



A Prosperity Plan for Newfoundland and Labrador: Defining the Realities and Framing the Debate

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June 8, 2011



Presentation Outline

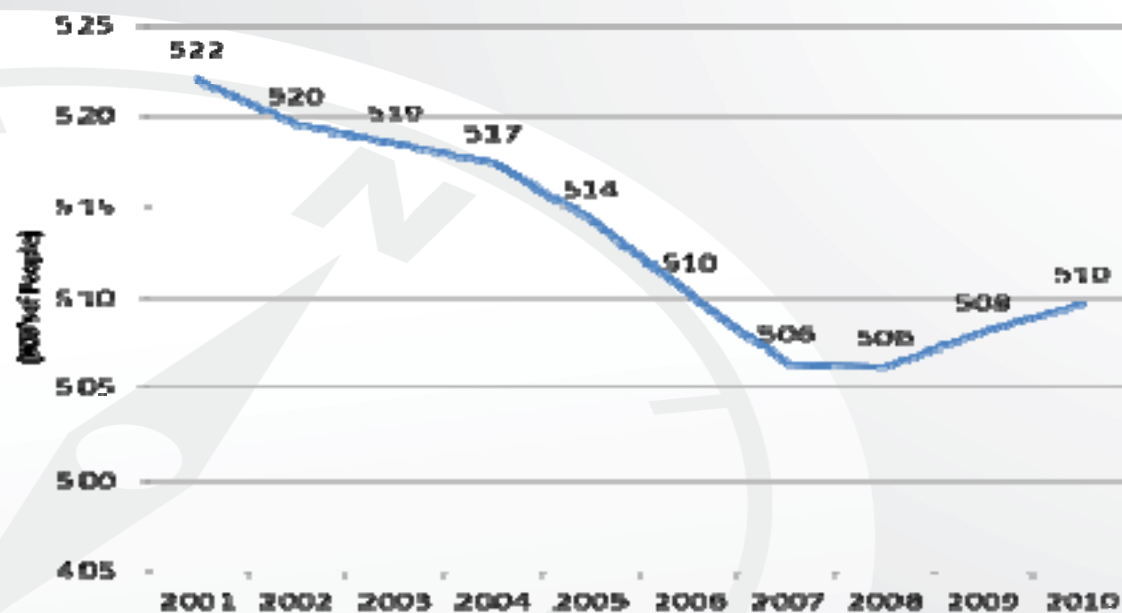


- Introduction
- Selected Economic Indicators
- Economic Impacts from oil and gas: NL's experience to date
- Fiscal Circumstances: Recent Experience
- Fiscal Circumstances: What is on the Horizon
- Oil and Gas the Future
- How should we plan
- Conclusion



Selected Economic Indicators

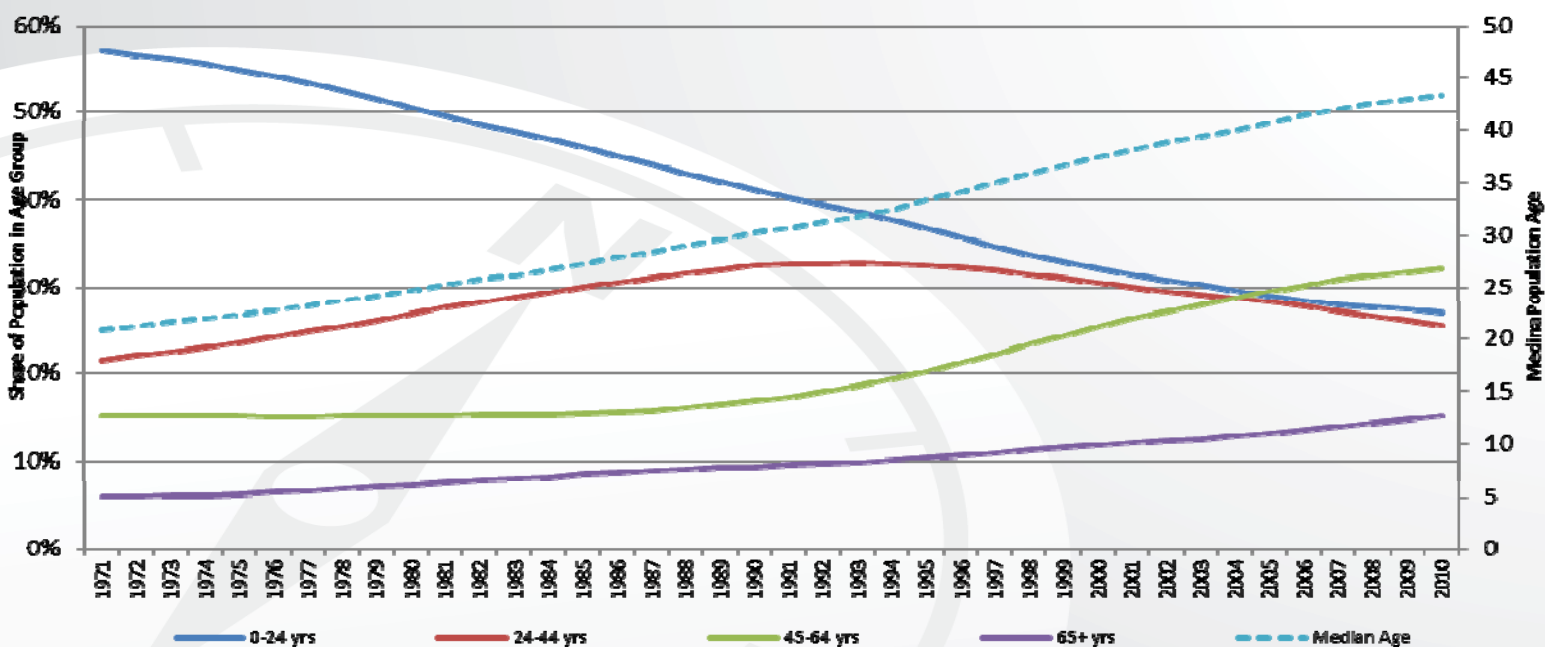




- Population has been increasing in recent years, driven in part by net in-migration

Data Source: Stats Canada CANSIM V466983

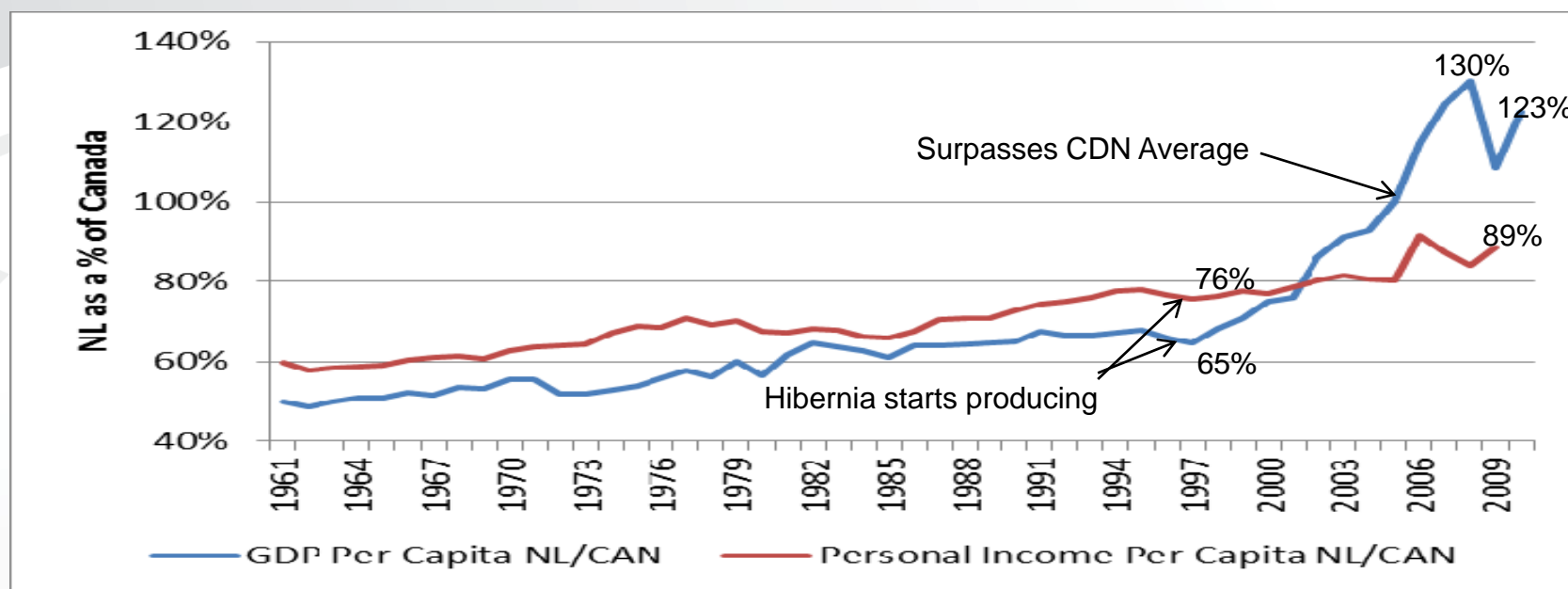
Age Composition of NL Population



Data Source: Derived from Stats Canada CANSIM series V466983, v466995, v466998, v467001 & v467004

- *NL population is getting older & this will have implications for labour supply and health care costs*

GDP and Personal Income Per Capita NL Relative to Canada

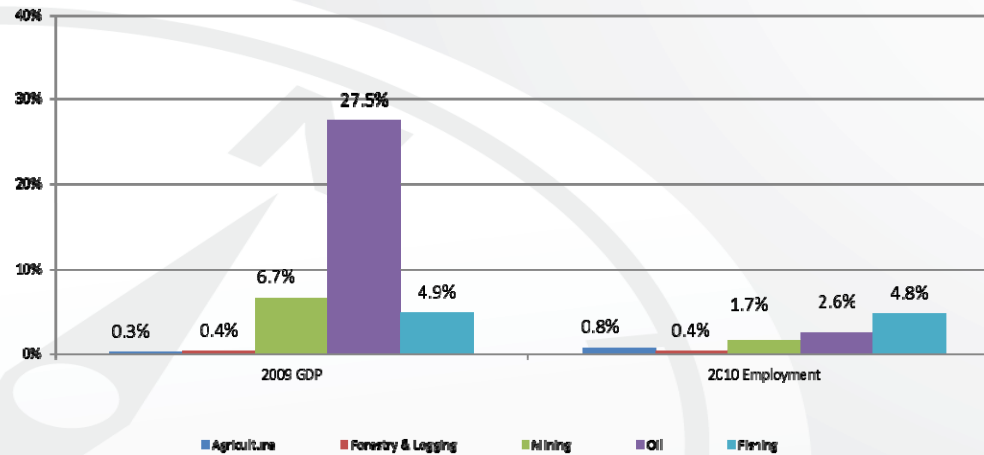


Data Source: Derived from Stats Canada CANSIM V466668, V466983, V691786 and V691809, V691801 and V691824

Since oil, NL's relative position has improved – more dramatic with GDP but also significant in terms of personal income.



NL GDP and Employment Shares by Industry

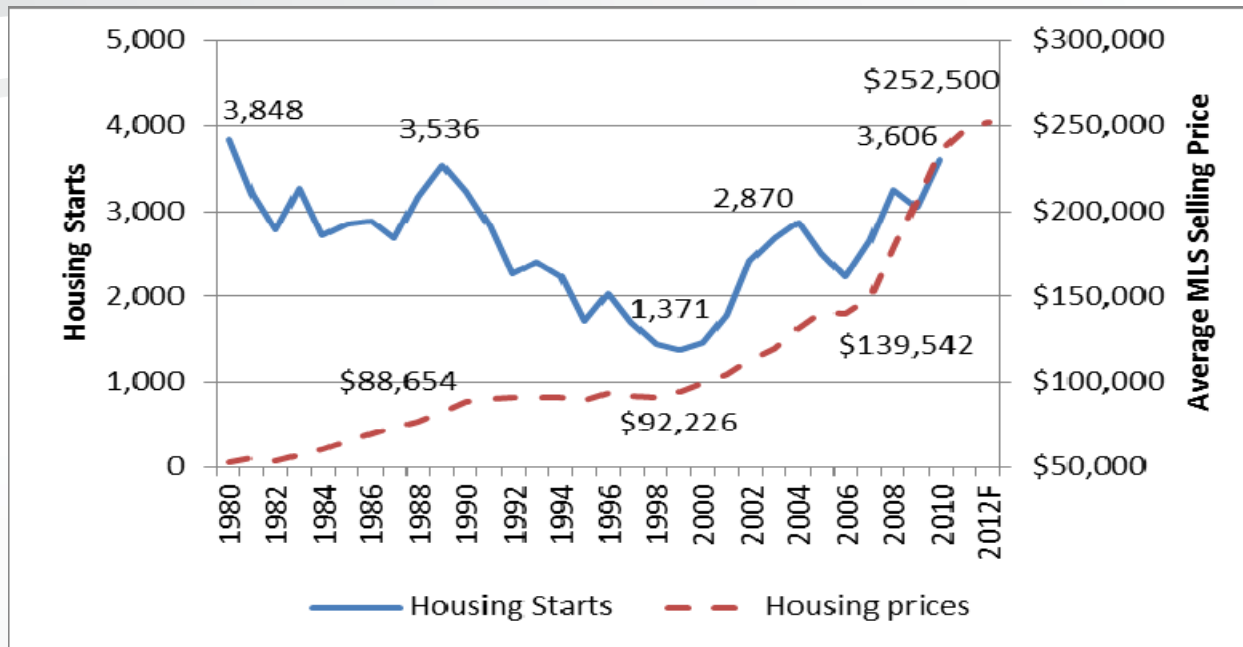


Data Source: *The Economy 2011*

Oil largest contributor to GDP and will stay that way for years to come, but less so in terms of employment



Housing Starts (Units) and Average MLS Sales Prices - NL

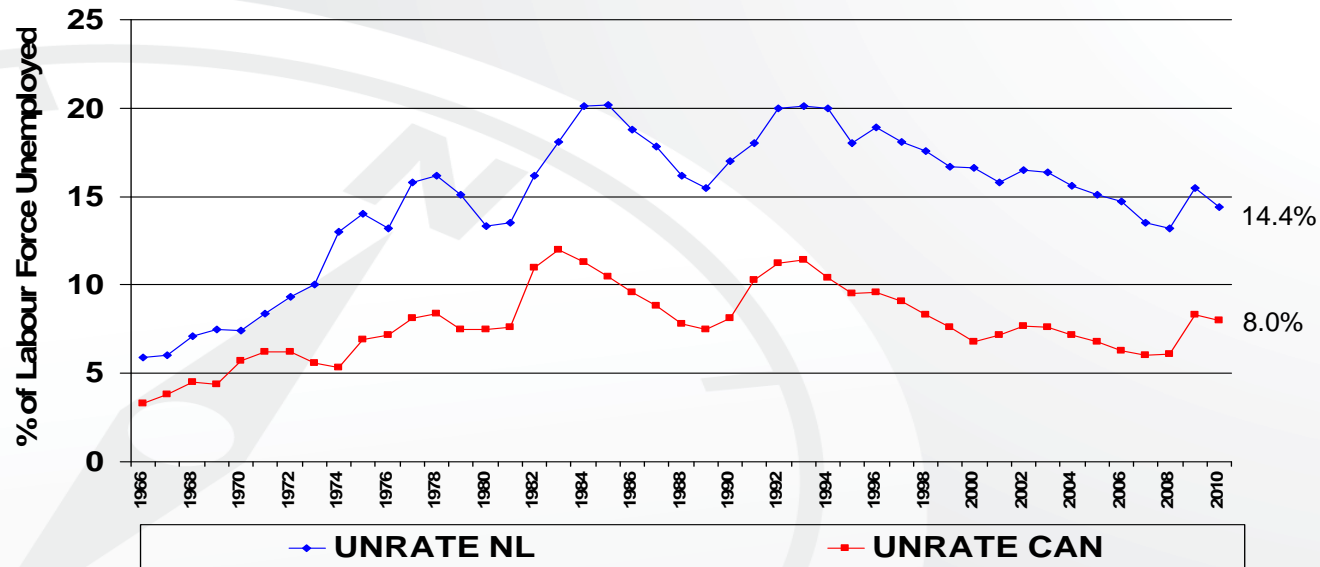


Data Source: Stats Canada CANSIM V730580 and Canadian Real Estate Association

Strong housing market reflects confidence in the economy



Unemployment Rates: Canada and NL

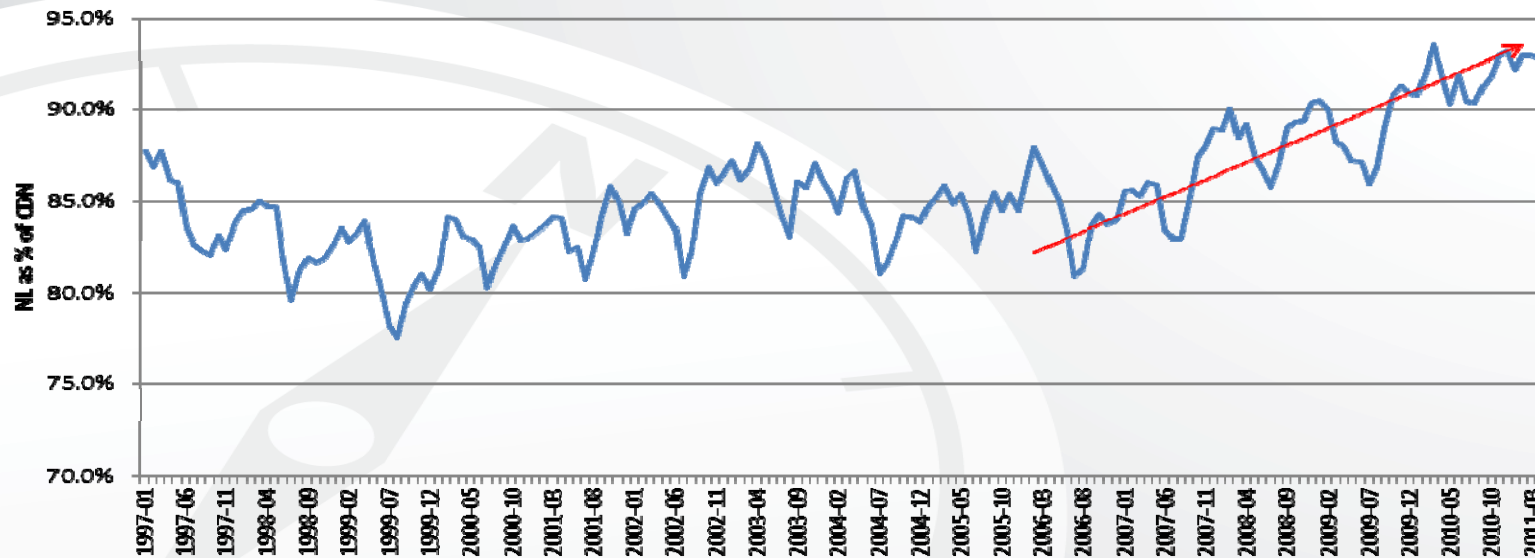


Data Source: Stats Canada CANSIM V2461224 and V2461854

Still the highest in the country



Average Hourly Wages: NL as % of CDN



Data Source: Stats Canada CANSIM V2415197 and V2421137

Given expected Investment, wage inflation should continue In NL.



Economic Impacts from Oil and Gas: NL's Experience to Date





Interesting Industry Statistics

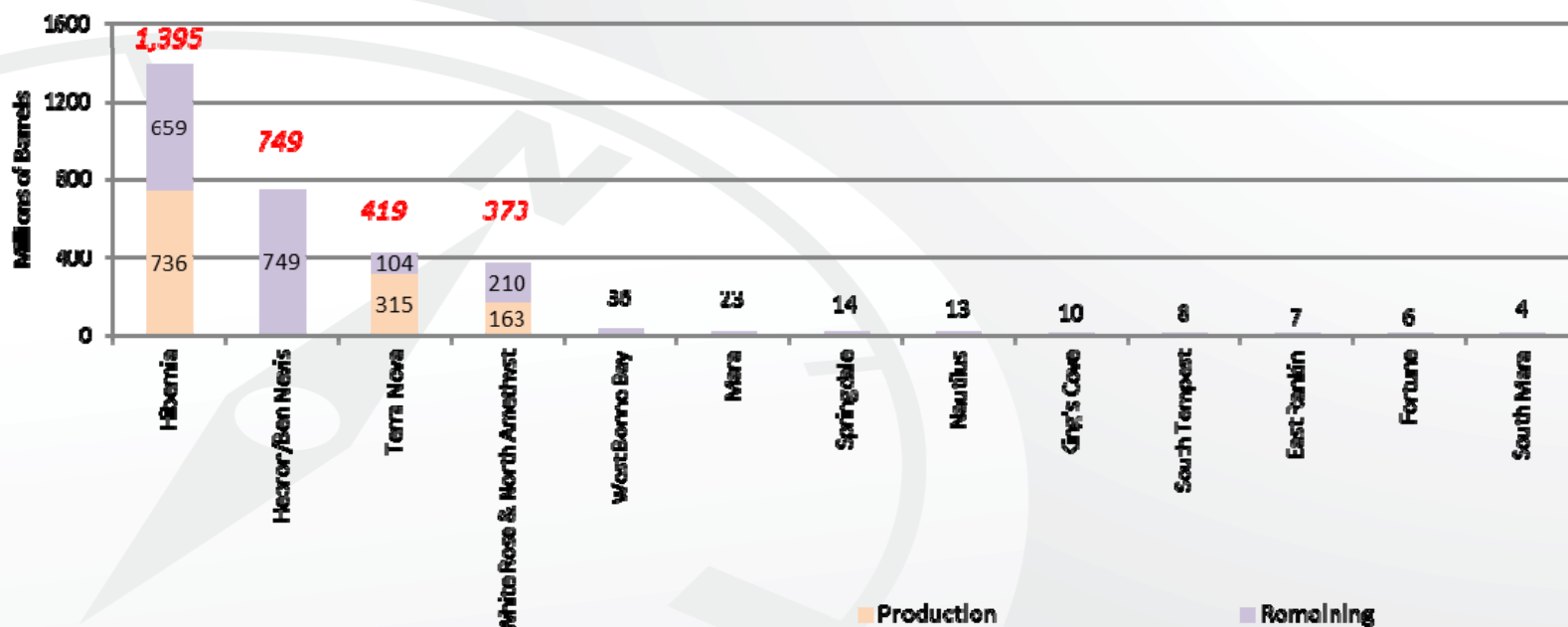


Using Brent Prices and GLJ's April 1, 2011 forecast (Budget +2%)

- Estimate value of production = \$250 B (~~\$280 B~~)
- Produced to date = \$75 B
- Estimated value of remaining production = \$175 B (~~\$205 B~~)
- Value of Investment to date = \$27 B
- Royalties paid = \$10 B
- Estimated Value of royalties remaining = \$37 B (~~\$45 B~~)
- Estimated value of equity \$2 to \$3 B

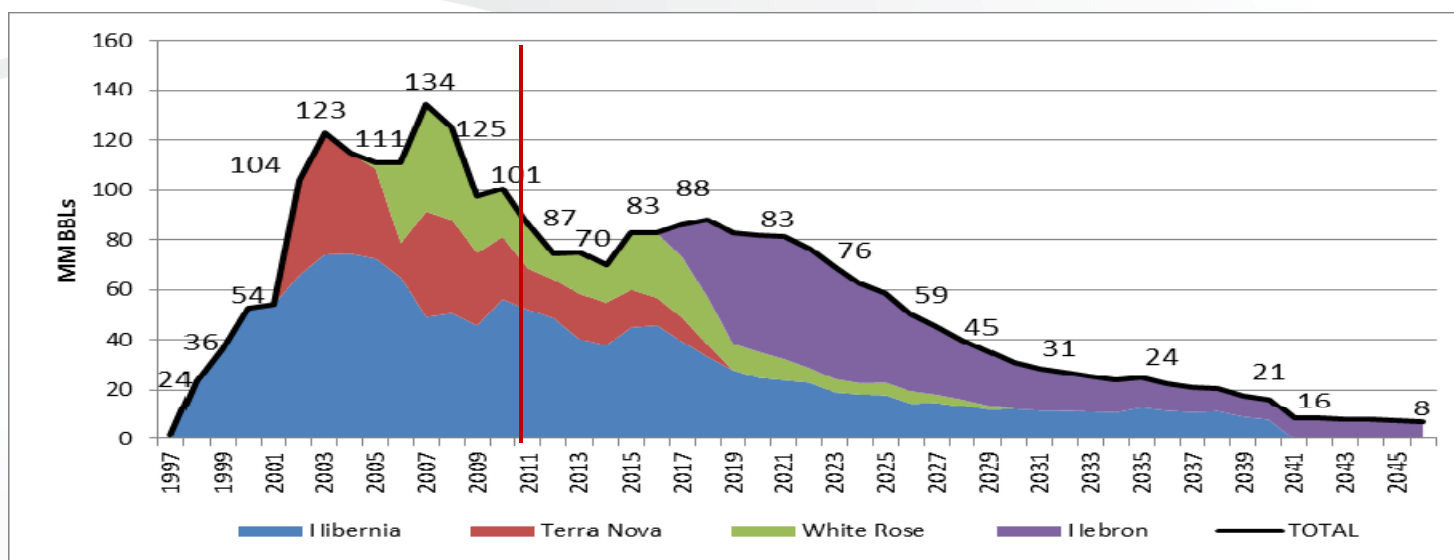


Recoverable Oil Reserves/ Resources: NL Offshore



CNLOPB website - Production as of March 30, 2011

Annual Production for Existing and Planned Offshore Oil Fields



Production from existing fields expected to fall off.

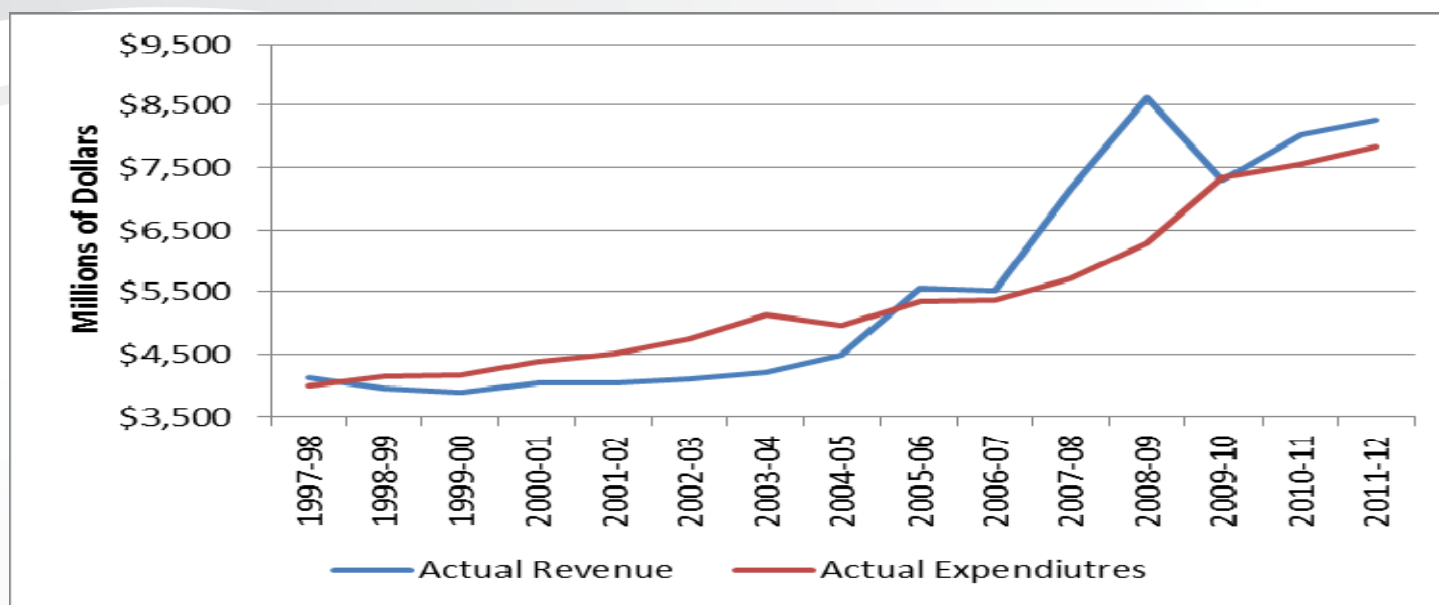


Fiscal Circumstances: Recent Experience





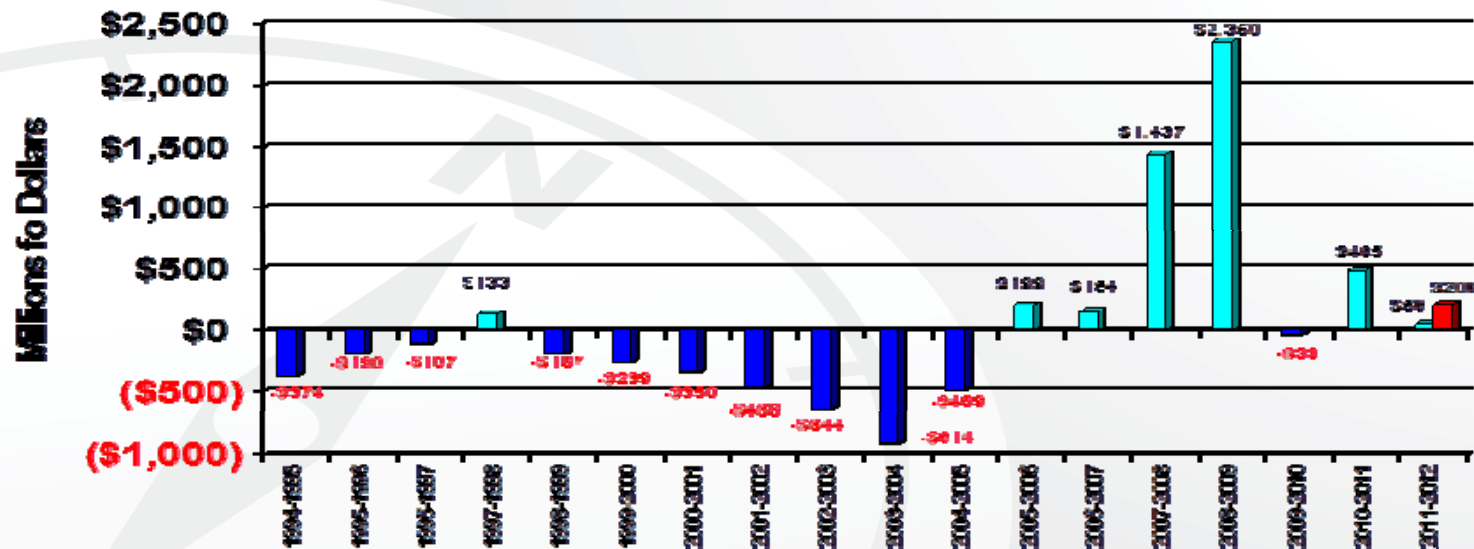
Government Revenues and Expenditures



Source: Auditor General Report, Public Accounts, Provincial budgets – various years and Author's calculation for 2011-12

Expenditure have kept pace with revenue, cannot be sustained in the future

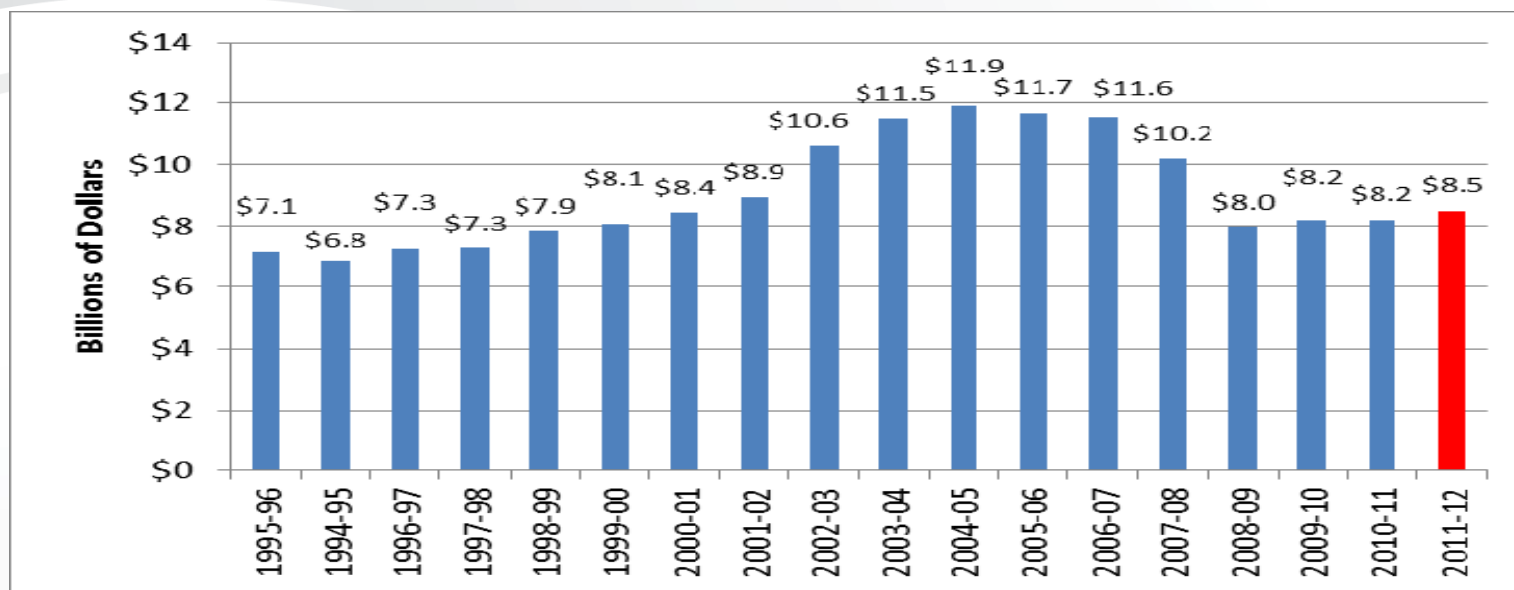
Government Deficits



Source: Auditor General Report, Public Accounts, Provincial budgets – various years and Author's calculation for 2011-12

Consistent surpluses in recent years versus consistent deficits in earlier years

NL Provincial Debt Levels



Source: Auditor General Report, Public Accounts, Provincial budgets – various years and Author's calculation for 2011-12

Still have a serious debt problem



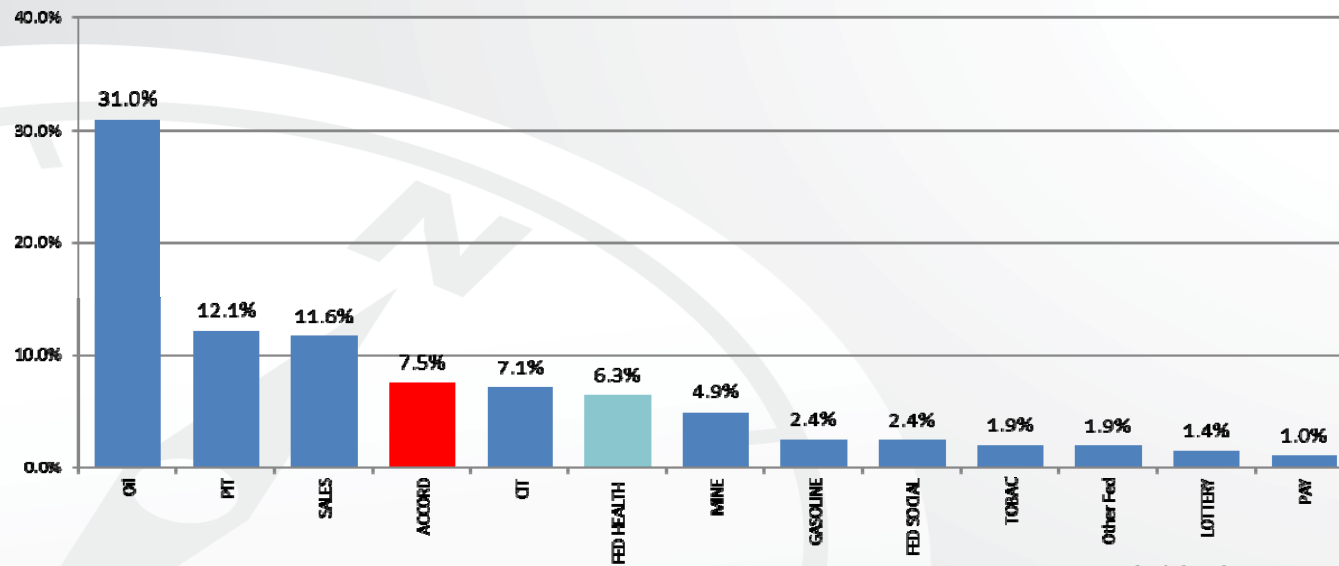
Debt Retirement: How big is the Hurdle?



- NL has **\$8.7 B** in net debt according to Budget 2011-12 (possibly \$8.5 B given recent statement by the Minister of Finance)
- Assuming a **5.5%** interest rate, how big would the annual surplus need to be for a **30 year period** to bring the **debt to zero**?
 - Approximately \$600 M per year for 30 years
- How big would the surplus have to be to bring the **debt to \$5 B**, a manageable level, within **30 years**?
 - Approximately \$530 M per year for 30 years



Provincial Revenue Shares by Source (2011-12)

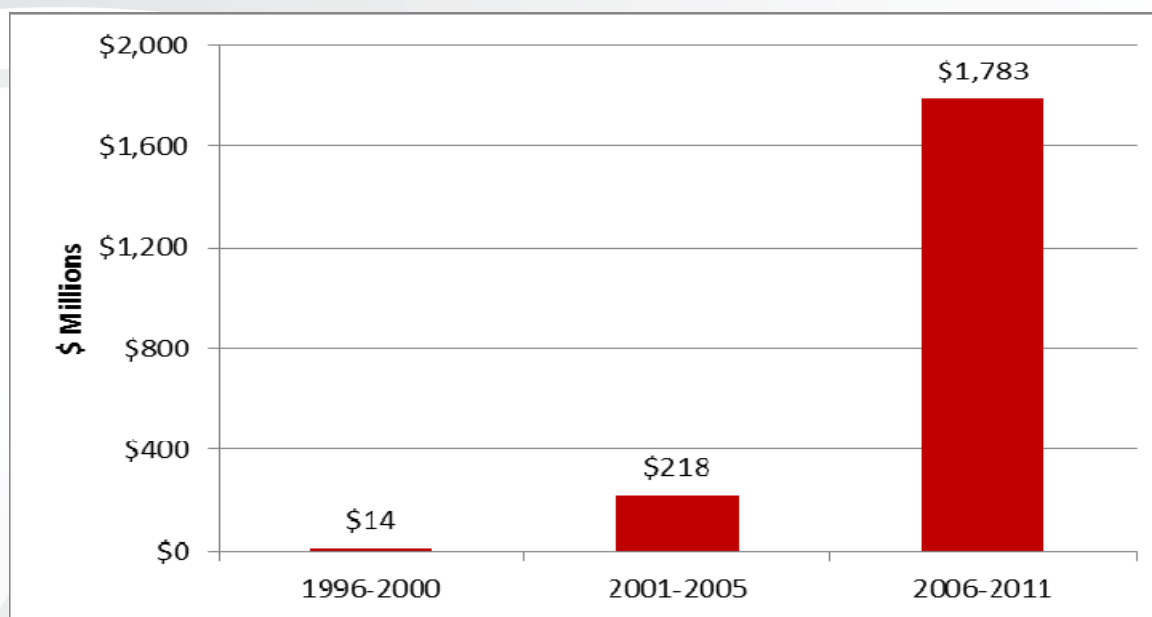


Data Source: Provincial Budget 2011-12

Atlantic Accord monies cease after 2011-12, this is currently bigger than federal health transfers to the province.



Average Value of Offshore Royalties



Source: Author's Calculations

Royalties have increased dramatically in the last 15 years

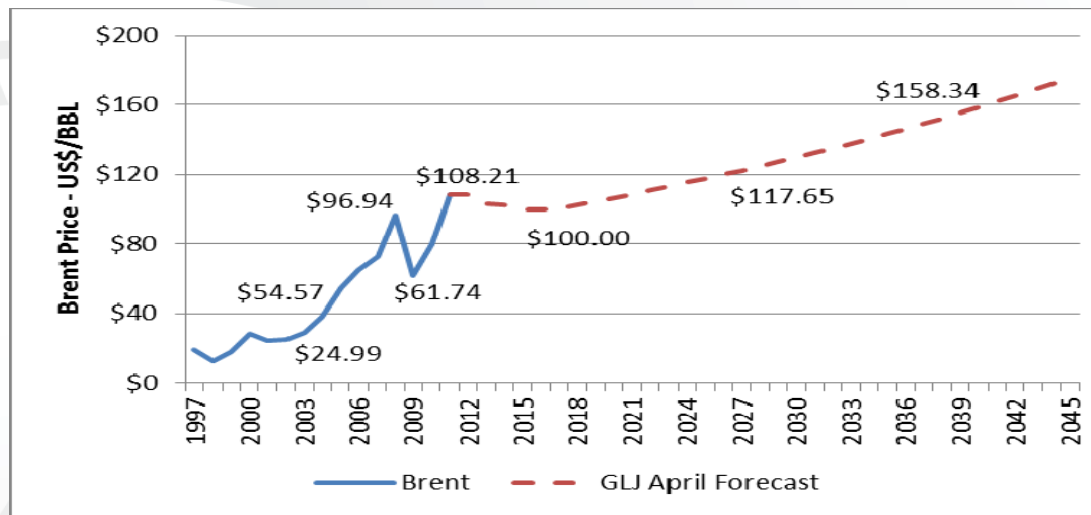


Fiscal Circumstances: What's on the Horizon?





Brent Oil Prices – Actual and GLJ April 2011 Forecast

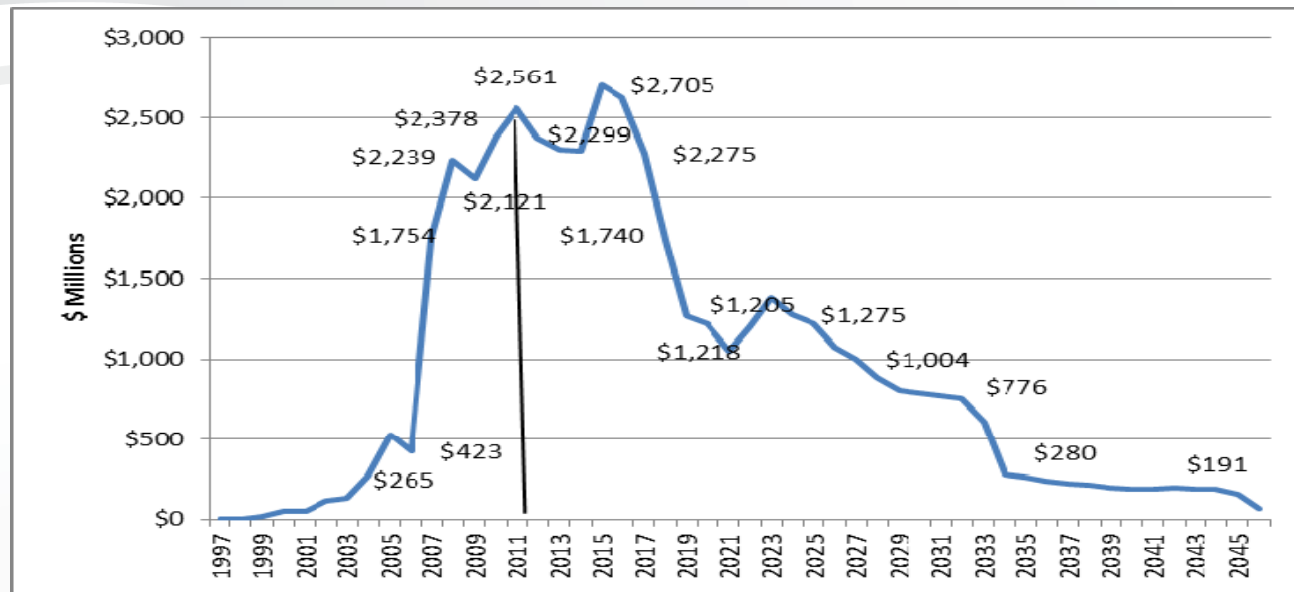


Source: www.gljpc.com

For this analysis, the budget estimate is utilized for 2011-12 and GLJ's forecast was utilized thereafter.



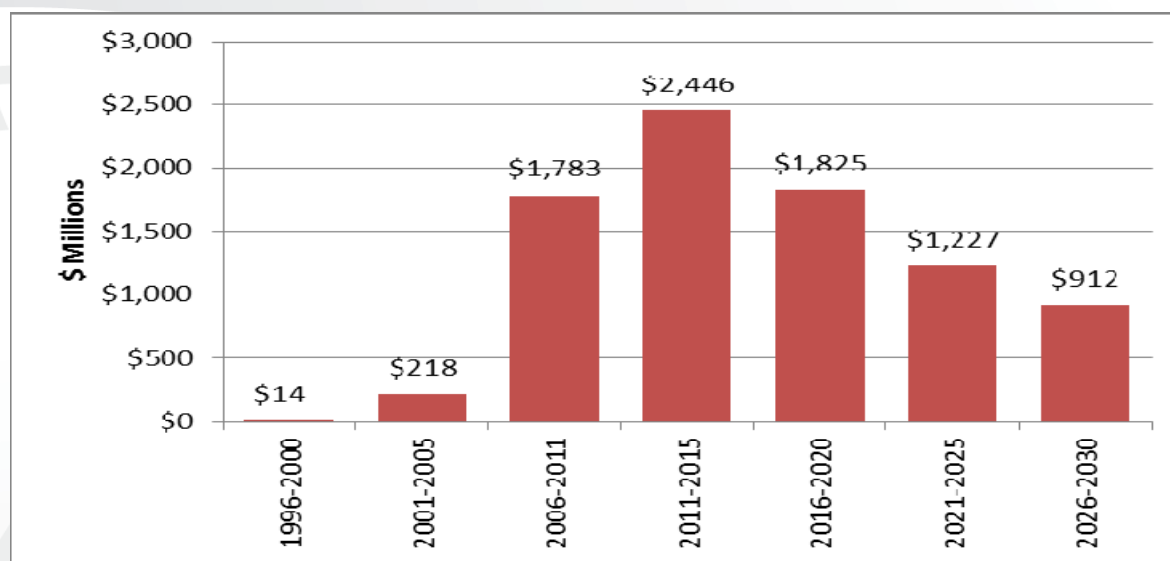
Estimated Royalties



Source: Forecasts are Author's Calculations, other data from Provincial Budgets, Auditor General's report and Public Accounts for various years

\$10 B to date, with \$37 B to come and between \$2 and \$3 B in equity.

Estimated Average Royalties

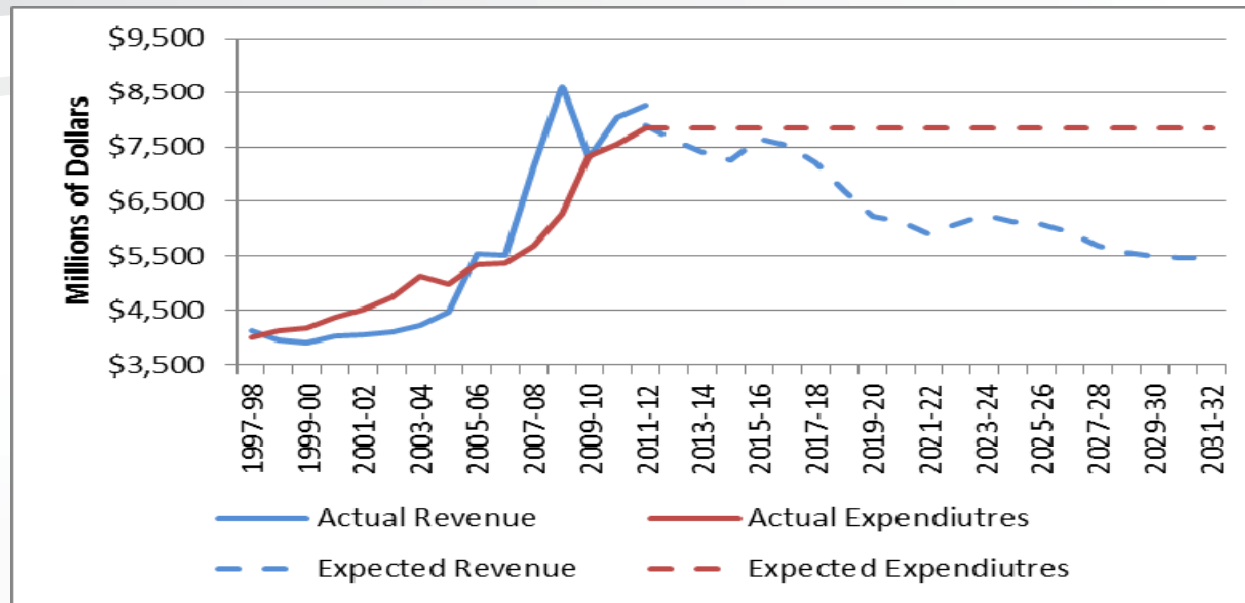


Source: Author's Calculations

Contribution of royalties to revenue will be falling



NL Government Revenues and Expenditures: Actual and Expected

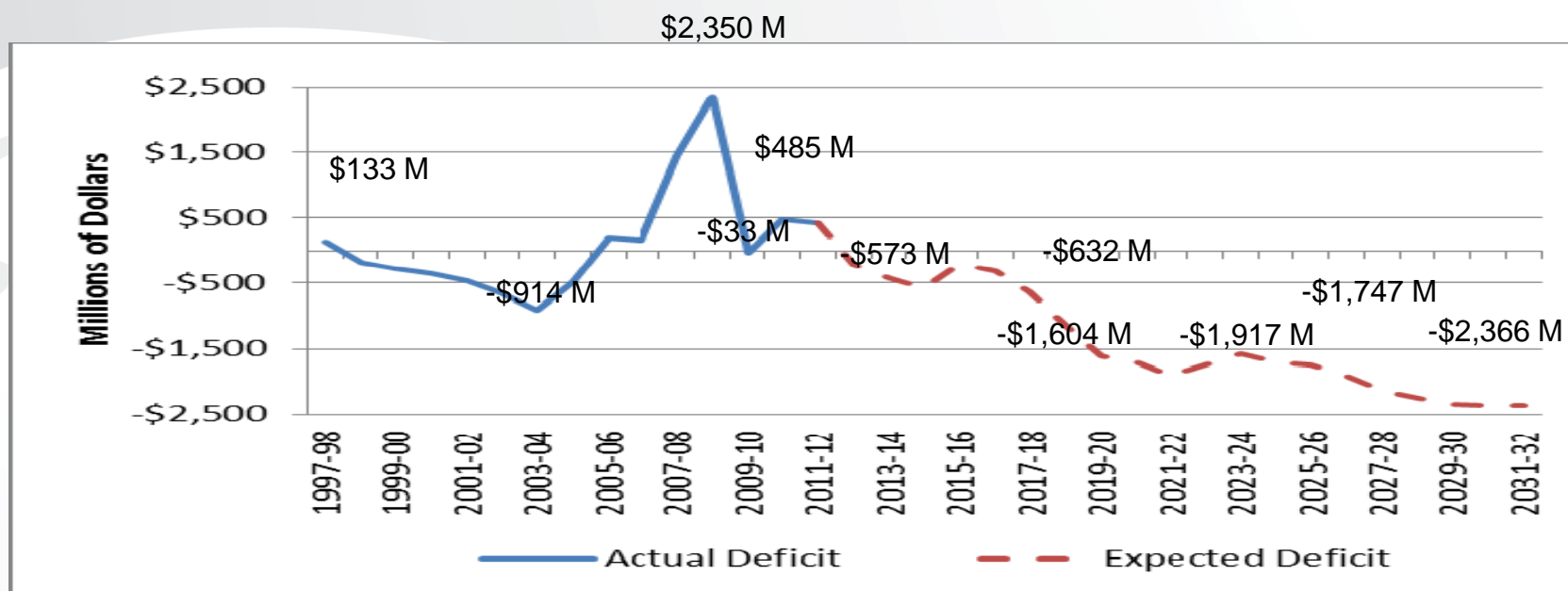


Source: Forecasts are Author's Calculations, other data from Provincial Budgets, Auditor General's report and Public Accounts for various years

Deficits rather than surplus; it is a new reality unless something changes



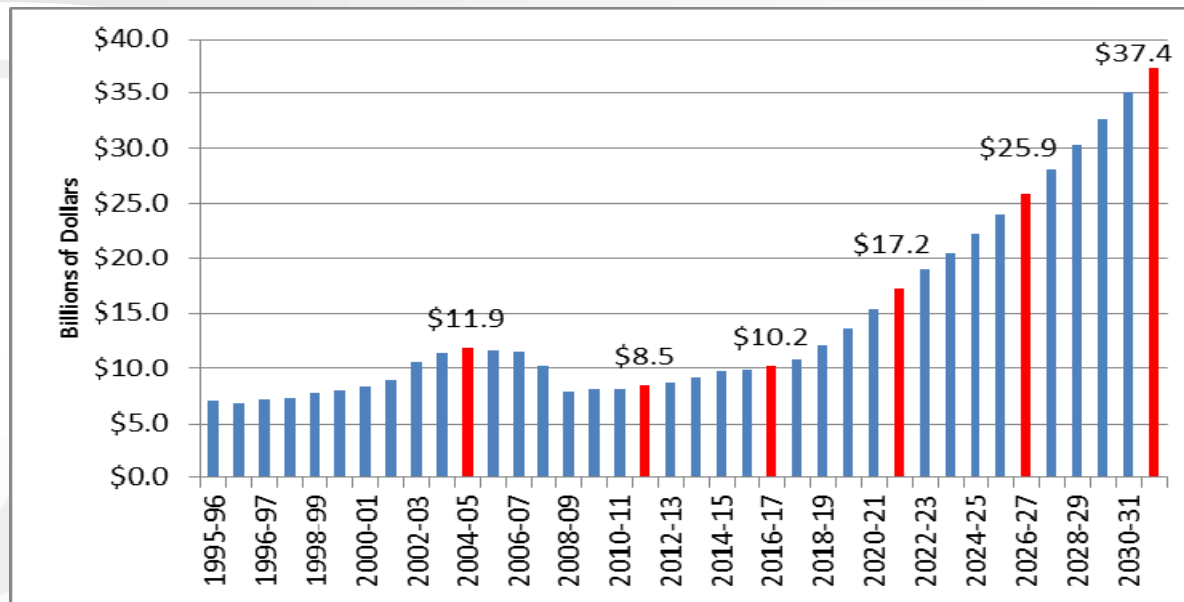
NL Government Deficit: Actual and Expected



Source: Forecasts are Author's Calculations, other data from Provincial Budgets, Auditor General's report and Public Accounts for various years

Within 10 years, NL could be running annual deficits in excess of \$1.9 B.

Debt Problem

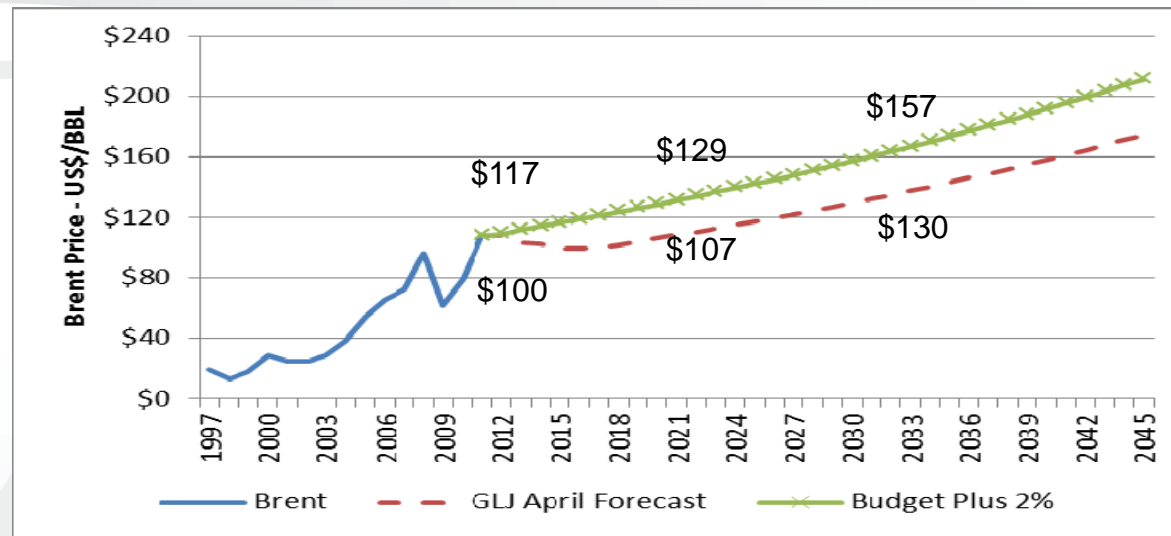


Source: Forecasts are Author's Calculations, other data from Provincial Budgets, Auditor General's report and Public Accounts for various years

Net Debt could double within 10 years.



Brent Oil Prices, GLJ Apr. 1, 2011 Forecast, Government Prices +2%

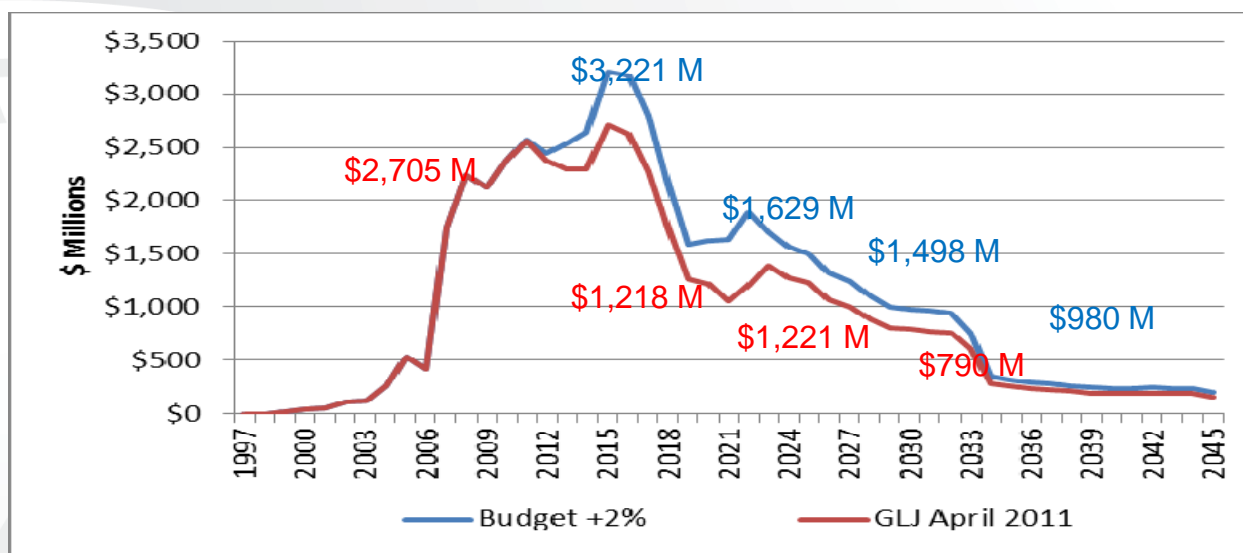


Source: www.gljpc.com

Implication of using higher prices from Budget



Provincial Government Royalties: Budget Prices +2%

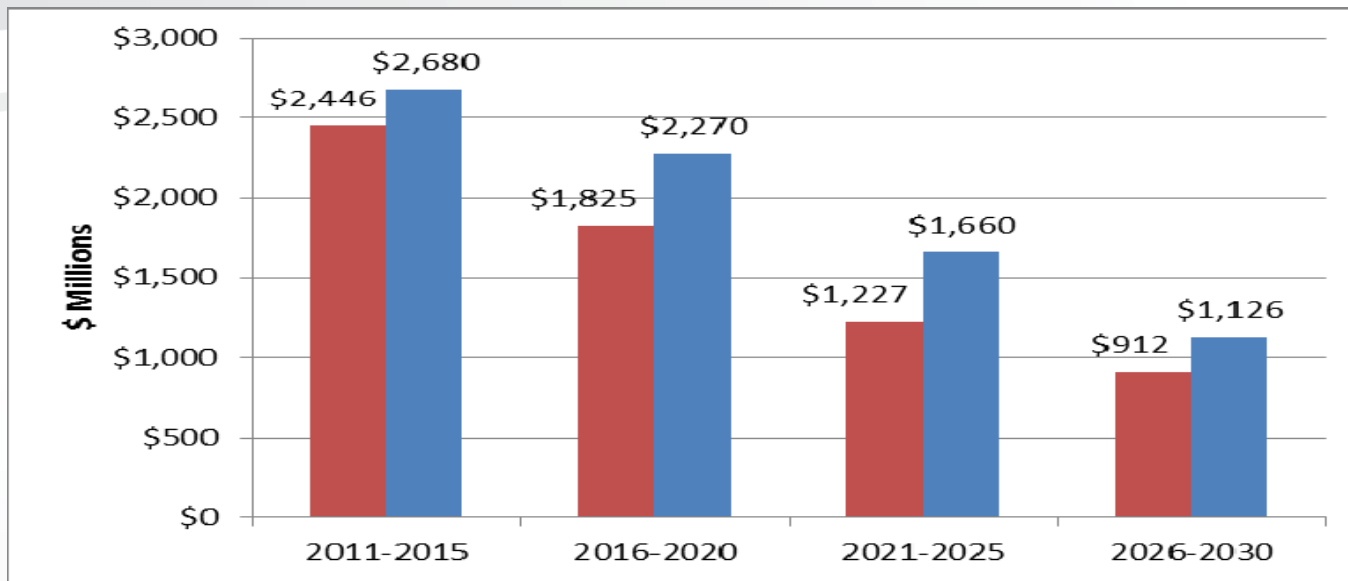


Source: Forecasts are Author's Calculations, other data from Provincial Budgets, Auditor General's report and Public Accounts for various years

Higher royalties with higher prices, but the pattern is the same



Estimated Average Royalties GLJ and Budget +2% Prices

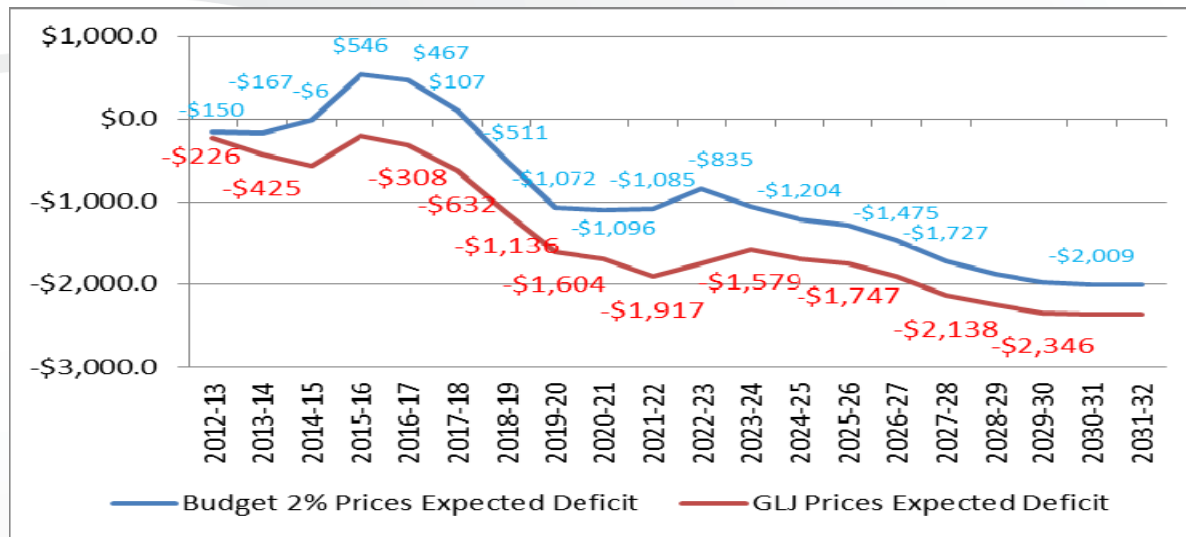


Source: Author's Calculations

While revenues are higher with Budget +2% prices, the trend is identical



Anticipated Deficits: GLJ Prices and Budget +2%

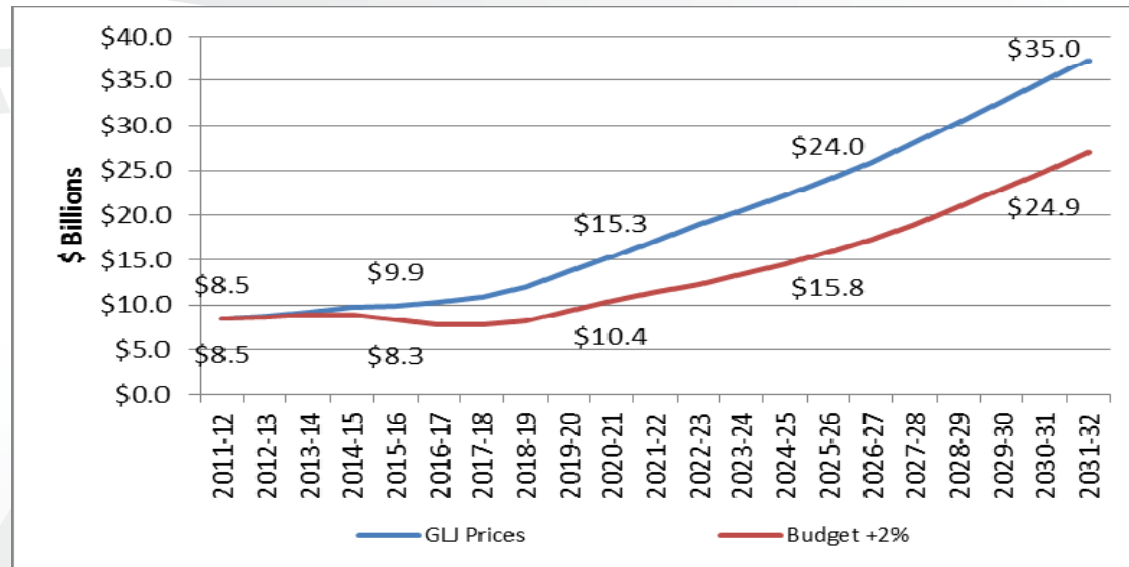


Source: Author's Calculations

The problem still exists, it is just delayed for about 5 years.



NL Net Debt: GLJ Prices and Budget +2% Prices



Source: Author's Calculations

Debt will double in 15 years, instead of 10 years.

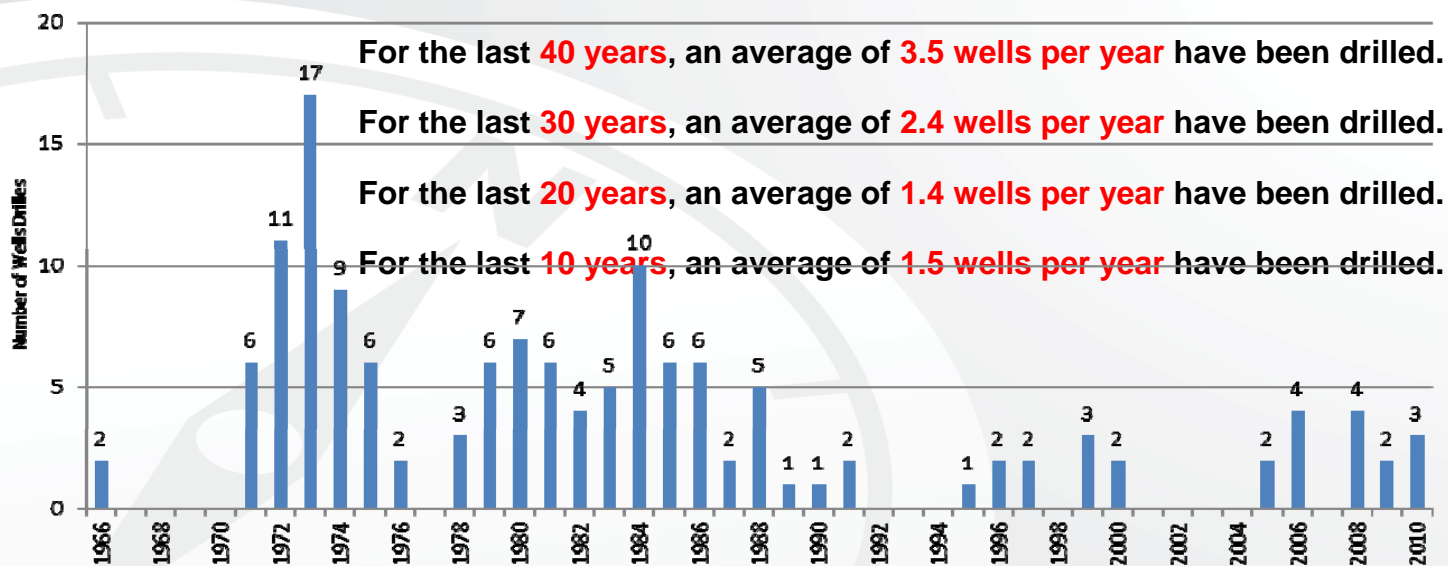


Oil and Gas in the Future





Exploration Wells Drilled Offshore NL



Data Source: CNLOPB Well Summary

Low levels of exploration drilling is one of the **most important issues currently facing the province.**



How should we plan? (1)



- Change is never easy
- The fiscal situation needs to be dealt with
- We have 5 or 10 years
- We do have to plan



How should we plan? (2)



Commission or Task Force to:

1. Consult broadly to define priorities
2. Identify the opportunities and constraints
3. Develop a plan to:
 - capitalize on the opportunities;
 - minimize the significance of the constraints and
 - outline how best to meet the established priorities for current and future generations



How should we plan? (3)



4. This may require:

- implementing a debt retirement strategy,
- establishing a Heritage Fund,
- an articulation of our expenditure priorities/needs,
- a recognition of quality of life issues – those things that define us as a people and as a culture



Conclusion (1)



- Oil has transformed NL
- Now have declining production and low exploration
- The fiscal indicators have been improving
- Expecting \$2.4 B per year in royalties in the next five years
- However, fiscally, NL will be challenged in the short/medium term



Conclusion (2)



- Expectations and entitlements have now been built into the system
- We need to get our debt down to a manageable level (\$5 B)
- There will be difficulties in meeting the demand for labour in the future



Conclusion (3)



- NL should leverage its energy resources for economic development and for future generations
- Need to stimulate exploration
- Need to facilitate the development of natural gas
- Need to build on our energy warehouse to diversify and grow the economy



Conclusion (4)



- We need to plan for the future;
- We need to recognize the constraints that we are facing;
- We need to deal with the constraints realistically; and
- We need to capitalize on the economic opportunities before us.
- We do not need to face a crisis, but we do have to plan to avoid one!

Thank You!