



Environmental Scan

New Brunswick

Spring 2015



HIGHLIGHTS

- Global uncertainty is prevalent following the drop in oil prices.
- The US economy is a bright spot on the international stage.
- Declining oil prices are detrimental to Canada, but the country is projected to benefit from the US economy's recovery.
- Canadian regions whose economies depend on oil are expected to be hit hard by low oil prices, while the economy should be stronger in the centre of the country and slowly recover in the eastern provinces.
- The low Canadian dollar should enable the province's exporters to be more competitive, and the recovery in the US will help boost exports. This should generate growth in New Brunswick's labour market.
- The province's labour market is expected to improve slightly in 2015, and this growth is expected to continue and become somewhat stronger in 2016, without causing a significant decline in the unemployment rate.
- Regions containing the urban centres of Moncton, Fredericton, and Saint John continue to show positive growth, while the more rural and northern regions of the province experience more difficulties.
- New Brunswick continues to face significant demographic challenges. Migration to Alberta remains a concern, especially because of the exodus of young people, which contributes to the aging of the population. It remains to be seen if the recent drop in oil prices will help curb this trend.

GENERAL OVERVIEW/ECONOMIC CONTEXT

Global Environment

The global economic environment is currently experiencing a high degree of uncertainty, with a number of major developments affecting the global economy. The relatively rapid decrease in the price of oil, falling from over \$100 a barrel to \$45 currently, has had an unsettling impact on key oil producing countries, including particularly Russia and a number of developing nations including 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 a 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.

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 over 3 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 divergent ways. As a large and growing oil producer through technologies such as fracking, there is expected to be a weakening of the energy sector as a relatively high price of oil is needed to make this expensive extraction process profitable. On the other hand, 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 that have been regaining health as the economy accelerates. US producers are also benefitting from the continued strength of the US dollar, which lowers the price for imports, but has an offsetting impact on domestic demand and US export activity. 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.

Canada

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

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

energy projects are major employers of labour and absorb large quantities of interprovincial workers in the country.

Government spending is expected to be weak over the next couple of years. Both federal and provincial governments were already exercising fiscal restraint prior to the decline in oil prices. Since the decline, there has been a further negative impact on government revenue. This could mean that there will be deeper restraint ahead, particularly for oil-producing provinces.

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

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

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

New Brunswick

New Brunswick's economy has been in a turbulent period for some time. However, the economic outlook seems to be improving somewhat after a weak 2014 in terms of gross domestic product (GDP) growth. Investments in the forestry sector and increased potash production will result in improvement in the labour market, which will in turn lead to economic growth.

With economic growth on the rise in the United States, the manufacturing sector in the province is expected to grow. New Brunswick exporters will benefit from the relatively weak Canadian dollar, which ensures that exports will be more competitive. The surge in housing starts in the United States will help increase exports of forest products and gypsum in particular.

The food-processing sector, especially the seafood business, should have benefitted from the growth in the US, but concerns were raised by the province's producers, who turned to temporary foreign workers. Changes to the Temporary Foreign Worker Program might cause labour shortages and hinder production.

Investments were made to increase the production capacity of blueberries and cranberries, which will translate into profits in the medium term and create jobs.

A weaker Canadian dollar should attract more American tourists to the province and stimulate the tourism sector. Tourists from Quebec might also be tempted to stay in Canada and visit the province.

Several major construction projects were either completed or are on the verge of being completed, which will lead to a decline in industrial construction. Activity is expected to recover in 2016, when investments in forestry infrastructure return to more promising levels.

Furthermore, residential construction is expected to slow down. Emigration and a low birth rate led to a decline in the demand for housing, and many urban centres are experiencing high vacancy rates.

The province's demographic challenges will not subside in the short term. Young people tend to leave the province most frequently, and this causes problems on several different levels. Their constant departure means that fewer workers are available to fill vacant positions, and it leads to an increase in older cohorts. Many older people have a low income when they retire, which results in less tax revenue for governments and less fiscal flexibility.

LABOUR MARKET

Canada

The Canadian labour market is expected to remain weak in 2015, after sluggish performance in 2014. Employment increased by 0.7% in 2014, one of the lowest rates of growth in the last two decades.¹ Despite a cooling of the economy in the face of falling oil prices, modest employment growth is expected to reduce the unemployment rate from 6.9% in 2014 to 6.8% this year, with further minor improvement predicted in 2016. Despite slow employment growth, increases in the unemployment rate have been moderated by discouraged workers leaving the labour force.²

Labour market conditions in the Atlantic Provinces are expected to slowly improve resulting from forecasted increases in economic growth. A key factor which may affect both the Atlantic economy and labour market is the impact of labour returning to the Atlantic economies, as “fly in- fly out” workers are laid off in oil producing regions as a result of the energy sector contraction.³ This may have a significant impact on the supply of labour in the Atlantic Provinces by easing reported labour shortages in engineering, project management, and highly skilled workers in several trades. In addition, softer labour markets in oil producing provinces may reduce interprovincial migration flows from Atlantic Canada and increase both the pool of unemployed workers and unemployment rates.

New Brunswick

¹ Statistics Canada. "Labour Force Survey: Year-end review, 2014." *The Daily*, January 28, 2015.

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

³ *Provincial Outlook*.

New Brunswick's labour market continues to experience difficulties. Job growth has been sluggish over the past five years. The province's working-age population began to decrease in 2014. This is the result of many years of low birth rates and negative net migration. The province has experienced a population decrease over the past several years due in large part to major growth in Alberta. Low oil prices might help New Brunswick keep part of its population in the short term. The province's rather bleak economic outlook in recent years prevented job growth, and this was possibly even more of a determining factor in explaining the trend of parts of the population leaving the province.

The labour force and employment declined in 2014. Participation and employment rates fell between 2013 and 2014. The unemployment rate decreased, but this was due to the fact that people stopped searching for jobs.

New Brunswick Labour Market				
	2013	2014	Change	Change
Population aged 15 and over	622,400	621,700	-700	-0.1
Labour force	395,200	393,000	-2,200	-0.6
Employment	354,500	353,900	-600	-0.2
Full-time	297,000	297,600	600	0.2
Part-time	57,500	56,300	-1,200	-2.1
Unemployment ('000)	40,600	39,100	-1,500	-3.7
Participation rate (%)	63.5%	63.2%	-0.3	
Unemployment rate (%)	10.3%	9.9%	-0.4	
Employment rate (%)	57.0%	56.9%	-0.1	

Employment prospects are anticipated to gradually improve in 2015 and 2016 thanks to investments planned in the forestry and mining industries. The low Canadian dollar should also help the export and tourism industries thrive, and this could be reflected in the labour market.

With respect to industries, the manufacturing sector saw major job losses over the past several years. Wood products and paper plants suffered the most losses. However, investments planned for the forestry industry could cause a resurgence in these sectors.

The construction industry experienced strong growth between 2005 and 2010, but the situation deteriorated thereafter. Some new industrial projects could provide a lift to this industry. However, housing construction seems to be slow due to demographic factors.

These same factors play, and will continue to play, a role in the health care and social assistance sector. Job growth surged over the past 10 years, but the precarious financial situation of the province must be taken into account. An aging population means that the need for corresponding services is growing.

Fiscal restraint on economic activity led to a decrease in the number of jobs in the province's public administration sector. This decline is expected to continue in the short term.

The weak Canadian dollar may lead to job growth in accommodation and food services as well as retail trade, given that more tourists might visit the province. However, jobs in these industries normally pay lower wages and tend to have a high turnover rate.

The decline in the birth rate over the past 30 to 40 years has reduced the number of youth in schools across the province. This is coupled with the fact that the portion of the population most likely to leave the province is young people starting families. As a result, educational services are less in demand, and the last provincial budget announced cuts to the number of teaching positions in schools throughout the province.

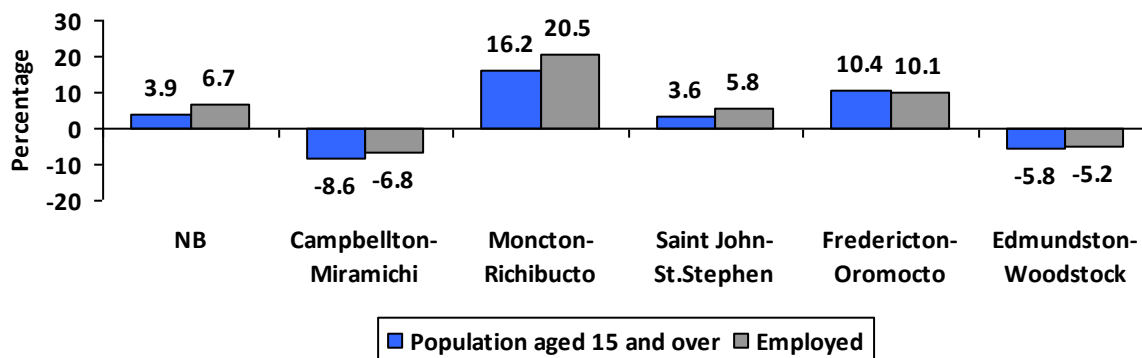
General economic improvements planned should lead to slight growth in New Brunswick's labour market. The unemployment rate will therefore decline, albeit only slightly, in 2015. The improvement is expected to continue in 2016, but again, the unemployment rate will decrease only marginally. Relatively low oil prices remain an uncertainty, and the resulting repercussions are difficult to predict. A prolonged period of low prices would encourage workers to return to New Brunswick, which could cause unemployment in the province to rise.

Economic Regions

Disparities are evident between the labour markets of different economic regions across the province. Generally, regions with a large urban centre fare better than mainly rural areas. The most urban regions are located in the south of the province, while rural regions are situated in the north with some small urban centres.

The region that experienced the most substantial growth since the early 2000s is Moncton-Richibucto. Evidently, the Greater Moncton area recorded the greatest population growth in the province and experienced very strong job growth as well. The region of Fredericton-Oromocto includes the provincial capital, and this urban centre helped generate as much population growth as employment growth. The region of Saint John-St. Stephen is another region that grew, slightly less than Moncton and Fredericton, and that benefits from the presence of the Greater Saint John area.

**Population and Employment Growth Rates
2000-2014**

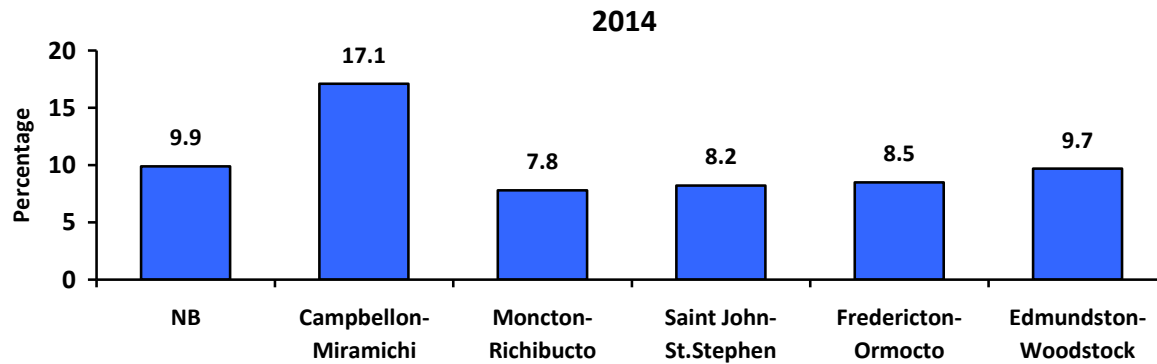


The province's two northern regions, Campbellton-Miramichi and Edmundston-Woodstock, have experienced declines in the working-age population for several years. These two regions see parts of their population head

not only to the west of the country but to the south of the province as well. The economies of these regions are centred more around natural resources and corresponding processing activities.

Only one region, Campbellton-Miramichi, had an unemployment rate higher than the provincial average of 9.9% in 2014. The 17.1% unemployment rate in the province's northeastern region was almost twice as high as the provincial average. The Edmundston-Woodstock region posted an unemployment rate just below the provincial average.

Unemployment Rate in Economic Regions and NB



CLIENT OUTLOOK

Newcomers

New Brunswick is faced with an aging population and a low birth rate. The province is looking to immigration to address its low population growth. However, New Brunswick has difficulty not only with attracting new immigrants but also with retaining them, much like other Atlantic provinces. New Brunswick represents only 2% of the Canadian population, but about 0.5% of immigrants.

Immigrants are more educated than people born in Canada. However, these immigrants have lower proficiency levels in literacy, numeracy, and problem solving skills in a highly technological environment compared with people born in Canada.

Furthermore, the average income of newcomers is lower than that of Canadian-born residents despite their higher level of education.

Aboriginal Community

The number of people of Aboriginal descent in New Brunswick rose to about 22,000 in 2011, which represented 3.1% of the province's total population. This population is much younger than the non-Aboriginal population. About 25% of Aboriginal people were less than 15 years old, compared with 15% of the non-Aboriginal population. Moreover, a total of 17% of the Aboriginal population was between 15 and 24 years of age, in contrast with 12% of non-Aboriginal people.

The Aboriginal population is confronted with major challenges: low levels of education, low labour market participation, and low incomes. Aboriginal people face an employment rate lower than that of the non-Aboriginal people. Addressing these challenges would enable Aboriginal people to be part of the solution to increase the potential labour pool for the province, which sometimes struggles to find employees with certain skills.

Older Labour Force

Since 2000, the proportion of individuals aged 55 and over rose from 27% of the population 15 years and older to 39%. This is attributable to several factors. More and more baby-boomers are entering this age group. What is more, fewer young people live in the province due to the low birth rate that followed the baby-boom period. At the same time, an ever-growing wave of young people is emigrating from the province.

New Brunswick's older labour force is also growing rapidly. Over the same period, the proportion of older workers climbed from 9% of the total to 22%. This is because, in addition to the demographic factors mentioned earlier, more and more people are reintegrating into the labour market. Studies have indicated that there are many young retirees who want to work part time or for short periods during the year.

People with Disabilities

According to the 2012 Canadian Survey on Disability, a total of 16.4% of New Brunswickers aged 15 and over, or 99,500 people, had a disability that limited their daily activities. This was the second-highest percentage in Canada. Such a large percentage is due to the fact that the province's population is proportionately older than most other Canadian provinces. The severity of a disability affects an individual's chances of finding a job, and the older people are, the more likely their disability will be severe.

People with disabilities face several labour market challenges, including inaccessible locations, inadequate means of transportation, discrimination, and a lack of necessary support in the workplace.

Youth

The population of youth aged 15 to 24 fell 14% in New Brunswick between 2000 and 2014. This equates to 14,300 less youth in the province. During this time, the number of employed youth dropped 13%. The unemployment rate rose during this period, but the employment rate increased as well. However, there were fewer full-time jobs and the same number of part-time jobs. As a result, a higher proportion of youth worked part-time.

Problems faced were more serious among young males. The unemployment rate has been higher for young males than young females since 2000, but the gap has grown significantly since then. The male unemployment rate rose three percentage points to 22%, while the female rate remained stable at 12.5%. The situation for young men seems particularly concerning.

A large portion of youth is employed in services industries (85%). A significant part of this portion works in the trade (27%) and accommodation and food services (19%) sectors. These sectors are more likely to offer part-time jobs and lower wages, and they experience higher turnover rates.

The emigration of youth obviously represents a problem for the province. The lure of the country's west still poses a challenge to a province that hopes to counter the effects of losses to its labour force.

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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