

Provincial Economic Overview



Little Bay Islands

Real Gross Domestic Product (GDP) is expected to grow by 3.0% in 2006, down from the 6.2% forecast in March 2006. The downward revision is due to lower than expected oil production, in particular, lower production from the Terra Nova oil field. Economic growth this year will stem mainly from gains in mineral exports and higher consumer spending. Some stimulus is also being provided by higher provincial government spending.

Investment is forecast to decline by 6.9% in 2006 to \$4.0 billion—both construction and machinery and equipment spending are expected to be lower this year. The end of the development phase of both the White

Rose oil project and the Voisey's Bay mining project are largely responsible for the decline in investment. Despite the overall decline in investment, construction activity was positively impacted by a significant increase in provincial government infrastructure spending. Furthermore, the absolute level of investment in the province remains at a historically high level. In fact, capital investment in 2006 is expected to be the third highest level ever recorded.

Consumer spending growth continued in 2006. Retail sales (which account for about 55% of consumer spending) totalled \$3.9 billion in the first eight months of this year, an increase of 2.1% compared to the same period in 2005. Growth stemmed mostly from an increase in sales by department and general merchandise stores. Car sales were a constraint on overall retail sales growth this year. The number of new cars sold in the province in the first eight months of 2006 was down by 5.0% in comparison to the year earlier level.

Real exports are expected to increase by 5.3% this year due mainly to higher mineral shipments. Real exports of mineral products are forecast to increase by over 45% as Voisey's Bay records almost a full year of production. (Production was shut down for two months due to a labour dispute.) A small gain in oil exports is also expected, however, the first full year of White Rose oil production was largely offset by a lengthy shutdown of the Terra Nova facility for modifications and repair (see Oil and Gas, page 6, for further details).

Labour Markets

Employment is currently forecast to increase by 0.4% in 2006 to average close to 215,000. The labour force is also expected to increase but not as much as employment, leading to a decline in the unemployment rate. The unemployment rate is expected to average

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Economic Indicators

(Annual % change unless otherwise indicated)

	2005	2006f	2007f	2008f	2009f
Gross Domestic Product					
Nominal	10.8	9.4	3.8	0.0	-1.5
Real	0.4	3.0	5.7	0.5	0.2
Personal Income					
Nominal	3.9	4.0	3.3	3.0	3.4
Real	1.2	1.8	1.5	1.1	1.4
Personal Disposable Income					
Nominal	3.1	4.0	3.3	2.8	3.2
Real	0.5	1.8	1.5	0.9	1.3
Retail Sales					
Nominal	2.2	2.1	2.3	2.3	3.3
Real	-1.1	0.1	1.4	1.3	2.2
Housing Starts	-13.0	-12.8	-9.4	-2.4	0.8
Employment	-0.1	0.4	1.1	1.5	1.4
Labour Force	-0.7	0.2	0.5	0.6	0.7
Unemployment Rate (%)	15.2	15.1	14.6	13.8	13.2
Population	-0.6	-0.8	-0.7	-0.3	-0.2

f: forecast, Department of Finance, October 2006
 Department of Finance, Statistics Canada

15.1% in 2006, a 0.1 percentage point drop compared to 2005.

Employment in the first nine months of the year averaged 215,400, 0.2% higher than in the same period of 2005. Employment in the first part of the year was negatively impacted by the completion of construction of the White Rose and Voisey's Bay projects which began winding down in late summer/early fall of last year; the closure of the Stephenville newsprint mill in October 2005; and weakness in the fishing industry. Employment in both August and September increased compared to the same months in 2005 and employment growth for the remaining months is expected to be positive.

The average number of persons either working or looking for work (labour force) totalled 254,200 in the first nine months of 2006, essentially unchanged from the same period of 2005. The combination of slight growth in employment and unchanged labour force resulted in a drop in the unemployment rate of 0.1 percentage points to 15.4%.

Wages continued to increase this year. Average weekly earnings (including overtime) increased by 5.1% in the first seven months of 2006. Labour income totalled just over \$4 billion in the first half of the year, 4.2% higher than the same period of 2005¹. The increase in labour income reflects the higher weekly earnings. After adjusting for inflation, labour income grew by 1.8%. Total personal income is forecast to grow by 4.0% this year (1.8% in real terms).

Prices

On a year-over-year basis, the CPI (Consumer Price Index) averaged 2.1% higher in the first nine months of 2006. In the first eight months of the year inflation was driven primarily by higher energy prices which increased by an average of 10.7% in the January to August period. However, in September, energy prices fell by 7.5% relative to September 2005 reflecting falling crude oil prices. The impact of declining energy prices is evident in the all-items index which increased by only 0.2% in September compared to September 2005 (see chart).

¹ The stated estimate of labour income removes the provincial government's special payment of \$1.953 billion to the teachers' pension plan from supplementary labour income.

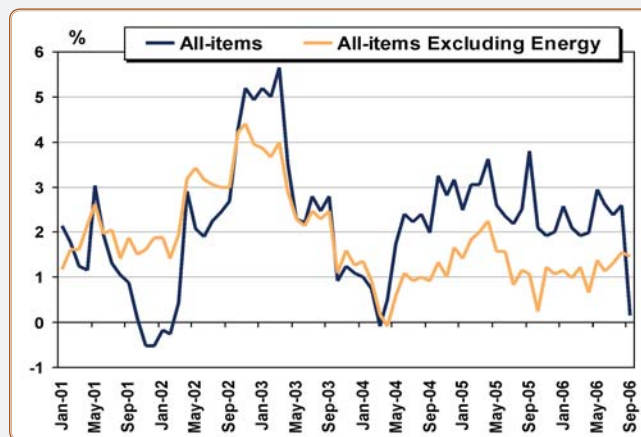


Terra Nova National Park in early fall

2007 and Beyond

Production schedules of major projects will continue to have a significant influence on economic growth over the next several years. Real GDP is expected to post strong growth in 2007 as Terra Nova oil production rebounds from an extended downtime period this year and Voisey's Bay production increases. Voisey's Bay output was negatively impacted this year by a two month labour dispute. GDP growth is expected to be weak in 2008 and 2009, premised primarily on the assumption that oil production from Terra Nova begins to decline as reserves are drawn down. This offsets gains elsewhere in the economy. The commencement of development of other major projects (such as Hebron or Lower Churchill) which are not currently included in the economic forecast could substantially improve the economic outlook.

Inflation Rate



Statistics Canada; Department of Finance
 Note: Depicts percentage change from the same month of the previous year.