Environmental Scan

Nova Scotia

2021

KEY HIGHLIGHTS

- The global economic outlook has improved considerably since the fall of last year, reflecting stronger growth in several advanced economies and an earlier start to vaccination programs than initially expected. Both the International Monetary Fund (IMF) and the Bank of Canada have upgraded their projections for 2021 and 2022.

- In its most recent Global Economic Outlook from January, the IMF estimates that the global economy contracted by 3.5% in 2020, which represents an upward revision of nearly a full percentage point from its October estimate of 4.4% decline. The stronger trajectory, along with the additional policy support in Japan and in the U.S., has prompted the IMF to upgrade its growth projection for 2021 to 5.5%, up from the 5.2% in October. Thereafter, global economic growth is expected to moderate to 4.2% in 2022. A number of recent developments, including the resolution to the Brexit negotiations and the change in the U.S. Presidency, are expected to support a recovery in global trade volumes.

- Real GDP in Canada fell by 5.5% in 2020 because of the response to the COVID-19 pandemic. The economy is expected to recover a substantial amount of lost ground in 2021 and 2022, with growth of 4% or more anticipated in both years before slowing somewhat in 2023. This trajectory assumes that vaccines will be available to all Canadians by the end of 2021 and that containment measures will be less severe than those put in place during the first and second waves in 2020.

- Low COVID-19 case numbers in Nova Scotia helped avoid a second lockdown, resulting in a less severe recession than most other provinces. Consumption and high levels of investment in infrastructure and housing will support GDP growth through the recovery period. Positive population growth and migration trends will help alleviate skilled labour shortages, slow the aging of the population, and contribute to consumer demand.

- Total employment in Nova Scotia has returned to pre-pandemic levels. However, the rebound of the labour market has not benefited all industries and age groups equally: youth and industries hit hard by physical distancing rules still have a lot of lost ground to recover.

GENERAL OVERVIEW / ECONOMIC CONTEXT

The Global Economy: *Containing the virus and successful vaccine distribution key to outlook*

The global economic outlook has improved considerably since the fall of last year, reflecting stronger growth in several advanced economies and an earlier start to vaccination programs than initially expected. In its most recent Global Economic Outlook from January, the IMF estimates that the global economy contracted by 3.5% in 2020, an improvement from the 4.4% estimated decline in October. The stronger trajectory, along with additional policy support in Japan and in the U.S., has led the IMF to upgrade its growth projection for 2021 to 5.5%, up from 5.2% in October. Thereafter, global economic growth is expected to moderate to 4.2% in 2022.

Despite the stronger growth trajectory, the global economic recovery will nevertheless remain volatile and uneven until the virus becomes more fully contained and restrictions are lifted, which is unlikely to happen until late 2021 in advanced economies and mid-2022 in Emerging Market Economies (EMEs).

The U.S. economy has been especially resilient during the pandemic, in part because there were fewer restrictions compared to other advanced economies. Real GDP projected to grow by 5.0%, easily offsetting an estimated 3.4% decline in 2020. The Chinese economy is expected to be the growth leader among EMEs, with growth of 8.5% in 2021 before slowing gradually in 2022 and 2023 according to the IMF.

The Canada/U.S. exchange rate, which has appreciated by around 4% since October, is expected to strengthen gradually (albeit modestly) against a backdrop of stronger commodity prices. Global financial markets and commodity prices have reacted favourably to the vaccines' arrival and to improving prospects for global growth. Oil prices, in particular Brent and WTI, have grown by $10 per barrel since the fall and are expected to increase gradually for the remainder of the year, driven by the global recovery.

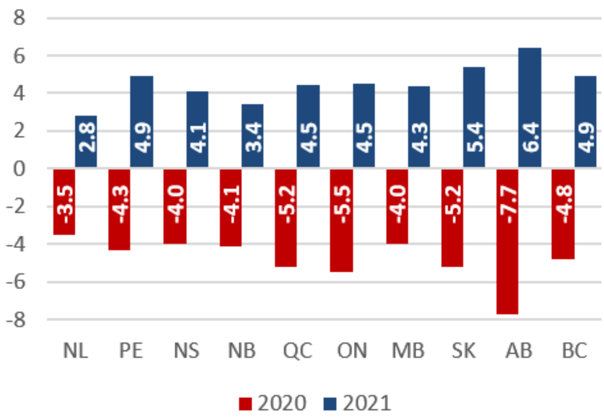
Both the IMF and Bank of Canada acknowledge that there remains an unusually high amount of uncertainty surrounding their outlook projections. Setbacks in the distribution or effectiveness of vaccines could contribute to another surge in the virus, which could lead to further restrictions or lockdowns. The spread of new, more contagious variants of the virus could also have similar undesirable consequences.

Canada: Consumption to drive post-pandemic recovery but uncertainty remains

Real GDP in Canada fell by 5.5% in 2020 as a result of the response to the COVID-19 pandemic. The economy is expected to recover a substantial amount of lost ground in 2021 and 2022 before slowing somewhat in 2023, assuming that vaccines will be available to all Canadians by the end of 2021 and another lockdown is not required.

The effects of the pandemic have differed across provinces and industries. The Bank of Canada has also noted choppy quarterly GDP growth rates as provinces have implemented, lifted, and then reinstated containment measures. These restrictions have typically had the largest impact on service sector industries that are characterized by a high degree of in-person contact. The country’s large energy sector also struggled with historically low oil prices—particularly during Q2 2020—which has caused the deferral or cancelation of several oil sands and offshore extraction projects.

Figure 1: Real GDP Growth (annual % change)



Source: Conference Board of Canada, Provincial Outlook: March 2021

In comparison with GDP growth and employment, income and savings have fared better thanks to government stimulus packages. Consequently, consumption is expected to play a major role in the post-pandemic recovery. The Bank of Canada has assumed that households will hold on to these savings, however the possibility that they will be spent—and to what degree—represents a major upside risk to expectations for consumption. To date, retail sales have been quick to rebound during periods with looser restrictions as consumers cleared pent-up demand.

The Bank of Canada has indicated that it does not expect to raise the overnight interest rate until 2023. However, early signs of economic recovery prompted bond markets to price in a rate hike as early as 2022. In its March announcement, the central bank maintained its original position; a transient rise in inflation is expected during 2021 as the depressed prices of some goods return to normal, but will not be indicative of the strong underlying conditions that could cause sustained inflation above target.

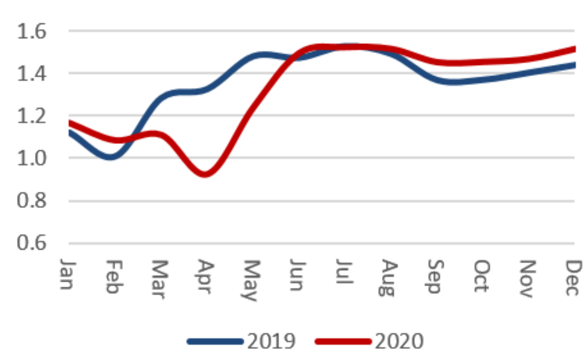
Looking forward, reasonably strong growth is expected during the recovery period. Low interest rates should facilitate business investment, though business confidence and capacity utilization rates will take time to recover fully. Vaccination among Canada's trade partners is expected to drive the recovery of exports. There remains a high degree of uncertainty around potential output, however. The effects of long-term unemployment, bankruptcies, and postponed or cancelled investment may reduce the level of full employment and worker productivity well beyond the initial recovery period.

Nova Scotia: Investment stabilized by infrastructure projects through recovery period

The contraction of Nova Scotia's economy in 2020 is expected to be less severe than the country as a whole. While Nova Scotia was under a wide-ranging lockdown from mid-March until early June, subsequent viral outbreaks were minor and were brought under control through targeted responses, allowing much of the economy to remain open from June onward. On the downside, the province has required a two-week self-isolation period for most interprovincial travellers, which has negatively affected the tourism industry.

Like the national level, consumption is anticipated to play a major role in Nova Scotia's economic recovery. Disposable income increased due to transfer payments from the federal government, boosting household savings. Retail sales declined sharply during the lockdown in spring 2020 as consumers were urged to avoid non-essential outings. This was followed by a rapid rebound of sales for most types of goods following the loosening of restrictions in early June, which was largely sustained throughout the remainder of the year.

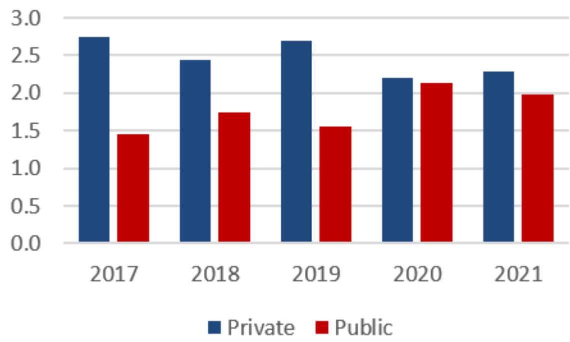
Figure 2: Retail Trade Sales by Month ($B)



Source: Statistics Canada, Table 20-10-0008-01

In response to dim sentiments brought about by the pandemic, private businesses in Nova Scotia scaled back investment in 2020 by approximately 18%. While this represents a nearly half-billion dollar decline from 2019, the change in total investment is likely to be much smaller as provincial capital spending for the 2020-21 fiscal year soared by approximately $580M over the previous year. Prior to the pandemic, the provincial government tabled a record $1.042B capital budget; this was later supplemented by a further $228M in stimulus spending. The majority is planned for road, school, and hospital construction. Private investment is expected to remain subdued in 2021, while the multi-year timeline of several capital projects will keep public spending elevated throughout the medium term.

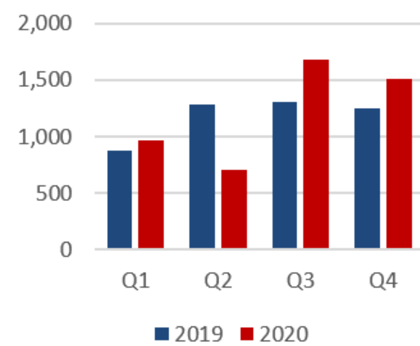
Figure 3: Capital and Repair Expenditures ($B)



Source: Statistics Canada, Table 34-10-0038-01

Residential investment exceeded expectations in 2020, declining by just 1.9% below 2019 levels despite the challenges posed by physical distancing on work sites and the disruption of building material supply chains. A large portion of residential investment was associated with a surge in home renovations, while an exceptionally tight real estate market increased demand for new dwellings. On the non-residential side, the $10B Goldboro LNG Export Facility project has been advancing through regulatory processes, creating a major upside risk to capital formation in the coming years.

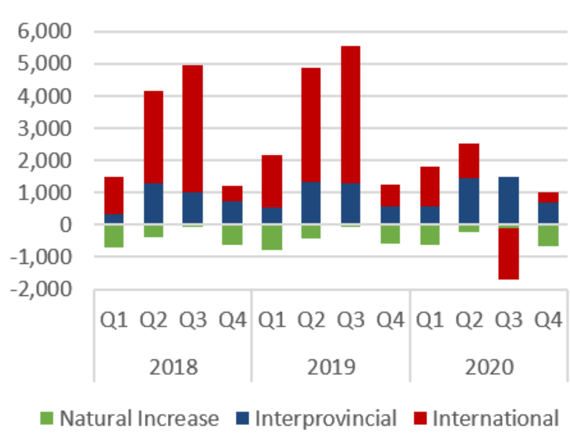
Figure 4: Housing Starts by Quarter



Source: Statistics Canada, Table 34-10-0135-01

International trade declined as supply chains were disrupted and global demand for the province's top exports softened. Provincial export values went down by 14.2% in 2020 overall. This was the net result of a pronounced decline during the spring lockdown followed by a partial recovery throughout the remainder of the year. The fishing industry was the first to feel COVID-19's effect on international markets when direct flights of live lobster to China were suspended amid the initial outbreak in Wuhan, while other major exports reached their respective lows in May. Demand for Nova Scotia's exports are expected to take two years to recover as the economies of its largest trading partners—the U.S. and China—return to normal.

Figure 5: Population Change by Component



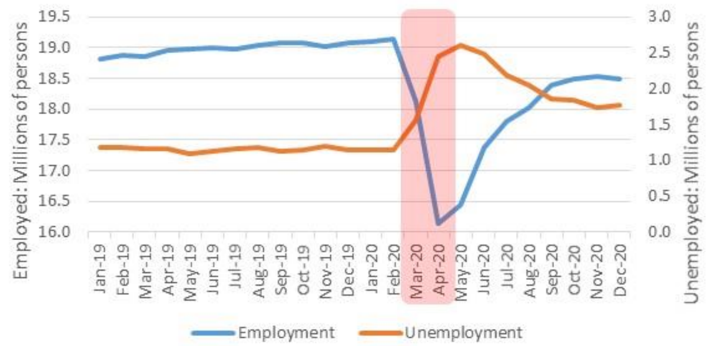
Source: Statistics Canada, Tables 17-10-0020-01, 17-10-0040-01, 17-10-0059-01

In recent years, population increase has played an important role in Nova Scotia's economic growth. As of July 1, 2020, the number of residents in the province was estimated at 979,351, an increase of 1.0% from a year earlier. Recent population gains are entirely attributable to interprovincial and international migration as the number of deaths has exceeded births for several years. Halifax continues to be the main area of population growth, though several other counties also experienced modest population increases, reversing a historical trend of flat or negative growth rates. Immigration slowed in 2020 due to COVID-19 but is expected to return to pre-pandemic levels as application processing returns to normal.

LABOUR MARKETS

CANADA: Youths, females and low-wage earners disproportionately impacted by Covid-19

Figure 6: Employment and Unemployment
Canadian Labour Market Jan 2019 – Dec 2020



Prior to the onset of the Coronavirus pandemic, Canada's strong labour markets were poised to support growth in view of a challenging economic environment, consisting of dismal business investment and weakened global demand due to geo-political tensions between China and the U.S..[1] Indeed, since the 2008-09 recession, employment growth in Canada has consistently outpaced that of its labour force to 2019, eroding the country's unemployment base over this period. Continued tightening of the Canadian labour market put upward pressure on wages and this in turn, provided some optimism about consumer spending adding further momentum to the country's growth prospects in 2020 and 2021.[2]

The Canadian economy entered 2020 at a modest, but steady pace, before being blindsided by one of the worst pandemics in recent history. "A sequence of unprecedented government interventions related to COVID-19—including the closure of non-essential businesses, travel restrictions, and public health measures directing Canadians to limit public interactions—had been put in place…resulting in a sudden shock to the Canadian labour market."[3] Between February and April 2020, employment in the country plummeted by over 15% and the number of people unemployed more than doubled. By May, the unemployment rate in Canada reached a record high of 13.7%, attributed to mass layoffs. This increase reflects just under half the workers who were laid off – the remainder had left the labour force altogether. Youths (persons 15-24 years of age), females, and low-wage workers have been disproportionately impacted by job loss throughout the pandemic. This is largely because of their overrepresentation in industries involving public-facing activities or limited ability to telework, such as retail trade, accommodation and food services, information, culture and recreation, and some subsets of other services.

The gradual easing of restrictions and the re-opening of the economy since the spring helped pave the road to recovery for the most impacted industries in the Canadian labour market – albeit a few bumps along the way due to a resurgence of viral cases and new restrictions implemented in December. However, by December 2020, overall employment in the country had climbed within 97% of its February, pre-pandemic level. Labour market conditions improved in February 2021 after easing of public health restrictions in a number of provinces put in place two months prior. This produced a respectable rebound in both part-time and full-time jobs, with employment gains in the harder-hit industries like accommodation and food services and retail trade. The country's unemployment rate fell to 8.2%, the lowest rate since the onset of the pandemic last March.

Further easing of health restrictions across provinces in the coming months, coupled with continued employment growth in the hardest-hit industries, have been identified as essential drivers behind the country's labour market

[1] Conference Board of Canada, *Canadian Outlook Summary,* Winter 2020.
[2] Ibid.
[3] Statistics Canada, *Labour Force Survey, March 2020.*

recovery over the next two years.[4] Although rising cases of variants of concern remain a considerable risk to the country's recovery efforts, the ramping up of vaccination programs across provinces offers welcome optimism for a full labour market recovery.

Nova Scotia: Strong employment recovery leaves youth and some service-sector industries behind

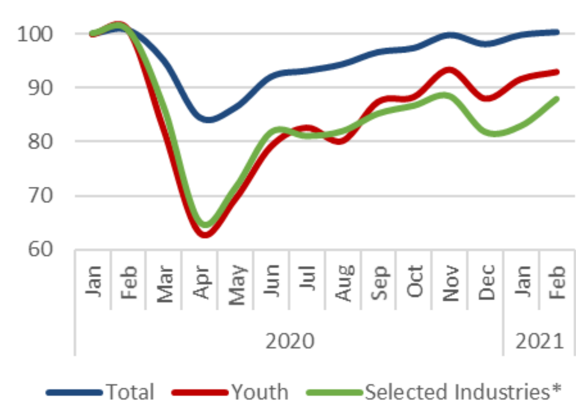
On an annual average basis, employment in Nova Scotia was 4.7% lower in 2020 than in 2019. This decrease was slightly less than the national change, and mid-pack among the 10 provinces. It represents the largest single-year employment decline since comparable records began in 1976. The unemployment rate increased from 7.4% to 9.8% and the participation rate slipped to its lowest level since 1997.

Nova Scotia's labour market began 2020 on a strong footing. In February, the last month before the pandemic, employment reached 467,000— the highest level ever. On Sunday, March 15, the first cases of COVID-19 in the province were announced. In the following days, the provincial government implemented restrictions and closures for industries considered high-risk for viral transmission, resulting in extensive layoffs. The March Labour Force Survey was conducted during the same week and only captured a portion of impact— an employment decline of 26,200. The full scale of job loss became apparent the following month as the number of workers plunged by a further 48,800. In the span of two months, employment had declined to its lowest level in over 22 years.

From May through November, employment rose continuously as businesses adapted to the new operating conditions. The largest single month increase occurred in June after the provincial government ended closures and other restrictions that had been in place since March. By February 2021, employment had returned to pre-pandemic levels. This employment growth exceeded the expectation of most forecasts, which did not anticipate a return to 2019 levels of employment until 2022.

Employment loss has not affected all age groups and sexes equally. During the first wave, youth employment (15 to 24 years of age) declined by more than one-third, and remains well below pre-pandemic levels as of February 2021. Initial job loss among females also exceeded that of males in all age groups, though female labour market outcomes have improved considerably since. This disparity occurred nation-wide, prompting the federal government to announce a Task Force on Women in the Economy to address gender imbalances that have been worsened by COVID-19.

Figure 7: Employment Index (Jan 2020 = 100)



Source: Statistics Canada, Tables 14-10-0355-01, 14-10-0287-01
*Selected industries are: wholesale and retail trade; information, culture, and recreation; and accommodation and food services

Labour market conditions have varied considerably by industry. In construction, the number of workers dipped during the spring as the industry adapted to physical distancing on private worksites. By fall, the number of construction workers exceeded pre-pandemic levels, driven by renovations, new housing starts, and provincial capital projects. Favourable conditions for construction workers are expected to persist throughout 2021, with a shortage of workers in many trades. Meanwhile, the closure of the Northern Pulp Mill in early 2020 cast a shadow over logging, forestry, and some subsets of manufacturing. However, a sudden increase in the demand

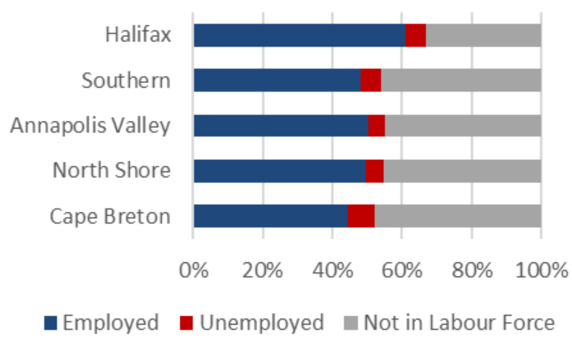
[4] Conference Board of Canada, *Hope at Last: Canada's Two-Year Outlook*, March 2021

and price of wood building supplies helped offset the effects of the mill's closure. This reprieve will likely persist as long as building supply prices remain elevated.

The services-producing sector includes both the industries hardest hit by the pandemic and others which have experienced robust job growth. Accommodations and food services suffered the largest relative employment decline; in addition to the closure of dining rooms for over three months, this industry was impacted by the large drop in the number of tourists from outside Atlantic Canada. In retail and wholesale trade, employment has only rebounded to 90% of its pre-pandemic level despite the recovery of retail sales after the spring lockdown. The number of workers has also remained well below normal in the information, culture, and recreation industry as physical distancing is difficult to achieve in many sport and entertainment venues. The return of normal employment levels in these industries will depend on when travel and physical distancing restrictions are eased. Permanent changes in consumer preferences and business practices (such as fewer opening hours or increased digitization) may mean that not all positions will return as they were before. This will have a significant influence on the employment of youth, who are overrepresented in these industries.

Service-sector industries that fared better in 2020 included those providing essential public services or those able to comply with physical distancing requirements with r elative ease. The largest annual gains occurred in the finance, insurance, real estate, rental and leasing industries and the professional, scientific, and technical services industries.

Figure 8: Labour Force Status by ER (2020)



Source: Statistics Canada, Table 14-10-0393-01

The pandemic caused employment loss in all five economic regions (ERs), though labour market indicators in Halifax were distinctly more favourable than in the rest of the province. As the pandemic subsides, the outlook for Halifax is positive. Population growth and infrastructure investments will create strong hiring conditions for construction workers. The IT industry, which has been a bright spot for professional employment in this region even in the midst of the pandemic, is also expected to continue to expand.

More challenging conditions persist in the four other ERs, which have older populations, lower participation rates, and typically higher unemployment rates. In many areas, seasonal tourism-based employment will depend on the state of travel restrictions in 2021. Travel among the Atlantic Provinces is set to begin in mid-April, with tentative plans to remove the self-isolation requirement on visitors from the rest of the country in July. This should help avoid a repeat of the early seasonal closures and lower staffing levels that occurred in the accommodations and food services industry in 2020. Most ERs also stand to benefit to some extent from infrastructure projects, through both direct project employment and the indirect effects on other industries in the project area.

KEY CHALLENGES AFFECTING NOVA SCOTIA'S LABOUR MARKET

Lasting effects of COVID-19: labour market scarring and retraining

The majority of workers laid off due to COVID-19 were rehired within a few months. For these individuals, the cost of the pandemic was mostly limited to the temporary loss of income, which was alleviated by government transfers. However, the number of workers unemployed for more than six months has been approximately twice the pre-pandemic level since October 2020. Long-term unemployment can permanently compromise workers' labour market attachment, career trajectory, and lifetime earnings, a phenomenon referred to as labour market scarring.

The likelihood of long-term unemployment is greater in certain sectors. As of February 2021, the three hardest-hit industries employed 17,200 fewer people than one year earlier, while thousands of positions were added in other industries. Workers experiencing long-term unemployment or significantly compromised career paths may benefit from considering a different occupation and the training required to pursue it. The governor of the Bank of Canada has also called on employers to be sympathetic to pandemic-related gaps in applicants' resumes, or to offset the effects of labour market scarring by providing on-the-job training.

Attraction and retention of international students in the context of COVID-19

International students represent an opportunity to reduce skilled worker shortages and replace older workers who are retiring from the labour force. The number of international students in the province rose by 174% over the decade prior to the pandemic, as universities increased international recruitment to offset declining numbers of Canadian students. Amid efforts to increase overall immigration, the One Nova Scotia Commission set a goal to increase the percentage of international students who become permanent residents. The potential for students to relieve shortages in the labour market is not limited to skilled occupations. As study permits allow part-time work (or full-time during study breaks), international students have also filled a need for lower-skilled labour in some communities. For example, international Cape Breton University students have responded to a need for workers at seafood processing plants as well as seasonal tourism businesses in rural communities.

COVID-19 has reduced the number of international students in the province, however. As universities switched to online instruction, the number of study permit holders dropped considerably. The potential long-term effects of this trend is unknown. International recruitment will remain a key enrolment strategy for universities in years to come, though the possibility exists that some institutions will retain an online learning model after the pandemic has ended. This would lessen the need for students to reside in Nova Scotia.

Skilled and unskilled worker shortages

A shortage of qualified workers exists in several occupations and industries in Nova Scotia. In the construction industry, demand for workers is strong due to high levels of residential building activity and a large number of capital projects occurring at the same time. Meanwhile, the number of retirements exceeds the number of new entrants, resulting in a shrinking supply of labour. High demand is expected to continue throughout 2021, while the dwindling supply trend will persist for longer.

There has also been an acute shortage of truck drivers for several years. A large share have reached retirement age in a short span of time, while demand for trucking has increased with population growth and the rising use of e-commerce. Employers have responded to the shortage by targeting underrepresented groups such as women and newcomers and creating new hiring incentives. The provincial government has also added truck drivers to its "occupations in demand" immigration stream.

Many seasonal agricultural and seafood processing employers face an insufficient supply of local labour, which is worsening in some communities as the rural population ages. Geographic isolation increases the difficulty of attracting non-local workers due to long commuting distances or a lack of available housing. Many employers have responded to this need by hiring temporary foreign workers (TFWs).

A shortage of healthcare workers has been a long-term challenge in Nova Scotia, driven by the growing demand for care associated with the aging population. Hiring conditions are typically favourable for registered nurses, licensed practical nurses, and nurse aides. The latter is considered an occupation in demand for immigration purposes by the provincial government.

Note: *In preparing this document, the authors have taken care to provide clients with labour market information that is timely and accurate at the time of publication. Since labour market conditions are dynamic, some of the information presented here may have changed since this document was published. Users are encouraged to also refer to other sources for additional information on the local economy and labour market. Information contained in this document does not necessarily reflect official policies of Employment and Social Development Canada.*

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