

New Brunswick: 2018–19 Outlook

EXTENDING A DELAYED EXPANSION

- **Forecast real GDP gains in 2018 and 2019 result in five consecutive years of growth totaling 7.7% in New Brunswick, a result not matched since 2003–07.**
- **Business services centres and an expanding tech sector offer upside potential.**

New Brunswick is enjoying an upswing in full-time job creation after a lengthy period of private- and public-sector belt tightening. With full-time positions climbing a robust 1.9% in 2017 and a projected 0.5% this year, the province is recouping its post-recession full-time job losses (chart 1). Healthy weekly wage gains in the 3.0% range to date this year offer further support for households. In response, retail sales, after rebounding 6.8% last year—the largest gain since 1999—are expected to advance more modestly this year and next.

The importance of sustaining the province’s economic momentum underlies the continuing focus on economic development in NB’s *2018 Budget*. Together with the priorities of lowering its 2017 youth unemployment rate of over 13.0% and preparing for an expanding Seniors cohort, NB projects modest deficits from fiscal 2018–19 (FY19) to FY21 before black ink in FY22. Heading into the September 24th election, final results for FY18 indicate a surplus for the first time since FY08. Current provincial initiatives include a multi-year nursing home plan and subsidized child care for low- and middle-income families starting in March 2019. In FY19, in addition to addressing last spring’s flood damage, the Province’s *Capital Estimates* project a 9.3% increase to fully leverage federal funding, and in FY20 a further 6.2% hike in capital outlays is planned.

Business services centres are supporting New Brunswick’s employment, attracted by the province’s bilingual population and its low business costs. The Province maintains that contact centres provide roughly one in every 20 jobs. Financial services are well represented across contact centres, pushing the sector’s output up 6.9% over 2016–17. Four new business services centres have been announced to date this year, reinforcing the two large centres that got under way in the financial and telecommunications sectors in 2017.

The tech sector also is assisting NB’s job creation as well as its services exports. Information & Communications Technology (ICT) activity, after a modest decline in 2017, is expanding due to several new ventures, with both Fintech and digital analytics represented.

Business investment is forecast to hold steady this year before ticking lower in 2019. Following the completion in 2017 of a high voltage transmission line plus new head office space in Saint John, several smaller projects are proceeding in 2018. An expansion of the Kent Hills wind farm is expected to total just over \$35 million and a large turnaround project is anticipated for the Saint John refinery later this year. Aiding investment activity in 2019 are: the seven-year, \$205 million Saint John waterfront modernization, and mixed-use developments in Moncton with construction costs totaling \$130 million.

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Chart 1

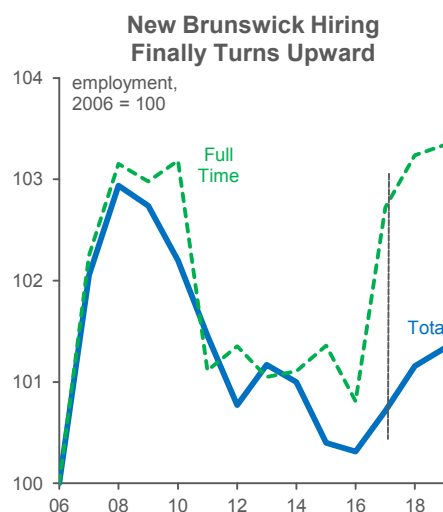
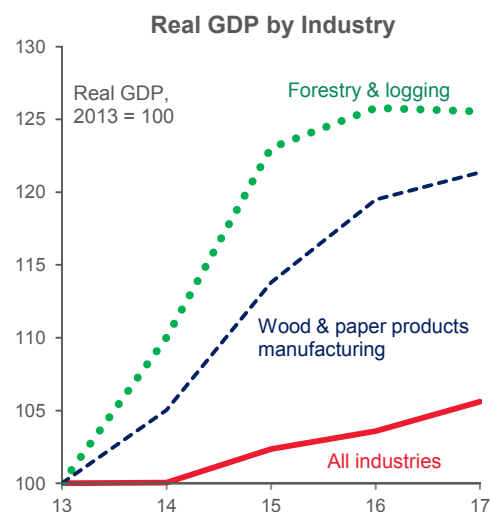


Chart 2



Sources for charts: Scotiabank Economics, Statistics Canada.

Manufacturing shipments will be buoyed this year by refined petroleum products benefitting from higher oil prices. Capacity upgrades plus recovering oil prices pushed refinery export receipts up 36% in 2017. Boxcar and grain trailer production at a Moncton rolling stock plant aided the manufacturing sector's 4.3% employment growth in 2017. Further job gains are anticipated given plans to build oil carrier rail cars during 2018–19.

In agri-food, though US and Asian seafood demand is robust, the northern coast with snow crab is presently closed to fishing, weighing on landings and processing activity. Wild blueberries have upside trade potential: production has more than tripled over the past decade and NB is exploring export opportunities with China.

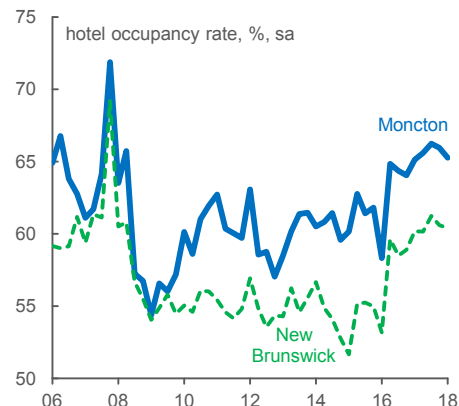
Exports gains from mining are anticipated, as operational efficiencies improve at the Caribou zinc mine over the next two years and Restigouche mine output ramps up during H2-2018. New employment is anticipated if the green light is given for a long-planned tungsten-molybdenum mine or drilling at two base metal deposits.

The forest sector—a pillar of New Brunswick's economy—saw a strong recovery beginning in 2013 as residential construction picked up in the US, the destination for nearly 95% of NB's wood products exports during 2013–17 (chart 2, p.1). A soft Canadian dollar and elevated wood prices have supported growth for the province's firms. NB's prior exemption from US softwood duties and quotas, similar to the other Atlantic provinces, has not extended to the current *Canada-U.S. Softwood Lumber Agreement* renegotiation. NB is the only Atlantic province presently subject to final softwood lumber duties, with higher levies for its smaller firms. As well, Atlantic Canada is facing moderate but still significant final US countervailing duties on uncoated groundwood paper.

Tourism should continue to source new jobs and activity. Moncton's hotel occupancy rate remains high after reaching 66.2% (sa) in Q3–2017, a post-recession peak (chart 3). Americans made up almost 96% of international tourist visits to the province since 2010, and a strong US economy plus a Canadian dollar less than 80¢(US) this year and only slightly higher in 2019 are encouraging. NB has committed to investments totaling almost \$19 million for tourism infrastructure and branding in FY19, and its *Tourism Growth Strategy* targets a \$700 million increase in annual visitor spending by 2025.

Immigration is critical in supporting NB's prime-working age population of 25–59 years and assuring modest annual population growth. With NB births slightly less than deaths, and modest net outflows of residents to other provinces, immigration—climbing from an annual average of 2,000 over the six years to 2013 to 4,000 in the most recent four quarters—offers a major boost that is expected to increase as national immigration targets rise through 2020. The *Provincial Nominee Program*, admitting 64% of the immigrants to NB in H1–2018, should continue to address skill shortages. NB's early use of an *Immigration Pilot* aiming to raise immigrant retention across Atlantic Canada also is auspicious: 255 newcomers entered NB via this stream in H1–2018, more than the 225 arriving in the other Atlantic provinces.

In NB's housing markets, regulatory tightening entering 2018 and rising interest rates appear to be dampening demand, despite higher full-time employment. Average home prices and unit sales are expected to advance more slowly in 2018 than last year's respective gains of 2.4% and 6.4%. Provincial housing starts are forecast to slow from 2,300 units in 2017 to 1,900 this year, before shifting higher next year. Yet new residential construction activity should climb in 2018, with ongoing projects spurring a jump of nearly 33% y/y in units under construction through July. Looking forward, the anticipated rise in immigration should provide a floor for provincial housing starts and NB's expanding Seniors cohort is expected to reinforce the ongoing trend towards multi-unit construction.

Chart 3
Tourism Industry Recovery


Sources: Scotiabank Economics, Ontario Ministry of Tourism, Culture and Sport.

New Brunswick Profile, 2017

Population, July 1	760,000 (2.1% of Cda)
annual % change	0.3
Moncton CMA	152,200 (20% of NB)
annual % change	1.4
Saint John CMA	128,500 (17% of NB)
annual % change	0.4
Real GDP, \$2007	29.8 bn (1.6% of Cda)
Per Capita Nom. GDP, \$000	46.5 (80% of Cdn. avg.)

Economic Outlook

	2000-16	16	17*	18f	19f
New Brunswick					
Real GDP	1.2	1.2	1.9	1.1	0.9
Nominal GDP	3.3	3.6	3.2	2.8	3.0
Employment	0.4	-0.1	0.4	0.4	0.2
Unemployment Rate, %	9.6	9.5	8.1	7.9	7.9
Housing Starts, 000s	3.5	1.8	2.3	1.9	2.1
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	Brian Gallant, Liberal (as of 2014)
Legislature	24 of 49 seats
Next Election	September 2018
Credit ratings:	
Moody's	Aa2
S&P	A+
DBRS	A(high)

* NB real GDP growth, 2017, by industry at basic prices.

Sources: Scotiabank Economics, Statistics Canada, CMHC, New Brunswick Legislature, Ratings Agencies.

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