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CLIMATE FOR DEVELOPMENT ATLANTIC REGION

**Newfoundland, Prince Edward Island,
Nova Scotia and New Brunswick**

One of a series of supplementary working papers
prepared for submission to the Standing
Committee on Regional Development by the Minister of
Regional Economic Expansion.

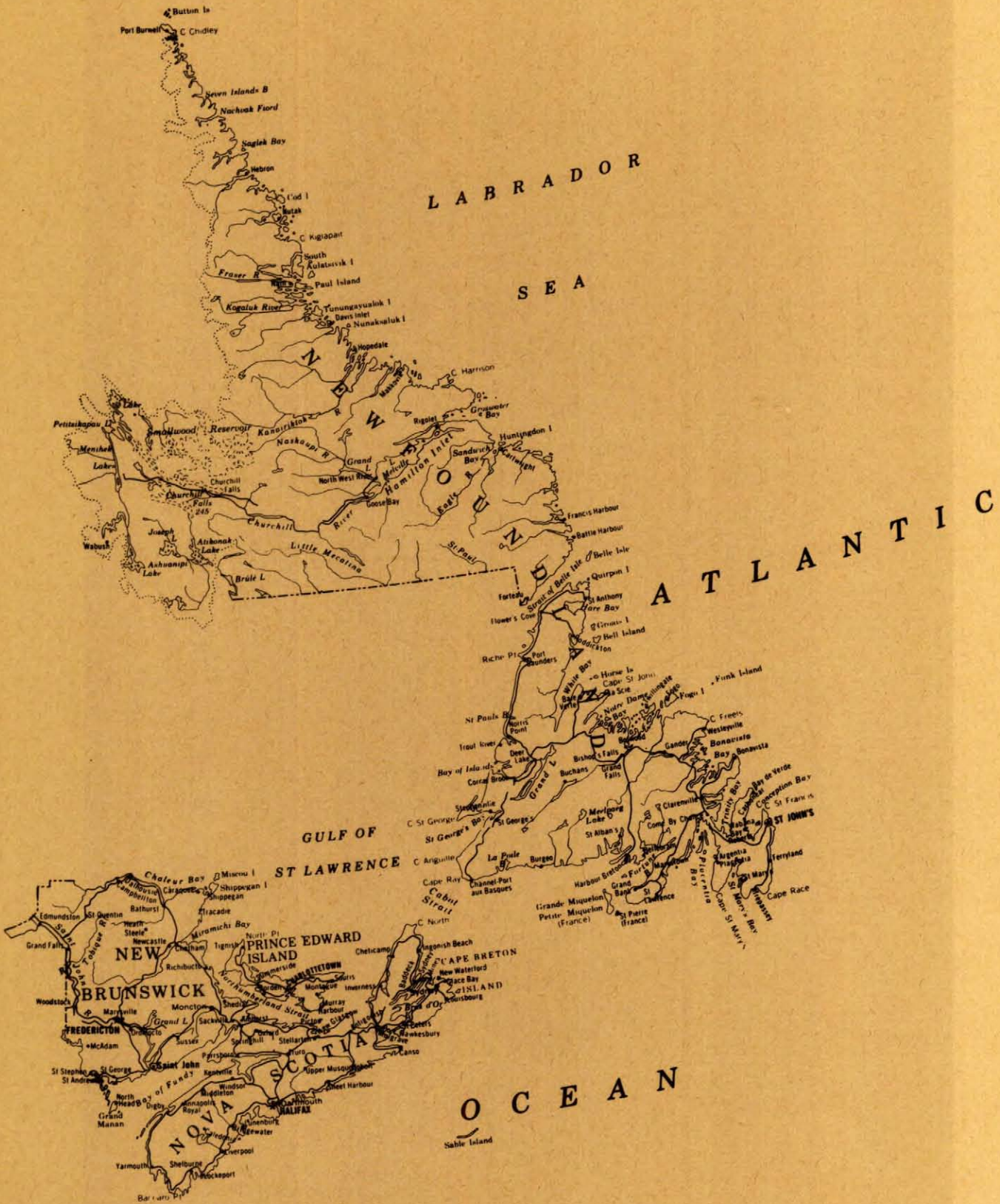
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ATLANTIC REGION



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Canada. Dept.

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FOREWORD

The establishment of the Department of Regional Economic Expansion in 1969 underscored federal government concern for regional development. Experience and analysis since then have helped to forge a much broader and more comprehensive approach to the subject.

To arrest the trend toward increased concentration of economic activity in Canada's industrial heartland and to ensure that the potential of each region is tapped, it has been recognized that a more closely integrated approach by all levels of governments is required. Many policies and programs at all levels of government affect economic development and a high degree of coordination is necessary to achieve progress in this field.

Each province has its own set of social and economic circumstances and developmental opportunities. Effectiveness in regional development policy therefore depends to a considerable extent on a continuing process of regional and provincial analysis. This report is designed to help ensure that regional and provincial circumstances, priorities and concerns are reflected when new or modified public policies are being formulated.

This volume includes a regional report and reports for each Atlantic province. The regional report provides an overview of the economic circumstances and development concerns within the Atlantic Region as a whole. Each provincial report is comprised of three sections. The first section presents a summary of the report and outlines developmental prospects. The second section highlights economic circumstances that have an important bearing on the process of economic development. The third section describes a number of constraints to development and, more positively, some major opportunities for future development.



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THE ATLANTIC REGION



SUMMARY AND PROSPECTS

The rapid pace of economic activity in the Atlantic Region in the first three years of this decade came to a halt in 1974, reflecting the decline in the growth of the national and international economies. Economic circumstances continued to deteriorate throughout 1975. The resource industries, particularly fishing and forestry and related processing, were seriously affected. Unemployment rates exceeded 20 per cent in most of Newfoundland and northern New Brunswick.

Historically, the Atlantic Region has been more sensitive to cyclical fluctuations than the country as a whole. Thus, the region has experienced deeper and sometimes more erratic swings than other parts of the country. As a marginal supplier of goods to central Canada and the United States, the Atlantic Region experiences the positive effects of strong demand only when these economies achieve high and sustained levels of economic activity.

The recovery which has already begun in the rest of the country, therefore, will not generate an immediate reduction in regional unemployment. In fact, the national outlook is for little change in unemployment levels in 1976 but in the Atlantic Region unemployment may rise further.

The growth of fixed capital formation is generally lower in the Atlantic Region than in other regions of Canada. Total public and private investment in 1975, though higher than in the previous year, is expected to increase by no more than 8 per cent compared with the national increase of 14 per cent. Moreover, the regional gain is largely attributable to strong advances in public utility construction in New Brunswick. Excluding New Brunswick, fixed capital formation in the region is estimated to be up by only 2 per cent in 1975. Preliminary estimates for 1976 again suggest less buoyant expansion for the Atlantic Region than for Canada in general.

The increases in investment outlays in New Brunswick during 1975 were largely concentrated in the Saint John area. Almost half of the advance was due to increased investment in utilities associated with the nuclear power project at

Point Lepreau and the thermal generating plant at Coleson Cove. Expansion of the Irving Oil refinery in Saint John accounted for most of the provincial increases in manufacturing investment.

In Prince Edward Island, advances in capital outlays by the government and primary industry sectors associated with the PEI Development Plan were expected in 1975 to be more than offset by reductions in expenditures in the housing and service sectors. In Nova Scotia, increased capital outlays on the Wreck Cove hydro-electric project as well as by government departments were partly offset by reductions in capital spending in manufacturing. Similarly, the major investment spending advance in Newfoundland was expected to come from government expenditures. This gain, however, was partly reduced by a decline in capital outlays in the services and primary sectors.

In summary, the recession in the economies of the western world had a significant impact on economic circumstances in the Atlantic Region. Economic recovery began in Canada during the last half of 1975. In 1976, real gains in production are expected to be approximately 5 per cent. In the Atlantic Region, however, most of the economic indicators continue at present levels and there is little sign of a possible turnaround until late into 1976.

ECONOMIC CIRCUMSTANCES

Background to Recent Developments

In most respects, the Atlantic Region experienced the least growth of any part of Canada from 1961-71. The performance of the Atlantic economy was below Canada in nearly all of the key indicators. To cite one example, the growth in employment averaged 2 per cent per annum or only two-thirds of the national rate of increase. Perhaps most important, the generation of new employment opportunities was not sufficient to allow the Atlantic Region to retain its natural increase in population. The upshot was strong and continuous net out-migration, averaging 14,900 per annum over the decade, and a population growth rate averaging only 0.8 per cent per annum - less than one-half the Canadian rate.

However, there were two encouraging developments in the 1960s. First, personal and earned income per capita in the region showed some improvement relative to the Canadian average, reflecting in part the restructuring of the Atlantic economy from lower to higher productivity sectors. Second, the growth in investment was well above the national average. However, much of this investment was in capital-intensive projects, providing a partial explanation of the slow growth in employment. A further explanation is provided by the major job losses experienced by the region's more traditional sectors, particularly agriculture and forestry which together showed an employment decline of 40,000, or over 50 per cent, from 1961 to 1971. In short, that decade was a period of adjustment, rather than of strong expansion, for the Atlantic economy.

Recent Developments

To some extent, the economic adjustments which occurred in the 1961-71 decade laid the foundation for the strong upturn in the Atlantic economy beginning in 1971. Since 1971, a number of factors have acted together to create the best economic conditions the Atlantic Region has experienced since World War II. A partial listing of these factors would include improved international markets for natural resources and semi-processed goods; the continuing rationalization of the Atlantic economy, with secondary manufacturing playing an important role for perhaps the first time; the broadening of the region's service sector base; changes in transportation and other technologies favouring the Atlantic Region; and the

favourable impacts of the development policies of both the provincial and federal governments. Indeed, many manufacturing industries are beginning to take advantage of growing opportunities and the availability of incentives to establish new production facilities in the region to supply both regional and national markets.

Trends in the Atlantic economy were particularly favourable in 1972 and 1973. In these two years, the growth in employment averaged 4.7 per cent per annum compared with 4.2 per cent nationally, while the increase in gross regional product averaged 12.6 per cent - marginally below the national advance of 12.9 per cent. In the region, sharp gains in employment were experienced by all sectors except the four primary industries. In the primary activities, the rates of decline in employment were much lower than in the previous decade.

Similarly, the Atlantic performance compared favourably with the rest of the country in most of the other key indicators. Perhaps most important, in 1972 the Atlantic Region registered the lowest level of out-migration in 20 years, and in 1973 experienced substantial in-migration, amounting to almost 9,000 on a net basis. The Atlantic population expanded at an average annual rate of 1.3 per cent in 1972 and 1973, or marginally above the national rate of 1.2 per cent. These high rates of in-migration and population growth also continued in 1974 and 1975.

The economy of the Atlantic Region weakened in 1974, reflecting the sharp economic downturn in Newfoundland during the first six months of 1974 and the more modest slowdowns in Nova Scotia and New Brunswick during the last six months of the year. Nevertheless, significant economic gains were realized. Between 1973 and 1974, employment in the Atlantic Region showed a healthy advance - rising by 3.8 per cent compared with 4.3 per cent nationally. Some of the goods-producing sectors were quite buoyant, with particularly sharp gains in the mining, manufacturing and construction industries. On the other hand, the service sector expanded at a much lower rate than in the previous two years. Consequently, the growth in female employment slowed down appreciably. Because of the absolute decline in employment in Newfoundland, the unemployment rate in the Atlantic showed a fairly marked advance from 8.9 per cent in 1973 to 9.8 per cent in 1974.

By the end of 1974, the Atlantic economy had lost most of its upward momentum as the impact of the U.S. recession spread quickly into the region. Throughout 1975, economic circumstances deteriorated further. Employment growth in the region fell from an annual rate of 4.1 per cent in the last quarter of 1974 to no growth in the last quarter of 1975.

The effect of the recession in Atlantic Canada has been particularly troublesome in the primary sectors and those manufacturing industries processing natural resources. During the first 11 months of 1975, farm cash receipts declined by 32 per cent and pulpwood production was down 22.3 per cent; fish landings remained unchanged from the previous year but were still much lower than in 1973. Lumber production declined by 24 per cent in the first 10 months of 1975. Manufacturing output remained strong until the first quarter of 1975, but it has since slowed. In value terms, the annual increase in manufacturing shipments declined from 18.5 per cent in the first quarter of 1975 to 6.3 per cent in the second quarter and down to 1.1 per cent in the third quarter.

Spatial Distribution of Economic Growth

All four Atlantic provinces showed substantial economic gains between 1971 and 1974. For example, all provinces recorded annual increases in employment of about 4 per cent.

These overall movements, however, tend to mask important divergences in economic performance between the more urbanized parts of the region and the more rural, resource-oriented areas. The available evidence suggests that, between 1971 and 1974, near-boom conditions prevailed in most of the larger Atlantic urban centres, particularly in Halifax-Dartmouth and Saint John and, to a lesser extent, in Moncton and St. John's. The areas immediately surrounding the major centres also experienced important economic gains. In contrast, many of the outlying areas made few, if any, economic advances and, consequently, suffered a widening in regional disparity as shown by a number of key indicators.

These trends are perhaps best illustrated by comparing economic trends in the urban-industrial core of the Maritimes i.e., the Saint John-Moncton-Halifax triangle, with trends in the remainder of the Atlantic Region. For example, between 1971 and 1974, the unemployment rate in the urban-industrial core decreased from 6.1 to 5.6 per cent, following national trends, whereas the rate in the remainder of the Atlantic moved upward from 10.7 to 13.1 per cent. Moreover, the labour force participation rate experienced sharper gains in the urban-industrial core than in the outlying areas of the region. The Avalon Peninsula, which is the most highly urbanized part of Newfoundland, fared much better than the rest of the province over the past three to four years.

The major consequence of these trends is that the degree of income disparity within the three largest provinces in the region has increased over this period. Preliminary estimates suggest that per capita income in the Avalon Peninsula is now close to 50 per cent higher than for the rest of the province - double the differential of only a few years ago. Similarly, incomes in the southern half of New Brunswick are now about 50 per cent higher than those in the north compared with 43 per cent higher in 1971. In Nova Scotia, the disparity between the central core and the remainder (including Cape Breton and southwestern Nova Scotia) advanced from 31 to 37 per cent over the same period.

To sum up, the growth in the urban-industrial core of the Maritimes, and to a lesser extent the Avalon Peninsula of Newfoundland, compared favourably with most other parts of the country over the last four years. The unemployment rate in the core area is about equal to the all-Canada rate, and its labour force participation rate is only slightly below the national average. However, per capita income in the core area is about 12 per cent below the national average. Throughout 1975, the gains in economic activity continued to be concentrated in the larger urban centres, mainly Halifax and Saint John.

Not all of the less urbanized or outlying areas have performed badly. Prince Edward Island, for example, has made strong economic gains based on the recent upturn in farm prices and the impact of the Comprehensive Development Plan. However, other areas in the region have fallen further behind, including most of Newfoundland outside of the St. John's area, most parts of northern New Brunswick, particularly the northeast, and the Cape Breton and south shore regions of Nova Scotia.

SOME REGIONAL CONCERNS

Fisheries

The years 1974 and 1975 were very difficult ones for the Atlantic fishery, particularly the groundfishery. Resource depletion, and rising inventories resulting from weaker markets in the United States, have led to sharply reduced incomes for both individual fishermen and processing companies. Near the end of 1974, a number of interim measures to stabilize the fisheries were introduced by the federal government. These included the provision of about \$20 million to finance cold storage expansion, inventory costs, and purchases for the World Food Program. Further temporary support measures were implemented in May 1975, in the form of deficiency payments to fishermen and processors.

A review of the Atlantic fishery, designed to evolve policies for longer-term restructuring of the industry, is underway. Areas that are being examined include the following: measures to maintain income and employment in the fisheries; programs to reduce high inventories and encourage production; programs to provide requisite working capital in processing; policies to lower unit cost of processing; policies to ameliorate the existing resource problems; and the special problems of single industry communities almost totally dependent on the fishery, including communities in the northeast and the Burin Peninsula of Newfoundland, northeast New Brunswick and the south shore of Nova Scotia.

Transportation

The removal in January 1974 of the freeze on certain rail rates, followed by significant rate increases on some kinds of traffic, caused widespread concern among Atlantic Region shippers. Increasing and more discriminating attention is now being paid in the Atlantic provinces to the way in which freight rates, regional development and the trade of the region are related. The fact that most businesses in the region have seemingly been able to accommodate rate increases reflects, to some extent, the fact that higher levels of freight rate assistance are now provided to outbound goods.

It has sometimes been observed that, in their concern for transportation, businesses in the Atlantic Region do not pay sufficient attention to physical distribution concepts, such as inventory, warehousing and delivery. A Physical Distribution Advisory Service, under the financial sponsorship of DREE and the Atlantic provinces, was established to help overcome this

deficiency. The service has generated an enthusiastic response and is considered to be meeting a very important need for medium-sized and smaller firms.

Because of repeated demands for improved air services in the Atlantic Region, the Air Transport Committee of the Canadian Transportation Commission made a special study of this matter. Hearings were held in the region, and provincial governments brought forward specific suggestions. A report from the committee was released in January 1975, and it gave substantial recognition to the need for improved air services in the region. Since then there have been some improvements, including Air Canada service to Charlottetown and an expanded EPA service. In addition, both these carriers have announced their intentions to consider the early implementation of further intra-regional services. In addition to the provision of air services, there is need for new or improved airport facilities at a number of sites which warrant service for development or socio-economic reasons.

Energy

Demand for electrical power continues to grow rapidly in the Atlantic provinces and new projects for power supply have been initiated or are under active investigation. These include the Gull Island hydro development in Newfoundland; the region's first nuclear unit at Point Lepreau, New Brunswick; the Wreck Cove hydro development in Nova Scotia; and a power connection between Prince Edward Island and the mainland.

Federal financial assistance is being provided to both the Lepreau generator and the PEI power cable. In addition, the feasibility of generating electricity from the tides of the Bay of Fundy is being re-investigated because of the increased costs of conventional sources of energy.

There is increasing financial pressure on utilities. The problem is acute in the Atlantic Region because of the relatively heavy reliance on imported oil for power generation. Prince Edward Island, for example, is totally dependent on fossil fuel for power generation. Nova Scotia is somewhat less so, while New Brunswick has a significant portion of power generated from other energy sources.

The operating costs of utilities in the Atlantic provinces are already the highest in the country and may rise further. The availability of adequate energy supplies at reasonable prices is crucial to the future economic growth of the Atlantic Region. Some steps have been taken to improve

interprovincial electrical grid arrangements, but further investments in a regional grid system clearly merit consideration.

Other Issues

The region continued to experience difficulties in a number of other areas. For example, lack of venture capital continues to impair the ability of smaller industries to proceed with new plants or expansions of existing facilities. The availability of reasonably-priced housing remains a fundamental issue. The housing industry is fragmented - inefficiencies are readily apparent and high costs prevail. Development opportunities in the manufacture of housing components seem to exist. If they could be realized, the social requirement for adequate housing could be better met. In certain parts of the Atlantic Region, particularly the metropolitan areas, there is the danger that the lack of skilled labour will hinder existing or intended investments in residential and commercial projects. This situation prevails at a time when the more remote parts of the region are faced with significant surpluses of labour.



NEWFOUNDLAND



SUMMARY AND PROSPECTS

The Newfoundland economy changed direction significantly during the past two years as a halt occurred in the economic gains realized through 1973. Last year, employment increased only marginally while real output registered an absolute decline. Out-migration, while substantially lower in 1975 than in past years, remained a feature of the provincial economy. The seasonally-adjusted unemployment rate reached 21.0 per cent in August and remained high throughout 1975. The average annual unemployment rate increased from 15.7 per cent in 1974 to 18.2 per cent for 1975.

Four factors significantly contributed to the increase in Newfoundland's unemployment: the continued depressed state of fishing, the province's principal industry; little or no investment growth resulting from the completion of major construction projects with no offsetting large industrial capital spending; two major and prolonged industrial disputes; and a significant decline in wood products output occasioned by the economic slowdown in North American markets.

The prospects for the Newfoundland economy during 1976 are slightly more encouraging. The average unemployment rate is expected to remain above 15 per cent and a maximum of 2 per cent real economic growth is predicted. The investment forecast indicates that capital expenditure may be lower this year than in 1975, and this will be reinforced by the provincial government's freeze on capital projects, such as highways and schools. On the other hand, export prospects for pulp and paper products are expected to improve significantly as a result of economic recovery in U.S. markets. Similarly, the market for fish products is expected to improve during 1976 as prices firm up and Japanese competition lessens in North America, the province's major customer. Mining output is expected to increase as a result of expanded iron ore shipments and strong markets for zinc, silver, asbestos, and fluorspar. Finally, residential construction, which rebounded rapidly at the close of 1975, is expected to remain strong throughout 1976.

Offshore petroleum potential has captured the attention and imagination of all Newfoundlanders. Coupled with this concern, greater commitment to economic planning and direct provincial involvement in energy and key resource development are matters of importance to the provincial government. Development of energy resources is seen as a key tool

of economic growth in the province. Land use policies are also receiving considerable attention as evidenced by the government's decision to implement the Forest Land (Management and Taxation) Act. The intent of this Act is to place all Crown-controlled and major private forest holdings under a detailed management planning system.

The provincial and federal governments, in collaboration with the Newfoundland and Labrador Development Corporation, continue to promote and assist in establishing industry in Newfoundland. Of particular interest to the province are several large industrial enterprises which would make use of the province's abundant raw materials, deep-water port facilities, and available manpower.

ECONOMIC CIRCUMSTANCES

Background to Recent Developments

Although Newfoundland's economic performance has been disappointing in 1975, its economy has grown rapidly over the last 15 years. For most of the key indicators, the provincial increase since 1961 has been well above the national rates of increase. For example, between 1961 and 1975, Newfoundland's employment increased by 74 per cent, compared with 54 per cent nationally; and its population grew more than that of any other Atlantic province, although migration from the province remained high in most years. In 1972 and 1973, years of particularly high growth, net migration from Newfoundland was negligible. Finally, some narrowing occurred in per capita income and in other social and economic disparities between Newfoundland and the rest of Canada.

Shifts in economic activity, from lower to higher productivity sectors, have contributed to substantial gains in the volume of output. For example, mining, construction, transportation, public utilities and manufacturing presently play larger roles in the province's economy than do fishing, forestry, and agriculture. The growing importance of mining largely reflects the expansion of the Labrador iron ore mining industry. Throughout the period, increased activity resulted from many large construction projects; in particular, the Come-By-Chance oil refinery, the Stephenville linerboard mill, the Upper Churchill hydro-electric project, and large-scale commercial buildings in the St. John's area.

In short, the relatively steady expansion of the Newfoundland economy in recent years brought the province much closer to the mainstream of Canadian economic life. The Newfoundland economy is now more diversified, its service sector considerably broader, and the forward linkages out of its primary sectors more highly developed.

Notwithstanding these changes, Newfoundland continues to be heavily dependent upon its natural resources, with fishing, forestry, mining, and primary manufacturing constituting the economic base. Newfoundland also remains the most disadvantaged province in Canada. The province's per capita income is still about 35 per cent below the Canadian average; its unemployment rate is generally more than double the national rate; and the

labour force participation rate remains almost 10 percentage points below the national level, in spite of the sharp improvements of recent years. Moreover, events in 1974 and 1975 clearly show that the Newfoundland economy remains highly fragile and vulnerable to downswings in one or two key economic sectors. Major strides have been made since 1961, but much more must be done to provide Newfoundlanders with the wide range of employment options available to most Canadians.

Recent Developments

The many economic gains realized up to 1973 were not sustained in 1974 and 1975. The present state of the economy can be illustrated by examining a broad range of indicators.

Employment

The current state of the Newfoundland economy is perhaps best exemplified by employment trends. Three years of significant gains were followed by a decline, in 1974, of 1.3 per cent, or 2,000. In 1975, the unemployment rate increased from 15.7 to 18.2 per cent, although there was a slight rise in numbers of people employed. The weak state of the economy resulted in the migration of 5,600 persons from the province in the past three years. The population has increased by only 1.1 per cent since 1973.

The growth in gross provincial product in 1975 was estimated at no more than 11 per cent which, given the rise in prices, means there was little or no rise in real output. New capital investment increased by only 1.3 per cent (compared to 14.6 per cent nationally) in 1975, denoting a decline in real terms. Advances in housing, institutional, government and other services investment were partly offset by declines in primary industries, construction, utilities, and manufacturing investment.

The fishing industry experienced yet another difficult year in 1975, although this was eased by federal subsidies and market recovery in the latter half of the year. Landings were 258.6 metric tons, compared with 249.7 metric tons in 1974. Landed value was \$44 million compared with \$42 million in 1974. Problems of rising costs, resource management, and declining catches per unit of effort continue.

The pulp and paper industry was severely affected by mill shutdowns due to market conditions and strikes. Output of paper products during 1975 is expected to total \$160 million, 22 per cent lower than in 1974. Towards the end of 1975, the oil refinery at Come-By-Chance experienced acute financial problems which, if not solved, could lead to the closure of the plant.

One bright spot in the economy was the number of housing starts in 1975. These totaled 5,342, an increase of 9 per cent since 1974.

Sub-Provincial Developments

Current evidence strongly suggests that the Avalon Peninsula, in general, and the St. John's Metropolitan Area, in particular, has fared much better than the rest of Newfoundland over the past year. This is indicated by trends in utilization of the labour force; the rise in unemployment in 1975 was much lower in the Avalon Peninsula than elsewhere in Newfoundland. The unemployment rate in the Avalon Peninsula rose marginally from 14.1 per cent in 1974 to 14.4 per cent in 1975, whereas the rate for the rest of the province increased from 18.2 to 21.8 per cent.

While hard data are not available, indications are that the St. John's area has done better than the rest of the Avalon Peninsula, an area dependent on the fishing industry. The current pattern of investment is heavily skewed towards urban-oriented activities, particularly in the institutional and government sectors as well as those of finance, insurance, and real estate.



DEVELOPMENT OPPORTUNITIES AND CONSTRAINTS

Fishing

The fishing industry is of fundamental importance to Newfoundland. The severe difficulties of 1974 and early 1975 were alleviated with improving markets in late 1975, but the major, long-run problems of the fishing industry remain.

The basic problem is the rapid decline in fish stocks resulting from the intensive international fishing. Decreasing catches per unit of fishing effort and rising operating costs result in increased cost per pound of landed product. At the same time, processing costs continue to rise, while keen international competition in the United States market restrains price increases.

In the spring of 1975, the federal government introduced a package of short-term measures to relieve the financial crisis. About \$20 million were made available to the Atlantic Region in the form of payments to producers, and the purchase of inventories for disposal under food-aid programs. These programs, however, had a limited initial impact on Newfoundland for payments were conditional upon plants being in production, and most plants were closed for the first three months of 1975 because of a trawlermen strike.

The federal government began a series of studies, early in 1975, to develop plans for assisting in the rehabilitation of the Atlantic groundfisheries. These studies produced a number of short-term bridging programs which succeeded the interim measures mentioned above. The bridging programs provided a total of \$50 million and included subsidies on catches, paid directly to the fishermen and processors. A longer-range development strategy is being evolved of which a key element will be resource management involving control over the Continental Shelf.

Significant development opportunities in the fishing industry continue to lie in further diversification and in increased value-added to the products now being shipped largely in raw form. A move to increase value-added and levels of activity in the Newfoundland fisheries requires the participation of large and small-scale operations and initiatives at a number

of levels. In association with the private sector, efforts are required for more efficient production, together with better mechanisms for handling, grading, processing, transporting, and marketing the product. The recent DREE subsidiary agreement on water supply systems for fish plants is one step toward improving the quality, efficiency, and production of plants.

An important area of action lies at the community level. Here, capability could be increased to permit the community to develop the opportunities available to the inshore fisheries. Processing high value products, by-products, and unused species would not require large, capital-intensive plants for successful production. It would, however, require improved plant management and marketing capability, and closer operational ties to make maximum use of existing plant investment. This type of development would be of a regional nature, affecting the majority of fishermen.

Specific development opportunities may include marketing of fresh fish, capelin-herring processing, lumpfish roe processing, and fish entrées. The marketing of fresh fish has developed slowly because the fish require special preparation after being caught, special handling and packaging, and precise marketing and delivery schedules. In addition, transportation costs are high. Price variations necessitate sophisticated marketing techniques, which may well call for the establishment of a fresh-fish marketing organization.

The lumpfish is becoming a valuable resource because of the demand for its eggs, a caviar-like delicacy. Exports of untreated lumpfish roe, currently running at about \$660,000 per year, have been increasing. Processing of the roe is specialized and marketing of the product complex. However, the location of processing facilities in Newfoundland could add one to two million dollars to the value of the roe now being exported. Processing would also provide new jobs locally, and open up marketing channels for other commodities.

Energy and Offshore Petroleum Potential

The development of energy resources is seen as a key tool of economic growth in the province. The Newfoundland government has been considering the development of the hydroelectric potential of the Lower Churchill River (the Gull Island hydro scheme). No final commitment has been made on this and, in the meantime, generating capacity is being expanded at existing thermal plants.

The province's offshore petroleum potential is considered to be the most promising natural resource. The offshore region of eastern Canada has exceptionally favourable geological characteristics for petroleum accumulation. Since over 80 per cent of the potential hydrocarbon reserves of the eastern offshore region are situated on the continental margin of Newfoundland and Labrador, the probability of developing a petroleum industry in this area has captured the attention and imagination of all Newfoundlanders and many major international oil companies.

Minerals

The gross value of mineral production in the province was about \$440 million in 1974, including \$375 million from iron ore production in western Labrador. Exploration continues to hold high potential and could result in increasing production and value-added. The further processing of minerals in the province could bring about substantial benefits by way of jobs and incomes, and contribute to restructuring the economy.

The production of limestone and zinc are the most promising developments. On the Port au Port Peninsula, limestone reserves capable of producing one million tons per year have been uncovered. Studies are currently underway to determine the feasibility of mining this commodity. On the Great Northern Peninsula, near Daniel's Harbour, a zinc mine has come into production with a projected daily output of 1,500 tons.

At present further mineral development is significantly constrained by a high turnover of labour. Improved communications, for example, in the Labrador mining areas could overcome some of the problems encountered by companies in attracting and retaining workers. Although Labrador City has most of the amenities found in southern communities, it is isolated as there is no road linking it with the rest of the country.

Forestry

Newfoundland's forests are not being used to their fullest capacity. Greater use of this resource would generate significant development in the industry and provide strong support to the communities within the forest areas. The annual value of forest production is currently about \$100 million, of which pulp and paper accounts for 73 per cent; and lumber, poles, posts and wood fuel accounts for the balance. This is a significant activity in a number of small areas of Newfoundland.

As in other provinces in the Atlantic Region, land tenure, cutting, and other practices restricting the opportunities for effective use of the forests are among the main constraints. Resolving such problems would make a major contribution to the forestry industry. Improvements in transportation and development of an integrated housing-materials market could also generate major increases in incomes and employment.

Heavy Industries

Industries based on the province's natural resources are expected to contribute significantly to further expansion of the manufacturing sector in the province. Resource development is related to world demand and international markets. The type and scale of investment needed requires the involvement of organizations commanding large reserves of technical knowledge, experience and capital.

Ocean Science and Technology

The Newfoundland government recently concluded an agreement with DREE to support research into and development of offshore resources. The objectives of the agreement are to stimulate the development of marine technology in Newfoundland and to promote the establishment of marine ice-related industries. It also seeks to ensure that the business community is fully involved in the development of marine resource in the adjacent ice-congested waters. Particular emphasis is to be given to exploiting the oil and gas potential of Newfoundland's Continental Shelf. NORDCO Limited, a new provincial Crown corporation, has been established to carry out this venture. This corporation will endeavour to become an internationally recognized centre of exploitation of an ice-related expertise in the resources of the northern oceans.

PRINCE EDWARD ISLAND



SUMMARY AND PROSPECTS

From 1961 to 1971, the economic structure of Prince Edward Island remained virtually unaltered. The province continued to be heavily dependent upon agriculture and fishing. The period was marked by little population growth, heavy out-migration and high unemployment rates.

Since 1969, however, important advances have been made in the economy as the effects of the 15-year Comprehensive Development Plan began to be felt. The construction sector benefited the most from the plan, as capital expenditures in housing and infrastructure increased sharply.

This year's prospects, however, while not unfavourable, are far from spectacular. Potatoes, which account for almost 70 per cent of farm cash receipts, have been attracting strong prices of late and the outlook for potato farmers is good to the end of the crop year. On the other hand, a continuation of the present depressed prices for other farm products, such as beef, together with increased costs for feed, fertilizer and machinery, create some uncertainties. High production costs, in fact, accounted in large part for the 41.2 per cent drop in realized net farm income in 1975 as compared with 1974. Another reason for the decline in income was the lower prices of the 1974 potato crop marketed early in 1975.

Government and institutional construction expenditures in 1976 are expected to be below the levels reached in 1975, which are now estimated at \$150.4 million. Housing starts this year, on the other hand, are expected to be lower than the level of a year ago.

The province is concerned that the pre-eminent position of the agricultural industry should be clearly recognized and reflected in the priorities established for the allocation of resources. Agriculture on the island faces difficult problems. The number of farmers and the total acreage under production are declining. Returns on farming operations have been insufficient to attract farmers into the industry.

Fisheries are also experiencing problems. Most species are being fished beyond their maximum sustainable yield, and operating costs are rising at a time when the value of landings is declining. Among other things, the province intends to investigate the farming of oysters, trout, and quahaugs by aquaculture, as a means of strengthening the fisheries sector.

ECONOMIC CIRCUMSTANCES

Demographic Trends

The population of Prince Edward Island was estimated at 119,000 in 1975, an increase of 1.7 per cent over 1974. There were some shifts of population among the three counties. Queens increased by a full 2 percentage points to reach 51,135 persons, or 45.8 per cent of the province's population in 1971. Kings and Prince counties declined, the former from 17.1 per cent in 1961 to 16.5 per cent in 1971, the latter from 39.1 per cent to 37.7 per cent. From 1971 to 1974, a marked reversal of migration patterns took place, with net inflows of migrants to the province since 1971.

Employment Trends

The labour force reached 46,000 in 1975, an increase of 4.5 per cent over 1974. Participation rates have also increased substantially, reaching 54.8 per cent in 1975, but still significantly below the Canadian average of 58.8 per cent.

Recent increases in employment can be directly related to the introduction of the Comprehensive Development Plan for Prince Edward Island. The impact of the plan has been particularly noticeable in employment gains within the construction sector, with expenditures from Phase I of the plan constituting almost one-quarter of total construction activity.

Employment in public administration, at municipal, provincial and federal levels, has increased substantially. The major increase has been in the provincial government where the build-up of plan-related administrative capacity was a major contributing factor. At present, provincial government employment represents over 7.5 per cent of total employment, as compared with under 6.0 per cent in 1966.

Employment in the agricultural sector declined from 9,000 in 1970 to about 5,000 in 1975. This decline reflects the continuing exodus of farmers and the unwillingness of new workers to enter farming. Farm employment accounted for 12 per cent of total employment in 1975, as compared with 24 per cent in 1970.

Employment in fishing has not changed significantly, although a decline was expected due to the rationalization of the industry. Indications are, however, that employment in the sector is increasing moderately.

In general, the growth in employment has been in the construction and service-oriented industries, with the latter accounting for about 60 per cent of total employment in the period 1969 to 1975.

Industrial Performance

The gross provincial product for Prince Edward Island is estimated at \$458 million in 1975, an increase of 5.9 per cent over 1974.

Recent increases in Prince Edward Island output or production are associated with gains in investment during the past five years. For example, total investment on the island is expected to reach \$150 million in 1975, representing an increase of 155 per cent over the 1969 level. This is nearly double the rate of advance at the national level.

Favourable trends in the volume of economic activity coincided with marked gains in personal per capita income in the province. As a percentage of the national average, personal per capita income rose from 63.8 per cent in 1969 (at the inception of the plan), to 69.3 per cent in 1974. In dollar terms, the increase was from \$1,847 in 1969 to \$3,402 in 1974. This narrowing of the income gap between Prince Edward Island and the rest of the country cannot be attributed entirely to earned income, as transfer payments continue to be a significant portion of total income.

Government investments in social and economic infrastructure have had a significant impact on the province's construction industry. These expenditures, however, caused large fluctuations in income and employment. In 1966, government expenditures comprised nearly two-thirds of new construction expenditures in the province, that is, \$22.7 million of a total \$36.2 million in new construction.

This level of spending was not sustained, and by 1969 it had dropped to \$12.1 million, leading to declines in construction, employment and income. Government and institutional construction spending has since risen sharply to \$27.6 million in 1974, with much of this involving the provision of infrastructure under the Comprehensive Development Plan.

As is well known, the main crop in Prince Edward Island is potatoes. Prices are externally determined and consequently, farm incomes fluctuate widely. In 1975, for example, realized net income of farmers dropped by 41.2 per cent from the previous year. This was due partly to the low prices received by farmers for their 1974 potato crops sold in 1975, and partly to increases in farm production costs for petroleum, fertilizers and other supplies.

Agriculture on Prince Edward Island faces difficult problems. As mentioned earlier, both the number of farmers and acreage under production are declining and profits are generally low. Various programs in Phase II of the Comprehensive Development Plan have been designed to attract new management and investment into farming. As agriculture is the economic base of the economy, success in this area is vital and several other components of the plan also depend on it.



DEVELOPMENT OPPORTUNITIES AND CONSTRAINTS

Development Objectives

The provincial government is determined that the important position of the agricultural industry should be clearly recognized and reflected in the priorities established for the allocation of resources. A Royal Commission on Land-use has been established to make recommendations on how the province might best use its land resources. Furthermore, both industry and government have expressed their concern with the need to implement mechanisms to dampen the effects of the boom-bust nature of the agricultural sector. With this in mind, the Potato Marketing Board has been recently restructured to make it more responsive to the needs of producers than of processors.

The provincial government intends to continue providing substantial assistance in terms of service, advice, incentives, and grants to those farmers seeking to increase their productivity and to persons who wish to start farming for the first time. The main vehicle for this will be the New Farmer and Farm Development Programs, which reflect fundamental support for the family-owned-and-operated farm.

In addition, the province intends to seek assistance in resolving transportation problems, so that products may be taken to the major markets promptly and without damage. Reaching a decision on this question is important because the problems involved in transporting commodities using existing facilities are expected to be extreme by 1977. A minimum of two years is required for the construction and implementation of any of the alternative transportation methods.

The development potential for the fishing industry in the province is limited by the maximum sustainable yield from fish stocks, and the seasonal nature of fishing operations. Under these conditions, little expansion in fish landings can be expected. Any price increases would augment the incomes of fishermen, but underemployment and relatively low returns continue to be the industry's major problems.

Initiatives to strengthen the economic position of Prince Edward Island's fishermen include the development of aquaculture for the production of oysters and other seafood, the installation, by the province, of unloading equipment and sun-protected working areas, and the introduction of an offal collection system. Furthermore, extension programs will be expanded with the introduction of fisheries representatives in district offices, so that information useful to the fishing community will be more readily available.

In the area of forestry, the province will take steps to upgrade the quality of forest resources and will provide assistance and incentives to woodlot owners to improve and intensify woodlot management. This will necessitate a major forestry extension effort.

Closely associated with Prince Edward Island's primary industries of agriculture and fisheries is the processing and handling of raw and finished products, and related service industries. The provincial Department of Industry and Commerce has expanded its Forgivable Performance Loans Program to include financial assistance to eligible service industries. Moreover, to encourage the strengthening of small industries and the establishment of additional manufacturing activities in the province, serviced land and facilities are being provided for small manufacturing companies in the coming year.

Electric power on Prince Edward Island has always been more costly than in other areas of Canada. The recent increases in the costs of fuel oil have caused significant increases in the costs of producing thermal power on the island. In order to secure a continuity of supply at reasonable cost, Canada and the province are constructing a cable across the Northumberland Strait, which will connect Prince Edward Island with the maritime system. The cost of the cable is estimated at \$36 million. The federal government will provide a maximum grant of \$18 million, through DREE, and a loan of \$9 million through Energy Mines and Resources; the province will provide the balance.

Tourism is one of the traditional industries in the economy of Prince Edward Island. In the recent past, this industry has grown rapidly at about 10 per cent per year. However, while tourism yields a fairly significant economic return, it generates some instability in the economy. Employment is highly seasonal and wages are generally low. Tourist expenditures are subject to a high leakage factor, because most of the goods purchased are imported.

There are also other concerns. The increasing numbers of tourists are beginning to tax the physical amenities of the province. Furthermore, agriculture - the only sector able to create higher, year-round income and employment both in its operations and through its linkages with the province's other industries - is suffering from severe competition for land from the tourist industry. The province has therefore decided to assess the entire tourist industry, outlining the economic, social, cultural, environmental, and ecological implications of continued expansion.



NOVA SCOTIA



SUMMARY AND PROSPECTS

Over the period 1961-71, Nova Scotia's economic growth was lower than the national average. More recently, however, some key indicators for the Nova Scotia economy have shown growth rates comparable to national rates, as changes in trade patterns, transportation and technology seem to favour the province. Other factors contributing to this improved economic performance include strong international markets for Nova Scotia's raw materials and semi-processed goods; and growth in local and Maritime markets to a size sufficient to support a wide range of manufacturing and service industries whose products were previously imported.

Currently, the Nova Scotia economy is being affected by the general downturn in economic activity, although it is performing reasonably well in some areas. Mid-1975 investment intentions were down 5.0 per cent for the construction sector, but up for machinery and equipment, pulling total investment intentions for 1975 above the level for 1974 by one per cent. Manufacturing output, although increasing 10.9 per cent in value over 1974, will likely be down slightly in real terms for 1975. The service industries and the government sector maintained or expanded activity.

The resource sectors were the ones most adversely affected by the recession. The demand for lumber was lowered because of a decline in residential construction during the first half of 1975. Low catches and poor markets occurred in the fishing industry. In addition, the long summer drought and a slump in the demand for beef, which eased only recently, adversely affected agriculture. The coal-mining industry was the only one to enjoy increased production and this was due to high petroleum prices.

The unemployment rate during 1975 averaged 7.9 per cent, 1.2 percentage points above that for 1974. This is almost one percentage point above the Canadian level of 7.1 per cent, but well below the Atlantic unemployment rate of 11.6 per cent. These aggregate figures, however, cloud the severe unemployment situation in certain regions of the province. Layoffs at Sydney Steel and the closure of Canadian Motor Industries contributed to an unemployment rate of 13.6 per cent in Cape Breton in 1975. Southwestern Nova Scotia, including Metro Halifax, fared best at 6.2 per cent.

Strikes hit the province severely in 1975, particularly in the public sectors. Nurses, power, and liquor commission employees were out on long strikes at different times of the year. As the year ended, employees at the province's three pulp and paper mills were out on strike. This sharp rise in strike activity was due to the large number of collective agreements expiring during the year. By November 1975, the total number of man-days lost was 198 per cent higher than that for the same period in 1974.

The outlook for 1976 is uncertain, but it is most likely to be about the same as in 1975. Recovery of the U.S. economy will expand that of Nova Scotia somewhat. But business investment is not expected to be significantly higher than in 1975, and this will hamper expansion of the province's economy.

ECONOMIC CIRCUMSTANCES

Background to Recent Developments

From 1961 to 1971, Nova Scotia's economic growth lagged behind the rest of the country's and was generally below that of the other Atlantic provinces. Population growth was less than one-half the national rate, the consequence of substantial net migration from the province in almost every year. Furthermore, the rate of increase in employment in Nova Scotia was below the national average.

Gross provincial product, personal income, and value-added in the goods-producing industries increased slowly. Investment in manufacturing was particularly buoyant; this was one notable exception to the sluggishness of the economy. But most investment was in with capital-intensive projects as the pulp and paper mills at the Strait of Canso and in Pictou County, the petroleum refinery also at the Strait of Canso, and the two heavy water plants on Cape Breton Island. This type of investment and the high import leakages associated with it were important factors in Nova Scotia's slow employment growth from 1961 to 1971.

Even more important in limiting employment growth was the restructuring of traditional activities, particularly mining, fishing, agriculture and forestry. Over the decade, these sectors came to account for much smaller proportions of economic activity in Nova Scotia, while the service sector and to a lesser extent, manufacturing became much more important. From 1961 to 1971, over 20,000 jobs were lost in aggregate in the mining, agriculture, and federal defense sectors. As a result of these changes, the growth in the volume of economic activity was not sufficient to permit any significant narrowing in the per capita income disparity between Nova Scotia and the rest of Canada. Nova Scotia, in fact, was the only Atlantic province to report no relative improvement in this index.

Recent Developments

During the 1970s there has been a reversal in the performance of the Nova Scotian economy as changes in the trade patterns, transportation and technology moved in favour of Nova Scotia and the Atlantic economy in general. Other favourable factors have been: strong international markets

for the raw materials and semi-processed goods and thus the growth of the Nova Scotian and Atlantic markets to a size sufficient to support a wide range of manufacturing and service industries whose products were previously imported from central Canada.

Demographic Trends

The results of a better economic performance are best shown by trends in population growth. Between 1971 and 1975, the population increased by an average of 1.0 per cent per year which was only slightly below the rate of 1.3 per cent recorded at the national level. More significantly, Nova Scotia experienced considerable net in-migration from 1973 to 1975, after strong and almost continuous out-migration since World War II. Equally important is the fact that many immigrants, including returning Nova Scotians, are younger and more highly skilled.

Employment Trends

Gains in employment were particularly strong from 1971 to 1974, averaging 4.6 per cent per year. This was slightly above the national rate of growth and almost four times above the provincial rate of increase from 1961 to 1971. The rise in female employment, particularly dramatic between 1971 and 1974, was an average 6.0 per cent per year. The gains in employment permitted significant improvements in the rate of labour force utilization. The unemployment rate moved downward from 7.7 to 6.7 per cent, while the overall labour force participation rate moved upward from 49.3 to 52.5 per cent. Both changes compare very favourably with national trends. The result was that the fraction of the working age population employed in Nova Scotia showed a significant improvement from 86.9 to 88.8 per cent of the national average, after experiencing almost no improvement during the previous decade.

With the exception of primary industries, all economic sectors contributed to the advance in employment from 1971 to 1974. Employment gains in manufacturing averaged nearly 5.0 per cent per year, with an increase of 7.0 per cent in 1974 alone. The opening and expansion of two Michelin tire plants, the expansion of Hermes Electronics, and improved fortunes of the Trenton railway car works and the Halifax shipyard substantially increased employment. Also important was the establishment and expansion of many smaller firms producing manufactured goods for the Nova Scotian and Atlantic markets.

Important employment gains were also made in the transportation and service industries. Expansion of containerization and other facilities in the Halifax port increased employment in the transportation industry. And employment growth in the finance, insurance, real estate, trade, business and personal services sectors was impressive. These increases reflect the role of Halifax-Dartmouth as the regional distribution and service centre for the Atlantic Region.

In 1975, however, the situation deteriorated somewhat. The unemployment rate increased by 1.2 percentage points over the 1974 level, while the labour force participation rate marginally decreased. As a result, the working-age population employed in Nova Scotia relative to the national average was down to 86.6 per cent, as of December 1975.

Output and Income

Advances in other key indicators were generally in line with national trends. From 1971 to 1974, the gross provincial product increased annually by 12.5 per cent compared with 13.0 per cent at the national level. Preliminary indications are that, in 1975, the growth in output will be only slightly less than the national rate of increase. The growth in investment was substantial, but not equal to the national rate. Housing starts fell off by 22.3 per cent in 1974 and were 4.2 per cent lower in the first nine months of 1975 than in the same period of the previous year.

Another aspect of recent concern is that there has been no narrowing of the relative gap in per capita income between Nova Scotia and the rest of Canada. In 1974, personal per capita income in the province was the same proportion of the national average as in 1971, though this will probably increase slightly in 1975. On the other hand, wages and salaries in Nova Scotia in recent years showed a persistent tendency to move toward the Canadian average.

In concert with national trends, inflation accelerated in Nova Scotia during 1975. However, prices rose faster in Nova Scotia than in most other parts of the country. As measured by the All Item Consumer Price Index for metropolitan Halifax, prices advanced by 11.2 per cent from December 1974 to December 1975, compared with the national increase of 9.5 per cent for the same period. According to these data, Halifax had the highest increase of the three major metropolitan centres in the Atlantic Region and had the second highest increase in Canada.

Recent Sub-Provincial Developments

Recent economic gains were concentrated to a marked degree in the core of the province, centering on Halifax-Dartmouth and stretching from Bridgewater to Amherst and New Glasgow. The economy has been particularly buoyant in the Halifax-Dartmouth area. This metropolitan area experienced a 22.0 per cent increase in large-establishment employment between 1971 and 1974 compared with 15.0 per cent for the province. Employment gains in the transportation and service industries were particularly impressive, demonstrating, as noted earlier, Halifax-Dartmouth's role as the major service centre in the Atlantic Region. The Halifax metropolitan area remains the most prosperous part of the Atlantic Region. The unemployment situation in 1975, though, indicates that this metropolitan area was also affected by the general slowdown of the economy.

Bridgewater, Amherst, Truro and New Glasgow also experienced substantial employment gains in recent years. These were based, for the most part, on additions to manufacturing activity. The expansion of the Trenton works in the New Glasgow area, and the installation and/or expansion of a fairly wide range of local market oriented manufacturing industries in the Truro and Amherst areas were also responsible for the employment gains. Incomes in these areas, however, remain somewhat below the national average, partly because of the industrial mix. On the other hand, unemployment and participation rates in these areas are at present not far below the national levels.

By contrast, the South Shore area and Cape Breton Island continue to be the weak areas of the Nova Scotian economy. Both areas have been adversely affected by the current difficulties in the Atlantic fishery. In addition, a further deterioration in the unemployment rate occurred on Cape Breton Island, the result of closures of the General Instruments electronics plant early in 1974 and the Canadian Motor Industries Limited in June 1975, and of layoffs at Sysco in 1975. Moreover, there has been a lack of new industrial development in the Strait of Canso area over the last three years. The unemployment rate in Cape Breton averaged 14 per cent in the first ten months of 1975, while the labour force participation rate continued to be depressed relative to Nova Scotia and national levels.

DEVELOPMENT OPPORTUNITIES AND CONSTRAINTS

Development Objectives

For development purposes, the province can be divided into three broad areas. The northern section including Cape Breton and the mainland portion of the Strait of Canso might be developed largely for heavy industry, such as steel in Cape Breton and petrochemicals at the Strait of Canso. The central section might focus on light manufacturing in centres such as Amherst, Truro, New Glasgow-Pictou; and on service industries and port-related activities in the Halifax-Dartmouth area. In the remainder of the province, fishing, agriculture, and forestry are expected to account for most income and employment opportunities.

Steel and Coal

One of the major development projects identified for Nova Scotia is the possibility of a steel complex. A private-sector consortium has recently been organized to make detailed feasibility studies for a new four million ton/year semi-finished steel mill to be located in Cape Breton. The new mill would create about 2,800 jobs, and many workers would be drawn from the declining work force at Sysco. The project is consistent with the general development strategy for the area and complements the development thrust which is being made at the Strait of Canso.

The outlook for coal, the traditional resource industry of Cape Breton, has improved markedly in the light of rising prices for fossil fuels. The opening of the new Lingan colliery in 1974, the beginning of construction on the new Prince colliery in 1975, and the return to operation of the old Princess colliery, have had a substantial impact on the economy of the Sydney area.

Halifax-Dartmouth Development

The gateway concept for Halifax-Dartmouth and adjacent areas is another important development opportunity. This concept is based on recent changes in trade and transportation patterns, and on location and other physical advantages of the area - a proximity to Europe, an ice-free, deep-water harbour, and available land. The gateway concept entails loading and unloading of container and other cargo, but also

warehousing, repacking for inland and European destinations, a communications network, construction and repair facilities, and provision of services.

Redevelopment of the Halifax-Dartmouth waterfront as a commercial and residential centre is being pursued. A multi-million dollar proposal for redevelopment has been submitted by a private consortium. The proposal is being analyzed in light of the expected benefits to the area in particular and the province in general and of the type of development most suited to the region.

General Considerations

As in other parts of Canada, the current recession is having a dampening influence on investment, and projects which might be undertaken during normal periods are being delayed or cancelled. As well, the inflation being experienced in most sectors of the economy is introducing further uncertainties for investors.

Although the prices of all production inputs are rising rapidly, one of particular importance to Nova Scotia is energy. Both the cost and availability of energy are deterrents to major developments in the province. Finally, the whole future of resource industries, and particularly the depressed conditions of the fisheries and forestry sectors, is creating difficult problems of adjustment, especially in the western part of the province which depends almost entirely upon such industries.

NEW BRUNSWICK



SUMMARY AND PROSPECTS

New Brunswick's gross provincial product in 1975 is estimated at \$3.2 billion, 12 per cent above the 1974 level. Available estimates indicate that total wages and salaries amounted to \$2 billion, an 18 per cent increase over the previous year. New investment was about \$1,143 million, 21 per cent above the 1974 level.

Offsetting these favourable indicators was the impact of inflation. For example, the city of Saint John experienced increases in the Consumer Price Index of 10.3 and 10.6 per cent for 1974 and 1975 respectively. In addition, 1975 marked the second consecutive year that provincial employment growth failed to keep pace with the national rate. The deceleration in employment growth reflected layoffs in the province's wood products industries, certain sectors of the pulp and paper industry, and in industries related to residential construction.

The uncertain outlook for these key industries in 1976 clouds the prospects for economic growth in New Brunswick. Moreover, non-residential construction expenditures, the major contributor to the province's strong increase in economic growth in 1975, are not expected to provide an equivalent stimulus in 1976. On the other hand, an increase in capital spending over 1975 is expected, largely because of higher outlays by institutions, governments and utilities. Then too, the implementation of property and income tax cuts contained in New Brunswick's budget could boost the economy in 1976.

A major provincial issue relates to the disparities in incomes and labour force utilization that exist between urbanized and rural regions of the province. These disparities, which widened in 1975, are due to the slower growth in employment opportunities in rural areas as compared with urban centres. Current estimates are that employment in the northeast region of the province will have to grow at one and one-half times the rate of recent years just to prevent a further widening of the gap in labour force utilization.

Short-term priorities of the New Brunswick government are focused on alleviating the impact of the current nation-wide economic slowdown on the province's industries. Spending cuts have been announced in the fields of social services, education and health. At the same time, spending levels on economic development programs will be maintained. For the longer term, the provision of energy and infrastructure facilities take top priority. In addition, the province is attempting to ensure efficient utilization of natural resources, particularly in the forest products industry.



ECONOMIC CIRCUMSTANCES

Output and Employment

Gross provincial product at market prices in 1975 is estimated at \$3.2 billion, a 12 per cent rise over the 1974 level. In addition, available data indicate that total wages and salaries increased by 18 per cent in 1975 over 1974. Despite a rate of inflation of 10.6 per cent for 1975, these indicators show the extent of the improvement in real income and output achieved by New Brunswick during the year.

In 1975, the New Brunswick labour force increased by 4 per cent. The increase reflected gains in both labour force participation and in the adult population. A major factor behind the increase in population was net in-migration of 7,000 persons. This was the third successive year in which New Brunswick experienced net in-migration, a situation very different from the previous two decades during which the province consistently suffered out-migration. However, the participation rate of 53.1 per cent for 1975 was still below the national rate. In addition, employment grew by only 1.3 per cent in 1975. Layoffs in the province's wood products industries, including pulp and paper, were a major cause of the slow growth in employment.

With growth in employment failing to match the growth in the labour force during 1975, the unemployment rate increased to 11.5 per cent.

Industrial Performance

The value of mineral production in New Brunswick increased by almost 15 per cent in 1975, over 1974 levels, to reach \$251 million, despite a fall in the prices for lead and zinc - the major minerals of the province.

The continued recession in housing construction in the United States during 1975 had a substantial impact on the lumber industry in New Brunswick. Sawn lumber production was down by 20 per cent in the first 10 months of 1975 as compared with the same period in 1974. As a result, a large part of the sawmill capacity in the province is now idle. The recession in the housing industry comes at a particularly bad time for New Brunswick's sawmilling industry. Significant expansion in the province's sawn lumber production capacity, planned on the basis of the buoyant markets of the past three years and the then bright medium-term outlook came on-stream in

1975. The situation facing other wood manufacturing industries is equally difficult. All manufacturers of prefabricated houses are virtually closed.

Pulp and paper markets softened during 1975. This has resulted in numerous temporary layoffs and shutdowns of mills in the province. In addition, two mills until recently were strike-bound. Since the pulp and paper industry is the economic mainstay of much of the northern part of New Brunswick, this area is experiencing higher than average unemployment.

In agriculture, farm cash receipts in 1975 were expected to be \$102.9 million compared with \$103.6 million in 1974. Preliminary estimates suggest, however, that net farm income in 1975 will be lower than in the previous year, due to farm costs rising more rapidly than farm receipts.

The value of New Brunswick's fish landings in 1975 is estimated to be \$19.9 million, down from the 1974 level of \$20.6 million. As groundfish provides less than 20 per cent of this amount, the fishing industry has not been as severely hurt by the declines in groundfish prices as have the fisheries of Newfoundland and Nova Scotia. The fishing industry is, however, suffering from the squeeze created by rising costs coincident with declining yields. Sales of fish products have suffered due to the relatively lower prices of substitute foods such as certain kinds of beef, pork and poultry. Therefore, processors of many fish species have excessive inventories and have decreased production and employment.

Capital Investment

The strongest area of demand in the New Brunswick economy in 1975 was non-residential investment. Capital expenditures on construction showed a yearly increase of 20.2 per cent to a total of \$745 million and this was above the national increase of 12.7 per cent. Capital expenditures on machinery and equipment increased by 21.8 per cent in New Brunswick compared with 17.8 per cent for Canada. Total capital expenditures rose by 20.7 per cent compared with a 14.6 per cent national rise.

Residential construction was a source of strength in the economy in 1975 with housing starts increasing by 19 per cent over 1974. Housing starts in 1975 are estimated at 6,900 units, well above the government's target of 6,000 units.

DEVELOPMENT OPPORTUNITIES AND CONSTRAINTS

Development Objectives

The approach to economic development in New Brunswick has been set out by the provincial government in its 1975 Throne Speech and budget, and conforms to the economic strategy of the Canada-New Brunswick General Development Agreement. The approach requires a systematic investigation of each sector of the provincial economy and intervention, if required, to strengthen each sector at realistic levels of output and employment.

A stated short-term objective of the provincial budget for 1975-76 is to alleviate the adverse impact on the provincial economy resulting from the current recession in the United States and Canadian economies. New Brunswick is attempting to ensure that key industries do not fall permanent victims to short-term circumstances and has committed funds to assist several financially-troubled firms. In the longer term, the main areas for government attention will continue to be those activities which are of strategic importance to New Brunswick: forestry, manufacturing, energy and mining.

Forestry

In 1971, the provincial government, with assistance from DREE, initiated a comprehensive study of its forest resources to find improved methods of exploiting their economic potential. The study, released during 1974, indicated that the Crown land timber licences were an impediment to the efficient utilization of forest resources.

The New Brunswick government, in accordance with the recommendations of the study, has begun to take on a more positive role in managing the forest resource and in developing new techniques of production, harvesting and processing. In particular, the government has committed itself to the replacement of Crown licences by a "volume guarantee system". As a first step, the provincial government has acquired one million acres from the Consolidated Bathurst Company for use in a pilot scheme to develop a multiple-use concept of forest management.

One problem in the forestry sector is that several New Brunswick mills producing wood pulp and newsprint have obsolete equipment and processes. Consequently, they are high-cost producers. These mills will be the first to suffer

under unfavourable demand conditions. It has been estimated that substantial investment will be required to modernize New Brunswick mills to raise their efficiency to competitive levels.

Infestation of the New Brunswick forests by budworm has become a major concern. The spraying program to control the budworm is extensive and the province has received federal financial assistance for this.

Manufacturing

Efforts to expand manufacturing activity in the province have been given high priority. New Brunswick is in the process of reorganizing its industrial development activity. A new department will be formed to absorb the Department of Economic Growth and the New Brunswick Development Corporation.

The provincial government is constructing, at a cost of \$13 million, a deep-water docking facility at Lorneville. This facility will enable docking of vessels up to 80,000 tons. This initiative is seen by the province as providing momentum toward the development of the Lorneville area as a major centre of manufacturing activities, such as oil refining and petrochemicals, requiring a deep-water port. The adjacent port of Saint John has also established container facilities for transportation of cargo. This should encourage increased shipments of cargo through Saint John to Europe, South America and the Far East.

Energy

Forecasts of energy requirements for the next 10 years indicate that a doubling of the present supply of electricity will be required. With the removal of sources of supply from Quebec, all of these future requirements will have to be met from within the province. To this end, the New Brunswick Electric Power Commission has embarked on a substantial investment program. The major element in the program is a nuclear station at Point Lepreau near Saint John. At a cost of over \$800 million, the nuclear plant will be several times larger than the \$200 million Coleson Cove thermal power station now under construction. Another large element of the power program is an extension to the Dalhousie thermal plant, in the northeast, estimated to cost \$120 million.

Mining

The mineral industry's contribution to the provincial economy has been increasing significantly, and the prospects are bright. There is a real possibility of 1,500 new job opportunities emerging in the sector over the next five years. Accordingly, a province-industry committee has been set up to try to ensure that sufficient labour will be available. Greatest expansion over the next five years will be in the northeast.

New Brunswick attaches a high priority to the establishment of a zinc smelter in the northeast. At present, all zinc mined in the province leaves in concentrate form. A preliminary feasibility study has shown that the construction of a smelter appears to be a development possibility. This facility would generate significant benefits in terms of further processing of the mineral and additional employment and incomes in the northeast.

Agriculture and Fishing

Provincial planning is underway to ensure that the agricultural and fishing sectors of the economy provide as many high-wage, stable jobs as possible. In agriculture, a comprehensive, two-year investigation - modeled on the forest resources study - has been initiated. A DREE-New Brunswick subsidiary agreement provides planning support for this study and will enable the province to exploit those specific development opportunities which are identified.

Another DREE-New Brunswick subsidiary agreement dealing with the fisheries sector places the emphasis on planning and organization. New initiatives will be supported when commercial potential and the availability of resources have been satisfactorily shown. New Brunswick is also undertaking a program to modernize both the inshore and offshore fishing fleets.

