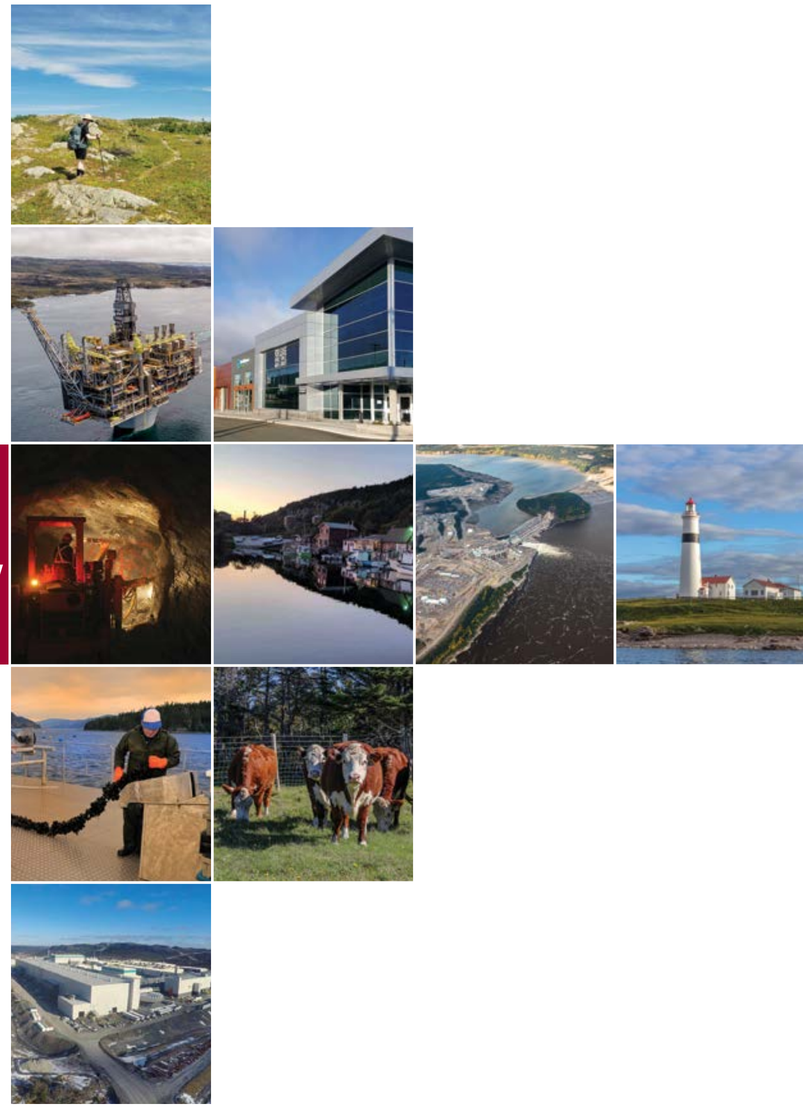
The Economic Review 2017



Newfoundland Labrador

East Coast Trail, Piccos Ridge Path. Courtesy: Lars Evelson

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Economic Diversification

Diversification of the provincial economy has been identified as a priority for the Provincial Government. In the fall of 2016, the Government of Newfoundland and Labrador launched The Way Forward: A vision for sustainability and growth, which is focused on strengthening the province's economic foundation, increasing public sector efficiency, and improving provincial services and the province's health, education, economic and social outcomes. As part of this plan, a Cabinet Committee on Jobs was established to create conditions that support private sector job creation and economic sustainability by supporting economic growth and entrepreneurship.

Three high potential sectors were identified as part of the Cabinet Committee on Job's work—agriculture, aquaculture, and technology. To encourage growth in these areas, the Provincial Government and industry associations, along with business owners, researchers, academics and other community groups, partnered to jointly develop work plans to grow those three areas of the provincial economy and respond to industry needs. The overall goal of this initiative is to foster new economic activity and create new employment opportunities in the private sector for residents throughout the province. Plans for the agriculture and aquaculture sectors have been launched, and work is underway on the technology work plan.

Specific goals have been established regarding the growth of the three high potential sectors that have been identified. With respect to aquaculture, 28 actions were launched by the Provincial Government and the Newfoundland Aquaculture Industry Association to expand commercial salmon production to 50,000 metric tonnes and commercial mussel production to 10,750 metric tonnes. If this level of production if achieved, this is forecasted to generate an additional 1,100 person years of employment.

With respect to growing the agriculture industry, the Provincial Government, Newfoundland and

Labrador Federation of Agriculture, and Food First NL jointly launched 43 actions to double the province's food self-sufficiency, and double the number of people directly employed in the provincial agriculture sector by generating an additional 500 person years of employment.

With respect to growing activity in the province's technology sector, the Provincial Government has partnered with The Newfoundland and Labrador Association of Technology Industries, The Newfoundland and Labrador Environmental Industry Association, The Canadian Manufacturers and Exporters, and The Atlantic Canada Aerospace and Defence Association to achieve the goal of supporting the growth of 20 firms in the technology sector per year.

Another industry with high development potential is the provincial film industry. The Provincial Government continues to support the success of the industry through the Provincial Government's Film and Video Tax Credit and equity investments through the Newfoundland and Labrador Film Development Corporation. Both initiatives have played a vital role in attracting major productions to the province, with recent examples being "Frontier," a historical drama television series co-produced by Discovery Channel and Netflix, and "Caught" a CBC TV mini-series. Since 1997, the total production activity in Newfoundland and Labrador has been over $350 million, which has leveraged over $250 million in new money in the province.

In addition to partnering with industry sectors to advance the economy, the Provincial Government is also partnering with the Federal Government along with the Atlantic provinces to advance economic development through the Atlantic Growth Strategy. With this strategy, the governments have committed to collaborate on a pan-Atlantic basis on targeted actions to stimulate the region's economy, support both innovative and traditional industries, increase job opportunities for Atlantic Canadians and focus on persistent and emerging regional challenges.

The Provincial Government is also partnering with the Federal Government to deliver the Atlantic Fisheries Fund to promote the success of the province's seafood sector. The fund will make more than $100 million available within the province over the next seven years to support innovative processes and technologies; infrastructure to improve fish and seafood product quality and sustainability; and scientific knowledge of the North Atlantic marine environment and changing oceanic conditions.

In addition to pursuing economic growth opportunities with various partners, the Provincial Government has also outlined actions through The Way Forward to support entrepreneurship among youth, women, and new immigrants by providing loans, educational initiatives, and new entrance pathways for immigrant entrepreneurs.

When combined with government's current multi-year infrastructure plan, the economic targets outlined in The Way Forward are forecasted to generate an additional 14,000 person years of employment.


Point Amour Lighthouse, Labrador. Courtesy: Newfoundland & Labrador Tourism

GDP and Employment, by Industry

	GDP		Employment	
	2015e		2016	
	$ Millions	% of Total	Person Years 000s	% of Total
Goods-Producing Sector	11,665.4	41.8	50.5	21.7
Agriculture, Forestry & Logging	193.9	0.7	2.3	1.0
Fishing, Hunting & Trapping	325.4	1.2	3.1	1.3
Mining	1,900.5	6.8	3.6	1.5
Oil Extraction	3,247.1	11.6	4.3	1.8
Support Activities for Oil and Mining	835.9	3.0	2.7	1.2
Manufacturing	1,404.4	5.0	9.8	4.2
Fish Products	323.2	1.2	2.8	1.2
Other	1,081.3	3.9	7.0	3.0
Construction	3,141.1	11.3	21.9	9.4
Utilities	617.1	2.2	2.8	1.2
Services-Producing Sector	16,255.6	58.2	182.1	78.3
Wholesale Trade	793.0	2.8	6.5	2.8
Retail Trade	1,627.8	5.8	36.6	15.7
Transportation & Warehousing	834.8	3.0	9.7	4.2
Finance, Insurance, Real Estate & Business Support Services	4,263.5	15.3	14.8	6.4
Professional, Scientific & Technical Services	742.7	2.7	10.5	4.5
Educational Services	1,605.5	5.8	14.3	6.1
Health Care & Social Assistance	2,356.5	8.4	39.2	16.9
Information, Culture & Recreation	770.6	2.8	7.1	3.1
Accommodation & Food Services	530.5	1.9	16.0	6.9
Public Administration	2,222.5	8.0	15.3	6.6
Other Services	508.2	1.8	12.2	5.2
Total, All Industries	27,921.0	100.0	232.6	100.0

e: estimate

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 and imports. Industry components may not sum to total due to independent rounding.

Source: Statistics Canada; Department of Finance


Ambassador Bridge, connecting Detroit, Michigan with Windsor, Ontario.
Courtesy: www.ambassadorbridge.com

Global Economic Environment

Global

Global economic growth in 2017 remains on track with earlier International Monetary Fund (IMF) projections. This stands in contrast to previous years, when projections were routinely revised down as the year progressed. However, the relative contribution of different countries and regions to this growth has changed as 2017 has advanced. Growth in the euro area, Japan and Canada is now above expectations, while the outlook for the United States has been slightly lowered.

In developed countries, consumption has been the main driver of growth in recent years. Gains in business investment are also contributing to economic growth in 2017.

The outlook for China, the largest developing country, appears to have stabilized. Industrial production remains strong, reflecting global demand. Domestic demand continues to be supported through credit growth. As a result, the government will be challenged to maintain the current growth rate while managing financial risks. As for other developing economies, commodity-exporters that were previously hard hit by the sharp decline in the price of several industrial commodities are now recovering. The largest two, Brazil and Russia, are both expected to show real gross domestic product (GDP) growth for the first time in three years.

Inflation remains subdued and below the target of several advanced economies despite a decrease in unemployment. The European Central Bank is expected to continue its assets purchase program and hold the interest rate constant until at least December 2017. The Federal Reserve in the United States has been gradually raising its target rate since December 2015, while the Bank of Canada recently initiated this process in 2017.

Possible upside potential for economic growth includes a stronger than expected rebound in Europe and a U.S. fiscal stimulus plan that has yet to be approved. On the downside, expenditure consolidation in the U.S., as envisioned by the current administration, could curtail this potential

Real GDP Growth (%)

	2015	2016	2017f	2018f
World	3.4	3.2	3.6	3.7
Brazil	-3.8	-3.6	0.7	1.5
India	8.0	7.1	6.7	7.4
Russia	-2.8	-0.2	1.8	1.6
China	6.9	6.7	6.8	6.5
Canada	0.9	1.5	3.0	2.1
United States	2.9	1.5	2.1	2.4
Japan	1.1	1.0	1.5	0.7
Australia	2.4	2.5	2.2	2.9
European Union	2.3	2.0	2.3	2.1
United Kingdom	2.2	1.8	1.7	1.5
Euro Area	2.0	1.8	2.1	1.9
Germany	1.5	1.9	2.1	1.8
France	1.1	1.2	1.6	1.8
Italy	0.8	0.9	1.5	1.1
Spain	3.2	3.2	3.1	2.5

f: forecast
Source: Various, available upon request

stimulus. Further, should the recent improvement in commodity prices wane, this would strain several commodity-exporting countries already in the process of adapting to lower prices. The IMF projects real GDP growth of 3.6% for the world, 2.2% for advanced economies and 4.6% for emerging market and developing economies for 2017. The global projection for 2018 has growth edging up to 3.7% (see table).

United States

U.S. economic growth has been steady but moderate in recent years. Real GDP increased by 1.5% in 2016, but signs of slight acceleration emerged in the second quarter of 2017, with real GDP growing by 3.1% on an annualized basis.

Real consumer spending increased by 2.8% during the first two quarters of 2017, with durables up 6.6%. This pace for durable goods may not be sustainable, as it appears that car sales have reached a plateau and have been trending down in recent months. Consumer spending accounts for about two-thirds of U.S. economic activity.

In 2016, real private non-residential investment declined by 0.6%. This pace improved in 2017, with investment in structures and equipment up 7.0% and 8.8%, respectively, in the second quarter (annualized, over the previous quarter). However, this pickup in business investment is expected to slip in the third quarter due to disruptions caused by the hurricanes in August and September. Several oil fields and refineries along the Gulf Coast were shut down in the third quarter due to Hurricane Harvey.

Residential investment has not fared as well as non-residential investment, but has still exhibited modest year-to-date growth. Between January and September 2017, housing starts increased by 3.1% over the same period in 2016. Residential growth appears to be restrained by rising home prices which, in turn, reflect higher material prices (notably lumber); shortages in buildable lots and skilled labour; and lower house inventories.

The unemployment rate continued its steady decline, reaching 4.2% in September 2017 (seasonally adjusted). Monthly employment gains averaged roughly 148,000 over the first nine months of 2017. Despite employment growth, evidence of heightened upward pressures on wages remained limited.

The Federal Reserve has been progressively increasing its target rate since December 2015, ending an era of ultra-low interest rates that had lasted since the last recession in 2008. The last rate increase occurred in June 2017 and another rate increase is expected in December.

Although monetary policy in the U.S. is on a clear path, the direction of federal fiscal policy initiatives remains unclear, both in nature and magnitude. A fiscal stimulus was expected earlier in 2017 in the form of tax cuts and increased infrastructure spending, but this appears to be delayed due to issues in the decision-making process. Whether this stimulus is assumed to happen or not impacts the outlook for the U.S. According to the latest survey of forecasters compiled by the Federal Reserve Bank of Philadelphia, real GDP growth is expected to be 2.1% in 2017 and accelerate to 2.4% in 2018.

Canada

Canadian real GDP increased by an impressive 3.6% in the first quarter of 2017, followed by 4.4% in the second quarter (annualized rates). The capacity utilization rate increased to its highest level since 2007 for the industrial aggregate and for the mining and oil and gas industry. This suggests a favourable climate for investment which was up 10.1% in the first quarter and a more moderate 1.9% in the second quarter. This represents a marked improvement over investment intentions for this year, which suggested investment would only grow by 0.8% in 2017.

Consumption continued to fare well, with retail sales up 7.0% between January and August 2017, over the same period in 2016. All major spending categories posted increases. Consumer indebtedness has increased considerably over the last 15 years, but the debt service ratio—the proportion of income spent on interest and debt payments—has remained stable. This ratio is poised to slowly trend upward with higher interest rates, seeding doubt on whether the current pace of consumer spending growth can be sustained in the near future.

The Canadian economic outlook has improved, causing the Bank of Canada to initiate a tightening of its monetary policy by raising its target for the overnight rate twice since June. As a result, the Canadian dollar appreciated rapidly, from an average of US$0.75 in June 2017 to US$0.81 in September 2017.

Year-to-date employment, as of September, increased by 1.8% nationally and was up in most provinces. Of those gains, more than two-thirds were in full time jobs. The unemployment rate averaged 6.6% in the first nine months of 2017, compared to 7.2% in the same period of 2016.

Several trade issues loom between Canada and the United States. The three members of the North American Free Trade Agreement (NAFTA) are undertaking rounds of negotiations to revisit several terms of the agreement at the request of the Trump Administration. The initial timetable called for negotiations to be completed by December 2017, but analysts are skeptical that it can be completed by then. Some of the contentious issues involve the arbitration process, local content requirements in automobiles, supply management in agricultural commodities in Canada, and labour rights and low manufacturing wages in Mexico. In addition to this, there are ongoing trade disputes regarding softwood lumber (see *Forestry and Agrifoods*) and practices in the sales of CSeries airplanes from Bombardier.

Economic growth in 2017 and 2018 is expected to be broad-based across the country (see table). The latest average of forecasts by banks and the Conference Board of Canada expects real GDP growth in Canada to average 3.0% in 2017 and 2.1% in 2018. Most provinces are expecting growth in both years, although growth will be more modest in the Maritimes.

Real GDP Growth, by Province

	2017	2018
NL	-1.7	1.1
PE	1.8	1.5
NS	1.3	1.2
NB	1.4	1.0
QC	2.7	2.0
ON	2.9	2.2
MB	2.4	1.8
SK	2.1	2.0
AB	4.0	2.2
BC	3.2	2.4
CA	3.0	2.1

Note: Growth rates in this table for NL may differ from the Department of Finance forecast outlined on page 10.
Source: Average of Canadian major banks and the Conference Board of Canada


Quidi Vidi Village, St. John's. Courtesy: Larry Martin

Provincial Overview

While overall economic activity faces challenges posed by the transitioning of the economy from major project construction to production, there are still positive developments occurring throughout the economy. This year marks the 20th full year of oil production in Newfoundland and Labrador and the start of production from the fourth stand-alone oil project, Hebron. Husky Energy has announced that they will proceed with the development of a $2.2 billion expansion of the White Rose project—West White Rose. The Long Harbour nickel processing plant is running at 75% nameplate capacity as of July, and is contributing significantly to the manufacturing sector in the province. The tourism sector continues to flourish, benefitting from new initiatives and the addition of infrastructure throughout the province. Furthermore, the aquaculture industry has recorded gains in the last two years and is poised for further growth.

Real GDP in Newfoundland and Labrador is expected to decline by 3.2% in 2017. Higher exports will be offset by a significant decline in capital investment as construction of the Hebron oil project and the Long Harbour nickel processing facility are largely completed. Real consumer and government spending are also expected to decline slightly this year. As a result, real final domestic demand is forecast to fall by 4.6% (see table).

Real exports are expected to increase by 1.1% this year due primarily to an increase in exports of iron ore and refined petroleum. The Iron Ore Company of Canada is beginning to reap the benefits from a recent expansion with production expected to increase by at least 6% this year. As well, refined petroleum production has increased at the North Atlantic Oil Refinery resulting from a 2016 program to increase capacity. Higher exports of iron ore and refined petroleum will be partially offset by declines in nickel and crude oil exports.

Capital investment in the province is expected to total $10.8 billion in 2017, a decline of 10.6% from 2016. Lower spending on the Long Harbour nickel processing facility and the Hebron oil project—as these projects conclude their development

Provincial Economic Indicators

	2016e	2017f	2018f	2019f	2020f	2021f
GDP at Market Prices ($M)	29,982	31,063	30,776	31,642	32,139	32,340
% Change	-0.4	3.6	-0.9	2.8	1.6	0.6
% Change, real	-0.8	-3.2	0.2	1.5	-1.1	-2.3
Final Domestic Demand[1] ($M)	36,949	35,970	34,943	34,861	34,790	34,765
% Change	-1.1	-2.6	-2.9	-0.2	-0.2	-0.1
% Change, real	-3.2	-4.6	-5.2	-2.3	-2.3	-2.2
Household Income ($M)	25,404	25,861	26,018	26,370	26,781	27,324
% Change	0.6	1.8	0.6	1.4	1.6	2.0
% Change, real	-2.1	-0.8	-2.3	-1.0	-0.9	-0.5
Household Disposable Income ($M)	17,200	17,508	17,627	17,883	18,179	18,557
% Change	-0.4	1.8	0.7	1.5	1.7	2.1
% Change, real	-3.0	-0.8	-2.2	-0.9	-0.8	-0.5
Retail Sales ($M)	8,988	9,075	9,028	9,100	9,230	9,350
% Change	0.2	1.0	-0.5	0.8	1.4	1.3
% Change, real	-2.3	-0.4	-2.0	-0.6	0.1	-0.1
Consumer Price Index (2002=100)	132.5	136.0	140.0	143.3	146.8	150.6
% Change	2.7	2.6	2.9	2.4	2.4	2.6
Capital Investment ($M)	12,096	10,808	9,441	9,093	8,673	8,291
% Change	-6.0	-10.6	-12.7	-3.7	-4.6	-4.4
% Change, real	-7.6	-11.8	-14.5	-5.7	-6.7	-6.5
Housing Starts (Units)	1,398	1,158	1,049	975	1,041	1,136
% Change	-17.6	-17.1	-9.4	-7.1	6.7	9.1
Employment (000s)	232.6	223.1	219.8	216.5	213.3	212.1
% Change	-1.5	-4.1	-1.5	-1.5	-1.5	-0.6
Labour Force (000s)	268.7	262.6	259.4	257.1	255.2	253.8
% Change	-0.8	-2.3	-1.2	-0.9	-0.7	-0.5
Unemployment Rate (%)	13.4	15.1	15.3	15.8	16.4	16.4
Participation Rate (%)	60.5	59.3	58.9	58.6	58.4	58.4
Population (000s)	530.3	528.8	525.7	523.4	521.2	518.2
% Change	0.3	-0.3	-0.6	-0.4	-0.4	-0.6

[1] Final domestic demand measures demand in the local economy by summing consumption, investment and government expenditures; it excludes net exports.

e: estimate; f: forecast, Department of Finance, November 2017

Note: Historical estimates of these indicators are periodically updated by Statistics Canada. Historical updates can impact indicator levels in the forecast period. For the most current table of Provincial Economic Indicators, which includes the latest historical data, please visit: www.economics.gov.nl.ca/forecast/selectedindicators.pdf

Source: Statistics Canada; Department of Finance

phases—combined with lower residential expenditures, are the primary reasons for lower capital expenditures. Spending on the Muskrat Falls development is expected to be similar to 2016 levels. Total residential spending (including renovations) is expected to be $1.4 billion this year, a decline of 8.4% compared to 2016 and consistent with lower housing starts.

Consumer spending growth has been moderate this year. The value of retail sales in the first eight months of 2017 increased by 2.2% compared to the same period of 2016. Sales from motor vehicle and parts dealers (largely comprised of vehicle sales) were the single largest contributor to the growth in retail sales so far this year, increasing by 6.3% in the January to August period. The number of new motor vehicles sold in the first eight months of 2017 was 23,546. This was relatively unchanged from the same period of 2016; however, the value of sales increased by 3.9% during the same timeframe. For all of 2017, retail sales are forecast to increase by 1.0%.

Expenditures on services are also expected to post growth this year. Receipts of food services and drinking places increased by 2.1% in the first eight months of 2017 compared to the same period of 2016.

Inflation

On a year-over-year basis, growth in the Consumer Price Index (CPI), or inflation, was 2.7% in the first nine months of 2017. Higher gasoline prices relative to 2016 exerted upward pressure on the CPI, and changes to consumer taxes (effective June/July 2016) impacted the prices of some consumer goods and services in the first half of the year. Inflation is expected to be more modest for the remainder of the year as the impacts of previous tax changes have been absorbed into price levels. In addition, a reduction of the Gasoline Tax effective June 1, 2017 and another reduction scheduled for December 1, 2017 should put downward pressure on the inflation rate for the rest of the year. For the year as a whole, inflation is expected to average 2.6%.

Labour Markets

Labour market activity declined in 2017. Employment has decreased and the unemployment rate and the number of unemployment beneficiaries have increased. Although employment declined in 2017, the level remains higher than that of 10 years ago—in 2007, employment averaged 217,000.

Employment averaged 224,000 in the first nine months of 2017, a decline of 4.4% relative to the same period of 2016. Employment losses occurred in both full-time and part-time employment. Full-time jobs fell by 2.7% while part-time employment declined by 13.4%.

The labour force also decreased during the first nine months of the year, falling by 2.4% relative to the same period of 2016. The decline in the labour force stemmed from a drop in the participation rate (from an average of 60.7% in the first nine months of 2016 to 59.1% in the same period of 2017). The decrease in employment was greater than that of the labour force and as a result the unemployment rate increased. During the first nine months of the year, the unemployment rate averaged 15.0%, an increase of 1.8 percentage points compared to the same period of 2016.

There was also an increase in the number of Employment Insurance (EI) beneficiaries. The average number of persons receiving regular EI benefits increased by 7.9% in the first seven months of 2017, compared to the same period in 2016. This reflects fewer employment opportunities locally, in large part due to the completion of two major projects. It may also be partially due to a decline in jobs available for residents who commute to work outside the province.

While employment has declined so far in 2017, wages have continued to increase, albeit modestly. Average weekly earnings rose by 1.7% in the first eight months of 2017 compared to the same period of 2016. At approximately $1,031 per week, wages in Newfoundland and Labrador were the second highest level among provinces after Alberta. As a result of higher wages, total compensation of employees increased by 1.6% to $7.4 billion for the first six months of 2017, compared to the same period of 2016.

Population

Preliminary estimates indicate that the population of the province stood at 528,817 as of July 1, 2017 (see table). This represents a decline of 0.3% compared to July 1, 2016.

The population decrease was the result of losses from both net migration and natural change. Net migration reduced the population by 619 persons—a gain of 1,335 persons from international migration was offset by a loss of 1,954 from interprovincial migration. Additionally, deaths outnumbered births resulting in a natural population decline of 869. Natural population change has been negative for several years, reflecting the aging population and a relatively low fertility rate.

Outlook

The economic outlook is expected to continue to be challenging as further declines in capital investment are incurred and real provincial government expenditures are constrained.

In 2018 and 2019, real GDP growth is forecast to be positive, albeit modest, as oil production from Hebron boosts total oil output. Employment is expected to continue to decline as jobs on major project development (mainly Hebron and Muskrat Falls) decrease. Lower employment levels are expected to constrain consumption and housing starts, and may be a contributing factor to population decline in the coming years.

Newfoundland and Labrador Population	
Previous population (July 1, 2016)	530,305
Total net migration	-619
Interprovincial net-migration	-1,954
Interprovincial in-migration	5,755
Interprovincial out-migration	-7,709
Net international migration	1,335
Natural population change	-869
Births	4,411
Deaths	-5,280
Population (July 1, 2017)	**528,817**

Source: Statistics Canada

Areas of Growth

Despite the negative outlook in the short to medium term, a number of positive developments are occurring in the provincial economy. Both the Hebron oil project and the Long Harbour nickel processing plant have been completed and are adding to the long-term productive capacity of the economy. Total oil production is expected to increase annually for the next several years because of production from Hebron, and output from the nickel processing facility will significantly increase manufacturing shipments. Husky Energy announced that it is moving forward with development of the West White Rose project with construction beginning this year. There is significant interest in development opportunities in the aquaculture industry which has the potential to double production and expand the industry into new areas of the province. To help facilitate further development, provincial government efforts are underway to increase the water area available for aquaculture, which will enable the industry to have the potential to expand commercial salmon production to 50,000 metric tonnes and commercial mussel production to 10,750 metric tonnes. Furthermore, significant capacity enhancements in transportation infrastructure, such as those at St. John's International Airport and the Marine Atlantic ferry; the completion of the St. John's Convention Centre; and the continued addition of new capacity in the accommodations sector should facilitate growth in the tourism sector.

Diversification of the provincial economy has been identified as a priority for the provincial government. Recent actions taken by the provincial government to support diversification include: efforts to double food self-sufficiency through increasing agricultural activity which could double direct farm employment; and investing in high performing businesses and working with technology companies to grow knowledge-based firms, such as a recent investment in PAL Aerospace's Force Multiplier project.

Moreover, there continues to be significant long-term potential in the provincial economy, particularly in the energy sector. There are substantial oil and gas resources available in offshore Newfoundland and Labrador, as evidenced by two recent resource assessments (one in the Flemish Pass and one in the West Orphan Basin) and land sales over the last three years show industry's confidence in the offshore potential. The recent land sale in the Jeanne d'Arc Region, though lower than those from the previous three years, is still positive as there continues to be interest in this mature area. In addition, Statoil, Husky, ExxonMobil and Nexen Energy are proposing long-term exploration programs for the Jeanne d'Arc and Flemish Pass areas. These programs could result in up to 65 exploration and delineation wells over the next 12 years—this demonstrates considerable commitment to the area. Exploration and development hold significant opportunities for future growth in oil production and, by extension, the provincial economy.

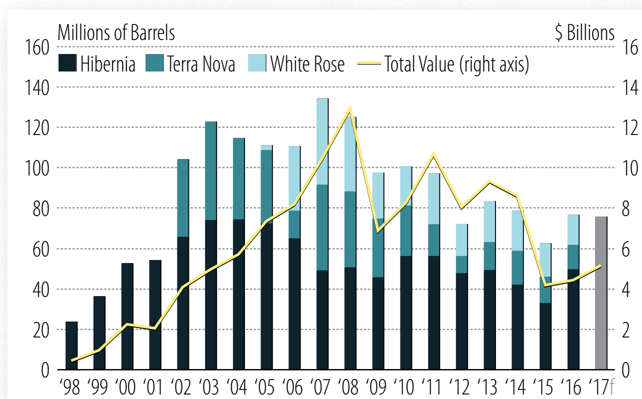

Hebron GBS. Courtesy: ExxonMobil Canada Properties.

Oil and Gas

Newfoundland and Labrador's oil and gas industry contributed $4.1 billion to nominal GDP in 2015, accounting for 14.6% of the provincial total. Direct employment in the oil and gas industry was approximately 7,000 person years in 2016 and represented 3.0% of total employment in the province.

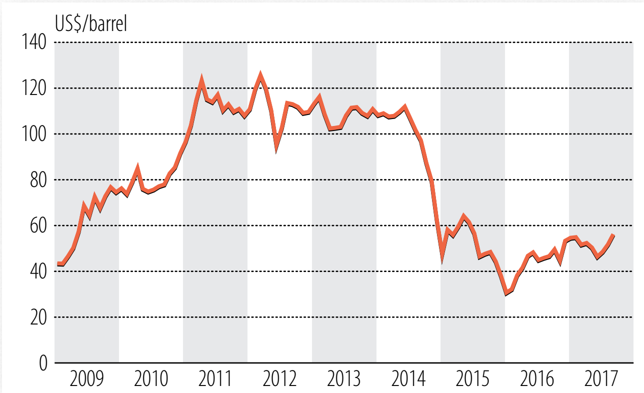
The Hibernia, Terra Nova and White Rose projects are currently producing oil in Newfoundland and Labrador's offshore area, while Hebron is expected to begin production in December 2017. Oil production over the January to August period totalled 55.1 million barrels (MMbbls), representing an increase of 15.6% or 7.4 MMbbls compared to the same period in 2016. For the year as a whole, oil production is expected to total 76.0 MMbbls, a decrease of 1.0% or 0.7 MMbbls compared to 2016 (see chart). Increased production at Hibernia and White Rose is expected to be offset by declines at Terra Nova. Despite the anticipated decline in total production, the value of oil production is expected to grow by 17.0% to an estimated $5.2 billion as a result of higher crude oil prices. The year-to-date price of Brent crude oil, a benchmark for Newfoundland and Labrador oil, averaged US$52.11/barrel as of October 20th, up 22.9% from an average of US$42.41/barrel for a comparable period of 2016 (see chart). Brent is expected to average US$52.80/barrel for the calendar year as a whole, representing an increase of 20.9% from the average price of US$43.67/barrel in 2016.

Offshore Oil Production



f: forecast
Note: 2017 Hebron production is included in the forecast.
Source: Canada-Newfoundland and Labrador Offshore Petroleum Board; Department of Finance

Brent Crude Oil Prices, Monthly



Source: U.S. Energy Information Administration

As part of promoting the long term success of the industry, the Provincial Government established an Oil and Gas Industry Development Council earlier this year. This council will further efforts to position Newfoundland and Labrador globally as a preferred location for oil and gas development. This action delivers on a commitment set out in the Way Forward vision, is responsive to requests from industry players for more engagement on policy development, and will enable government and industry players to work collaboratively to develop a long-term vision for the province's oil and gas sector—one that focuses on making the industry more sustainable and competitive.

Hibernia

Hibernia production totalled 36.3 MMbbls through the first eight months of 2017, an increase of 17.4% or 5.4 MMbbls compared to the first eight months of 2016. Since first oil in 1997, Hibernia production has expanded into two satellite areas south of the main field: the AA Blocks and the HSE Unit. It is estimated that the Hibernia project has 606.2 MMbbls of recoverable reserves remaining as of August 2017, and the project is expected to continue producing until at least 2040. As of June 30, 2017, there were a total of 1,836 people working on the Hibernia project in the province, of which, 1,629 (88.7%) were Newfoundland and Labrador residents.

Terra Nova

Terra Nova produced 7.3 MMbbls through the first eight months of 2017, an increase of 8.5% or 0.6 MMbbls compared to the same period in 2016. However, planned maintenance work and infield drilling operations that began in the third quarter of 2017 are expected to constrain production for the remainder of the year. In October 2016, Suncor signed a 15-month, $119 million contract with Transocean to utilize the deepwater semisubmersible drill rig *Transocean Barents* at the Terra Nova field to complete this drilling work, which could increase recoverable reserves and extend the life of the Terra Nova field. As of August 2017, the estimate for remaining Terra Nova recoverable reserves was 107.4 MMbbls. There were a total of 729 people working on the Terra Nova project in the province as of June 30, 2017, of which, 673 (92.3%) were Newfoundland and Labrador residents.

White Rose

White Rose and its satellite areas (North Amethyst, South White Rose Extension and West White Rose) produced 11.5 MMbbls through the first eight months of 2017, an increase of 15.0% or 1.5 MMbbls compared to the first eight months of 2016. Production was negatively impacted by a scheduled shutdown of the *SeaRose FPSO* in September 2017. It is estimated that the recoverable reserves remaining for the entire White Rose project (including North Amethyst and extensions) was 198.1 MMbbls as of August 2017. As of June 30, 2017, there were a total of 1,323 people working in the province on the White Rose project, of which, 1,169 (88.4%) were Newfoundland and Labrador residents.

On May 29, 2017, the Province and Husky announced that Husky is moving forward with the development of the West White Rose project. A pilot project for West White Rose began production in September 2011 and production has continued to date. The West White Rose project will use a fixed wellhead platform tied back to the *SeaRose FPSO*. Construction will begin in late 2017 and the project will cost $2.2 billion. The living quarters will be fabricated at Kiewit Offshore Services in Marystown and the concrete gravity structure will be constructed at the new graving dock in Argentia. The flare boom, helideck and life boat stations will also be fabricated in the province. An estimated 5,000 person years of direct employment will be generated during the construction period. First oil is expected in 2022 and, at peak production, the project will produce approximately 75,000 barrels of oil per day. It is estimated that the project will create 250 permanent platform jobs once operational.

A series of discoveries and satellite developments in the White Rose production area have improved the longevity of the original field since its discovery in 1984. Most recently (first quarter of 2017), a new oil discovery was made about 11 kilometers northwest of the *SeaRose FPSO*. The discovery continues to be assessed. A potential development could leverage the *SeaRose FPSO*, existing subsea infrastructure and the new West White Rose wellhead platform.

Hebron

The Hebron development received official sanction on December 31, 2012, becoming the province's fourth stand-alone offshore oil project. The oil field is estimated to contain 707 MMbbls of recoverable oil.

Hebron will utilize a Gravity Based Structure (GBS) similar to, but on a smaller scale than, Hibernia. The Hebron GBS is designed for an oil production rate of 150,000 barrels per day with a 30-year lifespan, and the total capital cost for the project is more than $14 billion. GBS construction began in October 2012 in the dry dock at Bull Arm, and four of the six components of the topsides of the GBS were constructed at various locations throughout the province, including Bull Arm, Port aux Basques, Marystown and Mount Pearl. Integration of the topsides modules and mating onto the GBS was completed in December 2016, and the platform was towed out and placed on the ocean floor in June 2017. Hook up and commissioning is currently underway and will continue until production begins. First oil is expected in December 2017.

As of June 30, 2017, there were a total of 2,593 people working on the Hebron project in the province, of which, 2,329 (89.8%) were Newfoundland and Labrador residents.

Exploration

Offshore

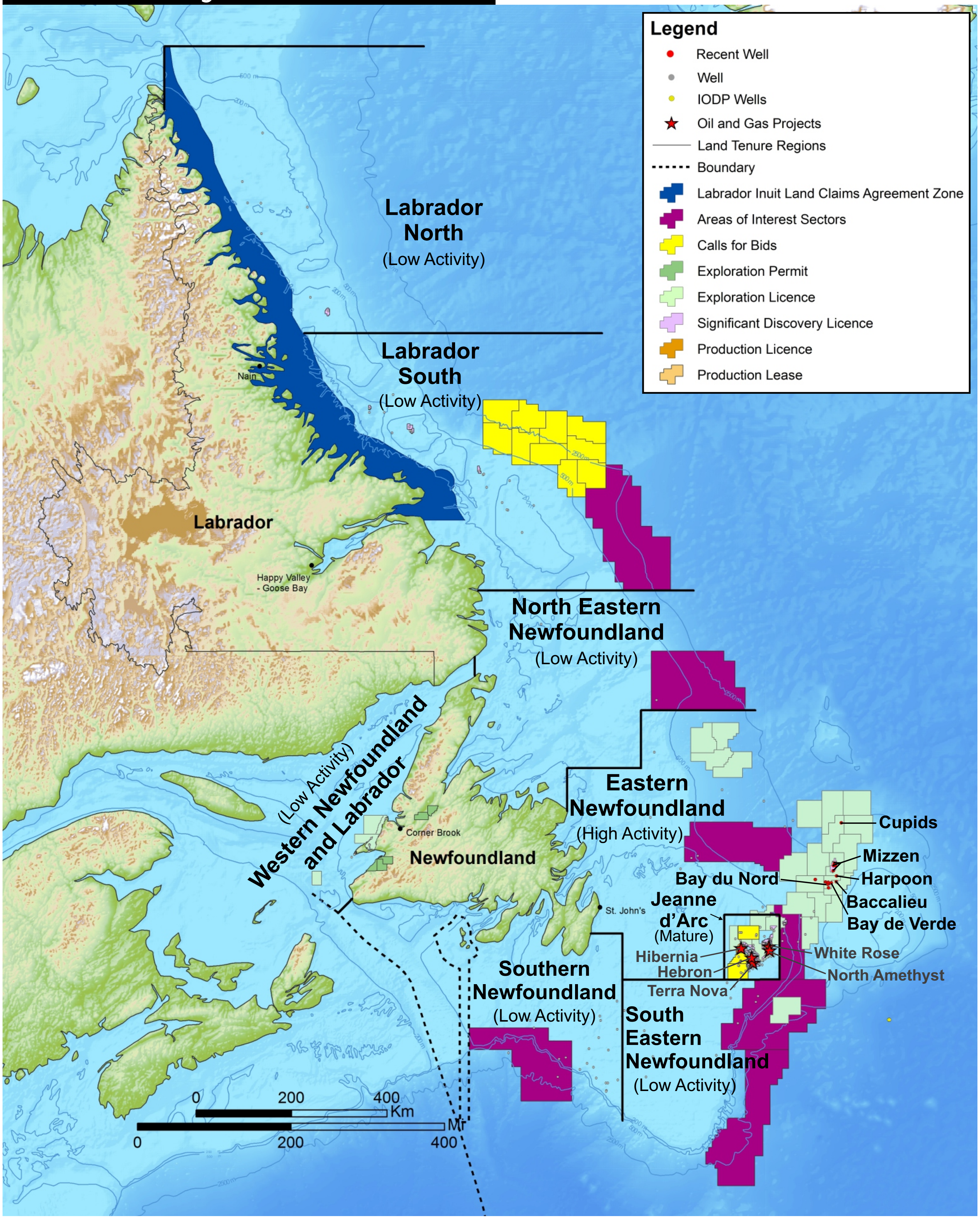
There have been several oil discoveries in the deepwater Flemish Pass Basin since 2009. These include Statoil Canada's Mizzen, Harpoon, Bay du Nord, Bay de Verde and Baccalieu discoveries (see map). Statoil drilled two additional exploration wells in mid-2017 in the area of the Bay du Nord discovery, but subsequently announced that there were no additional hydrocarbons discovered. Statoil continues to evaluate future drilling activities in other areas of the Flemish Pass Basin. An assessment of the commercial potential of the Bay du Nord discovery is also ongoing.

A number of companies have proposed long-term exploration programs for the offshore that bode well for the future of the oil and gas industry in the province.

Statoil provided a project description to the Canadian Environmental Assessment Agency (CEAA) in August 2016 for another proposed exploration drilling program within offshore exploration licences located in the Flemish Pass Basin. The project would include the drilling of up to 10 wells within a 10-year period, starting in 2018.

In September 2016, Husky Oil Operations Ltd. submitted a project description to the CEAA for a proposed drilling program within offshore exploration licences in both the Jeanne d'Arc Basin and the Flemish Pass Basin. The project would begin in 2018 and include the drilling of up to 10 wells within a nine-year period.

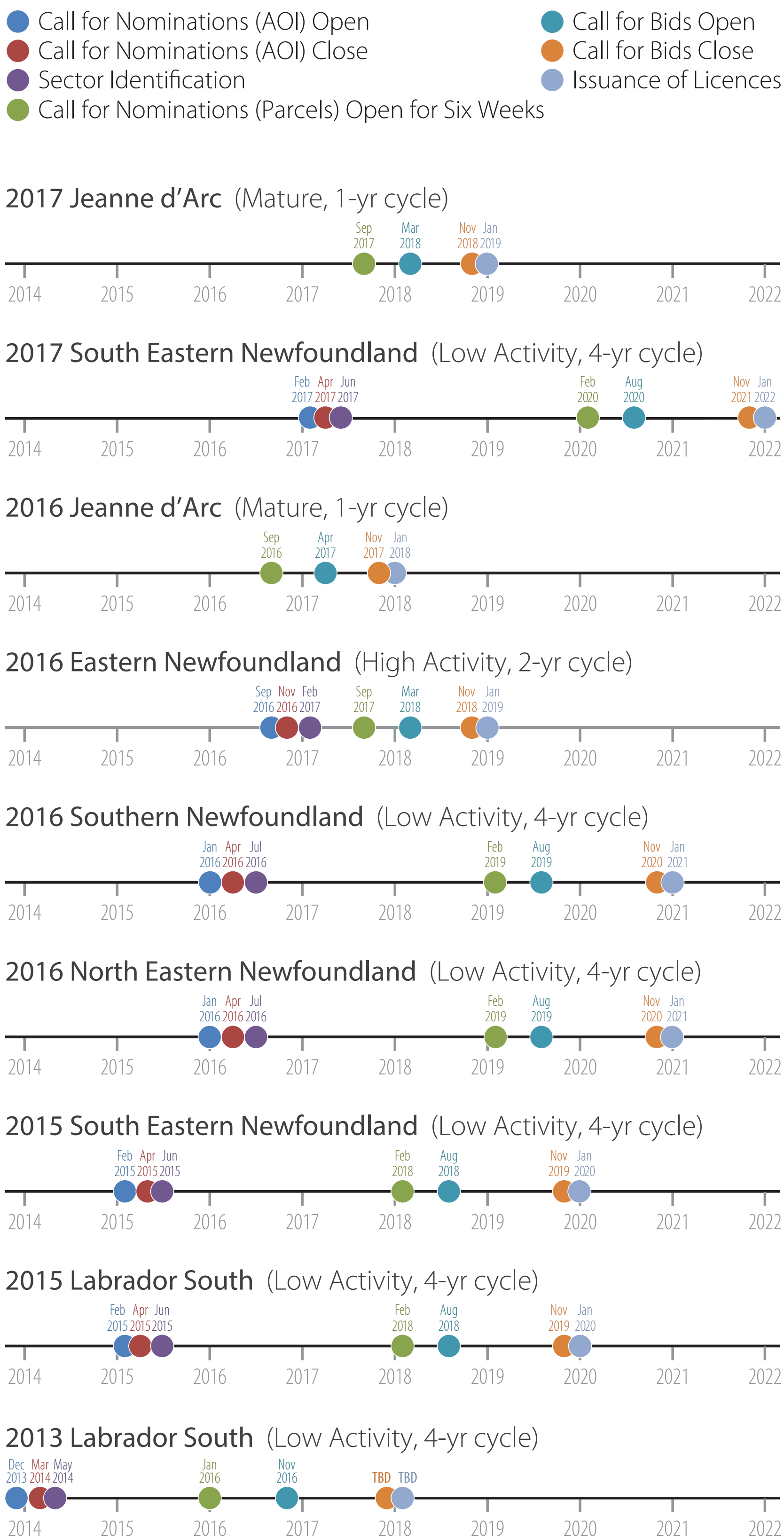
Land Tenure Regions



Note: This map is for illustrative and reference purposes only. The C-NLOPB makes no claims and no warranties express or implied concerning the accuracy or validity of the information provided. For legal descriptions of licences, please visit www.cnlopb.ca

Source: Canada-Newfoundland and Labrador Offshore Petroleum Board; Department of Natural Resources

Active Land Call Rounds Timeline



ExxonMobil Canada Ltd. also provided a project description to the CEAA in September 2016 for a proposed drilling program within offshore exploration licences located in both the Jeanne d'Arc Basin and the Flemish Pass Basin. The project would include the drilling of up to 35 wells within a 12-year period, commencing in 2018.

Most recently, Nexen Energy ULC submitted a project description to the CEAA in April 2017 for a proposed drilling program within two offshore exploration licences located in the Flemish Pass Basin. The project would begin in 2018 and include the drilling of up to 10 wells within an 11-year period.

Overall, significant offshore exploration activity continues in the Newfoundland and Labrador offshore area. There are currently $2.9 billion in outstanding work commitments.

Onshore and West Coast

Recent developments in oil and gas exploration on the province's west coast include:

- In October 2016, Enegi Oil Plc announced that it had entered into an agreement with PVF Energy Services Inc., a local consortium of oil and gas engineering service and equipment providers, to continue to maintain its production lease at Garden Hill South. These companies are currently performing well intervention activities in an effort to return to production.

- On January 15, 2017, Corridor Resources Inc. was issued an exploration licence covering the Newfoundland and Labrador side of the Old Harry prospect from the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB) in exchange for the surrender of an exploration licence covering the Old Harry prospect in the Gulf of St. Lawrence. A controlled source electromagnetic survey is planned for the area in the fall of 2017, subject to regulatory approvals and vessel availability. Corridor Resources intends to purchase a user licence for this survey data as it becomes available.
- Shoal Point Energy Ltd. is pursuing a Significant Discovery licence to develop the Humber Arm Allochthon (HAA) without hydraulic fracturing. The company's analysis and research indicates that this would be possible because of the naturally fractured nature of the reservoir.

Offshore Oil Exploration Initiatives

The Department of Natural Resources and Nalcor Energy continue to collaborate and invest in data acquisition, including satellite mapping of oil seeps, multi-client 2D and 3D broadband seismic, resistivity data, piston core samples and other geoscientific data. These data are then used as an input to carry out independent resource assessments ahead of the closing of the bidding rounds in the scheduled land tenure system. This offers an opportunity for industry to learn more about the oil and gas potential of the blocks on offer and ensures a full evaluation of all the offshore basins. The data collected are also available for licensing by industry. Geoscience acquisition programs in the province (seismic, gravity, electromagnetic resistivity and seabed sampling) have been positive in 2017 despite the reduction in global exploration expenditures. For the year as a whole, total offshore 3D seismic data acquired will exceed 17,250 km^2 and more than 22,000 km of 2D data will be collected.

Calls for Nominations and Bids

The C-NLOPB issued a Call for Nominations (Areas of Interest) in the low activity South Eastern Newfoundland Region in February 2017. This assisted the C-NLOPB in selecting a sector for introduction into the region in June of this year. Prospective areas have also been identified in other low activity regions, including the Labrador South, North Eastern Newfoundland and Southern Newfoundland regions. As well, the C-NLOPB announced the 2017 Eastern Newfoundland Sector Identification on February 28, 2017. Sectors for all regions will be later sub-divided into parcels then subsequently made available for licensing in Calls for Bids over the next three years (see timeline).

On April 3, 2017, the C-NLOPB announced a Call for Bids for three parcels in the Jeanne d'Arc Region. Bids on these parcels closed on November 8, 2017 and a successful bid was received on one of the parcels. The successful bidder was Husky Oil Operations Limited (50%) and BP Canada Energy Group (50%) with a bid of $15,098,888. Additionally, there is an active Call for Bids for 10 parcels in the Labrador South Region, issued on November 29, 2016. Bids on these parcels will close 120 days following the completion of the Labrador Strategic Environmental Assessment (SEA) which is currently underway. It is expected that a resource assessment for the Labrador South Region will be released prior to the closing of bids.

The C-NLOPB issued Calls for Nominations (Parcels) for the high activity Eastern Newfoundland Region and the mature Jeanne d'Arc Region on September 5, 2017. These Calls for Nominations will assist the C-NLOPB in selecting parcels to be included in a subsequent 2018 Calls for Bids that will be issued in March 2018.

Underground Mining at Ming Mine. Courtesy: Rambler Metals and Mining Canada Limited

Mining

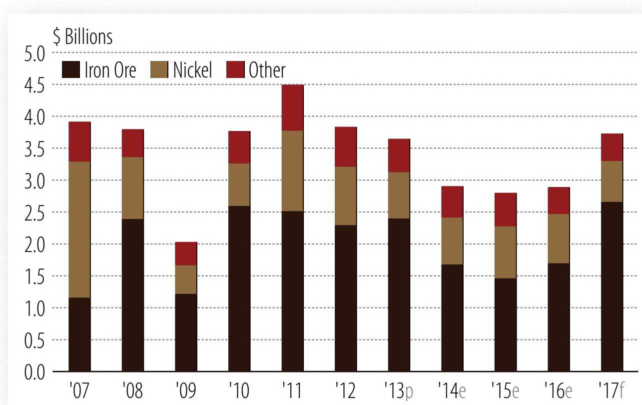
The value of provincial mineral shipments is expected to total $3.7 billion in 2017, representing an increase of 29% from 2016 (see chart). This increase is due to higher commodity prices and increased iron ore production. Total mining related employment (including employment associated with activities at Vale's Long Harbour nickel processing facility) is expected to decline by almost 19% to average approximately 5,300 person years in 2017. This decline mainly reflects the completion of the construction of the nickel processing facility and the subsequent drop in construction employment.

Market Conditions

Although market conditions in 2017 have improved over previous years, challenges remain for the Newfoundland and Labrador mining industry.

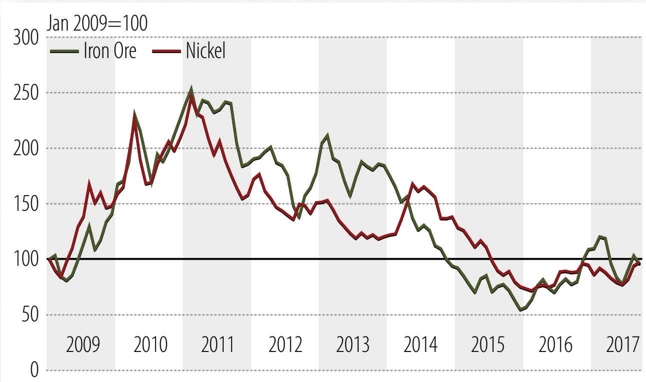
Slowing demand growth for iron ore in China, coupled with continued production increases by a number of key iron ore producers, has caused iron ore prices to decline substantially since 2013 (see chart). At the beginning of 2016, prices were at a low of US$40/tonne. However, prices, albeit volatile, have since improved because of increased demand from China. As of mid-October 2017, iron ore prices were around US$60/tonne. Overall, iron ore prices have averaged US$73/tonne in the first nine months of 2017, up 25.7% from the 2016 average of US$58/tonne.

Value of Mineral Shipments



p: preliminary; e: estimate; f: forecast
Source: Department of Natural Resources; Natural Resources Canada

Mineral Price Indices



Source: London Metal Exchange, MetalPrices.com

Nickel prices have also risen this year, but remain weak on a historical basis. The average price for the first nine months of 2017 was US$4.54/lb, up 4.3% from the 2016 average of US$4.36/lb.

Iron Ore Company of Canada

The Iron Ore Company of Canada (IOC), located near Labrador City, is the province's oldest operating mine. The mine currently employs approximately 1,800 people.

From 2011 to 2014, IOC undertook a $2 billion concentrate expansion program, which increased its rated capacity to 23 million tonnes. The operation continues to work toward attaining its full rated capacity and produced 18.2 million tonnes of concentrate in 2016. For the first half of 2017, total production was largely on par with the same period in the previous year. Production was constrained by operational issues in April and May 2017 but picked up significantly with June, July and August each setting new monthly production records. Rio Tinto, the owner of IOC, has maintained the IOC production guidance for 2017 at between 19.4 and 21.1 million tonnes. Even achieving the low end of the guidance would result in a 6% improvement over the previous year's production.

On February 23, 2017, IOC announced that it would proceed with the Wabush 3 project. The project consists of an open pit mine containing 744 million tonnes of iron ore, an overburden storage area, a waste rock disposal pile, haulage roads, a pole line, a groundwater extraction system and a mine water collection, treatment and disposal system. Construction is underway with mining operations expected to commence in mid-2018. The new open pit mine will allow flexibility in providing iron ore feed to the existing concentrator plant to achieve and maintain production of iron concentrate at the mill's rated capacity. It will also provide a new source of iron ore to extend the life of the operation. The total cost of the project is estimated at $79 million.

Increasing production to the rated capacity continues to be a major focus for the company. Most of IOC's costs are fixed and increasing production allows the company to reduce its production costs on a per tonne basis.

Tata Steel Minerals Canada

Tata Steel Minerals Canada (TSMC) operates a Direct Shipping Ore (DSO) project, which straddles the Québec-Labrador border. This operation is a joint-venture between Tata Steel, Ressources Québec and New Millennium Iron Corp. TSMC has deposits in both Labrador and Québec. Newfoundland and Labrador shipments in 2017 are expected to increase slightly over the 1.6 million tonnes shipped in 2016.

The company is pushing ahead with its plans to develop the adjacent Howse deposit, which is currently undergoing federal environmental assessment. TSMC hopes to be released from the assessment process in Fall 2017 and currently plans to begin mining the Howse deposit in 2018.

Weak iron ore markets over the last several years have negatively impacted TSMC's operations. The company has determined that it is not economically feasible to operate during the winter months at current prices. This year, the mine began operation in late February and is set to close in mid-November. The project is expected to generate approximately 300 person years of employment in the province in 2017.

Vale

The value of nickel shipped by Vale Newfoundland and Labrador (VNL) is expected to decrease by 17.0% in 2017 as a result of lower production volumes. Employment for all aspects of the Voisey's Bay project, including mining and nickel processing plant operations, is expected to average about 1,700 persons in 2017. This is significantly lower than the 2016 employment of 3,400 person years due to the completion of construction at the processing plant.

First nickel production at VNL's Long Harbour nickel processing facility was achieved in July 2014 using imported nickel matte. Voisey's Bay concentrate was introduced in May 2015, and as of January 2016 the plant was operating on 100% Voisey's Bay high grade concentrate. Middling grade concentrate from Voisey's Bay was introduced this year, and VNL estimates a two year ramp-up schedule to reach full plant capacity. At the end of July 2017, the facility was operating at 75% nameplate capacity.

In July 2015, Vale sanctioned the development of the Reid Brook and Eastern Deeps underground mine at Voisey's Bay and some minor construction, in preparation for development, began this year. However, the project has subsequently been put on hold due to a company-wide review of all Vale base metal operations which is expected to be completed this Fall. The underground mine project would be expected to produce about 40,000 tonnes of nickel-in-concentrate annually that would be processed into finished nickel at the Long Harbour processing plant. Access to the underground ore would increase operational employment at the Voisey's Bay mine from its current level of 500 person years to approximately 900 person years annually.

Other Mines

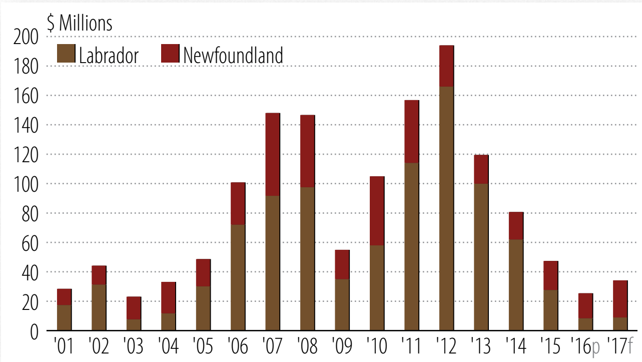
Rambler Metals and Mining Canada Ltd. (RMM) extracts and processes ore from its copper-gold Ming Mine on the Baie Verte Peninsula. RMM commenced commercial production in November 2012. The company shipped 1,909 tonnes of copper and 1,881 ounces of gold in the first half of 2017.

RMM is expanding its Ming Mine to include lower grade ore from the Lower Footwall Zone (LFZ) located 100 metres below the Ming Mine. This expansion will enable the project to reach a full production capacity of 1,250 tonnes of ore per day and extend the life of the mine to 2036. First production from the LFZ was achieved in 2016 and the company expects to reach full production levels by the end of 2017. The mine currently employs around 190 people.

Anaconda Mining Inc. began gold production in 2008 at its Point Rousse project near Baie Verte. The project shipped approximately 8,300 ounces of gold in the first half of 2017. Anaconda is proceeding with an expansion of the West Pit of its Stog'er Tight deposit. The proposed expansion was released from environmental assessment in March and the company hopes, pending regulatory approval, to begin mining in early 2018. The operation currently employs around 100 people.

The province's construction aggregate industry (i.e. producers of gravel, sand, crushed stone, or other mineral material that is used in the construction industry) is expected to ship approximately 9.0 million metric tonnes of aggregate valued at $44.5 million and generate around 540 person years of employment in 2017.

Mineral Exploration Expenditures



p: preliminary; f: forecast
Source: Department of Natural Resources

Exploration and Development

Mineral exploration and development activity improved in 2017 relative to 2016, but remains depressed on a historical basis due to weak markets and a difficult investment climate. Exploration expenditures in 2017 are expected to rise to $34 million from $25 million in 2016 (see chart). The improvement in expenditures this year reflects renewed interest in gold as well as exploration for copper and zinc.

In July 2017, Tacora Resources Inc. announced that it had acquired the assets associated with the Scully Mine located in Wabush. The iron ore mine was formerly owned by Cliffs Natural Resources who closed it in October 2014 and the Wabush assets were subsequently entered into creditor protection. Tacora proposes to reactivate the Scully Mine and mill for a minimum of 15 years. Operations are planned to begin in the summer of 2018.

Canada Fluorspar Inc. (CFI) is developing an open pit and underground fluorspar mine and mill located in St. Lawrence. CFI has begun mining operations and a limited amount of ore is currently being stockpiled in anticipation of the mill beginning operations in October. When the mine and mill are both fully operational, the project is expected to produce up to 200,000 tonnes of fluorspar concentrate per year. The St. Lawrence mine is expected to generate around 220 person years of employment this year.

Long Harbour Nickel Processing Plant. Courtesy: Vale Newfoundland and Labrador Limited

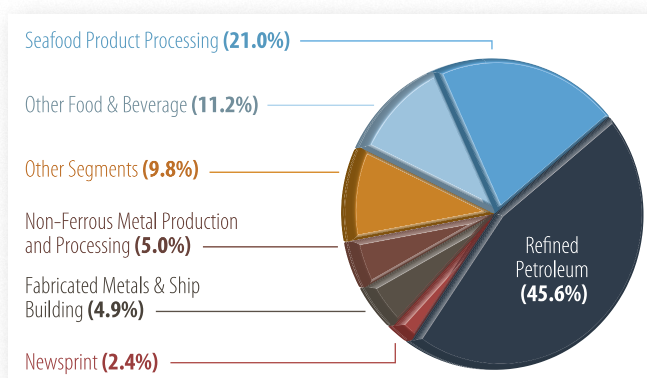
Manufacturing

Newfoundland and Labrador's manufacturing industry contributed $1.4 billion to nominal GDP in 2015, representing 5.0% of total provincial GDP. In 2016, manufacturing employment was approximately 9,800 person years and accounted for 4.2% of total employment in the province. The U.S. remains the largest export market for Newfoundland and Labrador manufacturers, representing 61.3% of international exports during the January to August 2017 period.

There are many manufacturers in the province producing a wide variety of products, with the majority of manufacturing output concentrated in refined petroleum, food processing (primarily fish), fabricated metal manufacturing, non-ferrous metal production and processing, and newsprint (see chart). The value of manufacturing shipments totalled $3.8 billion in the first eight months of 2017, representing an increase of 25.0% compared to the same period last year (see chart). This growth was mainly due to an increase in the value of refined petroleum products.

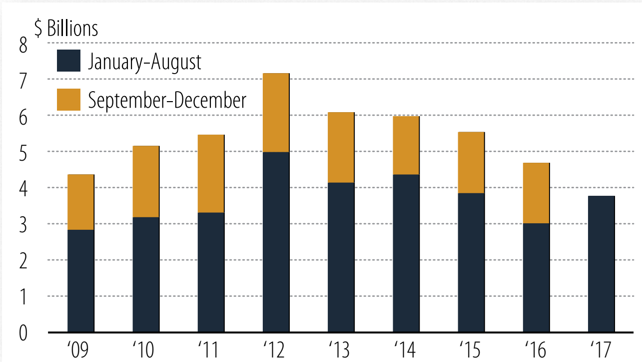
Employment in the manufacturing industry averaged approximately 9,000 in the first nine months of 2017, down 13.3% from the same period in 2016. Losses in employment were primarily due to decreases in food manufacturing (fish processing in particular). Labour income in the manufacturing

Value of Manufacturing Production, 2016



Source: Department of Finance

Value of Manufacturing Shipments



Source: Statistics Canada

industry declined 15.3% in the first half of 2017 compared to the first half of 2016, in line with the decline in employment.

The North Atlantic Refinery in Come by Chance is strategically located along Atlantic crude oil shipping routes. As such, it provides Silverpeak Strategic Partners (the owners of the refinery since November 2014) access to petroleum markets in Europe and the eastern U.S. seaboard. Silverpeak has committed to investing capital and improving operations at the refinery. In particular, they completed a crude unit turnaround program in October 2016 to recertify equipment and increase crude oil throughput capacity from 115,000 barrels to 130,000 barrels per day. Capital expenditures for improved operations at the North Atlantic refinery continued in 2017. The value of international petroleum exports from Newfoundland and Labrador totalled $1.6 billion in the first eight months of 2017, representing a significant increase compared to the same period in 2016. This increase in value can be attributed to higher year-over-year prices for petroleum products and production gains resulting from the increase in daily throughput capacity. In addition to numerous contract companies that provide services to the site, the company currently employs more than 450 people.

Fish processing plays a significant role in Newfoundland and Labrador's manufacturing industry. The value of international seafood product exports totalled approximately $626 million in the first seven months of 2017, down 7.0% from the same period in 2016. The U.S. and China accounted for over 70% of export value for the province's seafood products (see *Fishery and Aquaculture* for details).

Fabricated metal manufacturing activity generally rises and falls with major project construction activity. For the first eight months of this year, fabricated metal manufacturing employment was up slightly, averaging around 800. Activity is expected to rise when fabrication of the accommodations module for the West White Rose project begins in Marystown in late 2017.

Exports of non-ferrous metal production and processed products are expected to be higher in 2017. This anticipated increase is the result of Vale Newfoundland and Labrador's continued ramping up of operations at its Long Harbour nickel processing facility. Vale achieved successful production of first nickel at Long Harbour in July 2014, using a blend of imported material and small quantities of concentrate from Vale's mine in Voisey's Bay. In 2015, the remaining components required to process Voisey's Bay concentrate were integrated into the process, resulting in the plant using 100% Voisey's Bay high grade concentrate as of January 2016. Construction of the plant was completed in November 2016. As of July 2017, the plant was working at 75% nameplate capacity. Full production of 50,000 tonnes of nickel per year is expected by 2020.

The volume of newsprint shipped from Corner Brook Pulp and Paper Limited was up slightly in the first nine months of 2017, increasing 2.2% compared to the same period in 2016. The estimated value of shipments rose 4.9% on a year-over-year basis due to both higher volumes and prices for newsprint.

Other developments in Newfoundland and Labrador's manufacturing industry included:

- Construction of the Hebron gravity based structure (GBS) began at the Bull Arm fabrication site in October 2012, while topsides fabrication began in 2013. Integration of the topsides components and mating onto the GBS, was completed in December 2016. Hook up and commissioning was completed and the platform was towed to the Hebron field in June 2017. The project achieved approximately 40 million hours of work in the province. Drilling operations will begin with first oil anticipated in December 2017.
- Husky Energy announced several components of the West White Rose expansion are to be fabricated in the Burin Peninsula and Placentia regions. The living quarters are to be constructed at the shipyard in Marystown by Kiewit Offshore Services. It is expected that 200 to 300 workers will be needed over a period of between 18 to 24 months for construction of the living quarters. The concrete gravity structure (CGS) will be constructed at an industrial site in Argentia and approximately 800 workers will be needed at peak construction. It is estimated that construction of the CGS will take four years. Work in both Marystown and Argentia is anticipated to begin by the end of 2017. Fabrication of the flare boom, helideck and life boat stations will also take place in the province.
- Kraken Robotics Inc. is a marine technology company based in St. John's that is dedicated to the production and sale of software, sensors and robotic systems for the global Unmanned Maritime Vehicles market. The company has made numerous investments over the last 18 months to advance the performance and affordability of the sensors and underwater robotics. Since starting in 2012, the company has grown to over 35 employees. This past summer, using their industry leading Synthetic Aperture Sonar system, AquaPix®, Kraken helped discover a free-flight Avro Arrow model from the Cold War era on the floor of Lake Ontario. Past missions to locate any lost models from the Avro Arrow program were unsuccessful, making this a historic discovery. The company has been awarded numerous high profile contracts in recent months which will allow them to continually advance their technology and invest in their company.
- Dynamic Air Shelters engineers and manufactures lightweight, rapidly deployable textile shelters and structures to protect people and equipment from extreme hazards in harsh environments. The company has become the "go-to" manufacturer of blast-resistant shelters that meet the stringent safety needs of industries such as oil and gas, military, first response and more. The company plans to expand operations in Newfoundland and Labrador with the financial assistance of both the federal and provincial governments. This will entail adding 3,500 square feet of floor space to its manufacturing facility in Grand Bank which will serve to consolidate its operations to one area, reduce operating costs and improve employee interaction and engagement. The manufacturing plant in Grand Bank employs more than 50 people.

Mussel Harvesting in Springdale. Courtesy: Department of Fisheries and Land Resources

Fishery and Aquaculture

The Newfoundland and Labrador fish and seafood sector remains an important economic driver for many rural communities. The value of commercial landings is expected to remain historically high this year at around $745 million, an increase of 5.2% over 2016 (see chart). Additionally, aquaculture production volume and value are expected to continue to remain strong.

In 2016, the seafood sector employed approximately 17,400 people in more than 400 communities. The number of registered fish harvesters was on par with 2015 at 9,400 workers last year, while employment in the processing sector declined 2.1% to 7,600 workers. From January to August 2017, monthly processing employment numbers were down, peaking at just over 4,900 workers. This represents a 20% decrease from nearly 6,200 workers for the same period of 2016. This decline is partially attributed to a late start to the harvesting season related to ice conditions, in addition to lower shellfish quotas and landings. It is anticipated that there will be 9,200 registered harvesters in 2017.

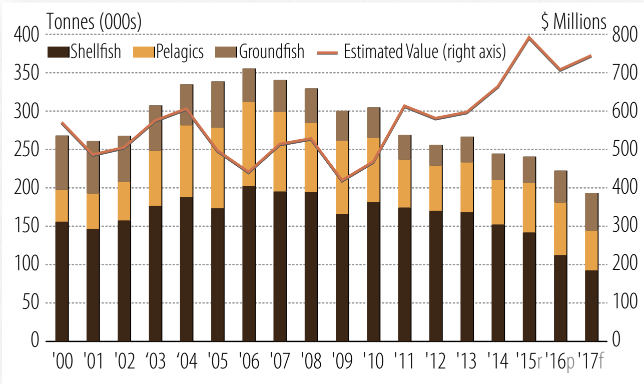
Total employment (direct and spin-off) generated by the aquaculture industry was approximately 1,000 person years in 2016. Employment in 2017 is anticipated to remain relatively stable compared to 2016.

Capture Fisheries

Recent stock assessments indicate that many of the province's groundfish stocks continue to show signs of growth, which appears to be driven largely by increasing water temperatures. While the northern cod stock has not yet fully recovered, it has increased considerably over the past decade and is expected to further increase in future years. Other groundfish stocks, particularly redfish, are also continuing to grow in areas around Newfoundland and Labrador.

While higher water temperatures appear to be more favourable for groundfish, it seems to be

Capture Fishery Landings



r: revised; p: preliminary; f: forecast
Source: Fisheries and Oceans Canada; Department of Fisheries and Land Resources

having a negative impact on some key shellfish resources. Recent assessments indicate that the snow crab resource continues to decline around Newfoundland and Labrador. Northern shrimp stocks also continue to decrease off the east coast of the island and southern Labrador, while generally remaining stable in areas to the north.

Total fish landings are expected to decrease to 193,000 tonnes in 2017, representing a 13% decline compared to 2016. Quota reductions in the shrimp and snow crab fisheries, as well as a decline in capelin catches, are the primary reasons for lower landings.

Shellfish

Shellfish landings are projected to decline almost 18% to 92,500 tonnes this year due to lower catches of shrimp and snow crab. However, the corresponding landed value for shellfish is expected to increase 5.5% to around $600 million, largely due to increased raw material prices for snow crab and lobster.

Shrimp landings are projected to be around 38,000 tonnes this year, down approximately 21% over 2016. This is mainly due to a 62.6% reduction in the total allowable catch (TAC) in Shrimp Fishing Area (SFA) 6 to 10,400 tonnes. The minimum landed price paid to harvesters for inshore shrimp in the 2017 spring fishery was $0.95/pound, down from $1.22/pound in 2016. Summer and Fall prices were also down this year, declining from $1.40/pound and $1.45/pound to $1.25/pound and $1.30/pound, respectively (see chart).

The 2017 snow crab fishery is now completed. Snow crab landings declined 20% to approximately 33,500 tonnes this year because of a TAC reduction of 22%. However, the landed value increased 18.4% to $324 million due to higher raw material prices. The 2017 landed price for snow crab averaged $4.39/pound compared to $2.98/pound in 2016, reflecting higher market prices.

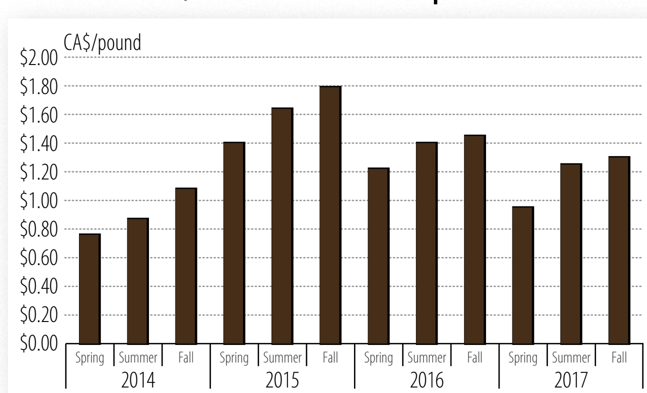
Groundfish

Groundfish landings are expected to increase 17% to 48,500 tonnes this year, driven by increased catches of cod and redfish. The corresponding landed value for groundfish is expected to be $126 million, an increase of 7.0% from 2016.

Pelagics

Pelagic landings are forecast to decline by 24% in 2017, resulting mainly from lower capelin catches. The capelin fishery has ended for this year and landings decreased 40% to approximately 22,000 tonnes in comparison to 2016 due to lower availability. Herring landings are expected to decrease

Minimum Landed Price Paid to Harvesters, Inshore Shrimp



Source: Fish Food & Allied Workers

7%, and mackerel landings are expected to be down compared to 2016. The landed value for pelagics is forecast to decrease by 12.4%, mainly because of lower capelin catches. Higher prices for both herring and mackerel partially offset the lower value of capelin.

Aquaculture

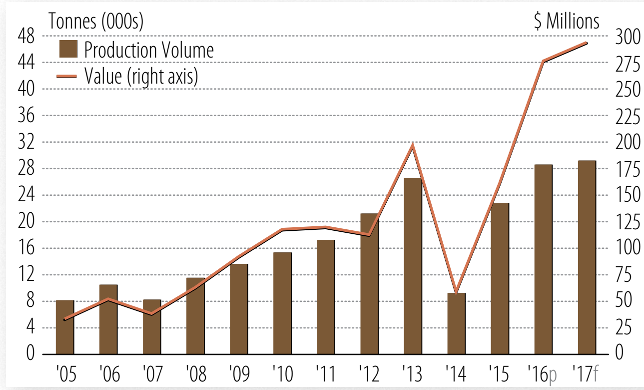
The provincial aquaculture industry continues to grow. Production is comprised of salmonids (Atlantic salmon, Arctic char, and steelhead trout) and shellfish (blue mussels). Production volume is expected to reach 29,200 tonnes in 2017, up about 2% from approximately 28,600 tonnes in 2016 (see chart). The corresponding market value is anticipated to increase 6.4% to $294 million. Salmonid production is projected to remain stable at 25,700 tonnes in 2017, and shellfish production is anticipated to reach 3,500 tonnes, an increase of approximately 9% in comparison to 2016.

Market prices for 8-10 pound wholefish Atlantic salmon declined over the first eight months of 2017, but remain relatively strong. In August, the average market price was $4.47/pound, down from $5.61/pound in January. Nonetheless, the average market price between January and August of this year ($5.00/pound) was up nearly 10% in comparison to the average price for 2016 ($4.56/pound).

Mussel prices have remained stable over the past 12 months, with small fluctuations resulting from changes in exchange rates. The average price between January and August 2017 was $1.91/pound, relatively unchanged from 2016.

This fall, the Provincial Government and the Newfoundland Aquaculture Industry Association jointly launched a work plan to increase commercial salmon production to 50,000 metric tonnes and commercial mussel production to 10,750 metric tonnes. If achieved, this would create an additional 1,100 person years of employment for the Newfoundland and Labrador economy.

Aquaculture Production Volume and Value (All species)



p: preliminary f: forecast
Source: Department of Fisheries and Land Resources

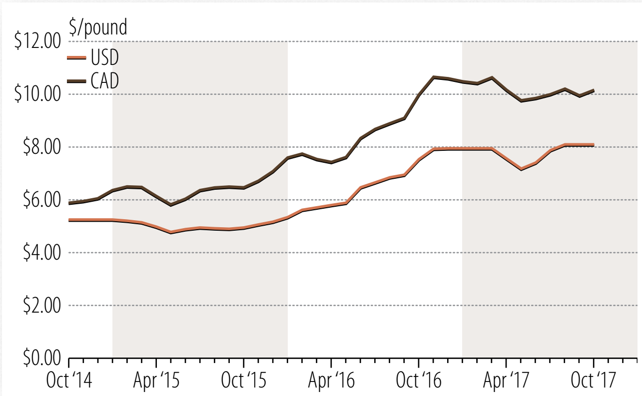
Processing and Marketing

Preliminary estimates of seafood production indicate that production totalled approximately 76,400 tonnes during the January to August period, down 29.1% from the same period in 2016. This decline in production is primarily due to decreased landings for some key species, particularly snow crab, shrimp and capelin as well as delays at the beginning of the season.

From January to mid-September, production was reported by 74 processing plants. Of these facilities, 61 were primary, two were secondary, five were aquaculture, and six were in-province retail establishments.

From January to July, the U.S. and China accounted for over 70% of the international export value of the province's seafood products. The United States remains the largest market and represented 55.3% of total export value, while China accounted for 17.8%. Other major markets include Vietnam (4.1%), Japan (3.5%), Indonesia (3.3%) and the United Kingdom (3.0%). From January to July of this year, Newfoundland and Labrador's international seafood product exports were valued at approximately $626 million, 7% less than the same period in 2016.

5-8 Ounce Snow Crab Market Prices

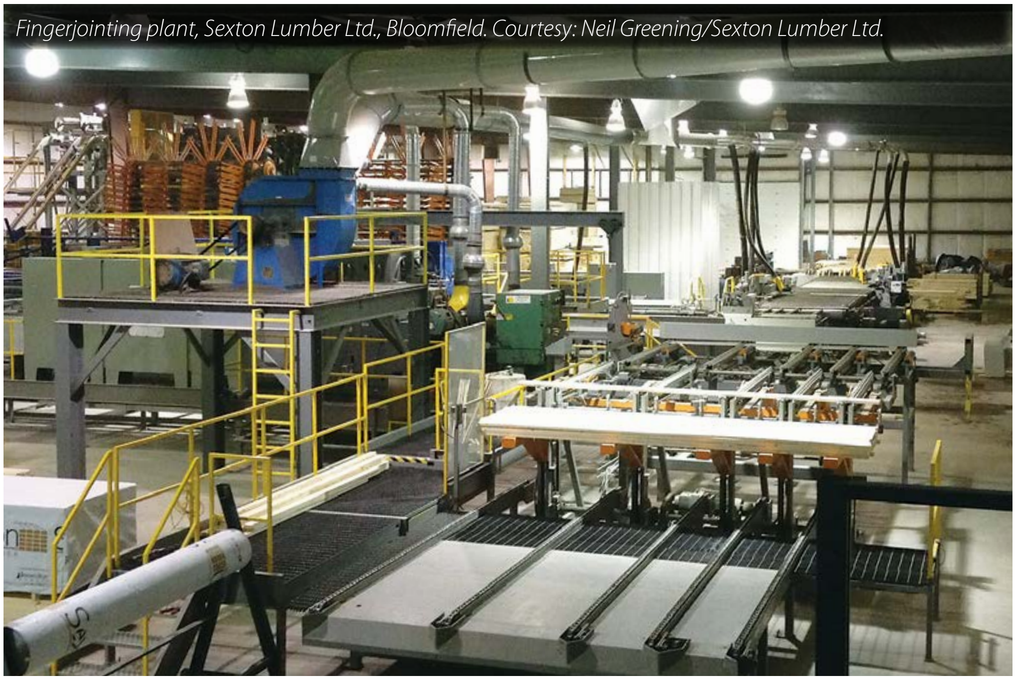


Source: Urner Barry Publications Inc.; Bank of Canada

During 2017, snow crab processors have continued to benefit from a lower Canadian dollar and higher market prices. Similar to last year, a lower global supply of snow crab put upward pressure on market prices. The year-to-date (January to October) average market price for 5-8 ounce snow crab sections was 24% higher compared to the same period in 2016 (US$7.83/pound compared to US$6.33/pound—see chart). However, market prices for inshore shrimp continued to fall during the first part of 2017. The price of 150-250 count shrimp averaged $5.86/pound over the January to August period, down 29% from 2016.

The Comprehensive Economic and Trade Agreement (CETA) was provisionally implemented on September 21, 2017. Upon CETA's provisional implementation, over 99% of European Union fish and seafood tariff lines relevant to Newfoundland and Labrador are effectively duty-free. This market access provides opportunities for Newfoundland and Labrador producers to develop new value-added and branded seafood products for European markets which may create additional employment opportunities.

There are a number of initiatives in place intended to help transform and drive innovation in the fish and seafood sector. The Atlantic Fisheries Fund is cost-shared between the Government of Canada and the Atlantic provinces. This fund spans a seven-year time frame and will support innovation in the fish and seafood sector in Atlantic Canada. Additionally, a Fisheries Advisory Council (FAC) was established this year. The Province committed to work with the FAC to provide advice to the Minister of Fisheries and Land Resources on fisheries and aquaculture strategies and issues. The first task of the Council is to create an action plan for cod revitalization.


Fingerjointing plant, Sexton Lumber Ltd., Bloomfield. Courtesy: Neil Greening/Sexton Lumber Ltd.

Forestry and Agrifoods

Newsprint

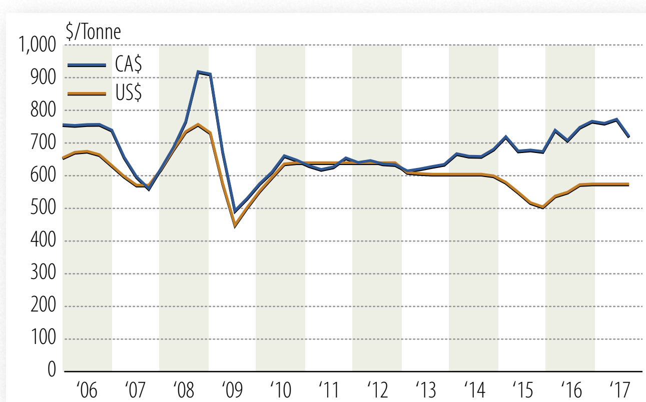
Market Conditions

North American newsprint producers continued to face difficult market conditions in 2017. Demand dropped by two-thirds between 2000 and 2017, reflecting the growing popularity of digital media. The industry has tried to limit the supply of newsprint in an effort to support higher prices, yet the market remains oversupplied due to the steady decline in demand. In spite of these market conditions, the price of newsprint averaged US$575/tonne in the first nine months of the year, 3.8% higher than the corresponding period in 2016. Even with this improvement, prices in U.S. dollars have remained slightly below those recorded a couple of years ago (see chart). The lower value of the Canadian dollar has helped Canadian producers retain their competitive position. In Canadian dollars, the average price of newsprint increased by 2.6% in the first nine months of 2017 and was the highest recorded since 2009.

Provincial Industry

The provincial newsprint industry has faced challenges similar to those of the overall North American industry, with the number of newsprint facilities reduced from three to one over the last decade. The remaining facility is owned by Corner

North American Newsprint Prices



Source: TD Financial Group; Pulp and Paper Weekly; Bank of Canada; Department of Finance

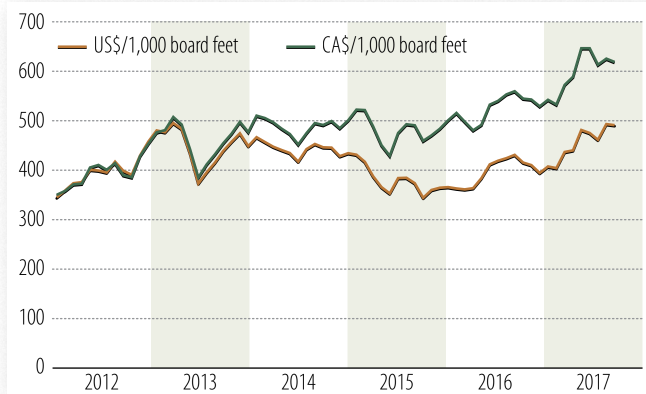
Brook Pulp and Paper Limited (CBPPL), a subsidiary of Kruger Industrial. CBPPL employs close to 550 full-time and casual workers among the paper mill, power plants and forest operations. The company has engaged in a long-term sustainability plan, which includes debt restructuring and capital improvements at the Corner Brook facility and the Deer Lake Power Plant. Rebalancing the operation of the mill is important to the Corner Brook region and also has implications for the provincial sawmill industry, which exchanges raw material with the paper mill for mutual benefit. Provincial newsprint shipments in the first nine months of 2017 totalled approximately 184,500 tonnes, an increase of 2.2%, and the estimated value of shipments increased by 4.9%. The higher value of shipments reflected both higher volume and prices.

Lumber Production

Several events have influenced lumber prices recently. Wildfires in British Columbia and the U.S. Pacific North-West, along with other constraints on mill production, have reduced supply. Meanwhile, the softwood lumber trade issue may have driven prices up with preliminary duties applied on Canadian lumber as of April 2017. On the demand side, U.S. housing starts (an important determinant in the demand for lumber) increased 2.7% between January and August of 2017 compared to the same period in 2016. The net result is an increase in lumber prices from US$431 per thousand board feet in August 2016 to US$491 in August 2017 (see chart).

Newfoundland and Labrador lumber production is expected to reach 83 million board feet in 2017, unchanged from 2016, but up from the previous two years. Improved performance in recent years reflects capacity improvements, strengthened markets and higher prices.

Lumber Prices



Note: Price is for Kiln Dried Eastern Spruce-Pine-Fir # 1&2 2x4 R/L - Delivered Great Lakes
Source: Random Lengths Weekly Pricing; Department of Natural Resources; Bank of Canada; Department of Finance

Sawmill investments include Sexton Lumber Co. Ltd. in Bloomfield, the largest integrated sawmill in the province, which expanded its operations in 2016 with the addition of a finger-jointing plant. The installation of this new capacity was completed in November 2016 at a cost of $2.6 million—commercial production started in the first quarter of this year. The introduction of finger-jointed lumber will allow the company to increase the variety of lumber lengths that it sells in the market and to more fully utilize its raw materials.

The Canada-U.S. softwood lumber trade dispute remains a source of concern for Canadian lumber exporters. The previous Softwood Lumber Agreement expired in October 2015 and negotiations and discussions regarding a new agreement had been ongoing since that time. As of April 2017, preliminary duties averaging 20% were imposed on Canadian softwood lumber. Final determination on both countervailing duty and antidumping was announced by the U.S. Department of Commerce in early November, with rates varying by producer and ranging from 9.9% to 23.7%. However, Newfoundland and Labrador, Nova Scotia and Prince Edward Island are excluded from these tariffs. This is a positive development for the sawmill industry in the province.

Future Developments

The Provincial Government continues to work towards an agreement on the utilization of forest resources in central Newfoundland, which were formerly held by AbitibiBowater until the closure of the Grand Falls-Windsor newsprint mill in 2009. The unallocated wood supply available for development is 280,000m^3 per year (representing approximately 12% of the annual allowable wood supply for the island portion of the province).

Agrifoods

One of the leading indicators of farming activity is quarterly farm cash receipts released by Statistics Canada. Unfortunately, at the time of writing, farm cash receipts were only available for the province's farming industry for the first quarter of 2017, a period not indicative of overall industry annual performance. As a result, annual farm cash receipts data for 2017 will be discussed in *The Economy 2018* publication.

Results from the 2016 Census of Agriculture by Statistics Canada were released in the spring of 2017. Some of the highlights for Newfoundland and Labrador are as follows:

- There were 407 farms in the province in 2016, down from 510 in 2011. The number of farms declined in every province over the time period, the continuation of a long-term trend.
- Total farm area also declined from 2011 to 2016, falling to 70,747 acres or down 8.5%. Farm area, which is land owned or operated by an agricultural operation, includes cropland, pasture, summerfallow, woodlands and wetlands, and other land (including idle land and land on which farm buildings are located).
- Cropland area declined to 19,619 acres, or down 8.5%. The leading uses of cropland are hay (79.2%); followed by field crops (8.4%); fruits, berries and nuts (4.4%); vegetables (4.1%); and sod and nursery (3.8%).
  - The leading field crops by area in 2016 were corn for silage, potatoes and spring wheat.
  - The leading field vegetables were carrots, rutabagas and turnips, and cabbage.
- Although the number of farms and farm area declined in the province, the average farm size increased from 152 acres in 2011 to 174 acres in 2016.
- Newfoundland and Labrador has the highest proportion of farms with direct marketing in Canada, selling at least one agricultural good directly to consumers.
- The number of dairy cows declined by 13.9% from 2011 to 2016, but milk production remained stable, due to improvements in animal nutrition, genetics and production practices.
- Beef cattle herd size declined by 28.5% from 2011 to 2016, while the number of farms producing beef cattle declined by 23.8%.
- Although there were fewer farms in the province, total farm revenue increased. The province's gross farm receipts in 2015, totalled $155.9 million, up 13.3% from 2010.
- Most farms in the province were relatively small in terms of revenues. In 2015, only 11.5% of all farms reported revenues of $500,000 or greater.
- The decline in the number of farms during this five-year period occurred within the smaller farms, while the number of larger farms ($500,000 or greater in revenues) remained relatively unchanged.

While statistics on 2017 performance for the agriculture industry are not yet available, some positive developments in the industry have occurred this year. In February, the Department of Fisheries and Land Resources announced increased access to Crown land for the agriculture industry. The department identified 62 areas of interest totalling approximately 64,000 hectares for agricultural use. To date, 19 of those areas—a total of 15,500 hectares—have been reserved for development, which almost doubles the amount of Crown land available for agricultural development. This was followed by the October 2017 launch of "The Way Forward on Agriculture"—an agriculture sector development work plan. This plan was developed through a partnership between the Provincial Government, the Newfoundland and Labrador Federation of Agriculture, and Food First NL to achieve the following goals: foster new and expanding agriculture business activity, stimulate private sector employment for residents in Newfoundland and Labrador, and help double provincial food self-sufficiency—all of which are goals outlined in The Way Forward. Additionally, the department has announced the continuation of the Beef Genetic Enhancement Demonstration Project, discussed below.

Beef Genetic Enhancement Demonstration Project

Many livestock producers in the province have decreased or even eliminated their beef herds in recent years due to elevated shipping costs associated with importing breeding stock from other parts of the country. This has reduced the purebred stock. As a result, the remaining local beef farmers have turned to genetic crosses which often include dairy cattle breeds. These crossed herds have played a role in reducing the quality of the end product and increasing the cost of production, as these animals require more feed and time to achieve marketable weights.

In response to this issue, the Provincial Agriculture Research and Development Program approved the first Beef Genetic Enhancement Demonstration Project in 2016-17. The primary objective of this project is to increase beef production in the province by improving the genetic diversity of the local beef industry through the introduction of purebred Hereford breeding stock. The Department of Fisheries and Land Resources has invited proposals from farmers to apply for a small herd of Hereford cattle.

The Hereford was selected due to its proven hardiness and meat quality, docile nature, and calving and mothering capabilities. Herefords have moderately sized calves which cost less to maintain, but will still produce proportionately larger market steers with improved carcass quality. These cows are suitable for pasture grazing and are able to maintain their condition with fewer resources, reducing the cost of production. The longevity and docility associated with the Hereford breed also results in a lower replacement stocking rate. This breed produces a naturally marbled meat which results in a superior product for flavour.

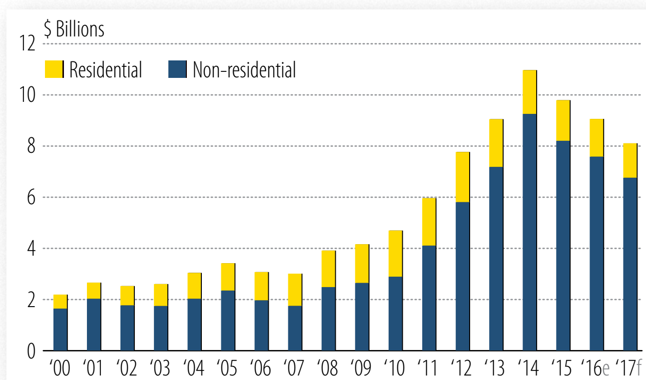
It is anticipated that the introduction of purebred Hereford beef cows will increase the availability of locally sourced purebred breeding stock and also increase the quality of the meat and meat products produced in the province.


Generation and Transmission Sites at Muskrat Falls, Labrador.
Courtesy: Nalcor Energy

Construction

Newfoundland and Labrador recorded a remarkable expansion in construction activity over the past 15 years. Real GDP and employment in the construction industry have each more than doubled since 2002, largely driven by high levels of investment associated with resource projects such as the Hebron oil development, the Muskrat Falls hydroelectric development and the Long Harbour nickel processing facility. Although major project investment has declined from peak levels, activity in the construction industry remains high.

Construction-Related Investment



e: estimate; f: forecast
Source: Statistics Canada; Department of Finance

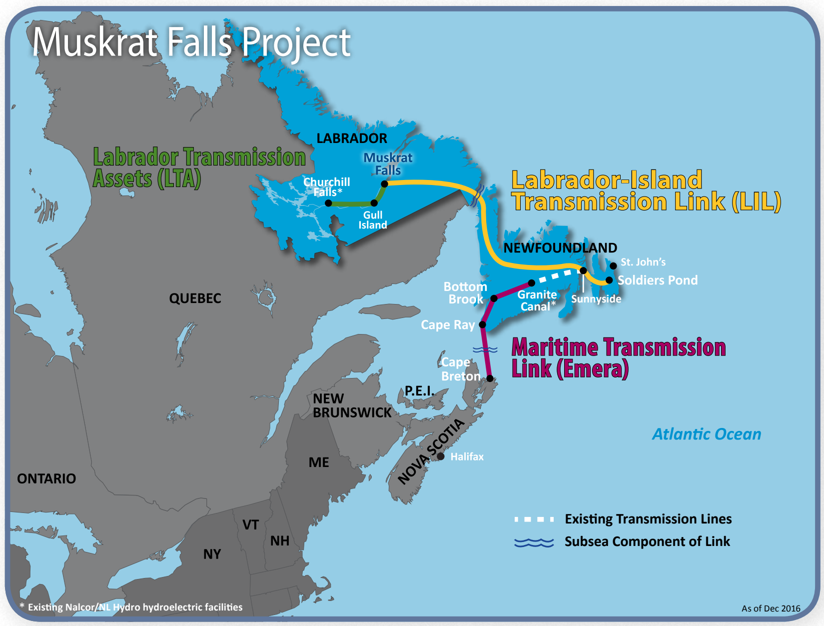
Construction Related Investment

Construction related investment spending in the province is expected to total $8.1 billion in 2017, down 10.5% from the previous year (see chart). Decreases are anticipated in both residential and non-residential expenditures.

Non-residential investment is expected to account for over 80% of total construction related spending in 2017. The majority of this spending is attributable to two categories: *mining/oil and gas* and *utilities*, which are expected to account for 44% and 32% of non-residential expenditures this year, respectively. Non-residential expenditures are expected to total around $6.8 billion in 2017, down 10.9% over 2016 levels, but are still considered high in a historical context. The winding down of construction activity associated with the Hebron oil development and the Long Harbour nickel processing facility is the main reason why non-residential investment is lower this year. The Muskrat Falls hydroelectric development accounted for most of the investment in the utilities industry this year. Details concerning this project are contained in a special discussion below.

The construction industry is also benefitting from the five-year, $3 billion plan for new and existing public infrastructure (e.g. schools, roads, healthcare facilities), announced by the Province in March 2017. This plan is expected to account for 4,900 person years of employment (direct and spin-off) annually over the next five years. An example of this spending is government's recent awarding of a

Muskrat Falls Project



The Muskrat Falls project includes construction of an 824 megawatt hydroelectric generating facility and more than 1,600 kilometres (km) of transmission lines across the province (including subsea transmission connecting Labrador to the island), being developed by Nalcor Energy. The project also includes transmission lines connecting Newfoundland and Nova Scotia (the Maritime Link) which is being constructed by Emera.

Construction of the Muskrat Falls project continued throughout 2017 and the Newfoundland and Labrador workforce peaked at around 5,300 residents in July 2017. On average about 85% of the workforce are residents of the province.

Construction on all components of the project is well advanced with overall construction reaching 85% at the end of September 2017. For the generation project in Labrador, the spillway is operational, construction of the North Spur dam and South Dam is completed, primary concrete placement for the Powerhouse and Intake is nearing completion, and work continues on the installation of the turbines and generators. First power from the generation project is expected in late 2019. For the transmission projects, construction of the transmission lines from Churchill Falls to Soldiers Pond is completed and all major electrical equipment is in place. Following construction of the transmission project in mid-2018, power from Churchill Falls will be delivered to the island.

The Province recognizes the economic risks arising from the Muskrat Falls project. Although significantly reduced recently, risk remains for further delays and increased construction and operating costs. As well, the projected increase in electrical rates as a result of Muskrat Falls cannot be borne solely by the rate payers without incurring economic hardship, in particular for low income earners. To address this, the Province is committed to take steps to mitigate rate increases, but these steps will pose challenges to the provincial treasury.

Project capital cost is estimated at $10.1 billion with incurred costs of $7.6 billion at the end of September 2017. Total project cost (including interest) is $12.7 billion.

$120 million contract to Corner Brook Care Partnership to design, build, finance and maintain a new 120 bed long-term care facility in Corner Brook. On-site work will begin this year with the facility set to open in the spring of 2020. Construction activity associated with this project will boost the local economy, creating 380 person years of employment during construction.

Additionally, the construction industry will be positively impacted by the development of the West White Rose offshore oil project (see *Oil and Gas*). The project is expected to create 5,000 person years of direct construction employment in the province during the development period. Wellhead platform construction will begin in late 2017 and first oil is expected in 2022.

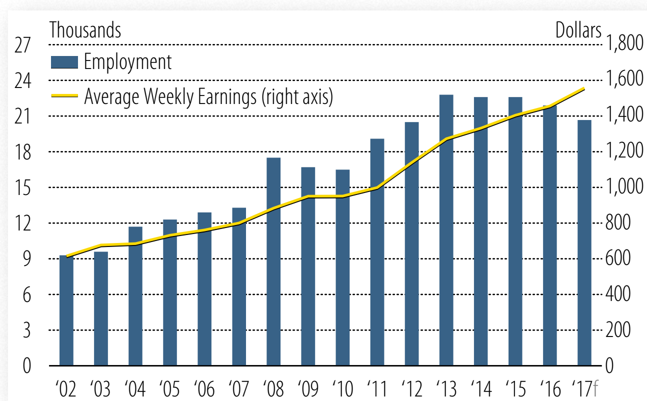
Residential construction expenditures are expected to decline by 8.4% in 2017 to about $1.4 billion, with declines in both renovations and new dwellings. In the first half of 2017, investment in residential construction fell 10.8% compared with the first half of 2016. Expenditures on new dwellings fell by 25.0% while expenditures on renovations declined by only 1.0%. The decrease in new dwelling expenditures is consistent with fewer housing starts this year (see *Real Estate*).

Employment and Wages

Construction employment and wages have more than doubled over the past 15 years and remain at high levels (see chart). Although employment has declined from its peak of almost 23,000 over the 2013 to 2015 period, it is still expected to average around 20,700 this year. The trend of declining construction employment is similar to construction investment, and reflects the winding down of major projects.

The surge in labour demand over the past decade translated into rapid wage growth in the construction industry. Although construction employment has declined in recent years, average weekly earnings for those working in the industry remain high. During the first eight months of 2017, average weekly earnings (including overtime) in the construction industry were $1,512, up 5.5% from the same period in 2016.

Construction Employment and Wages



f: forecast
Source: Statistics Canada; Department of Finance

300 Kenmount Road, St. John's.
Courtesy: Department of Finance

Real Estate

Activity in the real estate market in Newfoundland and Labrador declined in 2017 with housing starts, residential sales, and housing prices all recording declines. In the commercial sector, office vacancy rates continued to edge upwards reflecting both an increase in supply and slowing demand.

Housing Starts

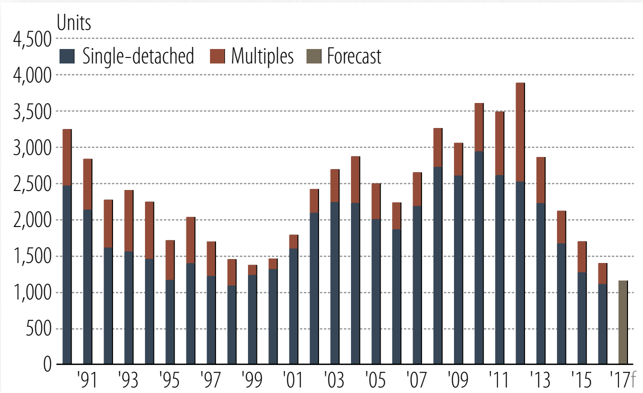
Housing starts in the province totalled 883 units during the first three quarters of 2017, a decrease of 13.2% compared to the same period in 2016. Single-detached housing starts (which typically account for the vast majority of total starts in the province) declined 27.0% from 825 to 602 units, while multiple starts (which include denser housing types such as row, semi-detached homes, apartments and condominiums) actually increased by 46.4% in the first three quarters of 2017, from 192 to 281 units.

Urban housing starts, which comprise approximately two-thirds of housing starts in the province, totalled 664 units during the first three quarters of the year, a 6.3% decrease from the 709 starts observed in the same period in 2016. Rural housing starts also fell in the first three quarters of 2017, down 28.9%, from 308 to 219 units.

The St. John's Census Metropolitan Area (CMA), which is the single largest housing market in the province, also experienced a drop in housing starts. During the first three quarters of the year, housing starts decreased 17.4% in the region, from 582 to 481 units. While single-detached housing starts declined 28.2% from 450 to 323 units, multiple starts increased 19.7%, from 132 to 158 units.

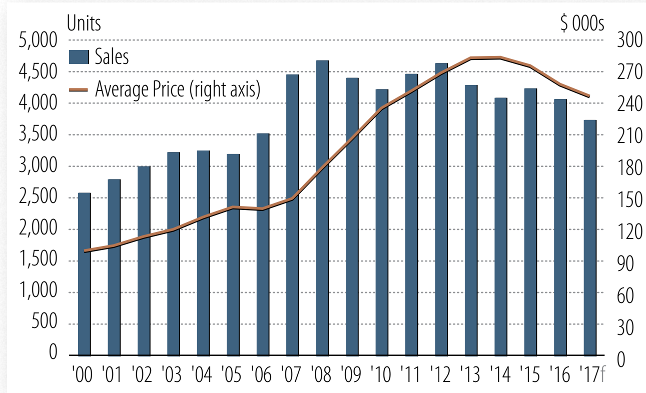
For 2017 as a whole, total provincial housing starts are forecast to be 1,158 units (see chart). If realized, this would represent a decrease of 17.1% from 1,398 units in 2016.

Housing Starts



f: forecast
Source: Statistics Canada; Department of Finance

Residential MLS® Sales & Average Price



f: forecast
Source: Canadian Real Estate Association

Residential Sales and Prices

The number of residential properties sold in the province through the Canadian Real Estate Association's Multiple Listing Service (MLS®) fell 9.9% to 2,436 units during the first eight months of 2017 compared to the same period in 2016. The average MLS® residential price for the same period was $253,085, a decrease of 3.2% compared to the first eight months of 2016. According to the Canadian Real Estate Association, the number of residential units sold is expected to decline by 8.1% and average price is expected to be down 4.3% in 2017 (see chart).

The ratio of sales-to-new listings is commonly used as an indicator of housing market conditions. A housing market is generally considered balanced when the sales-to-new listing ratio ranges from 40% to 60%. A ratio below 40% indicates a buyers' market, while a ratio above 60% indicates a sellers' market. In the first eight months of 2017, the sales-to-new listings ratio in the province averaged 30.5%, compared to 34.1% during the same period in 2016, clearly indicating a buyers' market.

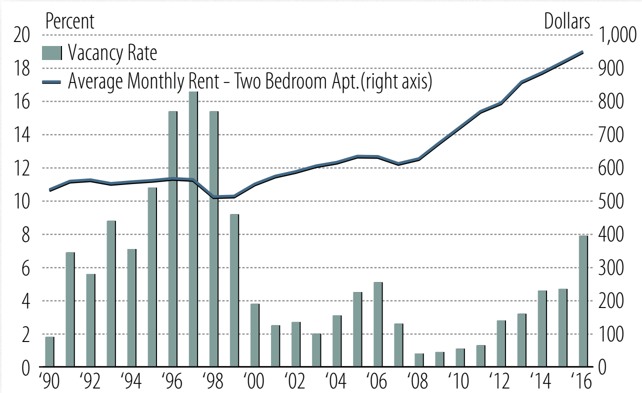
In the St. John's CMA there were 1,379 residential units sold in the first eight months of 2017, a decrease of 15.5% compared to the 1,632 units sold during the same period in 2016. The average MLS® residential price in St. John's was $301,527 in the first eight months of 2017, a decrease of 2.3% compared to the first eight months of 2016.

Rental Market

According to the Canada Mortgage and Housing Corporation's most recent Rental Market Survey in October 2016, the overall residential vacancy rate in Newfoundland and Labrador was 6.5%, an increase of 2.4 percentage points (ppt) compared to October 2015[1]. The vacancy rate was 7.9% in the St. John's CMA, compared to 4.7% observed in October 2015. The vacancy rate in St. John's has been trending upwards since 2011 when the vacancy rate was just over 1% (see chart on next page). This upward trend can be partially attributed to the recent increase in the supply of new apartments. Of the 3,815 apartment units currently available in the primary rental market in St. John's, 943 of those have been added since the second half of 2012. Despite the increase in vacancy rates, the average monthly rent for a two-bedroom apartment in St. John's has been trending steadily upwards as well, rising from $613 in 2008 to $951 in 2016.

[1] The Rental Market Survey is conducted in urban areas with populations of at least 10,000 and targets the primary rental market, which only includes rental units in privately initiated apartment structures with at least three rental units. It is conducted once a year in October.

St. John's Apartment Vacancy Rate and Average Rent, 1990 to 2016



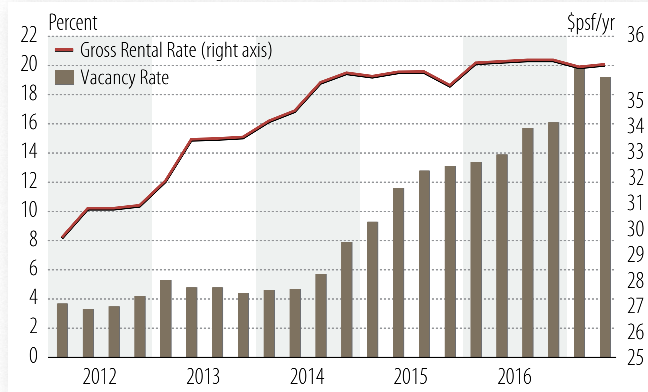
Source: CMHC Rental Market Survey

In other urban areas of the province, the residential vacancy rate was 2.5% in Corner Brook in 2016 (down 0.4 ppt from October 2015), 4.1% in Gander (up 1.4 ppt), and 2.9% in Grand Falls-Windsor (up 0.3 ppt). Overall, the average monthly rent for a two-bedroom apartment in the province in October 2016 was $865, up from $834 in October 2015. By comparison, the average rent for a two-bedroom apartment was higher in Nova Scotia ($1,008), but lower in Prince Edward Island ($852) and New Brunswick ($763).

Commercial

Activity in the commercial office market remained subdued in the first two quarters of 2017. Economic growth in recent years led to a significant increase in demand for commercial office space, resulting in a surge in both new construction and renovation of existing office space. With an abundant supply of available space for rent, tenants have more options and can be more demanding when negotiating a lease, while landlords have to offer inducements to compete for tenants. As a result, the absorption of vacant office space into the market has slowed, leading to a rise in the vacancy rate in the St. John's region.

Office Vacancy and Rental Rates, St. John's Region



psf: per square foot
Source: Cushman & Wakefield Atlantic

The office vacancy rate for St. John's in the second quarter of 2017 was 19.2%, a slight decrease from the 19.8% vacancy rate recorded in the first quarter (see chart). Overall, the office vacancy rate averaged 19.5% over the first two quarters of 2017, a jump of 5.8 ppt compared to the same period in 2016. As a result, the average rental rate for office space fell slightly to $35.00 per square foot per year in the first two quarters of 2017 compared to $35.12 during the same period in 2016. The average rental rate remains high as an increasing share of office space is in new "Class A" buildings which have higher rents than older buildings.


Stairs to Cape Spear Lighthouse National Historic Site.
Courtesy: Newfoundland & Labrador Tourism

Tourism

The tourism sector in Newfoundland and Labrador generates economic wealth in all regions of the province, making it an important contributor to the provincial economy. Tourism consists of residents engaging in tourist activities and non-residents visiting the province. Visitors to the province arrive by airline, automobile and cruise ship. Tourism spending in the province (both resident and non-resident) has totalled roughly $1 billion annually in recent years. Many indicators of tourism activity in the province showed a solid performance in 2017. The tourism sector benefitted from programming in celebration of Canada's 150th birthday which fuelled visitation to National Parks and National Historic Sites. In addition, it was a particularly good year for weather, which benefitted outdoor tourist activity.

The Provincial Tourism Product Development Plan, which was released this past spring, sets out the goal of guiding and supporting the development of high quality visitor focused Newfoundland and Labrador brand experiences to increase residential and non-residential tourism spending to $1.6 billion by 2020.

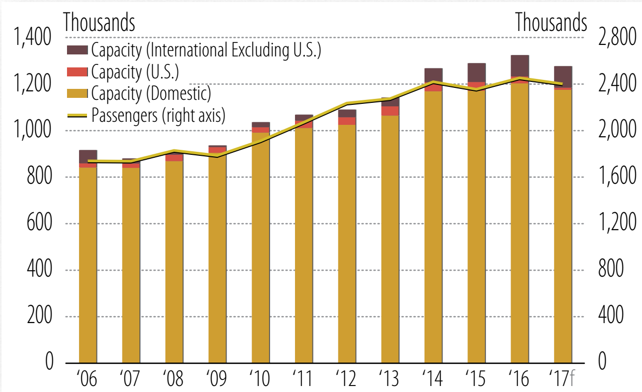
Air Visitors

Air travel is the largest segment of provincial non-resident tourism, accounting for 77% of visitors and 81% of non-resident tourism spending in 2015. Indicators of overall air travel, such as the number of passengers and seat capacity, declined slightly in 2017, but are at historically high levels.[2]

Boarding and deplaning traffic at the province's seven major airports reached an estimated 1.87 million passengers for the first nine months of 2017, down 2.1% compared to the same period in 2016. Although traffic is down this year, levels have risen by more than 40% over the last decade and are expected to remain high in 2017 (see chart).

[2] An estimate of non-resident air visitors is typically the leading indicator used to discuss the performance of the air segment of the visitor market. However, estimates for 2017 were not available at the time of writing. These estimates are based on air exit surveys periodically conducted by the Province. The latest air exit survey was conducted in 2016 and the results from the survey will not be available until later this year.

Air Passengers and Seat Capacity



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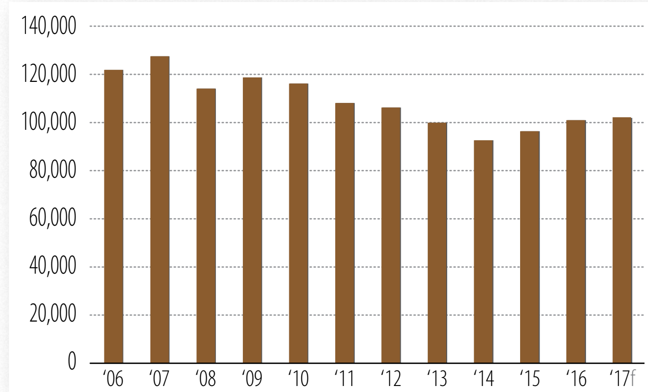
Passengers are boarding and deplaning; air capacity is in-bound only.
Source: Department of Tourism, Culture, Industry and Innovation; Department of Finance

Inbound non-stop seat capacity is expected to decrease by 3.6% in 2017, following nine consecutive years of growth (see chart). Domestic seat capacity is expected to decline by 2.3%, mainly due to fewer seats from Toronto, Ottawa and Halifax. A decline is also expected in inbound seat capacity for flights from the United States; however, most of this decline is in flights from Orlando and Tampa, which generally cater to outbound local residents. International (excluding U.S.) seat capacity is expected to increase by 1.3% in 2017. This increase reflects greater capacity from London-Heathrow, London-Gatwick and Dublin, and supports one of the province's largest international tourism markets. Even with the year-over-year decline, seat capacity in 2017 remains high.

The St. John's International Airport is the largest airport in the province and is the main gateway for non-resident visitors. The airport introduced the CAT III Instrument Landing System in 2016, which has improved flight operations in times of low visibility. In 2016, an estimated 920 flights that would have previously been impacted by low visibility conditions were able to operate on schedule as a result of this new system. This improves flight reliability with fewer delays, diversions and cancellations. Additional improvements are also underway at the airport with an expansion of the terminal building which will be carried out in two phases. The first phase is to be completed in 2018, adding an additional 145,000 square feet, and the second phase will be completed in 2021, adding a further 72,000 square feet. The total area of the airport terminal building will double in size when complete and will be capable of accommodating two million annual passengers, a milestone that is anticipated to be achieved during the 10-year planning horizon.

Non-Resident Automobile Visitors



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Source: Department of Tourism, Culture, Industry and Innovation

Automobile Visitors

Non-resident automobile visitation to the province increased by 1.2% during the first10 months of 2017 compared to the same period in the previous year. These estimates are based on traffic on the Marine Atlantic ferries between North Sydney and Newfoundland. If the year-to-date performance continues, automobile visitors will reach 102,200 for the year (see chart) and increase for the third consecutive year, a first in 18 years. This growth is attributable to several factors including a greater focus on customer satisfaction and price discount/promotional campaigns by Marine Atlantic and a lower Canadian dollar which may have persuaded more Canadians to opt for domestic travel instead of travelling abroad.

Cruise Ship Visitors

Preliminary information suggests a strong cruise season in 2017 for the province. A total of 105 tentative port calls (port stops) have been scheduled from 24 different cruise lines. This compares with 66 port calls in 2016. Most cruise ship visits were scheduled for the months of September and October. Cruise ship visitor statistics will be available at the conclusion of the 2017 cruise season.

Accommodations

The provincial accommodation occupancy rate (preliminary) was 52.9% during the first eight months of 2017, an increase of 2.0 percentage points over the same period in 2016. Occupancy rates were up in all regions with the exception of Labrador. Similarly, the number of room nights sold for the eight month period is expected to total over 1.0 million, up 3.9% over the same period in 2016. Despite the increase in the occupancy rate and the demand for accommodations, the average daily room price declined slightly (down 0.5%) to $139, reversing the steady climb in the price in recent years.

Earlier this year, tourism in the province benefitted from the Tim Hortons Brier, the Canadian men's national curling championship, which took place in St. John's in March. It is estimated that the event attracted over 10,000 spectators with more than one-third being overnight visitors to the area. The spending by visitors and participants of the Brier, in combination with expenditures made by the organizers hosting the event, generated an estimated $5.2 million in Gross Domestic Product (direct and spin-off) in the province.

Connecting with Travellers

Visitation to the Province's visitor information centres increased 6.4% to 140,310 visitors for the period from mid-May to September 2017. Each of the eight centres reported increases during their operating periods.

The Province has promoted tourism and engaged travellers through many forums including award-winning marketing campaigns, advanced technologies and social media (e.g., Facebook, Twitter, YouTube). Visits to all of the Province's digital assets during the first eight months of this year were almost 3.0 million, representing an increase of 14% over the same period in 2016 and on track to be the highest ever. IcebergFinder.com registered 240,900 visits during the first eight months, an increase of 26% over the previous year, due to the abundant supply of icebergs this past season and the viral coverage of the spectacular Ferryland iceberg in April.