

Optimistic Outlook as Economy Is Poised for Recovery

Newfoundland and Labrador's Three-Year Outlook



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Key findings

- After being the only provincial economy to contract last year, Newfoundland and Labrador's real GDP is forecast to grow by 0.1 per cent in 2023, 1.3 per cent in 2024, and 1.5 per cent in 2025.
- Continued delays in the return of the Terra Nova oil platform to production will push the oil and gas industry's recovery to 2024.
- Construction will be the driver of economic growth this year. Several major projects will contribute to the biggest expansion of construction output in almost a decade.
- After last year's impressive population growth, the province's population is expected to expand at an even faster rate this year, before returning to the pre-pandemic trend of population decline in 2025.
- Tourism will be a bright spot this year as Corner Brook prepares for a record number of cruise ship visits.



Newfoundland and Labrador snapshot

Government background and information

Premier	Andrew Furey
Next election	2024
Population (2023Q1)	531,948
Government balance (2022–23)	\$748 million

Sources: The Conference Board of Canada; Newfoundland and Labrador Department of Finance; Statistics Canada.

Key economic indicators

(percentage change)

	2022	2023	2024	2025
Real GDP	-1.7	0.1	1.3	1.5
Consumer price index	6.4	3.1	2.4	2.0
Household disposable income	-3.9	5.5	1.5	1.9
Employment	4.3	1.3	-0.4	0.2
Unemployment rate (level)	11.2	11.1	11.8	11.6
Retail sales	7.3	3.0	0.9	1.3
Wages and salaries per employee	3.9	1.8	2.5	2.3
Population	0.9	1.4	0.1	-0.1

Shaded area represents forecast data.

Sources: The Conference Board of Canada; Statistics Canada.

Forecast risk



Short term

Continued declines in oil and gas production limit economic recovery.

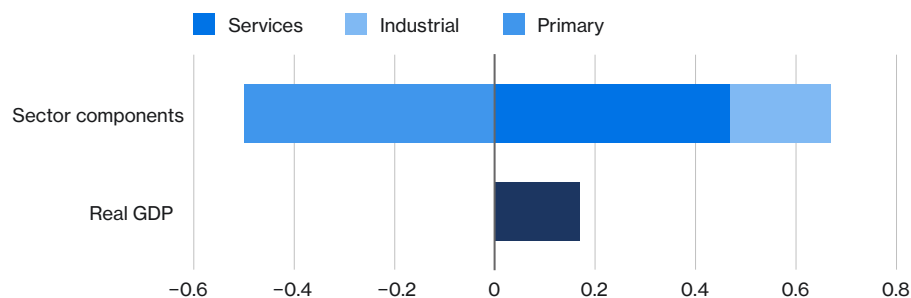


Medium term

Doubling of annual immigration spaces will give a boost to the population outlook.

Contributions to Newfoundland and Labrador real GDP growth, 2023

(by industry/sector, percentage point; GDP, per cent)



Note: "Primary" is the sum of agriculture, forestry, fishing and trapping, and mining sectors.

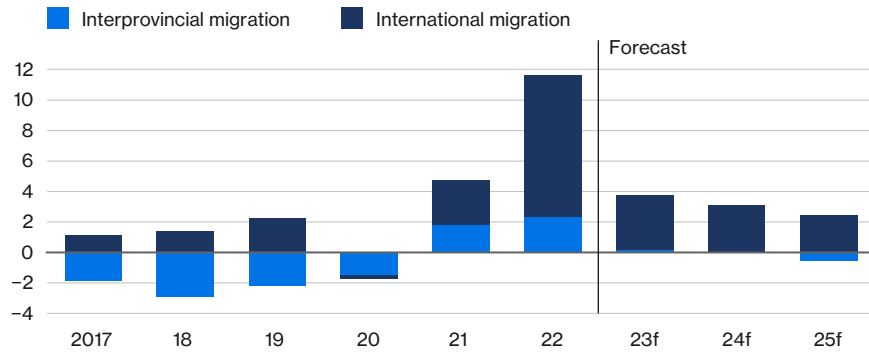
"Industrial" is the sum of manufacturing, construction, and utilities sectors.

Sources: The Conference Board of Canada; Statistics Canada.

Newfoundland and Labrador snapshot (cont'd)

Sources of migration

(net migration, 000s)

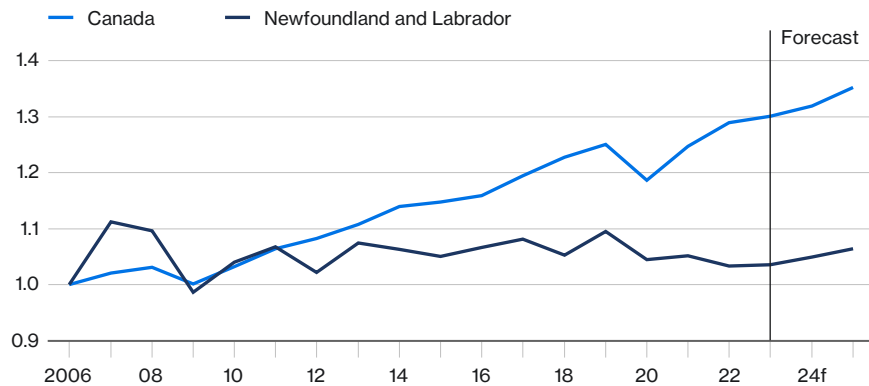


f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

Real GDP, 2006 to 2025

(index, 2006 = 1.0)



f = forecast

Sources: The Conference Board of Canada; Statistics Canada.



Overview

A modest recovery expected for 2023

Newfoundland and Labrador's economy shrank by 1.7 per cent in 2022, the only province to contract last year. This was largely due to a slowdown in the oil and gas sector, though metal mining and manufacturing also slowed.

Further contractions in these industries are forecast for 2023, which will limit this year's economic growth. Scheduled maintenance at the Hebron and White Rose oil platforms and delays in bringing the Terra Nova platform back online will hurt oil and gas output. At the same time, we don't expect a rebound in non-energy mining or manufacturing until 2024.

Construction will be the main driver of economic activity for the province this year. Several major projects, including West White Rose and the Marathon Gold mine, coupled with historic investment spending announced by the government in Budget 2023, will allow the construction sector to post its biggest expansion in the past decade. This will support a modest expansion in Newfoundland and Labrador's economy of 0.1 per cent for 2023. As the resource-based industries perform better, we forecast the province's economic growth to strengthen to 1.3 per cent in 2024 followed by 1.5 per cent in 2025.

For the first time since 2016, the province saw population growth last year, driven by strong international and interprovincial migration. Population will rise by another 1.4 per cent in 2023 and continue to increase next year, albeit at a more modest pace, before returning to its pre-pandemic negative growth trend in 2025.

Much like other provinces, Newfoundland and Labrador's labour market has been red hot. The province added 2,100 jobs in the first quarter of 2023 due, in part, to strong population gains fuelling the labour force. But with a looming economic slowdown across Canada and little support from Newfoundland and Labrador's vital resource sector, employment will decline over the next few quarters. Better days will come next year, but the slowing population gains and aging workforce will remain an ongoing challenge for the labour market in the years ahead.

The government posted a forecasted deficit of \$160 million for 2023-24, with balanced budgets anticipated for next year and beyond. We expect revenues to be lower than originally anticipated in this fiscal year given the weakened outlook for the oil and gas industry.

Employment and spending

Population gains maintain momentum

After five years of steady population declines, Newfoundland and Labrador saw a population gain in 2022. The province is expected to build on this growth in the short term as we forecast its population to continue to expand by 1.4 per cent in 2023 and 0.1 per cent in 2024. Unfortunately, net international migration will drop substantially in 2023 and net interprovincial migration is expected to hit a standstill in 2024 before contracting in 2025. This will revert population growth back to its pre-pandemic declining trend in 2025.

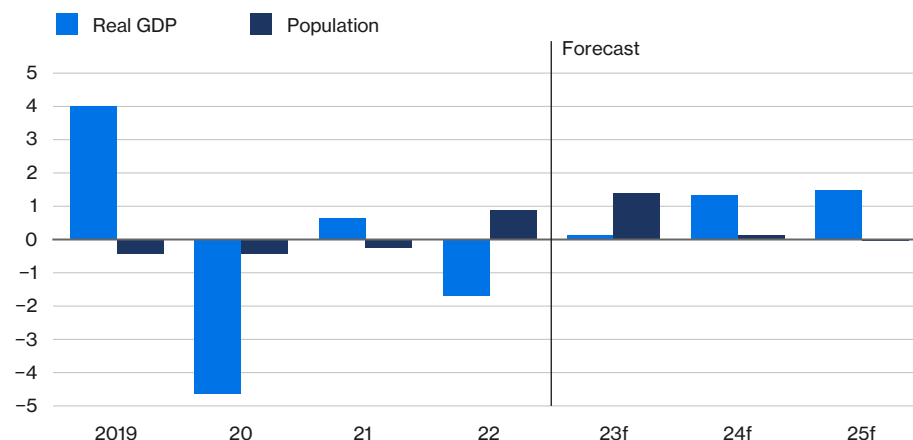
One ray of hope for population growth is the recent announcement that the province is doubling its annual immigration spaces from 1,500 to 3,050 starting this year. If Newfoundland and Labrador can build on this momentum and improve retention rates, it may be able to address some of its demographic challenges.

While real GDP in the province declined last year, employment grew by 4.3 per cent. In 2023, these gains will slow to 1.3 per cent, driven entirely by strong gains over the past two quarters. (See Chart 1.) Job losses will occur throughout the year in industries such as wholesale and retail trade, commercial business services, and other primary industries. As population growth slows in 2024, so will employment growth. We forecast employment to shrink by 0.4 per cent in 2024 and to then remain stagnant over the medium term. After several years of significant employment gains, we forecast the public sector to shed jobs every year from 2024 onward at an average annual rate of 2.9 per cent. The short-term decline of just under 1,400 jobs in 2024 is likely due to a reversal of the gains in recent years required to manage the pandemic response.

The aging workforce and attrition will continue to put downward pressure on public sector jobs over the medium term. One sector expected to gain employment throughout the remainder of the forecast period is health and social services, reflecting the ongoing needs of the aging population for healthcare services.

Chart 1

GDP growth strengthens as population gains weaken
(percentage change)



f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

The unemployment rate dropped to 11.2 per cent in 2022. While this was the highest unemployment rate in the country, and more than double the national average, it was the lowest rate for the province on record. We forecast the unemployment rate to drop slightly in 2023 to 11.1 per cent. With employment growth expected to dwindle after 2023, we forecast the unemployment rate will settle around 11.7 per cent until 2025.

Households reign in spending as prices and interest rates remain high

Since the province began emerging from pandemic-related restrictions, consumer spending has been boosted from pent-up demand, particularly for services. This year, however, the impact of high interest rates and stubbornly high inflation will be felt as consumers feel their purchasing power weaken.

Overall, real consumer spending will slow to just 0.3 per cent in 2023, down from last year's 1.7 per cent. Spending on services is expected to weaken to 1.2 per cent, down from 7.0 per cent last year, while spending on goods will shrink by 0.2 per cent. Spending on durable goods will contract the most with a forecasted decline of 1.2 per cent. This is expected as consumers hold off on larger purchases, often bought on credit, due to the higher cost of borrowing.

While prices remain high, the news isn't all bad. Year-over-year consumer price index growth peaked at 7.6 per cent in the second quarter of 2022, but fell to 4.7 per cent over the first three months of 2023 and drop to 2.9 per cent by the end of the year. Despite easing inflationary pressures, weakening population and employment growth over the medium term will keep anticipated spending growth at an average 0.3 per cent between 2024 and 2025.

Housing

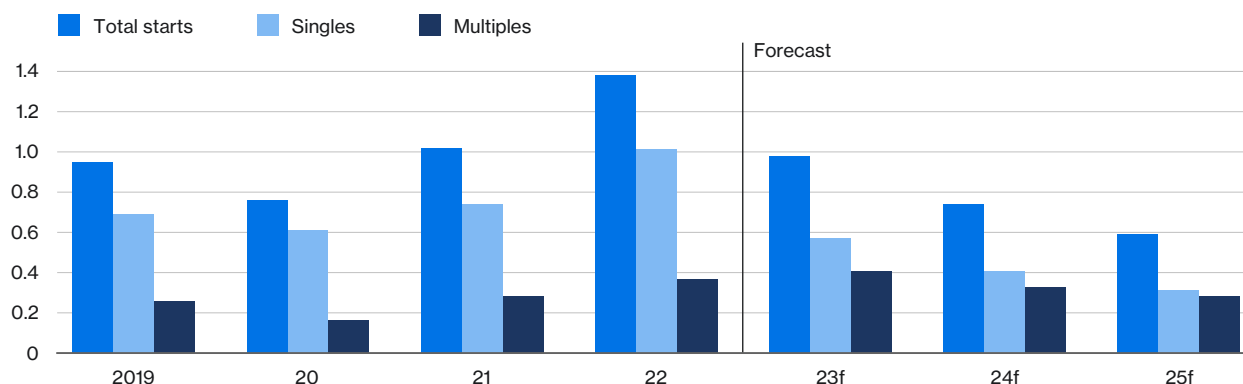
Multiple starts show resilience as single starts plummet

After two years of substantial growth, the province's housing market began showing signs of cooling at the end of 2022 with falling housing starts. Higher interest rates will continue to weigh on housing demand and we forecast total starts to decline by 29.1 per cent in 2023. This drop will be led entirely by singles starts, however, as multiple starts are expected to continue to climb by 8.7 per cent in 2023. (See Chart 2.) An announcement in Budget 2023 of the construction of 850 new affordable housing and rental units will keep multiple starts afloat for the year before declining in 2024. This investment, while positive news for the housing market, won't offset the downward pressure on housing demand due to higher mortgage rates and the expected return to population decline.

Overall, housing starts are expected to fall to just under 1,000 units in 2023, down from 1,380 in 2022, and continue to drop to an estimated 740 units and 585 units in 2024 and 2025, respectively.

Chart 2

Multiple starts receive bump from government housing announcement
(housing starts, 000s)



f = forecast

Sources: The Conference Board of Canada; Statistics Canada.



Construction and investment

Investment will be driver of economic growth

Several large construction projects will boost activity in this sector by 5.1 per cent in 2023, the highest growth in almost a decade. After suspending construction in 2020, Cenovus Energy (formerly Husky Energy) resumed the West White Rose project in early 2023. The Marathon Gold mine project also started construction earlier this year. Meanwhile, construction on the hospital in Corner Brook and the new mental health and addictions facility in St. John's will continue into next year.

After 2023, the completion of several large projects is expected to pull the construction industry into contraction over the medium term. We forecast contractions of 3.9 per cent in 2024 and 0.6 per cent in 2025. Some multi-billion dollar mega projects scheduled to be completed after this year include the Labrador-Island-Link between Muskrat Falls and Soldiers Pond and the Voisey's Bay Mine Expansion project. On a smaller, but still noteworthy scale, the Terra Nova Asset Life Extension project and the Come By Chance refinery conversion projects should also be completed by the end of 2023.

In addition to the energy sector, we predict non-residential investment will increase this year thanks to historic spending announcements from the provincial government in the most recent budget. These include a \$3.9-billion investment in healthcare, including the construction of several new healthcare facilities, and \$1.4 billion in highways and infrastructure, including \$255 million in 2023-24. The provincial and federal governments also announced a joint investment of \$306 million for the expansion of the Trans Canada Highway.

Investment in wind energy is expected to be a source of growth in the coming years. At the end of 2022, the Newfoundland and Labrador government announced a call for bids on Crown land for wind-hydrogen development. Nineteen bids for wind energy projects were received and will be evaluated. After releasing its Wind-Hydrogen Fiscal Framework earlier this year, the government announced in the budget it will be increasing capacity for environmental assessment and regulatory oversight of wind-hydrogen projects to support the development of this industry. These advancements are positive signs of movement toward billions of dollars of potential investment spending for the province.

Fishing

Newfoundland and Labrador's fishing industry may be sinking

Since 2021, the crab fishery has experienced unprecedented gains as the price of crab was set to historically high levels driven by post-pandemic demand. In 2022, the average crab price was \$6.87 per pound and it's estimated that the crab fishery alone accounted for 74 per cent, or \$748 million, of the fishing industry that year. In 2023, all that has changed. Rising prices and slowing demand have led to the sinking of crab prices to \$2.20 per pound this year. Crab harvesters have been protesting this price, set by a government-appointed panel, by remaining on land. A lost crab season could be devastating to the fishing industry this year. We forecast output in the fishing, hunting, and trapping industry to contract by 20 per cent in 2023.



Tourism

Corner Brook set for record-breaking cruise ship season

Tourism demand in Newfoundland and Labrador has been strong in the years since travel restrictions loosened and 2022 saw another successful Come Home Year campaign. Visitors and their pent-up demand for travel-related spending resulted in growth of 16.1 per cent for the accommodation and food services industry. The 2023 outlook will remain positive but be somewhat dampened by stubbornly high prices and reduced consumer spending on non-essential goods and services. Marine Atlantic recently announced a 17 per cent increase in fees for customers, which many in the tourism industry fear will have a negative impact on potential visitors' travel decisions.

Some good news for the tourism industry will be cruise ship visits. Corner Brook is preparing for its busiest season on record, with 32 ships and over 42,000 passengers expected. Many of these will be in addition to the 36 cruise ships and over 43,000 passengers expected in St. John's. Overall, we forecast output in the accommodation and food services industry to expand by 6.9 per cent this year. While this growth marks a slowdown from the pandemic recovery of the past two years, it is still significantly above the 10-year, pre-pandemic average.

Government

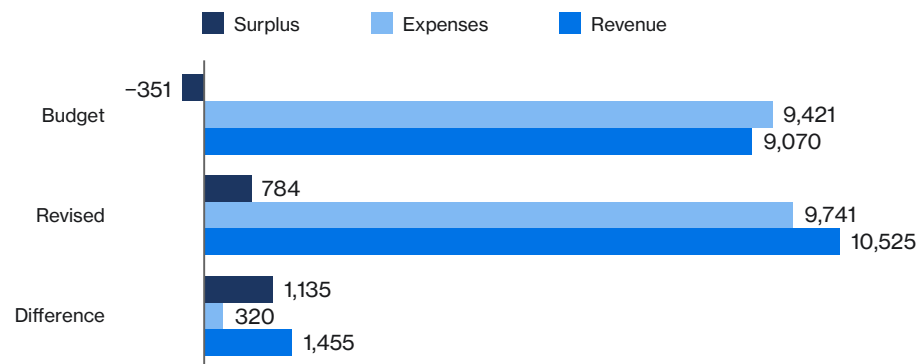
Surprise surplus

The government was surprised by a surplus of \$784 million for 2022-23, compared with the expected \$351-million deficit. (See Chart 3.) This unexpected windfall was thanks to increased income and sales taxes, driven by the boost in population and higher-than-expected oil prices.

The government is forecasting a deficit of \$160 million for 2023-24, with an expected return to balanced budgets for next year and beyond. An increase in spending of \$108 million is expected after historic investment announcements were made in the areas of healthcare and roads and infrastructure. Revenue forecasts are \$9.7 billion. Oil royalties are expected to account for approximately 12 per cent of total revenue. However, given the weakened outlook for output in the oil and gas industry, we expect revenues to be lower than originally anticipated.

Chart 3

Newfoundland and Labrador's 2022-23 surprise surplus
(\$ millions)



Sources: The Conference Board of Canada; Newfoundland and Labrador Department of Finance.

Methodology

This issue briefing examines the economic outlook for Newfoundland and Labrador. The outlook is based on detailed analysis of local and regional conditions, combined with The Conference Board of Canada's proprietary macroeconomic model of the provincial economies. Updated quarterly, the model contains almost 3,000 variables and equations structured uniquely to each of the provinces. Inputs and outputs include 30 expenditure components of gross domestic product, the interaction of 25 industry sectors, detailed population and labour force conditions by age group, interprovincial trade, and pricing and investment activity.

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