Environmental Scan

New Brunswick

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.

- Following several years of little to no growth, the New Brunswick labour market added a modest 2,000 jobs to the economy in 2017. Despite that increase, the province still has a ways to go before recovering job losses experienced in the aftermath of the 2008-2009 global recession. Although wage growth slowed somewhat from the rapid pace earlier in 2017, it was strong enough to support steady gains in household spending. More generally, the main drivers of growth last year were net trade and tourism, both of which received a boost from the relatively weak dollar. A similar contribution from these two factors is unlikely in the near term, however, which is a big reason why economic growth will moderate over the next few years. While record-high prices have kept softwood lumber producers relatively sheltered from duties imposed by the U.S., conditions could deteriorate rapidly once prices inevitably return to normal.

- New Brunswick's population grew for the second consecutive year in 2017. While fewer international refugees entered the province, admissions from the Provincial Nominee Program remain elevated. While population growth is expected to remain slightly above-average over the next couple of years, it likely won't be sufficient to reverse the gradual downward trajectory in the labour force.

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.

New Brunswick: *Economy expected to expand, though at a modest pace*

After suffering through an extended period of limited growth, economic activity strengthened in 2016 and 2017. Although down somewhat from its rapid pace earlier in 2017, wage growth remains relatively elevated and was the key contributor to the healthy rise in household spending. The main drivers of economic growth in 2017, however, were net trade and tourism, which both benefited from a weak currency. A similar contribution from these two factors moving forward, however, is unlikely, which is one of the main reasons why economic growth is projected to moderate to below 1.0% by 2019. At this current juncture, risks to the outlook appear tilted to the downside, particularly as far as exports are concerned. There is a considerable amount of uncertainty regarding trade policy, as NAFTA negotiations continue. Meanwhile, although record-high prices have kept softwood lumber producers relatively sheltered from duties imposed by the U.S. thus far, conditions could deteriorate rapidly once prices inevitably return to normal.

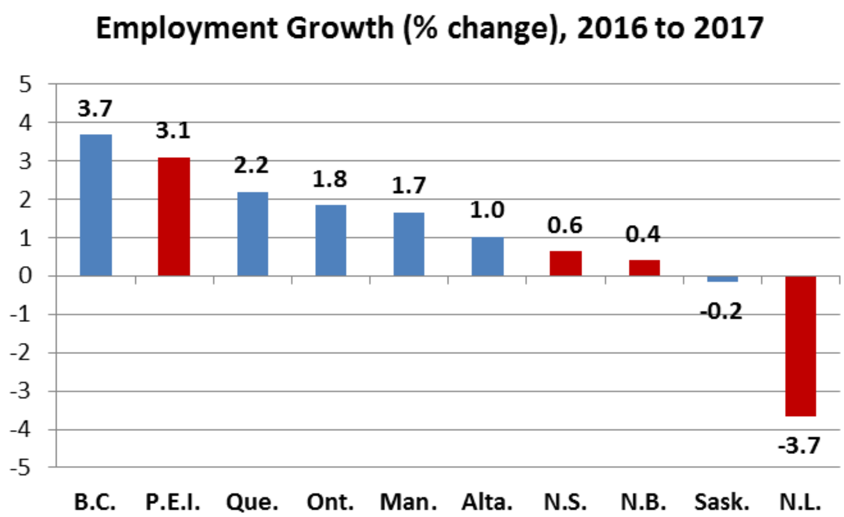
New Brunswick's population grew for the second consecutive year. While fewer international refugees entered the province in 2017, the level of Provincial Nominee Program admissions remains elevated. While population growth will remain slightly above average over the next couple of years, it won't be sufficient to prevent the labour force from shrinking.

Indeed, the province's first labour force expansion in four years in 2017 is likely to be short lived, at least during the outlook period. Labour force participation continues to decline throughout much of the province and this has driven down unemployment rates in most of New Brunswick's economic regions.

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

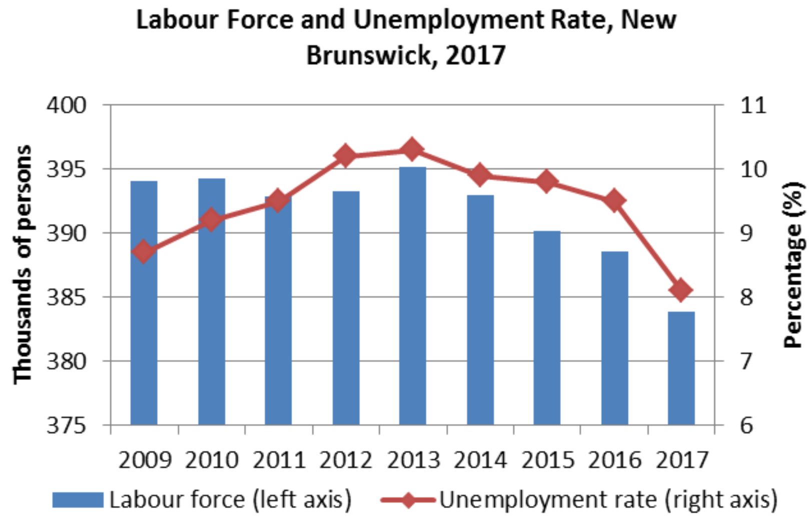
The unemployment rate fell from 7.0% in 2016 to 6.3% last year, as the pace of employment gains outpaced the rise in the labour force. Despite the small increase in the participation rate, it remains nearly two full percentage points below its pre-recession level and is projected to fall further over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

New Brunswick: Employment base expands for first time in four years, while *labour force continues to shrink*



Source: Statistics Canada, Labour Force Survey

Prior to 2017, labour market conditions in New Brunswick had been deteriorating for some time, with employment having fallen in seven of the prior eight years. Between 2009 and 2016, the New Brunswick labour force shed over 7,000 jobs. Accordingly, the 1,400 gain in 2017 represents a turning point, of sorts, with a gain in full-time employment more than offsetting a reduction in the number of part-time jobs (-4,000). At the same time, however, the participation rate continues to fall, as 4,700 people dropped out of the labour force over the same period. As a result of fewer people searching for work, the unemployment rate remained on its downward trajectory and fell to 8.1% 2017 from 9.5% a year earlier.

The province's working age population grew by 1,300 in 2017, aided primarily by continued support from international migration. While fewer international refugees entered the province in 2017, admissions related to the Provincial Nominee Program remained elevated. The increase in the working age population in recent years has been concentrated in the senior population (those aged 55 years and over). On the other hand, the number of youth (15 to 24 years) and core working (25 to 54 years) aged people have been in decline. This phenomenon has been compounded by interprovincial outflow in recent years, as younger groups leave in search of work elsewhere. Recent economic challenges in western Canada, however, have stemmed the tide of out-migration that has plagued the province for many years.

Looking ahead, labour market conditions are expected to be somewhat mixed over the next few years, as gradual but modest gains in employment are accompanied by a shrinking labour force, which should keep the unemployment rate on a downward trajectory. The latest projections from private sector forecasters suggest that the unemployment rate will decline only modestly during the outlook period.

Table 2: New Brunswick Labour Market

	2016	2017	Variation #	Variation %
Population 15 years and over	623,400	624,700	1,300	0.2%
Labour force	388,600	383,900	-4,700	-1.2%
Employment	351,500	352,900	1,400	0.4%
Full-time	296,500	301,900	5,400	1.8%
Part-time	55,000	51,000	-4,000	-7.3%
Unemployment	37,100	31,000	-6,100	-16.4%
Participation rate	62.3%	61.5%	-0.8	
Unemployment rate	9.5%	8.1%	-1.4	
Employment rate	56.4%	56.5%	0.1	
Source: Statistics Canada, Labour Force Survey				

On an industry basis, health care and social assistance posted the largest employment gain in 2017, adding 4,400 jobs. Growing demand on health and social services, as the province's population continues to age, has ultimately been the central driver of these recent employment gains. This trend is nothing new. The industry has added nearly 10,000 jobs in the last decade alone. The potential for additional employment gains of this magnitude moving forward has diminished, however, as health care providers adjust to mounting cost pressures.

Accommodation and food services also registered considerable gains in 2017, adding 1,500 jobs to the labour market. This improvement is partly attributable to strong tourism activity, aided in part by the competitive exchange rate. The number of visitors to the province has been higher than in past years and spending associated with these out-of-province visitors has likely helped drive some of the increase in spending on food services and drinking places in particular.

The 1,300 increase in Manufacturing employment reflected a sizeable increase in non-durables (+2,100). The latter echoes the surge in sales volume of Non-durable manufactured goods. The sharpest decline was registered in Retail trade, where 2,000 jobs were shed in 2017. Despite a significant increase in overall receipts from Retail trade in 2017, food and beverage stores, a key employer in the sector, registered a decline in employment. This might be in response to food retailers having been forced to find efficiencies in response to increased competition. Another notably large loss occurred in Transportation and warehousing, where employment declined by 1,800 in 2017 despite stronger manufacturing sales and trade activity. More generally, manufacturing employment remains in line with its long-term average, with this most recent drop bringing employment back to more normal levels.

Lastly, Information, culture and recreation employment registered a decline of 1,600 jobs. Fewer people are now employed in this industry than at any point in the past two decades.

Economic Regions: ***Deterioration in Fredericton-Oromocto labour market only temporary.***

After deteriorating for several years, labour market conditions in the Campbellton-Miramichi economic region improved in 2017, as employment grew by 2,300 jobs and 600 people entered the labour force. Combined, these two factors lowered the unemployment rate in the region by 2.0 percentage points to 13.8%, which, for all intents and purposes remains elevated. Unlike the rest of the province, the driving force behind the diminished labour force was not a shrinking participation rate. Indeed, the latter actually rose by almost a full percentage point in 2017, which was nonetheless insufficient to offset the decline in the working age population.

Despite having strengthened somewhat towards the end of 2017, labour market conditions in the Moncton-Richibucto economic region deteriorated for the year as a whole. Admittedly, there were no job losses, as the level of employment remained relatively unchanged. However, there was a marked decline in the participation rate, as more than 1,000 people stopped looking for work. The unemployment rate fell from 8.5% to 7.1%. More generally, labour market conditions are not expected to deteriorate much further, given the numerous investment projects currently in the works, including the $104 million sports and entertainment centre in downtown Moncton as well as several multi-unit residential projects.

Labour market conditions in the Saint John-St. Stephen economic region probably demonstrated the most improvement in 2017. The 1,800 rise in employment last year lowered the unemployment rate by 1.5 percentage points. The latter would have risen even further if not for an increase in the size of the labour force. Nonetheless, the rare 0.5 percentage point increase in the participation rate is encouraging, and represents the only increase in the province. More generally, the presence of several large employers in the region should keep employment fairly stable over the long-term. Ongoing investments, including the revitalization of the Port of Saint John and various wastewater projects, should continue to provide support to the region's job market.

Following some strong performances in recent years, the labour market in the Fredericton-Oromocto economic region became generally weaker in 2017. The 2.0 percentage point decline in the unemployment rate was entirely a reflection of the 3,400 people who left the labour force during the year. The 3.5 percentage point decline in the rate of participation was by far the biggest drop in the province. The diminishing participation rate is nothing new. Since peaking in 2010, the latter has fallen by more than seven percentage points. More generally, labour market conditions in the region should turn the corner relatively soon. The city of Fredericton is home to several large employers, including many provincial and federal government departments and two major universities. Meanwhile, new investment has also supported the local job market, including a $17.6 million development of Kingswood Cambria Suites hotel and water park near Fredericton. The region boasts the healthiest labour market in the province.

Most of the modest job gains in 2015 and 2016 were erased in 2017 in the Edmundston-Woodstock region, as the level of employment declined by 1,000. A slightly smaller decline in the labour force helped moderate the downward movement in the unemployment rate to 0.2 percentage points, leaving it at 7.2%. This region is probably most susceptible to the softwood lumber and now newsprint dispute between Canada and the United States. Some of this region's largest employers have ties to the forest sector, including Twin Rivers Paper Company with its Edmundston pulp mill.

Economic Region	Number Employed			Average Annual Change (%), 2007-2017	Year-over-Year Change (%), 2016-2017
	2007	2016	2017		
New Brunswick					
Campbelton-Miramichi	69.1	58.7	60.8	-12.0	3.6
Moncton-Richibucto	97.7	105.2	105.4	7.9	0.2
Saint John-St. Stephen	84.6	82.7	84.5	-0.1	2.2
Fredericton-Oromocto	66.8	67.4	65.7	-1.6	-2.5
Edmundston-Woodstock	38.4	37.3	36.3	-5.5	-2.7
Source: Statistics Canada, Labour Force Survey					

SOCIO-ECONOMIC CHALLENGES AFFECTING SERVICE DELIVERY IN THE ATLANTIC REGION

Demographic Challenge

The New Brunswick population is aging more rapidly than the rest of Canada. The number of individuals aged between 25 and 54, also known as the core working age group, fell by 9.9% in 2017. The population of individuals over the age of 55, meanwhile, grew by 30% during the same period and now accounts for roughly one out of every three New Brunswickers.

The ageing of the population, coupled with the out-migration of younger workers, is expected to exert further pressures on the labour market, public finances and health care delivery. As more baby boomers reach the age of 65, these pressures will accelerate, and managing pensions and overall public finances will become more challenging, especially as demand for health care services rapidly increases.

Trade Uncertainty

International exports represent a key source of revenue for many businesses in the province. The growing uncertainty around trade policy, particularly in the U.S., represents one of the most significant risks to the New Brunswick labour market. The $11.5 billion in goods exported to the U.S. accounted for 90% of the province’s merchandise exports in 2017. Ongoing negotiations between the three member countries to modernise NAFTA have made little progress. In the event that NAFTA is terminated, trade between Canada and the U.S. would likely operate under WTO ruling, which would bring the return of long-abandoned tariffs to certain industries. While the impact to the economy as a whole is not anticipated to be catastrophic, some sectors would be impacted much more than others.

The possibility of other sanctions represents another added layer of uncertainty. The U.S. has already begun levying duties on aircraft, softwood lumber products and newsprint. The U.S. Department of Commerce’s decision to impose countervailing and anti-dumping duties of between 9.9% and 20.8% on softwood lumber shipments could have a severe impact on the forestry sector once lumber prices inevitably retreat back to more normal levels. Indeed, 95% of the province’s wood product manufacturing exports were destined for U.S. markets in 2017.

Rural-Urban Divide

Despite years of rural outmigration to the province's urban areas and to other jurisdictions, New Brunswick remains one of the most rural populations in Canada. In 2016, nearly half (49.9%) of New Brunswick's population resided in its three largest urban centres: Moncton (CMA), Saint John (CMA) and Fredericton (CA). The movement of people to these larger cities has been particularly pronounced among younger generations, as they are more likely to leave their hometowns to pursue education and employment opportunities. With fewer young people and more people over the age of 55, the composition of the rural labour force is shifting dramatically and this is exerting pressures on the pool of available labour in these areas. An increase in retirements already risks leaving some businesses with skill shortages. Effective youth retention strategies will become all the more important.

Fiscal Challenges

After making steady progress towards its goal of balancing the budget by 2020-2021, the New Brunswick government deviated from its strategy in its 2018-2019 Budget, allocating increased spending on economic competitiveness, youth employment and seniors. Rising provincial government debt levels presents a significant risk to the province in the long term. As a percentage of GDP, net debt has grown to around 40%, which means that a significant share of provincial government revenues is going towards servicing the debt. While these payments are still sustainable at their current levels, they could become unmanageable in the future if debt levels grow too fast or interest rates rise.

The provincial government has taken measures to increase its revenue base. With corporate and personal income taxes already among the highest in the country, it will become increasingly difficult to raise taxes further in the future. Higher taxes also add to the labour shortages already existent in some sectors of the economy, particularly for higher-skill and better paid occupations. High corporate income taxes relative to the rest of the country also represents a competitiveness challenge for the province in trying to attract workers.

The aging population is one of the key factors exerting upward pressure on provincial expenditures. Most of these added pressures will be in the form of health care services, which ultimately will need to be supported by a stagnant (most likely shrinking) labour force. In general, government revenues will become increasingly reliant on pension income, which is taxed at a relatively low rate, resulting in even further downward pressure on revenues.

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