

An Overview of the Atlantic Canadian Economy

A presentation to the 16th Annual Conference of The Food
Industry Credit Bureau

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What is Atlantic Canada

- I have been asked to provide to your conference an overview of the Atlantic Canadian economy, but first, it is worth reflecting on what is Atlantic Canada
- The term ‘Atlantic Canada’ is utilized in numerous contexts without much reflection on what the concept means or even if it is a useful concept in the context in which it is being applied
- Interestingly, Atlantic Canada sometimes means different things to the user than to the recipient and both may have different interpretations when the concept is employed in different contexts or at different points in time

Atlantic Canada is not a Political Region

- It is not a distinct constitutional entity and it is not mentioned in the constitution.
- There is no Atlantic Canadian legislative assembly
- There is no formal or informal capital of the region.
- There is no administrative authority that governs the area as a distinct and separate entity.
- Public policy is executed provincially or federally
 - While federal policy may have regional components and be implemented at the regional level, those are organizational considerations (cost-saving), not constitutional ones
 - Provincial governments may cooperate & collaborate, but only for efficiency purposes

It is not a Region in an Historical Context

- At different points in time, NS and NB were the same colony and PEI was, for a short time, administered by NS. (They have a shared history)
 - NL was never considered part of the group
- Maritime union has been debated both pre and post confederation, without NL ever buying into the concept
- Senate seats were to be allocated equally to each of three regions or sections of Canada: ON, QU and Maritimes
 - NL was considered separate & not part of 24 seat regional balance
- Colony of NS was encouraged and facilitated by Britain , but the Colony of NF was actively discouraged
- The region was characterized by resource dependency, low incomes, high unemployment, being the poorest provinces in Canada, high out-migration
 - as Norrie and Owram (1991) notes, *there was a strong sense of regional grievance throughout the Maritimes...Federal government indifference, reversals on railway rates, and maintenance of the tariff structure – all hurt the region*

Historical Context (cont'd)

- shared similar cultural experiences, but not identical.
- There is an affinity for people of the other Atlantic provinces,
 - but an affinity does not an identity make.
- share aspirations to succeed, to be sustainable and to prosper within the Canadian confederation,
- Despite obvious differences, one could make a case for some kind of regional identity, but the Maritime provinces and Newfoundland and Labrador might be more natural

Atlantic Canada may be a limited Geographic Region

- If we ignore parts of Quebec (which are further east than NS, PEI or NB), Atlantic Canada could be construed as a region composed of the eastern-most provinces on the periphery of Canada
- Atlantic Canada might be considered a region in a narrow, physical geographic context (so long as we do not get too specific about defining the geography)

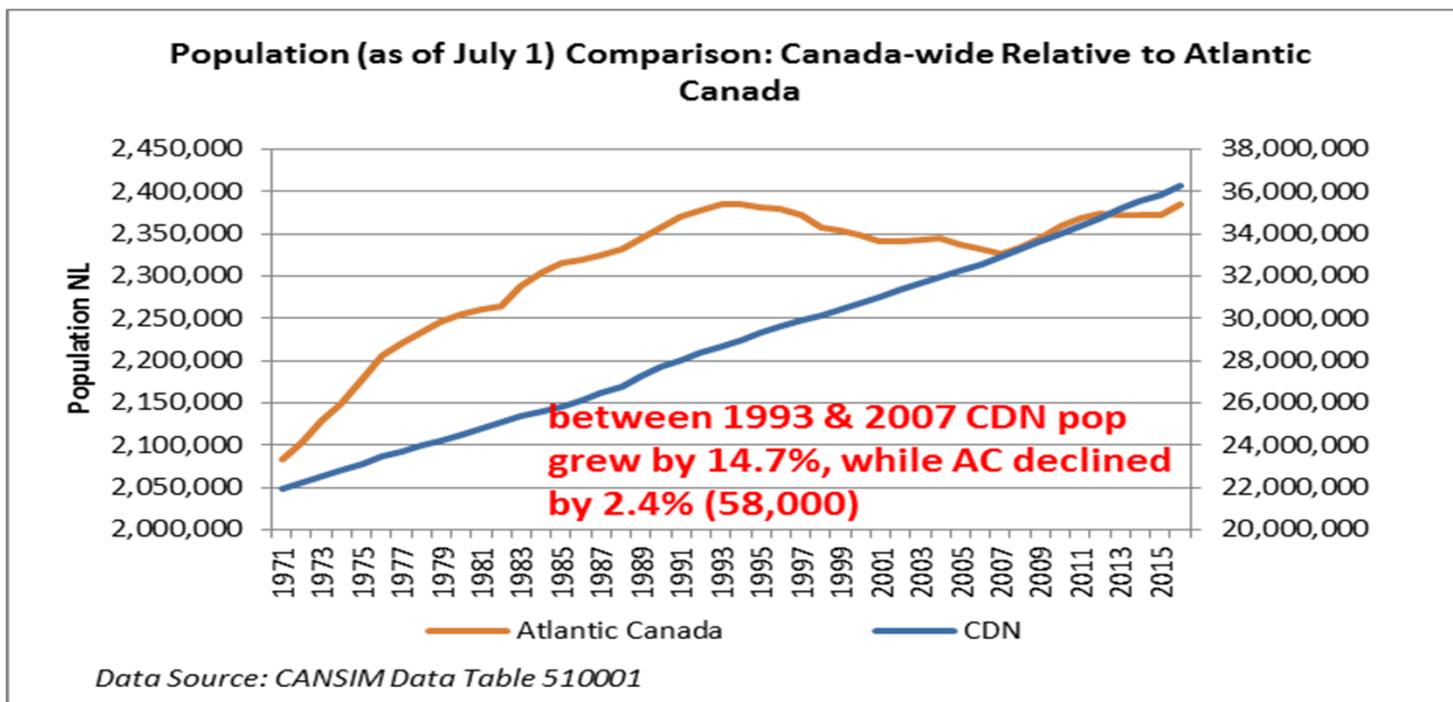
Atlantic Canada is not an Economic Region?

- We do collaborate on some issues and not others
 - collaboration and cooperation simply indicate that it is expedient to act jointly on some issues.
- We disagree on important issues
 - NS/NL boundary dispute
 - NB Hydro assets sale to Quebec Hydro
- Most of our trade is outside of the region
- Economic structure and economic indicators are similar in some regards, but not in others
- A review of the economic data will show significant differences between the provinces

Atlantic Canada An Economic Comparison

Demographic Comparison

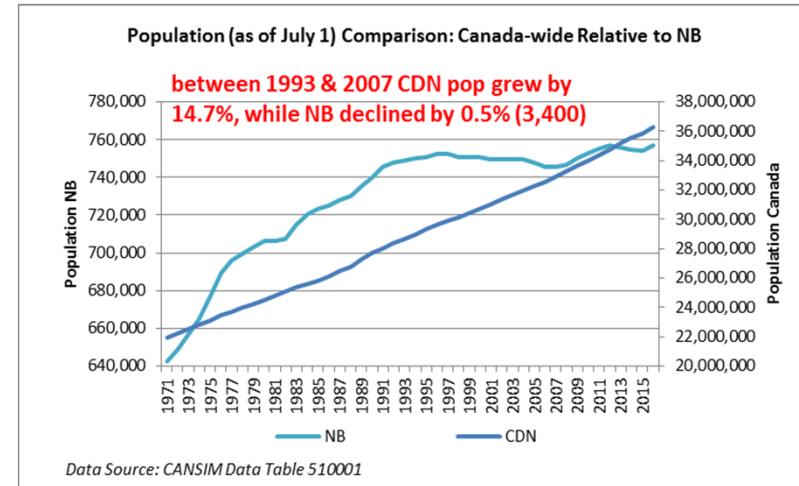
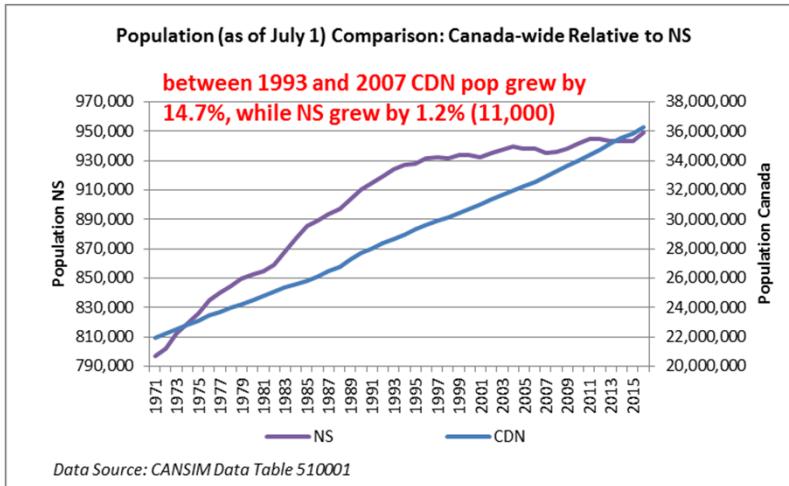
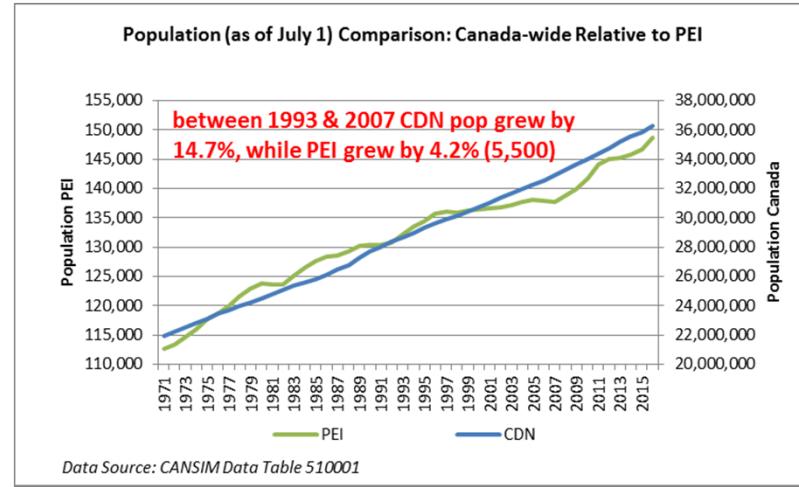
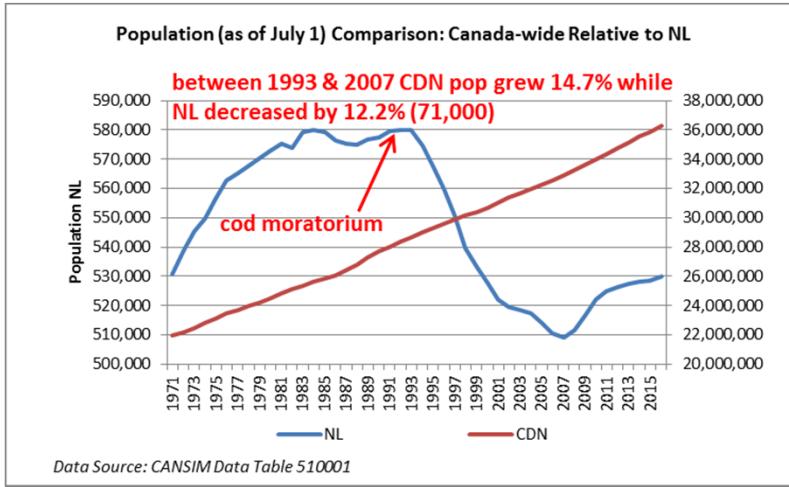
Declining and Slow Growing Population – Atlantic Canada



The decline in population between 1903 and 2007 was out of sync with that experienced elsewhere in Canada and was driven by the impact of the cod moratorium in NL

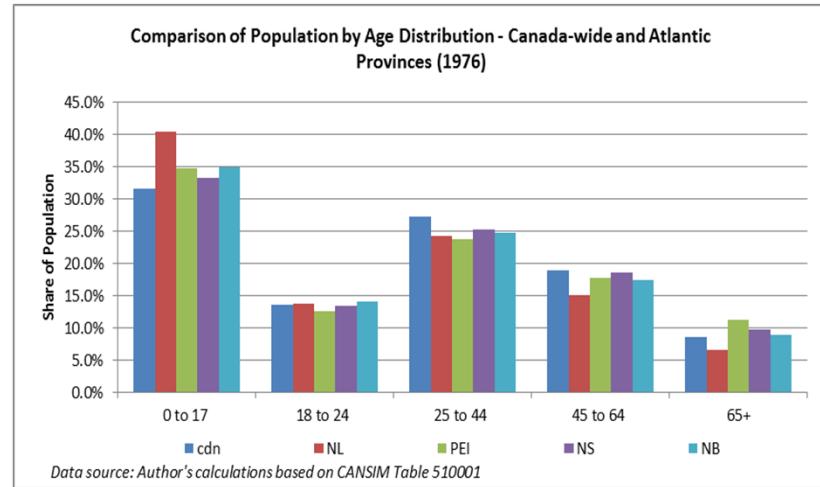
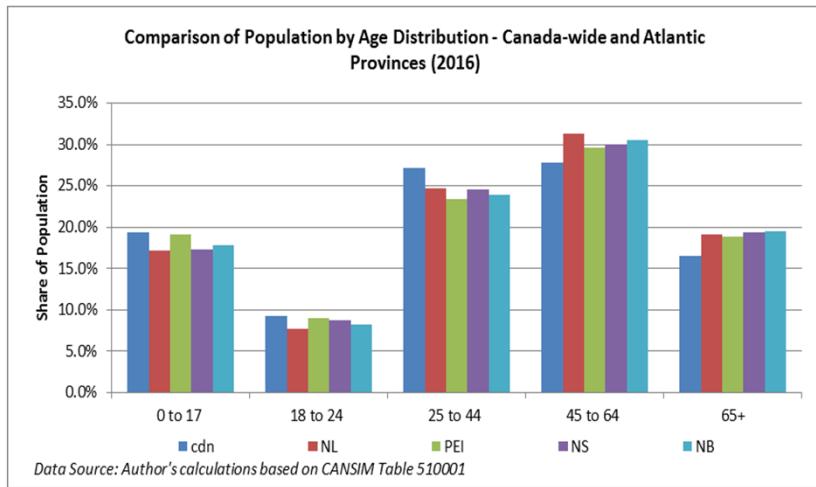
Slow Growth and Declining Population

– Atlantic Provinces



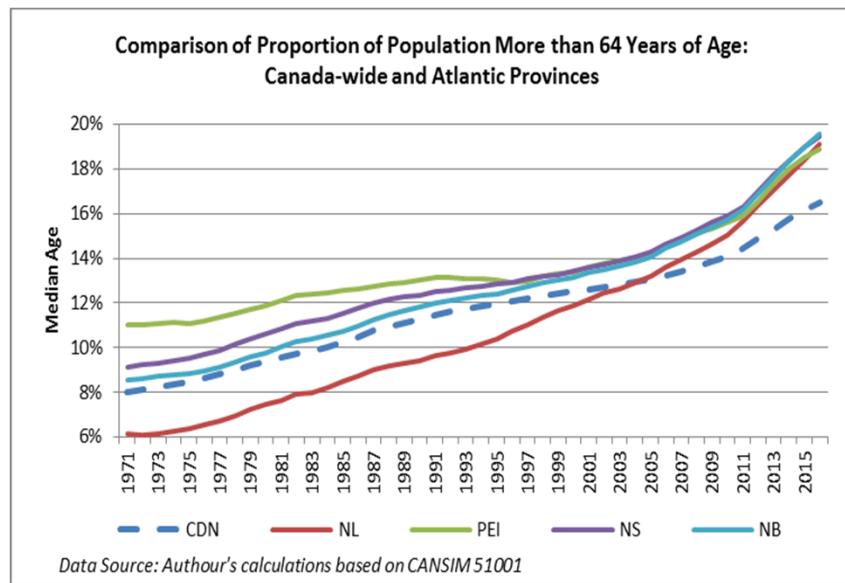
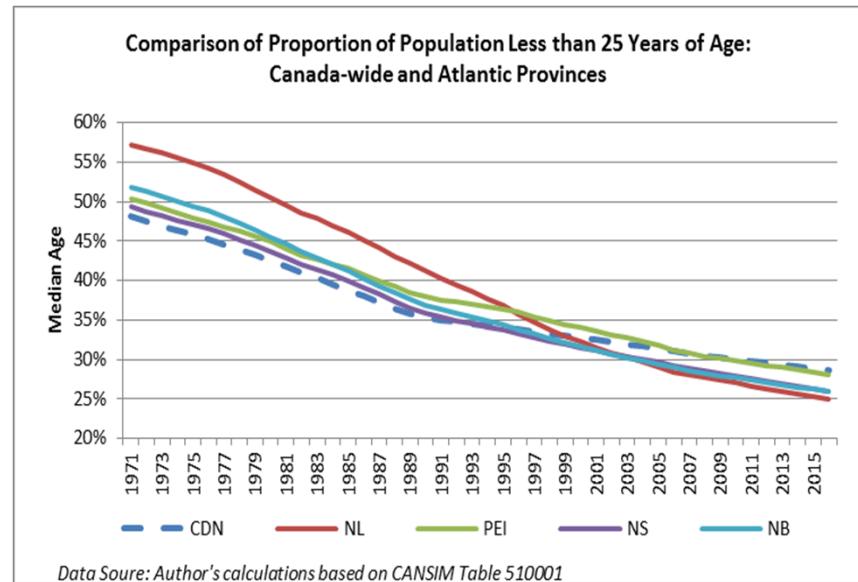
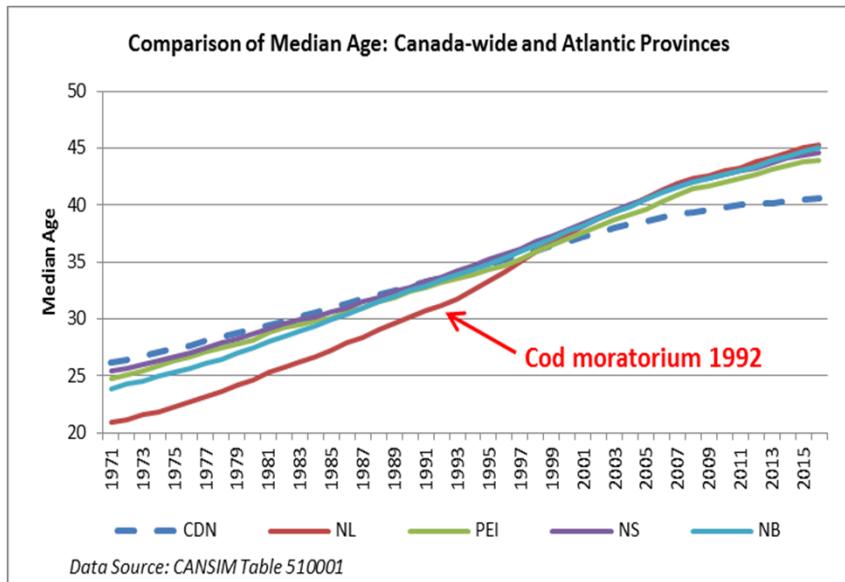
Clearly, not all Atlantic Canadian Provinces are experiencing the same in terms of population – one of these things is not like the other

Rapidly Aging Population (2016 and 1976)



While we are all aging (and relative to Canada), NL is more aging more rapidly

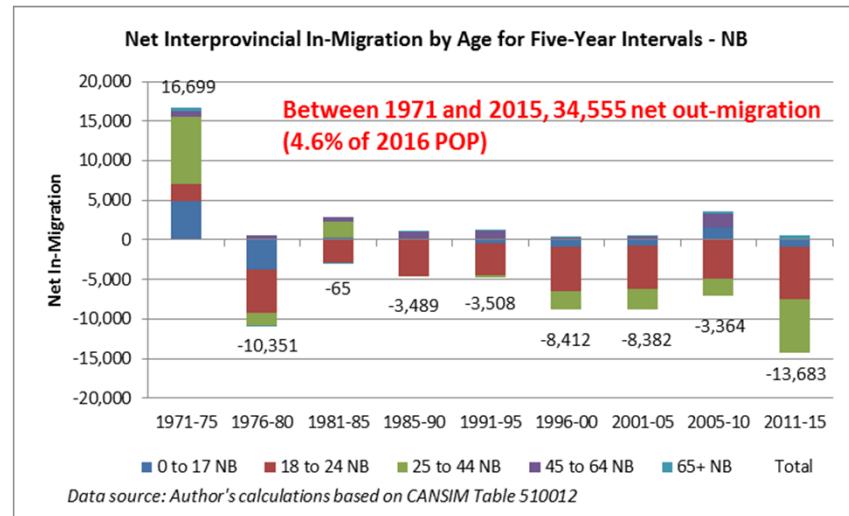
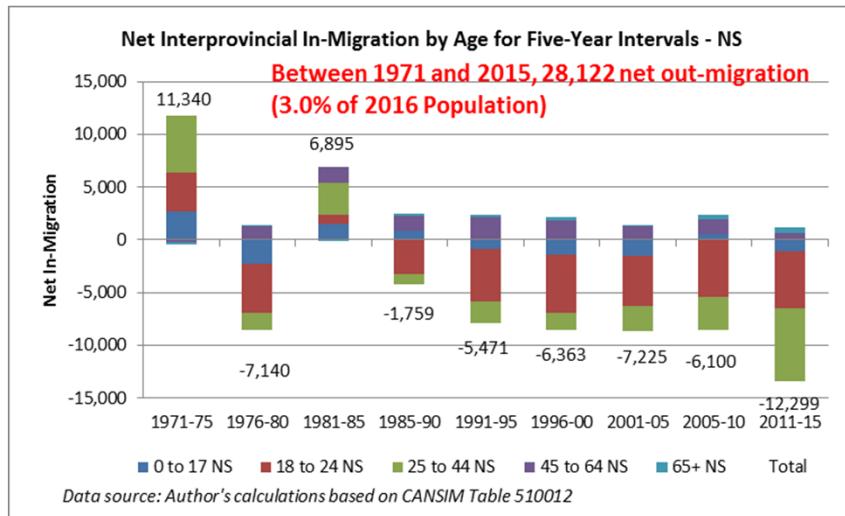
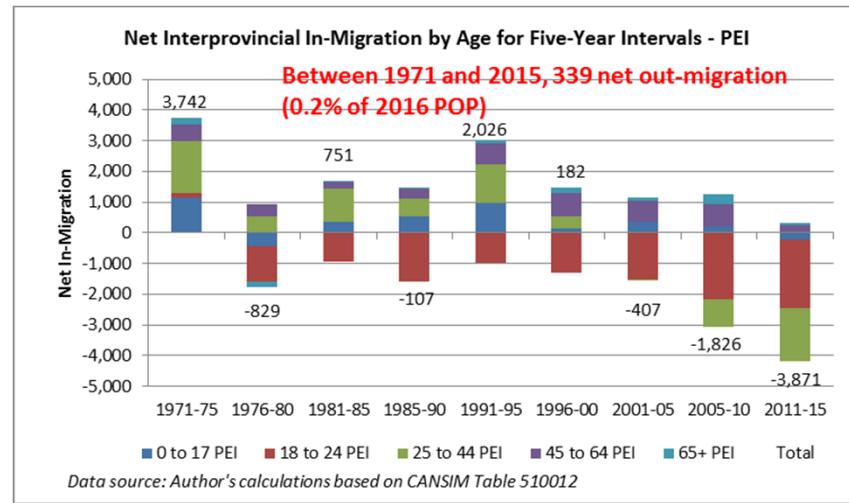
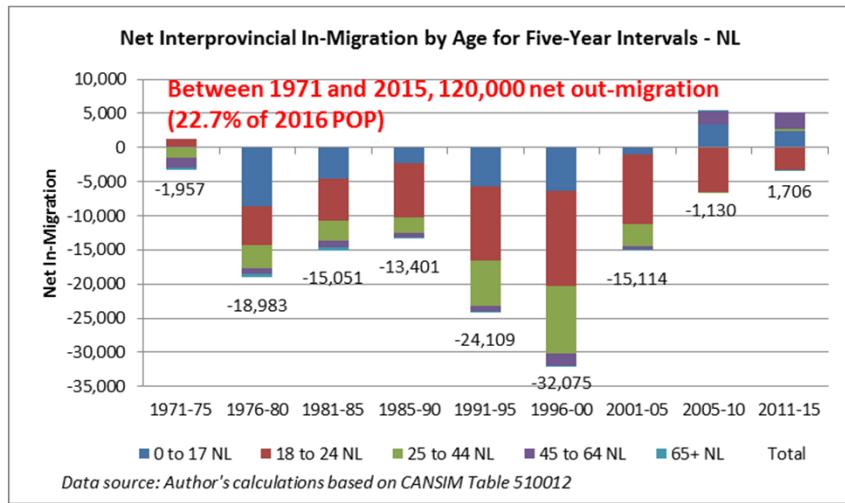
Select Age Comparisons – Median, Younger and Older



All provinces are aging, but Atlantic Canada is aging more quickly than the rest of Canada

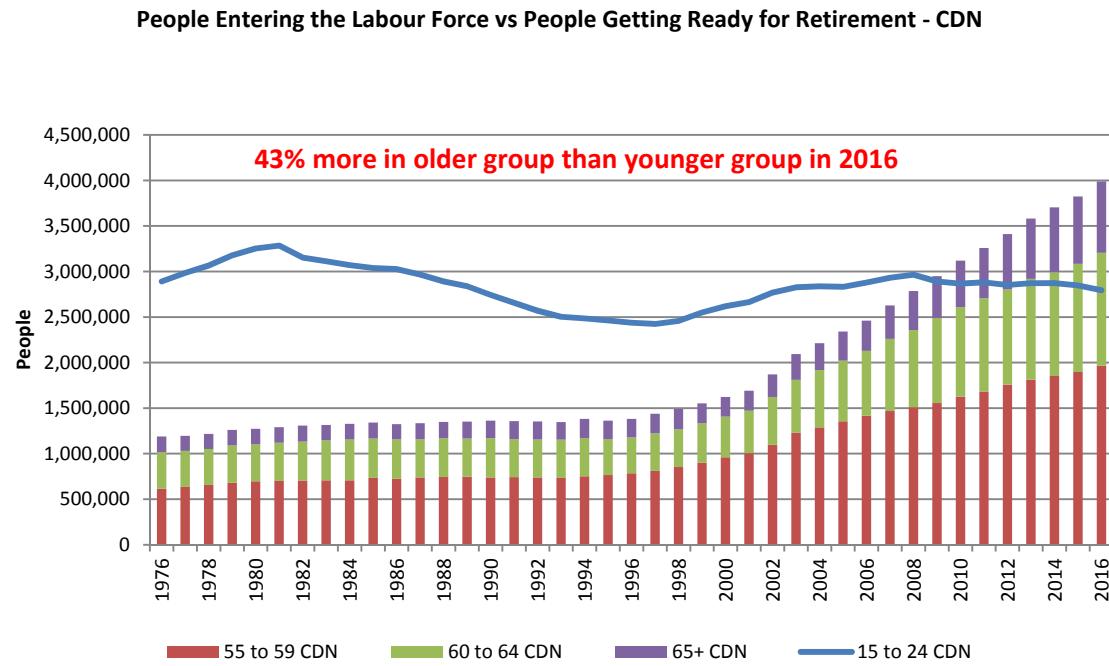
NL has gone from the youngest population (median age 20.9 in 1971 vs CDN of 26.2) to the oldest (median age 45.3 in 2016 vs CDN 40.6)

Net Out-Migration by Age and Period



More pronounced in NL and recent in-migrants are in 45 to 64 group and 0 to 17 group. Coming to NL for jobs, with their families, but young people entering labour force are still leaving

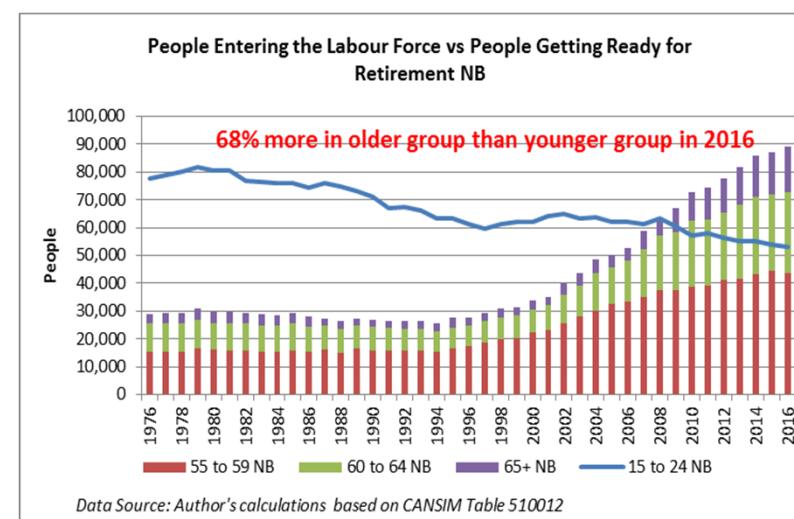
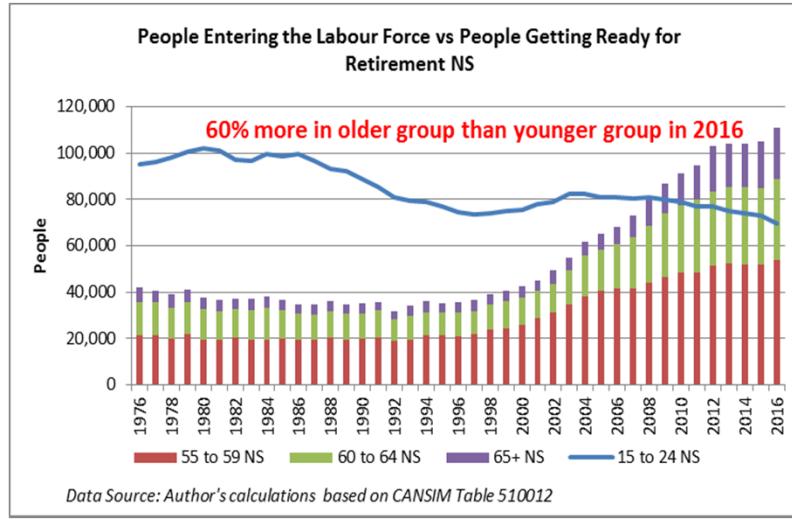
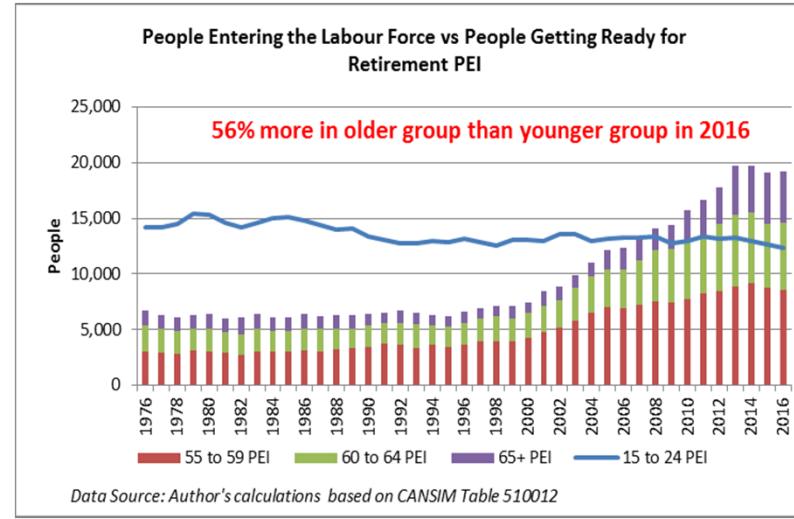
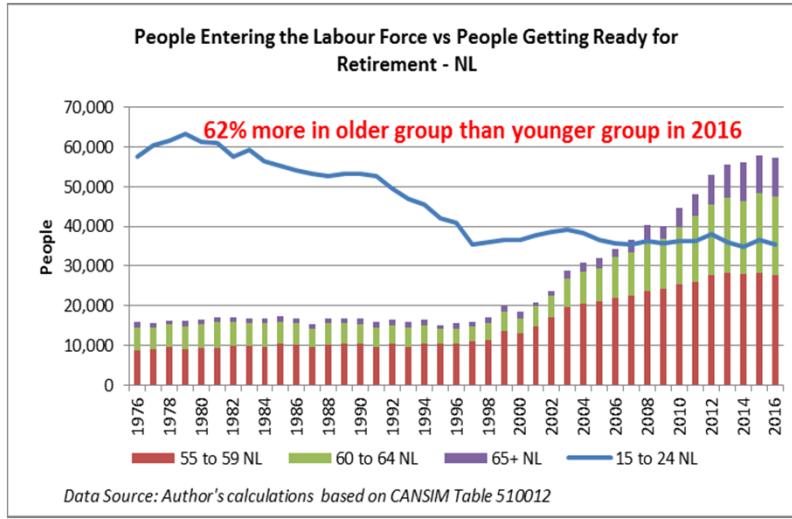
New Entrants to Labour Force vs Potential Retirees – Canada



Data Source: Author's calculations based on CANSIM Table 510012

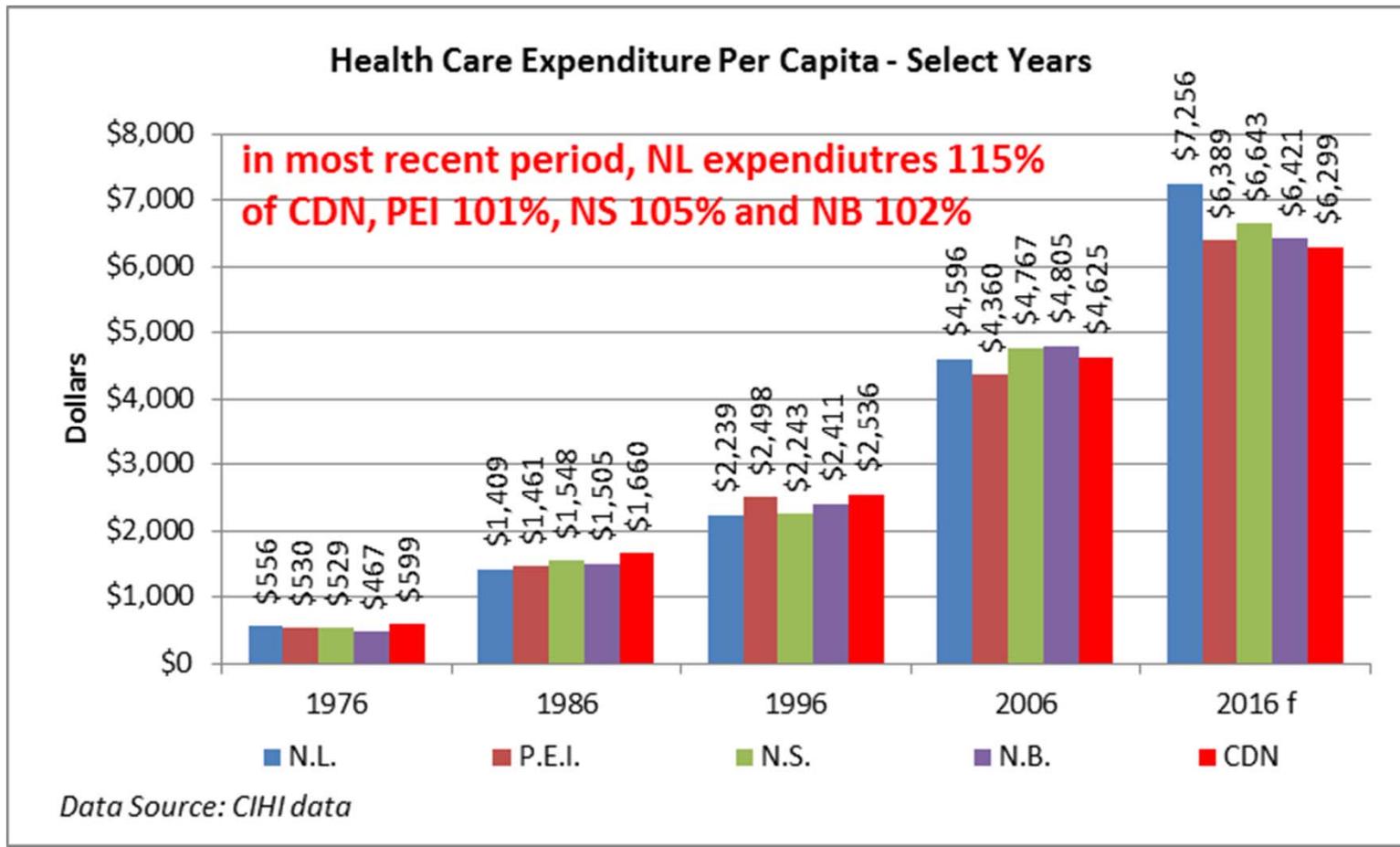
Labour force is aging and getting to unsustainable levels

New Entrants to Labour Force vs Potential Retirees – Atlantic Canada



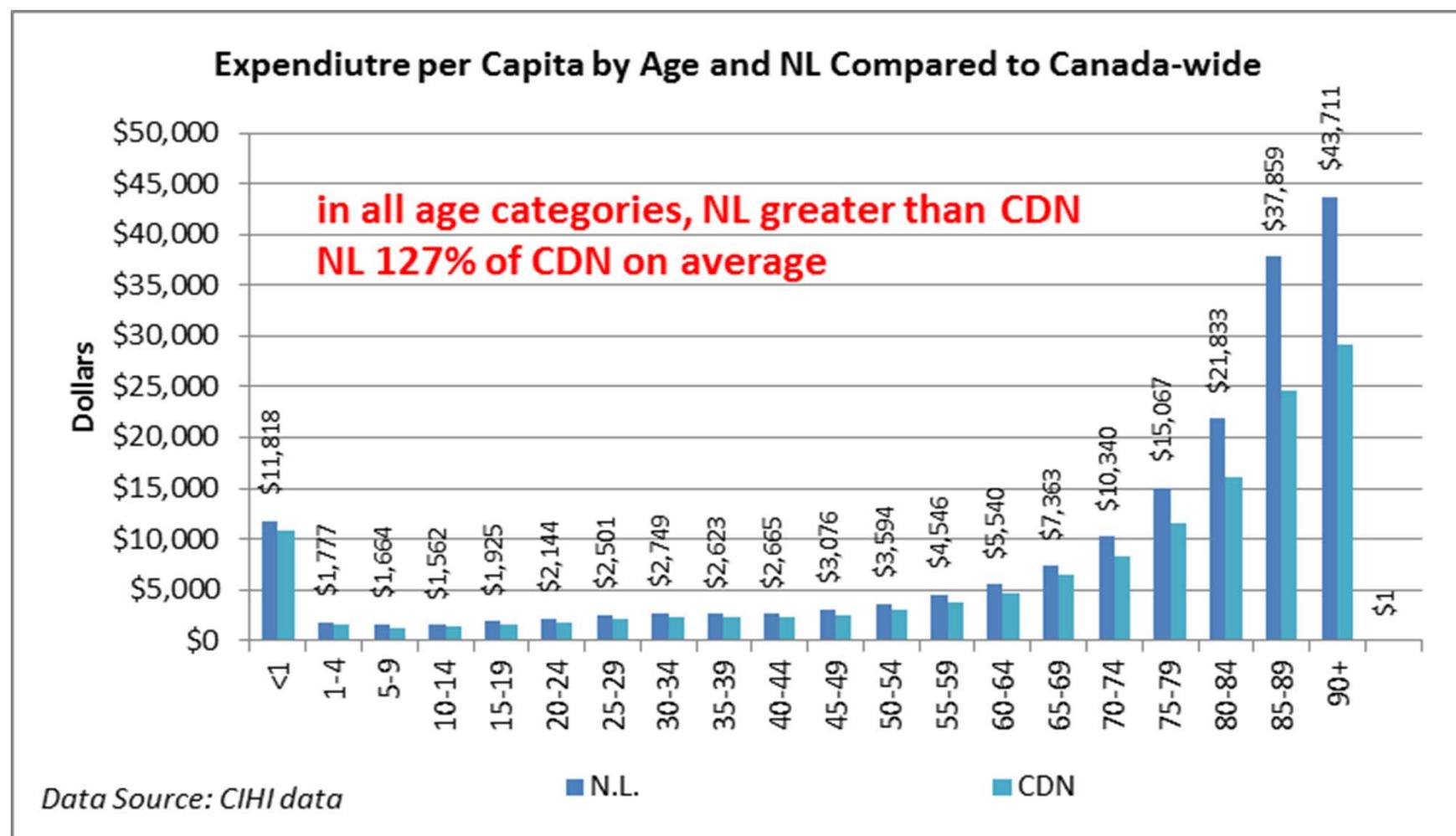
Aging labour force is problem in All Atlantic Provinces and more pronounced than experience Canada-wide, with NB in the worst shape

Expenditure Per Capita



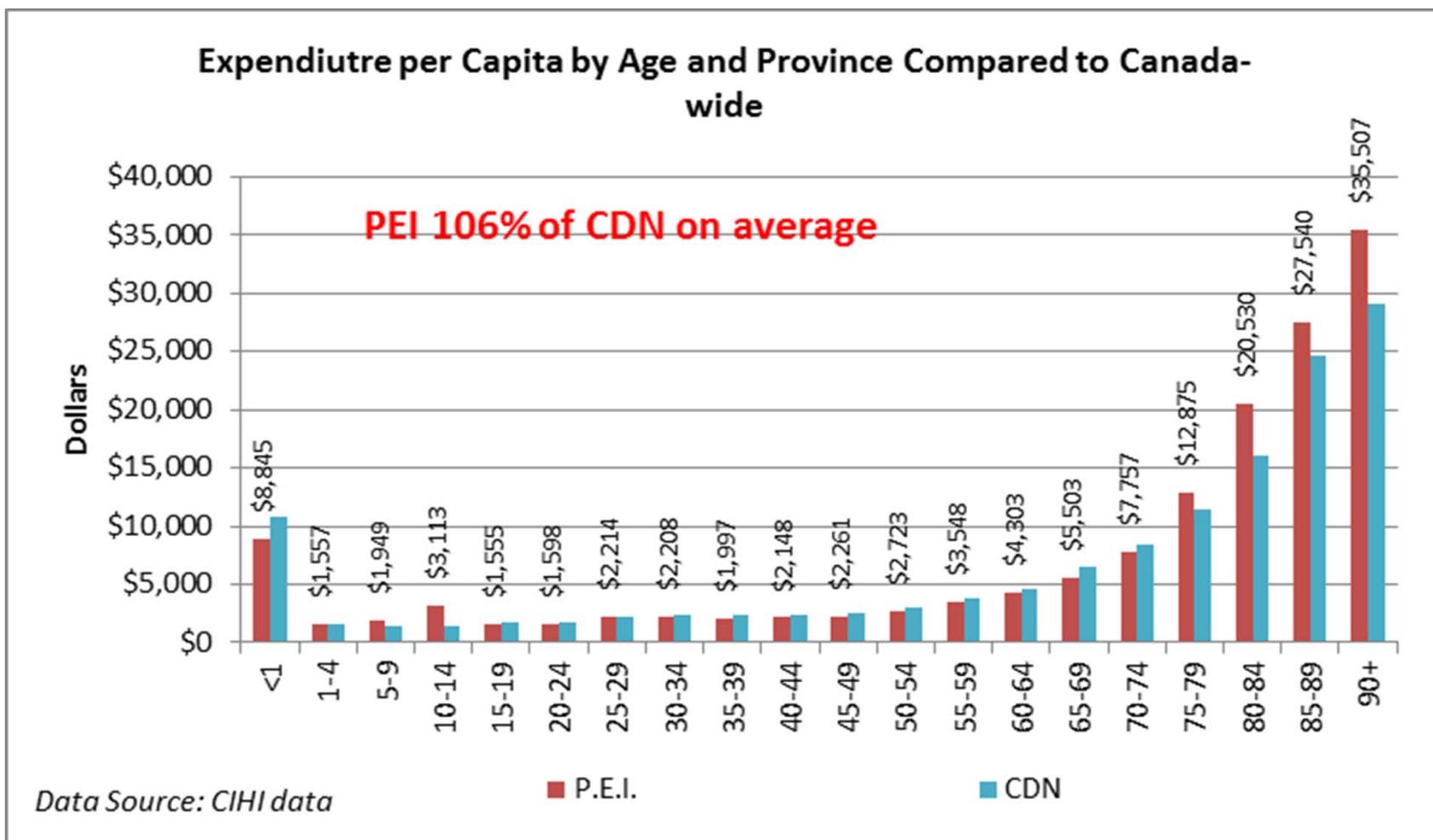
Expenditure per capita on health has been similar to that experienced Canada-wide, but in the most recent decade, NL is far outpacing the rest of Canada. The other Atlantic Canadian provinces have larger expenditure than the Canadian average, but not excessively so

A Comparison of Health Expenditure Per Capita by Age - NL



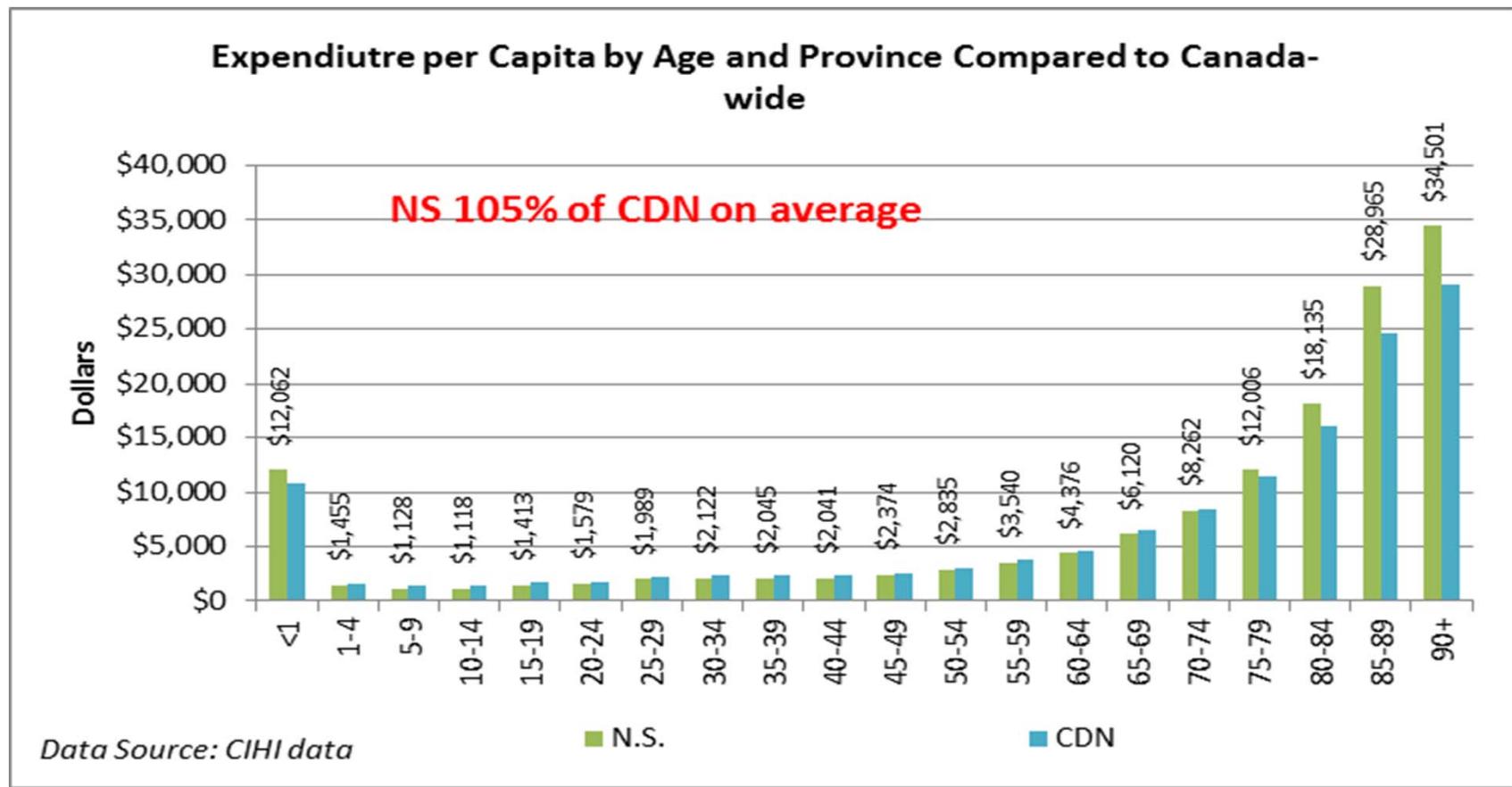
In all age categories, NL exceeds the Canadian average, which is not the case for the other Atlantic Canadian provinces. Overall, NL exceeds caanda-wide averages by 27% for 2014 data

A Comparison of Health Expenditure Per Capita by Age - PEI



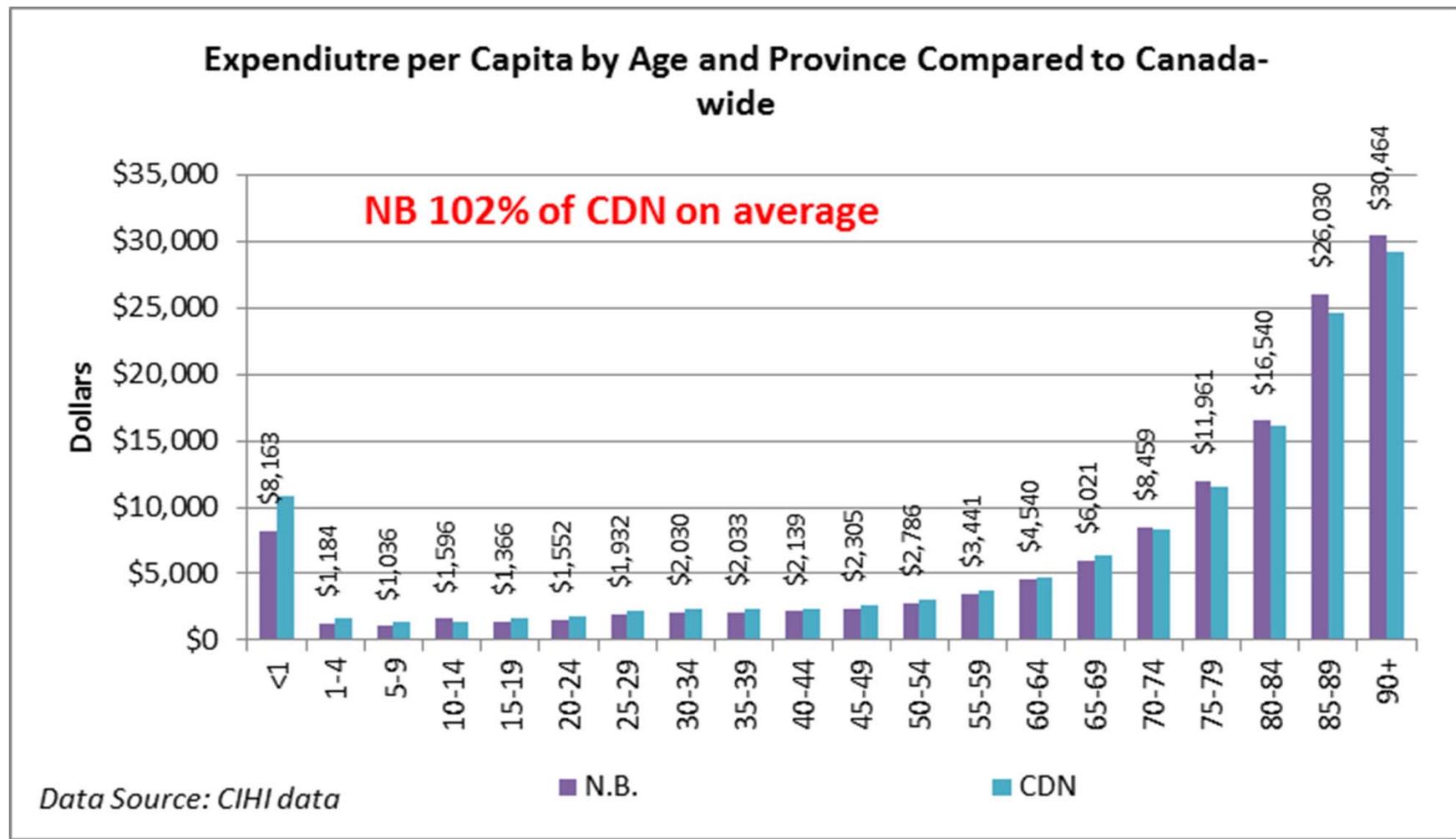
In middle age categories, PEI are less than the corresponding Canadian averages, but for younger and older PEI exceeds the Canadian averages – overall PEI per capita expenditure is 6% than Canada-wide using 2014 data

A Comparison of Health Expenditure Per Capita by Age - NS



In middle age categories, NS, like PEI, are less than the corresponding Canadian averages, but for younger and older NS exceeds the Canadian averages – overall NS per capita expenditure is 5% than Canada-wide using 2014 data

A Comparison of Health Expenditure Per Capita by Age

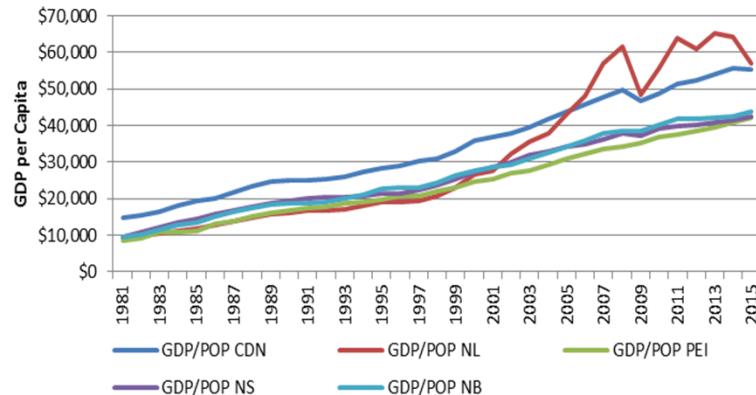


For NB, are higher than the corresponding Canadian averages and some are lower – overall NB per capita expenditure is 2% than Canada-wide using 2014 data

Economic Comparison

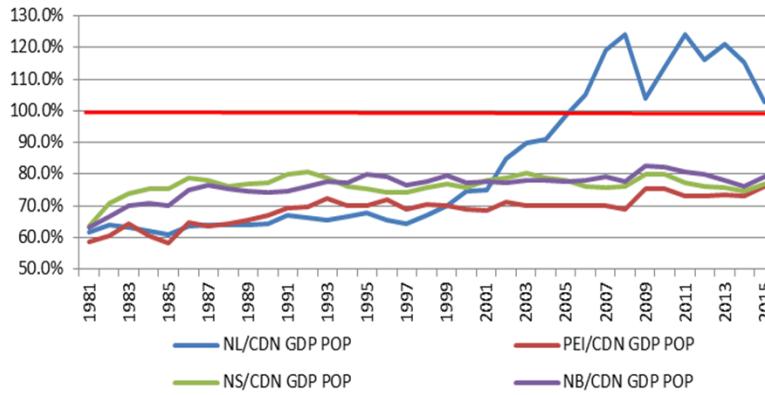
GDP Per Capita (Current Prices)

A Comparison of GDP Per Capita (Current Prices) - CDN, NL, PEI, NS, and NB



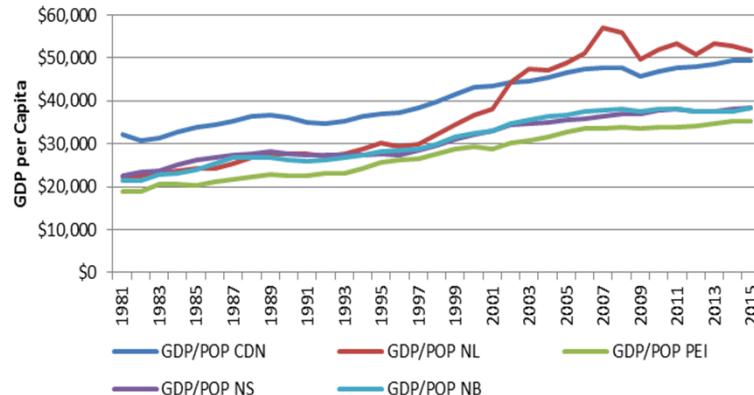
Data Source: Author's calculation based on CANSIM Data Tables 510001 and 3830038

A Comparison of GDP Per Capita Relative to Canada-wide GDP Per Capita - NL, PEI, NS, and NB



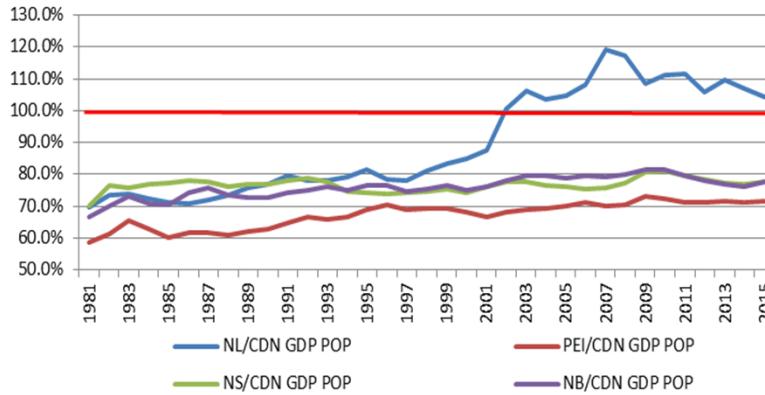
Data Source: Author's calculation based on CANSIM Data Tables 510001 and 3830038

A Comparison of GDP Per Capita (Chained 2007 Dollars) - CDN, NL, PEI, NS, and NB



Data Source: Author's calculation based on CANSIM Data Tables 510001 and 3830038

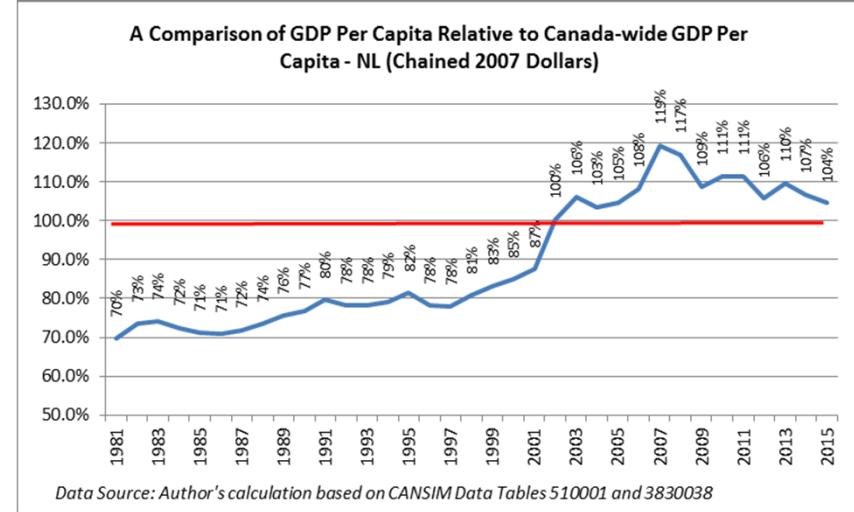
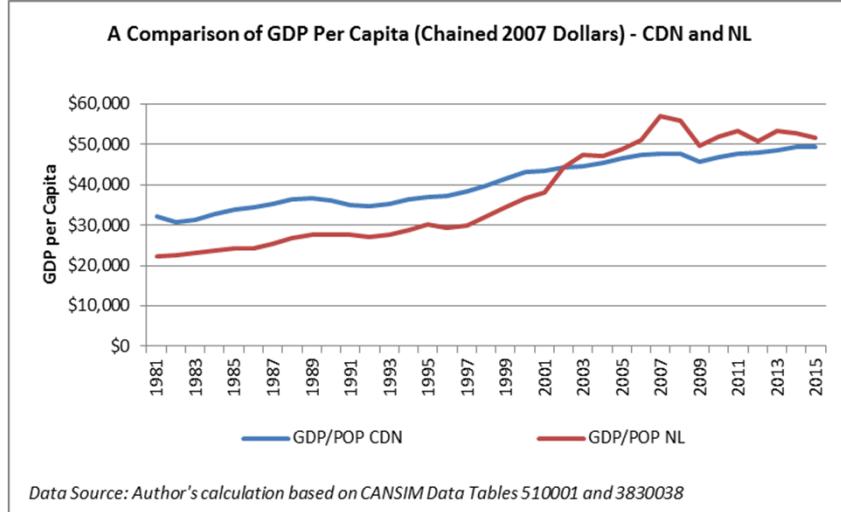
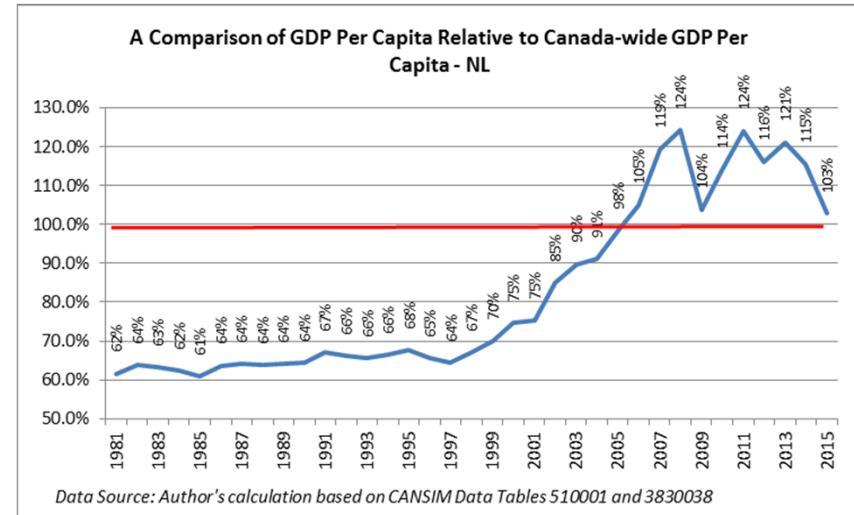
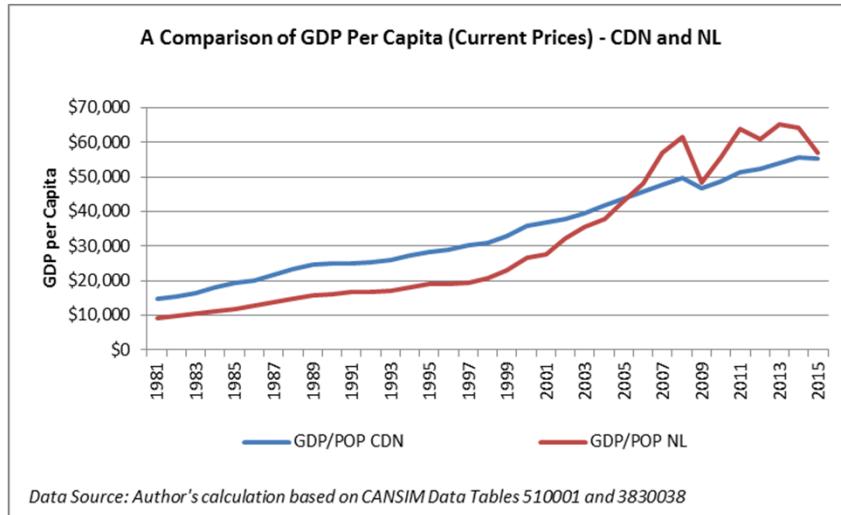
A Comparison of GDP Per Capita Relative to Canada-wide GDP Per Capita - NL, PEI, NS, and NB



Data Source: Author's calculation based on CANSIM Data Tables 510001 and 3830038

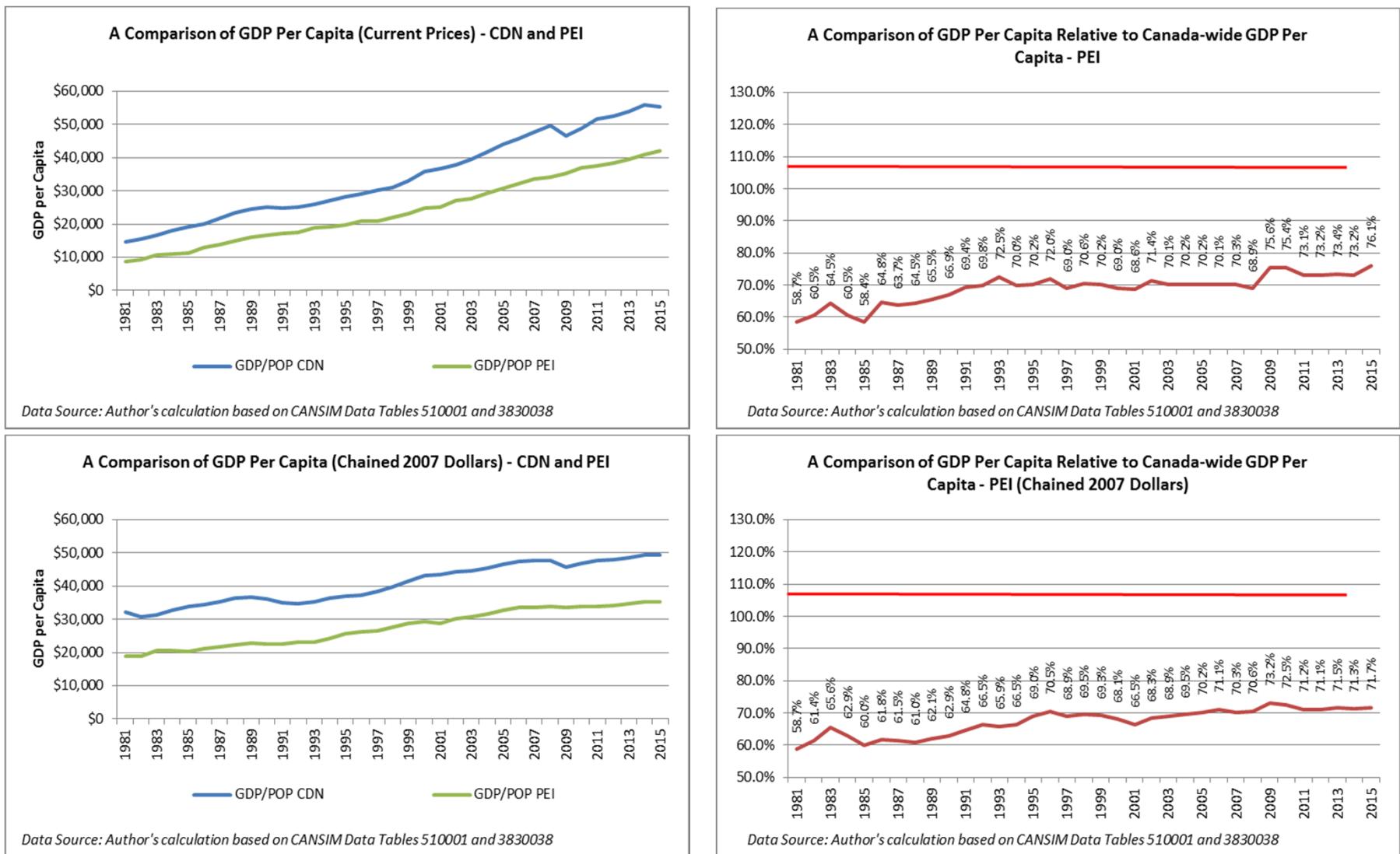
While all Atlantic Provinces have improved, the change in NL's relative position has been outstanding. Before oil, NL was about two-thirds of Canadian average, but after oil it has been has high as 124% of Canadian average

GDP Per Capita – NL Relative to Canada



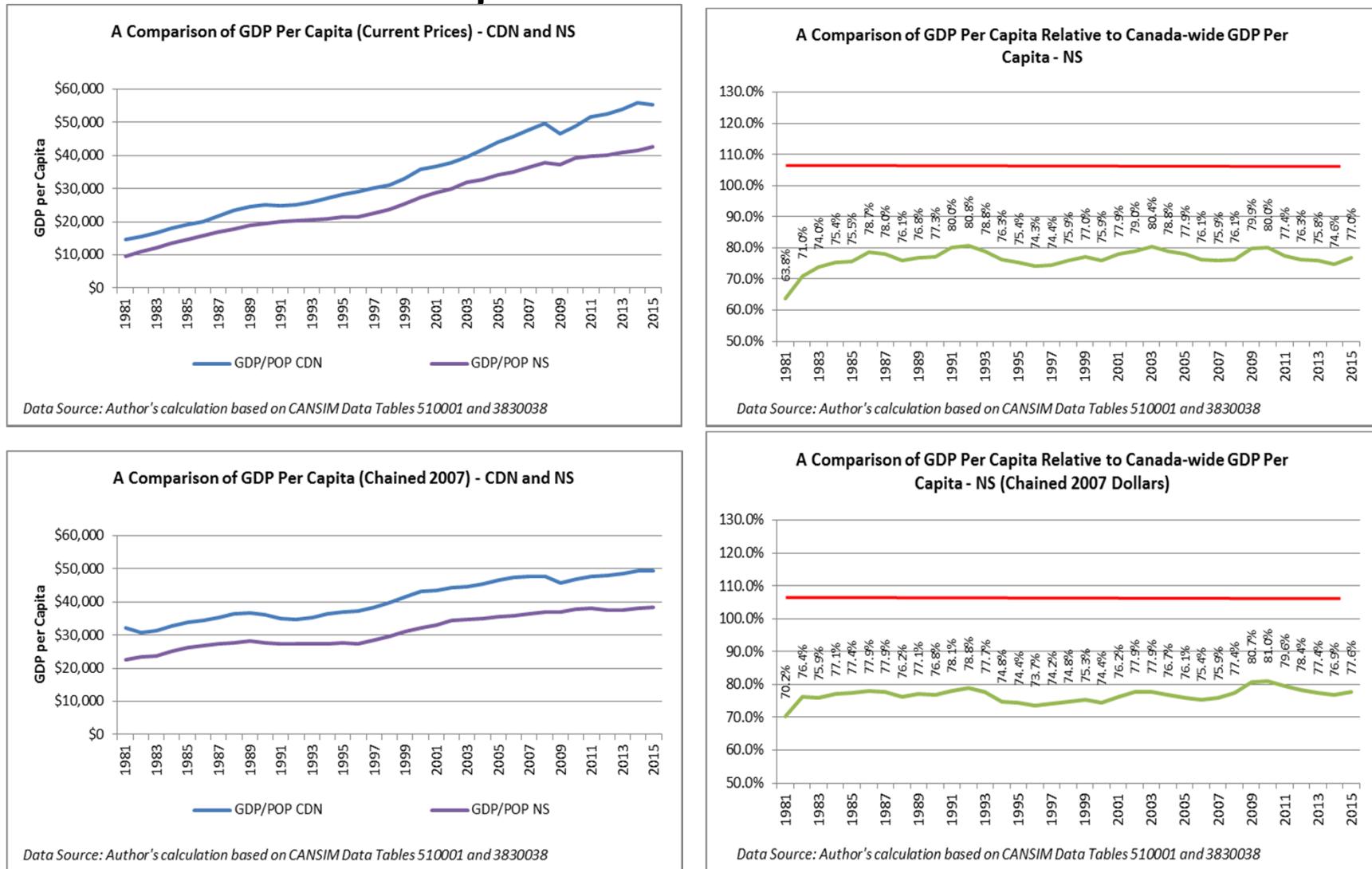
While the relative growth in the NL economy is more pronounced when nominal prices are used, the relative impact is still quite dramatic when real prices are utilized

GDP Per Capita – PEI Relative to Canada



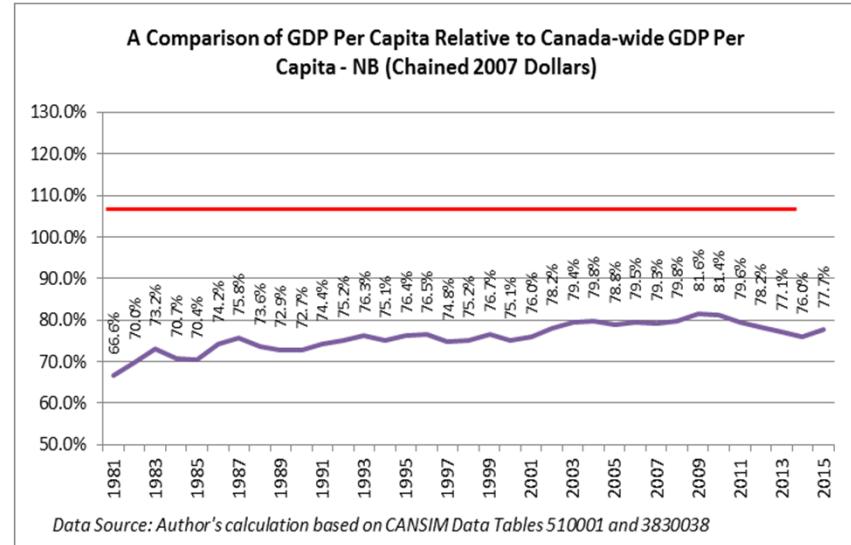
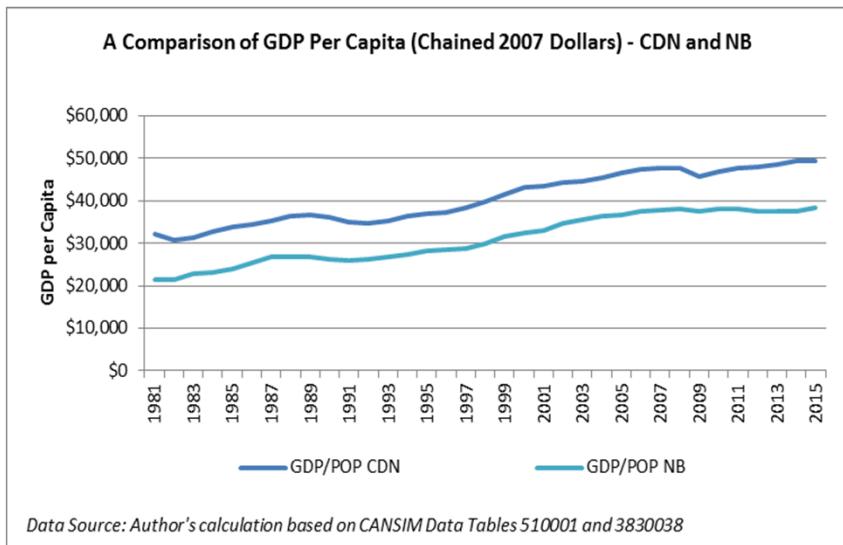
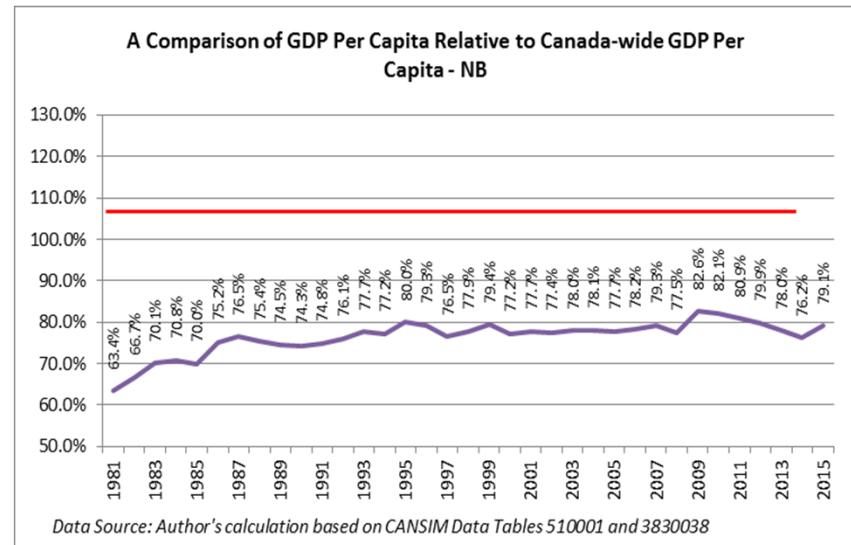
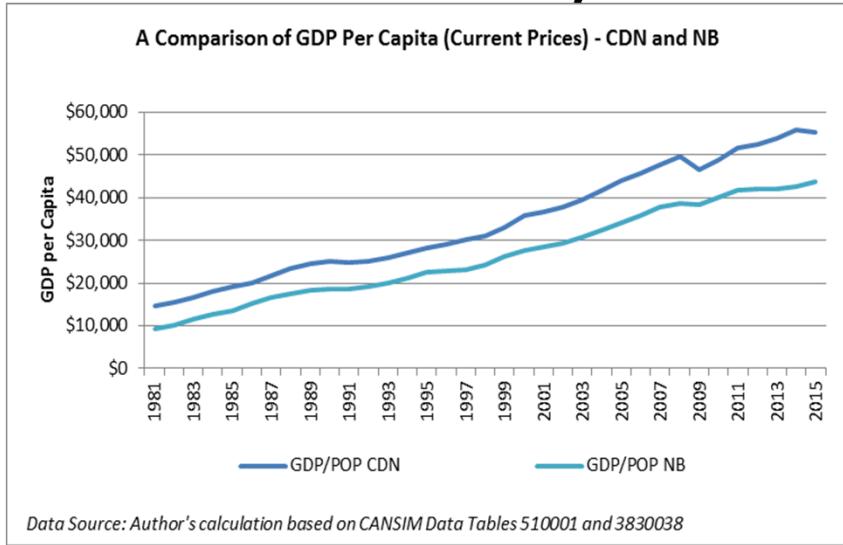
There has been some relative growth in PEI's economy relative to the Canadian average from about 60% to about 76%)

GDP Per Capita – NS Relative to Canada



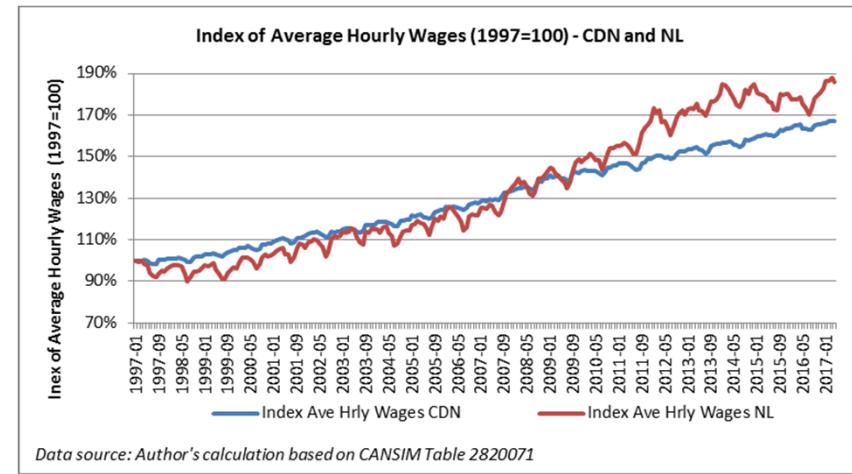
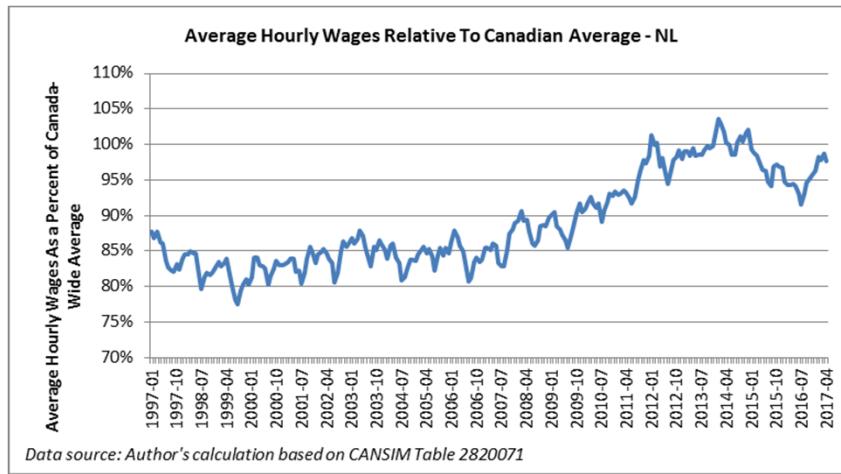
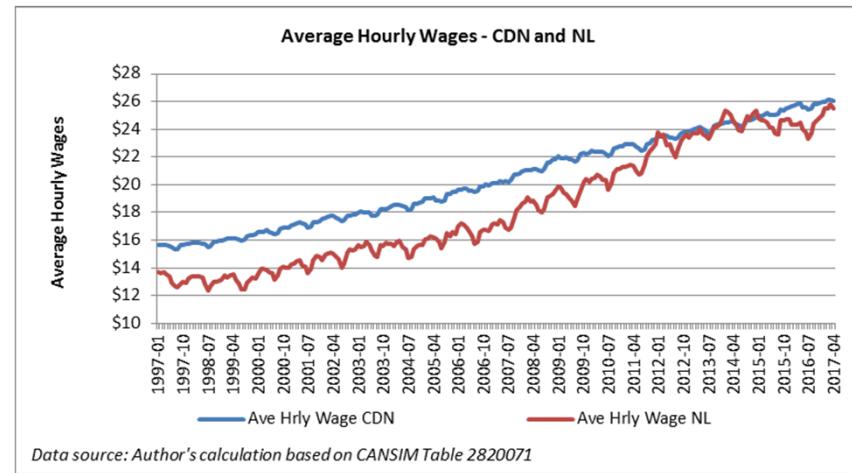
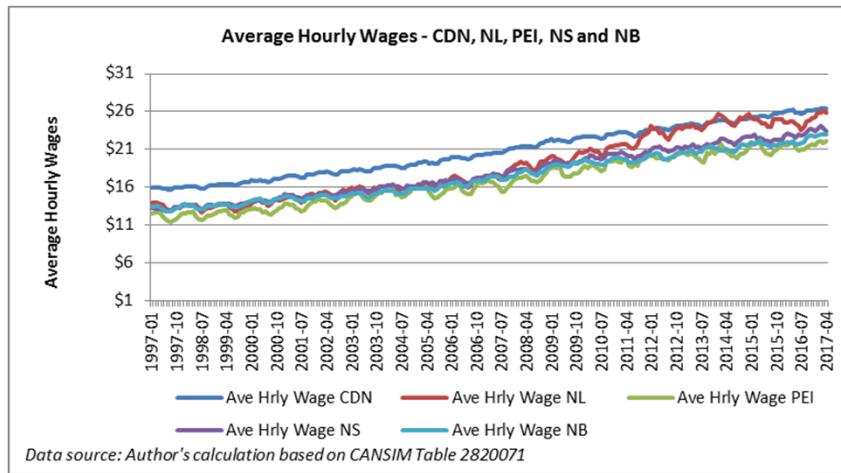
Growth in NS economy has more or less kept pace with that of the Canadian average (averaging about 77% of the Canada-wide average)

GDP Per Capita – NB Relative to Canada



There is has been some relative growth in NB economy (currently about 79% of Canadian average)

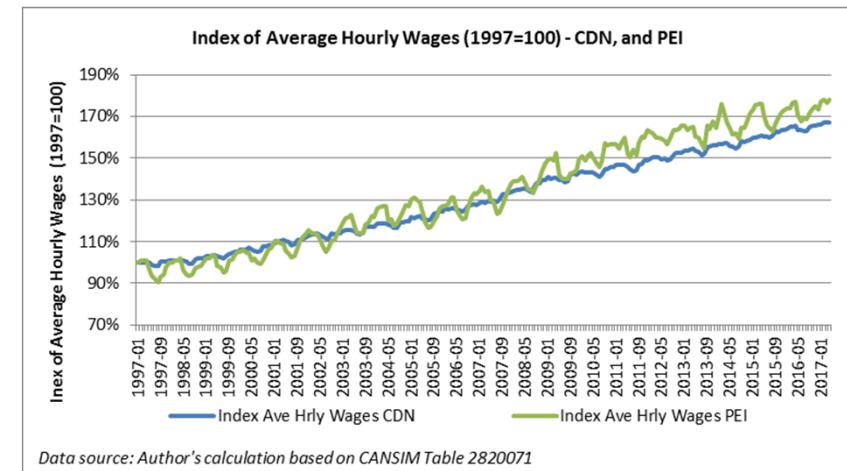
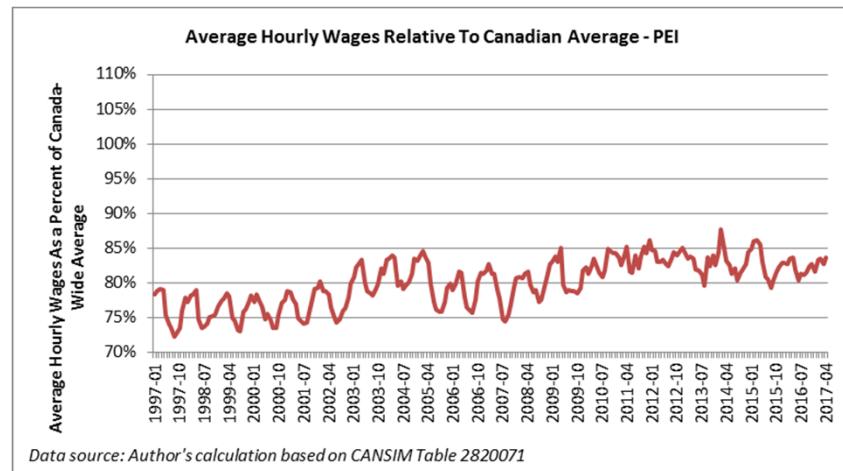
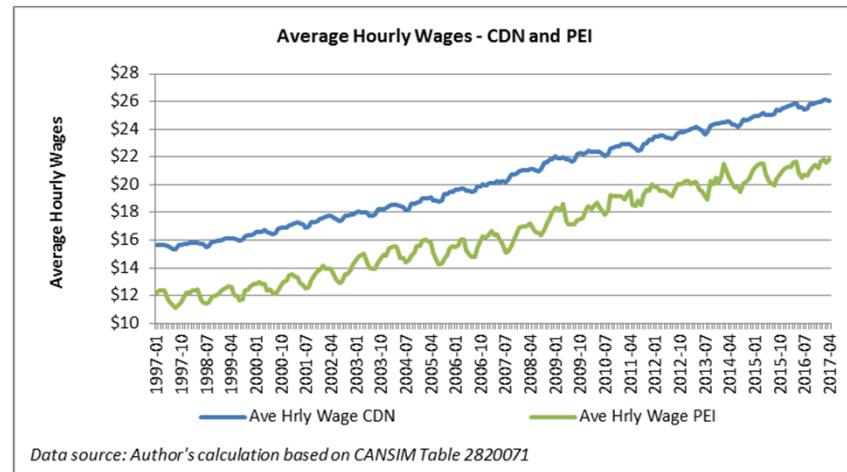
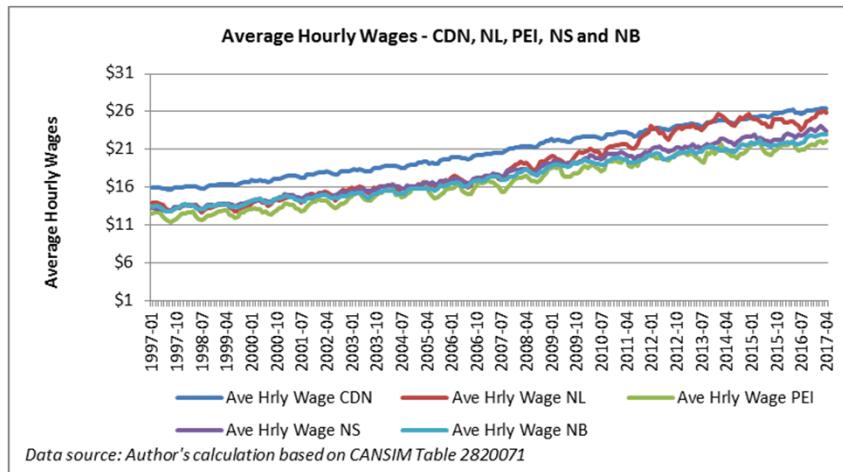
Average Hourly Wages - NL



Hourly wages in NL have grown relative to Canada and other Atlantic Provinces, more seasonality and averaged 93% of Canadian Average in last 10 years

Between 1997:01 & 2017:04 – CDN (167%), NL (186%), PEI (178%), NS (178%) & NB (173%)

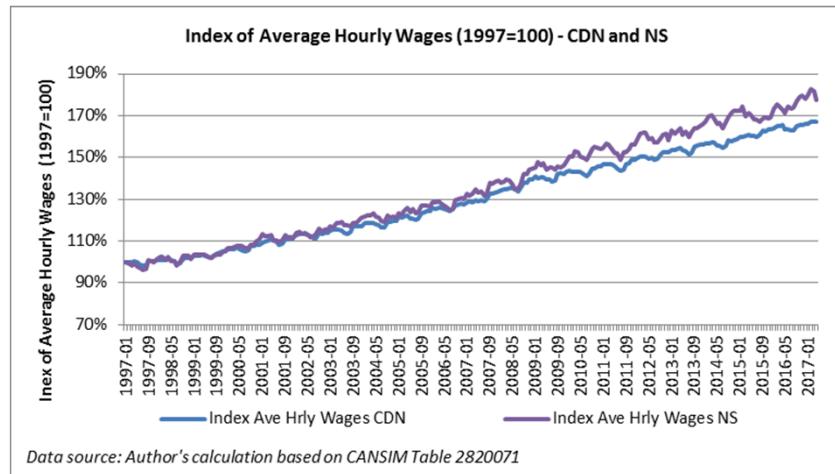
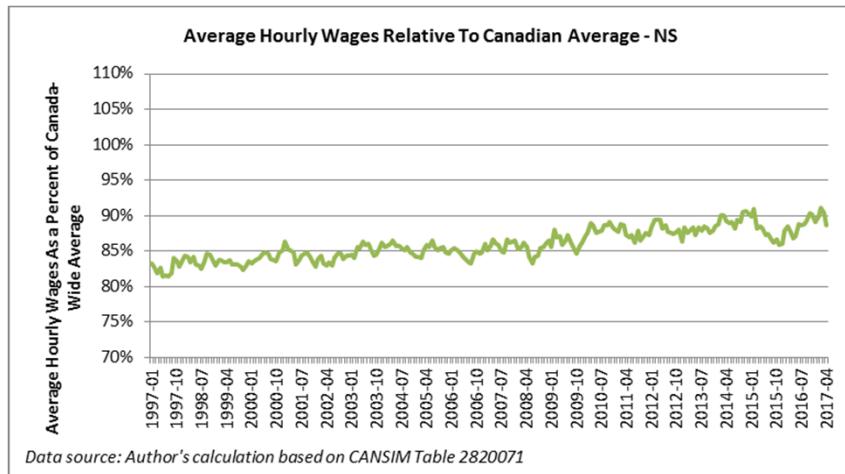
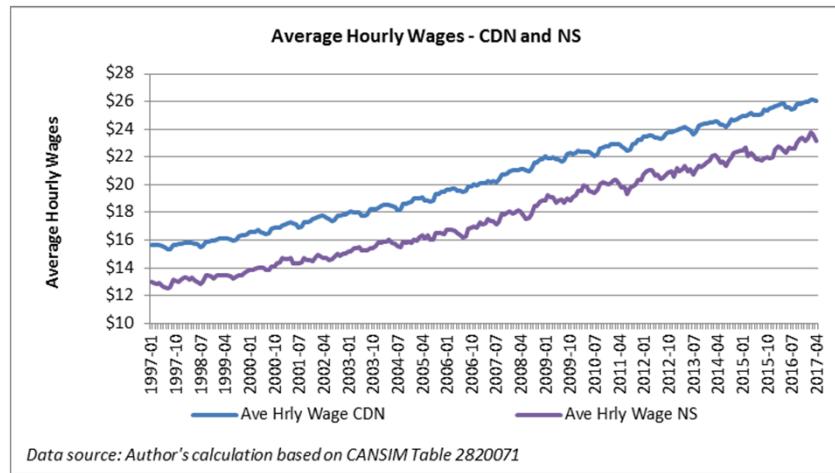
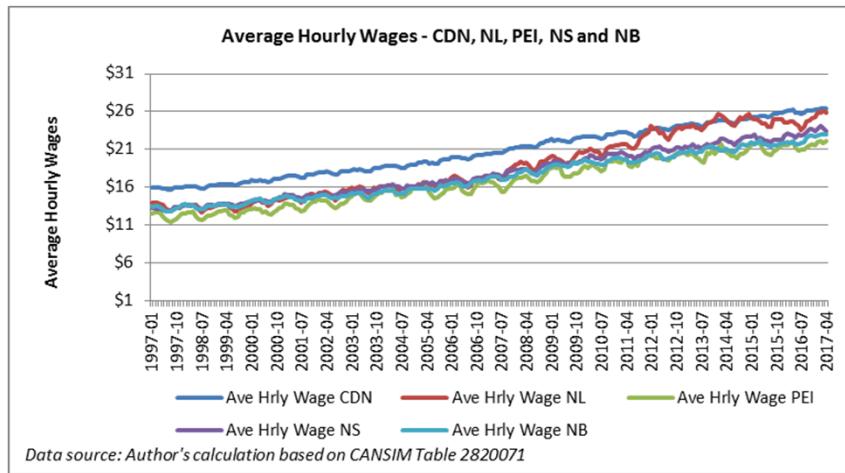
Average Hourly Wages - PEI



Hourly wages in PEI have grown slightly relative to Canada, more seasonality and averaged 82% of CDN average in last 10 years

Between 1997:01 & 2017:04 – CDN (167%), versus PEI (178%)

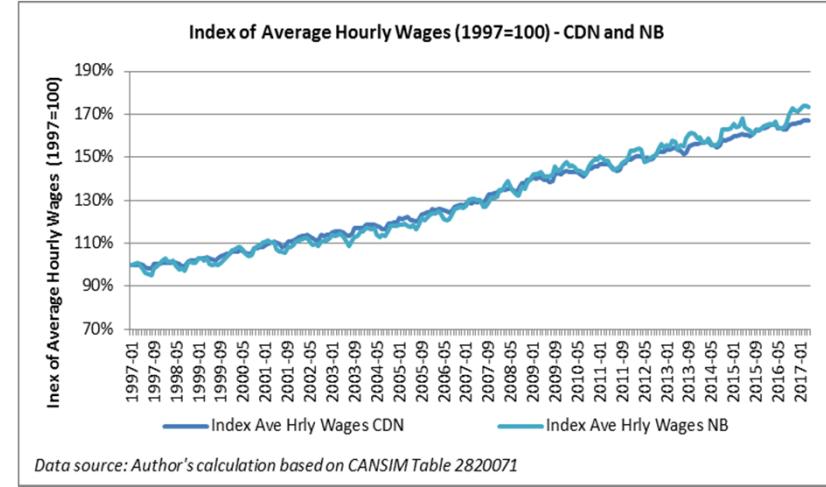
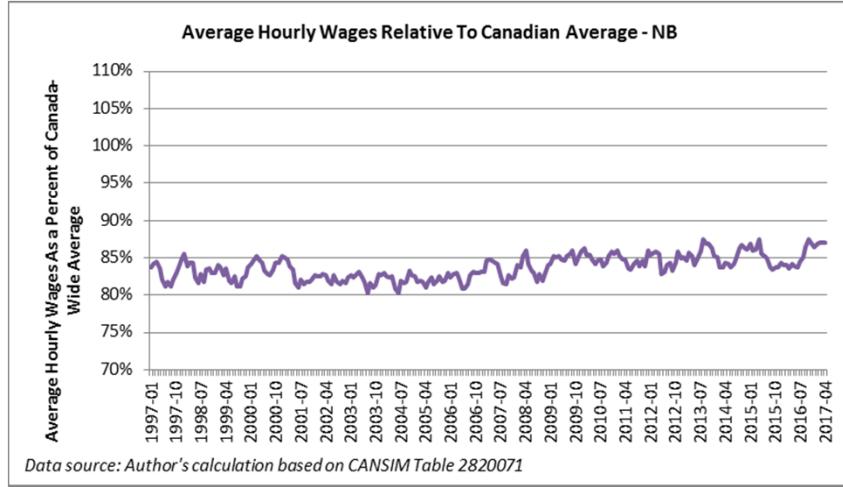
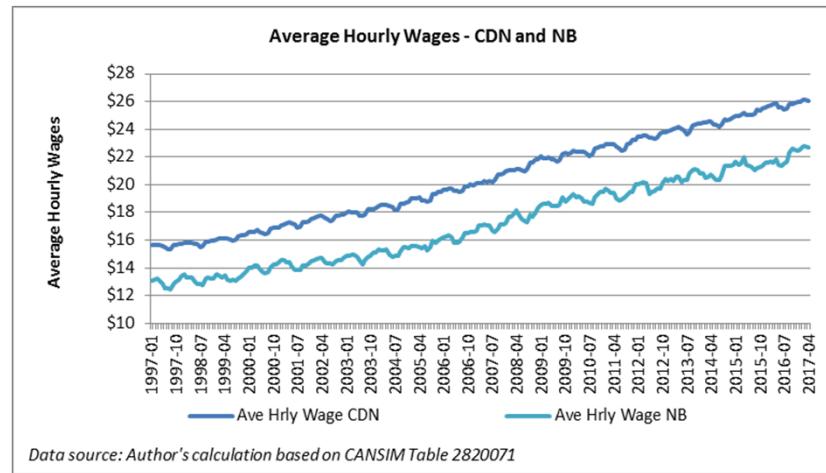
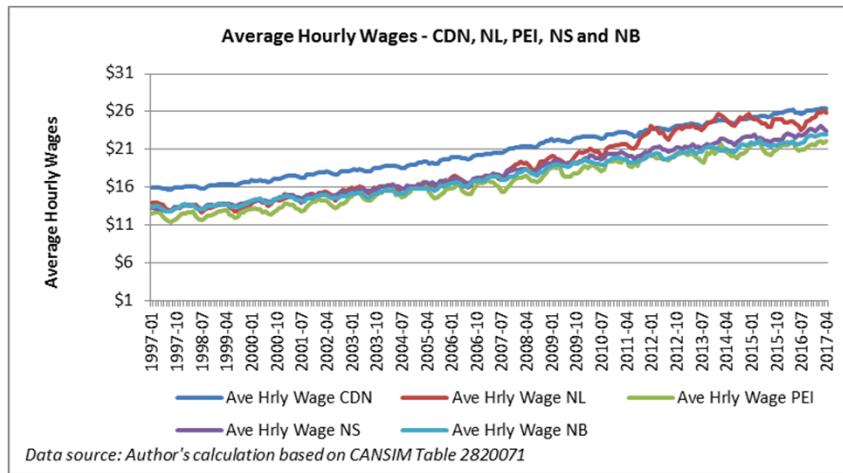
Average Hourly Wages - NS



Hourly wages in NS have grown slightly relative to Canada, less pronounced seasonality and averaged 87% of CDN average in last 10 years

Between 1997:01 & 2017:04 – CDN (167%), versus NS (178%)

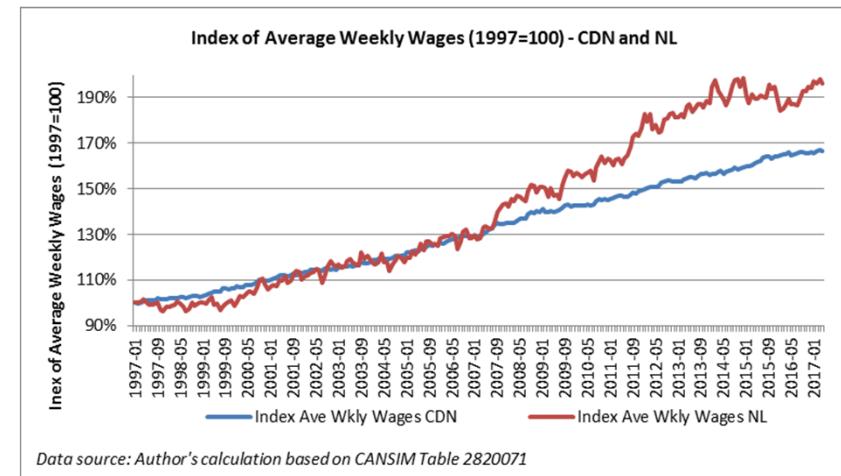
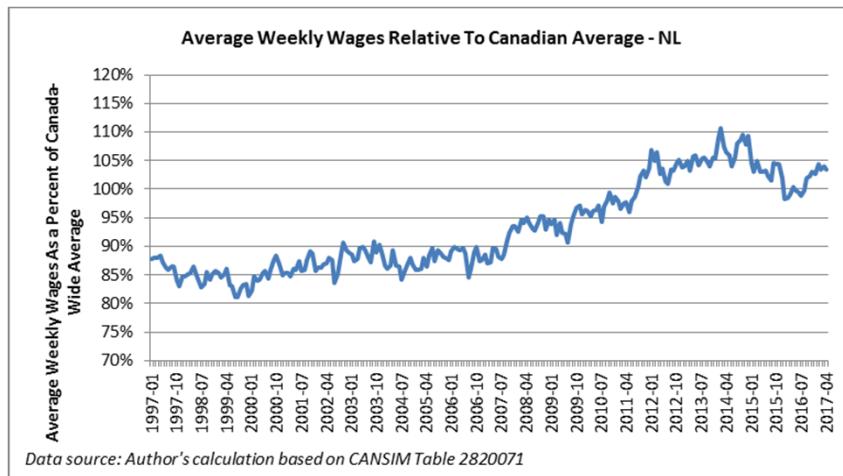
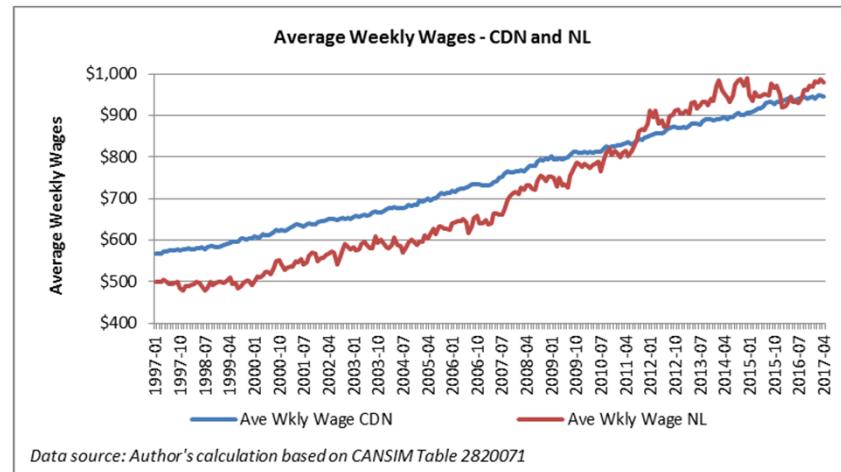
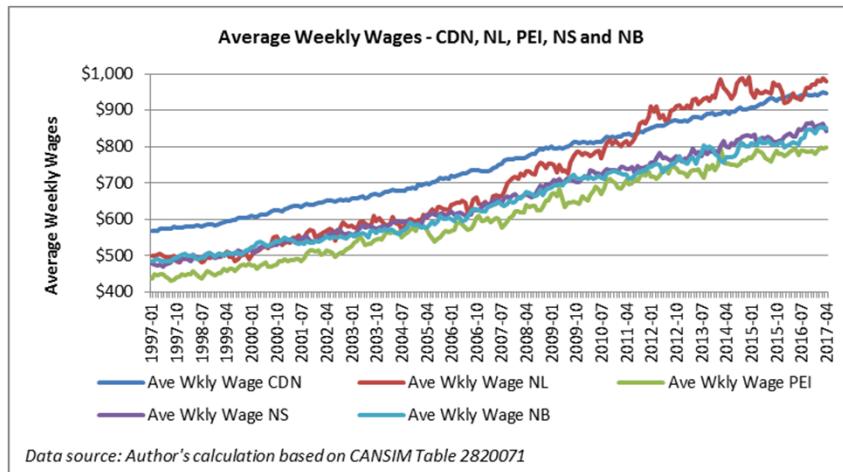
Average Hourly Wages - NB



Hourly wages in NB have grown slightly relative to Canada, less pronounced seasonality and averaged 85% of CDN average in last 10 years

Between 1997:01 & 2017:04 – CDN (167%), versus NB (173%)

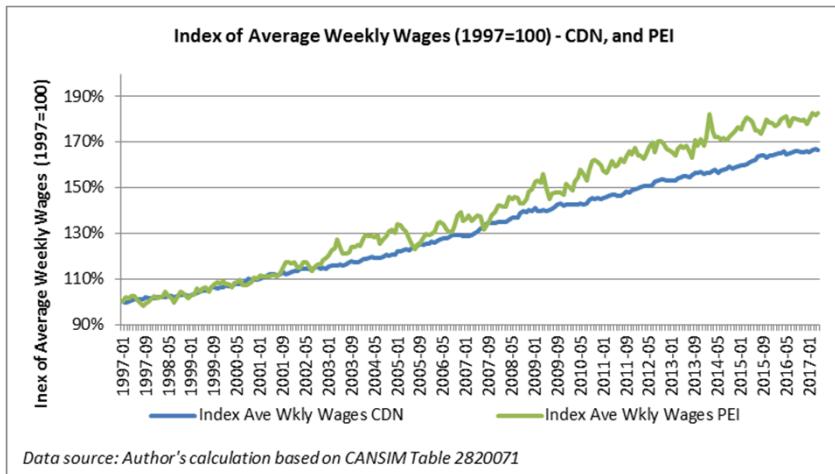
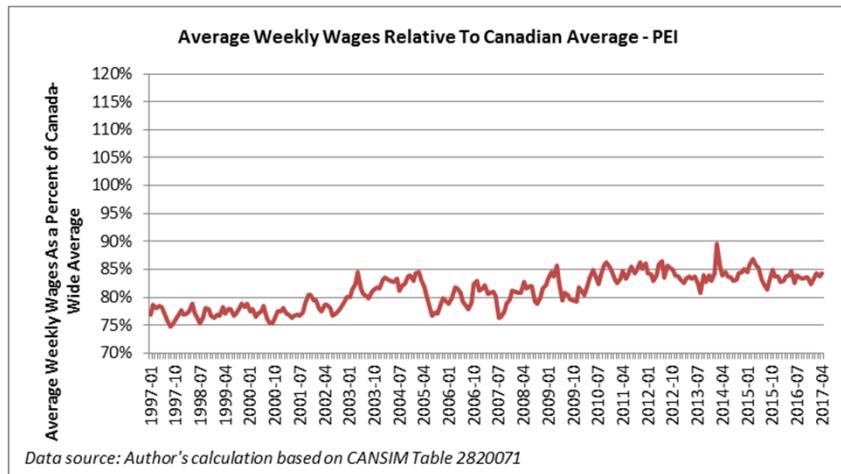
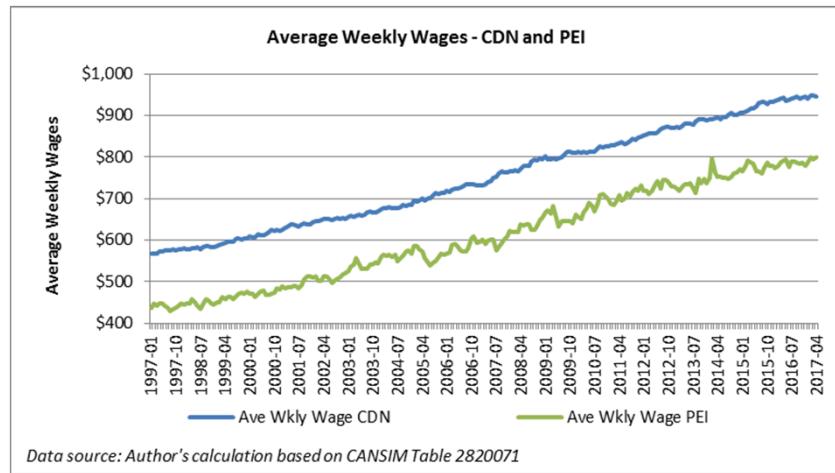
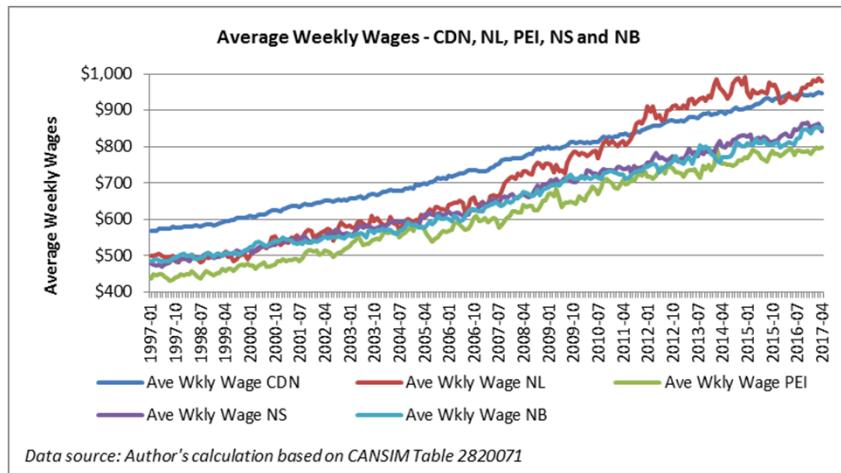
Average Weekly Wages - NL



Weekly wages in NL have grown relative to Canada and other Atlantic Provinces, more seasonality and averaged 99% of Canadian Average in last 10 years

Between 1997:01 & 2017:04 – CDN (132%), NL (142%), PEI (140%), NS (137%) & NB (134%)

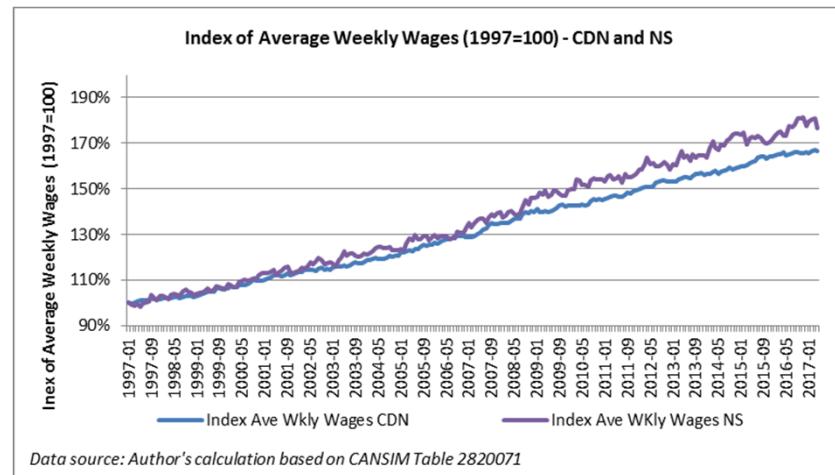
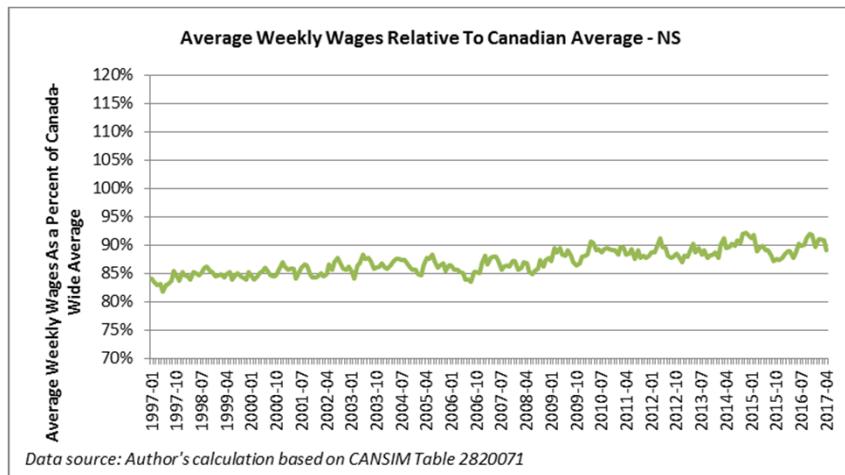
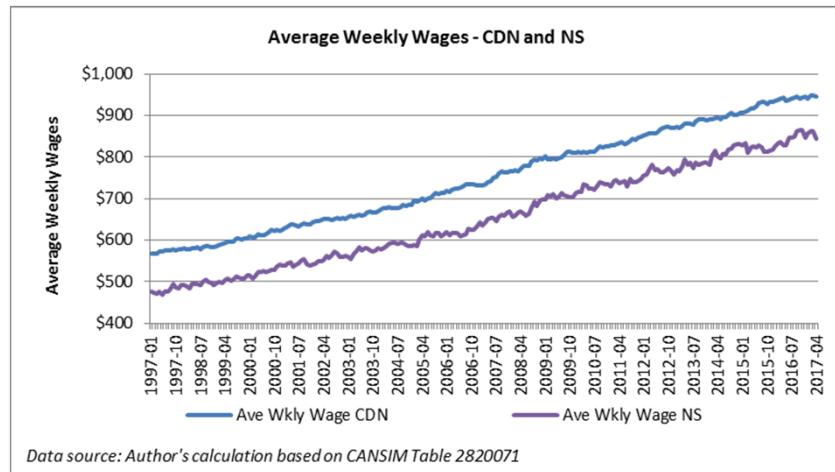
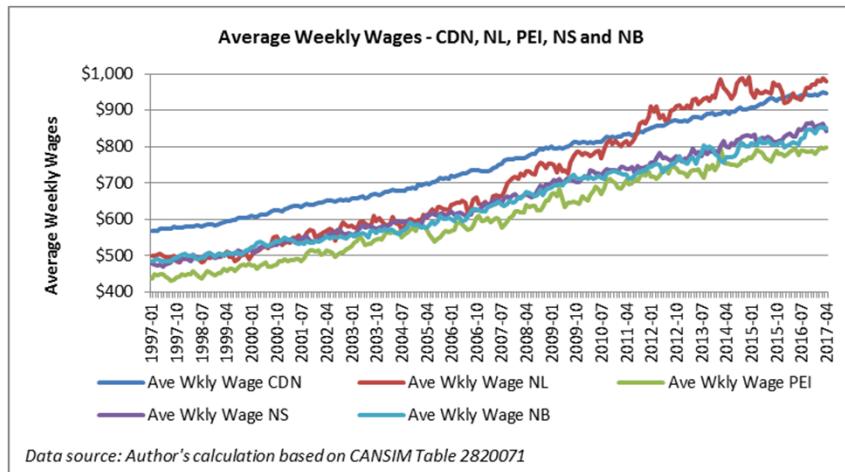
Average Weekly Wages - PEI



Weekly wages in PEI have grown slightly relative to Canada, more seasonality and averaged 83% of CDN average in last 10 years

Between 1997:01 & 2017:04 – CDN (132%), versus PEI (142%)

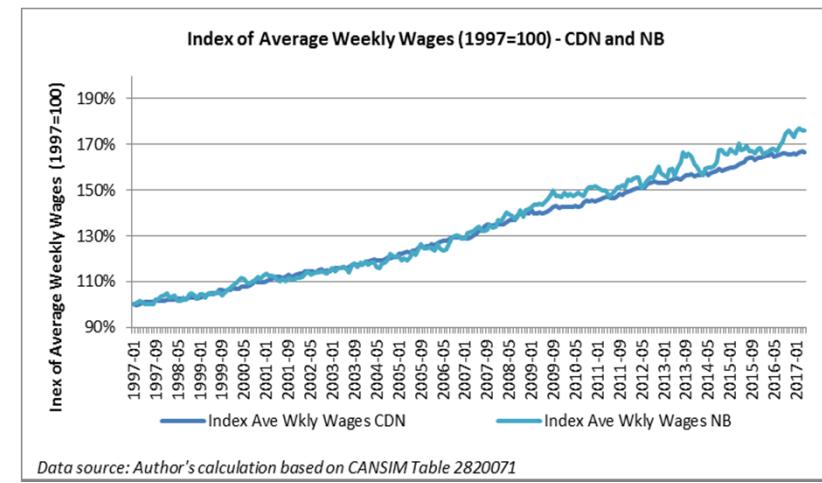
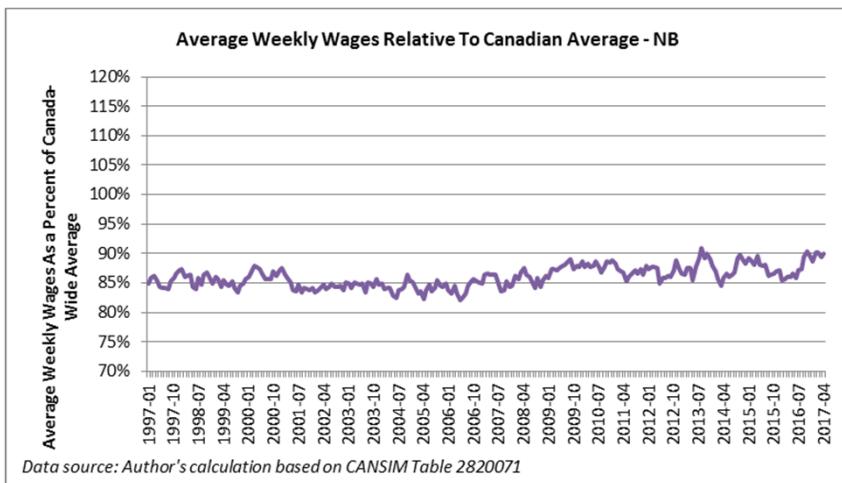
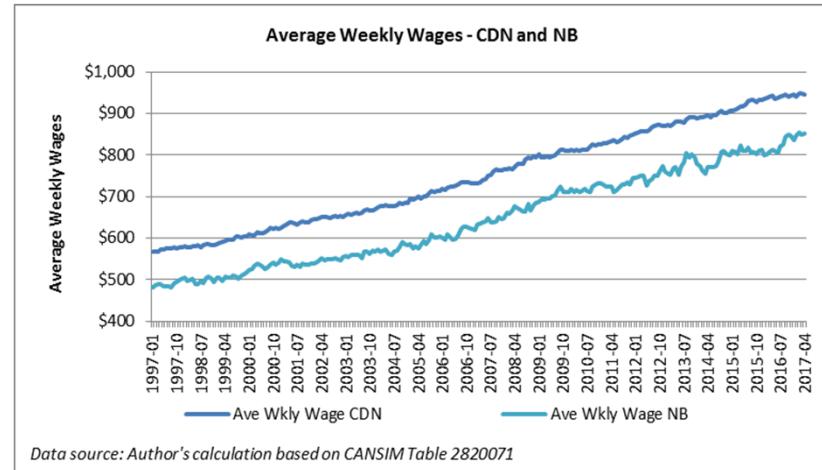
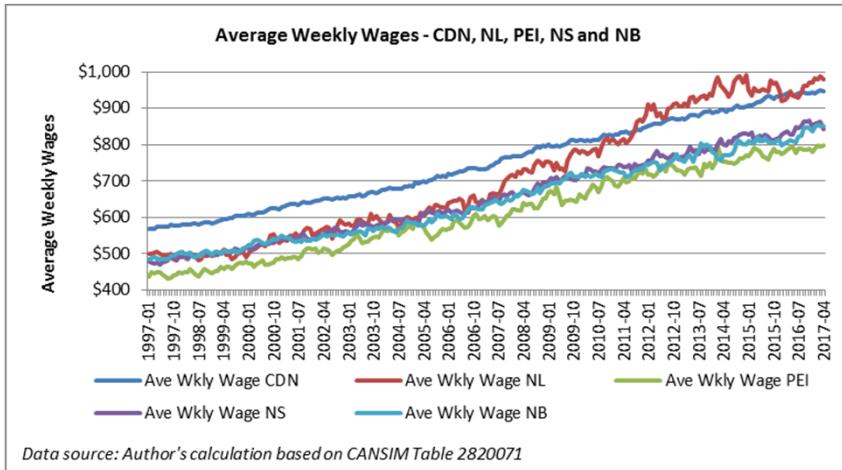
Average Weekly Wages - NS



Weekly wages in NS have grown slightly relative to Canada, less pronounced seasonality and averaged 88% of CDN average in last 10 years

Between 1997:01 & 2017:04 – CDN (132%), versus NS (137%)

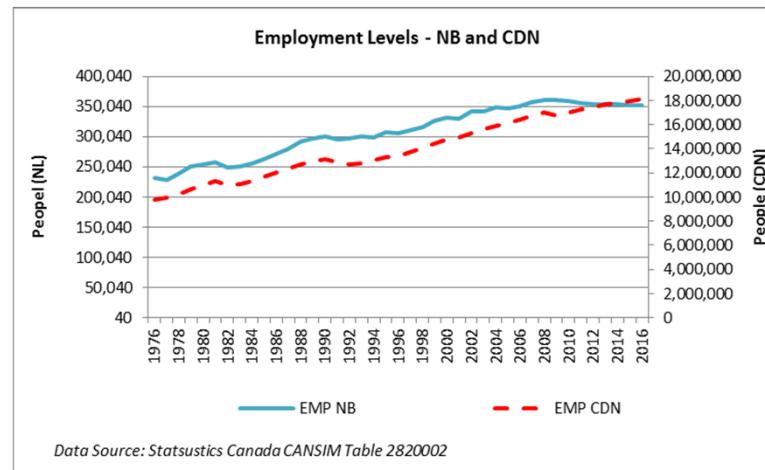
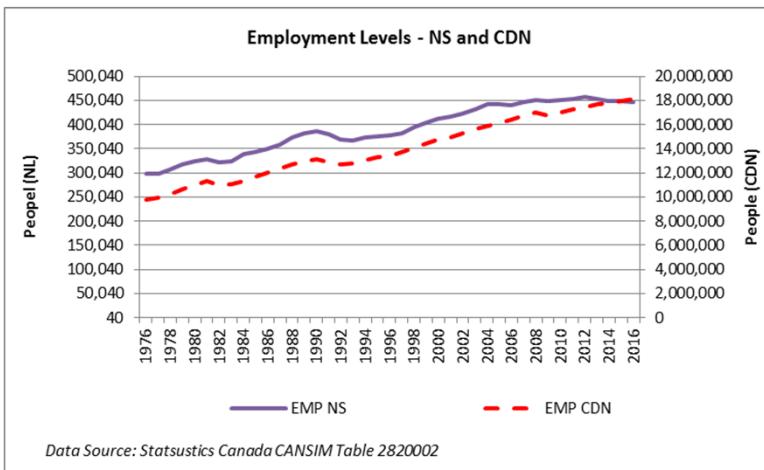
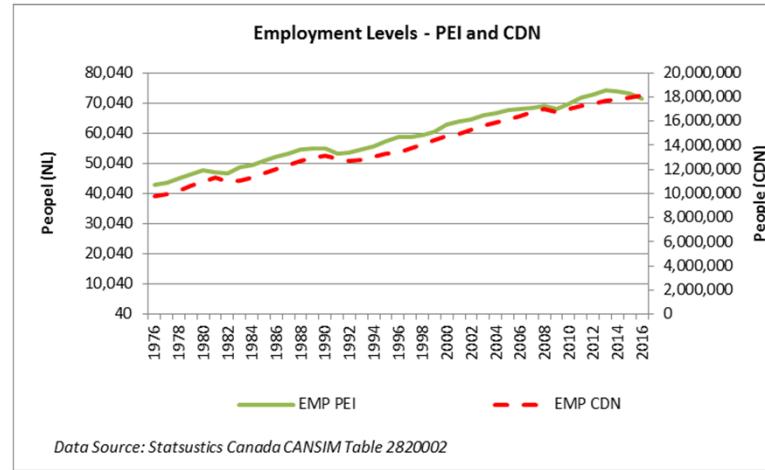
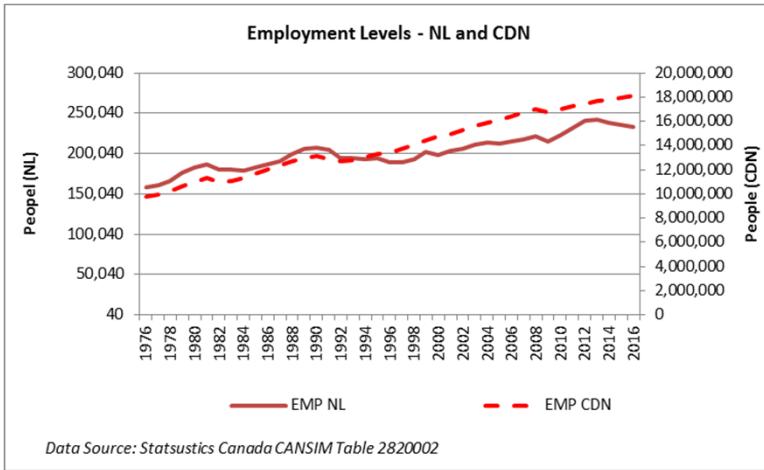
Average Weekly Wages - NB



Weekly wages in NB have grown slightly relative to Canada, less pronounced seasonality and averaged 87% of CDN average in last 10 years

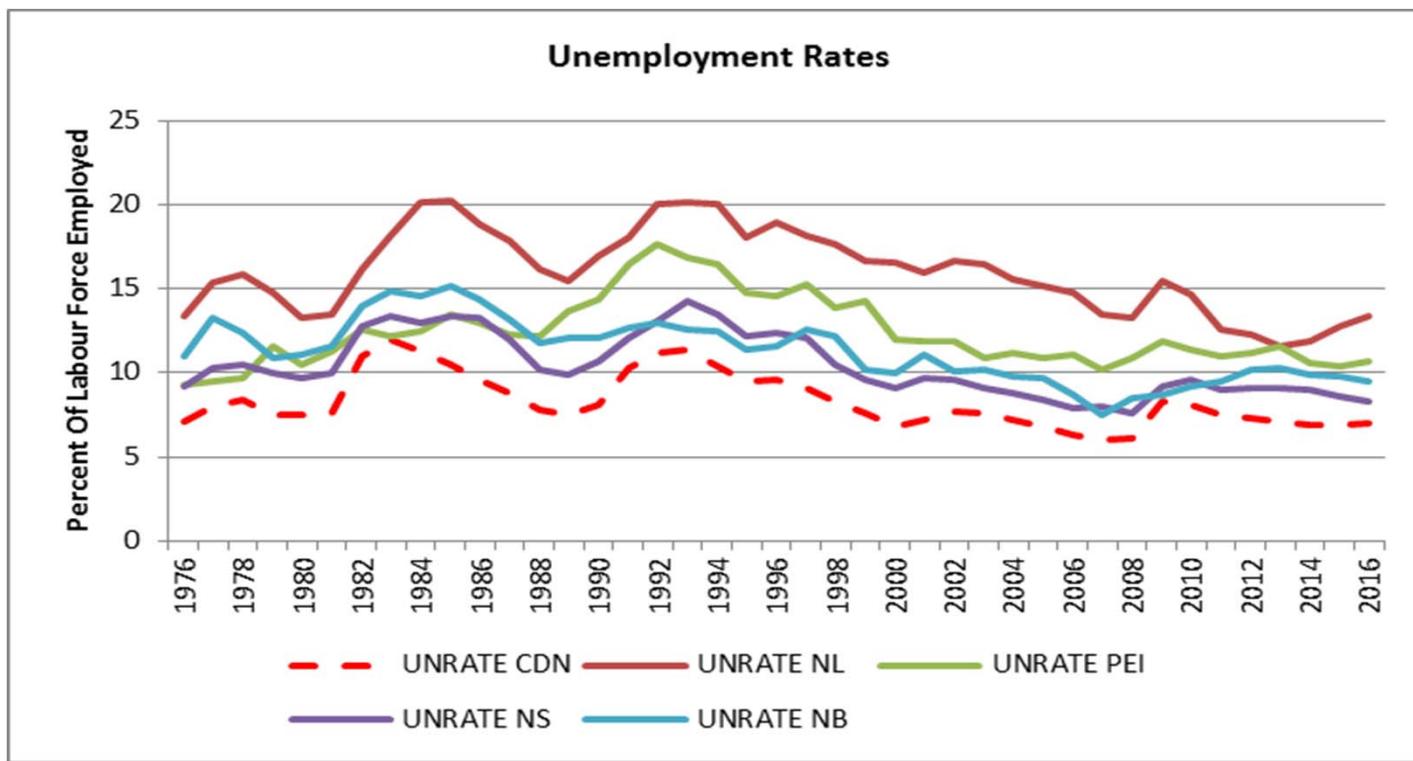
Between 1997:01 & 2017:04 – CDN (132%), versus NB (134%)

Annual Employment



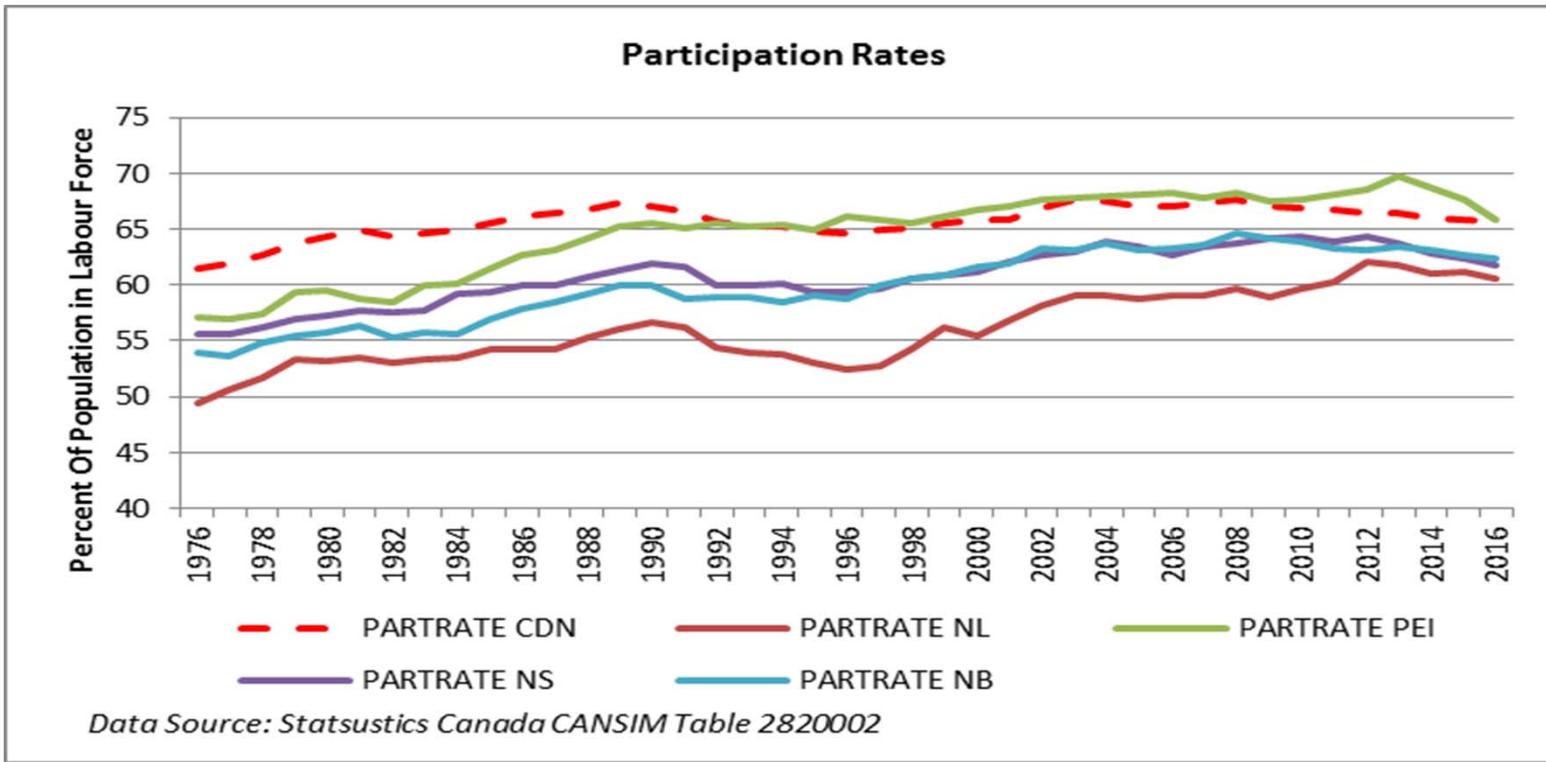
Employment growth in PEI has kept pace with Canada-wide employment growth, but in recent years the other Atlantic Province have not

Unemployment Rates



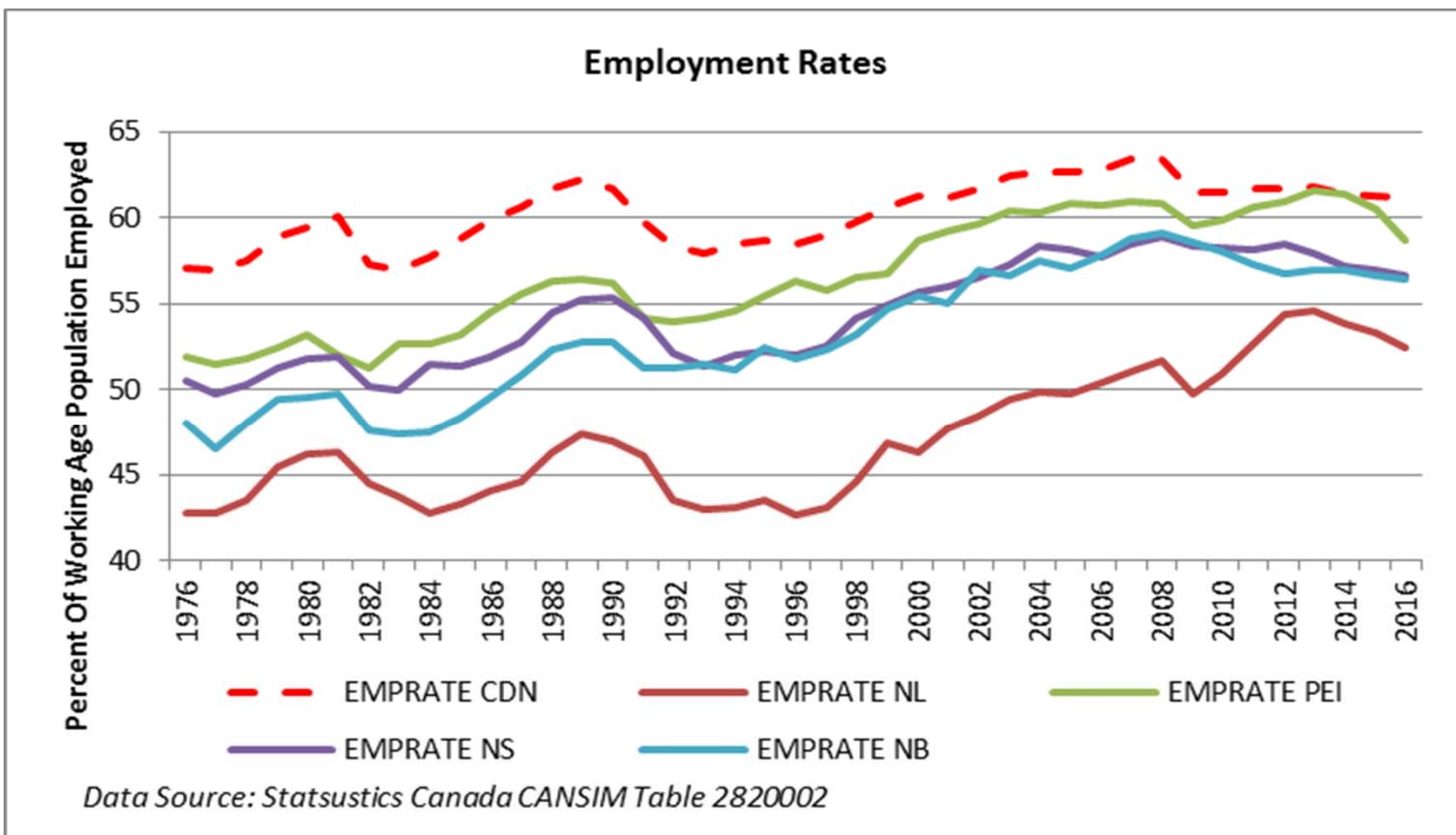
Unemployment rates higher in Atlantic Canada than Canada-wide and NL is the highest of the group, but has been improving in recent years

Participation Rates



Participation rates lower in Atlantic Canada than Canada-wide, with the exception of PEI in recent years and NL is the lowest of the group, but has been improving in recent years

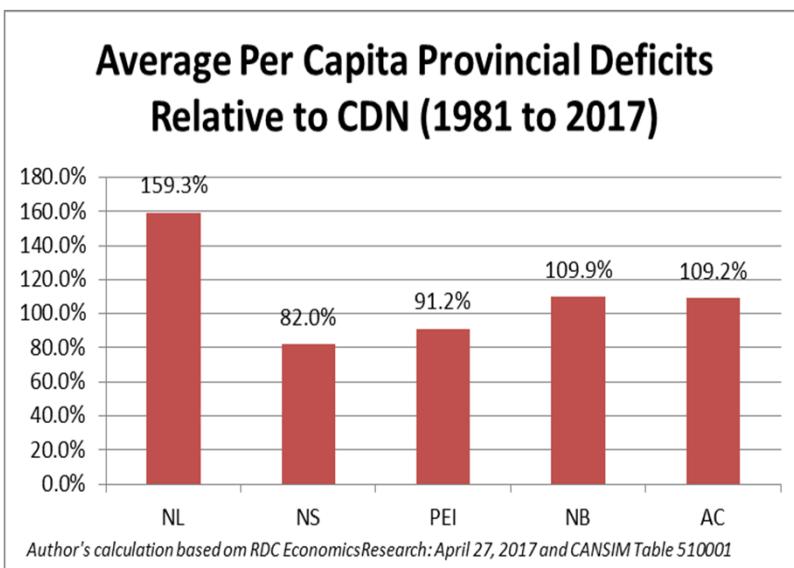
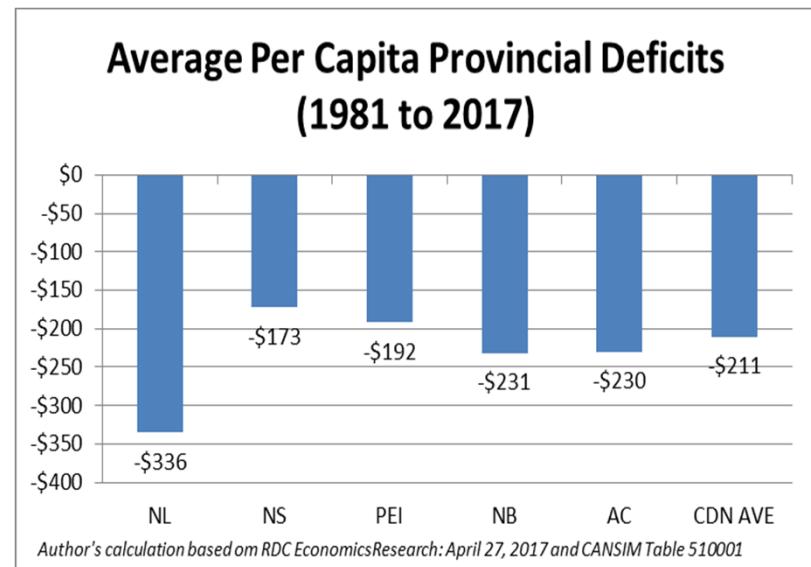
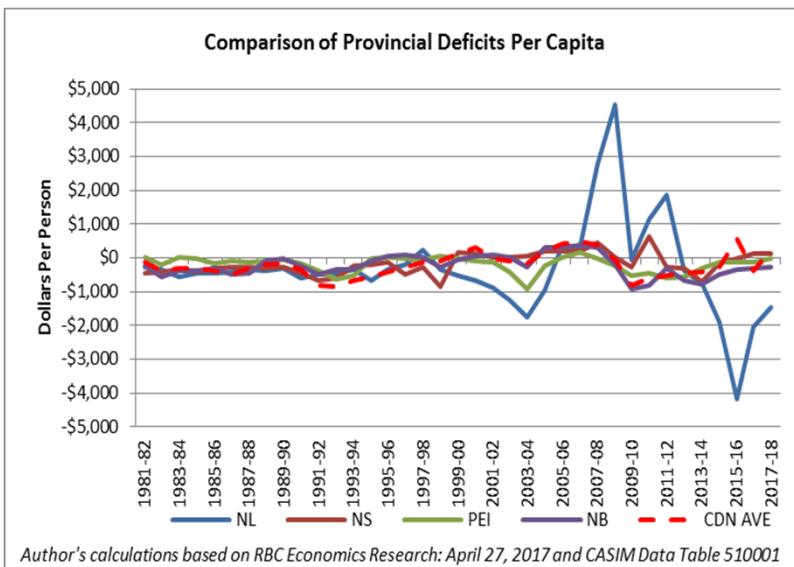
Employment Rates



Employment rates lower in Atlantic Canada than Canada-wide, with the exception of PEI in recent years and NL is the lowest of the group, but has been improving in recent years

Fiscal Comparison

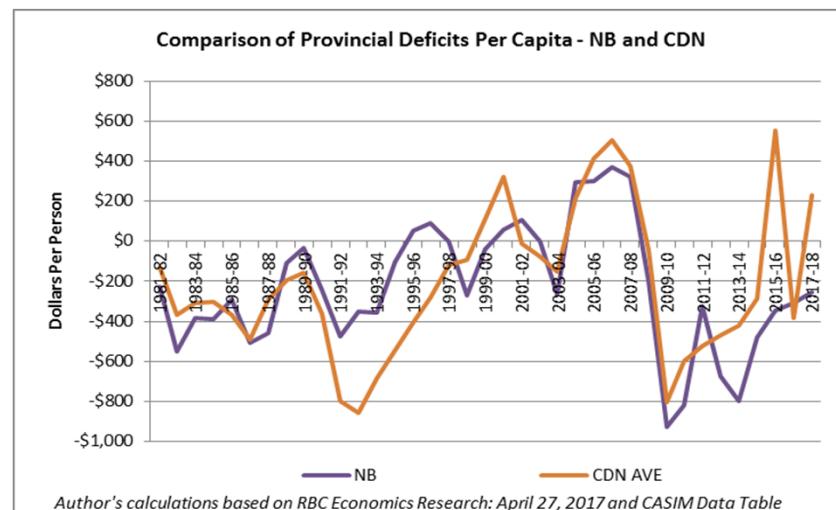
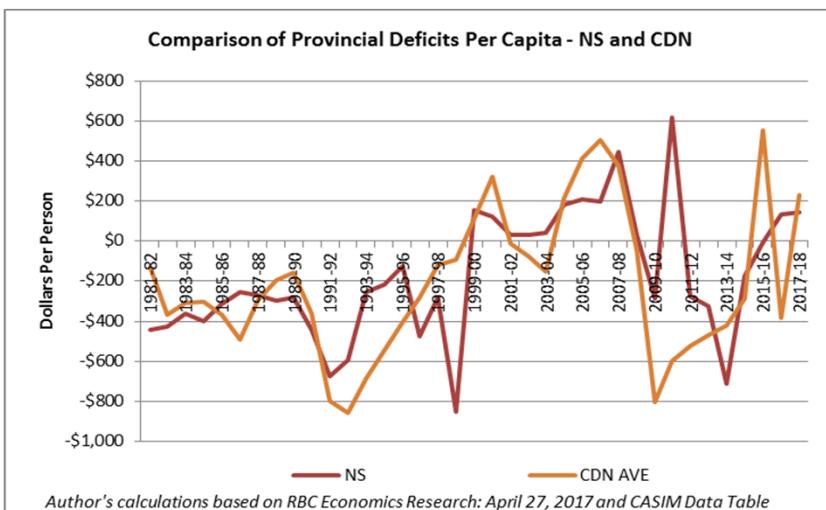
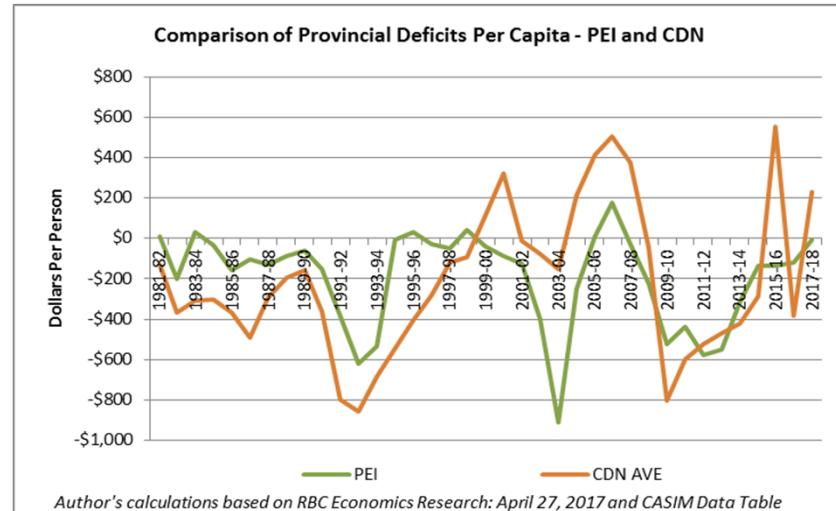
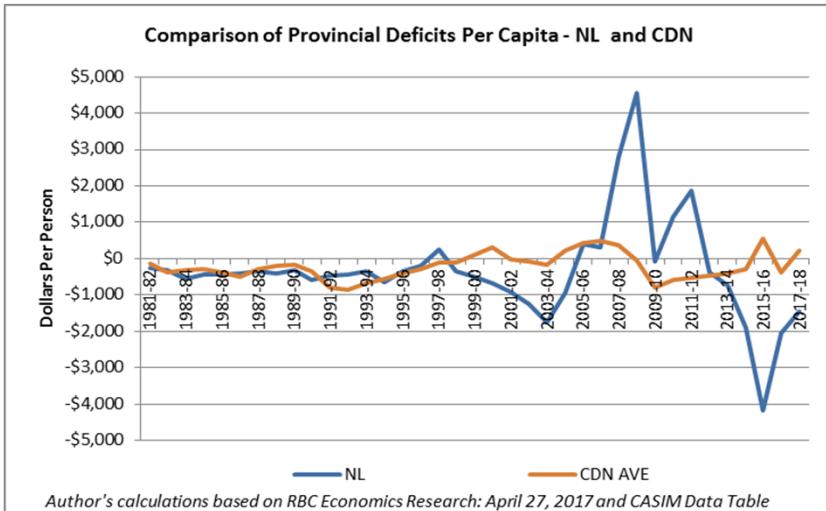
Provincial Deficits Per Capita (1)



NL deficits per capita, more variability than the country and the region

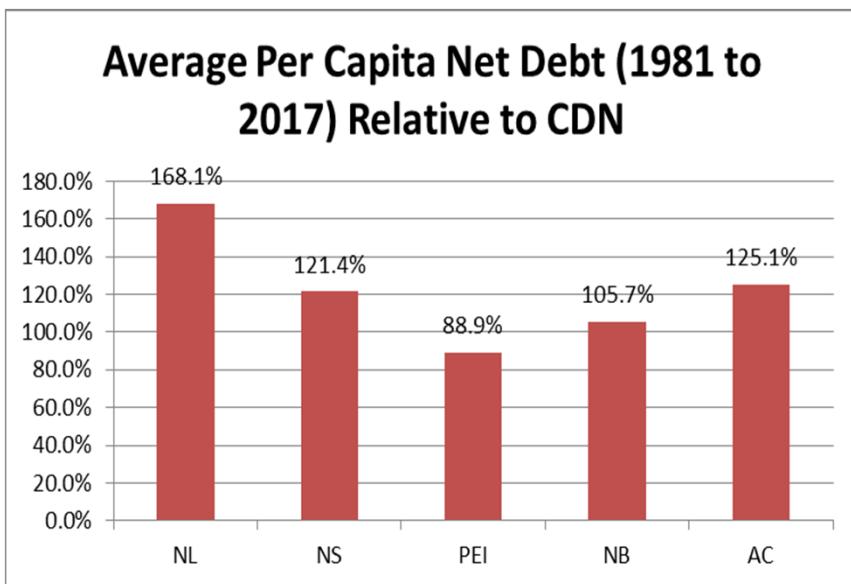
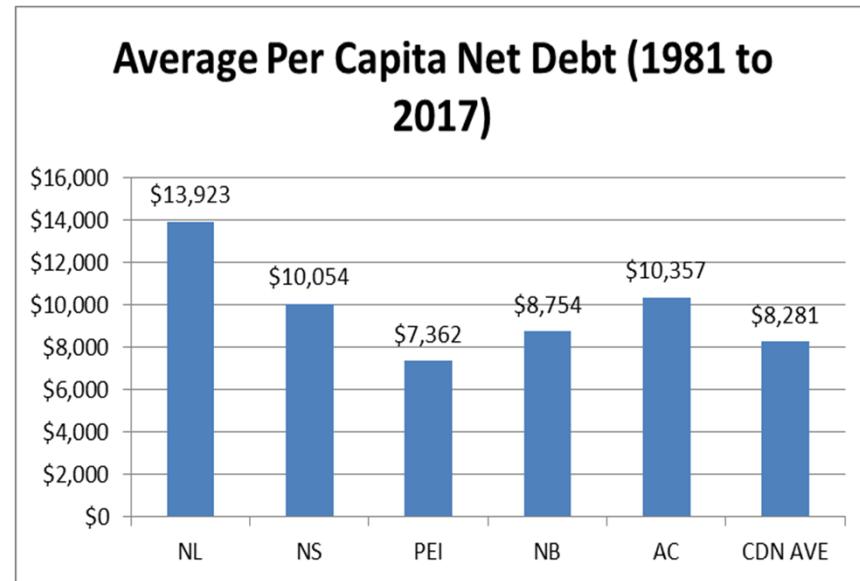
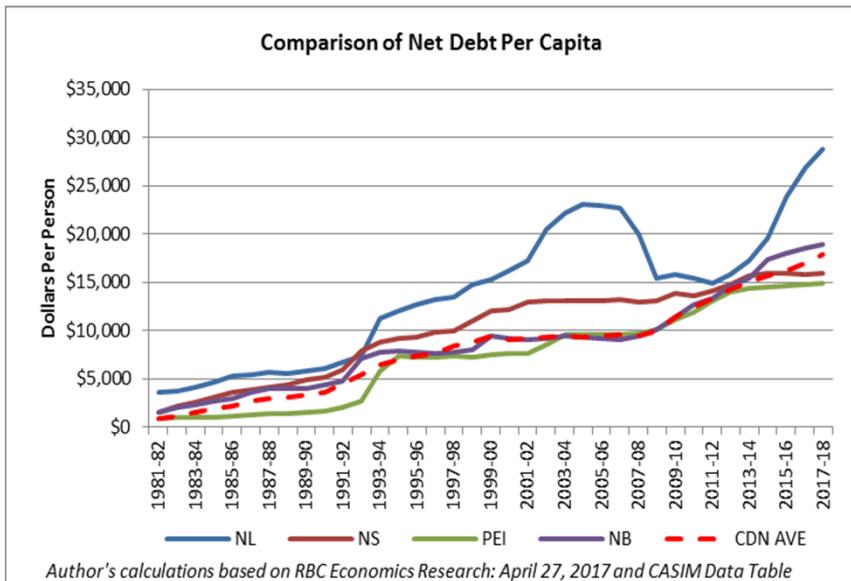
NL is 159% of Canada-wide average, while AC is about 109%

Provincial Deficits Per Capita (2)



**While all province are variable, there is a scale difference in the NL numbers
The significant improvement between 2005 and 2012 are explained by oil revenues**

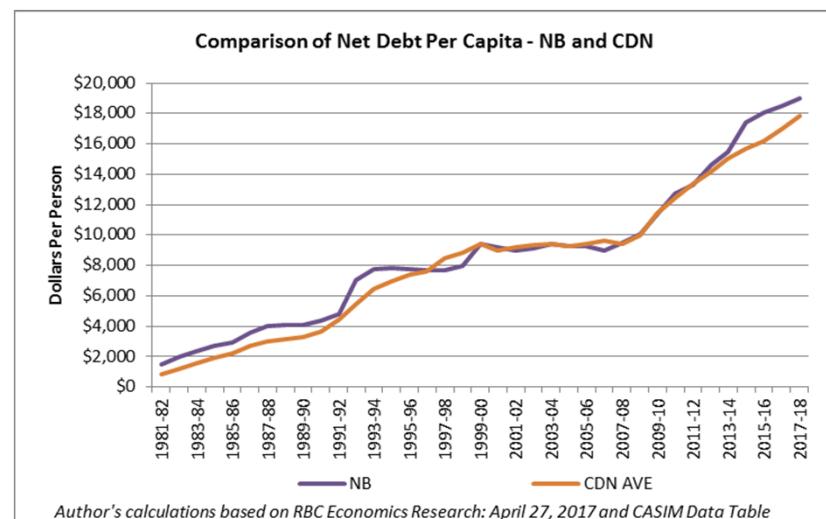
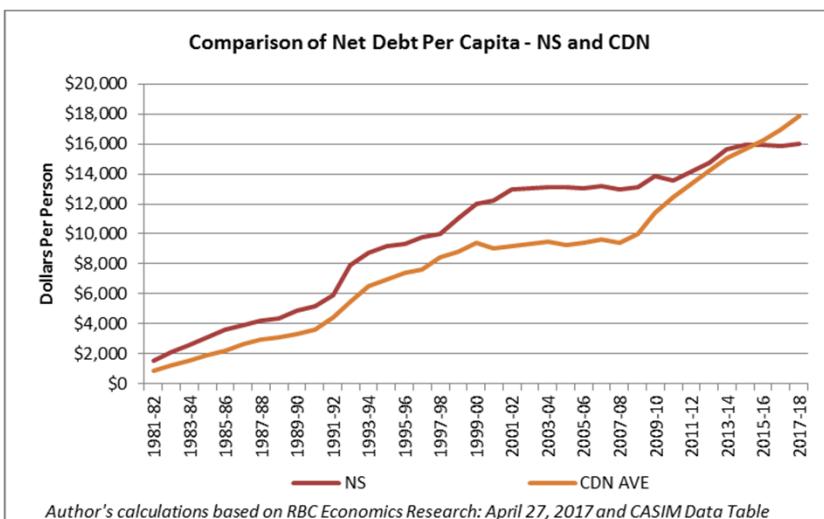
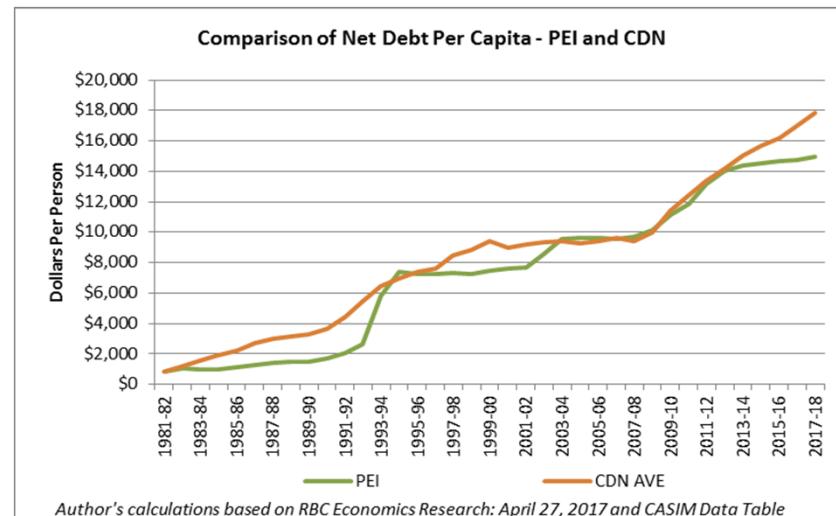
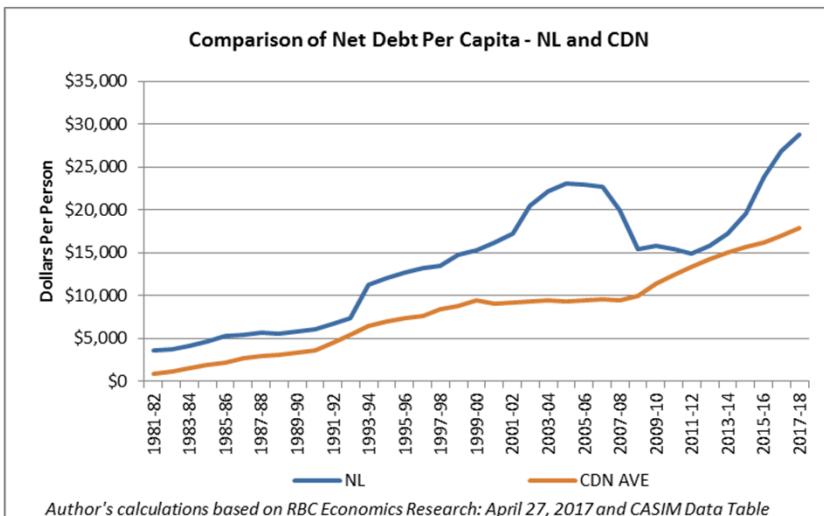
Net Debt Per Capita (1)



NL has average net debt per capita that is 68% higher than the CDN average

It is well above the other Atlantic Provinces

Net Debt Per Capita (2)



Relative to Canada, per capita net debt is above the Canadian average, NL is more pronounced and get worse

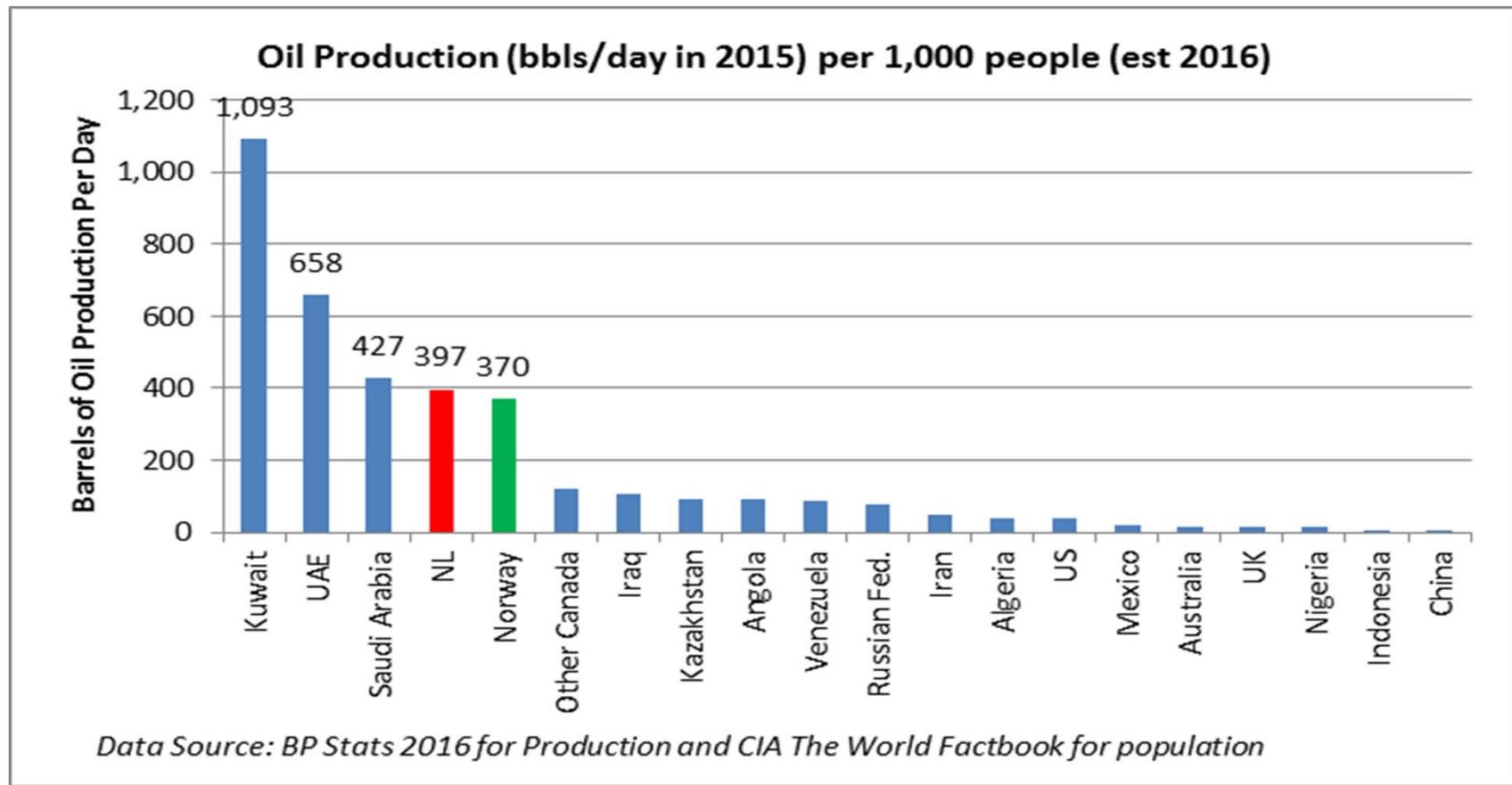
Atlantic Provinces are Already Challenged in terms of Borrowing

Long Term Debt Credit Rating Systems					Canadian Provincial Ratings, December 31 st , 2016			
Investment Quality	Moody's	Standard and Poor's	DBRS	Fitch		DBRS	S&P	Moody's
Highest Quality	Aaa	AAA	AAA	AAA	British Columbia	AA(high)	AAA	Aaa
Substantial Payment Capacity	Aa1 Aa2 Aa3	AA+ AA AA-	AA(High) AA(Middle) AA(Low)	AA+ AA AA-	Alberta	AA(high)	AA (negative)	Aa1 (negative)
High Payment Capacity	A1 A2 A3	A+ A A-	A(High) A(Middle) A(Low)	A+ A A-	Saskatchewan	AA	AA+ (negative)	Aaa
Adequate Payment Capacity	Baa1 Baa2 Baa3	BBB+ BBB BBB-	BBB(High) BBB(Middle) BBB(Low)	BBB+ BBB BBB-	Manitoba	A(high)	AA- (negative)	Aa2
Non-investment grade: BB, B, CCC, CC and C categories					Ontario	AA(low)	A+	Aa2
In Default	C	D	D	D	Quebec	A(high)	A+(positive)	Aa2
					New Brunswick	A(high)	A+	Aa2
					Nova Scotia	A(high)	A+	Aa2
					Prince Edward Island	A(low)	A	Aa2
					Newfoundland & Labrador	A(low)	A (negative)	Aa3 (negative)

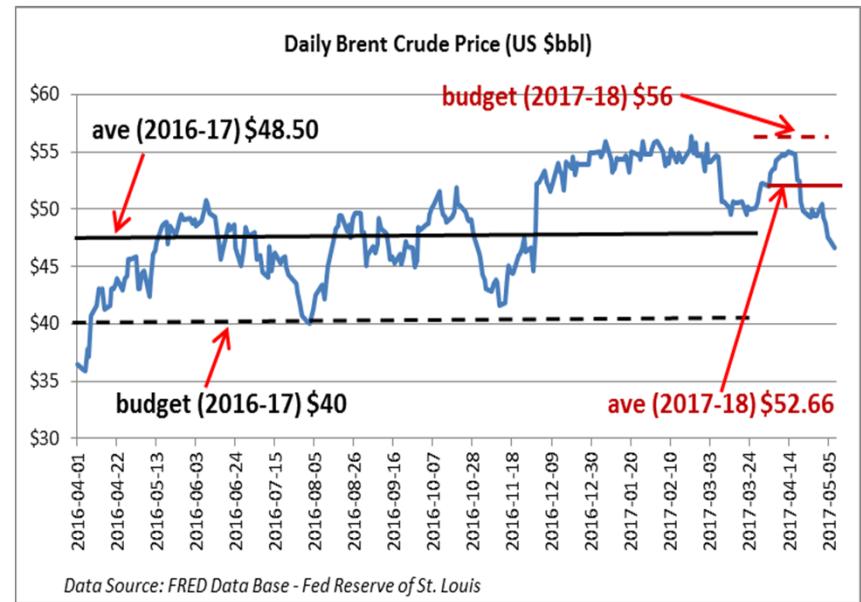
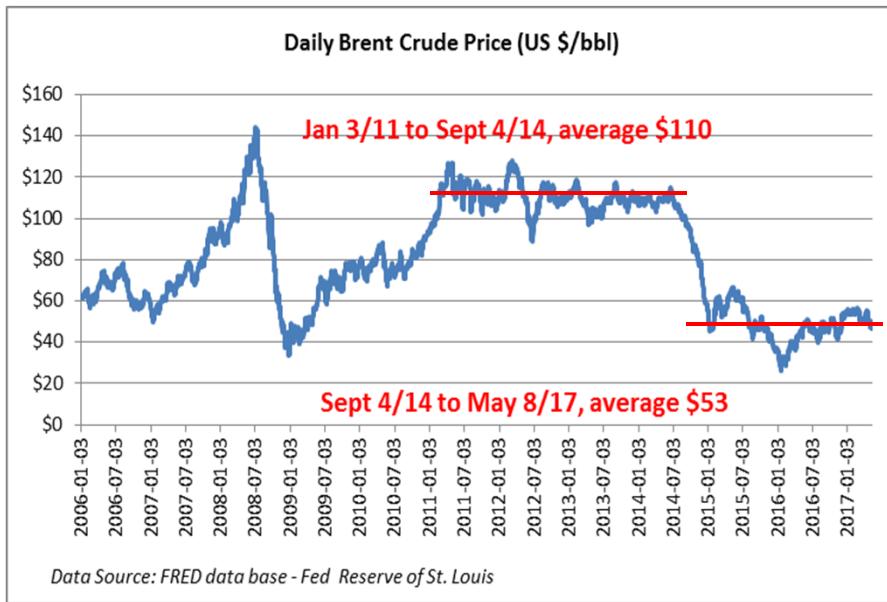
While all Atlantic Province faces borrowing challenges, NL is more pronounced

Newfoundland and Labrador: Not Quite the Same as the Ohters

Relative Importance of Oil to NL



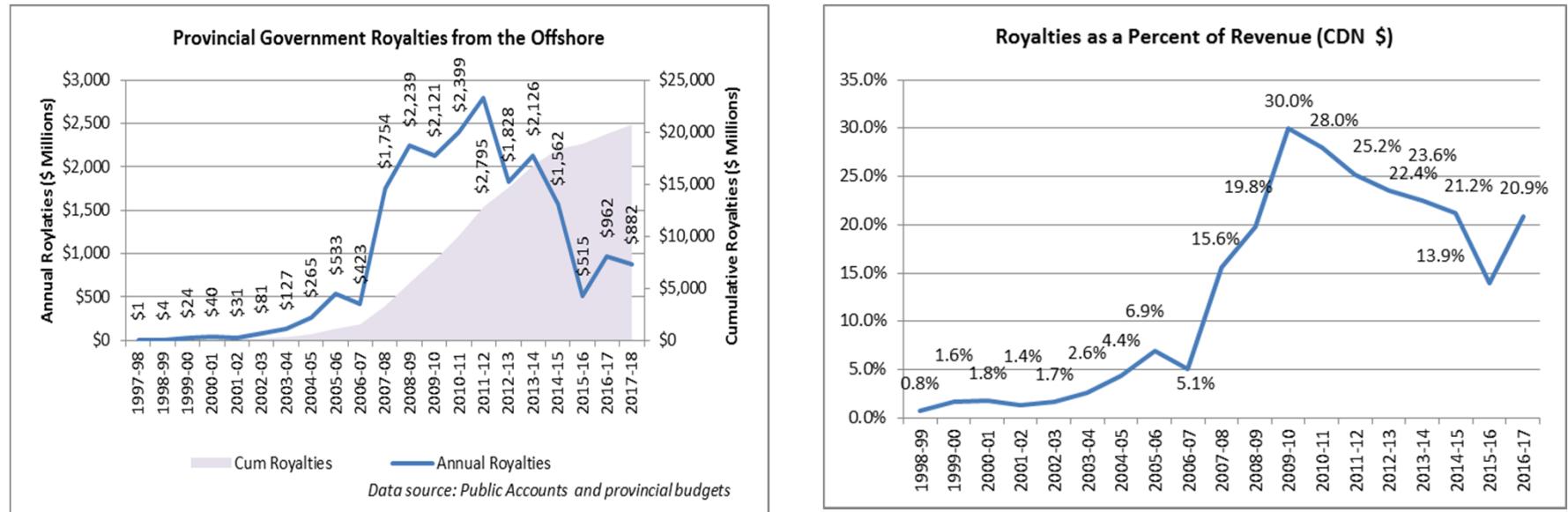
Oil Prices



The change in oil prices go a long way to explaining the current fiscal situation

Notice that oil prices currently are averaging \$3.50 less than predicted in budget. This could add another \$80 million to the provincial deficit

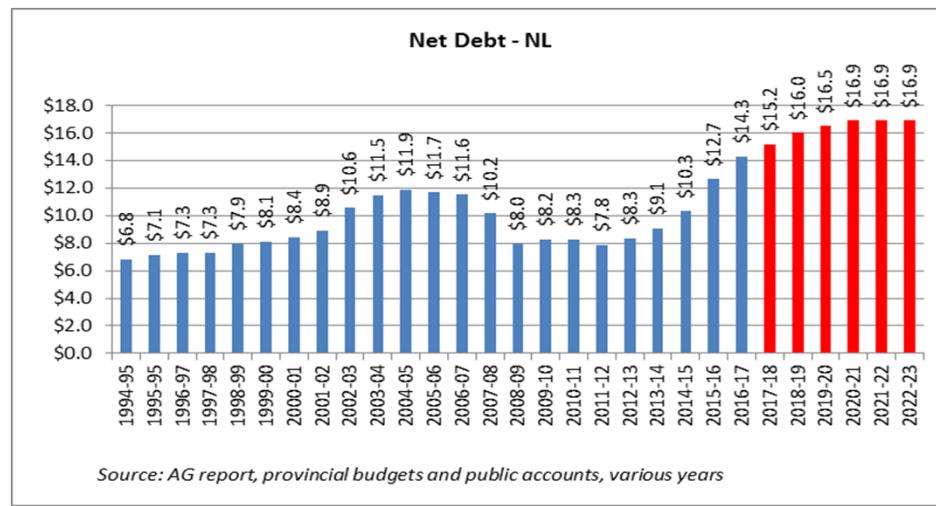
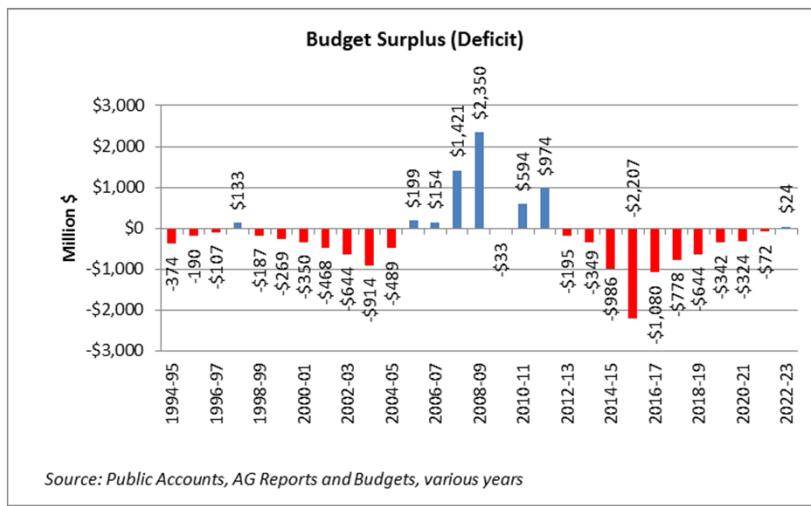
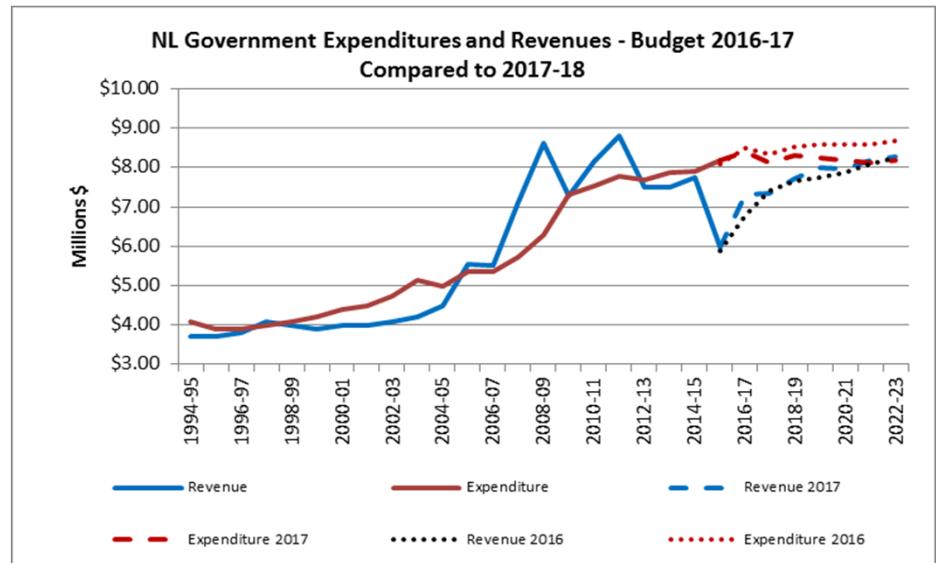
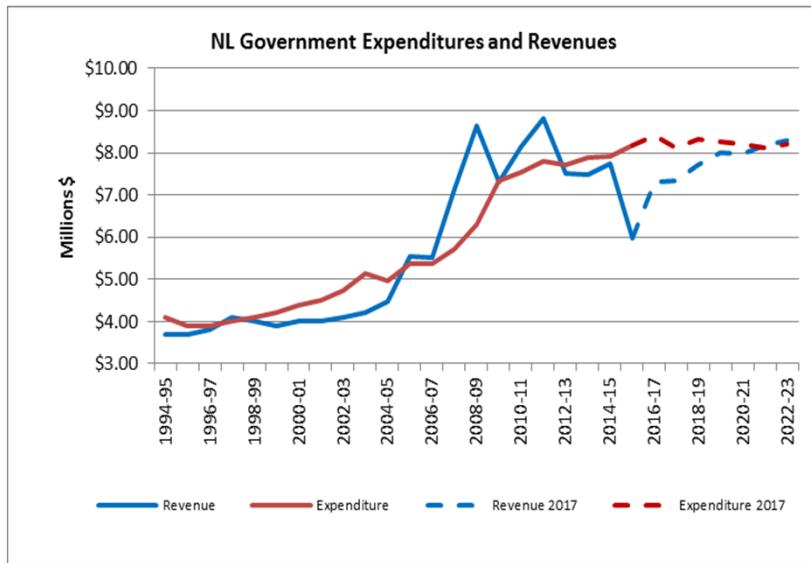
Oil and Government Revenue



Oil royalties have fallen from \$2.8 B at peak to just above \$500 M in 2015-16. This fall of \$2.3 B with no change in expenditure explains the deficits that we have been running recently

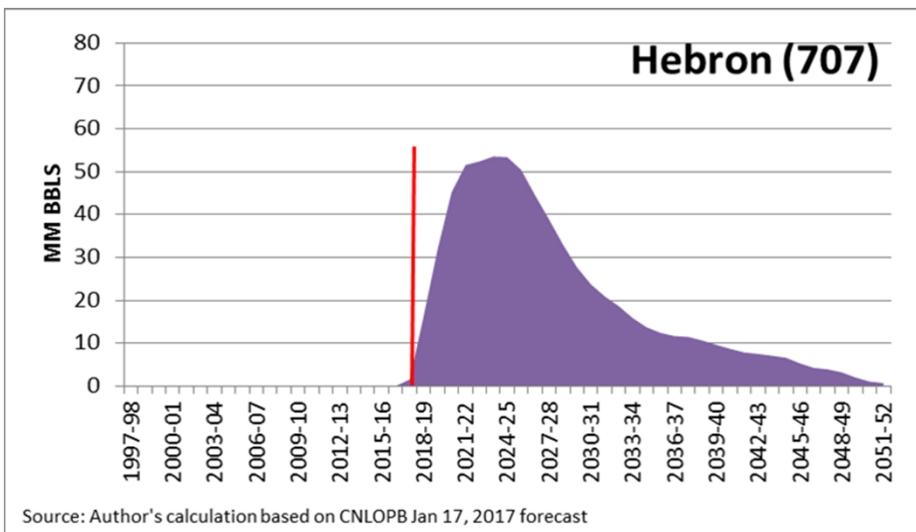
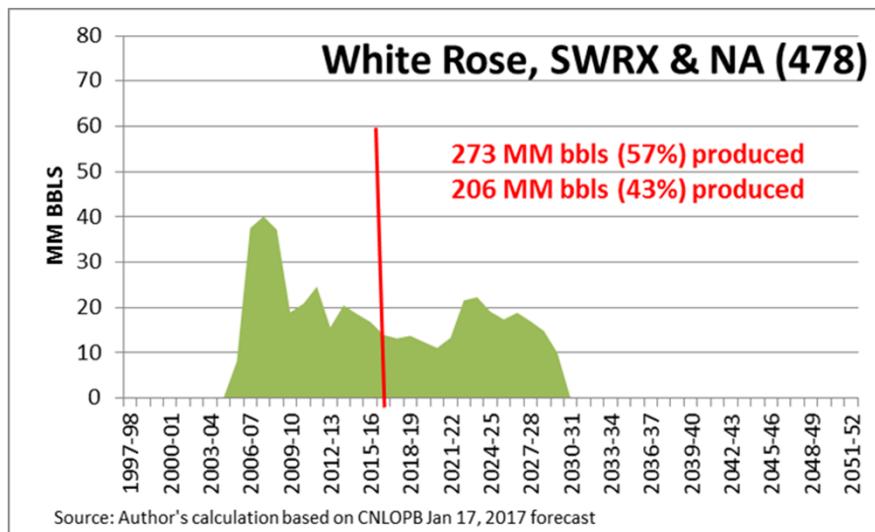
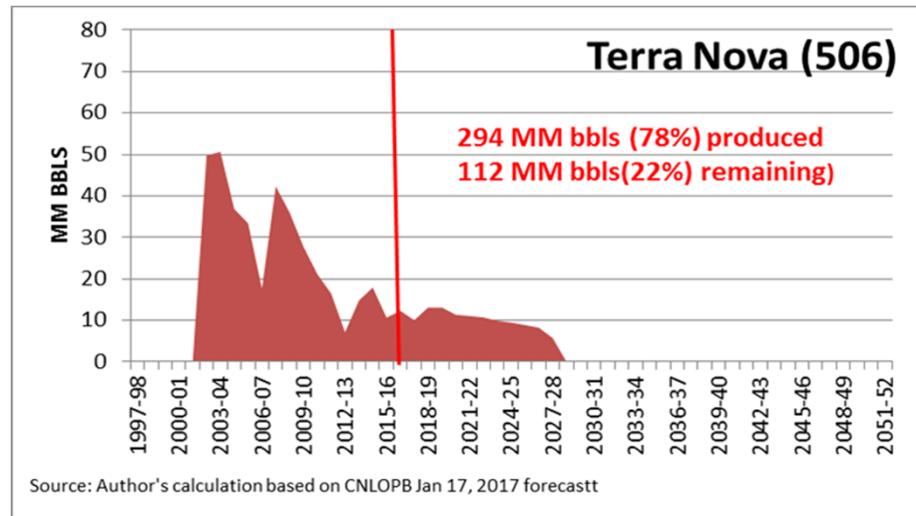
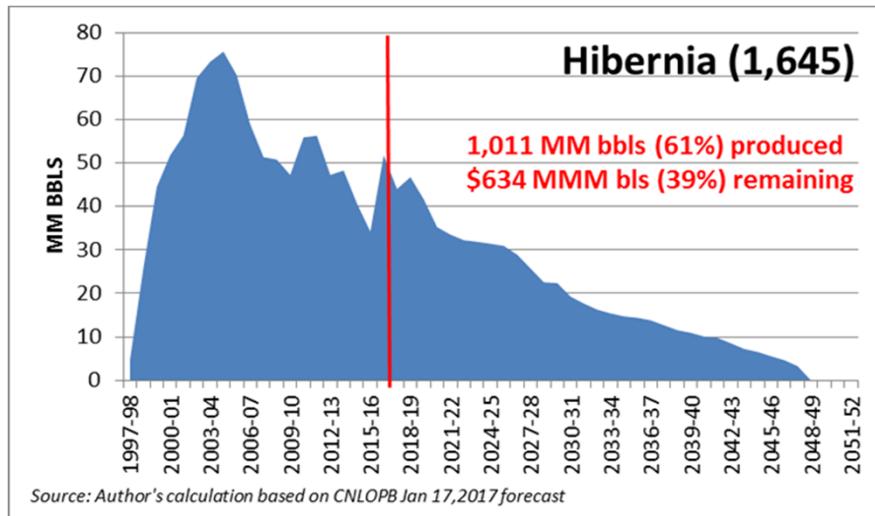
In fact, if it wasn't for the unexpected increase in the price of oil and extra production, the deficit would have been another \$350 higher

Expected Fiscal Position – Based on Budget 2017-18

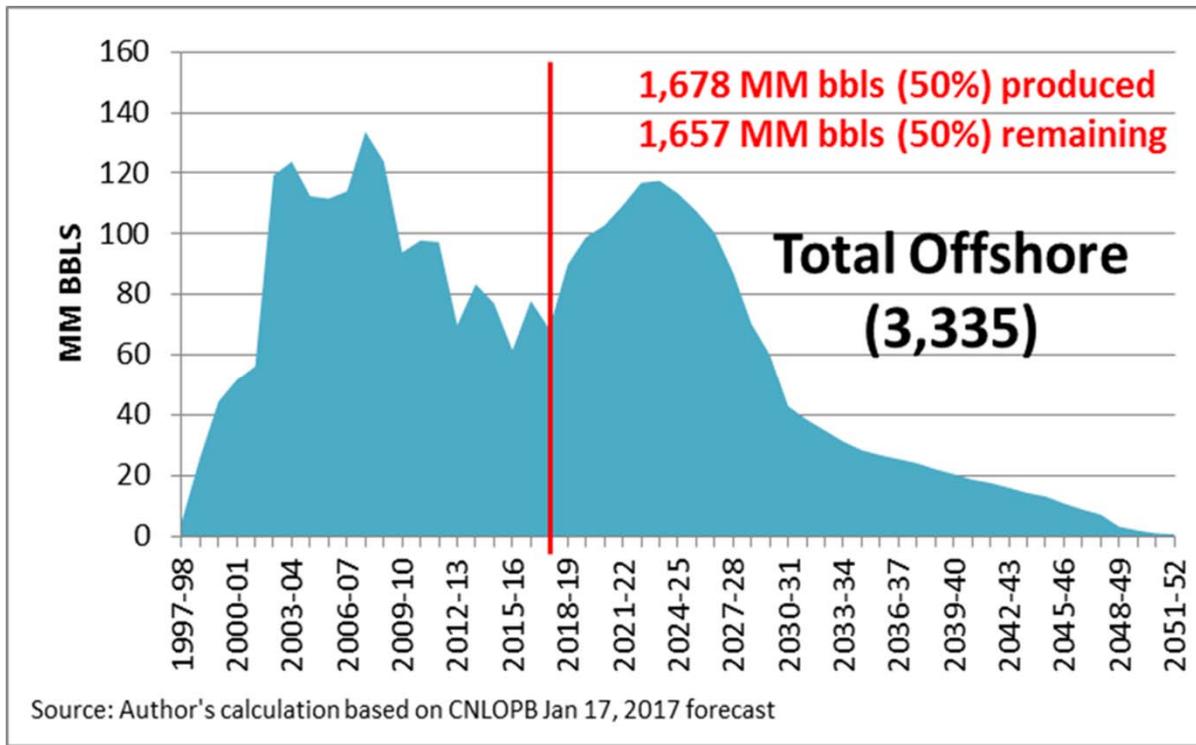


If everything goes to plan, the government predicts we will be back to balance in 2013. Still will a debt of nearly \$17 B

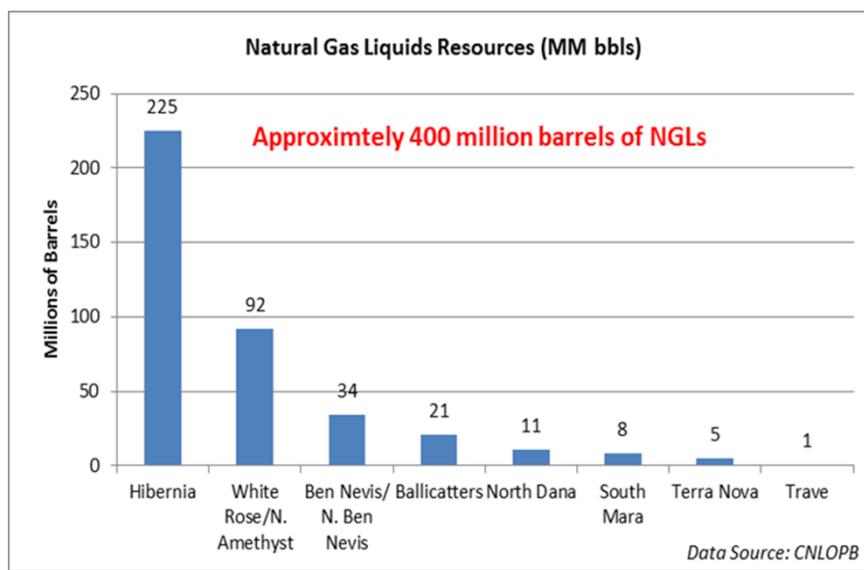
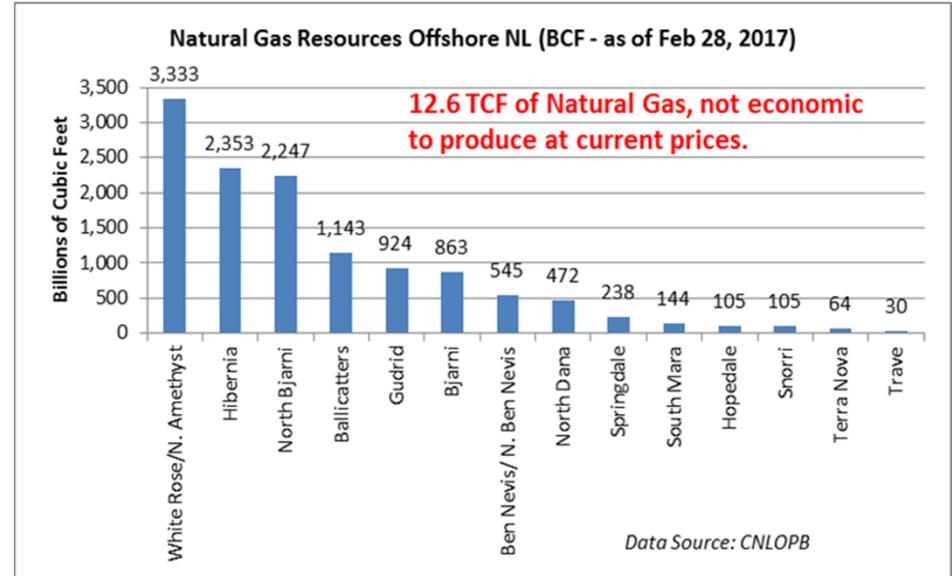
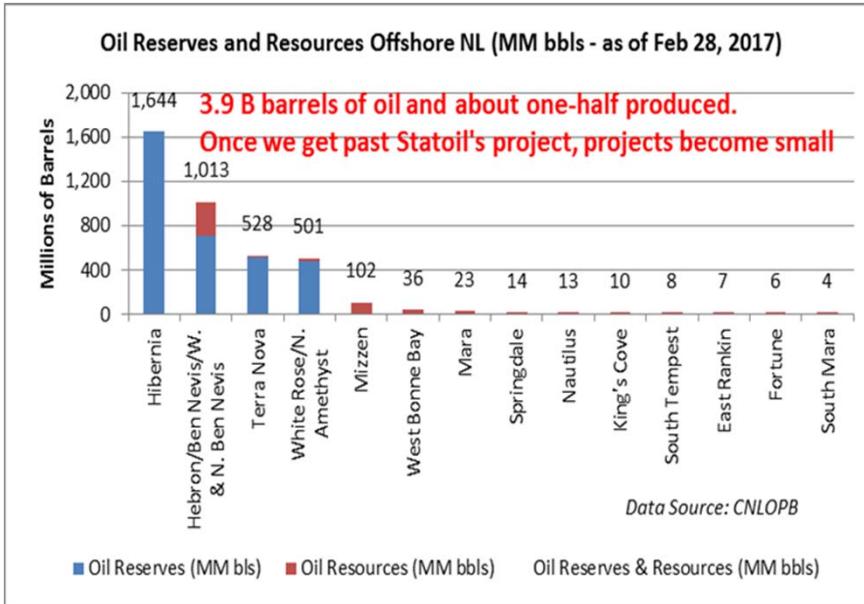
Production from Existing Projects



Half of Existing Projects Produced



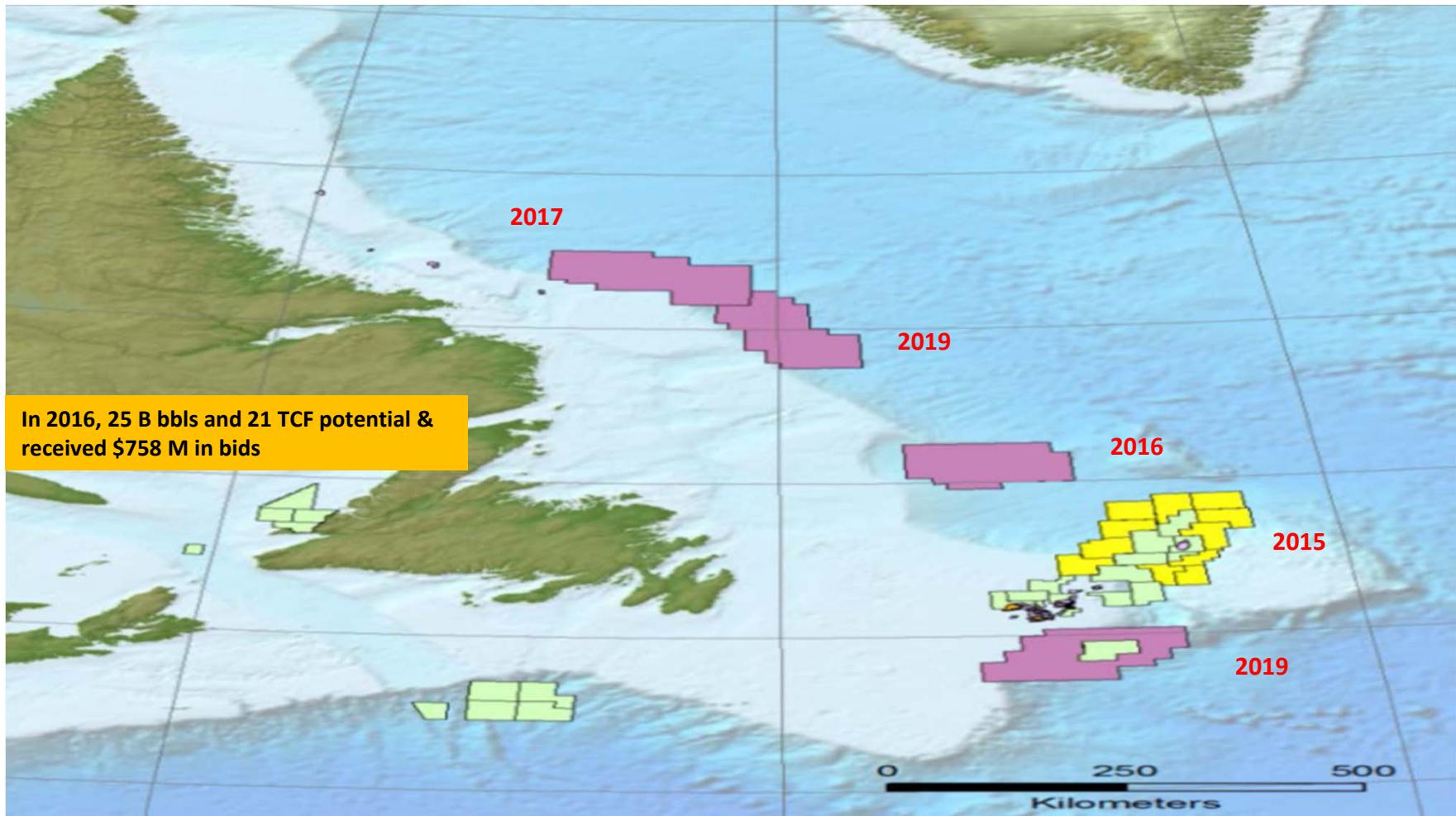
Reserves and Resource



"Reserves" are proven by drilling testing and interpretation of geological, geophysical and engineering data and are considered recoverable

"Resources" are volumes expressed at 50% probability and are assessed to be technically recoverable but are not delineated and economic viability not established

Oil and Gas – Future Promise



Statoil exploration plans for the Flemish Pass and the White Rose WHP are indeed good news and will create some short term economic stimulus if they proceed, but we are a long ways away from any significant contribution to the current fiscal situation faced by the province

In 2016, land sales for identified 25 B bbls & 21 TCF resulted in \$768 M in bids. In 2015, land sales for identified 12 B bbls & 113 TCF resulted in \$1.2 B in bids

Conclusion

- While all of Atlantic Canada has significant economic challenges, a review of the data reveals that NL is unique among the other Atlantic Provinces
- There are similarities, but there are big differences
- That being said, there is tremendous potential for NL economic development in the mid-term and longer-term, but challenges will remain in the short-term