Environmental Scan

Newfoundland and Labrador

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 a 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 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, 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.

- The Newfoundland and Labrador labour market weakened as COVID-19 pandemic took effect. Some industries have been affected more than others have. While mining has grown and has a positive outlook, and health care employment has reached a historical high, uncertainty exists in the oil and gas industry, air transportation has been deeply affected by the pandemic, and difficulties remain in accommodations and food services. In addition, the province has an aging population and a labour force that is expected to shrink over time.

- Real GDP in the province fell by 3.5% in 2020, mainly due to weak oil prices and the COVID-19 pandemic. However, it is expected that most of this loss should be recovered in 2021. A COVID-19 vaccination program and stronger oil prices will be key factors behind a 2.8% increase.

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 is 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.

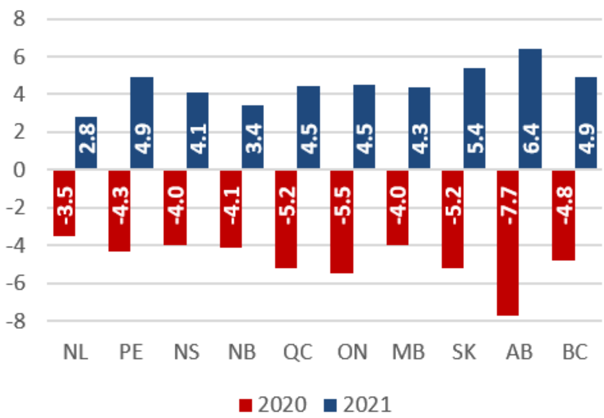
Both the IMF and Bank of Canada acknowledge that there remains an unusually high amount of uncertainty surrounding their outlook projections. Setbacks in the distribution or effectiveness of vaccines could contribute to another surge in the virus, which could lead to stricter restrictions or further 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

Figure 1: Real GDP Growth (annual % change)



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

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.

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.

Newfoundland and Labrador: An economy steered by oil prices and the pandemic

The Conference Board of Canada (CBOC) reports that real GDP in the province fell by 3.5% in 2020, mainly due to weak oil prices and the COVID-19 pandemic. The impact on employment was considerable, with a decline of nearly 35,000 jobs between February and April, as the province went into a virtual lockdown due to public health measures. Some of the most affected industries from the lockdown included accommodation and food services, wholesale and retail trade, air transportation, oil and gas, and construction. The fall in oil prices resulted in decisions to defer multiple projects in the industry as well as idle the Come by Chance oil refinery. Some positive developments in 2020 included the ramping up of production at the Hebron oil project, and strength in the mining industry.

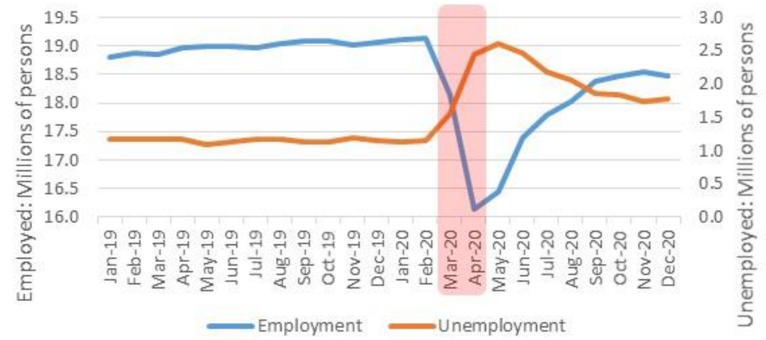
The CBOC forecasts a 2.8% increase in real GDP for 2021. Keys to this growth include the introduction of a COVID-19 vaccination program and considerably stronger oil prices than in 2020. The rebound in GDP will not enable a full return to pre-pandemic levels this year, with continued deferments of multiple oil projects.

One of the biggest challenges facing the Newfoundland and Labrador economy is the changing demographics of the region. A low birth rate, low immigration levels and retention rates, and a net outflow of youth are all factors in the province having the oldest population in Canada. Rural parts of the province are older and aging faster than urban areas. Moving forward, this will make it more difficult to fill labour market needs as the size of the workforce shrinks. The result of this challenge will be a restraint on potential economic growth. Immigration is seen as a very important piece in the economic future of the province, not only from the perspective of sustaining the province's population, but also in having a highly-skilled workforce that is able to fill positions requiring specialized skills. While immigration was hampered in 2020 due to COVID-19, it remains a key goal moving forward.

LABOUR MARKETS

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

Figure 2
Employment and Unemployment: Canadian Labour Market Jan 2019 - December 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." 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,

[1] *Conference Board of Canada, Canadian Outlook Summary (Winter 2020).*
[2] *Idid.*

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 recovery over the next two years. 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.

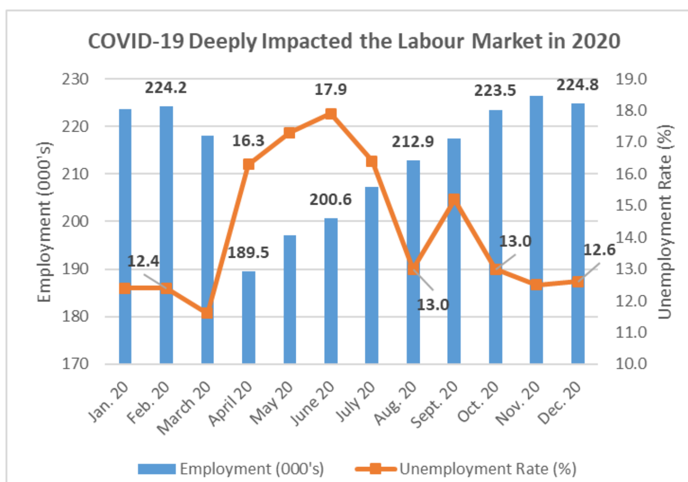
Newfoundland and Labrador: COVID-19's effect varied across industries

The COVID-19 pandemic had a considerable impact on the province's labour market in 2020. Employment fell to its lowest level since 2005. The losses were full-time in nature, as part-time employment increased slightly. The labour force declined to its lowest level since 2001, but the drop was not as deep as for employment. This raised the unemployment rate. Participation in the labour force reached its lowest rate in 20 years.

	2019	2020	Change	Change (%)
Population (000's)	440.6	439.5	-1.1	-0.2%
Labour force (000's)	257.3	247.4	-9.9	-3.8%
Employed (000's)	226.6	213.6	-13.0	-5.7%
Full-time (000's)	192.4	179.0	-13.4	-7.0%
Part-time (000's)	34.2	34.7	0.5	1.5%
Unemployed (000's)	30.7	33.8	3.1	10.1%
Not in labour force (000's)	183.3	192.1	8.8	4.8%
Participation rate (%)	58.4	56.3	-2.1	
Unemployment rate (%)	11.9	13.7	1.8	
Employment rate (%)	51.4	48.6	-2.8	

As the COVID-19 pandemic started in March of 2020, the province's labour market conditions worsened rapidly as a virtual lockdown of the economy was brought into effect. Employment hit its low point of the year in April, with 34,700 fewer jobs than two months earlier, and the unemployment rate rose to a high in June. The number of people working in the province continued to increase through the remainder of the year, with employment levels and the unemployment rate to near pre-pandemic conditions by the fourth quarter.

Figure 3: Trends in Employment and Unemployment Rate



Air transportation was deeply impacted by the COVID-19 pandemic. Most airlines and airports laid off vast numbers of workers and cut routes to contain costs during the downturn. This affected airports throughout the province. Passenger traffic at St. John's airport was down 75% in 2020 compared to 2019, others were left with no service other than for medical emergencies. The air transportation industry expects 2021 to be just as challenging as 2020, or possibly worse. While operations were normal for most of the first three months of 2020, air traffic should be lower than normal throughout the entire year. It may take a few years for the industry to reach pre-pandemic levels.

Employment in accommodation and food services also declined in 2020, as hotels were impacted by travel restrictions. Restaurants were forced to close at times and operate at a reduced capacity in a best-case scenario. Looking forward, the accommodation industry will rely largely on how quickly air travel rebounds, while restaurants will be reliant on the speed of vaccinations, to the point where public health restrictions are lifted.

Other industries that experienced challenges from the pandemic included wholesale and retail trade, as well as information, culture, and recreation. These industries have a greater degree of contact with customers, leading to enhanced restrictions compared to other service industries. The success of many retail operations may depend on how well they adapt to changing customer behaviours. Many have become accustomed to online shopping, and may continue to do so even after the pandemic. Theatres, spectator sports and others will be largely dependent on the lifting of public health restrictions.

Mining had a strong year in 2020, with higher exploration activities throughout the province, increased production in Labrador West, and the development of Vale's underground mining operation at Voisey's Bay. Prospects for the industry are positive moving forward. Central Newfoundland has numerous gold ventures ranging from the operational stage to others planned for construction in 2022. The upswing in activity is also expected to attract more companies to the area and increase exploration.

However, the oil industry faced tremendous challenges in 2020. Beyond restrictions related to COVID-19, the price of oil collapsed in January of that year. This ultimately led to a deferral of the Bay du Nord oil project, and the decision to do a full review concerning the viability of the planned West White Rose project. Drilling plans at Hibernia were set aside. In addition to layoffs from oil producing companies, there have been cuts in companies that service and supply the industry. Even after such a difficult year, there is reason for an optimistic outlook. The price of oil has strengthened considerably, making oil ventures more feasible and adding some confidence concerning future developments. Combined with a new oil discovery in the Flemish Pass, it improves the prospects for the Bay du Nord project and restarting West White Rose. Equinor, the company behind the Bay du Nord project, has sold its oilsands assets and closed its Calgary office, which will add employees to its St. John's operation. In addition, three drilling projects by various companies received federal approval in early 2021. In summary, these conditions and developments set the stage for a potential return to pre-pandemic levels over the next two or three years.

Construction employment fell to its lowest level since 2007. Major project spending has declined, particularly with a winding down of activity at the Muskrat Fall Hydroelectric Project. In addition, construction activity on the West White Rose oil project has been shelved until 2022 at the earliest. The project is approximately 60% complete, with no guarantee that activity will resume there at all. Other factors contributing to the industry's decline include periodic restrictions in construction activities due to pandemic concerns, including work at Vale's underground mining project and at Muskrat Falls, as well as downturn in capital expenditures. Housing starts have been relatively low and are expected to remain this way over the next few years. However, renovation activity has been generally stable. While the potential exists for an employment increase in 2022 if the West White Rose project resumes, the broader trend will be a decline in activity and employment as major project spending declines. Residential construction is also expected to remain relatively low over the next few years.

Demand for health care services has risen due to an aging population. Employment in the industry reached a record high in 2020. While the industry is expected to be a major source of employment over the next few years, employment growth will inevitably reach a limit as expenditures reach their peak due to financial pressures.

Economic Regions

All economic regions had an employment decline of nearly 6% compared to 2019, mainly in full-time positions. Regions outside the Avalon Peninsula had their lowest employment and labour force sizes on record going back to 1987. All economic regions saw their unemployment rates rise, due to employment loss. While the unemployment rate for the Avalon Peninsula had a greater upturn than other areas, it continued to have the lowest rate in the province.

Employment losses on the Avalon Peninsula were mainly in the services-producing sector, due to impacts related to public health measures to prevent the spread of COVID-19. Industries in this sector that were affected the most included air transportation, as well as accommodation and food services. Among goods-producing industries, oil and gas activity in the province was affected by a collapse in oil prices. This resulted in considerable layoffs and an unpredictable future for the industry in the province.

	Employment (000's)					Unemployment Rate (%)		
	2019	2020	Change	Change (%)		2019	2020	Change
Newfoundland and Labrador	226.6	213.6	-13.0	-5.7%		11.9	13.7	1.8
Avalon Peninsula	135.8	128.0	-7.8	-5.7%		9.4	11.5	2.1
South Coast - Burin Peninsula and Notre Dame - Central Bonavista Bay	49.6	46.7	-2.9	-5.8%		16.8	17.8	1.0
West Coast - Northern Peninsula - Labrador	41.2	38.9	-2.3	-5.6%		13.8	15.4	1.6

Source: Statistics Canada, Labour Force Survey

For economic regions outside the Avalon Peninsula, construction had the most job losses. Projects were halted during the first half of 2020 due to pandemic concerns, while construction on the White West Rose project was stopped for the remainder of 2020 as well as 2021, with no decision on whether it will restart in 2022. While the project was located on the Avalon Peninsula, many workers would have been residents from different parts of the province.

KEY CHALLENGES AFFECTING NEWFOUNDLAND AND LABRADOR'S LABOUR MARKET

Demographic Challenge

Newfoundland and Labrador is aging more rapidly than the rest of Canada. As economic conditions are not as strong as a few years ago, demographic challenges will only intensify as younger workers relocate for employment opportunities elsewhere. This will have a negative impact on the labour market and public finances, with fewer workers and more retirees.

Low fertility rates and continued net interprovincial out-migration means that population growth in the province will depend entirely on international migration. More generally, immigration will remain a key tool in addressing demographic and labour market challenges in the years ahead. Beyond the attraction of immigrants to the province, a strong focus on the retention of these new citizens is recognized. Retention has been a challenge as many find a lack of economic opportunity, and face difficulties in having their credentials recognized in order to participate in the labour market in their field of training.

Rural-Urban Divide

While employment grew by 6,300 (up 5.5%) between 2010 and 2020 in communities in the province with more than 10,000 people, it fell by 15,500 (-14.3%) in smaller centres. The unemployment rate for the larger communities in the province was 9.9% in 2020, compared to 18.1% for smaller areas. The differences in urban versus rural labour markets reflect the concentration of export-oriented primary and resource-related manufacturing job losses in rural communities. Rural economies are less diversified with some of these key industries currently struggling. Furthermore, the chronic out-migration of younger segments of the population is changing the composition of the labour force in rural parts of the province, exerting further pressures on the pool of available labour in these areas. The loss of younger people in rural areas lowers the fertility rate for these areas, which reduces the long-term sustainability of many rural towns.

COVID-19's Effect on Recent Graduates

The pandemic created particularly challenging circumstances for youth. Specifically, recent graduates entered the labour market only to find a lack of opportunities due to lockdowns and business closures. It became a period where many firms reduced their workforce in order to survive, and limited hiring due to general economic and market uncertainty moving forward. The result has been a large group of educated entrants to the workforce that have been underutilized. While younger workers may have found a job, many would be in lower-skilled positions unrelated to their training. As time passes without success finding work more relevant to their skill-set, the risk increases that this group's skills erode or become uncompetitive due to not being applied. This, in turn, can negatively affect their employment prospects in a post-pandemic labour market. It can create long-term financial implications for this group due to longer-term unemployment, and a later start before starting a career. They may also potentially end up having a career working at jobs that pay less than what they would have made in their field of education. Lastly, it can make it more challenging to fill jobs with entrants as greater numbers age and leave the workforce, affecting growth prospects for employers.

Fiscal Challenges

The province's financial challenges were made more difficult with the pandemic and the steep fall in oil prices. The provincial budget included a deficit of $1.84B for the fiscal year, the second-largest in Canada behind Alberta. The net debt-to-GDP ratio has risen considerably in recent years to 55.7%, the highest in the country[3]. Debt charges and financial expenses are the second largest expense category for the provincial government, behind only health care[4]. The financial position of the province creates a greater challenge in meeting the demand for services such as health care, education, and other basic needs. The provincial government has limited options in the short-term, access to financing has also become more challenging due to its circumstances, and there are limits when it comes to tax increases without affecting its competitive position for business and labour.

[3] *https://economics.td.com/newfoundland-labrador-budget*
[4] *Government of Newfoundland and Labrador, Budget 2020 Estimates*
https://www.gov.nl.ca/budget/2020/wp-content/uploads/sites/3/2020/09/Estimates-2020.pdf

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