

Newfoundland and Labrador

PANDEMIC PUTS THE ROCK IN A HARD PLACE

Like the other net oil-producing provinces, Newfoundland and Labrador faces a particularly challenging outlook. Alongside the fallout from pandemic-induced restrictions, the local economy is grappling with the prospect of soft crude values for the next several years.

What began as a promising year for the oil and gas sector is increasingly giving way to longer-run fears. Oil and gas extraction made up over 30% of Newfoundland and Labrador's output last year—more than any other province. Following a pandemic-induced stoppage, the West White Rose extension project—positioned as critical to the long-run viability of the existing White Rose offshore oil field—is under review by Husky, its proponent. Meanwhile, operations at the Terra Nova field are still suspended with no restart date announced, eroding some of the gains associated with the continued ramp-up of Hebron field output (chart). Still, there remains positive upside to the outlook to the extent that significant ongoing offshore exploration activity eventually translates into new investments.

For other mining, growth prospects are improving, although still uncertain. The onset of the pandemic and initial lockdowns led to broad-based and precipitous commodity price declines early in the year, but nickel and iron ore values have since rebounded well beyond their pre-virus peaks. Safe haven gold—another key mineral on The Rock—has also witnessed a significant climb amid heightened market volatility and accommodative global monetary policy. More encouraging for export volumes and capital outlays is the resumption of operations and expansion of the Voisey's Bay nickel mine. Iron ore output was largely unaffected by COVID-19.

Though smaller as a share of output than the staple mining sector, the government continues to prioritize the tourism and aquaculture industries. Participation in the Atlantic Bubble permits greater mobility within Canada's four easternmost provinces. As well, the *Stay Home Year* campaign promotes domestic vacations with border closures and travel restrictions likely to continue to weigh heavily on the tourist expenditures. While fishing and the growing aquaculture sector have been adversely affected by soft consumer demand and pricing this year, a number of major projects are underway.

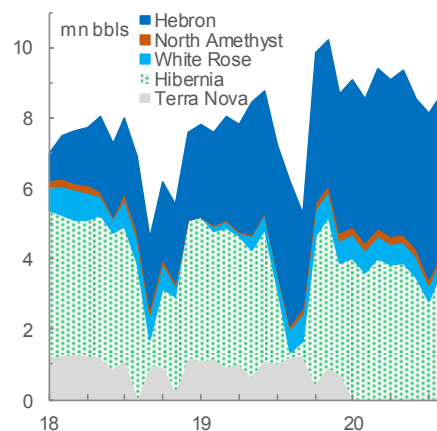
The Rock's FY21 budget, released early this month, continued to paint a challenging fiscal picture. The government now expects a \$1.8 bn (6.2% of nominal GDP) deficit this fiscal year, stepped-up federal transfer payments and a modest summer improvement in crude values generating a roughly \$300 mn narrowing from July projections. Pre-COVID-19 expenditure restraint looks as if it will keep the deficit and net debt from reaching record highs: the Province kept total spending gains to 0.9% per year over FY14–19, less than any other Canadian jurisdiction in that time. However, it faces a potential electricity rate shock jump and further increase to its debt load vis-à-vis the Muskrat Falls hydroelectricity project, delayed again by the pandemic.

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Economic Outlook				
annual % change except where noted				
	19e	20f	21f	22f
Real GDP	4.0	-6.8	3.2	1.7
Nominal GDP	4.0	-8.8	5.5	3.8
Employment	0.6	-6.2	4.0	0.7
Unemployment Rate, %	11.9	14.2	12.9	12.2
Housing Starts, 000s	0.9	0.8	0.8	0.8
Total CPI	1.0	0.0	1.8	2.1

Newfoundland and Labrador Oil Production by Field



This year's budget also introduced a smattering of new policy initiatives that may bear fruit over the longer-run. If executed, a plan to settle 2,500 immigrants in the province by 2022—almost 30% higher than the historic 1,941 in the four quarters to Q1-2020—could help to boost long-run potential growth and mitigate the costs of a rapidly aging population. Likewise, a \$25/day childcare program has the potential to lift female labour force participation. The province's ongoing five-year, \$3 bn infrastructure blueprint may offer a further boost to the expansion.

Provincial Forecast Summary											
(annual % change except where noted)											
	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
Real GDP											
2010–19	2.2	0.9	2.2	1.0	0.7	1.8	2.2	2.1	2.1	2.5	2.8
2019*	1.7	4.0	4.5	2.1	1.0	2.7	1.6	1.0	-0.8	-0.6	2.8
2020f	-5.7	-6.8	-3.3	-4.3	-3.7	-6.0	-5.7	-3.1	-5.9	-7.3	-4.9
2021f	4.1	3.2	3.7	4.1	3.8	4.3	4.2	3.5	4.0	4.1	3.7
2022f	3.1	1.7	2.9	2.8	2.7	3.2	3.2	2.7	3.1	3.3	3.4
Nominal GDP											
2010–19	3.9	3.3	4.0	2.7	2.8	3.8	4.0	3.9	3.2	3.5	4.5
2019e	3.6	4.0	4.5	3.0	2.9	4.6	3.8	2.8	2.5	0.7	4.4
2020f	-4.9	-8.8	-1.7	-3.3	-2.5	-4.1	-3.7	-2.0	-8.2	-10.0	-3.7
2021f	6.5	5.5	5.5	5.8	5.7	6.5	6.6	4.9	6.9	7.4	5.7
2022f	5.5	3.8	4.9	4.7	4.4	5.4	5.6	4.7	5.6	6.4	5.7
Employment											
2010–19	1.3	0.5	1.4	0.4	-0.1	1.2	1.5	0.8	1.0	1.4	1.6
2019	2.1	0.6	2.7	2.2	0.8	1.8	2.9	0.9	1.8	0.5	2.6
2020f	-5.1	-6.2	-2.2	-4.5	-2.8	-4.8	-4.9	-3.2	-4.4	-6.4	-6.3
2021f	5.2	4.0	4.9	5.0	4.5	5.3	5.1	4.9	5.5	5.6	5.4
2022f	2.4	0.7	2.6	2.2	2.3	2.3	2.4	2.3	2.6	2.7	2.5
Unemployment Rate (%)											
2010–19	6.9	13.0	10.5	8.6	9.3	7.0	7.0	5.5	5.2	6.2	6.1
2019	5.7	11.9	8.8	7.2	8.0	5.1	5.6	5.3	5.4	6.9	4.7
2020f	9.5	14.2	10.4	10.0	9.7	9.1	9.4	8.1	8.7	11.2	9.1
2021f	7.7	12.9	9.1	8.3	8.3	7.3	7.7	6.4	6.5	9.1	7.1
2022f	6.5	12.2	7.9	7.2	7.3	6.2	6.5	5.3	5.3	7.7	6.0
Housing Starts (units, 000s)											
2010–19	201	2.2	0.8	4.2	2.7	44	70	6.6	6.0	31	34
2019	209	0.9	1.5	4.7	2.9	48	69	6.9	2.4	27	45
2020f	206	0.8	1.0	4.5	3.1	52	78	6.0	3.0	22	35
2021f	174	0.8	1.1	3.9	2.5	42	63	5.7	2.1	25	28
2022f	185	0.8	1.2	4.0	2.5	45	66	6.2	2.5	25	32
Motor Vehicle Sales (units, 000s)											
2010–19	1,820	33	7	51	41	432	715	55	53	237	194
2019	1,917	34	8	53	41	454	788	53	46	227	214
2020f	1,568	29	7	43	35	381	625	46	40	186	177
2021f	1,800	32	7	50	41	434	714	54	47	218	204
2022f	1,908	33	8	53	43	462	759	56	49	231	215
Budget Balances, (CAD mn)											
2019	-17,770	-1,386	-4	41	98	1,900	-8,672	5	-319	-12,152	-321
2020f**	-410,000	-1,838	-178	-853	-299	0	-38,538	-2,938	-2,130	-24,159	-12,792
2021f***	-125,000										
2022f	-75,000										

* Based on preliminary GDP by industry estimates for all provinces but Quebec and Ontario. ** NL budget balance in 2020 is net of one-time revenue boost via *Atlantic Accord*.
 *** In order to align with US reporting, as of the August 2020 issue of Scotiabank's Forecast Tables, Canadian Federal and Provincial Budget Balances for FY2020/21 are noted in calendar year 2020, FY2021/22 in calendar year 2021. Sources: Scotiabank Economics, Statistics Canada, CMHC, Budget documents; Quebec budget balance figures are after Generations Fund and Stabilization Reserve transfers.

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