Nova Scotia: 2018–19 Outlook

REINFORCING POSITIVE GROWTH

- **Nova Scotia's GDP growth is expected to average just over 1.0% annually during 2018–19, supported by a range of factors, from shipbuilding to higher international immigration to increased tech-sector employment.**
- **The slower output growth anticipated in 2019 is still firmer than forecast several years ago.**

Though Nova Scotia's growth in 2018 is expected to pace its 2017 expansion, the composition is significantly altered. Last year's surge in domestic demand was offset by a 51% fall-off in offshore natural gas production as both the Sable and Deep Panuke projects approached decommissioning, shaving 0.9 percentage points off of real GDP growth. In 2018, the drag from offshore activity is sharply diminished.

Non-residential construction is expected to ease after strong gains last year. Projects concluding in late 2017 or early this year include the $1.7 billion Maritime Link transmission line, $0.5 billion Halifax Convention Centre, $160 million Moose River gold mine and a $100 million construction of a furniture store in Dartmouth. Yet work continues in 2018–19 on smaller ventures such as the $200 million Queen's Marque development, $10 million Halifax Port terminal expansion and residential and commercial projects on the Halifax waterfront. The Province's capital program continues to leverage Ottawa's Phase 1 federal funding and work is ongoing on the QEII Health Sciences Centre. However, the Province's infrastructure outlays are expected to decrease during fiscal 2018–19 (FY19) and a portion of the investment is allocated to purchasing three schools.

Employment growth is forecast to remain healthy in 2018, supporting steady gains in consumer expenditures, before easing in 2019. Last year's 0.6% total job creation—the strongest gain since 2012—propelled a 7.8% advance in Nova Scotia's retail sales, the steepest climb since 1996. We project slightly faster employment growth of 0.7% this year, with a 2.9% y/y rise in full-time positions reported through July. Lingering effects from the 2017 military pay adjustment and an increase in the basic personal tax exemption of up to $3,000 for individuals with annual earnings of $75,000 or less offer additional pocketbook relief. Job creation is forecast to ease to a more sustainable 0.3% next year, with a commensurate deceleration anticipated for household spending.

Housing market activity should also contribute to consumer outlays. Multi-unit dwellings accounted for 55% of housing starts during 2014–17 (chart 1), transforming the Halifax skyline. Consequently, Nova Scotia's home-related purchases (e.g. retail sales of furniture, electronics & appliances, building & garden equipment) last year soared almost 12%, trailing only Ontario and BC. Nova Scotia home sales and prices are proving resilient to stricter mortgage rules implemented January 1st, residential construction remains elevated and home-related retail trade is up 10.3% y/y through June—more than any other province. Starts in Nova Scotia are expected to stabilize at 4,000 units this year, with the boost from new residential construction only beginning to contract in 2019.

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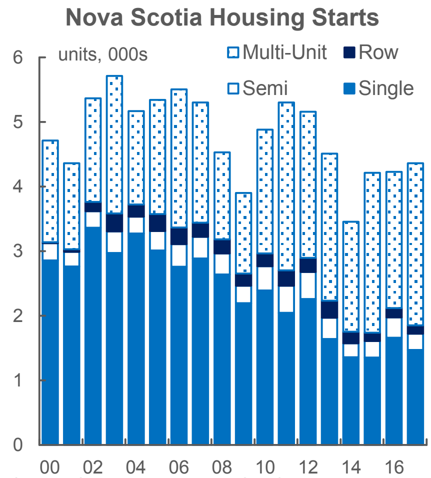
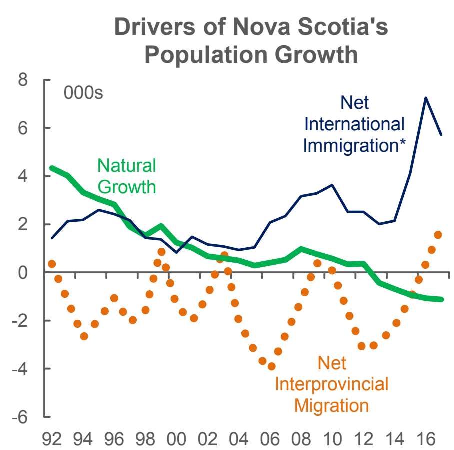
Chart 1



Sources: Scotiabank Economics, CMHC.

Chart 2



* Includes net temporary & returning emigrants, net non-permanent residents. Sources: Scotiabank Economics, Statistics Canada.

We forecast steady annual population gains in the 0.5% range in calendar 2018 and 2019. This should further support household expenditures after the number of residents during the prior two years surprised on the upside with 0.6% annual advances. As the commodity price correction weakened Western Canada's attraction, Nova Scotia's net outflow of residents to other provinces, which averaged more than 2,200 annually over the half decade to 2015, reversed during the following two years to a net inflow averaging 1,100 annually. Net interprovincial inflows are projected to ease this year and next given Alberta's ongoing recovery, but still provide a net population boost.

Elevated international immigration is also crucial to extending Nova Scotia's population gains, with the net inflow over the past two years totaling 13,000 (chart 2, p.1). Since 2015, Nova Scotia has sourced 52½% of its immigrants via the *Provincial Nominee Program* to gain skilled workers, outstripping the 17.1% national share. As part of the *Atlantic Growth Strategy* launched in July 2016, Nova Scotia is participating in the *Atlantic Immigration Pilot* that aims to raise immigrant retention in Atlantic Canada.

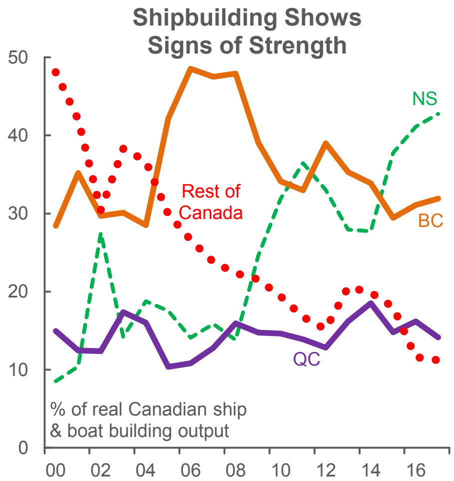
Specialty manufacturing remains a strength for Nova Scotia. The Halifax Shipyard's $2.3 billion contract to build six arctic patrol ships for the federal government should expand on hefty output gains exceeding 90% estimated for 2014 to 2017 as production ramped up at the updated Shipyard (chart 3). Winter tire production at the Granton plant, scheduled until last year to end in early 2018, has been extended until May 2020 to meet elevated consumer demand. We therefore expect Nova Scotia manufacturing shipments to build on the torrid 15.2% y/y gain through June 2018, with strength continuing to be concentrated in food and plastics & rubber products.

Geographic export diversification is a bulwark against potential NAFTA-related disruptions. Nova Scotia's exports, though concentrated in seafood and wood pulp, are less reliant on the US market than the shipments from the rest of Canada. Last year, more than 10% of Nova Scotia's merchandise exports were destined for Asia (excluding China) versus just 6.1% for the rest of Canada (chart 4, p.3). Shipments to the EU, which accounted for 8.8% of Nova Scotia's 2013–17 merchandise export receipts versus just 7.4% among the other provinces, should benefit from the Comprehensive Economic and Trade Agreement (CETA).

Merchandise export gains are expected through 2019 across multiple sectors. Exports of tires should benefit from stable domestic production. Merchandise shrimp exports, after a 53% quota cut in the 2016–17 season, are rebounding with a 24% y/y jump to date this year. Bolstering external mining shipments are expanded production capacity from the Moose River gold mine this year and output from the completed Touquoy gold project in 2019. Neither supercalendared paper nor newsprint output face anti-dumping or countervailing duties going forward. With decommissioning of the Sable Offshore Energy Project over 2018–20 and of Deep Panuke in 2019–21, Nova Scotia shifts towards complete import dependence for natural gas, though new power is available via the Maritime Link.

Tourism currently is another strength for Nova Scotia. Assisted by the Canadian dollar in the 80¢ range, the Province is attracting more non-resident tourists—the y/y increase through May is 38.5%, building on last year's 12.5% rise in out-of-province visitors, the strongest in Canada. It works towards Nova Scotia's

Chart 3



Sources: Scotiabank Economics, Statistics Canada.

Nova Scotia Profile, 2017

Population, July 1	954,000 (2.6% of Cda)
annual % change	*0.6*
Halifax Population, July 1	431,700 (45.2% of NS)
annual % change	*1.6*
Real GDP, C$ 2007	37.2 bn (2.0% of Cda)
Per-capita nominal GDP, $000s	45.1 (77% of Cdn avg.)

Economic Outlook

% change, except where noted

	2000–16	16	17*	18f	19f
Nova Scotia					
Real GDP	1.3	0.8	1.2	1.2	1.0
Nominal GDP	3.4	2.8	3.1	3.2	3.1
Employment	0.6	-0.4	0.6	0.7	0.3
Unemployment Rate, %	8.8	8.3	8.4	7.9	7.9
Housing Starts, 000s	4.3	3.7	4.0	4.0	3.8
Canada					
Real GDP	2.1	1.4	3.0	2.2	2.0
Employment	1.3	0.7	1.9	1.2	1.0

Governance

Premier	Stephen McNeil, Liberal (as of 2013)
Legislature	27 of 51 seats
Next Election	No fixed date
Credit ratings:	
Moody's	Aa2
S&P	A+
DBRS	A(high)

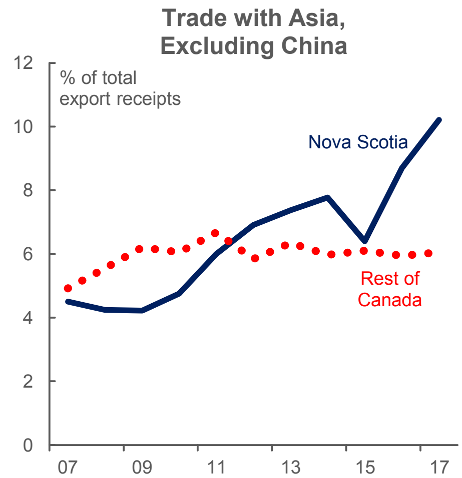
* NS real GDP growth, 2017, by industry at basic prices.
Sources: Scotiabank Economics, Statistics Canada, CMHC, Nova Scotia Legislature, Ratings Agencies.

strategic goal of raising annual tourism revenues 54% above the 2016 level by 2024.

Nova Scotia's *Budget* surpluses and its progress in reducing its net debt relative to GDP are providing the Province with increasing fiscal flexibility to pursue opportunities as they arise and assist as emergencies occur. In FY18, the receipt of a significant arbitration settlement on transportation costs impacting royalties from the Sable Offshore Energy Project has allowed the government to create Trusts to cover priorities such as high-speed broadband across the Province and additional R&D.

An expanding technology sector is reflected in Nova Scotia's 4.2% real GDP growth in information & communications technology last year, which lagged only Central Canada and BC. Halifax accounted for a 2.9% share of Canada's rise in employment in computer & information systems occupations over 2006–16 vs. just 0.9% of the national population climb. Conducive to further gains are over $4 million of public funding announced for a local tech incubator over the next three years.

Chart 4



Sources: Scotiabank Economics, Industry Canada.

Nova Scotia's outlook after 2019 is characterized by a number of positive developments. The Halifax Shipyard, as it finishes six Arctic patrol ships, will be gearing up to build 15 warships for the Canadian surface combatant fleet. In addition to a new project that began drilling in the Scotian Basin in April, drilling permits have been filed for another six offshore oil wells for 2018–22. A final investment decision is expected this year on the proposed $10 billion Goldboro LNG project. The tech sector and the affordability of housing relative to other major Canadian cities are increasingly boosting Halifax's attractiveness as a regional centre. Finally, the Ocean Supercluster, based in Atlantic Canada, was one of five bids selected by the federal government to share federal funding of up to $950 million over the next five years, matching the private-sector funds raised.