Environmental Scan

New Brunswick

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.

- Economic growth in New Brunswick has strenghtened over the past few years, but that pace will gradually slow over the outlook period due to demographic factors and weak investment in the absence of any major projects. After growing by 1.8% in 2017, real GDP growth is estimated to have diminished to 1.1% in 2018. Looking ahead, economic growth is projected to diminish further to 0.8% in 2019 and 0.7% in 2020.

- New Brunswick's population has grown for three consecutive years, supported by a strong surge in international migration. Looking ahead, however, the arrival of newcomers to the province will no longer be sufficient to keep that population growing. The natural rate of increase is now negative, which means that deaths have surpassed births. As this intensifies, the population will eventually begin to decline and cause the provincial labour force to shrink at a time when government spending pressures are mounting.

GENERAL OVERVIEW / ECONOMIC CONTEXT

Global growth to moderate in 2019

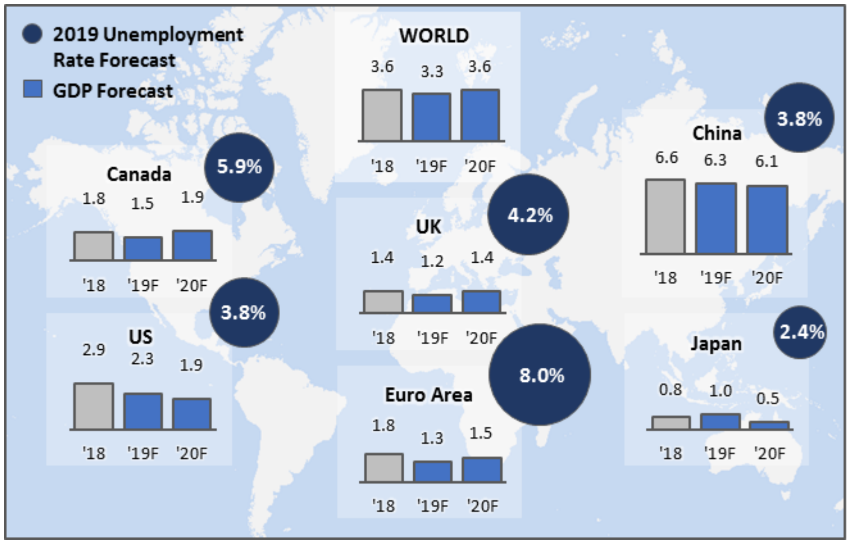
Though global growth accelerated in 2017 and 2018, a number of headwinds are ahead. The International Monetary Fund (IMF) is predicting global output will slow from a rate of 3.6% in 2018 to 3.3% in 2019 (Figure 1).

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

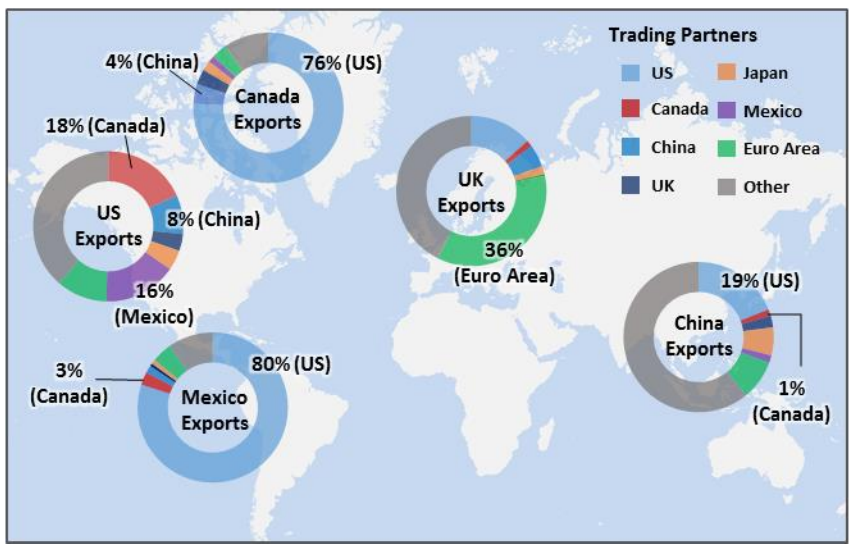
Real GDP Growth (annual % change, constant dollars) / Unemployment Rates (%)



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/

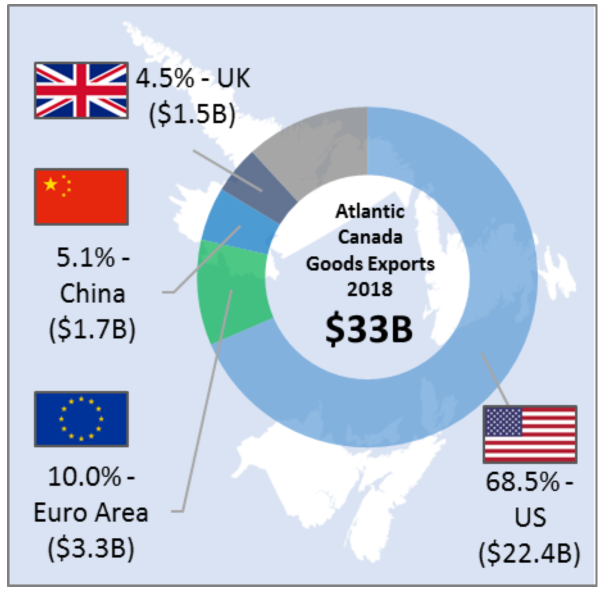
[2] International Monetary Fund, World Economic Outlook, January 2019 https://www.imf.org/en/Publications/WEO/Issues/2019/01/11/weo-update-january-2019

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]

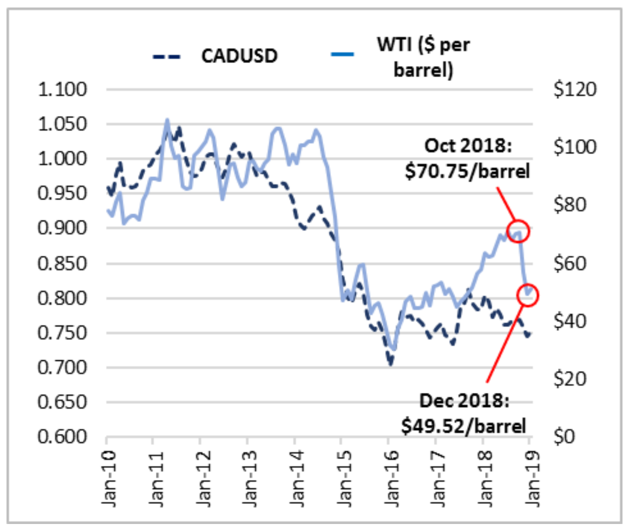
Despite trade and other uncertainties, other economic indicators suggest growth in advanced economies may be on a slower trajectory. Many central banks, including the Bank of Canada, U.S. Federal Reserve and European Central Bank, have taken notice of cooling economic growth and inflation and have put 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

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

market indicators have 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]

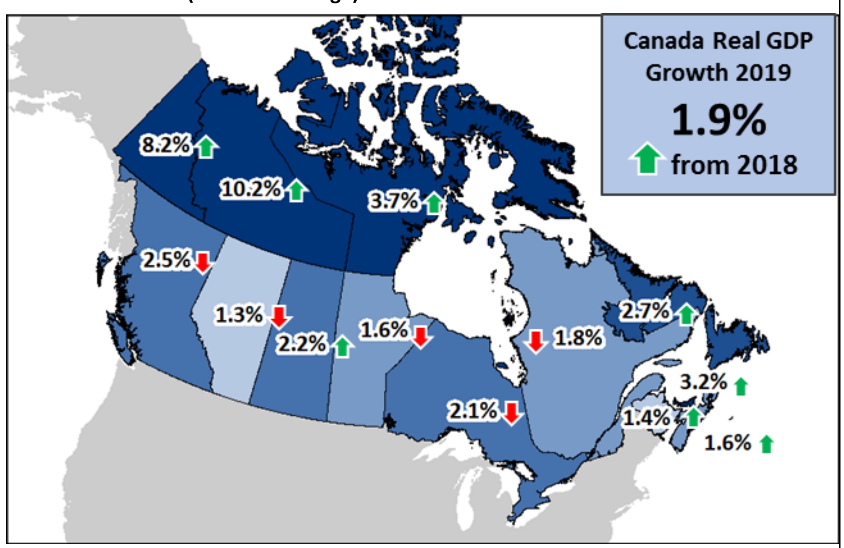
Weak oil prices to negatively impact Canada's growth in 2019

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 3). 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

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.

New Brunswick: *Economic growth to slow gradually*

Economic growth in the province has strenghtened over the past few years, but that pace will gradually slow over the outlook period due to demographic factors and the absence of any major projects. After growing by 1.8% in 2017, real GDP growth is estimated to have diminished to 1.1% in 2018. Looking ahead, economic growth is projected to diminish to 0.8% in 2019 and 0.7% in 2020.

Household income strengthened in 2018, supported by employment gains and an acceleration in wage growth. Average weekly earnings advanced at 2.8%, which doubled the pace a year earlier and surpassed the national average. Wages and salaries, meanwhile, grew at 4.0%, which outpaced the 3.3% increase a year earlier. It appears that rather than spend the additional income, households chose to pay down existing debt or save. Growth in retail sales slowed considerably last year, falling from 6.8% in 2017 to 1.3%, while the number of motor vehicles sold diminished by 7.8%, despite stronger incentives than usual at car dealerships. It appears that spending on rate-sensitive durable goods in general weakened last year as financing became more expensive. Interest rates, which had been at unprecedently low levels for close to a decade, rose much more rapidly in 2018 and are expected to rise gradually over the next few years as the Bank of Canada gradually raises interest rates to keep inflation and employment stable. While the average cost associated with carrying a mortgage in the province is relatively low compared to other jurisdictions across the country, it will grow alongside rising mortgage rates and housing prices. This will likely reduce the need for new home construction.

Net trade likely subtracted from economic growth in 2018 due to some temporary factors such as a drop in production at the Irving Oil Ltd's refinery in Saint John following an explosion last fall. Mining exports diminished because of reduced production at the Trevali Mining Corporation's Caribou mine because of low prices for metals. A reversal of these factors should contribute to growth in 2019. The beginning of production at Trevali's Restigouche mine some time this year is also encouraging. It does not appear as though the uncertainty surrounding trade (especially with the United States) weighed significantly on export activity in 2018. Nonetheless, the USMCA trade agreement should provide stability to exporters over the next couple of years. The signing of two additional trade agreements recently also means that exporters can engage in tariff-free trade with the majority of their trading partners.

It appears that instances of labour shortages are becoming more common across the province, particularly among industries where the need for skilled workers is the greatest. The sharp rise in the job vacancy rate in the health care and social assistance industry certainly seems to support this view. The difficulty in finding adequate professionals in the health care system has been well documented in the media across the past year. The challenges are particularly elevated among nursing and paramedic occupations. The apparent difficulty in filling some of these positions could perhaps explain the slowdown in the pace of job gains last year in the health care and social assistance industry. After rising by 4,400 in 2017, employment grew by 2,200 last year. More broadly, skill shortages as a whole across the province risk lowering the investment trajectory in the near term, as

https://www.bankofcanada.ca/2019/04/business-outlook-survey-spring-2019/

businesses allocate their efforts elsewhere. The potential for a shrinking labour force over the medium term risks not only lowering the productive capacity of an economy at a time where cost pressures for government services are rising, but also risks exacerbating the labour shortage problem even further. We have now entered a period where one of the main constraints to job growth in the near term is an overall shortage of labour.

As indicated in the most recent provincial budget, the government intends on focussing extensively on spending restraint. As such government expenditures will contribute little to economic growth, as revenues grow at a modest pace despite higher transfer payments from the Federal government. Business investment will likely remain subdued for the next couple of years due to the absence of major investment projects.

LABOUR MARKET

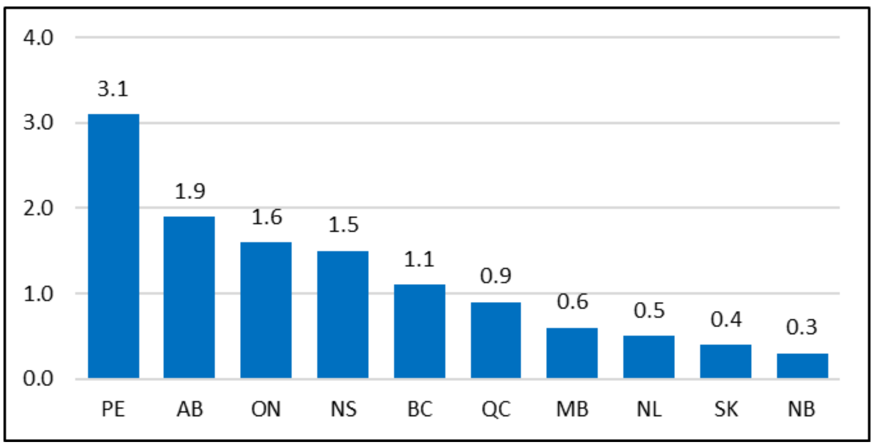
CANADA: Labour markets tighten across the country but real wages have yet to rise

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 6) 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.[10] Job vacancies increased in all provinces in 2018. British Columbia had the highest job vacancy rates.[11] In BC, for example, BuildForce Canada has noted that labour shortage in the construction sector contributed to project delays and cost concerns.[12]

Figure 6: 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 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.

[10] Business Development Bank of Canada (2018). Labour Shortages: Here to Stay
https://www.bdc.ca/en/documents/analysis_research/labour-shortage.pdf

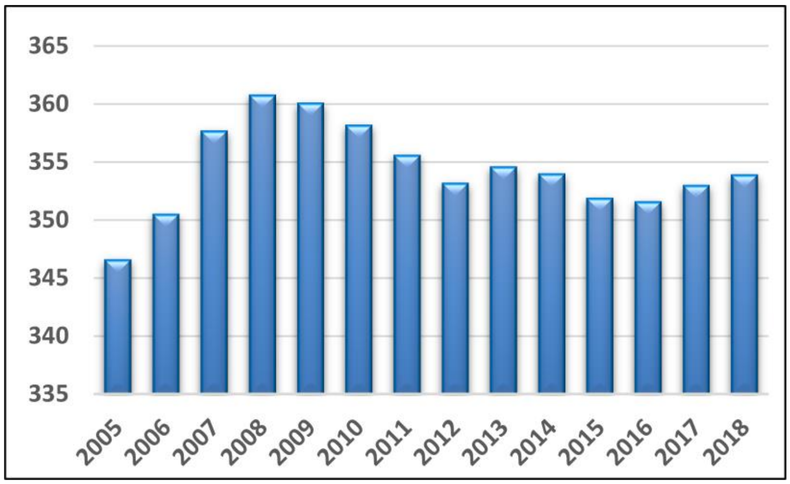
[11] Statistics Canada. Table 14-10-0325-01 Job vacancies, payroll employees, job vacancy rate, and average offered hourly wage by provinces and territories, quarterly, unadjusted for seasonality

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

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.[13] 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.[14]

New Brunswick: Employment base expands for second consecutive year

Figure 7 : Employment in New Brunswick (thousands), 2005 - 2018



Source : Statistics Canada, Table 14-10-0327-01

Labour market conditions improved somewhat in 2018, as employment grew for the second consecutive year, adding close to 1,000 jobs to the provincial economy. More generally, employment has remained essentially flat since 2012, meaning that only a small portion of the near-twelve thousand jobs that were lost in the aftermath of the 2008-2009 recession have been recovered. (See Figure 6.) In essence, this implies that economic growth over the past few years has been driven largely because of rising labour productivity.

The labour force has trended downwards for the better part of the past decade, and while the modest increase last year is encouraging, it is unlikely to be sustained. All indications are that the labour force will resume trending downward within the next year or two. The decline in the labour force in recent years is owed primarily to a shrinking participation rate. Persons over the age of 65, who have a much lower rate of attachment to the labour force, are accounting for an increasing share of the working age population. Algotether, after trending downwards for more than a decade, the participation rate will diminish from 61.3% in 2018 to around 60.5% in 2021, where it is expected to stabilize. (See Figure 7.)

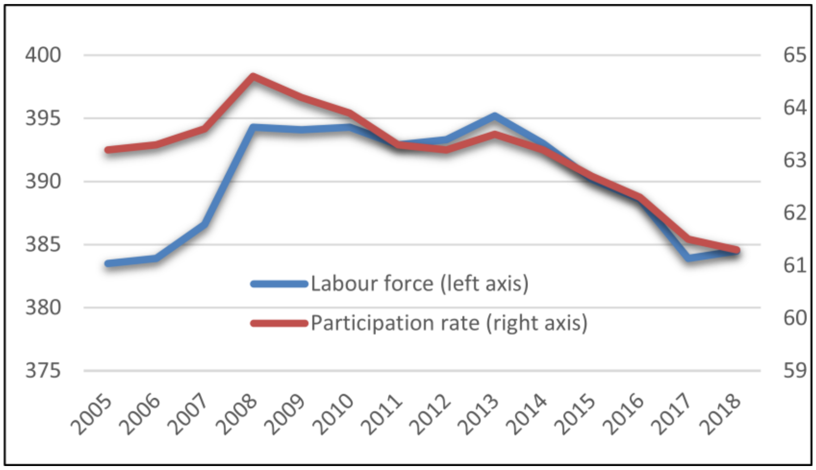
Even though employment growth was essentially flat over the past five years, the unemployment rate diminished considerably due to the shrinking of the labour force. At 8.0% in 2018, the unemployment rate is down considerably from 10.3% five years earlier. Moving foreward, the rate of unemployment should diminish gradually before settling at around 7.0% in 2021.

[13] 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
[14] Wilkins, Carolyn A. (2019). "A Look Under the Hood of Canada's Job Market". Bank of Canada Speeches.

The unusually strong population gain in New Brunswick last year reflects a sizeable contribution from net international migration. The number of newcomers to the province should remain elevated over the next couple of years as Ottawa recently raised its immigration targets until 2021. The Conference Board of Canada projects around 3,000 international migrants will land in the province over the medium term. Despite this, the population will likely begin to decline by around 2021 as the natural rate of population increase becomes increasingly negative.

The services-producing sector was responsible for all the job gains in New Brunswick last year, offsetting a small decline in the goods-producing sector. With the increase, services-related employment has now risen by a little more than 2,000 over the past two years.

Figure 8 : Labour force and participation rate (thousands and %) 2005 - 2018



Source : Statistics Canada, Table 14-10-0327-01

Looking beyond the overall increase in services-related employment, there was a considerable amount of variation at the industry level. Job gains were registered in six of the eleven sub-industries that make up the Services-producing sector last year. Most of the gains, however, were concentrated in health care and social assistance (+2,200) and public administration (+1,200). It is notable that the pace of job gains among the former was cut in half (down from 4,400) from the year before. Given that this isnt a reflection of slowing demand for health care services (since they continue to rise), it is likely that job growth is being constrained by the lack of skilled workers.

Just as job gains within the broader services-producing sector were confined to only a few industries, job losses within the sector were confined mostly to trade (-2,900), and other services (-800). The deteriorating labour market conditions within the trade industry was mostly in retail trade, which is not surprising given the significant slowdown in retail sales last year. Employment declined modestly in wholesale trade, which could be partly a function of the uncertainty surrounding the NAFTA re-negotiation that persisted for much of the year. According to Statistics Canada, nearly 4,000 jobs in the wholesale trade industry are a result of foreign demand, around 71% of which is from the United States.

A closer inspection of employment figures within the goods-producing sector reveals that labour market conditions were relatively stable last year. The largest increase in employment was the 1,200 increase in employment in forestry, fishing, mining, quarrying, oil and gas, which fully reversed a matching decline during the year before. The 1,200 increase, however, was entirely because employment grew higher in the *mining, quarrying, and oil and gas extraction* sub-industry**.** The other sub-industry, *forestry and logging and support services*, registered a modest decline in employment after remaining flat for close to three years. More generally, most production or export figures suggest that the forest industry has performed reasonably well over the past year despite some challenging circumstances such as low lumber prices and duties on shipments of softwood lumber to the United States. The annual export figures on sawmills and wood preservation give no indication that forest activity has softened. Although not quite enough to match the pace of growth a year earlier, shipments grew by more than 9.0%. Otherwise, the near 1,000 increase in agriculture employment is also encouraging and brings the cumulative increase in the industry to nearly 2,000 since 2015. More generally, labour market conditions in agriculture are supported by strong demand internationally. In 2018, exports of animal aquaculture grew by a remarkable 80%. Exports of farm, fishing, and intermediate food products, meanwhile, grew by a solid 7.3%.

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

Labour market developments varied somewhat across the economic regions in the province in 2018. The Campbellton-Miramichi Economic region (ER) holds the distinction as having registered the strongest jobs gains in the province over the last two years. Labour market conditions strengthened once again in the Moncton-Richibucto ER in 2018, but deteriorated considerably in the Saint John-St. Stephen economic region.

The level of employment grew by 1,600 in the Campbellton-Miramichi ER in 2018, adding to an even more impressive 2,300 increase the year before and bringing the total gain during that time to nearly 4,000 jobs. These gains exceeded that of any other economic region in the province by a relatively wide margin. While encouraging, the job gains during 2017 and 2018 need to be presented in their proper context; they follow a decline of around the same magnitude during the three years before. The 62,400 people employed in the Campbellton-Miramichi ER last year is essentially in line with the long-term average. While the recent job gains over the past few years have certainly helped lower the unemployment rate, the rising labour force (grew for the second consecutive year in 2018) has done the opposite. That said, the recent growth in the labour force follows a period of noticeable decline. Between 2013 and 2016, for instance, more than 6,000 people left the labour force. The most recent increases have reversed only a fraction of this reduction. There are some encouraging signs with regards to potential employment opportunities. Production at the Trevali lead and zinc Caribou mine is projected to grow by 15% in 2019.

Labour market conditions strenghtened once again in the Moncton-Richibucto economic region in 2018. The level of employment grew by 1,500, which more than doubled the 700 gain the year before. Overall, the number of people employed in the region remains in line with its longer-term average. More people were looking for work in 2018, moderating the decline in the unemployment rate to 0.3 of a percentage point. At 6.8% last year, the unemployment rate in Moncton-Richibucto ranks second in the province and is only slightly above its all-time low. Unlike some of the other economic regions in the province, the labour force has avoided retracting in recent years. In fact, it has remained essentially flat for the better part of a decade due in part to its relatively younger work force. Less than one in five persons in the economic region's total population is over the age of 65, which is below the provincial average. The median age, meanwhile, is more than a full year lower than the median age at the provincial level. There are plenty of moderate investment projects currently in the works or beginning soon, which should support relatively healthy labour market conditions in the economic region. Work is expected to pick up on Route 11 highway upgrades this year. Meanwhile, cannabis producer Organigram plans on increasing production this year. Construction on a new permanent bridge between Moncton and Riverview is in its final stage.

A significant 2,500 drop in employment in the Saint John-St. Stephen ER last year more than reversed a reasonably healthy 1,300 gain in 2017. This was the only economic region to see any noticeable deterioration in labour market conditions last year. Although it is still very early, a sizeable year-over-year employment gain of 7,700 jobs was recorded in January of 2019, which is encouraging to start the year.

After deteriorating in 2017, labour market conditions stabilized last year in the Fredericton-Oromocto ER. The number of people employed in the economic region was basically unchanged in 2018, failing to recover any of the 2,100 jobs that were lost the year before. The decline, however, seems very unlikely to be the beginning of a more worrying trend. At 65,500 in 2018, the level of unemployment in the economic region is almost at its long-term average. Meanwhile, despite the absence of any significant job gains over the past several years, labour market conditions are still among the healthiest in the province, with an unemployment rate that sits below the provincial average. Meanwhile, unlike some of the other economic regions in the province, the labour force has avoided significant contraction. While the population is aging, it remains considerably younger than the rest of the province . More generally, the city of Fredericton and surrounding area remains an attractive destination for new investment in high-paying sectors.

There was no change in the number of people employed in the Edmundston-Woodstock economic region last year. In fact, the job market in this economic region has been remarkably stable for close to a decade. For the most part, the number of people employed during this period has fluctuated between a very narrow range of 36,000 and 36,500. The stability in employment during this period has occured in tandem with a gradually shrinking labour force, which explains why the unemployment rate has diminished gradually during this time.

Figure 9: Employment by economic region (thousands and %), 2008 - 2018

Economic Region	Number Employed			Average Annual Change (%), 2008-2018	Year-over-Year Change (%), 2017-2018
	2008	2017	2018		
New Brunswick	360.7	352.9	353.8	-1.9	0.3
Campbelton-Miramichi	67.5	60.8	62.4	-7.6	2.6
Moncton-Richibucto	103.0	106.0	107.5	4.4	1.4
Saint John-St. Stephen	86.2	84.3	81.8	-5.1	-3.0
Fredericton-Oromocto	66.2	65.4	65.5	-1.1	0.2
Edmundston-Woodstock	37.8	36.5	36.5	-3.4	0.0
Source: Statistics Canada, Table 14-10-0090-01					

SOCIO-ECONOMIC CHALLENGES AFFECTING SERVICE DELIVERY IN THE ATLANTIC REGION

Demographic Challenge

While many jurisdictions across the world are preparing for the impacts of an aging population (i.e. they are in the early stages of population aging), New Brunswick is well into the process. The number of persons aged between 25 and 54, also known as the core working age group, represents a diminishing portion of the population each year. At the same time, the share of the population over the age of 55, which have a much lower attachment rate to the work force, continues to grow rapidly. The latter grew by 30% during the decade spanning 2008 to 2018 and accounts for more than one out of every three New Brunswickers. It is estimated that by the year 2040, more than half the population will be over the age of 55. Although up significantly from only a decade ago, seniors continue to have a much lower attachment to the labour force than the rest of the population. At 33.7%, the participation rate for those over 55 is well below the average and unfortunately, there seems to be little potential for a meaningful rise.

The other implication of a population that is aging rapidly is the rising death rate. The latter is already exceeding the average birth rate by a noticeable amount, which means that the natural rate of population ‘’increase’’ is now negative. As the gap between the two widens further, it will take record-levels of immigrants entering the province and staying each year to reverse the trend. While not as pronounced as some of the other Atlantic provinces, New Brunswick has a relatively low retention rate when it comes to new arrivals. There is also the issue of out-migration. While the pull of younger workers towards Alberta has diminished over the past decade, there has been an increasing number of prime-aged workers relocate to Ontario. All of the factors combined are expected to exert further downward pressure on the labour force, at a time when health care costs are intensifying.

Trade Uncertainty

Export activity generates a significant amount of revenue for businesses across the province. Trade uncertainty has been unusually elevated over the past couple of years. First, the softwood lumber dispute generated a considerable amount of uncertainty across many small communities with a strong dependence on income generated by forest-related activity. Preliminary countervailing and anti-dumping duties were put in place in early 2017. Surging softwood lumber prices provided relief to exporters for a while but eventually retreated this past winter, prompting concerns of mill closures and mass layoffs. Prices have since stabilized and are expected to rebound gradually over the next few years. Nonetheless, uncertainty remains.

Trade uncertainty has diminished in recent months but still remains. In principle, the USMCA removes much of the possibility for additional trade barriers from the United States, by far the province's biggest trading partner. To date, the U.S. has already levied duties on aircraft, softwood lumber products and newsprint, as well as steel and aluminum. Aside from softwood lumber, the province's exposure to these measures is small, with the exception of iron ore, which is a key input into steel production. Exports of iron ore fell by 17% in 2018, most likely because of the 25% tariff that was implemented on Canadian steel and aluminum. All things considered, the USMCA is encouraging, but risks will remain until the deal is ratified later this year.

Labour shortages

One of the key challenges to the New Brunswick economy over the medium term is the issue surrounding labour shortage. Several employers across the province have reported difficulties in finding workers. While some of the cases invove lower skilled occupations, the issue recently has been skills mismatch. Labour shortages appear to be most pronounced in industries where there are high concentrations of high-skilled occupations. The shortages of nurses and paramedics across the province is well documented and even worse in rural parts of the province, especially some of the smaller French communities in the northern part of the province. More generally, a shortage of skilled employees across the province could mean missing out on potentially significant investment opportunities. It could also mean that the provincial economy struggles to produce at its maxium capacity .

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 2018, half (50.7%) 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

Fiscal pressures mean that economic growth will receive a limited contribution from government expenditures over the next couple of years. The current provincial government intends on bringing public finances back to more sustainable levels. With limited room to raise taxes further, this will be achieved mostly through spending restraint.

One of the more worrying developments with regards to government finances is the debt, which is estimated at $14.1 billion. The current government intends on beginning to lower the overall net debt by early this fiscal year. Interest payments on the debt are already one of the largest government expenses and are currently not sustainable.

The various measures taken by provincial governments in the past to raise revenues has left both businesses and households with large tax bills. 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 existing 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.

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