August 2000

Nova Scotia Economic Outlook Report

A special report on the provincial economy by the Nova Scotia Department of Finance

Outlook

2000 Performance & Forecast

Current economic conditions and recent developments indicate that the Nova Scotia economy is performing much better than anticipated when the Budget for fiscal year 2000-01 was brought down in April. Real Gross Domestic Product (GDP) is now expected to grow by 2.4 per cent in 2000, an increase of 0.6 percentage points over the forecast contained in the April Budget. Stronger growth in the Canada and US economies so far this year is putting more growth into the Nova Scotia economy than expected through stronger export performance. Real GDP for Canada grew at an annual rate of 4.9 per cent for the first quarter of 2000 followed by an increase of 4.8 per cent in the level of Real GDP (at factor cost) for May 2000 over May 1999. The US economy for the second quarter grew at an annual rate of 5.2 per cent.

"GDP IS EXPECTED TO GROW BY 2. 4 PER CENT IN 2000."

This strength is reflected in Nova Scotia's robust 15.4 per cent increase in international merchandise exports during the first five months of 2000. The Canadian dollar is a factor behind the increase in the value of merchandise exports, but there are also real gains in output in some export industries. Principal sources of the export gains include forest products (wood pulp, fine paper and lumber), fish products (lobster, shrimp and fish fillets), gypsum and, now, natural gas. Most of the merchandise exports are shipped to the United States (82 per cent of the total value of merchandise exports by the end of May). Export gains can also be see in the value of manufacturing shipments. To the end of May, manufacturing shipments are up by 15.0 per cent reflecting the increase of 11.6 per cent for wood products and the 20.0 per cent increase in paper products for the same period. Total value of exports for goods and services is now anticipated to grow by 9.3 per cent for 2000.

Domestic demand is also growing but at a slower pace than external (export) demand. Retail sales for the first five months of 2000 are up 4.1 per cent. Leading the charge is new motor vehicle sales with an increase of 14.4 per cent for the same period. Current performance of retail sales is in line with the Budget forecast.

Strong external and domestic demand has had a positive impact in the labour markets. Employment has grown by 3.1 per cent to July. The number of people active in the labour markets (working or looking for work) is up 2.4 per cent during the same period. With employment growing at a faster pace than labour supply, the net result has been a fall in the unemployment rate. For the first seven months, the unemployment rate averaged 8.9 per cent, a drop of 0.7 percentage points from the same period in 1999. Building trades, telecommunications, call centres and computer services are the sectors where the employment strength is mostly located. Employment growth has moderated in recent months and is now expected to average 2.5 per cent for 2000 . More jobs means the forecast for the unemployment rate is lowered to 8.7 per cent.

While employment growth for the province has been healthy, growth within the province has been uneven. All regions reported employment increases for the first seven months of 2000 except the South Shore area and Cape Breton Island. Employment in the South Shore area had a 3.8 per cent drop while Cape Breton Island had no change. Northern Mainland Nova Scotia had the highest employment growth

ECONOMIC GROWTH FORECASTS FOR 2000
(PERCENTAGE CHANGE)

	NS	CANADA
CIBC	3.0	4.7
ROYAL BANK	3.0	4.5
SCOTIABANK	2.6	4.5
TD BANK	2.7	4.3
CONFERENCE BOARD	2.1	4.5

SOURCE: DEPARTMENT OF FINANCE SURVEY OF FORECASTERS

INTERNATIONAL MERCHANDISE EXPORTS
NOVA SCOTIA
(PERCENTAGE CHANGE)

1997	1998	1999	2000F
1.4	8.8	15.8	12.0

SOURCES: INDUSTRY CANADA; STRATEGIS AND DEPARTMENT OF FINANCE

with a 8.5 per cent increase followed by 4.3 per cent for the Halifax Metro area and 3.9 per cent for the Annapolis Valley area. Structural adjustments in some traditional industries along with more capacity in manufacturing, diversification through the new economy and steady output in tourism help explain this employment growth distribution among the regions.

More jobs automatically pump more labour income into the economy. Labour income for the first five months of 2000 is up 6.5 per cent. Part of this huge increase is the result of pay equity settlements by the federal government. Labour income to federal employees located in Nova Scotia increased by 28 per cent for the same period. The forecast for growth in personal income is adjusted upward to accommodate the higher than anticipated labour income increase. Personal income is now expected to increase by 4.1 per cent.

Investment spending has declined with the completion late last year of the Sable gas production facilities and the transmission pipeline. This impact has been cushioned somewhat by capital expenditures in other private sector projects such as the gas lateral to Halifax, conversion of the Tufts Cove power generating plant, offshore exploration and by a steady pace of activity in housing construction.

The reduced level of investment spending, especially in the energy sector, is a major factor underlying the lower rate of GDP growth compared to 1999. GDP growth is sustained this year, however, by the positive impact on the economy from production of offshore natural gas from the Sable gas project. In addition, natural gas prices and gas liquids production are higher than anticipated and these add more growth to the economy by way of more corporate profits and export sales.

2001 Outlook

Similar to the Canadian and US forecasts, the Nova Scotia economy will continue to grow in 2001 but at a slower pace. The growth rate, however, will be stronger than assumed in the Budget economic forecast to reflect the “soft landing” or slowing economic growth without a recession forecast for the North American economies. Real GDP is now expected to increase by 2.2 per cent in 2001.

Business investment in 2001 will increase but at a moderate rate through projects such as the construction of the natural gas distribution system and accelerated expenditures on oil and gas exploration programs. The recently announced school construction program over the next five years also adds slightly to GDP growth in 2001 through more capital investment.

Both the reductions in federal income taxes and increases in federal program spending announced in the February 2000 Budget will begin to fully materialize in 2001. These fiscal initiatives support continued moderate growth over the short term.

The value added from the production of natural gas and gas liquids also helps sustain growth in 2001. Reaching natural gas production capacity by 2001 is a key factor behind the added growth to the economy helping to override any easing in demand from a weaker US economy. This maintains solid growth in the corporate profits component of GDP in 2001. Total value export sales for goods and services will continue to add growth to economy with a revised forecast of 7.8 per cent for 2001.

This revised upward economic forecast over the Budget forecast has employment growing by 1.6 per cent in 2001. A stronger forecast for employment means adjustments to the forecast for personal income and the unemployment rate. Personal income is now expected to increase 3.6 per cent in 2001. The unemployment rate is anticipated to decline further in 2001 with employment increasing at a faster pace than the labour supply.