Environmental Scan

Newfoundland and Labrador

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.

Newfoundland and Labrador's economy and labour market are expected to slow over the next few years, as low oil prices translate to public sector restraint, and construction of major projects winds down.

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. Rural areas are aging faster and their population is decreasing faster than urban areas.

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].

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[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 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

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

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.

Newfoundland and Labrador: *Economic activity cooling down for the next few years*

The province experienced mixed economic performance in 2015. Capital spending was near record levels as major projects such as the Muskrat Falls Hydroelectric Development and Hebron Oil Project continued. In addition, consumer spending was strong with retail trade approaching $9 billion in 2015. However, real gross domestic product (GDP) growth declined in 2015 by an estimated 2.6%. This is the second straight year with a decrease in real GDP.

Much of the recent decline in real GDP relates to a considerable drop in the price of oil and minerals, which are among the province's main exports. Beyond the lower price for oil, production of this commodity declined for the second straight year to levels that were twenty-five percent lower than two years earlier. These two factors combined to drive oil royalties to the province lower.

Oil royalties play a significant role in provincial government revenues. In recent years these royalties have typically represented over thirty percent of every dollar the provincial government has taken in. Falling oil prices and production have resulted in a negative impact on the provincial government's fiscal position. A lower than expected price of oil was the main contributor in raising the provincial government's budgeted deficit for 2015/16 from $1.1 billion in the spring of 2015 to more than $1.9 billion by the end of 2015.

According to the provincial government, real GDP is forecast to increase by 0.9% in 2016, due to higher oil and mining output. However, major construction projects are expected to wind down as they near completion. This will reduce employment levels. In 2017 and 2018, capital investment will decrease significantly. This will have a negative effect on most major economic indicators such as real GDP, employment, housing starts and retail sales.

[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*

In addition, low oil prices will continue to dampen activity in the Alberta Oil Sands, which has a direct impact on workers from Newfoundland and Labrador who would typically commute to Alberta to work. Beyond the direct income reduction, businesses that rely on income from Alberta work will also experience negative effects.

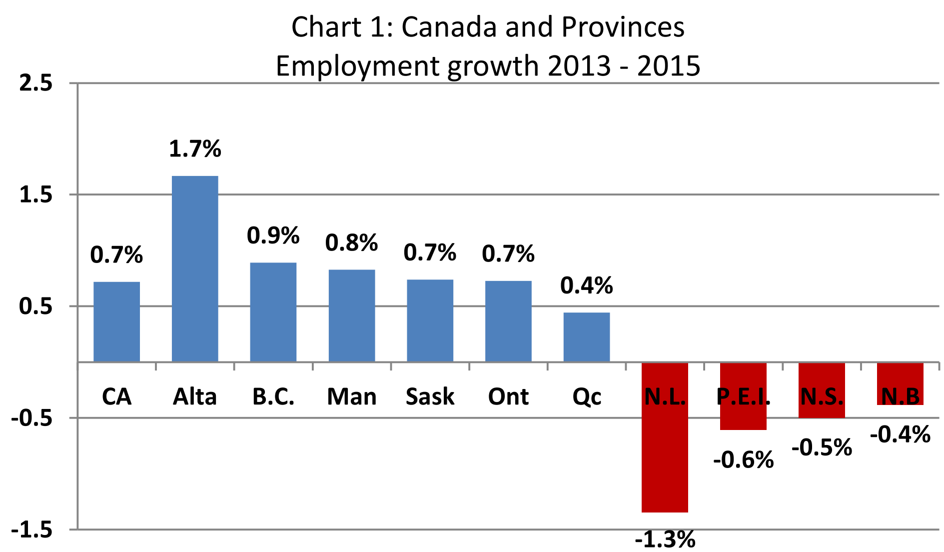
One of the biggest challenges facing the Newfoundland and Labrador economy is the changing demographics of the region. A relatively low birth rate, as well as relatively low levels of immigration into the province and net outflows of youth to other provinces has resulted in an aging population that is 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.

A positive aspect of a lower Canadian dollar has been an increase in exports from the province, particularly to the United States. This has benefitted export intensive industries such as the fishery. The low value of the dollar is also a benefit to Tourism related industries in the province.

LABOUR MARKET CONDITIONS

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.



Source: Calculated from Statistics Canada, Labour Force Survey Estimates

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 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[5].

Newfoundland and Labrador: *Employment levels will decline for the next few years as major construction projects are completed*

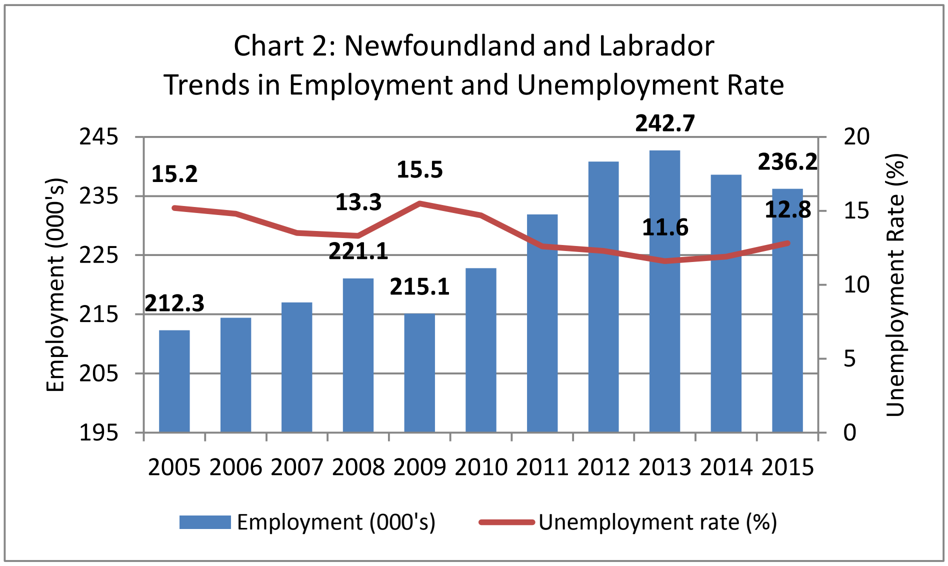
Labour market conditions in Newfoundland and Labrador have been showing signs of weakness over the last two years. In 2015, the unemployment rate increased for the second year in a row after reaching a record low of 11.6% in 2013. This has been mainly due to a drop in employment levels which declined twice as fast as the labour force. Despite the increase in the unemployment rate, it should be noted that 2015 had the fifth-lowest rate on record. The province’s participation rate reached a record high in 2012 of 62.0%. This has declined slightly as labour market optimism has decreased. The size of the labour force has declined by 3,700 people since reaching record highs in 2012 and 2013.

Between 2013 and 2015, the size of the labour force for those aged 25 to 54 years declined by 6,400 or 3.5%. On the other hand, the youth (aged 15-24 years) labour force increased by 600 or 1.7%, while the gain was notably larger for those aged 55 years or older (2,100 or 3.7%). Employment showed the same trend with a notable loss of 8,000 or 4.8% for those aged 25 to 54 years. Small gains were made for older and younger age groups.

Most of the employment decline since 2013 has been in service-producing industries (-5,000 jobs), though the smaller goods-producing sector has declined at a similar rate (-2.7% for goods compared to -2.9% for services). In the services-producing industries, most of the decline has been in Public Administration (-3,600), Educational services (-3,000), and Health care and social assistance (-1,800). However, Retail trade increased by 4,200 jobs while Professional, scientific and technical services gained 1,900 jobs. Both industries reached new highs in 2015.

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

In the goods-producing sector, the employment decline since 2013 has been mainly in Mining, quarrying, and oil and gas extraction (down 1,600 jobs).



Source: Statistics Canada, Labour Force Survey Estimates

The province's labour market is expected to cool further 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 couple of years, 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 shut down three of its six pellet plants in light of low commodity prices. In addition the company's Wabush 3 project has been delayed. The company struggles to remain viable in a world market dealing with low prices. As these were the two major employers in Labrador West, the impact is spreading to other businesses in the area. In addition, hope continues to fade for Alderon's proposed Kami iron ore project in the area.

While current oil projects such as Hibernia, Terra Nova and White Rose continue operations and Hebron will start production in a couple of years, activity concerning expansionary work in the oil industry has slowed and some layoffs have occurred in cost-cutting moves. Suppliers to the industry have experienced additional cost pressures and have been forced to cut costs and innovate to remain competitive. 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 in 2015 was very close to the record high established in 2013, as major projects such as the Muskrat Falls Hydroelectric Project and Hebron Oil Project continue to be built. 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 2015 and are expected to trend lower over the next few years as well.

An aging population is expected to keep the demand for Health care services high in the province. Employment in Health care has trended upwards over the past decade and remains high from a historical perspective despite a decline from its peak in 2013. 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.

The Regional Occupational Outlooks in Canada (ROOC) forecast, produced by Service Canada, anticipates a decline in employment over the 2015-2017 forecast period. Most of the job losses over this period are expected to be in Construction, Transportation and warehousing, Educational services and Fabricated metal product manufacturing.

Economic Regions

The labour market performance of the economic regions in Newfoundland and Labrador varies widely. The labour market performance of the Avalon Peninsula has been generally positive, while the labour markets of the other regions have struggled in comparison. 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 6.5% in 2015. The working age population of the Avalon Peninsula has continued to expand while the other economic regions have been experiencing consistent declines. The South Coast-Burin Peninsula and Notre Dame-Central Bonavista Bay economic region had the greatest decrease between 2005 and 2015, with a decline of 5% in the working age population. The decrease was less notable (-1.6%) in the West Coast-Northern Peninsula-Labrador region.

Working Age Population 15+ (000's) by Economic Region
2005-2015

	2005	2015	Change	% Change
Newfoundland and Labrador	**426.9**	**442.9**	**16.0**	**3.7%**
Avalon Peninsula	209.0	232.8	23.8	11.4%
South Coast-Burin Peninsula and Notre Dame-Central Bonavista Bay	129.2	122.8	-6.4	-5.0%
West Coast-Northern Peninsula-Labrador	88.7	87.3	-1.4	-1.6%

Source: Statistics Canada, Labour Force Survey

Changes in labour force size mirror the change in the working age population for the economic regions within the province. The Avalon Peninsula's labour force has increased by 23,000 people (+17.8%) between 2005 and 2015, with this growth being attributed to the St. John's Census Metropolitan Area (CMA). The South Coast-Burin Peninsula and Notre Dame-Central Bonavista Bay region dropped by 1,700, or 2.5%, while the West Coast-Northern Peninsula-Labrador region showed a smaller reduction in labour force size (-900 or -1.7%) 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 24,800 jobs (a 21.8% gain). The South Coast-Burin Peninsula and Notre Dame-Central Bonavista Bay region had the same number of jobs in 2015 as it did ten years prior. The West Coast-Northern Peninsula-Labrador region had the sharpest decrease, losing 1,000 jobs (a 2.3% drop) between 2005 and 2015.

Employment (000's) by Economic Region
2005-2015

	2005	2015	Change	% Change
Newfoundland and Labrador	**212.3**	**236.2**	**23.9**	**11.3%**
Avalon Peninsula	114.0	138.8	24.8	21.8%
South Coast-Burin Peninsula and Notre Dame-Central Bonavista Bay	55.2	55.2	0.0	0.0%
West Coast-Northern Peninsula-Labrador	43.2	42.2	-1.0	-2.3%

Source: Statistics Canada, Labour Force Survey

Of note, the growth experienced in the Avalon Peninsula has cooled off over the past three years, after growing significantly between 2010 and 2012. In fact, the past three 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 (8.9% vs 12.8% in 2015). While the unemployment rate in the South Coast-Burin Peninsula and Notre Dame-Central Bonavista Bay region improved by 3.3 percentage points between 2005 and 2015, it remained high at 18.0% in 2015. The labour force declined by 1,700 people but employment was the same as 2005 levels. The unemployment rate for West Coast-Northern Peninsula-Labrador region in 2015 was the same as ten years earlier, at 17.6%. Employment levels and labour force size both displayed small decreases over this time period.

LABOUR MARKET OUTCOMES – CLIENT SEGMENTS

Immigrants/Newcomers

In the wake of weakening population growth which reflects to a large degree an aging demographic, there has been considerable interest in increasing immigration into the province. 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[6]. 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.

There were 4,700 landed immigrants in the province's labour force in 2015, representing about 1.7% of the total labour force in the province. Participation in the labour force was quite similar between immigrants compared to their Canadian born counterparts. For example, the participation rate for all landed immigrants was 61.8% in 2015, and was 61.2% for those born in Canada. There were significant differences in the labour

[6] Statistics Canada, 2011 National Household Survey (NHS)

market performances between those who landed earlier than 10 years or less and immigrants who landed more than 10 years earlier. Participation in the labour force was considerably lower for those landing more than 10 years ago (56.1% for those landing more than 10 years earlier compared to 73.7% for less than 10 years). However, this is likely due to the age composition of the two groups, with older age groups typically having lower participation regardless of immigrant status. When those aged 25 to 54 years are compared, labour market performance was quite similar, regardless of immigrant status or how long ago they landed in Canada.

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 years 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 years and older in the province and a decline in the younger labour market age groups. Over a ten year period, from 2005 to 2015, the population aged 15 years and older increased by 16,000 (+3.7%). The population under the age of 55 declined by 30,600 (-10.3%) while those aged 55 and older increased by 46,700 (+36.1%). 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. Given the demographic challenges facing the province, reducing the labour market barriers for older workers will be crucial in maximizing the available pool of labour in the province. In 2015, only 32.8% of those aged 55 and older participated in the labour market. This reduces to 10.0% for those 65 years and older.

Youth

The 15-24 year old youth population in the province is shrinking, falling by 17.6% between 2005 and 2015. However, labour market conditions for youth have improved over this period. The labour force participation rate and employment rate have increased to new highs for youth while the unemployment rate has declined to a record low for the past three years. However, youth employment prospects in Newfoundland and Labrador are relatively challenging. It should be noted that this low unemployment rate for youth was still notably higher than the rate for the entire labour force (16.3% for youth versus 12.8% for those 15 years and older). Labour market results have differed by gender for this age group. Employment levels for male youth declined by 3.5% over this past decade, while females in the age group had an increase in employment of 16.6%. Male youth experienced an unemployment rate of 21.7% in 2015, as opposed to 11.5% for female youth. In addition, employment among female youth in 2015 was evenly split between full-time and part-time work, while approximately two-thirds of employment among male youth has been full-time in nature. A further challenge is a higher than average concentration of the youth workforce in the service sector (i.e. food and beverage industries and retail trade) with low wages and high levels of job turnover. Out-migration of youth is also a continuing problem for the province. Over the past ten years, there has been a net-migration of over 13,000 youth to other provinces.

Persons with Disabilities

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 population with a disability 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. Those with a disability 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.

The labour market outcomes for persons with disabilities (PWDs) are significantly weaker than the outcomes for the population without a disability. When factoring the age composition of both groups[7], the labour force participation rate of PWDs was 50.0% in the province in 2012, compared to 75.1% for those without a disability. Also, the age standardized unemployment rate for PWDs was more than three percentage points higher than for those without a disability (17.2% versus 14.0%).

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[7] When comparing characteristics of populations who have different age compositions (for example, persons with disabilities tend to be older than persons without disabilities), using an age standardization method allows making more meaningful comparisons between the populations by adjusting differences in the age distributions. In the Canadian Survey on Disability (CSD), age standardization is usually used by adjusting the age distribution in order to match to the age composition of the Canadian population, using the following age groups: ages 15 to 24, 25 to 34, 35 to 44, 45 to 54, and 55 to 64.