



The Economic Review 2007

Contents

Ferryland Lighthouse



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Global Economic Environment

The Canadian dollar has appreciated rapidly this year



World GDP growth remained above 5% in the first half of 2007. Slower growth in the U.S., the European Union and Japan was counterbalanced by robust performances in China, India and Russia. The economies of the U.S., the European Union and Japan were restrained by the U.S. housing slump, high oil prices and recent financial market turmoil. Developing countries, particularly China, India and Russia are expected to continue their strong growth for the remainder of 2007, and into 2008, as they benefit from rapid globalization. Overall, world GDP growth is expected to moderate this year and next.

U.S. labour markets continued to expand in 2007 with job gains averaging 118,000 per month during the first eleven months. However, this was down from average monthly gains of 185,000 during the same period last year. Job gains matched labour force growth and as a result, the unemployment rate remained steady near 4.7%.

Residential investment declined by nearly 20% at annualized rates in the third quarter of this year and many economists expect 2007 house prices to decline on a year-over-year basis for the first time since the 1930s. High inventories of unsold homes, tighter lending standards and falling prices suggest that the housing sector will remain weak for several years.

Anxiety over the collapse of the housing sector and the sub-prime mortgage crisis (see discussion opposite) prompted the Federal Reserve Board (Fed) to cut interest rates by one half of a percentage point in September—the first change in rates since June 2006. This was followed by a further cut of a quarter-point on October 31.

The U.S. dollar depreciated by roughly 10% against the currencies of its major trading partners between late December 2006 and early December 2007. Lower interest rates, continued concern over the high current account deficit and spreading economic anxiety over the sub-prime mortgage collapse were all factors behind the downward pressure on the U.S. dollar this year.

The U.S. economy is now entering a period of turbulence as a result of a deepening housing slump and high oil prices which are likely to dampen consumer spending. However, the economy still has considerable momentum and the lower U.S. dollar should boost exports. Overall, U.S. economic growth is expected to average roughly 2.2% in 2007 and 2.1% in 2008.

Canada

A robust global economy, strong commodity prices and considerable momentum in domestic demand were the

World Real GDP Growth (%)

	2006	2007f	2008f
WORLD	5.4	5.2	4.8
United States	2.9	2.2	2.1
Canada	2.8	2.5	2.5
European Union	2.8	2.5	2.1
Japan	2.2	2.0	1.7
China	11.1	11.5	10.0
India	9.7	8.9	8.4
Russia	6.7	7.0	6.5

f: forecast
Various sources

United States

The U.S. economy has shown surprising resilience during the first three quarters of 2007. Despite the slumping housing sector and credit market turmoil due to the sub-prime mortgage crisis, GDP grew by 3.8% and 4.9% in the second and third quarters respectively. Growth was led by strong gains in exports and non-residential investment. Solid gains in consumer and government spending were also recorded. These positive factors more than offset a sharp decline in residential investment.

drivers of Canadian economic growth in the first three quarters of the year—real GDP increased by 3.9% and 3.4% in the first and second quarters respectively before slowing to 2.9% in the third quarter. Economic growth was widespread with gains in consumer spending, exports, and business and residential investment.

Labour markets continued to improve with employment up by 2.3% during the first eleven months of this year compared to the same period in 2006. Strong labour demand and demographic constraints on supply are resulting in tight labour markets. The seasonally adjusted unemployment rate was 5.9% in November, down from 6.2% at the beginning of the year.

With the economy operating near full capacity, escalating inflation remains an ever present concern for the Bank of Canada. In order to stem inflation, the Bank raised the target for the overnight rate by 0.25 of a percentage point in July. However, in recent months the dollar has increased sharply and the Fed has started cutting U.S. interest rates. These factors prompted the Bank of Canada to lower the overnight rate by 0.25 of a percentage point to 4.25% on December 4.

The Canadian dollar has appreciated rapidly this year, increasing from near 86 cents US per Canadian dollar at the start of the year to a peak of US\$1.10 per Canadian dollar in early November before retreating to around 98 cents US in early December. General weakness in the U.S. dollar and strong mineral and oil prices continue to support the Canadian currency.

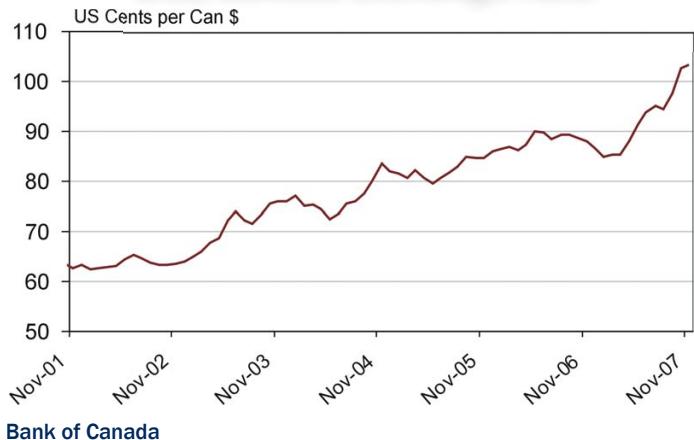
U.S. Sub-prime Mortgage Crisis

Sub-prime mortgages are high risk loans offered to borrowers with below average credit ratings, often issued under lax lending standards. These mortgages became popular in 2005 and 2006 as house prices were rising. The U.S. sub-prime mortgage crisis began with a sharp rise in residential foreclosures in 2006 as many customers faced higher interest rates with mortgage renewals at a time when house prices were starting to fall.

In late 2006 foreclosures on sub-prime mortgages began to skyrocket. In August 2007, serious delinquencies for sub-prime mortgages with adjustable rates had reached 16%, roughly triple the recent low in mid-2005.

The impact of this crisis was far reaching within financial markets. Many of the sub-prime mortgages were sold to Wall Street firms that pooled them with other loans in structured debt products known as asset-backed commercial paper (ABCP). These pooled products were sold on the open market as high yield “secure” investments. Many firms which rely on trading these products on a regular basis to meet maturing debt obligations faced a credit squeeze this past summer when the market for asset backed commercial paper seized

U.S./Canada Exchange Rate



The strong economic performance this year has not been evenly distributed across the country. While booming commodity markets are producing robust growth in resource-rich regions, the high dollar and slowing U.S. economy are troublesome for Central and Eastern parts of Canada, in particular Ontario and Quebec. Overall, consumer spending is expected to remain strong due to tight labour markets, income gains and relatively low interest rates. Business investment is expected to remain strong as well, but the high dollar and slowing U.S. economy are expected to dampen exports. Most forecasters currently expect real GDP growth to average 2.5% in both 2007 and 2008.

up in response to rising delinquency rates for sub-prime mortgages.

Many banks, mortgage lenders, real estate investment trusts and hedge funds have already taken large losses as a result of mortgage asset devaluation. In addition, with little or no demand for ABCP type products, investors continue to hold these financial assets until the market decides how to accurately price them. In response, several central banks injected money into financial markets to ensure access to funds for entities with illiquid mortgage-backed assets. The Fed has cut interest rates and lending standards in the U.S. mortgage market have tightened sharply. Recently, a consortium of U.S. banks established a fund with plans to pool mortgage-backed assets to try and head off pressure for investors to dump these assets at sharply reduced prices.

The U.S. housing sector is in a steep decline and credit conditions around the world have tightened, limiting firms' access to credit and slowing world growth. Nevertheless, many economists feel economic fundamentals are strong and do not expect this crisis to have a substantial long-term impact on growth.

Provincial Economic Overview

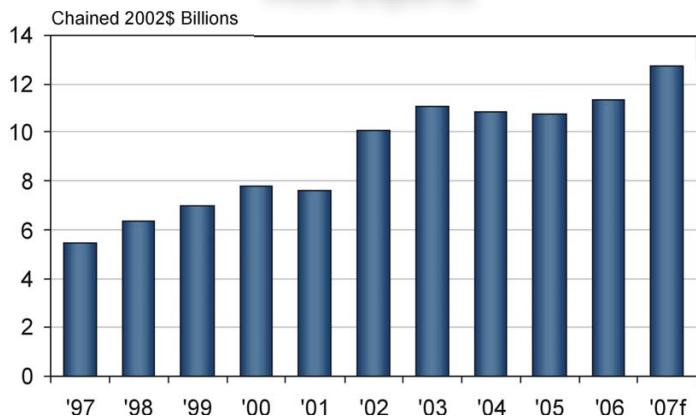
Brigus



Real GDP is expected to grow by 8.9% in 2007. Economic growth will stem mainly from gains in mineral and oil production. This GDP forecast has been revised upward slightly from the 8.5% projected in April 2007 because the overall economic performance has been better than expected. In particular, housing starts and retail sales have been much stronger than earlier projected.

Real exports are expected to increase by 12.2% this year, due mainly to higher oil and mineral shipments. Real exports of oil and mineral products are forecast to grow by 24.2% and 22.5% respectively. This is due to increased oil production from Terra Nova and White Rose and increased mineral production from Voisey's Bay. An increase in refined petroleum exports (from the oil refinery at Come By Chance) is also expected to contribute to growth in exports this year.

Real Exports



f: forecast
Statistics Canada; Economic Research and Analysis Division,
Department of Finance

Consumer spending growth continued in 2007. Retail sales (which account for about 55% of consumer spending) totalled \$4.8 billion in the first nine months of this year, an increase of 9.8% compared to the same period in 2006. On an annual basis, retail sales are forecast to rise by 8.9% in 2007. The increase in retail sales is primarily

due to strong gains in disposable income and growing consumer optimism. Although increases are occurring in most sales categories, new car sales have been the most important contributor to overall retail sales growth this year. The number of new cars sold in the province in the first nine months of the year was up by 19.5% in comparison to the year earlier level.

Investment is forecast to decline by 5.4% in 2007 to \$4.3 billion—construction spending is expected to be lower this year while machinery and equipment spending is expected to remain stable. The completion of some significant development phases in the White Rose oil project and the Voisey's Bay mining project are largely responsible for the decline in investment. However, residential investment and provincial government capital spending increased, offsetting some of the losses elsewhere. Furthermore, total investment in the province is still high in a historical context.

Prices

On a year-over-year basis, the CPI (Consumer Price Index) averaged 1.3% higher in the first ten months of 2007. Minimal price increases in: household operations and furnishings; transportation; health and personal care items; and, recreation, education and reading items, along with price declines in clothing and footwear have kept a lid on inflation this year. The strong appreciation in the value of the Canadian dollar (compared to the U.S. dollar) and lower year-over-year changes in energy prices have also contributed to keeping the inflation rate under control.

Labour Markets

Employment is currently forecast to increase by 0.7% in 2007 to 217,300, due to continued increases in service sector activity. However, the labour force is projected to decline slightly, due to out-migration and growing retirements, leading to a decline in the unemployment rate. The unemployment rate is expected to average 13.5% in 2007, a 1.3 percentage point drop compared to 2006,

Economic Indicators					
	2006	2007f	2008f	2009f	2010f
Gross Domestic Product (\$ M)	23,655	27,380	28,314	25,129	24,034
% Change	10.0	15.7	3.4	-11.2	-4.4
% Change, real	3.3	8.9	2.4	-1.8	-1.9
Personal Income (\$ M)	13,814	14,363	14,908	15,486	16,155
% Change	4.0	4.0	3.8	3.9	4.3
% Change, real	2.2	2.6	1.7	1.9	2.4
Personal Disposable Income (\$ M)	10,849	11,429	11,855	12,309	12,842
% Change	4.3	5.3	3.7	3.8	4.3
% Change, real	2.5	4.0	1.6	1.9	2.4
Retail Sales (\$ M)	6,042	6,579	6,765	6,981	7,232
% Change	3.7	8.9	2.8	3.2	3.6
% Change, real	1.5	8.7	1.9	2.1	2.5
CPI (2002=100)	109.5	111.0	113.3	115.5	117.7
% Change	1.8	1.3	2.1	1.9	1.9
Capital Investment (\$ M)	4,530	4,283	4,320	4,399	4,464
% Change	-1.0	-5.4	0.9	1.8	1.5
% Change, real	-1.2	-9.2	-4.5	-0.7	-2.9
Housing Starts (Units)	2,234	2,435	2,371	2,391	2,356
% Change	-10.6	9.0	-2.6	0.8	-1.5
Employment (000s)	215.7	217.3	220.0	222.5	224.7
% Change	0.7	0.7	1.3	1.1	1.0
Labour Force (000s)	253.1	251.2	252.8	253.9	255.2
% Change	0.2	-0.7	0.6	0.4	0.5
Unemployment Rate (%)	14.8	13.5	13.0	12.4	11.9
Population (000s)	509.9	506.3	504.8	503.8	503.3
% Change	-0.8	-0.7	-0.3	-0.2	-0.1

f: forecast

Economic Research and Analysis Division, Department of Finance;
Statistics Canada

increase in labour income reflects both the higher weekly earnings and higher employment. After adjusting for inflation, labour income grew by 4.1%. Total personal income is forecast to grow by 4.0% this year (2.6% in real terms).

Population

Newfoundland and Labrador's population stood at 506,275 as of July 1, 2007, a decrease of 0.7% compared to July 1, 2006. Migration continued to be the primary factor influencing population change. Net out-migration totalled 3,442 persons in 2006-07 with most people going to Alberta where strong demand for labour and high wages provide strong incentives to migrate.

For the latest information on regional demographic trends readers can consult: *Regional Demographic Profiles, Newfoundland and Labrador*, November 2007.

[www.economics.gov.nl.ca/population/
regionaldemographicprofiles.asp](http://www.economics.gov.nl.ca/population/regionaldemographicprofiles.asp)

Medium-Term Outlook

Production schedules of major projects will continue to have a significant influence on GDP growth over the next three years. Real GDP is expected to expand in 2008 as Hibernia oil production rebounds. However, real GDP is expected to decline beyond 2008 under the assumption that oil production from Terra Nova, Hibernia and White Rose will decrease as reserves are drawn down.

While GDP is forecast to decline in 2009 and 2010, investment begins to benefit from construction activity related to the Voisey's Bay nickel processing facility, and later, the start of the Hebron project in 2010. Furthermore, many other important economic indicators like employment and personal income exhibit growth over the forecast period. The commencement of the development of other major projects, such as the Lower Churchill hydroelectric project or the potential new oil refinery project which are not currently included in the economic forecast, would substantially improve the medium-term outlook.

making it the lowest unemployment rate for the province since 1981. Average employment in the first eleven months of 2007 increased by 0.7% compared to the same period in 2006. Employment growth was concentrated in full-time employment (part-time employment actually declined).

Wages continued to increase at a solid pace this year. Average weekly earnings (including overtime) increased by 3.5% in the first nine months of 2007. Labour income totalled just over \$6.6 billion¹ in the first nine months of the year, 5.6% higher than the same period of 2006. The

¹ The stated estimate of labour income removes the provincial government's payments of \$1.953 billion to the teachers' pension plan (in March 2006) and \$982 million to the public service pension plan (\$400 million in March 2007; \$582 million in June 2007) from supplementary labour income.

Oil and Gas

Vessels offloading crude oil at the Newfoundland Transhipment Terminal, Whiffen Head



The oil and gas industry has become an increasingly important sector of the provincial economy over the past few years. Oil production is expected to reach 137.6 million barrels in 2007, representing growth of 24% over 2006. This growth is due to increased production from Terra Nova and White Rose. The value of oil production is expected to increase by approximately 25% in 2007 to \$10.3 billion because of higher production volumes and prices.

Crude oil prices have increased substantially over the past decade, rising from US\$12.76 per barrel in 1998 to US\$65.16 in 2006. Increased world demand and instability of supply are the driving forces behind the price escalation. Rapid economic growth in emerging market regions, such as China and India, has increased oil demand while at the same time geopolitical issues in some oil producing regions have raised concerns about the stability of supply.

Unlike many other export sectors, price increases in the oil sector have been sufficient to offset the negative effects of the Canadian dollar's appreciation. In early December 2007, Brent crude oil was trading just under US\$90 per

barrel. On an annual average basis, the price of Brent crude oil is expected to be around 7% higher in US\$ terms (2% in CA\$ terms) in 2007 to average US\$69.75 in comparison to US\$65.16 in 2006.

Hibernia

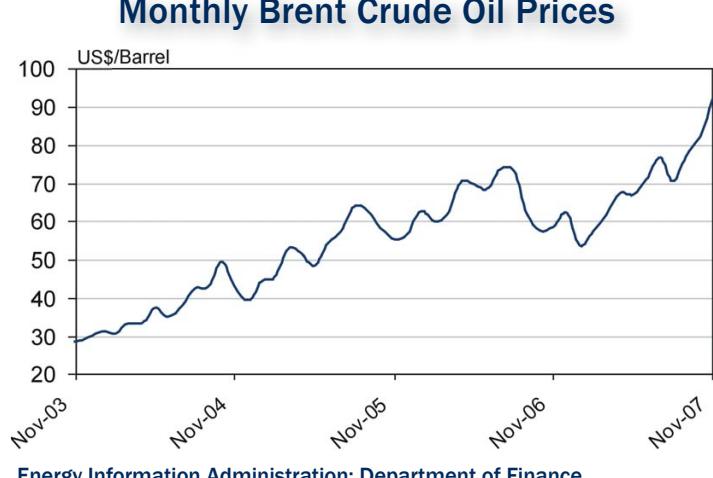
Hibernia production was down 21.8% during the first ten months of 2007 compared to the same period in 2006. Early in the year, production was constrained by a failure of one of the platform's main power generators. The platform was taken out of production for 23 days beginning in mid-February in order to expedite the generator repairs, and production resumed on March 7. Furthermore, over the past few months, production has been limited by water re-injection and handling capabilities on the production platform. As a result, estimated annual production has been revised down to 51.1 million barrels from earlier expectations of 59.9 million barrels.

Terra Nova

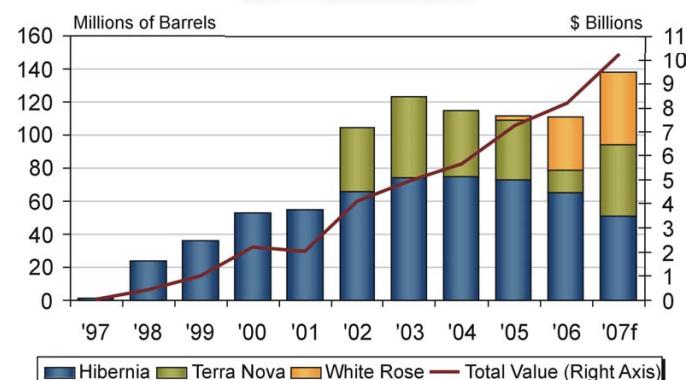
Terra Nova production totalled 36.5 million barrels during the first ten months of 2007 in comparison to 8.8 million during the same period in 2006. This difference reflects the fact that the Terra Nova production vessel did not operate from May 7 to November 11 of last year as it underwent a \$225 million retrofit that required dry-docking. Year-to-date production is moderately higher than previously anticipated and, as a result, annual 2007 production is now expected to be 42.7 million barrels, up from the Budget 2007 estimate of 40.0 million barrels.

White Rose

Production from the White Rose field totalled 36.3 million barrels in the first ten months of 2007 in comparison to 25.3 million barrels during the same period of 2006. This increase is due to the completion of additional producing wells and regulatory approval to increase annual production. Annual 2007 production is expected to total 43.9 million barrels, in line with expectations at the beginning of the year.



Oil Production



f: forecast
C-NLOPB; Department of Finance

On September 7, 2007, the province approved the Canada-Newfoundland and Labrador Offshore Petroleum Board's (C-NLOPB) decision to permit expansion of the White Rose development project to produce an estimated additional 24 million barrels of oil from an area known as South White Rose Extension. In the Development Plan Amendment, Husky Oil committed to spend \$595 million in capital costs to begin producing the additional oil. The commitments include a new glory hole south of the production vessel that will tie back to the existing project infrastructure.

On September 13, 2007, the province announced that it had reached an agreement on royalty and equity terms with Husky Oil and Petro-Canada on the White Rose satellite field developments. The agreement includes a 5% equity stake for the province in the satellite developments, and an additional 6.5% royalty on net revenues after net royalty payout has been achieved from the satellites when the price of West Texas Intermediate oil is over US\$50 per barrel. The royalty and equity arrangement will apply to the combined satellite development of the North Amethyst field, the West Avalon pool and the extension of the South Avalon pool in the White Rose field. Husky estimates that these fields contain 214 million barrels of oil. The province's purchase price for its 5% equity stake will be \$44 million based on current reservoir information. This price is subject to due diligence, data verification and the results of drilling currently taking place in the West Avalon pool.

Hebron

On August 22, 2007, the province announced that it had reached a Memorandum of Understanding (MOU) with the Hebron-Ben Nevis (Hebron) proponents to develop the oil field—the province's fourth stand alone offshore oil development. The industry partners in the Hebron development are ExxonMobil Canada, Chevron Canada, Petro-Canada and Norsk Hydro Canada.

Under the terms of the MOU, the province will take a 4.9% equity stake in the project at a cost of \$110 million. Construction of a Gravity Based Structure will take place in the province and is expected to take about six years to complete. It is currently anticipated that first oil may occur by late 2014 or early 2015. The Hebron field is estimated to contain in the vicinity of 700 million barrels of oil.

Exploration Highlights

- An average of 2-3 wells per year are expected over the next five years depending on results of seismic interpretations, rig availability, drilling success rates and oil and gas prices.
- Drilling of the Great Barasway F-66 well in the Orphan Basin was terminated in April 2007. Current plans are to follow up with two additional wells in the area in 2008/09. Geophysical work continued in the basin this past summer. The Orphan partners remain committed to returning to the Basin in 2008 or 2009 to resume their exploration drilling program.
- Petro-Canada completed a 3-D seismic program this summer focusing on the North Mara prospect. A 2-D seismic acquisition program has been ongoing in the region since 2002.
- ConocoPhillips and partners continue to evaluate their 3-D seismic data and have identified potential drilling targets in the Laurentian Basin. Drilling could occur as early as 2008 dependent on rig availability.
- In the Western Newfoundland Offshore region, two onshore to offshore wells are planned this fall.
- In the Western Newfoundland Onshore area, seismic programs are continuing.
- The C-NLOPB issued two separate Calls for Bids in 2007 comprising a total of 991,458 hectares.
 - In December 2007 the C-NLOPB accepted a bid (\$1.5 million) from Corridor Resources Inc. for one parcel in the Western Newfoundland Offshore region.
 - Bidding on four parcels in the Labrador Offshore region closes in August 2008.

Mining

Voisey's Bay Concentrator Complex



Strong global commodity markets are stimulating expansion of mineral production capacity, new developments and mineral exploration. The value of mineral shipments is expected to total over \$3.9 billion in 2007, the highest value on record, up 55% compared to the estimated 2006 total. This increase is due to higher shipments from Voisey's Bay, the opening of the Duck Pond mine and increased commodity prices.

Voisey's Bay

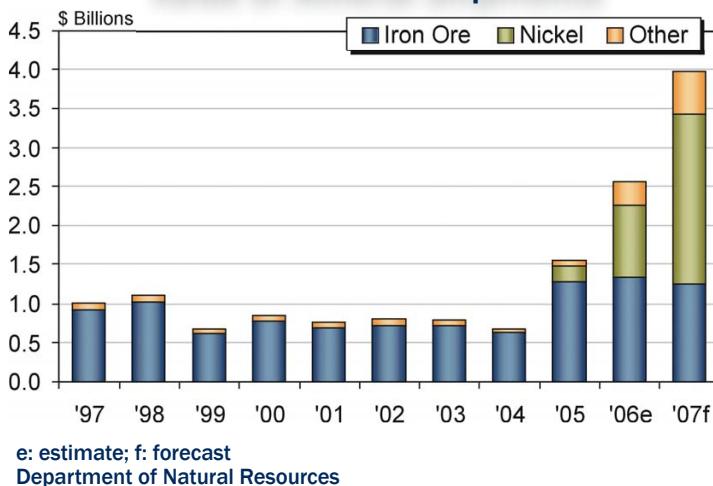
Voisey's Bay Nickel Company Limited (VBNC) expects to ship over \$2.5 billion worth of metal concentrate in 2007, more than double the value in 2006. The increase reflects both higher shipment volumes and commodity prices. The Voisey's Bay project continues to advance. VBNC has registered both the hydromet and matte commercial processing plant layouts for environmental assessment. This will ensure that regardless of which process is selected, the construction completion date of December 2011, as identified in the Development Agreement, will be met. The company submitted the Environmental Impact Statement for the commercial plant to the provincial and federal governments in early November 2007.

Iron Ore

The volume of iron ore shipments is expected to total just over 19 million tonnes this year, a decrease of 5.0% relative to 2006. The value of shipments is expected to be about \$1.2 billion, down 6.9% over 2006. The decline in shipments reflects an interruption in production due to a labour-management dispute at the Iron Ore Company of Canada (IOC) earlier this year that lasted about seven weeks. IOC is expected to ship 13.8 million tonnes of iron ore this year, down 12.7% from 2006. In August, IOC announced a \$60 million investment to increase concentrate production capacity to 18.4 million tonnes by mid-2008. Currently, the operation has the capacity to produce 17 million tonnes of concentrate, of which 13 million tonnes can be converted into pellets. The company is also assessing a further increase to 21 million tonnes.

Concentrate shipments from Wabush Mines are expected to increase by almost 25% to 5.2 million tonnes in 2007, primarily because of production problems encountered during 2006 which lowered shipments during that year. On September 5, 2007, ArcelorMittal announced that it intends to acquire Wabush Mines through its Dofasco subsidiary. Dofasco, which already holds 28.6% of Wabush Mines, will purchase the interests of Stelco (44.6%) and Cleveland Cliffs (26.8%). The transaction is expected to be finalized by December 2007. When the acquisition is completed, ArcelorMittal will own 100% of Wabush Mines.

Value of Mineral Shipments



New Mine

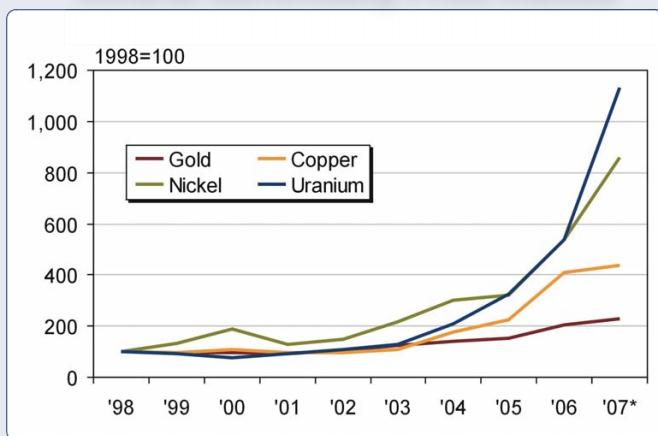
Production at the Duck Pond mine in central Newfoundland commenced in January 2007 and the first concentrate shipments were made in April. The mine is expected to produce 41 million pounds of copper, 76 million pounds of zinc, 574,000 ounces of silver and 5,000 ounces of gold annually over its eight-year life. Employment at the mine should average about 192 people annually over the life of the mine. In September 2007, Vancouver-based Teck Cominco took control of Aur Resources, the owner of the Duck Pond mine.

Mineral Exploration

Worldwide mineral exploration has been steadily increasing since 2002, after falling for five straight years. This trend was sparked by more spending by major companies as they identified future supply/demand imbalances. In addition, increased spending by the junior² sector took place on the strength of higher metal prices and rising investor interest. Exploration budgets were pushed even further in the last several years by sharp price increases for other mineral commodities. In 2006, worldwide exploration expenditures reached a record high of over \$7 billion.

Price gains for many mineral products have been driven, to a large degree, by the growing economies of China and India which are significant consumers of mineral commodities. Price increases for several mineral commodities are illustrated in the chart. The price of gold has more than doubled since 2002 while the price of uranium has increased tenfold.

Mineral Commodity Price Indices

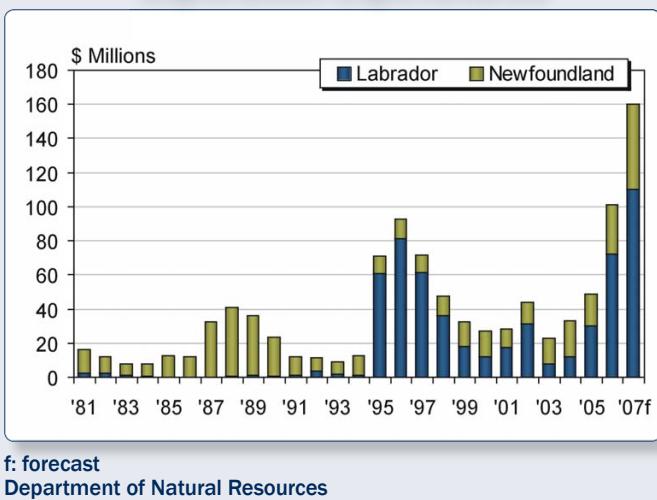


* 2007 based on January to November average
TD Economics

The global trends in mineral exploration have been mirrored both nationally and provincially. Mineral exploration expenditures in Canada were \$1.7 billion in 2006, more than double 2003 levels. Furthermore, expenditures are expected to rise by 9% to \$1.9 billion in 2007, an unprecedented level of activity.

For Newfoundland and Labrador, mineral exploration has increased substantially since 2003. Expenditures reached \$100.8 million in 2006—over four times

Exploration Expenditures



2003 levels and it is expected that mineral exploration expenditures will increase to \$160 million this year. There were more than 57,000 claims staked in the province in 2006 and about 80,000 are expected to be staked by the end of 2007. Claim staking and exploration spending are up sharply in the province as a result of interest across the province for base metals and the huge interest for uranium in Labrador.

The most advanced uranium project in the province is Aurora Energy's Michelin Project which consists of the Michelin and Jacques Lake deposits near Postville. Aurora will conduct 75,000 to 100,000 metres of diamond drilling during 2007 with an exploration budget of \$21 million. According to Aurora, the uranium contained in the Michelin Deposit alone is sufficient to power one million homes for 67 years. Another notable uranium exploration project is the Crosshair Exploration & Mining Corp.'s Moran Lake property in the Central Mineral Belt of Labrador.

Some of the major base metal, gold and iron ore drilling projects ongoing in the province include: Messina Minerals Inc.'s Boomerang zinc-lead-copper-silver-gold deposit in Central Newfoundland; Rambler Metals and Mining's copper-gold project at the former Rambler mine near Baie Verte; Kermode Resources Inc.'s gold property in Western Newfoundland; Paragon's Golden Promise gold project west of Grand Falls-Windsor; and New Millennium Capital Corp.'s LabMag iron ore property in the Howells River area of Labrador.

² A junior company is defined as an exploration company that is not a recipient of significant income from producing mines or other businesses and is financed mainly by exploration funds raised through the issuance of shares.

Fishery

Fishing vessels and fish plant, Salvage



Fish landings are expected to fall by about 1% to approximately 343,500 tonnes in 2007, reflecting lower landings of pelagics and shellfish. However, landed value is expected to increase by about 8% to between \$500-\$510 million, reflecting higher crab and shrimp prices. The fishing industry continues to be challenged by a rising Canadian dollar, high fuel costs and global competition.

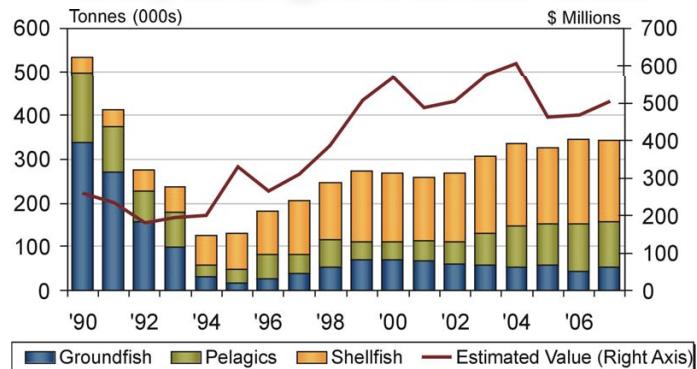
Shellfish landings are expected to decline from 195,200 tonnes in 2006 to between 180,000-190,000 tonnes in 2007, as lower squid, surf clams and scallop catches offset higher landings of crab and shrimp. Despite this decline, the value of shellfish landings should increase by about 23% due to higher crab and shrimp values. The volume of crab landings is expected to increase by about 4% in 2007, reflective of a 3% quota increase. The value of crab landings is expected to exhibit a much greater (73%) increase as a result of higher prices—the average price paid to harvesters increased from \$0.96 per pound in 2006 to about \$1.58 per pound in 2007. Shrimp landings are also expected to be higher and the value of landings should rise by more than 16%. A change to the Autonomous Tariff Rate Quota is benefitting the shrimp sector. The amount of shrimp that can now be sold to the European Union under the lower 6% tariff has increased from 10,000 to 20,000 tonnes. Shrimp sold above this quota is subject to a 20% tariff.

Pelagics are expected to be down by approximately 2% this year to approximately 105,000 tonnes due to lower catches of capelin. The decline in capelin was due mainly to reduced effort because of lower prices. The value of pelagic landings is expected to be around \$30 million, down about 15% from 2006.

Groundfish landings and value are expected to be higher in 2007. Volume is expected to total about 52,000 tonnes, up almost 19% over 2006, while landed value is expected to increase by over 5% to between \$65-\$70 million. The increase in volume is largely the result of higher landings of yellowtail flounder and American plaice. In 2006, a ma-

jor quota holder of yellowtail flounder did not harvest its quota because of a labour dispute. Consequently, catches of American plaice, a by-catch species from the yellowtail fishery, also fell. This year, most of the yellowtail quota is expected to be landed.

Fishery Landings and Landed Values



f: forecast
Department of Fisheries and Aquaculture

Fishery Products International (FPI) shareholders recently approved the sale of the company's assets to Ocean Choice International Inc. (OCI) and High Liner Foods Incorporated. OCI will purchase FPI's primary processing plants in the province and take control of offshore groundfish, scallop and shrimp quotas. Under an agreement between the federal and provincial governments, OCI will be obligated to land and process FPI's groundfish quotas in Newfoundland and Labrador. High Liner will purchase the secondary processing plant at Burin and the marketing division in the United States. Both companies have committed to sustained operations of all FPI facilities, where traditional levels of employment will be maintained. These transactions are expected to be finalized by year end.

The aquaculture industry is experiencing solid growth. This year, it is estimated that 11,550 tonnes of product will be produced compared with 10,500 tonnes in 2006 and 1,745 tonnes about ten years ago. Last year, aquaculture production was valued at \$52.3 million.

Forestry and Agrifoods

Egg grading machine



FORESTRY

Newsprint

Newsprint demand in North America has declined by 25% since 2000 as a result of increased web-based competition and a shift by newspaper publishers towards smaller tabloid form papers. This has created excess capacity in the industry and has put downward pressure on newsprint prices. In an effort to elevate prices and maintain profitability, newsprint producers have cut back production by closing some of their highest cost mills and idling many of their older, less efficient paper machines. Thus far, this strategy has been met with only limited success and most industry analysts agree that more capacity reductions will be necessary before a new equilibrium can be reached.

Newsprint prices have been in steady decline since last fall. Between September 2006 and November 2007, newsprint prices have declined by 17% in U.S. dollar terms—from US\$675 to US\$560 per tonne. For domestic producers, the negative impacts of the price decline have been exacerbated by appreciation of the Canadian dollar. Over the same period, the dollar has appreciated by 15.4% against the U.S. dollar and consequently newsprint prices have declined by 28.1% in Canadian dollar terms.

Kruger Inc. was forced to indefinitely idle one of its four paper machines at the Corner Brook Pulp and Paper Mill as a result of the high dollar. The idling of paper machine No. 1, effective November 5, will reduce the mill's annual production by approximately 80,000 tonnes and will result in the loss of approximately 100 positions at the mill and a potential loss of 100-200 logging, sawmill and trucking jobs. Despite this setback, the Corner Brook mill remains an important asset for Kruger and the company is committed to ensuring its long-term viability. The Grand Falls newsprint mill was not included in mill closures announced by AbitibiBowater in late November. Over the next four months AbitibiBowater will undertake a comprehensive review in an effort to further reduce costs and improve its competitive position.

In the first three quarters of 2007, provincial newsprint shipments totalled 423,500 tonnes, down 5.3% over the same period in 2006. On an annual basis, the volume and value of newsprint shipments are expected to be down by about 1% and 16% respectively in 2007.

Lumber

Lumber production is expected to increase by close to 8% this year to 140 million board feet. However, this volume increase is being more than offset by lower prices and, as a result, the value of production is expected to decline by around 10%. Lumber prices are expected to average US\$285 per thousand board feet in 2007, down from US\$327 in 2006, due to the sustained downturn in the U.S. housing market.

AGRIFOODS

Farm Cash Receipts

Total farm cash receipts increased by 13.7% in the first nine months of 2007 to \$79.0 million. Dairy production was up 13.3% to \$32.5 million. Farm cash receipts from floriculture and nursery products were down 1.9% to \$6.1 million, while egg production was down 4.1% to \$8.7 million. Chicken production receipts are no longer published by Statistics Canada, however, according to data from the Chicken Farmers of Canada, the volume of chicken production increased by 4.5% during the first nine months of 2007, compared to the same period in 2006.

Egg Grading Facility

In July 2007, the province announced it will be investing \$1.2 million under the Agriculture and Agrifoods Development Fund towards the construction of a \$4.2 million state-of-the-art egg grading station by Newfoundland Eggs Inc. The new facility will allow the company to increase its egg grading capacity and produce higher quality eggs at lower cost. This will give local industry greater opportunity to gain market share through import substitution. The current facility operated by the company grades 60% of the province's egg production.

Manufacturing

Purity Factories, St. John's



The manufacturing industry directly accounts for about 5% of GDP and 7% of total employment in the province. The industry is comprised of about 600 businesses, producing a wide array of products, and is an important contributor to the province's export sector. The largest manufacturing groups in the province—in terms of output and employment—are food processing (in particular fish), newsprint manufacturing, and petroleum refining. Other firms are engaged in the manufacture of beverages, boats, lumber, secondary wood products, non-metallic mineral products and a variety of other products.

The total value of manufacturing shipments for the first nine months of the year is estimated to be \$4.3 billion. Statistics Canada data revisions prevent comparisons with 2006, however, all indications point to a mixed performance for the manufacturing industry in 2007. Many firms in the industry that export their products have been challenged by the appreciation of the Canadian dollar. Companies that sell their products in U.S. dollars but pay costs, such as energy and labour, in Canadian dollars have seen their profit margins squeezed by the currency's appreciation. The newsprint sector has been especially hard hit due to lower U.S. newsprint prices coupled with

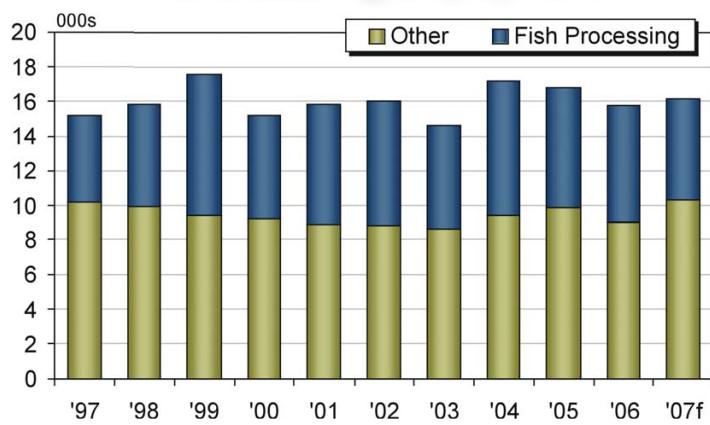
Company Profile: Purity Factories

Products: Cookies, crackers, candy, syrup, jams and spreads, salt fish
Location: St. John's
Established: 1924
Employment: 75
Export Markets: Rest of Canada, United States

exchange rate losses. This difficulty was evidenced by Kruger's decision to shut down one of the paper machines at its Corner Brook facility and AbitibiBowater's operational review. While the fish processing sector has also been challenged, stronger demand for fish products and higher market prices have alleviated some of the pressures of the appreciating dollar. It is estimated that refined petroleum, the other large manufacturing group, has benefitted from high oil prices—this has offset much of the negative impacts of the rising dollar. According to export data for the first nine months, the value of refined petroleum products exported from the province increased by 5.6% in 2007 compared to the same period in 2006.

Employment in the manufacturing sector in the first eleven months of 2007 averaged 16,200, an increase of 2.3% compared to 2006. Fish processing employment declined by about 900, while manufacturing employment outside of fish processing rose by 1,200. According to the Statistics Canada investment intentions survey released earlier this year, firms indicated that capital investment spending in manufacturing would be about \$165 million in 2007. Most of these expenditures are typically spent on machinery and equipment.

Manufacturing Employment



f: forecast

Statistics Canada; Economic Research and Analysis Division,
 Department of Finance

Construction

Construction of Kenny's Pond Retirement Residence, St. John's



Total construction investment is expected to decline by 7.4% (10.7% in real terms) to \$3.1 billion in 2007. Despite the decline, investment remains relatively high on a historical basis. This year's decline in construction investment is due to lower expenditures in the mining and oil and gas sectors.

Non-Residential Construction

Non-residential construction investment is expected to total \$2.0 billion this year, down \$333.6 million (or 14.3%) compared to 2006. This, in large part, reflects a decline in mega project investment. Construction investment in the mining and oil and gas sectors combined is expected to decline by \$523.1 million (or 32.8%) to \$1.1 billion in 2007. Current investment in these sectors reflects a number of ongoing activities including annual capital spending by the oil production facilities and expenditures for the establishment or reactivation of several mines (such as the Pine Cove gold mine in Baie Verte and the Beaver Brook antimony mine).

Outside of the mining and oil and gas sectors, there are a number of significant non-residential construction projects currently underway in the province, including many projects in the public sector. Public sector construction investment is expected to increase by about 24% this year. Projects in the public sector include: continuation of the St. John's harbour clean-up; continuation of hard surfacing of the Labrador West to Happy Valley-Goose Bay portion and construction of the Cartwright junction to Happy Valley-Goose Bay portion of the Trans Labrador Highway; and, construction of a new long-term care facility in Corner Brook.

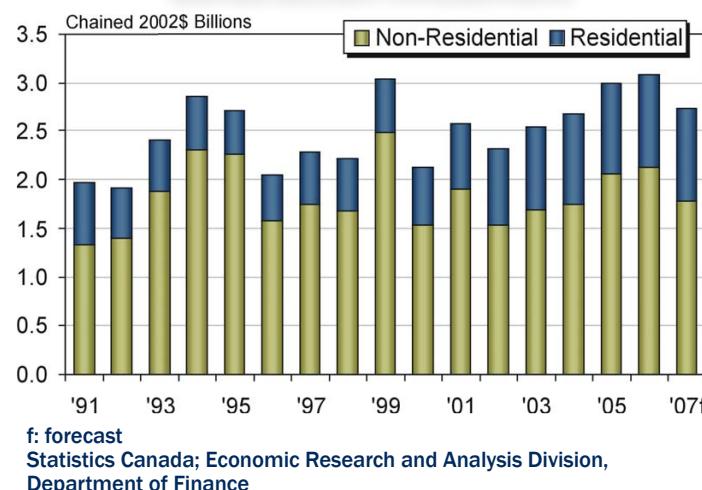
Residential Construction

Residential construction investment is expected to increase by 8.3% (0.5% in real terms) to \$1.1 billion in 2007—marking growth for the ninth consecutive year. In the first nine months of 2007, residential investment totalled \$850.0 million, an increase of 7.4% over the same period in 2006. Higher expenditures on both new dwell-

ings and renovations were behind the increase. Housing starts increased by 9.4% in the January to September period to 1,832 units, the first increase in this time period since 2004. In the Budget 2007 forecast, housing starts were expected to decline in 2007. However, given the strong performance to date, housing starts are now expected to increase by 9.0% (on an annual basis) to 2,435 units.

Construction employment averaged 13,500 in the first eleven months of 2007, an increase of 4.4% over the same period in 2006. Increased demand for construction workers over the last several years has been reflected in higher average weekly earnings: based on data for the first nine months, weekly earnings (including overtime) in the construction industry in 2007 are about 39% higher than five years ago—this is more than double the growth for the overall economy. The local industry, like the rest of the country, has experienced increased levels of activity in recent years. Securing skilled workers to complete future projects will continue to be one of the main challenges facing the industry, both locally and nationally over the next several years.

Construction Investment



Tourism

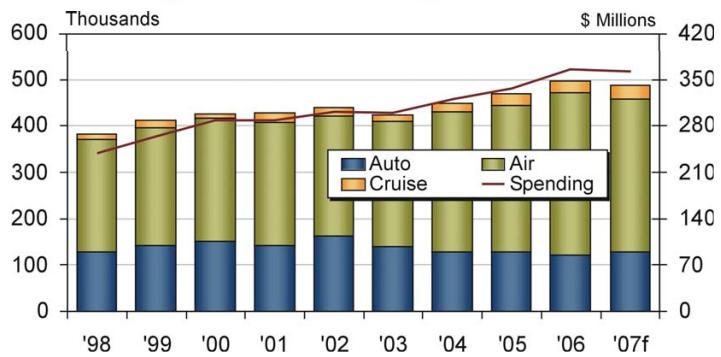
Iceberg off the coast of Newfoundland and Labrador



Provincial non-resident tourism activity is expected to decline in 2007. It is estimated that by the end of the year about 489,000 non-resident visitors will have come to the province—representing a 1.5% decrease over 2006. This decline is due to fewer air visitors which more than offset an increase in automobile and cruise visitors. Spending by non-resident visitors to the province is also expected to decline in 2007. Preliminary figures indicate that spending will total \$363.5 million, down 0.5% over 2006 levels.

In 2007, the number of non-resident air visitors is expected to drop by 5.2% to 331,500 with spending decreasing by 4.3% to \$278 million. This decrease in non-resident air visitation is believed to reflect in part a loss of air access (total number of seats available) in 2007. During the summer, domestic access declined by over 5% relative to summer 2006. This, combined with a reduction in the availability of low cost seats on all routes throughout the province, were major impediments to air travel. Other factors affecting air travel visitation were rising fares and the higher Canadian dollar. Tourism in all provinces is being impacted by the high Canadian dollar, which makes travelling to Canada more expensive and international travel for Canadians cheaper.

Non-Resident Tourists and Spending By Mode of Transportation



f: forecast

Department of Tourism, Culture and Recreation

The number of non-resident visitors travelling to the province by automobile is expected to increase in 2007. Non-resident automobile tourists are estimated to reach 127,750 in 2007, representing a 4.8% increase over 2006. According to year-to-date data, much of this growth is driven by an increase in auto visits from Ontario. In the January to October 2007 period, auto visits from Ontario were up 12.9% relative to the same period in 2006—auto visits from Western Canada and the Maritimes were up 4.6% and 3.5% respectively. Ontario and the Maritimes were primary target markets for this year's tourism advertising campaign.

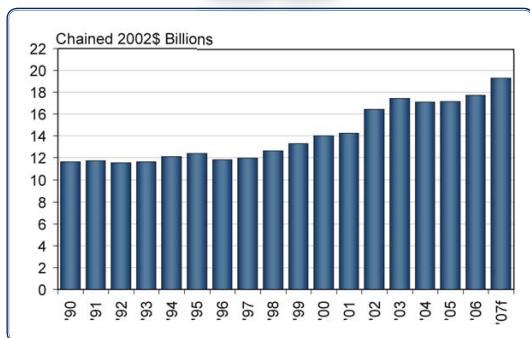
Unique cruise ship passenger visits totalled 28,732 for the 2007 season, representing an increase of 15.9% over 2006. There were 102 port calls during the 2007 cruise season, compared to 105 in 2006. The large increase in cruise ship visitors is due to an increase in larger ships carrying more passengers.

Convention activity performed well during this year's peak convention season. Destination St. John's is expecting to record 21,827 meeting and convention delegates by the end of 2007, representing an increase of 15.1% over 2006. This is largely the result of an increase in major conventions (i.e., those booking 50 or more guest rooms per night). There were 77 major conventions in 2006, while 97 have already been recorded for the January to November 2007 period.

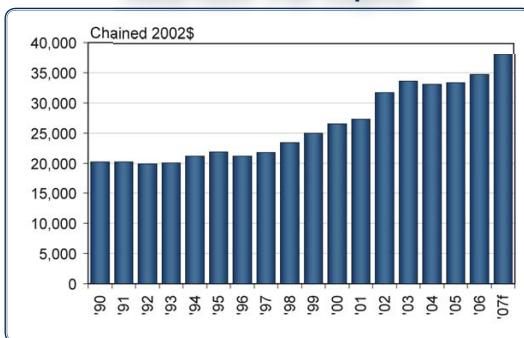
Awareness of, and interest in, Newfoundland and Labrador as a tourism destination remains strong, as evidenced by high levels of inquiries. Total requests for travel information through the provincial website and 1-800 number show an increase of 28% for the period ending October 2007. Furthermore, the province's marketing efforts have been recognized nationally, with two awards being won this year—Marketing Campaign of the Year Award and Best Public Sector Website.

Selected Indicators

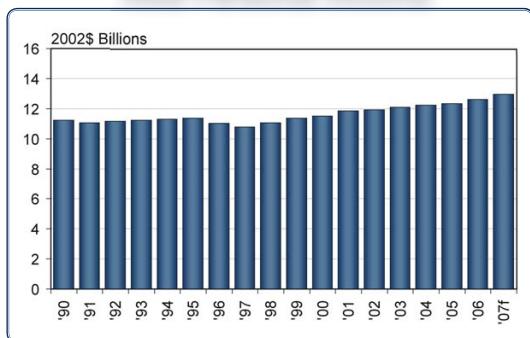
Real GDP



Real GDP Per Capita



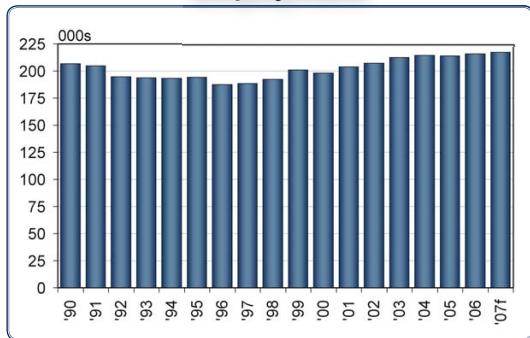
Real Personal Income



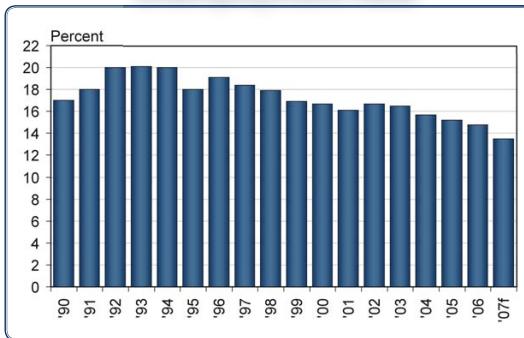
Real Personal Income Per Capita



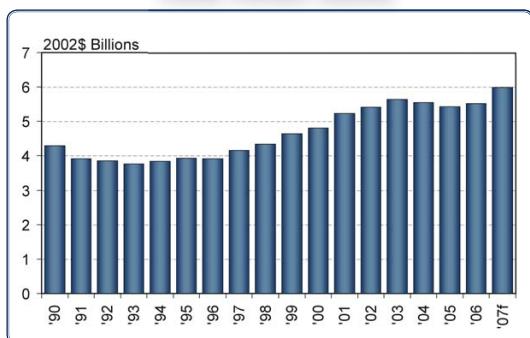
Employment



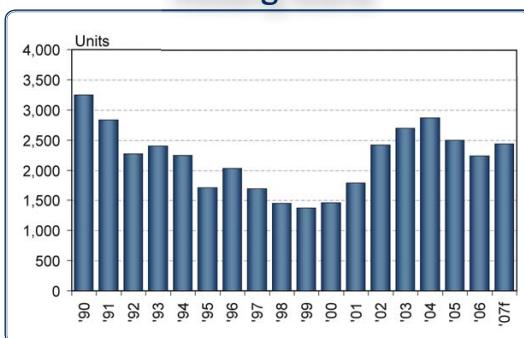
Unemployment Rate



Real Retail Sales



Housing Starts



f: forecast

Note: The stated estimates of personal income do not include the provincial government's special payments to public sector pension plans in 2006 and 2007. Payments of \$1,953 and \$982 million were made to these pension plans in 2006 and 2007 respectively.

Statistics Canada; Canada Mortgage and Housing Corporation; Economic Research and Analysis Division, Department of Finance

GDP and Employment by Industry

Arnold's Cove



		Gross Domestic Product		Employment	
		2004		2006	
		\$ Millions	% of Total	Person Years, 000s	% of Total
GOODS PRODUCING INDUSTRIES		8,314.4	47.0%	49.1	22.8%
Agriculture		40.4	0.2%	1.9	0.9%
Forestry & Logging		131.9	0.7%	0.9	0.4%
Fishing, Hunting & Trapping		274.6	1.6%	8.2	3.8%
Mining & Oil Extraction		5,648.6	31.9%	7.3	3.4%
Manufacturing		889.2	5.0%	15.7	7.3%
Fish Products		249.9	1.4%	6.7	3.1%
Other		639.3	3.6%	9.0	4.2%
Construction		748.3	4.2%	12.9	6.0%
Utilities		581.4	3.3%	2.2	1.0%
SERVICE PRODUCING INDUSTRIES		9,368.8	53.0%	166.6	77.2%
Wholesale Trade		509.1	2.9%	6.4	3.0%
Retail Trade		888.4	5.0%	31.3	14.5%
Transportation & Warehousing		490.6	2.8%	11.6	5.4%
Finance, Insurance, Real Estate & Business Support Services		2,205.3	12.5%	15.0	7.0%
Professional, Scientific & Technical Services		400.2	2.3%	6.7	3.1%
Educational Services		988.4	5.6%	16.6	7.7%
Health Care & Social Assistance		1,360.4	7.7%	30.1	14.0%
Information, Culture & Recreation		565.8	3.2%	8.8	4.1%
Accommodation & Food Services		315.8	1.8%	13.4	6.2%
Public Administration		1,296.2	7.3%	15.3	7.1%
Other Services		348.7	2.0%	11.3	5.2%
TOTAL, ALL INDUSTRIES		17,683.2	100.0%	215.7	100.0%

Note: GDP is expressed at basic prices, measuring payments made to the owners of factor inputs in production. This differs from GDP at market prices. The difference is attributable to taxes less subsidies on products.

Percentages may not add to 100 due to independent rounding.

Statistics Canada; Economic Research and Analysis Division, Department of Finance

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