over the next couple of years but should remain fairly stable compared to the drop of the past two years.

A positive aspect of a lower Canadian dollar should be an increase in exports from the province, particularly to the US. This is expected to aid export intensive industries such as those that sell fish products. The low value of the dollar should also provide a boost in Tourism related industries in the province from the United States.

LABOUR MARKET

Canada

The Canadian labour market has been sluggish in the most recent year, and is expected to remain weak in 2015. Employment grew by less than one percent in 2014, one of the lowest rates of growth in the last two decades. Reflecting a cooling of the economy in the face of falling oil prices, the rate of unemployment is expected to remain at approximately 7 percent in the near term, with only a minor improvement expected by 2016. In the face of slow employment growth, further increases in the unemployment rate have been tempered by a reduction of the labour force nationally. This is due to an aging population and discouraged workers dropping out of the labour force in the face of diminished job opportunities.

From a provincial perspective, the labour markets in the provinces most dependent on oil and energy production, particularly Alberta, Newfoundland and Labrador and Saskatchewan are expected to continue to cool over the short term. More positive labour markets are anticipated for Ontario, British Columbia, Quebec and Manitoba, in part due to the low value of the dollar and increased export strength. A more modest recovery is expected for the Atlantic Provinces, with labour markets gradually strengthening as economic growth recovers. A key factor which is unseen at this time is the impact of labour flows back to the Atlantic economies as “fly in-fly out” workers migrate back from once vibrant resource economies that have been negatively impacted by the continued low price of oil. This may have a major impact on the supply of labour in Atlantic labour markets.

Newfoundland and Labrador

Newfoundland and Labrador’s labour market has recently declined from record-high labour force and employment levels, producing losses of 4,100 jobs in 2014. This was concentrated in full-time employment, as part-time employment actually produced a small gain. The working age population showed notable growth between 2008 and 2012, but slowed in 2013 and had a small decline in 2014. The province’s labour market has cooled relative to recent years and is expected to show a slight decline over the next couple of years. Low prices for commodities such as oil and iron ore are having a negative effect on the provincial economy.

The mining industry has been hit hard over the past year, particularly in Labrador West. Wabush Mines ceased operations in February of 2014, resulting in the loss of approximately 500 jobs. Recently the Iron Ore Company of Canada’s operations in Labrador City announced a cut of 150 jobs from its workforce as it struggles to remain viable in a world market dealing with low prices. The downward trend is expected to continue. As these were the two major employers in Labrador West, the impact is spreading to other businesses in the area. In addition, the development of Alderon Iron Ore’s Kami project in Labrador West has been held up as the company faces difficulty obtaining the necessary financing due to low iron ore prices. The initial goal was to start production by the end of 2015, but construction has not started yet.

While current oil projects such as Hibernia, Terra Nova and White Rose continue production, activity concerning expansionary work has slowed. For example, Husky Energy has deferred its investment decision concerning the West White Rose Expansion. First production of oil had been anticipated to occur in 2017.

Construction employment was at a near record high in 2014, as major projects such as the Muskrat Falls Hydroelectric Project and Hebron Oil Project continue to be constructed. However, employment related to these projects should slow over the next couple of years as they are scheduled to be completed over this period. Housing starts declined in 2014 and are expected to trend lower over the next few years as well.

Manufacturing has provided mixed results in recent years. Employment in the manufacturing of durable goods has increased, mainly due to major projects in Oil & gas, Mining and Hydroelectricity. However, the number of jobs in non-durable Manufacturing has steadily declined over the past decade. The main component of non-durable Manufacturing in the province is fish plants. That industry has faced notable challenges such overcapacity, competition from overseas competitors, changing market tastes, and quota cuts for species such as shrimp.

Employment in the Fishery has steadily weakened over the past decade, as shrimp and crab have both experienced a sustained period of decline. Cod has not returned to be a major player in the industry as it was prior to the moratorium over twenty years ago.

An aging population is expected to keep the demand for Health care services high in the province. Employment in Health care has grown steadily over the past decade before retreating slightly in 2014. This industry is expected to be a major source of employment over the next few years. However, employment growth in Health care will continue to be challenged by restraints on fiscal spending, as governments deal with a tightening of budgets in response to falling revenue.

Employment in Education is affected by a couple of key forces - demographic change and fiscal restraint. A large component of employment in Education is in the primary and secondary school system. This industry has been challenged due to declining enrolments in the face of an aging and slowly growing population, and restrained public budgets. Recently the provincial government announced a cut of 150 positions in Education, and has since announced a wider plan for reducing costs that includes the school boards, health authorities and core public service. The university and other post-secondary institutions are also under pressure from changing demographics and fiscal restraint.

The labour market is expected to experience a slow decline over the next couple of years in employment and labour force size. As a result, the unemployment rate is expected to remain near twelve percent. If the anticipated flow of labour back from the western regions is greater than expected, and the economy weakens more than anticipated in the province, upward pressure may be exerted on the level of unemployment in the province in the short term.

Economic Regions

The labour market performance of the economic regions in Newfoundland and Labrador varies widely. Essentially, the labour market performance of the Avalon Peninsula has been positive, while the labour markets of the remaining regions have been challenged. The Avalon Peninsula's better labour market performance is mainly because it is home to the St. John's Census Metropolitan Area (CMA), which represents over 80% of the economic region's labour force and had an unemployment rate of 6.0% in 2014. The working age population of the Avalon Peninsula has continued to expand while the other economic regions experience a consistent decline. The South Coast - Burin Peninsula region had the greatest decrease between 2004 and 2014, with a population decline of 11%. The population decrease was less notable in the West Coast - Northern Peninsula – Labrador region and the Notre Dame - Central – Bonavista Bay region over the same time period.

Working Age Population 15+ (000's) by Economic Region
2004-2014

	2004	2014	Change	% Change
Newfoundland and Labrador	**427.4**	**443.9**	**16.5**	**3.9%**
Avalon Peninsula	207.9	231.9	24.0	11.5%
South Coast - Burin Peninsula	34.7	30.9	-3.8	-11.0%
West Coast - Northern Peninsula - Labrador	88.9	87.8	-1.1	-1.2%
Notre Dame - Central - Bonavista Bay	96.0	93.2	-2.8	-2.9%

Source: Statistics Canada, Labour Force Survey

The labour force mirrors the working age population for the regions within the province. The Avalon Peninsula's labour force has increased by 24,000 people between 2004 and 2014, with this growth being attributed to the St. John's CMA. The South Coast – Burin Peninsula dropped by 3,100, a 16% decline. The West Coast - Northern Peninsula – Labrador region (down by 900) and the Notre Dame - Central – Bonavista Bay region (down 1,800) showed smaller declines over the past decade. Employment has followed a similar pattern, with the Avalon Peninsula representing most of the province's employment growth over the past ten years, increasing by 26,300 jobs (a 23% gain). The West Coast - Northern Peninsula – Labrador region showed a gain of 2,300 jobs over the decade, a 5.5% increase. The South Coast – Burin Peninsula had the sharpest decrease, losing 1,900 jobs (a 12% drop) between 2004 and 2014. The deterioration in employment for the Notre Dame – Central – Bonavista Bay region has been much more gradual, losing 1,300 jobs or 3.1% over a ten-year span.

Employment (000's) by Economic Region
2004-2014

	2004	2014	Change	% Change
Newfoundland and Labrador	**213.2**	**238.6**	**25.4**	**11.9%**
Avalon Peninsula	113.8	140.1	26.3	23.1%
South Coast - Burin Peninsula	15.7	13.8	-1.9	-12.1%
West Coast - Northern Peninsula - Labrador	42.1	44.4	2.3	5.5%
Notre Dame - Central - Bonavista Bay	41.6	40.3	-1.3	-3.1%

Source: Statistics Canada, Labour Force Survey

Of note, the growth experienced in the Avalon Peninsula has cooled off over the past two years, after growing significantly between 2010 and 2012. In fact, the past two years have shown small decreases in labour force and employment size, remaining historically high but off the peak reached in 2012.

The Avalon Peninsula is the only economic region in the province with a lower unemployment rate than the province overall (8.2% vs 11.9%). While the South Coast – Burin Peninsula's unemployment rate improved by 3.3 percentage points between 2004 and 2014, this was mainly due to a decline in the size of the labour force. The region's unemployment in 2014 remained relatively high at 17.4%. The Notre Dame – Central – Bonavista Bay region's unemployment rate in 2014 was 19.4%, very close to the rate in 2004. Labour force and employment size both had similar declines, causing the unemployment rate to remain stable. The West Coast – Northern Peninsula – Labrador region experienced a drop from 20% to 14% between 2004 and 2014. Employment levels increased slightly while the labour force showed a small decline.

CLIENT OUTLOOK

Newcomers

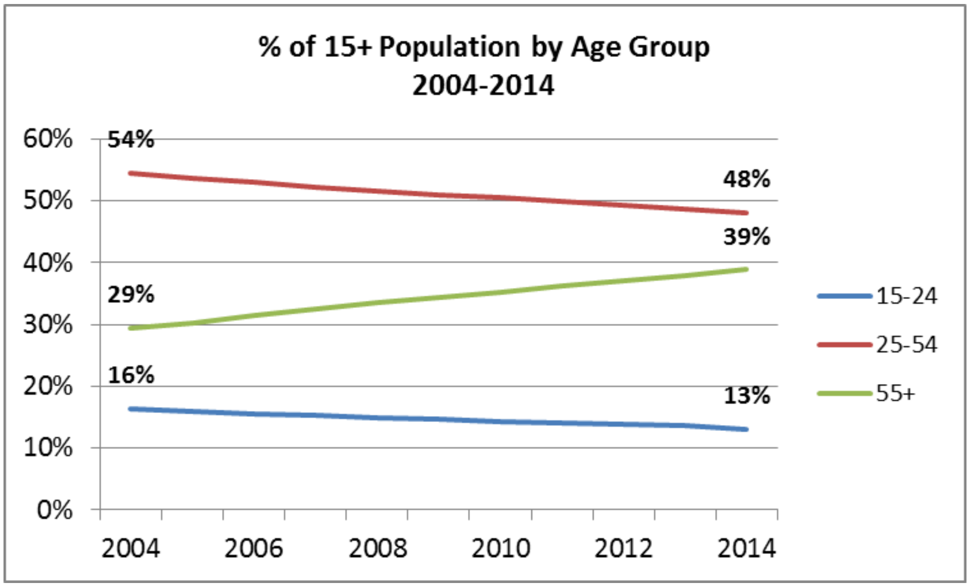
In the wake of weakening population growth which reflects to a large degree an aging demographic, considerable interest has emerged regarding increasing immigration into the province. Unfortunately, Newfoundland and Labrador tends to receive a relatively low share of immigrants, with the province accounting for 1.5% of the overall population in the country but only accounting for 0.1% of immigrants. Not only does the province receive a smaller share of immigrants, but it tends to retain them at a lower rate than other provinces. Since immigrants tend to be better educated and younger than the resident population, this represents a significant loss in human capital. The Provincial Government has placed increased emphasis on immigration as one way to address population decline and labour market needs as people move out of the workforce into retirement. This would involve steps to providing a better environment that would increase the attraction and retention of newcomers to Newfoundland and Labrador.

The Aboriginal Community

Newfoundland and Labrador has a significant aboriginal population with over 35,000 aboriginals estimated in the province in 2011, and growing faster than the overall population. The aboriginal population in the province holds promise as it is a relatively young population with a median age of 33.6 versus 44.0 for all groups in the province. However, the aboriginal population is challenged with lower than average rates of education and higher unemployment rates. Overcoming these challenges will help aboriginals to take on an increasing role in the labour market and help offset key challenges faced by the provincial labour market.

Older Workforce

The workforce of Newfoundland and Labrador is aging fairly rapidly, with expansion evident for those aged 55+ in the province and a decline in the younger labour market age groups. Over a ten year period, from 2004 to 2014, the proportion of the population in the 55+ age bracket grew from 29% to 39%, while the share of those employed who were 55+ rose from 13% to 20% over the same period. This aging of the workforce reflects not only a slowing birthrate, but also strong levels of outflow of migrants from the province who tend to be in the younger age categories.



The Disabled

A significant share of the provincial population is disabled, although this group tends to be older. According to the 2012 Canadian Survey on Disability, 59,300 (14.1%) of people aged 15 years or older in Newfoundland and Labrador had a disability. The average age of the disabled population is higher than the average age of the general population. Of those 15 years and older in Canada, 38% of those with a disability were aged 65 or older, compared to only 12% of those without a disability. Incidence and severity of disability rises substantially with age, so increasing disability rates and their effect on the labour market is a natural result of an aging population overall. The disabled face multiple challenges when participating in the labour market, including inaccessible workplaces and modes of transportation, discrimination, and a loss of additional supports as a result of becoming employed. The most common barrier to employment was a partial or total inability to work due to the physical limitations of the disability.

Youth

The 15-24 year old youth population in the province is shrinking, falling by 16.6% between 2004 and 2014. However, labour market conditions for youth have improved over this period: the labour force participation rate and employment rate have increased for youth while the unemployment rate has declined over time. Youth employment prospects in Newfoundland and Labrador are challenged. Labour market results have differed by gender for this age group. Male youth experienced an unemployment rate of 20.1% in 2014, as opposed to 12.5% for female youth. Employment levels for male youth declined by 7.4% over this past decade, while females in the age group had an increase in employment of 4.1%. In addition, employment among female youth was evenly split between full-time and part-time work over the past decade, while approximately two-thirds of employment among male youth has been full-time in nature. A further challenge is an increasing concentration of the youth workforce in the service sector (i.e. food and beverage industries) with low wages and high levels of job turnover. Out migration of youth is also a continuing problem for the province. Over the past decade, there has been a net-migration of over 15,000 youth to other provinces.

***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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