



# Environmental Scan

New Brunswick

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 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.
- ✿ The New Brunswick economy contracted sharply because of the COVID-19 pandemic, although relative to many other jurisdictions around the world, including neighbouring provinces, the recession was not as severe. The province's relative success at containing the virus is at the core of its stronger economic performance last year relative to the national average. The consensus among private sector forecasters is that real GDP in N.B. fell by 4.2% in 2020, whereas the Canadian economy is estimated to have fallen by 5.5%, much steeper in comparison. Private sector forecasters project real GDP in New Brunswick to advance by 4.1% in 2021, nearly fully reversing the decline last year.

## 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, 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 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 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 cancellation 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.

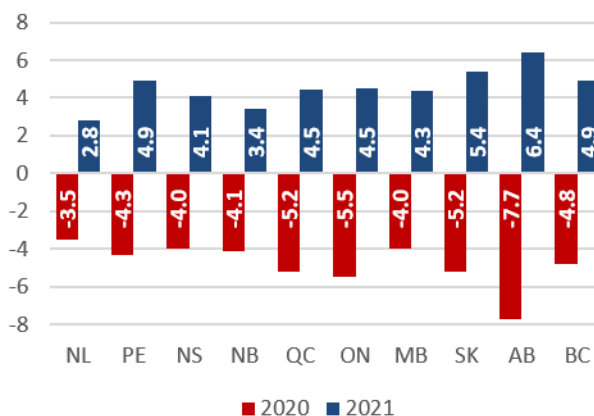
### **New Brunswick: Economic activity approaching pre-pandemic levels**

The New Brunswick economy contracted sharply because of the COVID-19 pandemic, although relative to other jurisdictions, the recession was not as severe due to its success at containing the virus. The consensus among private sector forecasters is that real GDP in N.B. fell by 4.2% in 2020, outperforming the Canadian economy, which is estimated to have fallen by 5.5%. Private sector forecasters project real GDP in New Brunswick to advance by 4.1% in 2021, nearly fully reversing the decline last year.

In an effort to contain the spread of the virus, all non-essential businesses were forced to close last spring and health restrictions were implemented across the entire country. While this resulted in unprecedented layoffs, New Brunswick was the first province to begin to regain job losses after being first out of the gate in lifting restrictions. While conditions have improved significantly, it will be several months before economic conditions return fully to normal. Industries such as tourism and retail trade, which were more significantly impacted by the pandemic, are among the most likely to remain subdued the longest.

The COVID-19 pandemic significantly reduced investment intentions in the province, as high excess capacity and uncertainty lowered incentives for investment. Unlike normal recessions, where governments engaged in stimulus spending to offset broader weakness in the private sector, little support has gone towards new capital or infrastructure. Nevertheless, business confidence has recovered significantly since the all-time lows last April,

**Figure 1: Real GDP Growth (annual % change)**



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

surpassing pre-pandemic levels and eventually reaching their highest level since 2018. The widespread distribution of a vaccine later this year should boost sentiment even further, especially as the number of active infections subsides.

Manufacturers faced significant challenges last spring, including mandatory closures and having to operate at reduced capacity while complying with all the necessary restrictions. Manufacturing activity appears to have recovered in line with the overall economy in recent months. Looking forward, output is expected to improve alongside a gradual recovery in merchandise trade, which is expected to recover due to stronger growth in the U.S. and a competitive currency. Economic activity in some sub-sectors like petroleum refining, will likely remain suppressed for a little longer. The Irving Oil Refinery is expected to operate at a higher capacity in the near-term as the global recovery raises the demand for gasoline. The province's lumber producers, meanwhile, will continue to benefit from soaring lumber prices, as households allocate their spending towards home renovations.

The hospitality sector will likely continue to struggle with some of the ongoing travel restrictions in the near term. Recovery in industries with strong ties to tourism, like information, culture and recreation and accommodation and food services, is expected to take longer than most, and will ultimately depend on the easing of border restrictions and the speed at which the vaccine is distributed to the general population. The recent challenges around the Airline industry will weigh on transportation, though the impact will also extend to accommodations, as hotel occupancy rates will take time to return to pre-pandemic levels after having plunged by nearly 50% last year.

The trade industry recovered quickly last year after the onset of the pandemic during the spring, with retail sales surpassing pre-pandemic levels by the summer. As it stands, the retail trade industry continues to out-perform the rest of the economy early this year, which is reflected in the strong job gains during the same period. More generally, retail is expected to be among the primary drivers of employment growth over the next couple of years, as some households spend some of the savings accumulated throughout the pandemic. The strength in retail activity explains why the industry has experienced the strongest job growth among the entire province in 2020.

## LABOUR MARKET

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

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.. 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.

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. Between February and April, youth employment fell by over 34% and compares to losses in the order of 13% for both the core-aged worker (25-54 years) and older worker (55 years and over) cohorts. Further, the gap between male and female labour force participation has widened during the pandemic – in part due to closure of schools and daycares, as females are more likely to assume childcare responsibilities.

This 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 and January. However, by December 2020, overall employment in the country had climbed within 97% of its February, pre-pandemic level. Though the accommodation and food services industry continues to struggle from depressed tourism activity due to continued public health restrictions, employment regained 75% of its pre-pandemic level, which is up by 25 percentage points since April 2020.

### **New Brunswick: COVID-19 triggers record job losses but recovery well underway**

The New Brunswick labour market lost a record 9,500 jobs in 2020 as a result of the pandemic, although the reduction occurred primarily during the spring when all non-essential businesses were forced to close. As employers were allowed to resume operations, job numbers recovered significantly, approaching pre-pandemic levels by the summer as restrictions were gradually lifted. Virus outbreaks in parts of the province towards the end of the year led to a minor set back in the labour market recovery as restrictions were tightened.

More recently, some sizeable job losses in February imply that it will be a little longer before employment makes a full recovery. As it stands, employment now remains around 6,200 below pre-pandemic levels from February of last year. Full-time employment is an even greater 11,900 below pre-pandemic levels, whereas part-time work is actually up by 5,700 jobs. The likeliest of explanations as to why part-time employment continues to outperform full-time work is the strength in retail trade, which is much likelier to employ workers on a part-time basis. More generally, retail trade is expected to be one of the main drivers of employment growth over the outlook period, reflecting renewed consumer confidence levels and improved household finances as a result of greater savings throughout the pandemic.

COVID-19 was felt in essentially all industries across the province, as job losses were spread across both the Goods-producing sector (-4,000) and the Services-producing sector (-5,600) in 2020. Job losses were initially registered during the spring in both sectors and were similar in magnitude. The recovery, however, has been much more uneven. Whereas labour market conditions have recovered gradually in the services-producing sector since late-spring, they have remained suppressed among goods-producing industries. Since hitting pandemic-lows during the spring, services-related employment has long surpassed pre-pandemic levels and are

currently 2,700 above February 2020 levels. In contrast, goods-producing sector employment has shown very little in terms of recovery, sitting 8,900 below pre-pandemic levels from last February.

Much of the weakness in the goods-producing sector owes to job losses in the manufacturing industry. Despite having not registered any job gains so far this year, employment in the industry is expected to recover gradually over the next few years, eventually reversing the 2,000 job losses last year. The pace of job growth will differ among the various sub-industries. The wood products manufacturing industry should benefit from another year of strong demand for lumber, as housing starts pick up south of the border and in parts of the Atlantic Region. The Irving Oil Refinery is expected to raise production this year after a collapse in fuel prices resulted in a significant decline in production last year.

Job losses in mining, quarrying and oil and gas extraction (-1,500) and agriculture (-900) in 2020 are expected to be reversed this year. After falling by close to a thousand last year, employment in the agriculture industry is expected to improve gradually as demand for food recovers, global economic growth picks up and restaurants operate closer to full capacity both domestically and abroad. Labour shortages, which have posed a challenges to employers in the farming sector, should ease as travel restrictions are lifted, further supporting a recovery in agricultural activity.

The forestry sector, which has managed to navigate through the pandemic with relative success, will be another driver of job growth this year. The level of employment in forestry and logging and support activities grew by more than a thousand in 2020, as a surge in home renovations led to stronger demand for lumber. Healthy population gains should help support demand for lumber, although soaring prices in recent months should likely moderate as current levels are unsustainable.

The jobs recovery in the services-producing sector, is in many ways a reflection of the wholesale and retail trade, where employment in February is up by close to 2,700 from a year earlier, reflecting stronger population growth and government income support programs, which have kept household spending at healthy levels.

In general, retail employment will be an important driver of employment growth among services-producing industries moving forward. Labour market conditions will likely remain subdued in other industries like information, culture and recreation, which registered some of the most significant job losses in 2020. In this instance, activity is expected to remain suppressed until border restrictions are lifted and a growing share of the population becomes vaccinated. Similarly, the hospitality sector is unlikely to demonstrate any meaningful recovery until ongoing travel restrictions are significantly reduced. The sharp reduction in both business and leisure travel has impacted hotels and restaurants, reflected in the 2,000 job losses in the accommodation and food services industry last year. Both accommodation and food services and information, culture and recreation have registered no job gains in the early parts of this year.

The transportation industry, by comparison, which lost 1,400 jobs last year (largely the result of reduced trade flows due to soft domestic and global activity) has showed meaningful signs of recovery, with monthly employment levels now back to pre-pandemic levels in February. Looking forward, employment in transportation is expected to advance gradually alongside stronger growth in merchandise exports, which the Conference Board projects will grow at an average annual rate of 2.4% between 2021 and 2025 after falling by 4.7% in 2020, due to a competitive exchange rate and reduced protectionist sentiment from the new U.S. Administration. Greater productive capacity in the fish processing sector should provide a boost to exports of lobster after a fire destroyed a lobster processing plant last year. Weighing against the transportation sector are

the recent challenges in the airline industry, after airlines decided to cancel travel routes across the province due to COVID-19.

Otherwise, the broad recovery in economic activity across the province should gradually reverse the 1,100 reduction in business, building and other support services employment in 2020. This is already underway early in 2021, as suggested by the encouraging job gains which have already brought monthly employment levels above pre-pandemic levels.

### **Economic Regions: *Impact of COVID-19 has been uneven across different Economic Regions***

While all Economic Regions (ER) were impacted by the pandemic, the distribution of job losses was uneven. Employment fell sharply in Economic Regions like Saint John-St. Stephen, while ERs like Edmundston-Woodstock registered only minor job losses. The Campbellton-Miramichi ER actually experienced a modest increase in employment.

The 1,000 job gains in the Campbellton-Miramichi ER in 2020 is encouraging, not only given the pandemic, but also because employment fell by a considerable 4,300 the year prior and labour market conditions had been stagnating in the preceeding years.

Labour market conditions remained somewhat stable in the Moncton-Richibucto ER despite the various health restrictions that were implemented during the year. The level of employment edged down by 500 and the unemployment rate grew from 7.1% to 8.9% in 2020, as 1,700 workers entered the labour force. Stricter health restrictions in an effort to curb the spread of the virus at the start of the year appear to be weighing on the labour market, though conditions are likely to improve soon as the vaccine becomes widely distributed to the general population.

The Saint John-St. Stephen ER registered the biggest drop in employment in 2020, likely due to the sectoral composition of the local labour market, which is more heavily weighted towards industries that were most exposed to the COVID-19 pandemic and the corresponding health restrictions. This suggests that the recovery will likely be slower than the rest of the province as a whole. The recent announcement from the Federal Government that cruise ship activity will remain cancelled until February of 2022 will likely weigh on employment for most of this year. Cruise ship activity is not only a key direct employer but also drives tourism activity, which has been among the more severely impacted sectors during the COVID-19 pandemic.

Labour market conditions deteriorated in the Fredericton-Oromocto ER in 2020 because of the pandemic. The level of employment declined by 2,700 last year, lifting the unemployment rate by nearly two percentage points to 8.7%, as 1,400 workers left the workforce despite a 1,500 increase in the working age population. The decline in employment in the economic region was likely moderated somewhat by the high concentration of workers in the public sector, which has traditionally been relatively sheltered from recessions in the past.

Labour market conditions deteriorated modestly in the Edmundston-Woodstock ER in 2020, as employment diminished only by 600, lifting the unemployment rate by a percentage point to 8.2%. While the economic region appears to have been less impacted by the pandemic, the level of employment remains well below pre-pandemic levels. In February of 2021, employment was down by 3,500 compared to the same month last year.

**Figure 2: Employment by economic region (thousands and %), 2010 - 2020**

Economic Region	Number Employed			Average Annual Change (%), 2010-2020	Year-over-Year Change (%), 2019-2020
	2010	2019	2020		
<b>New Brunswick</b>	357.5	361.1	351.6	-1.7	-2.6
<b>Campbelton-Miramichi</b>	61.3	60.1	61.1	-0.3	1.7
<b>Moncton-Richibucto</b>	103	109.2	108.7	5.5	-0.5
<b>Saint John-St. Stephen</b>	85.2	87.5	80.8	-5.2	-7.7
<b>Fredericton-Oromocto</b>	69.5	68.1	65.4	-5.9	-4.0
<b>Edmundston-Woodstock</b>	38.4	36.3	35.7	-7.0	-1.7

Source: Statistics Canada, Table 14-10-0090-01

## SOCIO-ECONOMIC CHALLENGES AFFECTING SERVICE DELIVERY IN THE ATLANTIC REGION

### Delay in vaccine distribution or spread of second strain

There remains an unusually high amount of uncertainty surrounding the economic outlook, both globally and in New Brunswick. One of the imminent concerns involves the potential for setbacks in the distribution of vaccines. There is also uncertainty surrounding the effectiveness of the vaccine, which could significantly undermine the economic recovery. The spread of new, more contagious variants of the virus, which could lead to further restrictions or lockdowns, also poses risks. It should be acknowledged that at this stage all of these aforementioned risks have diminished. Additionally, having a much smaller population, the province is likely less at risk of another outbreak than other more densely populated areas. Nonetheless, uncertainties remain, and the possible consequences on the economic recovery are significant.

### Demographic Challenge

Demographics are a longer-term structural challenge to the province, as seniors (those aged 55 and over), which traditionally have had a much lower attachment to the labour force, account for a growing share of the population each year. This is exerting significant downward pressure on the size of the labour force, at a time when growing number of seniors are exerting upward pressure on health care costs that are already unsustainable. In 2009, persons over the age of 55 represented around one out of every four New Brunswickers. By 2019, that share had risen to more than 30%. Recent projections by Statistics Canada, moreover, suggest that by 2040, more than half the population will be over the age of 55. At the same time, the share of persons belonging to the “core working age” cohort, meaning those between the ages of 25 and 54, has been diminishing for several years.

### Labour and Skill Shortages

The COVID-19 pandemic has compounded both labour and skill shortages across the province, which create a range of challenges to employers such as higher costs and reduced productivity, preventing businesses from operating at full potential. Labour shortages, which were already becoming prevalent in the years leading up to the pandemic, are an ongoing challenge to employers in the province, even as unemployment remains elevated due to the pandemic. Immigration, which has become increasingly important in addressing labour shortages in



recent years due to an aging population, fell sharply across N.B. in the second half of 2020 due to the pandemic. Immigration levels should normalize as border restrictions are reduced, though will likely be insufficient to address labour gaps in the near term, meaning businesses will need to invest in productivity to bring production levels closer to full potential. In a recent study, APEC has identified automation and digitization as being among key factors that could help offset the impact of labour shortages in the Atlantic Region. These developments would likely require the re-training of existing employees to fill any new resulting job opportunities.

## 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 home towns 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.

## Reduced Investment Intentions

Business investment intentions have deteriorated significantly because of the pandemic. Being an important driver of labour productivity, which drives wage growth, this has implications for the province moving forward. The Capital Intentions Survey, administered by Statistics Canada, showed a notable deterioration in capital investment intentions across the province between February and August. Capital intentions have since recovered but remain below pre-pandemic levels. The re-introduction of various restrictions due to a resurgence in the number of infections early this year, however, could weigh on firms' plans to invest once again in the near term.

The current recession is different from previous economic downturns in the sense that governments have not engaged in major stimulus spending as a way to offset broader weakness in the private sector. During the current downturn, government-spending measures have been aimed mostly at supporting businesses and households that have been impacted by the pandemic. This has been achieved mostly through income transfers, while little support has gone towards new capital or infrastructure.

**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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