Environmental Scan

Newfoundland and Labrador

2018

KEY HIGHLIGHTS

- Global economic conditions improved in 2017 thanks to higher-than-expected growth in advanced economies. Looking towards 2018 and 2019, global growth is anticipated to remain elevated and stabilize at around 3.5% per year.

- The United States, easily the Atlantic region's most important trading partner, is on course to surpass its longest economic recovery on record. The rise in real GDP growth from 1.9% in 2016 to 2.3% last year was made possible because of a sharp acceleration in the second half of the year. The average pace of monthly job gains have moderated somewhat, but not enough to keep the unemployment rate, currently at 4.1%, from falling further. Otherwise, as rising wage growth leads to higher inflation, the Federal Reserve will respond by raising the fed funds rate even faster in 2018. Against this backdrop, U.S. real GDP growth is expected to slow from 2.6% in 2018 to 2.3% in 2019.

- In Canada, economic growth rebounded considerably in 2017, after being subdued by temporary factors such as raging wildfires in the western provinces in 2016. Indeed, the Bank of Canada estimates that real GDP grew by 3.0% last year, due in large part to a significant rebound in energy exports and stronger growth in household spending. A gradual slowdown in the pace of employment gains combined with a moderation in household income growth is expected to limit economic growth to 2.2% in 2018 and 1.6% in 2019.

- The Newfoundland and Labrador labour market has weakened for the past four years, with further job losses expected over the next few years. Capital investment is expected to continue on its downward trend as major project activity declines. As the provincial government works to reduce a considerable budget deficit, it is exercising greater fiscal discipline. The impact of these measures will be felt across all sectors of the economy. While the start of production at the Hebron Oil Project will raise royalties for the government, key industries such as the fishery sector face very challenging circumstances, with considerable declines in the shellfish stock, and ground fish still years away from generating any significant revenues.

- The province also faces considerable demographic challenges, with an aging population, low birth rates and relatively low immigration levels. However, improvements have been made in attracting immigrants to the province and the provincial government is focused on increasing this significantly.

GENERAL OVERVIEW / ECONOMIC CONTEXT

The Global Economy: *Global economic activity continues to strengthen amidst a more positive outlook for advanced economies*

After strengthening towards the latter half of 2016, global economic conditions gained further momentum throughout most of 2017. For the year as a whole, global real GDP is estimated to have expanded by 3.6% in 2017, up from the 3.0% pace in 2016. Looking ahead, economic growth is expected to stabilize around the 3.5% mark in 2018 and 2019.

The strength in global economic activity has been supported by sustained growth in emerging-market economies and higher-than-expected growth in advanced economies. Improvements among the latter have been broad based, although growth in Europe and, Asia in particular, easily surpassed expectations. Despite political instability in certain member nations, growth in the euro area has been fairly widespread and labour market conditions continue to improve. Negotiations surrounding the United Kingdom's exit from the European Union are ongoing and pose a moderate risk to the economies in the region. Below target inflation across many advanced economies has allowed central banks to keep interest rates near historic lows. As labour market conditions continue to strengthen and exert upward pressure on inflation, central banks will respond by gradually raising interest rates further in the near future.

The U.S. economy, easily the Atlantic region's most important export market, is on course to match its longest recovery period on record. Following a slow start to 2017, economic activity in the U.S. strengthened considerably in the second half, due mainly to a sharp acceleration in household spending that resulted from steady employment gains and elevated consumer confidence. Business investment strengthened for much of the year, reflecting a growing contribution from the energy sector and, more recently, fiscal measures (including tax cuts) and trade policy reforms. Despite rising mortgage rates, housing remains affordable and starts continue climbing towards pre-recession levels. Labour market conditions remain healthy, and the average pace of monthly employment gains remain over 150,000, which is unprecedented given the late-stage of the recovery. The unemployment rate declined further throughout 2017, and currently sits at 4.1%. Despite a labour market that is operating so close to full employment, wage growth has only recently begun to accelerate.

Economic growth in the U.S. is anticipated to remain elevated in the near-term, as a depreciation in the trade-weighted currency supports further contributions from net trade. Economic activity will receive a small boost from recent tax measures, including cuts to personal and corporate income taxes. The added strain on the fiscal deficit might prompt investors to eventually require higher yields on U.S. debt, however, exerting upward pressure on long-term interest rates. The extent to which these stimulus measures impact inflation will determine how fast the Federal Reserve will be required to raise interest rates. The bottom line is that interest rates will inevitably rise over the outlook period, which will trigger a gradual slowdown in business and consumer spending. Against this backdrop, after strengthening to around 2.6% in 2018, real GDP growth in the U.S. will slow to around 2.3% in 2019.

Table 1: Projection for global economic growth

	Projected growth (%)		
	2017	**2018**	**2019**
United States	2.3 (2.2)	2.6 (2.2)	2.3 (2.0)
Rest of the World	1.4 (1.4)	2.0 (2.2)	2.5 (2.8)
China	6.8 (6.8)	6.4 (6.4)	6.3 (6.3)
Oil-importing (Emerging Markets Economies)	4.3 (4.0)	4.2 (4.0)	4.2 (4.2)
Euro Area	2.5 (2.3)	2.2 (1.8)	1.6 (1.6)
World	3.6 (3.4)	3.6 (3.4)	3.5 (3.5)

Sources: Bank of Canada, *Monetary Policy Report, January 2018*
Numbers in parenthesis are projections used in the Bank of Canada's previous Monetary Policy Report (October 2017)

Global economic growth is projected to remain more stable, with real GDP expanding by 3.6% in 2018 and 3.5% in 2019. After being a key contributor to global growth, the Chinese economy will contribute only slightly to global growth, as its rate of expansion slows from 6.8% in 2017 to 6.4% in 2018 and 6.3% in 2019. Among developed economies, growth will be stronger in the U.S., but diminish in the euro area as domestic demand softens. In particular, some of these economies are approaching full employment, which suggests that employment growth will diminish and weigh on consumer spending. At the same time, rising inflation will prompt central banks to raise interest rates. Otherwise, some uncertainty surrounds the outlook, much of which revolves around geopolitical developments and trade policies, such as rising protectionism, and the impacts this will have on business investment and trade. Structural challenges such as aging demographics and weak productivity growth represent a source of risk over the longer-term.

Canada: Economic activity rebounds in 2017, though uncertainty regarding international trade could impact future growth

Economic growth rebounded sharply in 2017, following limited gains in 2016. Growth was more pronounced during the first half of the year, however, moderating over the final two quarters. The Bank of Canada estimates that real GDP grew by 3.0% in 2017 thanks to a strong contribution from consumption, but limited to some extent by net exports, which is estimated to have subtracted from growth. A gradual slowdown in the pace of employment gains, coupled with a moderation in household income growth, is expected to limit economic growth to 2.2% in 2018 and 1.6% in 2019.

Both the goods-producing and services-producing sectors contributed to growth in 2017. Having been the main driver of growth for a number of years, the services-producing sector is expected to be the more sustainable source of growth over the medium-term. Still, after having been battered by low commodity prices over the past two years, the goods-producing sector underwent a considerable expansion, with a significant contribution from mining, quarrying, and oil and gas extraction. The value of the Canadian dollar remains relatively low, and this should continue to provide some support to exporters in the near term.

The primary contributor to growth in 2017 was household expenditures, supported by steady employment gains and rising wage growth. Despite policy measures aimed at cooling overvalued housing markets in some of the larger urban centers, starts reached nearly 220,000 in 2017, marking the highest level of activity in a decade. While financial conditions remained accommodative throughout the year, future interest rate hikes from the Bank of Canada will begin to weigh not only on housing, but consumption also, particularly rate-sensitive durable goods. Elevated levels of household debt and tighter mortgage lending guidelines will amplify the impacts of higher interest rates on consumption.

Business investment received a strong contribution from public infrastructure spending in 2017. At an aggregate level, the economy is operating at close to full capacity, which means that many firms will require additional investment to meet growing external demand. One notable exception is the energy sector, which continues to operate below capacity, leaving little incentive for investment despite rising energy prices. Significant cuts to corporate and personal income tax rates in the U.S. also risk weighing on business investment, leaving many Canadian businesses at a competitive disadvantage.

Despite all of this, exports are projected to rebound moderately, due to stable demand among trading partners in developed economies. A growing trend towards increasingly protectionist trade policies - particularly in the U.S. - introduces a significant degree of uncertainty to the Canadian outlook. The U.S. has already begun levying duties on aircraft, softwood lumber products and newsprint.

Ongoing North American Free Trade Agreement (NAFTA) negotiations certainly add another layer of uncertainty going forward, in part because there are so many variables and unknowns. Regardless, the U.S. accounts for nearly 80% of Canada's exports and changes to NAFTA, or even a complete withdrawal from the agreement, will have a noticeable impact on overall economic activity. A complete termination of NAFTA means that trade between the two countries will likely be operated under World Trade Organization (WTO) rules, which would bring the return of long-abandoned tariffs in several industries.

Newfoundland and Labrador: *A struggling economy for the next few years*

The province had a challenging year in 2017. Capital investment declined as construction was completed on the Hebron Oil Project. Spending on Muskrat Falls Hydroelectric development remained strong, but consumer spending weakened and government spending was restrained. With a struggling labour market and lower business investment, the Conference Board of Canada forecasts a decline in real gross domestic product (GDP) of 3.1% in 2017. This is the weakest economic performance in the country. With the start of production in the Hebron offshore oil field, the Conference Board of Canada forecasts an increase of 2.4% in real GDP in 2018 and 4.1% in 2019, despite falling employment levels.

Oil royalties play a significant role in provincial government revenues. Earlier in the decade when oil prices were higher, these royalties have typically represented over 30 cents on every dollar the provincial government has received. Falling oil prices and production have had a negative impact on the provincial government's fiscal position. A lower than expected price of oil was the main reason why the provincial government raised its budgeted deficit for 2015/16 from $1.1 billion to more than $1.9 billion in the matter of six months. This time around, with oil prices rising, the provincial government expects its deficit to be a reduced $812 million in 2017/18, before falling to $683 million in 2018/19.

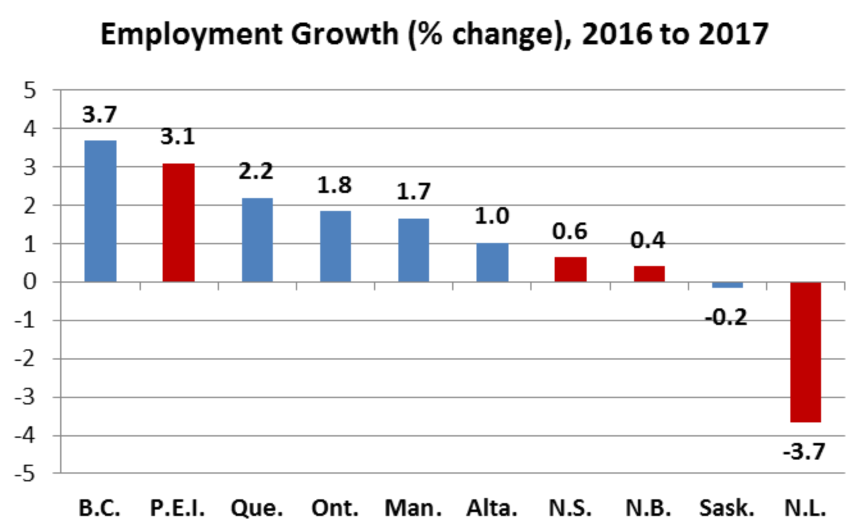
Despite some improvement in oil prices, new investment in projects related to the Alberta Oil Sands is expected to remain relatively low. A number of drilling rigs in Alberta are moving to Texas to take advantage of better prospects. The reduced activity in Alberta has a direct impact on workers from Newfoundland and Labrador who would typically commute there to work. The impact associated with reduced activity in Alberta extends beyond the direct income reduction. Businesses that rely on income from economic activity in Alberta 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 and net outflows of youth to other provinces has resulted in a population that is among the oldest in Canada. This challenge may intensify as fewer employment opportunities prompt more to leave. Rural parts of the province are older and aging faster than urban areas. The aging population poses a challenge to providing necessary manpower for the development of projects in the province, which could restrain economic activity in general. Immigration is seen as a very important piece in the economic future of the province, not only from the perspective of sustaining the province's population, but also in having a highly-skilled workforce that is able to fill the more specialized positions. The provincial government's budget for 2018/19 included a continued focus on increasing immigration levels by 50% to 1,700 newcomers by 2022.

LABOUR MARKET

Canada: L*abour market expands at fastest pace since pre-recession*

The Canadian labour market showed some improvements in 2017. The majority of the near 400,000 increase in employment was concentrated in full-time and high-paying jobs. With the exception of P.E.I., employment growth was strongest in the three largest provinces in the country (B.C., Que., and Ont.). Otherwise, only Newfoundland and Labrador registered a meaningful decline.



Source: Statistics Canada, Labour Force Survey

The unemployment rate fell from 7.0% in 2016 to 6.3% last year, as the pace of employment gains outpaced the rise in the labour force. Despite the small increase in the participation rate, it remains nearly two full percentage points below its pre-recession level and is projected to fall further over the outlook period.

The number of older workers (aged 55 and over) grew by 3.8% in 2017, while the unemployment rate among this cohort settled at 5.6%. Workers in this age group are accounting for a growing share of the overall employment base. This is both a reflection of the rise in the number of people in this age category and their rate of participation in the labour force, which has grown by nearly five percentage points in the past decade alone.

The youth (15 to 24 years) unemployment rate continued to trend downward in 2017, settling at a record-low of 10.1%. Among prime-age workers, employment grew by 1.4%, lowering the unemployment rate to 5.4%.

Compared to the previous year, employment in the services-producing sector grew by nearly 294,000 in 2017, easily surpassing the 43,000 gain in the goods-producing sector. The 64,000 employment gain in Wholesale and retail trade was highest among all industries in 2017. Significant gains were also registered in Professional, scientific and technical services (+55,000) and Health care and social assistance (+44,000).

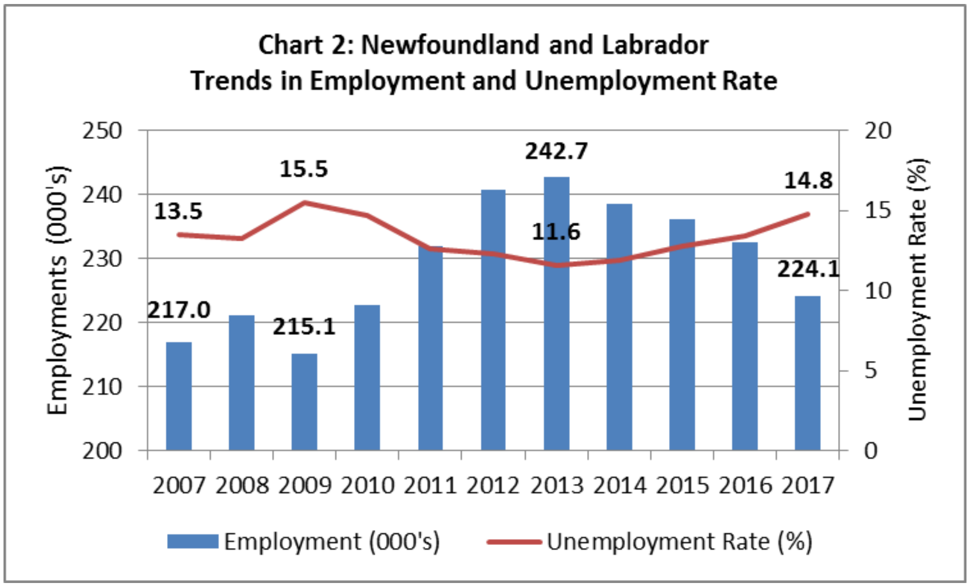
Newfoundland and Labrador: Employment levels will decline for the next few years

Labour market conditions in Newfoundland and Labrador have deteriorated over the last four years. In 2017, the unemployment rate increased for the fourth year in a row after it reached a record low of 11.6% in 2013. This was mainly because employment shrank nearly twice as fast as the labour force. The unemployment rate hasn't been this elevated since 2009, when it reached 15.5%. Meanwhile, since hitting a record high of 62.0% in 2012, the rate of participation fell to 59.0% in 2017, as optimism in the labour market deteriorated. The labour force has now shrunk by close to 12,000 over the past five years.

Between 2013 and 2017, the size of the labour force for those aged 25 to 54 years declined by 10,300 or 5.6%. The youth (aged 15-24 years) labour force decreased by 2,100 or 5.8%, while those aged 55 years or older became more numerous (900 or 1.6%). Over 80% of the employment decline over this time belonged to those in the core working age group (25 to 54 years), which lost 15,100 jobs. Youth employment decreased by 2,200, while the smallest employment decline was for those 55 years and older (-1,300). The province's population has been aging, with more people approaching the later stages of their working careers. At the same time, there are fewer youth available to fill these vacant positions, in addition to a shrinking number of people who are in their prime working age.

Since reaching a record high in 2013, the level of employment has trended downwards. The decline in employment has been evenly split between the Goods-producing and Services-producing industries. However, the rate of decline has been much sharper in the smaller Goods-producing sector (-16.0% for goods compared to -5.1% for services). Most of the decline in the services sector over the four year period has been in Public administration (-4,200), Other services such as Repair and Maintenance and Personal services (-3,400), and Educational services (-2,900). The decline in Public administration brought the level of employment in the sector to its lowest level since 2006. A weak housing market, meanwhile, helped bring the level of employment in Finance, insurance and real estate to a 30-year low. Employment in Educational services fell to a 40-year low. Health care and social assistance increased slightly to tie its record high set in 2013.

Most of the job losses in the Goods-producing sector since 2013 have been in Mining, quarrying, and oil and gas extraction (-5,200). Manufacturing lost 2,600 jobs over this period, and the level of employment is now at its lowest point on record. Fishing, hunting and trapping employment also fell to a new low last year. While construction employment is down from its high in 2013, the number of jobs in the industry nevertheless remains elevated from a historical perspective.



Source: Statistics Canada, Labour Force Survey Estimates

Labour market conditions in the province are expected to weaken further over the next few years. The provincial economy has been negatively affected by relatively low prices for commodities such as oil, nickel, and iron ore. In addition, construction activity on major projects has been declining with the completion of the Hebron Oil Project and the progression past peak employment in the Muskrat Falls Hydroelectric Project.

The mining industry was hit hard in recent years, particularly in Labrador West. Wabush Mines ceased operations in February of 2014, resulting in approximately 500 job losses. The Iron Ore Company of Canada's (IOC) operations in Labrador City has also experienced challenges. While iron ore prices have rebounded somewhat since the start of 2016, they remain at less than half their peak in 2011. However, recent developments are expected to boost the long-term prospects of the mining industry. IOC began construction of the Wabush 3 expansion project. This will increase output by five million tonnes per year and extend the life of IOC's operations in the region by twelve years. IOC also wants to expand the boundaries of the Magy Pit in Labrador West. Tacora Resources, meanwhile, has purchased the old Scully Mine in Wabush and is working towards making it operational. This is very good news for an area with such a strong reliance on the mining industry. Elsewhere, low nickel prices have resulted in a decision by Vale to reassess all projects, including a proposed underground expansion at Voisey's Bay. As a result, the proposed project has been put on hold.

In November of 2017, the first barrel of oil was pumped at the Hebron oil project, joining Hibernia, Terra Nova and White Rose as offshore operations. The three fields that have been producing oil for years are now in the mature phase of operations, with offshore production notably lower than its peak a decade earlier. However, there have been numerous expansion activities that have extended their lifespan, including Hibernia South and the South White Rose Extension. Hibernia is now expected to continue producing until at least 2040. Husky Energy's announcement that it is proceeding on its West White Rose project is also another sign of optimism for the provincial oil industry. The duration of the construction phase, which involves the development of a Concrete Gravity Base Structure in Argentina and living quarters fabricated in Marystown, is expected to be around four years, with first oil expected in 2022. The construction phase is estimated to create 5,000 person years of direct employment. Another positive development in the oil industry pertains to the potential that exists offshore in the Flemish Pass Basin. While Statoil did not find oil in areas drilled in mid-2017, there continues to be notable exploration activity. Either way, any development of these exploration areas remains years away.

Construction employment has been in gradual decline since reaching a record high in 2013. Construction on the Muskrat Falls Hydroelectric Project is beyond its peak, while construction activity related to the Hebron Oil Project reached completion in 2017. Housing starts in 2017 showed little change and are expected to trend somewhat lower over the next few years. Construction on the West White Rose oil project will proceed, but the project is notably smaller than Hebron and will not completely fill the void in employment left its completion.

The fishery sector faces challenging circumstances. In particular, there have been notable cuts to quotas for shrimp and crab, which have been the industry's main source of revenue over the past decade. The stock of shrimp in Zone 6, which is an important area for this species along the Northeast Coast to Southern Labrador, was designated as "critical" and, as a result, additional measures were applied to further reduce the shrimp quota, which was eventually cut by 63% in this zone in 2017. Total Allowable Catch for snow crab was cut by 22% in the same year, but notably higher crab prices allowed for a 5.2% increase in the commercial value of landings. Fish processing employment has been negatively affected by quota cuts as the lack of supply resulted in plant closures and fewer weeks worked for those who remained employed. While ground fish has shown signs of growth in recent years, it is far away from developing commercially to the point of being able to replace shellfish. In fact, the northern cod stock declined over the past year.

The tourism industry has benefitted from a low Canadian dollar, making it relatively cheaper to visit the province compared to earlier in the decade. The provincial government has placed significant investment in the promotion of the province as a tourist destination. As of December 31, 2017, there were 101,881 non-resident visitations by automobile, up 0.9% over 2016. Other tourism indicators also point to a positive year. Examples include an increase in occupancy rates, the number of visits to national historical sites, and passenger movements on Marine Atlantic. Massive icebergs received international attention and boosted tourist activity in 2017. Gander airport reported a passenger increase in 2017, while the St. John's airport continues to undergo a multi-year expansion. Tourism is seen as a key sector in diversifying rural economies that have been heavily dependent on the fishery.

An aging population is expected to keep demand for Health care services elevated in the province. Employment in Health care has trended upwards over the past decade and reached a record high in 2017. While the industry is expected to be a major source of employment over the next few years, employment growth will inevitably reach a limit as expenditures reach their peak.

Employment in Education is affected by two key factors - 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 fiscal restraint.

The number of jobs in Public administration has declined considerably since 2013, when it reached a high of 19,300. Employment in 2017 was 15,100, down 22% over the course of a four year period. Looking ahead, growth prospects through 2019 will be hampered by budgetary challenges.

The Regional Occupational Outlooks in Canada (ROOC) forecast, produced by Service Canada, anticipates a decline in employment over the 2017-2019 forecast period. Most of the job losses over this period are expected to be in Construction and Retail trade.

Economic Regions

The labour market performance varies considerably among economic regions in Newfoundland and Labrador. While labour market conditions in the Avalon Peninsula have been generally positive, they have deteriorated in the other regions. 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 8.4% in 2017). The working age population of the Avalon Peninsula has continued to expand while it has fallen elsewhere to varying degrees. The sharpest decline has been in the South Coast-Burin Peninsula and Notre Dame-Central Bonavista Bay economic region, which registered a 3.6% drop in its working age population. The decrease was less notable (-0.9%) in the West Coast-Northern Peninsula-Labrador region.

Working Age Population 15+ (000's) by Economic Region
2007-2017

	2007	2017	Change	% Change
Newfoundland and Labrador	**425.5**	**445.5**	**20.0**	**4.7%**
Avalon Peninsula	212.0	237.3	25.3	11.9%
South Coast-Burin Peninsula and Notre Dame-Central Bonavista Bay	126.0	121.5	-4.5	-3.6%
West Coast-Northern Peninsula-Labrador	87.5	86.7	-0.8	-0.9%

Source: Statistics Canada, Labour Force Survey

Changes in the size of the labour force mirror the change in the size of the working age population for the various economic regions within the province. The Avalon Peninsula's labour force has increased by 15,300 participants (+11.6%) between 2007 and 2017, with this growth being attributed to the St. John's Census Metropolitan Area (CMA). The labour force in the South Coast-Burin Peninsula and Notre Dame-Central Bonavista Bay region shrank by 2,200, or 3.3%. By comparison, the West Coast-Northern Peninsula-Labrador region showed a smaller reduction in labour force size (-1,100 or -2.1%) over the past decade.

Employment has followed a similar pattern, with the Avalon Peninsula accounting for most of the province's employment growth over the past ten years, increasing by 12,600 jobs, representing a 10.6% gain. Employment levels in the South Coast-Burin Peninsula and Notre Dame-Central Bonavista Bay region declined by 3,500 jobs or 6.5% over the same ten-year period. The West Coast-Northern Peninsula-Labrador region, in comparison, had a smaller decline of 1,900 jobs between 2007 and 2017 (down 4.3%).

Employment (000's) by Economic Region
2007-2017

	2007	2017	Change	% Change
Newfoundland and Labrador	**217.0**	**224.1**	**7.1**	**3.3%**
Avalon Peninsula	118.9	131.5	12.6	10.6%
South Coast-Burin Peninsula and Notre Dame-Central Bonavista Bay	54.0	50.5	-3.5	-6.5%
West Coast-Northern Peninsula-Labrador	44.1	42.2	-1.9	-4.3%

Source: Statistics Canada, Labour Force Survey

Of note, growth in the Avalon Peninsula has diminished over the past four years, especially from the rapid pace between 2010 and 2012. While the size of the labour force remains high, employment has declined by 10,000 jobs since 2012 (down 7.1%), with the losses being full-time in nature.

Despite an increasing unemployment rate in recent years, the Avalon Peninsula is the only economic region with an unemployment rate lower than at the provincial level (11.0% vs 14.8% in 2017). Nonetheless, it still exceeded its rate a decade earlier (10.2%). Elsewhere, the unemployment rate of 21.5% in the South Coast-Burin Peninsula and Notre Dame-Central Bonavista Bay region in 2017 was up from 18.7% ten years earlier. Key factors behind this increase included a challenging year in the fishery sector and the completion of construction on the Hebron Oil Project. In the West Coast-Northern Peninsula-Labrador region, the unemployment rate of 17.5% in 2017 was 2.1 percentage points higher than it was ten years earlier. Employment declined faster than the labour force, with most of the losses being full-time in nature. While Construction employment has grown from a decade ago due to work on the Muskrat Falls Hydroelectric Project, other industries such as mining, paper manufacturing, and fish processing employ fewer people.

KEY CHALLENGES AFFECTING THE ATLANTIC REGION'S LABOUR MARKET

Demographic Challenge

Newfoundland and Labrador is aging more rapidly than the rest of Canada. At the time of the 2016 Census, 19.4% of the population was over the age of 65, one of the highest rates in the country. Furthermore, 14.3% of the population was under 15 years of age, lowest in the country. The number of deaths exceeded the number of births for six straight years, while the gap between the two widened over the period. This trend is expected to continue. With the province in the middle of an economic downturn, these demographic challenges will only intensify as younger workers relocate for employment opportunities elsewhere. Combined, these trends are expected to have a negative impact on the labour market and public finances, with fewer workers and more retirees. The share of seniors earning low income in the province has risen considerably, increasing from 3.7% in 1995 to 27.6% in 2015 (highest in the country).

Low fertility rates and continued net interprovincial out-migration means that population growth in the province will depend entirely on international migration. More generally, immigration will remain a key tool in addressing demographic and labour market challenges in the years ahead.

Trade Uncertainty

Recent geopolitical events and a growing protectionist sentiment in the U.S. have heightened concerns around international relations and trade stability. Important trade agreements for Canada as well as Newfoundland and Labrador, such as NAFTA, face uncertain futures, and many Canadian industries stand poised for possible trade barriers (tariffs) to enter the U.S. market. While softwood lumber producers in the province have been exempted from paying any U.S. duties on lumber shipments, Corner Brook Pulp and Paper faces a 32.09% tariff on uncoated ground wood paper (i.e. newsprint) that could cost the company more than $30 million a year. The mill directly employs 300 workers.

The implications of new agreements for the labour market are potentially significant, given the province's relatively large exposure to trade. This issue could pose a higher risk to some of the smaller communities in the province, considering that rural regions have a much higher dependence on export-oriented industries such as agriculture and manufacturing.

Rural-Urban Divide

Newfoundland and Labrador has one of the most rural populations in the industrialized world, which partly explains the province's weaker economic and labour market conditions compared to the rest of Canada. Whereas employment grew by more than 9,000 in jurisdictions with more than 10,000 people between 2011 and 2017, it declined by 17,000 in smaller population centres over the same period. The gap in labour market prospects between urban and rural areas has widened faster than elsewhere in the country.

In Canada, the level of employment in areas with 10,000 people or more grew by 9.4% during the same period, while it fell by 5.6% in the smaller population centers. In comparison, while employment grew by 7.1% in the larger communities of Newfoundland and Labrador, it fell by 16.5% in areas with less than 10,000 people. The unemployment rate for the larger communities in the province was 9.3% in 2017, compared to 22.3% for smaller areas. These diverging trends reflect the concentration of export-oriented primary and resource-related manufacturing job losses in rural communities. Furthermore, chronic out-migration of the younger segments of the population is changing the composition of the labour force in rural parts of the province and exerting further pressures on the pool of available labour in these areas. For smaller communities, worker retention continues to be a challenge and encouraging in-migration won't be an easy task. The Harris Centre suggests adapting to the decline, working towards a more regional approach to governance and developing smarter approaches to industry and productivity.

Fiscal Challenges

Rising provincial government debt levels continue to pose a range of challenges to the province. The net debt-to-GDP ratio has risen considerably in recent years, which means that increasing shares of provincial government revenues are being allocated to servicing the debt. While Newfoundland and Labrador has made some improvement towards lowering its deficit, it remains considerably large, and a return to surplus is not expected until at least 2022-23. One of the implications of lowering deficits, however, is that households and businesses across the province carry a relatively higher tax burden. Attracting and retaining workers becomes that much more challenging, especially when trying to address certain labour shortages in higher-skill and better paid occupations. High corporate income taxes relative to the rest of the country also makes it challenging to attract investment and employment. In addition to the issues above, Newfoundland and Labrador's finance minister has described the deficit as unsustainable and has called on agencies, boards and crown corporations to find cost reductions and operational efficiencies. This province's financial position makes it more difficult to meet the demand for services such as health care, education, and other basic needs. A lower level of service may also make it more difficult to attract labour.

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