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Newfoundland economy pulls ahead of other Atlantic provinces

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There was a time when the economies of the four Atlantic provinces were virtually indistinguishable, rising and falling on the fortunes of fish, farming and forests.

But Newfoundland and Labrador's remarkable oil and mining boom is creating a new chasm – between the haves and have-nots of Atlantic Canada. Its economy is powering ahead, while those of Nova Scotia, New Brunswick and Prince Edward Island languish, weighing on the nationwide recovery.

Nova Scotia, New Brunswick and PEI are on a pace to come in dead last this year and in 2012 on virtually every economic measure, including GDP, employment, capital spending, housing starts and consumer spending, according to new forecasts from several of the major Canadian banks. And the three provinces are starting from an already weak base.

Workers and businesses in the three provinces are still waiting for the bounce-back from the recession, said Elizabeth Beale, president of the Atlantic Provinces Economic Council (APEC).

“We did not see the same hit in the region from the recession as they did in Ontario and other provinces, and now we're not seeing the pickup coming out of it,” Ms. Beale said in an interview. “It's worrying to look out and see a lack of large project development. It's not the only thing that can save an economy, but it's pretty telling that there's no big investment out there.”

The lack of opportunity has reignited fears of an out-migration of workers from all three provinces. A rising trend of young workers leaving would perpetuate the cycle in the country's three poorest provinces, putting the social fabric at risk.

“The region is still quite rural, and that's where a lot of these resource industries are based,” said Ms. Beale. “When those industries die, so do those rural communities. So it has quite an impact on provincial output when you have so much of your activity concentrated in sectors that are retreating.”

Canada as a whole will grow 2.9 per cent this year, according to a National Bank of Canada forecast. Contrast that to the Maritime provinces, where growth isn't expected to break 2 per cent.

The way out, at least in the short-term, is not clear. Nova Scotia is pinning its hopes on getting a piece of two pending multibillion-dollar federal shipbuilding contracts. But that's not a given, and government cutbacks are expected to sap growth.

New Brunswick is counting on mining, potash and natural gas developments to make up for lost jobs in forestry. Success at diversification into other areas, such as call centres, has been mixed as a lot of that business has moved to cheaper places, like India.

In PEI, the tourism industry is suffering from the high loonie, which is keeping U.S. tourists away.

Federal and provincial spending sustained Nova Scotia, New Brunswick and PEI through the recession. And now that the stimulus spending is receding, it's becoming evident there's little other activity to fuel expansion. Exports to the United States have been hammered by the high dollar and, in the case of the forestry sector, by the U.S. housing collapse.

"The clearest indication of the lack of activity is private sector job growth, and in those provinces we're not seeing any right now," pointed out Robert Kravcic, a Bank of Montreal economist.

Through the first four months of the year, private sector employment expanded at a 4-per-cent clip in Newfoundland. It shrunk everywhere else – 1.9 per cent in Nova Scotia, 1.5 per cent in New Brunswick and 0.4 per cent in PEI.

"The loss of young workers is the top concern for the region," Ms. Beale said. "As Alberta's growth has jumped up again, so has the flow of young people out of the region."

It's the polar opposite in Newfoundland, where workers are increasingly scarce because the mining, oil and government sectors are all in full expansion. The province is now experiencing the kind of overheated labour market that once afflicted Alberta, raising concern there won't be enough workers to bring a series of mining and oil projects on stream simultaneously, APEC's Ms. Beale said.

After leading the country with growth of nearly 6 per cent last year, Newfoundland's economy is expected to grow another 3.7 per cent this year, just narrowly behind fast-growing Saskatchewan.

Investment activity is at a record pace in Newfoundland, led by work on the offshore Hibernia South and Hebron oil fields, as well as iron ore and nickel projects in Labrador. Spending on major projects is expected to rise 49 per cent to \$6.2-billion this year, after rising 30 per cent in 2010, according to an inventory compiled by APEC.

“They’re throwing money around wildly,” Ms. Beale remarked.

Contrast that to the other three Atlantic provinces, where project spending is down anywhere from 8 to 19 per cent.

With the exception of Newfoundland, which is flush with oil and mining royalties, fiscal restraint is the order of the day. In New Brunswick, for example, government capital spending is being cut 30 per cent in fiscal 2011-12 – a hit that’s coming while its most important industry – forestry – is suffering due to the U.S. housing collapse.

Nova Scotia is working on a plan to keep program spending increases at just 1.3 per cent a year through fiscal 2014-15, a cold shower compared to the five per cent-plus annual growth of recent years. It also plans to cut one in 10 government workers over the next four years.

“There’s some pretty significant fiscal restraint coming down the pipe,” Mr. Kravcic said. “It doesn’t bode too well for the forecast.”

Nova Scotia’s economy is more dependent on government spending than any other province, pointed out Ms. Beale. “A large government sector offers you some modest protection at times, but anytime restraint is happening it knocks the stuffing out of Halifax’s economy,” she said.