Environmental Scan

Nova Scotia

2019

KEY HIGHLIGHTS

- Global growth strengthened in 2017 and 2018, but is expected to slow somewhat in 2019, owing partly to trade uncertainties, tighter financial conditions, and softening economic conditions at the end of 2018. Further trade actions are a risk to the global outlook, as is the possibility that U.K.'s exit from the European Union (Brexit) is not orderly, and a greater than expected slowdown in the U.S. or China.

- Economic growth in the United States (U.S.) is currently assumed to be above trend while the U.S. unemployment rate is running below its long run average. Growth in the United States is projected to pull back in 2019 and 2020, but tight labour markets could persist. The trade-dispute with China has been hurting growth in both countries with some businesses concerned about higher costs and weakening demand.

- Following strong growth in 2018, Canada's economy is expected to slow in 2019, although growth should pick up in the second half of the year and improve slightly in 2020. The slowdown is mainly due to weakness in the energy sector. Tighter monetary policy and high levels of debt could restrict growth in consumer spending despite some recent employment and wage gains. On a more positive note, non-energy exporters should benefit from the lower dollar and from new trade agreements coming into effect.

- Nova Scotia could see growth pick up in 2019 if some upside risks materialize. Work on several major projects has wrapped up and production at two offshore natural gas developments ended in 2018. Still, there are some encouraging developments. Population and employment growth surpassed expectations in 2018 generating some positive momentum. Exports have been faring well so far in 2019, owing to growing demand for natural resources, a favourable exchange rate, new trade agreements, and growing tourism. Public investment in health care, technology and roads, highways and bridges is set to increase this year while a few new large projects are nearing approval.

- Nova Scotia's longer-term economic growth, employment growth, and fiscal sustainability, however, will be constrained due to the ageing population.

GENERAL OVERVIEW / ECONOMIC CONTEXT

Global growth to moderate in 2019

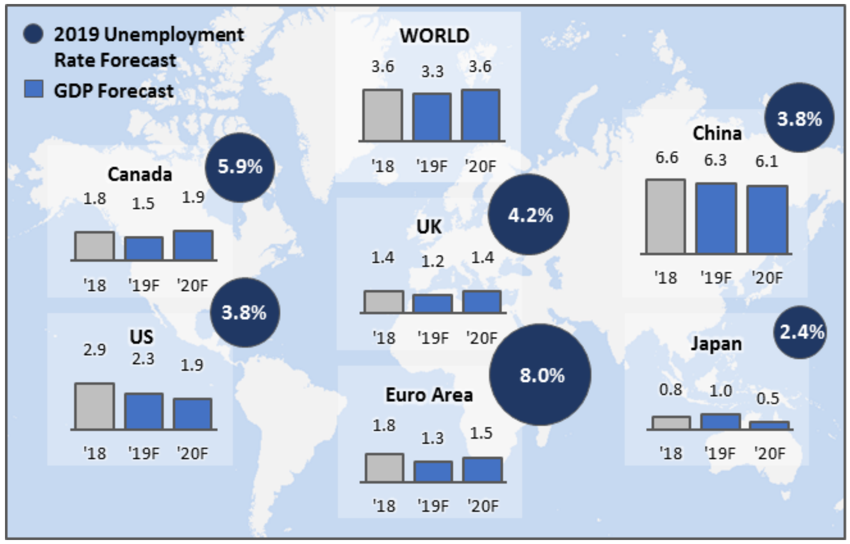
Though global growth accelerated in 2017 and 2018, a number of headwinds are ahead. The International Monetary Fund (IMF) is predicting global output will slow from a rate of 3.6% in 2018 to 3.3% in 2019 (Figure 1).

Trade uncertainties are the most notable headwinds. This includes the potential for further U.S.-China trade actions and uncertainties related to the ratification of the Canada-United States-Mexico Agreement (CUSMA). Other notable risks include the delayed impacts of fiscal and monetary policy tightening in 2018, slowing growth in major economies like the U.S. and China, high levels of public and private debt, and the potential for disorder in the U.K.'s exit from the European Union (Brexit).

In 2018, U.S.-China trade disputes escalated in a tit-for-tat hurting growth in both countries. Both the U.S. and Canada have become increasingly dependent on trade with China. According to World Bank data[1], the share of U.S. exports to China have grown from less than 2% in 1997 to more than 8% ($130 billion USD) in 2017 (Figure 2). Additionally, nearly 22% of U.S. imports came from China in 2017 ($526 billion USD). Increased trade barriers could lead to higher costs of imported intermediate goods and higher prices for consumers. They also have the potential of lowering business confidence and investment, disrupting supply chains and slowing productivity growth.[2]

Figure 1: Economic Growth Outlook

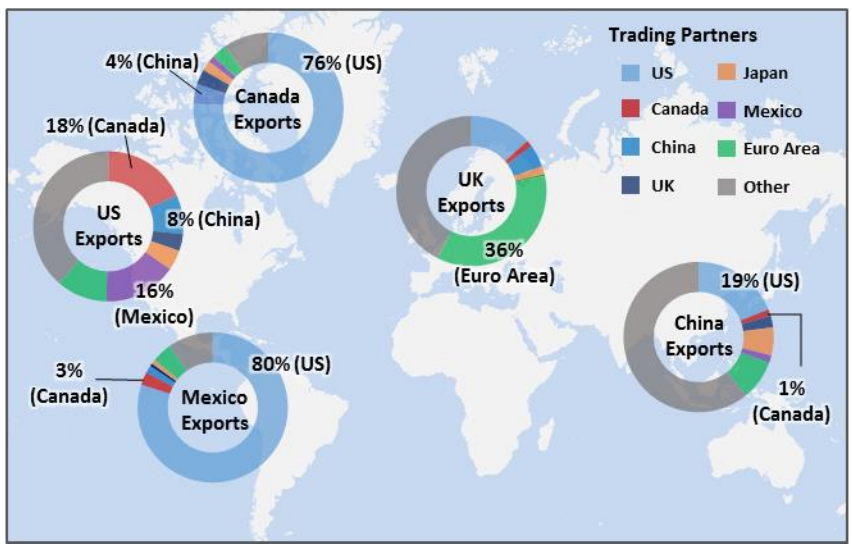
Real GDP Growth (annual % change, constant dollars) / Unemployment Rates (%)



Source: International Monetary Fund (IMF) World Economic Outlook, April 2019

Figure 2: Global Export Partner Share, 2017

International merchandise and commercial services trade ($USD)



Source: World Bank, World Integrated Trade Solution / United Nations Comtrade Database

[1] World Bank. World Integrated Trade Solution (WITS) Dataset / United Nations Comtrade Database Accessed: April 1, 2019. https://wits.worldbank.org/

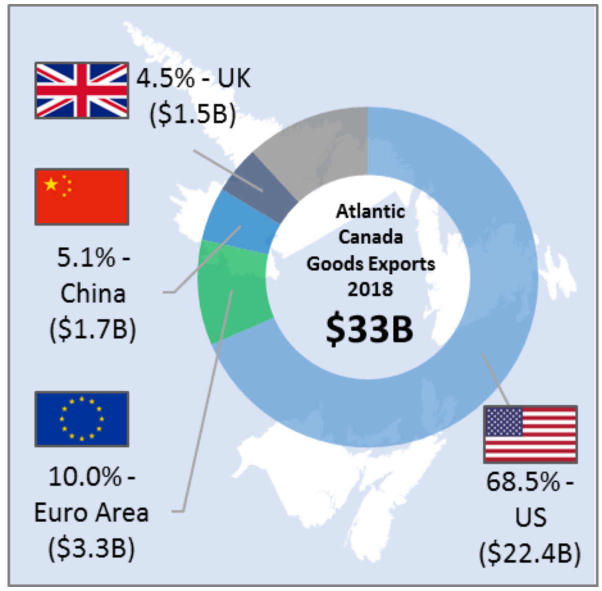
[2] International Monetary Fund, World Economic Outlook, January 2019 https://www.imf.org/en/Publications/WEO/Issues/2019/01/11/weo-update-january-2019

Canada experienced strained relations with China in 2018 as well, and trade talks between the two countries ended in 2018. Canada too has become increasingly dependent on trade with China. The share of Canada's total exports to China rose from less than 1% to over 4% between 1997 and 2017 (see figure 2). About 12% of Canada's imports were from China in 2017 ($54 billion USD). Merchandise export data for 2018 show China as the number two destination among countries for Atlantic Canada's goods exports, behind the United States (Figure 3). In 2018, just over 5% of Atlantic Canada's international merchandise exports went to China ($1.3 billion USD or $1.7 billion CAD).

For Canada in 2019, all eyes will be on the CUSMA, which was signed on November 30th, 2018 and is expected to be ratified this year. More than three quarters of Canada's goods exports went to the United States in 2018 ($308 billion USD or 399 billion CAD). The same year, the share of goods exports from Atlantic Canada to the U.S. was slightly lower, at 68.5% ($22.4 billion CAD or $17.3 billion USD).[3]

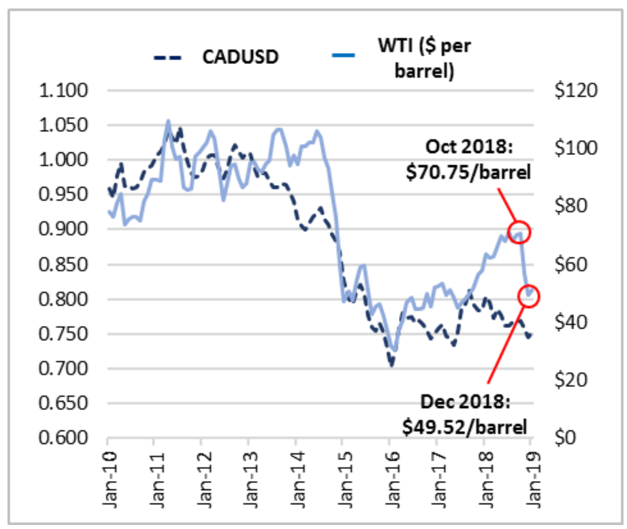
Despite trade and other uncertainties, other economic indicators suggest growth in advanced economies may be on a slower trajectory. Many central banks, including the Bank of Canada, U.S. Federal Reserve and European Central Bank, have taken notice of cooling economic growth and inflation and have put further interest rate hikes on hold this year.[4] Growth in the World's two largest economies, the U.S. and China, is expected to decelerate. China's economy started to slow in 2018 because of tighter financial regulations and impacts related to U.S.-China trade actions. Likewise, the U.S. economy, currently assumed to be running above trend, is expected to pull back from the growth it experienced in 2018 (2.9%) to just under 2.0% by 2020.[5] In 2018, U.S. government stimulus in the form of tax cuts and higher spending fueled growth as unemployment rates fell to their lowest rates since the 1960s. Current government spending levels may be unsustainable. Rising interest rates have also eroded room for consumer spending to continue to grow, despite signs of moderate wage gains. Some U.S. housing market indicators have

Figure 3: Atlantic Canada Domestic Exports
Billions of Canadian Dollars / Export Partner Shares (%)



Source: Industry Canada Trade Data Online, Accessed: 2019-03-22

Figure 4: The Canadian Dollar and the Price of Oil
Canadian Dollar / US Dollar (left axis) and Crude Oil Price (right axis)



Source: Bank of Canada, US Energy Information Administration (Cushing OK Spot Price)
WTI = West Texas Intermediate price per barrel (USD)

[3] Industry Canada. Trade Data Online Accessed: April 1, 2019. http://www.ic.gc.ca/eic/site/tdo-dcd.nsf/eng/Home
[4] https://www.federalreserve.gov/newsevents/pressreleases/monetary20190320a.htm
https://www.bankofcanada.ca/2019/03/fad-press-release-2019-03-06/
https://www.ecb.europa.eu/pub/economic-bulletin/html/eb201902~a070c3a338.en.html
[5] International Monetary Fund, World Economic Outlook Update, April 2019
https://www.imf.org/en/Publications/WEO/Issues/2019/03/28/world-economic-outlook-april-2019

softened in recent months and some U.S. manufacturers have raised concerns about weakening global demand and higher costs due to tariffs and trade uncertainty.[6]

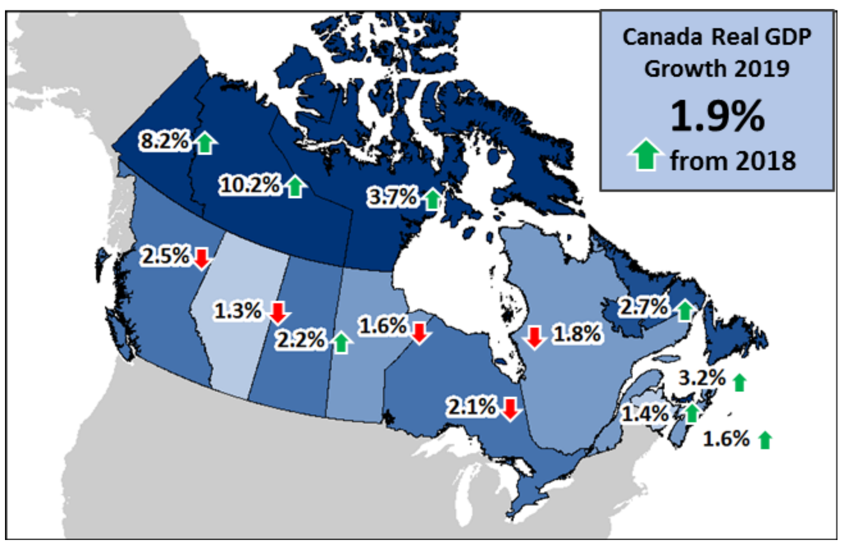
Weak oil prices to negatively impact Canada's growth in 2019

The IMF expects Canada's economy will slow from a rate of 1.8% in 2018 to 1.5% in 2019. This follows an exceptional year in 2017, when growth was 3.0%. The Bank of Canada has noted that the Canadian economy has been operating near its capacity for over a year. Unemployment rates have fallen to forty-year lows and inflation is close to the 2% target.[7] The main changes to the outlook in recent months are mostly related to price fluctuations in oil markets. Oil prices dove in the latter part of 2018 prompting production cuts by both OPEC and non-OPEC producers. In January 2019, the government of Alberta imposed their own production limits when the discount for Canada's oil peaked because of transportation constraints.

The Canadian economy, and in particular, the Canadian dollar has been closely tied to the price of oil (Figure 4). When oil prices fell at the end of 2018, Canada's GDP growth nearly came to a halt, and the Canadian dollar fell to its lowest level since 2017 ($0.74 USD in December 2018). The Bank of Canada expects this economic weakness to persist through the first half of 2019 but then ease.[8] Despite production cutbacks, global oil supply is expected to continue to outpace demand due to rising U.S. shale production and slower global demand. The IMF projects oil prices will remain around their current levels, averaging below $60 USD per barrel, for the next several years. Though lower oil prices have been a challenge for some, there are buffers for the Canadian economy. Consumers may benefit from lower energy prices while non-energy exporters may benefit from the lower exchange rate and input prices.

Still, there are some other factors at play for Canadian consumers and businesses. Higher interest rates, high levels of private debt, low real wage growth, and cooling housing prices could offset these impacts and result in a pull-back of consumer spending in 2019. Businesses too, may benefit from accelerated tax write offs for investment recently introduced but this may be offset by capacity constraints (which have eased in recent months[9]) or further trade actions. In the near-term, infrastructure spending is expected to keep the economy in balance with new funding for health and technology infrastructure. As well, some provinces will benefit from large capital projects such as those ramping up in Ontario, Quebec and British Columbia.

Figure 5: Provincial Economic Outlook 2019
Real GDP Growth (annual % change)



Source: Conference Board of Canada, Provincial Outlook: Winter 2019 and Territorial Outlook: Autumn 2018

[6] U.S. Federal Reserve. Beige Book, March 2019
[7] Bank of Canada. Monetary Policy Report, January 2019
https://www.bankofcanada.ca/2019/01/mpr-2019-01-09/
[8] Bank of Canada. Monetary Policy Report, January 2019
https://www.bankofcanada.ca/2019/01/mpr-2019-01-09/
[9] Bank of Canada. Business Outlook Survey, Spring 2019
https://www.bankofcanada.ca/2019/04/business-outlook-survey-spring-2019/

Alberta led the provinces in growth in 2017, though most provinces, with the exception of Newfoundland and Labrador, saw stronger growth that year. British Columbia, Alberta, Quebec, Ontario and Prince Edward Island are expected to see the highest growth in 2018. In 2019, Alberta is expected to lag the other provinces because of oil production cuts; a slowdown in business investment and a contraction in housing starts (Figure 5). The Conference Board of Canada projects Newfoundland and Labrador will lead provinces in growth in 2019, but notes that growth will be uneven due to volatility in the oil industry and construction schedules of various projects.

Nova Scotia: Slower growth for 2019 but some upside risks on the horizon

Population gains are expected to buoy economic growth in Nova Scotia in the near-term, but most forecasters expect that growth slowed in 2018 as a number of larger projects ended.[10]

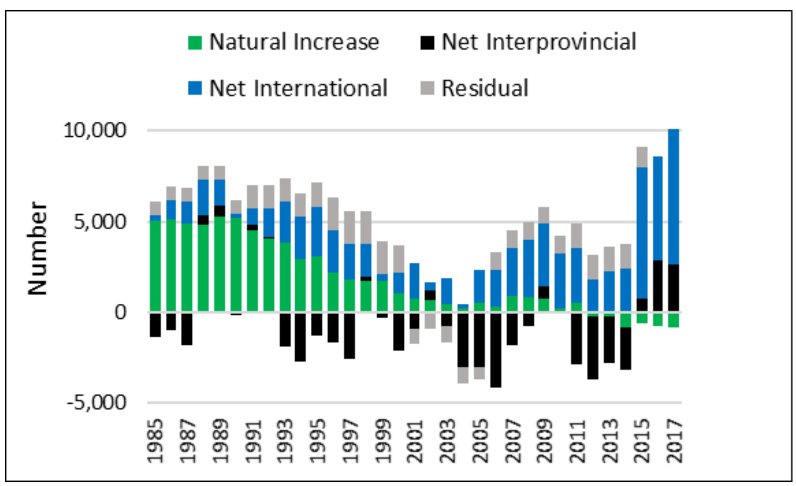
Nova Scotia Population -2012 to 2018
Average Annual Growth Rate and %Δ Between 2012 and 2018

	2012	2017	2018	AAGR	% Δ '12 to'18
All ages	943,635	950,680	959,942	0.3%	1.7%
15 years and over	806,932	815,849	824,204	0.4%	2.1%
15 to 54 years	507,481	475,960	476,037	-1.1%	-6.2%
55 years and over	299,451	339,889	348,167	2.5%	16.3%

Source: Statistics Canada. Table 17-10-0005-01 Population estimates on July 1st, by age and sex

In terms of population growth, 2018 was a record-breaking year for Nova Scotia. Nova Scotia's population rose to 965,382 as of January 1st, 2019, the highest on record. The official annual rate of population growth (measured as of July 1st) was 1.0% in 2018, the strongest it has been since 1985. Still, it was below the Canadian growth rate of 1.4%.[11] More international and interprovincial migration in the province offset a decline in the natural growth (births less deaths) (Figure 6). International immigration, in particular, jumped by 18%, while net non-permanent residents (mainly international students) jumped 41%.[12] An number of factors have supported the recent rise in immigration. Between 2015 and 2018 Nova Scotia accepted 1,795 Syrian

Figure 6: Components of Population Change, Nova Scotia
(data noted are for fiscal years)



Source: Statistics Canada. Table 17-10-0008-01 Estimates of the components of demographic growth, annual

[10] GDP estimates for 2018 for the Provinces and Territories will not be released until later in 2019.
[11] Statistics Canada. Table 17-10-0009-01 Population estimates, quarterly
[12] Statistics Canada. Table 17-10-0008-01 Estimates of the components of demographic growth, annual

Refugees.[13] In 2016, the federal government increased the province's nomination cap by 300 to 1,350, following a similar increase the previous year.[14] In addition, since March 2017, there have been 2,535 approved permanent residents in Atlantic Canada as part of the Atlantic Immigration Pilot, a program to attract and retain skilled immigrants and international graduates. The program was recently extended for the next 2-years which should continue to boost population in the near-term.[15]

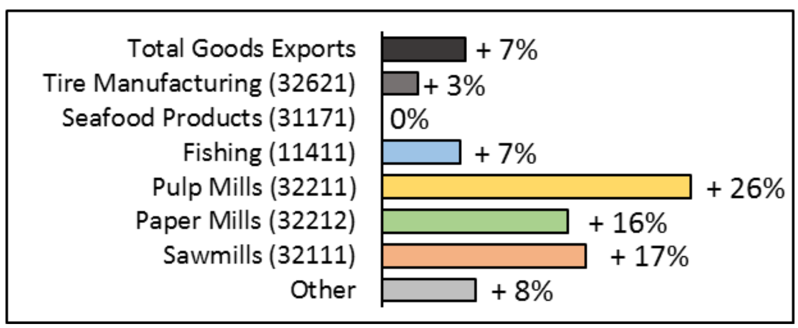
For 2019, Nova Scotia investment intentions indicate a further economic deceleration is possible owing to lower investment plans in both the public and private sectors.[16] However, there are several upside risks to the outlook. Residential investment remains strong and could benefit from population growth and new policies to support first time homebuyers. As well, there is potential that a $6 billion Goldboro LNG facility will get a green light in 2019. This project is included in the Conference Board of Canada's latest outlook for Nova Scotia which is calling for GDP growth of 1.6% in 2019 and 2.1% in 2020. The Conference Board of Canada forecast also points to the potential expansion of current activities at the Moose River gold mining project as well as the opening of another gold mine in Goldboro.

Another key risk to Nova Scotia's outlook is consumer spending which has the potential to be either a boost or a drag on growth. Recent population gains and employment gains should help to fuel consumer-spending growth in 2018 and 2019, as should personal tax benefit enhancements introduced by the province for the 2018-tax year.[17] However, other factors could constrain consumer spending including higher interest rates, high levels of debt, a cooling housing market and slow real wage growth. Retail sales for 2018 were subdued, advancing by 1.1% in 2018 compared to growth of 7.8% in 2017.[18] Nova Scotia's recently introduced cap-and-trade program, on the other hand, should have little impact on consumer spending. For example, as a result of the program, average gasoline prices are expected to rise by about 1 cent/litre and electricity rates by about 1% between 2019 and 2022.[19]

International export growth is a potential bright spot for Nova Scotia. International goods exports rose 7.0% in 2018, owing to strength in a number of areas, most notably forest products. A strengthening U.S. economy and housing market, favourable exchange rate, as well as removal of tariffs on paper products, have boosted growth for these products in 2018 (Figure 7). Ratification of CUSMA in 2019 should further support exports destined for the U.S.. The Canada-European Union Comprehensive Economic and Trade

Figure 7: Growth in Top Exports, 2018

International Merchandise Exports, Nova Scotia



Source: Industry Canada Trade Data Online, Accessed: 2019-03-22

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[13] Immigration, Refugees and Citizenship Canada. Syrian Refugees – Monthly IRCC Updates. Accessed: April 1, 2019. https://open.canada.ca/data/en/dataset/01c85d28-2a81-4295-9c06-4af792a7c209

[14] https://globalnews.ca/news/2579981/ottawa-increases-nova-scotias-immigration-nominee-cap-by-300/

[15] https://www.canada.ca/en/atlantic-canada-opportunities/news/2019/03/changes-to-the-atlantic-immigration-pilot.html

[16] Statistics Canada. Table 34-10-0035-01 Capital and repair expenditures, non-residential tangible assets, by industry and geography (x 1,000,000)

[17] https://www.novascotia.ca/finance/en/home/taxation/tax101/personalincometax/basicpersonalamount.aspx

[18] Statistics Canada. Table 20-10-0008-01 Retail trade sales by province and territory (x 1,000)

[19] Climate Change Nova Scotia. Nova Scotia's Cap-and-Trade Program Accessed: April 1, 2019. https://climatechange.novascotia.ca/nova-scotias-cap-trade-program

Agreement (CETA) should also benefit exports to Europe, which were higher through 2018. However, offsetting some of the growth in exports will be higher energy imports as a result of the end of local natural gas production.

Tourism has also remained strong. Through 2018, the province welcomed 2.4 million non-resident visitors, down only 0.8% from 2017, a record year due to Canada 150 celebrations. The highest growth that year was in the overseas market, up 18%.[20] Cruise ship passenger visits were also higher.[21] A lower dollar, ongoing tourism investments, as well as efforts to extend the length of the tourist season should help to sustain visitation levels through 2019.

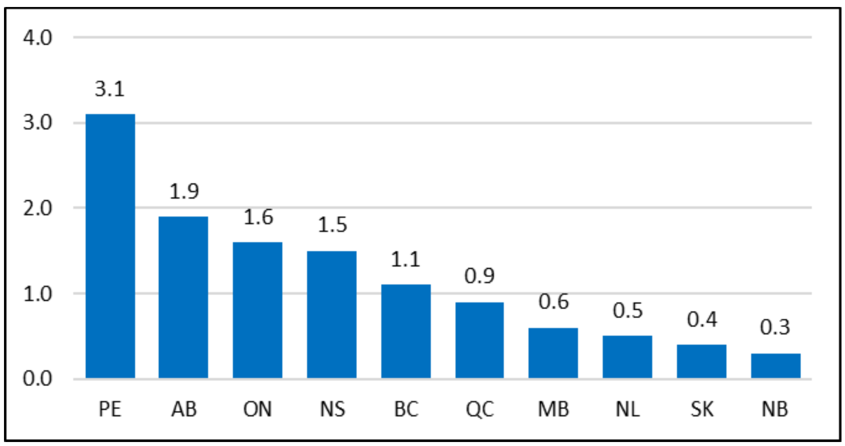
LABOUR MARKETS

CANADA: Labour markets tighten across the country but real wages have yet to rise

Canada's labour market has been improving since the 2009 recession and labour market conditions have tightened considerably. Since 2009, the pace of employment growth has exceeded the growth in the labour force driving down unemployment rates. In 2018, the unemployment rate was its lowest level in 40 years, at 5.8%. Labour market conditions improved in all provinces (Figure 8) and among both sexes and broad age groups.

Labour shortages are a growing concern in many sectors and regions of the country. A recent report from BDC found 39% of small and medium-sized businesses in Canada had difficulty finding new workers.[22] Job vacancies increased in all provinces in 2018. British Columbia had the highest job vacancy rates.[23] In BC, for example, BuildForce Canada has noted that labour shortage in the construction sector contributed to project delays and cost concerns.[24]

Figure 8: Employment Growth (% change), 2017 to 2018
Canadian Provinces



Source: Statistics Canada. Table 14-10-0327-01 Labour force characteristics by sex and detailed age group, annual

The share of Canada's labour force aged 55 years and over has grown considerably in the past two decades. Twenty years ago, 1 in 10 persons in the labour force was 55 years and over compared to 1 in 5

[20] Tourism Nova Scotia. Visitor Statistics Accessed: April 1, 2019. https://tourismns.ca/research/visitor-statistics

[21] Atlantic Provinces Economic Council. Atlantic Canada Economic Outlook 2019: Maritime Growth Moderates, Newfoundland & Labrador Rebounds

[22] Business Development Bank of Canada. Labour Shortages: Here to Stay Accessed: April 1, 2019. https://www.bdc.ca/en/documents/analysis_research/labour-shortage.pdf

[23] Statistics Canada. Table 14-10-0325-01 Job vacancies, payroll employees, job vacancy rate, and average offered hourly wage by provinces and territories, quarterly, unadjusted for seasonality

[24] BuildForce Canada (2019). Construction and Maintenance Looking Forward Accessed: April 1, 2019. https://www.buildforce.ca/en/catalog/labour-market-information/construction-forecast-reports

persons today. Although Canada's labour market participation rate was down slightly in 2018 at 65.4%, the participation rate for older workers (aged 55 years and over) has been on an upward trend. It reached a peak in 2017. The higher participation of older workers has helped to mitigate some of the impact of population ageing on the labour force.

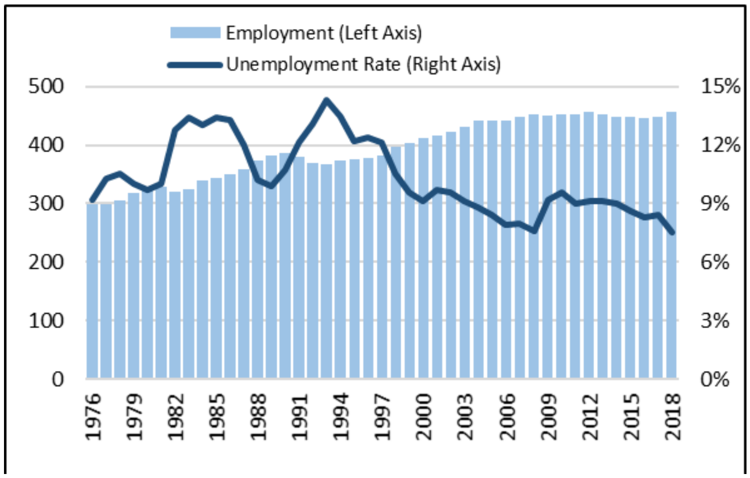
Despite reports of labour market shortages, there has been little evidence that real wages have risen significantly in response. Average wages advanced 2.0% in 2017 and by 2.6% in 2018. Over the same period, average consumer prices rose 1.6% and 2.3%, respectively.[25] The Bank of Canada has looked at several possible causes. One of these is a short-run adjustment in the energy-intensive regions to lower oil prices. However, other structural forces could also be a factor such as worker's weaker bargaining power in non-standard jobs related to the gig economy. In spite of these influences, the Bank is expecting wages to pick up in the second quarter of 2019.[26]

NOVA SCOTIA: A pick up in full-time jobs pushes unemployment to its lowest level on record

In 2018, Nova Scotia's employment level advanced by 1.5%, the highest rate of growth in over a decade. Still, employment remains below a peak set in 2012. The number of full-time positions, however, did reach an all-time high advancing by 11,100 positions in 2018.[27]

Figure 9: Employment and Unemployment Rate, Nova Scotia

1976-2018



Source: Statistics Canada. Table 14-10-0327-01 Labour force characteristics by sex and detailed age group, annual

Strong employment gains pushed Nova Scotia's unemployment rate to a record low of 7.5% in 2018 (Figure 9). Similar to the trend in the United States and Canada, Nova Scotia's unemployment rates have been trending lower since the 2009 recession. Nova Scotia's labour market participation rates have also been trending lower since 2012, mainly due to a decline in the participation of older workers (aged 55 and over). The number of job vacancies rose to 11,115 in the fourth quarter of 2018. Nova Scotia's job vacancy rate was 2.7%, up slightly from 2.5% in the same quarter of 2017.[28] Despite a tighter labour market, average wages in the province grew by only 1.2% in 2018, below the rate of inflation of 2.2% that year, resulting in a decline in real wages (adjusted for inflation).[29]

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[25] Statistics Canada. Table 14-10-0223-01 Employment and average weekly earnings (including overtime) for all employees by province and territory, monthly, seasonally adjusted
Statistics Canada. Table 18-10-0005-01 Consumer Price Index, annual average, not seasonally adjusted
[26] Bank of Canada. A Look Under the Hood of Canada's Job Market Accessed: April 1, 2019.
https://www.bankofcanada.ca/2019/01/look-under-hood-canadas-job-market/
[27] Statistics Canada. Table 14-10-0327-01 Labour force characteristics by sex and detailed age group, annual
[28] Statistics Canada. Table 14-10-0325-01 Job vacancies, payroll employees, job vacancy rate, and average offered hourly wage by provinces and territories, quarterly, unadjusted for seasonality
[29] Statistics Canada. Table 14-10-0223-01 Employment and average weekly earnings (including overtime) for all employees by province and territory, monthly, seasonally adjusted

Nova Scotia's employment growth has been concentrated in the services-producing sector, which employed four out of five workers. There were notable increases in the accommodation and foods services and wholesale and retail trade industries, helped, in part, by higher tourism numbers. Employment in education services also increased notably in 2018. A new pre-primary program has increased demand for Early Childhood Educators (ECEs). The largest employment decline occurred in the health care and social assistance industry (-3,600). This is a large industry, employing around 1 in every 7 Nova Scotians. Budget pressures, shortages for some health professionals and a growing number of workers reaching retirement age, have limited employment in this industry.

Among goods-producing industries, employment was higher in both construction and manufacturing even though a number of major projects have ended. Employment in construction rose by 1,500 in 2018, the largest gain in five years boosted by higher levels of federal and provincial investment. Work on a $2 billion redevelopment of the Queen Elizabeth II Health Sciences Center is expected to continue for several years, as will construction on a number of schools, roads, highways, bridges and technology projects. In the manufacturing industry, work on the federal shipbuilding projects continues. In 2018, the Irving Shipyard was awarded the contract to build a 6th Artic Offshore Patrol Ship (AOPS). Port Hawkesbury Paper benefitted from a decision mid-2018 to end tariffs imposed in 2015, while more positive news came in October 2018, as Michelin, one of the larger employers, announced they will be investing in a new product line at the Granton plant in Pictou County. Ratification of CUSMA should ease additional uncertainty in the sector, though the potential for weakness in the U.S. housing market could pose some downside risk to Nova Scotia's forest products industry.[30]

Economic Regions: Halifax resumes its station as the engine of growth

Employment increased in two of the five economic regions of Nova Scotia in 2018. The Halifax region experienced the largest employment gain followed by the Southern region. The Cape Breton, North Shore, and Annapolis Valley regions experienced employment declines. This reversed the overall employment trends in 2017, when employment gains were concentrated outside of Halifax.

Economic Region	2008	2017	2018	Average Annual Change (%), 2008-2018	Year-Over-Year Change (%), 2017-2018
Nova Scotia	451.7	449.0	455.9	0.1%	1.5%
Cape Breton	56.3	47.7	46.8	-1.8%	-1.9%
North Shore	72.3	69.2	66.7	-0.8%	-3.6%
Annapolis Valley	57.4	59.1	56.4	-0.1%	-4.6%
Southern	55.5	48.4	51.7	-0.7%	6.8%
Halifax	210.2	224.6	234.2	1.1%	4.3%

Source: Statistics Canada. Table 14-10-0090-01 Labour force characteristics by province, territory and economic region, annual

Labour market conditions in the Cape Breton region weakened to some extent in 2018. A drop in employment resulted in an increase in the region's unemployment rate to 15.1%, the highest rate among regions. The largest employment change was a decline in employment in the health care and social assistance industry. In

Statistics Canada. Table 18-10-0005-01 Consumer Price Index, annual average, not seasonally adjusted

[30] Statistics Canada. Table 14-10-0023-01 Labour force characteristics by industry, annual (x 1,000)

2018, the Donkin Coal mine had its first year of operations but production was partially suspended following a roof collapse at the end of that year.

Employment declined in the North Shore region in 2018. The weakening labour market led to fewer job seekers. With fewer persons looking for work, there was a fall in the region's unemployment rate from 8.9% to 8.5%. The largest decline in employment was in the wholesale and retail trade industry. Michelin, a major employer in the region announced plans in 2018 to expand operations with a new product line. More recently, a Truro carpet plant, announced it will be closing in July, putting 240 people out of work.

Following two years of employment growth, employment declined in the Annapolis Valley region in 2018. At the same time, there were fewer jobseekers resulting in a modest decline in the region's unemployment rate to 7.1% in 2018. The employment decline was concentrated in services-producing industries, and, in particular, the health care and social assistance industry.

Employment in the Southern region rebounded in 2018. Higher employment pushed the unemployment rate noticeably lower from 9.7% to 6.5%. The largest gains were in the accommodation and food services industry, supported by growing tourism in the region, as well as higher employment in the manufacturing industry.

The Halifax region experienced the largest employment gains among the five Nova Scotia economic regions in 2018, with more than 10,000 full-time positions added. The unemployment rate declined to 5.9%. This was the lowest unemployment rate since the 2008/09 recession. The largest employment gains were in the wholesale and retail trade, accommodation and food services, and information, culture and recreation industries. Some of the larger upcoming projects including the $2 billion redevelopment of the Queen Elizabeth II Health Sciences Center and $6 billion Goldboro LNG facility fall within the Halifax region's boundaries.

KEY CHALLENGES AFFECTING NOVA SCOTIA'S LABOUR MARKET

Demographic Challenges

Despite the rise in the population in 2018, longer-term growth and employment in Nova Scotia will be restricted by ageing demographics. In addition to limiting employment and economic growth, population ageing will put downward pressure on tax revenues as the tax base weakens, and put upward pressure on government programs such as health care. The Office of the Parliamentary Budget Officer expects Nova Scotia will be one of the provinces most acutely affected by population ageing. The senior dependency ratio – the ratio of individuals 65 years and older relative to the population 15 to 64 years of age - is expected to exceed 50 per cent in the province in 25 years.[31]

The size of Nova Scotia's labour force peaked in 2012 and has declined by 10,400 since this time, largely due to retiring baby-boomers. Recent population growth has been driven by immigration but immigrant participation rates are slightly lower than those of non-immigrants. As well, immigrant retention rates five years after landing are lower in Nova Scotia compared to rates in Ontario and British Columbia. On a positive note, participation rates for older workers (55 years and above) have been trending higher in the Province helping to

[31] Office of the Parliamentary Budget officer (2018). Fiscal Sustainability Report 2018.

mitigate some of the impact on the labour force. Between 2008 and 2018 participation rates grew from 30.6% to 34.0%. In 1998, participation rates for older workers were just 19.4%.[32]

Figure 10: Canada Population by Age and Sex
% shares, 1998 and 2018

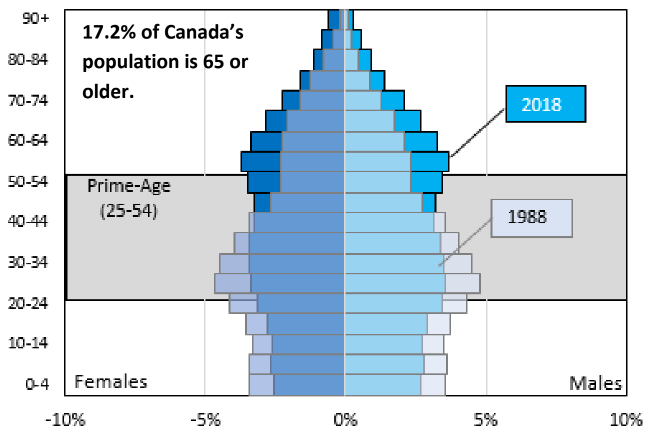
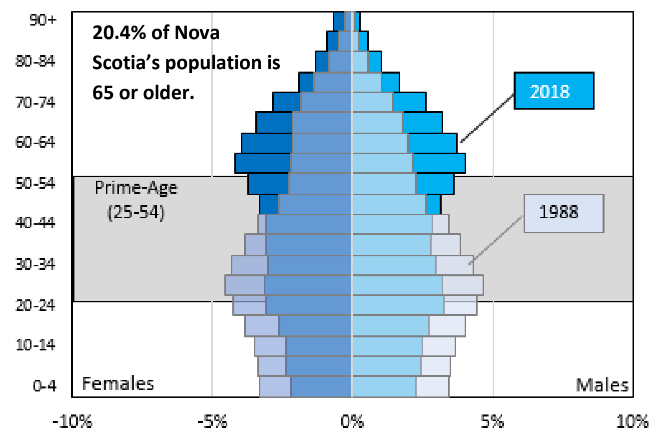


Figure 11: Nova Scotia Population by Age and Sex
% shares, 1998 and 2018



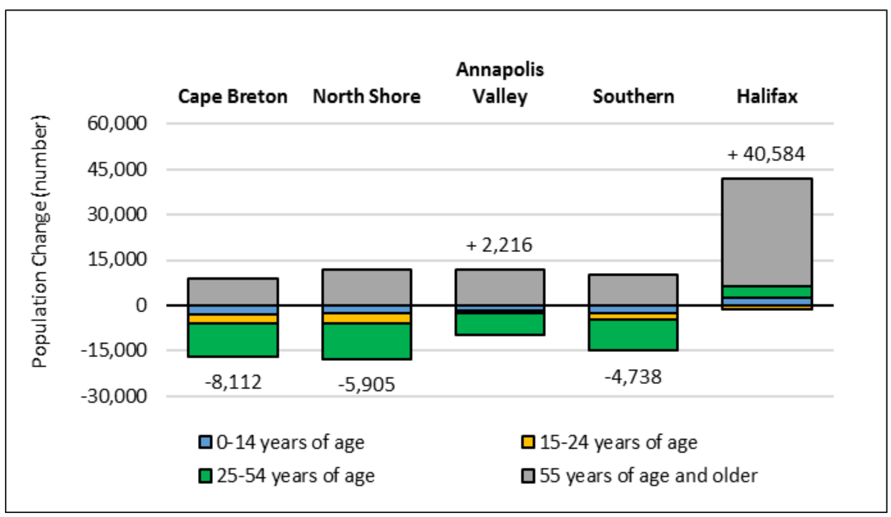
Statistics Canada. Table 17-10-0005-01 Population estimates on July 1st, by age and sex

Rural-Urban Dynamics

For several years now, employment and population in the Halifax Economic Region (ER), the province's largest urban center has continued to expand. While, outside of the Halifax ER, employment and population has generally declined.

A number of business closures in rural areas in recent years, chiefly in manufacturing. Examples include TrentonWorks and mills in Liverpool and Point Tupper. In addition, several of the larger projects underway (i.e. Irving Shipbuilding) tend to be in urban areas.

Figure 12: Population Changes by Economic Region and Age Group
Nova Scotia, 2018 vs. 2008



Source: Statistics Canada. Table 17-10-0139-01 Population estimates, July 1, by census division, 2016 boundaries

Since 2008, employment outside the Halifax ER has declined by 8% compared with growth of 11% in the Halifax ER. The Halifax ER comprised more than half (51.4%) of Nova Scotia's employment in 2018. The unemployment rate in the Halifax ER , at 5.9%, was on par with the national average while outside of the Halifax ER, unemployment rates have generally been higher.

[32] Statistics Canada. Table 14-10-0327-01 Labour force characteristics by sex and detailed age group, annual
Atlantic provinces Economic Council 2019, Atlantic Canada's Shrinking Labour Force, Report Card

Between 2008 and 2018, the population in the Halifax economic region increased by 40,584 (Figure 12). Except for the Annapolis Valley, other economic regions experienced population declines. Indeed, the Halifax economic region was the only region with a net gain in persons of prime working-age (ages 25-54 years old) over this period. The Cape Breton, North Shore and Southern economic regions each had a net loss of over 10,000 prime-age individuals over this period.[33]

Fiscal Challenges

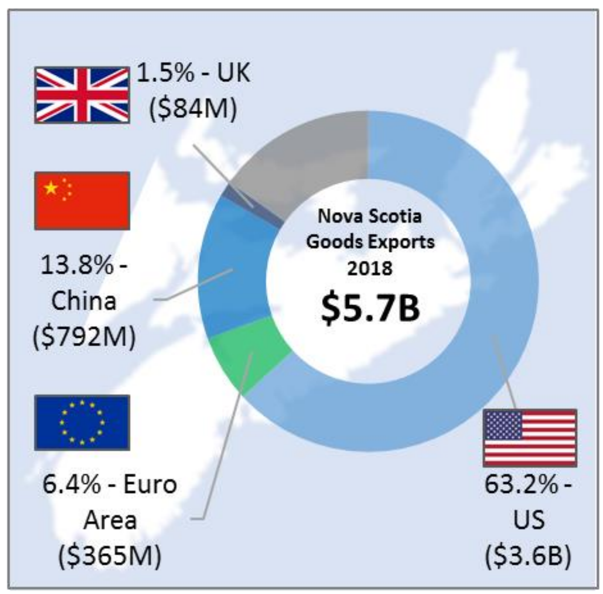
For the third fiscal year, the province of Nova Scotia has reported a surplus in 2019-20. The province has noted it is on-course for achieving fiscal sustainability and, in the medium-term, expects the annual surplus to grow, and the net Debt-to-GDP ratio to decline from 33.8% in 2019-20 to 31.6% by 2022-23. However, the net debt is expected to increase over this period reflecting the government's capital plans for highways, health care redevelopment and school purchases.[34]

Despite the province's most recent projections for a budget balance in the medium term, there may be longer-term challenges for Nova Scotia's fiscal sustainability. The Parliamentary Budget Office's report on Fiscal Sustainability in 2018, suggests that rising health care costs and slower growth of the prime-age population will result in unsustainable fiscal policy in the long-term, for all provinces except for Quebec. Reduced federal transfers could compound these challenges. The Parliamentary Budget Office expects Nova Scotia will be one of the provinces with the lowest living standards measured by GDP per capita over the long-term (75 years from now).[35]

Trade Uncertainty

Despite some positive news in 2018 with the signing of the Canada-United States – Mexico Agreement (CUSMA) there are still looming uncertainties, including its ratification and implications related to the ongoing trade actions between U.S. and China. In 2018, the U.S. was the destination for 63.2% of Nova Scotia's international goods exports (Figure 13). The U.S. is the top destination for tires manufactured in Nova Scotia and roughly half, or nearly $1 billion per year, of fishing and seafood products. The U.S. is also the destination for roughly half of Nova Scotia's paper and sawmill products, which totalled more than $275 million in 2018.

Figure 13: Nova Scotia Export Partner Share
Canadian Dollars



Source: Industry Canada Trade Data Online, Accessed: 2019-03-22

Canada's trade disputes with China could also have a negative impact on Nova Scotia's exports. In 2018, nearly 14% of Nova Scotia's merchandise exports were destined for China. China receives just over two thirds of Nova

[33] Table 17-10-0139-01 Population estimates, July 1, by census division, 2016 boundaries
[34] Government of Nova Scotia. Budget 2019 Accessed: April 1, 2019. https://beta.novascotia.ca/documents/budget-documents-2019-2020
[35] Office of the Parliamentary Budget officer (2018). Fiscal Sustainability Report 2018. Accessed: April 1, 2019. https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2018/FSR%20Sept%202018/FSR_2018_25SEP2018_EN_2.pdf

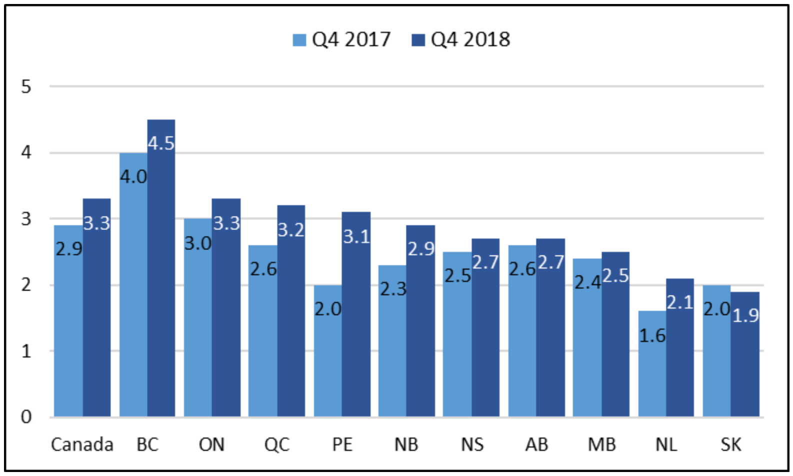
Scotia's pulp exports and is the destination for roughly a quarter of Nova Scotia's fishing and seafood products. Lastly, a disorderly Brexit could also impact Nova Scotia, although trade with the UK represents a much smaller share of Nova Scotia's international goods exports (1.5%).[36]

Labour and Skills Shortages

Although it is difficult to pinpoint the existence or extent of labour shortages in Nova Scotia, there have been several reports of positions, which are hard to fill. According to a survey by the Business Development Bank, half of entrepreneurs surveyed in Atlantic Canada reported difficulty hiring new employees. This was the highest rate among regions in Canada.[37] Labour shortages, skills shortages, and skills mismatches have the potential to negatively impact individual well-being and dampen growth, productivity, and competitiveness.[38] When the economy is doing well and approaching full employment, the labour market can tighten. This was the case in Canada, in general, and in Nova Scotia through most of 2018. Job vacancies rose in all provinces that year. Nova Scotia's job vacancy rate was 2.7% in the fourth quarter (Q4) of 2018; up from 2.5% in (Q4) 2017 while the national job vacancy rate grew from 2.9% to 3.3% over this period.

Figure 14: Job Vacancy Rates

Q4 2017 – Q4 2018



Source: Statistics Canada. Table 14-10-0325-01 Job vacancies, payroll employees, job vacancy rate, and average offered hourly wage by provinces and territories, quarterly, unadjusted for seasonality

Positions can remain vacant for a number of reasons (tighter labour markets, demanding hiring criteria, or working conditions for example). Long-term vacancies offer another perspective on labour availability. Long-term vacancies (i.e. positions vacant for 90 days or more) represented 12.6% of all vacancies in Canada in Q4 2018. New Brunswick had the highest proportion of long-term vacancies among provinces at 17.1% (1,575). By contrast, Nova Scotia had the lowest proportion of long-term vacancies among provinces, with 10.0% (1,115).[39]

Many of the positions that have been reported to be hard to fill in Nova Scotia occur in the health care industry and are related to increasing demand for health services given the province's ageing demographic. This includes nurses, nurse practitioners and mental health specialists, but specifically those working in rural areas and specialty disciplines. Other positions that have been difficult to fill include lab technologists, midwives, and continuing care assistants in long-term care homes. In the education industry, while there are many teachers available to work, there is a need to fill positions for teachers of French immersion and high school math. Early

[36] Industry Canada Trade Data Online, Accessed: 2019-03-22
[37] Business Development Bank of Canada. Labour Shortages: Here to Stay Accessed: April 1, 2019. https://www.bdc.ca/en/documents/analysis_research/labour-shortage.pdf
[38] Labour Market Information Council. LMI Insights Issue No. 3 Accessed: April 1,2019. https://lmic-cimt.ca/wp-content/uploads/2018/10/LMI-Insights-No.-3.pdf
[39] Statistics Canada. Table 14-10-0328-01 Job vacancies, proportion of job vacancies and average offered hourly wage by selected characteristics, quarterly, unadjusted for seasonality

childhood educators are also in need as a result of the province's new pre-primary program. Seasonality and proximity to urban areas has been an issue for other occupations including chefs, kitchen staff and other seasonal workers, particularly in rural areas of the province and at peak tourism months. Similarly, fishing industry labourers in rural area have been difficult to find. For some of the above positions, particularly those offered in rural areas, short-term labour shortages are more likely. Nonetheless, tighter labour markets across Canada may increasingly constrain the labour market, particularly in light of the ageing of the population and increased urbanization.

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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