

Newfoundland and Labrador
The Economic Review



GOVERNMENT OF
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UNITED STATES AND CANADIAN ECONOMIES

United States

The US economy, after struggling with a jobless recovery in recent years, appears to be responding to strong doses of both monetary and fiscal policy. Real GDP grew at an annual rate of 7.2% in the third quarter of 2003 and is expected to expand by 2.7% for the year.

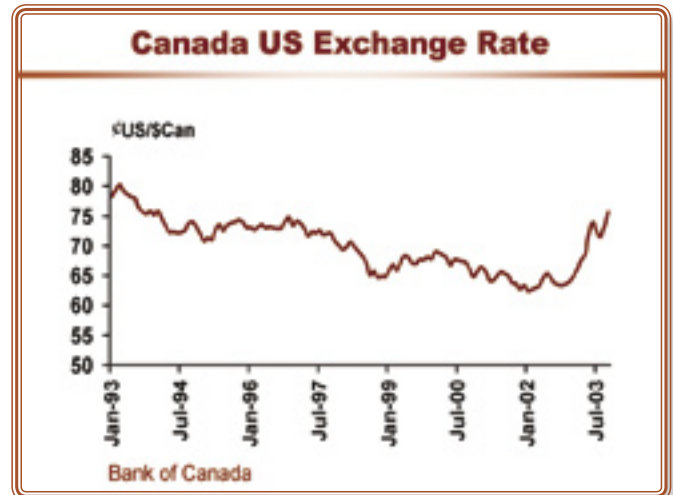
Earlier in the year, growth had been constrained by uncertainty surrounding the situation in Iraq. While GDP expanded, employment continued to decline and the manufacturing sector, in particular, struggled with increased competition from Chinese manufactured goods (see discussion on next page). Uncertainty regarding the strength and sustainability of the recovery and growing fiscal and trade deficits caused the US dollar to depreciate.

The strong GDP numbers in the third quarter along with renewed employment growth in the last three months indicate that the US economy is strengthening. This is due in part to monetary and fiscal policy stimulus provided by record low interest rates, tax cuts and increased military spending. GDP growth in the third quarter stemmed from the housing and consumer sector, and renewed growth in business investment. In addition, the depreciation of the dollar has boosted exports. Most forecasters feel that the US economy will continue to strengthen with a consensus forecast of 4.0% growth in 2004.

Canada

Canadian economic performance in 2003 was impacted by several unusual shocks (SARS, BSE, a blackout in Ontario and rapid appreciation of the dollar). After growing at an annual rate of 2.6% in the first quarter, real GDP declined by 0.3% in the second quarter, then rebounded and grew by an estimated 2.0% in the third quarter. Overall, economic

growth is expected to average 2.1% for the year—roughly 1% less than the March forecast.



Canadian exports, which have been a driving force behind economic growth in recent years, have been constrained in 2003 by the appreciation of the Canadian dollar and weakness in the US economy earlier in the year. On the positive side, low interest rates and high consumer confidence kept consumer spending and housing investment strong—largely offsetting losses in other areas.

The combination of unusual shocks and slowing exports caused employment gains to wane in the spring and summer and the unemployment rate increased to 8.0% in August. In recent months, however, employment growth has resumed.

With these shocks behind it, the Canadian economy is expected to strengthen further in the fourth quarter and into next year, aided by a strong US economy, low interest rates and further employment gains. Real GDP is expected to grow by roughly 3.0% in 2004. Canada has been one of the top two G-7 countries in terms of economic growth in four of the past five years and is expected to rank second among the G-7 again next year (behind only the US).



For the past 25 years China has experienced extraordinary economic growth. After years of state control, the government of China introduced a major program of economic reform in the late 1970s. It encouraged the formation of private businesses, liberalized foreign trade and investment, relaxed state control over prices, and invested in industrial production and the education of its workforce. Twenty-five years later, this strategy, by most accounts, has been a tremendous success. Since 1980, China's real GDP has increased at an annual rate of more than 9%, and in 1994 China became the world's second largest economy. At \$6.14 trillion, China's GDP now accounts for 12.7% of total world output. If historical GDP growth rates continue, China may surpass the US to become the world's largest economy in approximately eight years.



combined with a low valued fixed exchange rate regime, give China a considerable competitive advantage in the production and export of manufactured goods. As a result, China has experienced exploding trade with both imports and exports increasing an average of 14% per year over the past two decades. The speed at which 'made-in-China' products have come to dominate many sales categories is tremendous.

In the last 10 years, Canadian exports to China have increased by 146% and imports from China have quadrupled. Newfoundland and Labrador imports from China have increased only marginally, from just under \$398,000 in 1993 to just under \$853,000 in 2002. However, this may reflect the fact that many consumer goods that enter the province are transhipped through other provinces rather than directly from China. Exports from Newfoundland and Labrador to China have experienced a significant increase, from just under \$7.5 million in 1993 to over \$175 million in 2002; the strongest growth of all Canadian provinces. The top four Newfoundland and Labrador exports to China are shrimp and prawns (\$69.1 million), crab (\$58.1 million), iron ore and concentrate (\$33.0 million), and other fish and fish products (\$14.4 million). These four categories combined accounted for essentially all provincial exports to China in 2002. During the first eight months of 2003, exports to China were up an additional 38% over the same period in the previous year.

With China's entrance into the World Trade Organization in 2001, the country will experience further integration into the global economy. As the last remnants of quota protection against China are gradually removed, consumers will enjoy lower prices and competitors will find it increasingly difficult to match China's tremendous cost advantages. However, integrating local products into China's supply chain may create considerable opportunity for domestic exporters.

What differentiates China from other developing countries that have preceded it is the sheer size of its population. Half of China's nearly 1.3 billion people still work in subsistence agriculture, representing a seemingly inexhaustible supply of inexpensive labour. Equally important has been China's ability to attract the capital and technology required to harness that labour. Last year, China became the largest recipient of foreign direct investment in the world. These factors,



2003 Performance

Economic activity, as measured by real Gross Domestic Product (GDP), is expected to increase by 4.3% this year (or by 1.0% when growth is adjusted to reflect the fact that a significant portion of income generated by oil production does not remain in the province). This figure is revised down from the 5.4% growth projected in the March forecast because of lower than expected oil exports. As in recent years, growth in GDP stems mainly from exports and consumer spending.

Real exports are expected to expand by 7.7% this year due primarily to increased oil production but also aided by small gains in fish and mineral exports. Oil production is now projected to be up by almost 20% as output gains are realized at both Hibernia and Terra Nova.

Investment is expected to grow by 7.5% this year, to reach \$3.8 billion. Capital spending is buoyed by development of the White Rose and Voisey's Bay projects as well as high levels of residential investment.

Consumption growth has continued to be strong in 2003. Retail sales totalled \$3.5 billion in the first eight months of the year, an increase of 6.1% over the same period in 2002. Employment and income gains, combined with relatively

low interest rates have stimulated growth in consumption in the last several years.

Employment is forecast to increase by 2.2% this year to an average of 218,500 person years. The unemployment rate is expected to decline slightly to 16.8%. During the first ten months, employment has averaged 2.0% higher than 2002 and the average unemployment rate was just slightly lower (down 0.2 percentage points). Despite the continuing improvements in labour markets, the province's unemployment rate continues to be well above the national rate.

Increased employment and wage gains have been reflected in labour income, a key component of personal income. Labour income totalled \$3.6 billion in the first six months of 2003, 6.4% higher than the first half of 2002. Once inflation is accounted for, labour income grew by 2.3% in the first half.



So far this year, average inflation has been the highest in more than a decade. Inflationary pressures stemmed primarily from high energy costs and rising insurance prices. The Consumer Price Index (CPI) averaged 3.3% higher in the first ten months of 2003 compared to the same period last year. Annual inflation in 2003 is expected to come in at about 3.2%. This will mark the highest annual inflation rate recorded since 1991, when the introduction of the GST caused a one-time increase in the CPI.

2004 Outlook

Economic growth is expected to continue in 2004, albeit at a slower rate than in recent years as gains in oil production taper off. On average, private sector forecasters are expecting real GDP growth of 2.9% for the province and employment growth of 1.6%. Growth will be broadly based with contributions from consumption, investment and exports.

Economic Indicators

(Annual % change unless otherwise indicated)

	2002	2003f
Gross Domestic Product		
Nominal	16.6	4.4
Real	15.4	4.3
Real Adjusted*	5.0	1.0
Personal Income		
Nominal	4.1	4.5
Real	1.6	1.3
Personal Disposable Income		
Nominal	4.2	4.2
Real	1.7	1.0
Retail Sales		
Nominal	2.9	6.1
Real	2.4	3.9
Housing Starts	35.3	3.4
Employment	1.2	2.2
Labour Force	2.2	2.0
Unemployment Rate (%)	16.9	16.8
Population	-0.5	0.1

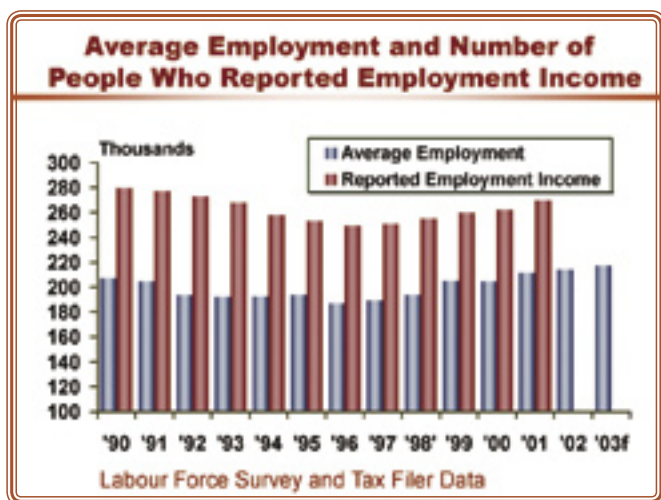
f: forecast, Department of Finance, November 2003

* Note: Adjusted GDP is lower because it excludes oil production income accruing to non-residents.

Department of Finance; Statistics Canada

Historical Perspective

Labour markets have performed well over the last five years, recovering losses incurred during the first half of the 1990s. The collapse of the groundfish fisheries, government spending restraint, and changes to the E.I. program precipitated significant economic adjustment in the 1990s. Average employment dropped from 207,400 in 1990 to a low of 187,000 in 1996 (see Chart). Since 1997, annual average employment has grown by 2.4% per year and in 2002 reached 213,900, about 6,500 above the peak recorded in 1990.



While average employment has surpassed previous peak levels, other data indicates the total number of people who worked at some point during the year has not yet reached the levels recorded in 1990. The number of people who reported employment income (tax filer data) was 269,540 in 2001 (latest year available), below the number reported in 1990 (279,460). This apparent contradiction is explained by the fact that many part year or seasonal jobs have been replaced

by full-year employment. For example, since 1996, average full-year employment has increased by 22.0%, while average part-year employment has decreased by 4.0%.

2003 Performance

Labour markets continue to improve in 2003. Employment is expected to increase by 2.2% for the year to total 218,500 person years. This is slightly better than the 1.8% growth forecast in March. The labour force participation rate has also been increasing during the year, expanding the size of the labour force. The labour force is expected to grow by 2.0% in 2003 to total 262,600. In the March forecast, the unemployment rate was expected to drop from 16.9% in 2002 to 16.1% this year. However, stronger than expected labour force growth will prevent any significant drop in the unemployment rate. The unemployment rate is now expected to average 16.8%, only slightly lower than last year.

On an industry basis, employment growth this year has been confined to the services sector, which is up by 3.9% in the first ten months. Gains have been recorded in many service industries including health care and social assistance; accommodation and food services; and transportation and warehousing. Goods sector employment was down 4.5% compared to the same period in 2002; due mainly to losses in manufacturing, in particular fish processing.

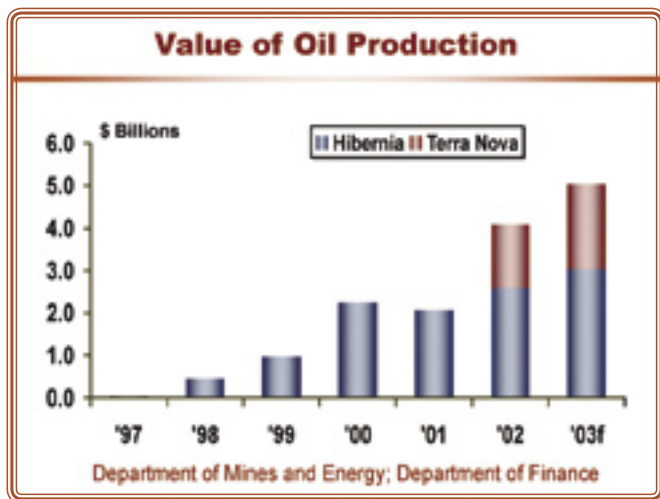
Regionally, positive employment growth during the first nine months occurred in the St. John's CMA (2.5%), the West Coast-Northern Peninsula-Labrador Region (4.3%), and Central Newfoundland-Northeast Coast Region (2.5%). Employment losses were experienced on the Avalon Peninsula outside the St. John's CMA (-1.7%) and in the South Coast-Burin Peninsula Region (-2.4%).



Offshore Production

Oil production is increasing once again this year with output expected to rise to about 124 million barrels, up almost 20% from 2002.

While growth in oil production is significant, it is lower than the 31% that was forecast in March. This is mainly a result of lower than anticipated production at Terra Nova. Production at Terra Nova was adversely impacted by the inability to offload oil from the facility at times due to poor weather and storm damage to one of its shuttle tankers, as well as gas compressor problems. These issues have been resolved and are not expected to have long-term impacts on production.



Terra Nova recorded production of 40.1 million barrels in the January to October period, 34% higher than in the same period of 2002. Hibernia produced 62.4 million barrels dur-

ing the same period, representing a year-over-year increase of over 17%.

Exploration

Two exploratory wells were drilled by Petro-Canada in the Flemish Pass in 2003. Both wells were abandoned, although one well was reported to have encountered non-commercial quantities of oil. Presently, there are no definite plans for exploratory drilling in 2004, but stakeholders have indicated that 4 to 6 wells are possible over the next several years.

Future exploration may also take place in the relatively unexplored Orphan Basin on the Northeast Grand Banks and in the Laurentian Sub-Basin off the province's south coast. Most of the properties in the current offshore land sale, which closes on December 17th, are in the Orphan Basin. The Canada-Newfoundland Offshore Petroleum Board is currently negotiating with oil companies who hold existing permits in the Laurentian Sub-Basin to convert the permits to exploratory licences. These negotiations, among other things, will determine when activity in this area can begin.

White Rose

Husky Energy (Operator) continues to make good progress on the White Rose project with production expected to begin in late 2005 or early 2006. Glory holes were completed in September and development drilling commenced using the drill rig *Glomar Grand Banks*. Work is also ongoing throughout various parts of the world on the components of the Floating Production, Storage and Offloading (FPSO) vessel and the subsea production system.

In this province, a combined total of over 1,900 people were employed on the project at the end of September carrying out work in Marystown, Bull Arm, and St. John's. The greatest concentration of activity taking place in the Province is associated with topsides fabrication at the Marystown shipyard and adjacent Cowhead facility. Employment at these two facilities currently stands at about 520, with the work force expected to increase to 600 by year-end. The FPSO is due to arrive at the Shipyard in the first half of 2004.

The fishing industry recorded a solid performance in 2003. Landings, which were projected to remain on par with 2002 in the March forecast, should exceed earlier expectations. The value of landings is also expected to increase and is likely to exceed \$500 million.

Landings

Higher landings of clam, shrimp, flatfish, turbot, capelin and mackerel are expected to more than offset a significant reduction in cod landings this year. Both the Northern and Gulf cod fisheries were closed during the year by the federal Minister of Fisheries and Oceans. Total fish landings are expected to be around 6% to 7% higher than the 262,000 tonnes recorded in 2002. As of September, more than 90% of this year's anticipated landings had been realized.

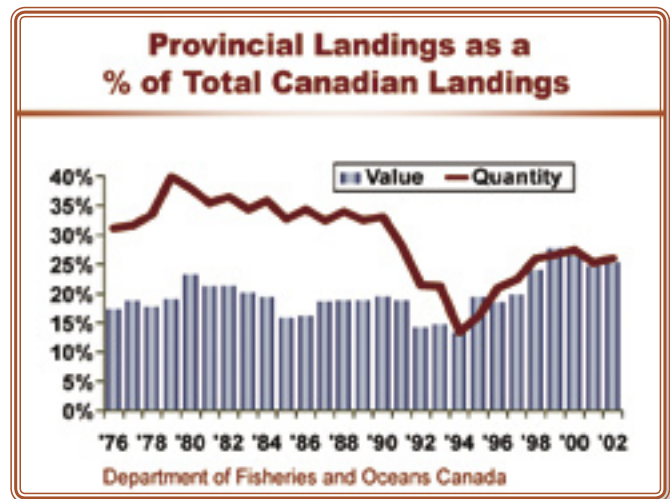
Increased landings, in combination with higher prices for some species (e.g., crab), are expected to result in landed values in excess of \$500 million this year. It is estimated that the total value of all species, including seals, will reach close to \$525 million, marking the fourth time in the past five years that the \$500 million level will have been surpassed.

Share of National Fishery

The province's share of the national fishery has increased significantly in recent years. In terms of volume, the share of total landings ranged between 30% and 40% throughout the late 1970s and 1980s, a period when groundfish was the main species harvested and landings, at times, exceeded 500,000 tonnes. This share dipped to a low of 13.4% following the collapse of the groundfish fishery and has been slowly regaining ground with diversification into other spe-

cies. In 2002, the province accounted for 26.0% of commercial seafood landings in Canada.

In terms of value, however, the story has been quite different. In 1988, when the province's fishery was mainly concentrated on groundfish and pelagics, the province only accounted for 18.8% of the value of seafood landed in Canada. Over the last six years, this situation has changed as shellfish, generally a higher valued product, has become the primary source of industry revenue. In 2002, the province accounted for 25.3% of seafood landed value in Canada.



Employment

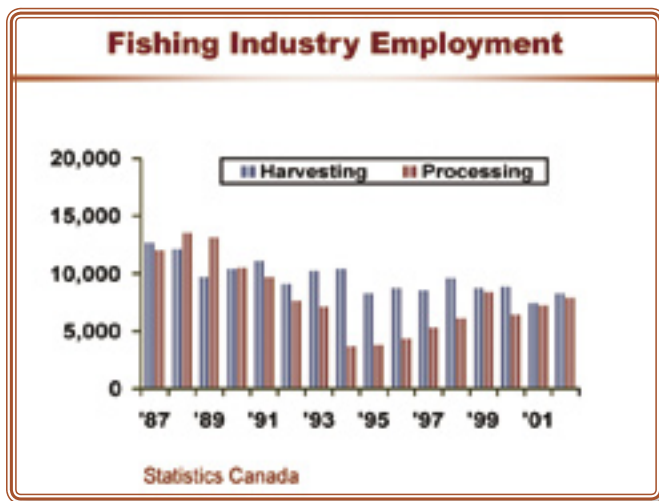
Fishery related employment is expected to be down in 2003 due to lower processing activity. Labour Force Survey data indicates that, on a monthly average basis, processing employment was 6,500 for the January to October period, down 2,000 from the same time last year. Lower employment was a reflection of decreased harvests of cod, increased efficien-



Fishery Products International's new trawler, Newfoundland Marten

cies and shifts in product mix (i.e., a stronger emphasis on sections versus meat) at crab facilities. Harvesting employment averaged 8,900 for the period, up 2% from 2002. Combined, harvesting and processing employment is expected to average about 15,000 person years in 2003.

Fisheries employment fell dramatically in the early 1990s when groundfish stocks collapsed. Total employment in the provincial fishery, including both harvesting and processing, fell to an all-time low of 12,100 person years in 1995, in contrast to annual average employment of more than 24,000 in the late 1980s. The restructuring of the industry throughout the 1990s saw the employment situation improve but fisheries employment remains lower than it was in the late 1980s.



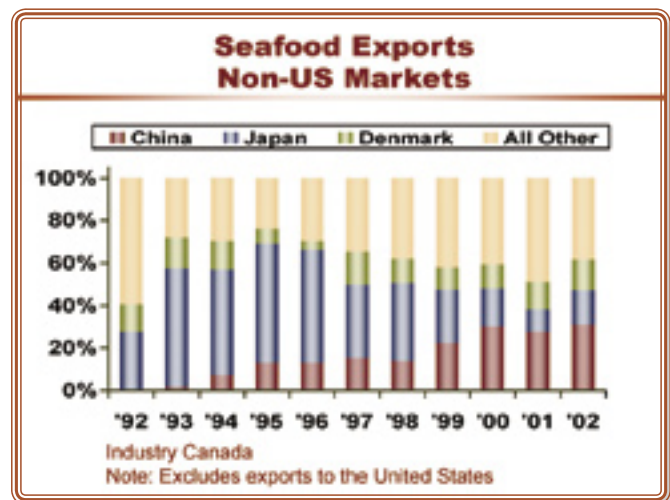
While overall employment levels in the fishery today are lower, the number of active harvesters working in the industry is about the same. Because of the seasonal nature of the fishing industry, Employment Insurance (EI) statistics provide a reasonable indication of the number of people deriving income from the fishery in any given year. According to this data, 13,900 harvesters registered for EI in 1992. This figure dropped to a low of 8,700 in 1995 before gradually increasing to 13,700 in 2002.

The fact that fish harvesting related EI claims have recovered to levels recorded in 1992 is attributable to several factors. EI regulations for harvesters have changed considerably over the past years and have become more accommodating to their needs. Furthermore, with the diversification into high-valued shellfish, revenue to harvesters has increased considerably. This has further accommodated harvesters whose EI is based on landed value. Finally, with the collapse of the groundfish fishery, many full-year offshore harvesting jobs were replaced with employment in nearshore fishing enterprises.

Compared to a decade ago, however, there are fewer processing workers in the industry today. In 2002, approximately 8,200 people in the processing industry registered for EI compared to about 16,600 in 1992. The reason for the drop in the number of processing workers is two-fold. The quantity of fish landed today is less than that landed prior to the groundfish collapse in the 1990s. Furthermore, the products manufactured (i.e., mostly shellfish products) by the industry today are generally less labour intensive than those produced a decade ago. As a result, the number of jobs in processing has failed to recover to the same extent as in harvesting.

Exports

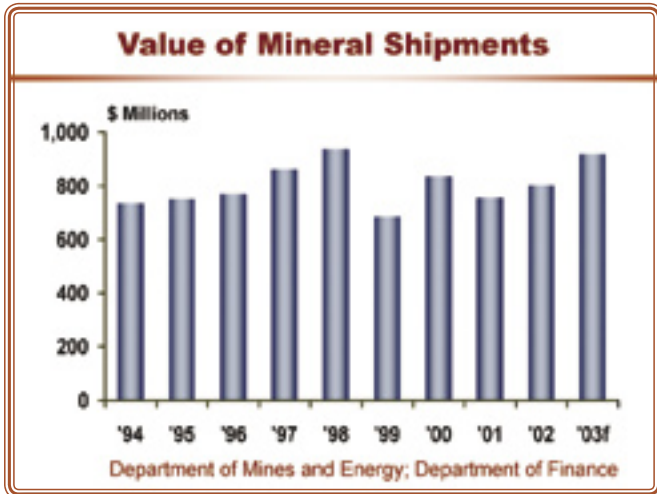
Changing circumstances in world seafood markets have implications for the province's fishing industry. While the US is still by far the largest market for the province's sea-



food products, China is now the second largest customer. In 1993, the province exported less than \$3 million in seafood to China. By 2002, this situation had changed dramatically with China importing about \$140 million in fish products from this province. This trend of increased exports to China is part of that country's bid to become a major supplier of seafood products in the global market. Trade data, for the first nine months of 2003, suggests that China continues to be a major importer of the province's fish products.

For periodic updates on fish landings:
www.economics.gov.nl.ca/indFish.asp

Over the past two years, the mining industry has been recouping ground lost in previous years as a result of significant fluctuations in global mineral markets. The value of mineral shipments from the province is expected to reach \$917 million in 2003, representing a 14.4% increase over the previous year. Direct employment in the industry is expected to average about 2,600 person years, up from approximately 2,560 in 2002. Increased employment on the Voisey's Bay development will more than offset losses in iron ore related mining operations.



Iron Ore

Iron ore currently accounts for more than 90% of the value of total mineral shipments and therefore is the main determinant of overall industry performance. About 20 million tonnes of iron ore products are expected to be shipped from Labrador this year, an increase of 6.5% from 2002. This is slightly lower than expectations in the March forecast. Value is projected at \$859 million, representing an increase of about 17%. Higher prices caused the value to grow much more than volume, despite the negative impacts of the appreciation of the Canadian dollar.

The Iron Ore Company of Canada (IOC) at Labrador City expects to ship almost 15 million tonnes of iron ore products this year, up 3.9% from 2002. Approximately 80% of the products will be in pellet form and the remainder will be concentrate. Employment at the mine, mill and pellet plant is expected to average 1,230, down from 1,412 in 2002. IOC indicated in both 1999 and 2002 that the number of employees would be reduced as part of a move to lower costs and raise productivity. When possible, the approach has been to achieve the reduction through early retirement incentives.

Wabush Mines expects to ship over 5 million tonnes of concentrate this year, up 15% from 2002. Employment at Wabush is expected to be around 375, on par with 2002.

Exploration

Mineral exploration expenditures in 2003 are estimated at around \$30 million in comparison to \$44 million in 2002. The higher expenditure in 2002 was the result of some large one-time expenditures on advanced exploration and development at Voisey's Bay—actual field exploration expenditures in 2003 will be similar to 2002. Most of the expenditures in Labrador in 2003 have been for base metals at Voisey's Bay and the Voisey's Bay South projects. The bulk of exploration on the Island has been for gold. Gold exploration is taking place at many locations across the Island with a lot of interest focused on the Botwood Basin area in central Newfoundland. The number of claims staked in 2003 is expected to be around 15,000, down from 33,126 in 2002. Claim staking was relatively high in 2002, reflecting speculation about a joint venture for gold exploration on the Island between a major international gold producer and a local junior company.

Voisey's Bay

Work associated with the development of Voisey's Bay continues on schedule. The project is expected to generate 320 person years of employment this year, compared with 70 person years in 2002. At the end of September there were 1,128 people employed on the project, including 858 residents of this province. Project expenditures for 2003 are expected to be about \$260 million. Most of this expenditure is on preparation work for the establishment of the mine, mill and concentrator in Labrador. Other project activities include the establishment of the office and warehouse in Argentia, the construction of the Inco Innovation Centre at Memorial University and Hydromet R&D and additional exploration. Production from the mine is scheduled to come on stream in 2006.

The value of manufacturing shipments is expected to reach \$2.35 billion in 2003, up 5.0% from the previous year. A significant increase in fabricated metal products and a higher value for refined petroleum are the main drivers behind the rise in shipments. Since most of the province's manufactured goods are exported to the US and abroad, the recent appreciation of the Canadian dollar negatively impacted shipment values. Despite increases in the volume of newsprint production and fish landings, newsprint value is expected to be flat in 2003 while the value of fish products is expected to decline.



A lot of machinery and equipment is imported from the United States. Low interest rates and a higher dollar provide a strong incentive for capital investment in the manufacturing sector. Manufacturing investment is expected to reach \$135 million in 2003, the sixth consecutive year that industry investment has exceeded the \$130 million threshold. After hitting a trough of 11,700 in 1995, industry employment has been trending upward in recent years. From 1993 to 1997, manufacturing employment averaged 13,900 then rose to average 16,700 for the next five years. During the first ten

months of this year, however, industry employment was down to 15,800 on a monthly average basis. This year's decline was linked to lower cod landings and a shift in product mix at crab facilities.

Manufacturing Profiles

Abbyshot Custom Clothiers Limited was established in July 2002 and employs 12 people in the manufacturing of clothing inspired by the motion picture industry. From its facility in Mount Pearl, Abbyshot has supplied custom fitted garments to more than 20 countries including the UK, Japan, Israel, Poland, and Slovenia. This Christmas, the company is partnering with Kevin Smith and View Askew Productions to offer a replica of *Silent Bob's* (the popular film character) coat. Abbyshot also recently secured a contract with Warner Brothers to produce several jackets for the promotion of the film *The Matrix Revolutions*. One of Abbyshot's jackets is currently on display in the world famous Hollywood Wax Museum, sported by a likeness of actor Keanu Reeves.

Restwell Mattresses, which began operations in 1991 in Harbour Grace, originally started by manufacturing various types of box springs and mattresses for homes, hospitals, hotels, trailers and recreational vehicles. In 1998, the company expanded its product line to include chesterfield sets, sofa beds, love seats and wing chairs. The company opened a retail store in Carbonear in 2000. Restwell also manufactures custom mattresses that are used offshore on the Hibernia and Terra Nova oil facilities. Currently, the company employs 8 people.

Superior Glove Works Ltd. is involved in the manufacturing of work gloves and protective clothing. The company currently has plants in Point Leamington as well as in Acton, Ontario. The Point Leamington plant was established in 1988 and employs about 30 people in the manufacturing of approximately 300 styles of gloves. The company currently produces about 16 million pairs of gloves per year—10 million of which are made in Newfoundland and Labrador. Superior sells its products primarily in Canada and the US.



Superior Glove Plant - Point Leamington
 Abbyshot Clothiers Ltd. - Mount Pearl
 Restwell Mattresses - Harbour Grace

2003 Performance

The province's tourism industry performed relatively well in 2003, with visitors and associated expenditures expected to be on par with 2002. This performance stands in contrast to national trends where extraordinary events, most notably the SARS scare in Ontario, kept substantial numbers of visitors away.

Nationally, many challenges emerged this year which contributed to lower tourism numbers across the country. These include the overall weakness in the US economy, restructuring/problems in the airline industry, appreciation of the Canadian dollar, terrorism related travel concerns, and a number of unusual hits to the industry (e.g., SARS outbreak and power outages). Non-resident visitor trips to Canada were down by almost 14% in the first nine months.

surge by last minute travellers. In addition, more residents of the province chose to stay and travel within the province this year instead of visiting other places. For the year, non-resident visitors and associated expenditures are expected to be about the same as 2002. Data for the first eight months indicate that increased airline visitors is offsetting declines in automobile and cruise ship visitors.

In an effort to build on the gains already achieved in tourism, the province is taking steps to increase the quality of the tourism product and involve industry more fully in planning and marketing initiatives. The formation of the Newfoundland and Labrador Tourism Marketing Council will ensure a closer partnership between government and other industry stakeholders in marketing the province. Furthermore, the province, in partnership with industry and federal stakeholders, initiated the province-wide tourism product development strategy in 2003. This strategy will pay particular attention to product and service quality initiatives in the tourism industry.



Outlook

The outlook for the provincial tourism industry for 2004 is positive. Factors behind the optimism include the trend of Canadians increasingly choosing domestic destinations and strengthening economic growth nationally. Next year, Newfoundland and Labrador will celebrate 500 years of French presence in the province. Celebrations for the French Heritage Year include family reunions, theatre festivals and other initiatives specific to the communities which have a strong French history and heritage.

The provincial tourism industry did not experience the large drop that some other regions of the country recorded in 2003. In fact, the province benefitted from the trend of increased domestic travel, with continuing strong responses from target markets in Ontario and the Maritimes, and a late-season

Icebergs

- An average of 500 icebergs float as far South as St. John's each year. Many can be viewed from shore.
- About 90% of all icebergs in Canadian waters are from Western Greenland glaciers
- The peak time for iceberg sightings is spring and early summer
- Almost 90% of an iceberg is below water
- The glacier ice in an iceberg is between 3,000 - 10,000 years old

Year-to-date indicators for the trade sector are sending mixed signals. Retail sales, which account for the lion's share of trade activity, have increased considerably while wholesale sales have registered a modest decline. Average monthly employment in the trade industries, was 36,700 during the first ten months of 2003, down from 38,600 during the same period in 2002.

Retail

Retail sales account for about 55% of consumer spending, one of the drivers of economic growth this year. Retail sales are expected to grow by 6.1% (3.9% after inflation) this year to total \$5.4 billion. This is higher than the 3.2% (1.2% after inflation) growth which had been previously forecast in March. Higher than expected retail sales are due to two factors. Sales have been stronger than anticipated because of stronger than expected employment and income growth, coupled with low interest rates. As well, higher than anticipated price increases, particularly energy prices, have boosted the value of some categories of retail sales (e.g., service station sales).



Retail sales have grown considerably over the past five years and have made a substantial contribution to economic growth. On a per capita basis, real retail sales expanded by 6.3% per year between 1997 and 2002 in comparison with 2.3% per year for Canada. Much of the growth was supported by increased personal disposable income, consumer confidence and rising levels of consumer debt.

Growth in retail trade is expected to continue over the next several years, albeit at a more moderate pace. While continued income growth is expected to encourage higher levels of retail sales over the near term, increased household debt may constrain future growth.

Wholesale

Wholesale trade declined by 1.4% during the first eight months of 2003 to total \$1.71 billion. The decrease in sales was concentrated in the first half of 2003 when wholesale trade was down 3.8%. Sales rebounded in July and August with growth of 3.8% and 4.8% respectively.

While the wholesale sector is an important supplier to retailers in the province, its customer base is not confined to the retail sector. Wholesalers also supply intermediate goods to other sectors of the economy including the manufacturing, construction and primary resource sectors as well as service sector industries. Wholesale activity has been more volatile than retail over the last five years (possibly a reflection of major project procurement activity), but overall sales have risen from \$2.13 billion in 1997 to \$2.65 billion in 2002. Wholesale sales in 2003 are expected to be on par with last year.

For periodic updates on retail sales visit:

www.economics.gov.nl.ca/indRetail.asp



Construction investment is expected to grow by 15.1% to \$2.4 billion in 2003 primarily due to major projects in the resource sector. This is consistent with expectations in the March forecast. Industry employment is expected to exceed 10,000 once again in 2003. After hitting an all-time low of 8,900 in 1997, following completion of Hibernia related construction, annual average employment in the construction industry has exceeded 10,000 every year since 1998.

Non-Residential

Spending on non-residential construction in 2003 is expected to be \$1.72 billion, 24.0% higher than in 2002. Most of the increase is resulting from construction activity associated with the Voisey's Bay mining project and the White Rose offshore oil development. Construction on both of these projects is currently in full swing with substantial construction expenditures associated with each project.

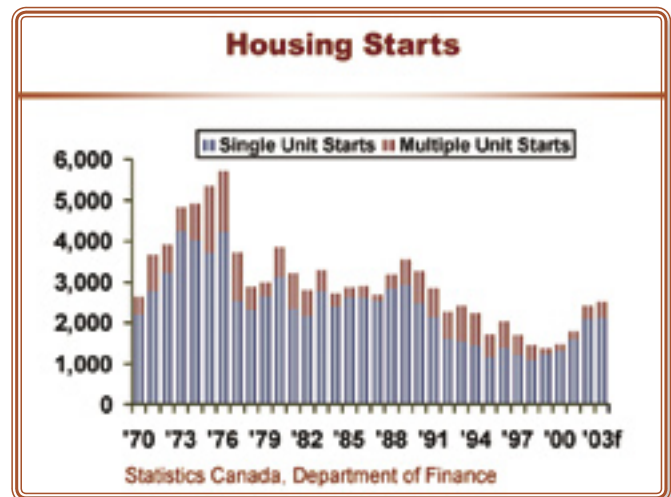
Outside of the mining and oil and gas sectors, significant investment is occurring on a variety of other projects in the province. Construction on "The Rooms"—the provincial archives, museum, and art gallery—is continuing in 2003. Other ongoing projects include the construction of a butane storage facility at the North Atlantic Refinery in Come-By-Chance and the construction of a primary sewage treatment plant that will service St. John's, Mount Pearl and a portion of Paradise.

Residential

Over \$705 million is expected to be spent on residential investment this year, down slightly from \$720 million recorded in 2002. In real terms, spending is approaching the record-high values recorded in the late 1980s and early 1990s.

Residential expenditures encompass renovations and repairs to existing homes and new housing construction. Renova-

tions and repairs have been gradually comprising a larger share of total residential investment, increasing from 60% in the early 1990s to 65-70% today. This increase is a result of several factors including aging of the existing housing stock (about 43% of the province's housing stock was built prior to 1970); four years of record sales of existing homes; low interest rates and more flexible credit terms; and employment and income growth.



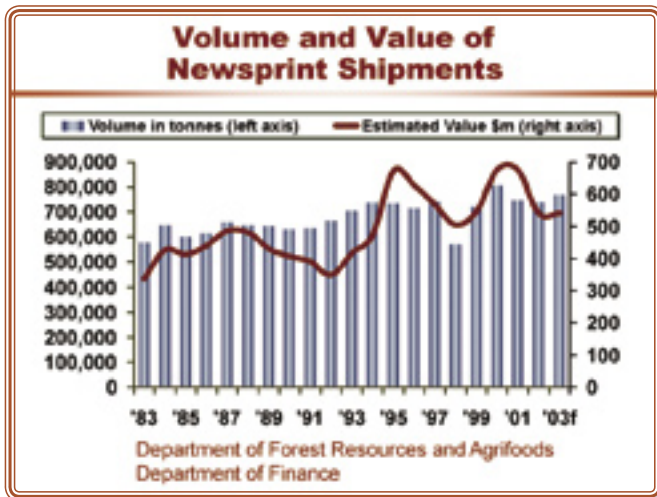
The remaining 30-35% of residential investment is associated with new housing construction. Housing starts are forecast to increase by 3.4% in 2003 to 2,501 units, stronger than anticipated in March when starts were forecast to be unchanged. Like 2002, the housing market in 2003 is being driven by low mortgage rates, income growth, and increased consumer confidence. While 2003 housing starts are the highest since 1991, they are still relatively low compared to the historical peak of 5,709 in 1976, when significant government sponsored social housing development and favourable demographics produced very high levels of new home construction.



Construction work on pier, Marystown

Forestry

The newsprint industry faced some unique challenges in 2003. Despite significant production and price growth (in US dollar terms), annual shipment value (in Canadian dollar terms) did not rise. This unusual phenomenon is a reflection of the rapid appreciation of the Canadian dollar relative to the US currency. Overall, newsprint volume is expected to increase by about 3.8% this year, slightly higher than forecast in March, while value will likely remain close to its 2002 level.



Performance indicators for the first three quarters of 2003 support the annual expectations. Production increased by 5.1% compared to the same period in 2002. Over the same period, newsprint transaction prices in US dollars increased, but declined in Canadian dollar terms. The net result was that the value of newsprint shipments was \$412 million Canadian in the first three quarters of this year, representing only a 3% increase over the same period in 2002.

After posting substantial production increases over the past decade, the lumber industry suffered some major setbacks during the past year. The two largest mills in the province,

A.L. Stuckless and Bloomfield Lumber, were forced to shut down operations earlier this year due to a combination of wood supply constraints, low market prices and other factors. These two mills recently re-opened but are producing on a much smaller scale. Another significant producer, Canada Bay Lumber, was destroyed by fire this past June.

Lumber markets have been volatile over the past two years. Lumber prices increased in early 2002, to US\$300 per thousand board feet, in conjunction with increased US demand for Canadian product in anticipation of pre-announced import tariffs. This created a build-up in inventories which subsequently caused prices to decline severely to a low of US\$221 by November 2002. Prices remained relatively low over the past winter and spring, then spiked dramatically to US\$359 in September due to the unusually bad forest fire season. Prices stabilized to US\$293 per thousand board feet in October and are expected to remain near this level throughout 2004.

Agrifoods

Farm cash receipts totalled \$39.5 million in the first half of 2003, representing a decline of 1.6% from the same period in 2002. Dairy products, which account for approximately one third of total receipts, were down by 2.2%, egg production was up by 8.1%, while floriculture and nursery products were on par with last year.

In May 2003, Newfoundland and Labrador became the first province in Canada to sign an Agricultural Policy Framework (APF) agreement with the federal government. The APF is a 60/40 cost-shared federal/provincial initiative designed to address the challenges and opportunities in the agrifoods industry by focusing on the following: Business Risk Management, Environment, Food Safety and Quality, Science & Innovation and Renewal. More than \$32 million will be spent in the first five years of the program.



Fresh produce at Lester's Farm Market

www.economics.gov.nl.ca

Population Projections

- Look for revised numbers in December 2003



Economy Archive

- Look for earlier editions in 2004 (1988 & 1993)

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