

# 2023 Economic Update





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## International

Real gross domestic product (GDP) for the global economy is anticipated to expand by 3.0 per cent in 2023, down from 3.5 per cent growth in 2022, according to the International Monetary Fund (IMF). Real GDP is forecast to increase 1.5 per cent in advanced economies and 4.0 per cent in developing economies. The post-pandemic economic recovery has largely subsided, with rising central bank interest rates – intended to reduce high inflation – weighing against economic growth. High interest rates are also elevating the risk of a short-lived economic recession in many countries.

The World Health Organization ended the global health emergency in May, while many supply chain disruptions recovered, or partially recovered, through the first half of 2023. Although inflation decreased globally from last year's peak rates, it remained elevated in several countries, falling from an average 8.7 per cent in 2022 to a projected 6.9 per cent in 2023. Core inflation proved to be more persistent, decreasing from 6.4 per cent in 2022 to 6.3 per cent in 2023. This indicator excludes volatile items such as food and energy, as prices in these categories are



Newly Refitted Terra Nova FPSO

often tied more to global developments than domestic demand.

The IMF forecasts a global economic growth rate of 2.9 per cent for 2024. Advanced economies are expected to grow 1.4 per cent, while developing economies are forecast to grow 4.0 per cent, led by India (6.3 per cent) and China (4.2 per cent). This outlook could be further impacted by persisting inflation, which may be sustained by any number of factors, including tight labour markets, any intensification of the war in Ukraine, further turmoil in the financial sector, and an underperforming Chinese economy.

## Provincial

The Newfoundland and Labrador economy has largely performed as expected so far in 2023, with most year-to-date indicators showing growth and either meeting or exceeding Budget 2023 forecast values. Labour markets in particular have performed well, with positive employment growth and a historically low unemployment rate. Consumer spending in the province has also been solid, buoyed by higher wages and another successful tourism season. Furthermore, population growth continued for the tenth straight quarter. The Bank of Canada's interest rate hikes throughout the year have moderated inflation in the province; however, this has caused challenges in interest rate-sensitive sectors of the economy, such as housing investment.

In the oil and gas sector, construction continues to advance on the West White Rose oil project and the Terra Nova floating production, storage and offloading (FPSO) vessel returned to sea in August, where maintenance and commissioning activities continue. Delays related to the Terra Nova project, as well as mechanical and weather-related events at the Hebron and White Rose projects, have led to lower than expected oil production volumes through August. In addition, a lower year-to-date average Brent crude oil price over the January to August 2023 period (-24.7 per cent) compared to the same period last year, has resulted in lower oil export values so far this year.

In the mining sector, lower production and prices for most commodities have had a



West White Rose CGS, Argentina

negative impact on the value of mining exports. Iron ore prices rebounded strongly in early 2023 after falling significantly in the second half of 2022. However, wildfires in northern Quebec in the second quarter of 2023, in combination with extended plant downtime and conveyor belt failures in the third quarter, have led to lower production at the Iron Ore Company of Canada so far this year. Nickel production has been impacted by an ongoing transition between the depletion of Vale's open-pit Ovoid Mine and ramp-up to full production of the underground Voisey's Bay Mine Expansion. In addition, nickel processing has been lower due to longer than expected annual maintenance at the Long Harbour Processing Plant. The average price for nickel was approximately 11 per cent lower through October compared to the same period last year.

In the fishery and aquaculture sector, a delayed start to the snow crab season stemming from a price dispute between fish harvesters and processors was a cause for concern in the spring of 2023. However,

after a six-week delay, the impasse ended on May 19 and the snow crab season began. Extensions to the season were granted in multiple areas, allowing harvesters to catch the majority of the snow crab quota. According to the latest year-to-date fish landings data, total fish landings are currently on pace to be only slightly less than 2022 levels, while the landed value will likely be down significantly due to lower prices, particularly for snow crab. In the aquaculture industry, work continues to expand operations throughout the province.

## Gross Domestic Product (GDP)

At the time of Budget 2023, real GDP was forecast to increase by 2.8 per cent in 2023. However, given the year-to-date performance of some key exports, particularly oil, real GDP growth has been revised downward to -0.7 per cent. Lower-than-expected oil production so far this year has been mainly due to the delayed return to production of the Terra Nova FPSO. Oil production levels and real GDP are both expected to rebound in 2024, as Terra Nova returns to full production.

## Consumer Spending

Consumer spending in the province has been stronger than expected throughout most of the year. Many indicators, including retail sales, new motor vehicle sales, and some service sector measures, have performed well and continue to suggest persistent demand.

Retail sales, which typically account for about 55 per cent of total consumer spending in the province, totalled \$7.5 billion over the January to August 2023 period, compared to \$7.2 billion over the same period in 2022. Sales growth was highly concentrated in 'Motor vehicle and parts dealers', up 11.4 per cent over the period. 'Grocery and convenience retailers' (+5.4 per cent) and 'Food and beverage retailers' (+5.2 per cent) also contributed to growth, while 'Gasoline stations and fuel vendors' (-8.0 per cent) saw the most significant decline. Changes in most of these categories were heavily influenced by changes in prices – food prices have been elevated throughout the year, while gasoline prices have declined on a year-over-year basis.

The number of new motor vehicles sold in Newfoundland and Labrador from January to August 2023 was 17,602, an increase of 5.8 per cent compared to the same period in 2022. New motor vehicle sales have been limited since mid-2021 due to supply issues. While the situation has improved throughout the year, higher interest rates and elevated prices may still dampen sales throughout the remainder of the year.

In the service sector, sales at food services and drinking places totalled \$681 million over the January to August 2023 period, an increase of 14.9 per cent compared to the same period last year. This level of spending is now above pre-pandemic levels.



Cape Spear

## Inflation

Entering 2023, inflation was one of the main concerns facing not only the provincial economy, but the national and global economies as well. Major central banks began tightening measures in 2022, increasing interest rates in an effort to curtail high inflation rates. This continued through the first half of 2023, with the Bank of Canada hiking its overnight rate in July for the tenth time since March 2022, before holding steady in September and October.

In Newfoundland and Labrador, the effects of higher interest rates, in combination with lower energy prices and diminishing supply chain disruptions, slowly moderated inflation throughout the first half of the year. According to the Consumer Price Index (CPI), year-over-year inflation rates trended downward from the peak of 8.2 per cent in June 2022. The inflation rate fell as low as

1.7 per cent in May and June 2023, before increasing again in each of the following three months to 4.1 per cent in September. Over the entire January to September 2023 period, the province's inflation rate averaged 3.5 per cent, compared to 6.5 per cent over the same period last year. Lower energy prices and a decline in goods inflation have been the main contributor to lower inflation in the province this year; however, the labour market remains tight and wage pressures persist. Price increases for essentials such as food and shelter also remain elevated, increasing 8.5 per cent and 4.9 per cent, respectively, on a year-to-date basis through September. Compared to the rest of Canada, at 3.5 per cent, Newfoundland and Labrador's year-to-date inflation rate was tied with Alberta for the second lowest among provinces, behind Prince Edward Island (3.4 per cent). The year-to-date inflation rate for Canada as a whole averaged 4.1 per cent.

## Labour Market

The Newfoundland and Labrador labour market has performed well so far in 2023, recording employment gains in all but one month, and reaching a historically low rate of unemployment. Employment gains were particularly strong in the first quarter of the year, averaging 4.0 per cent on a year-over-year basis, before slowing to average 1.2 per cent and 1.7 per cent over the second and third quarters, respectively. For the entire January to September 2023 period, employment in the province increased by 2.2 per cent compared to the same period in 2022. The labour force increased by 0.3 per cent, due to a 1.4 per cent increase





Cape St. Mary's

in the labour force population (those 15 years and older). The participation rate decreased by 0.7 percentage points. This led to a 1.8 percentage point decrease in the unemployment rate in the January to September 2023 period, which fell as low as 8.0 per cent in August, the lowest seasonally unadjusted rate since consistent records began in 1976. Year-to-date employment gains were split evenly between the goods-producing and services-producing sectors.

## Population

Population growth has occurred in the province in each of the last 10 quarters, and has been particularly strong over the last five quarters. The population of Newfoundland and Labrador stood at 538,605 as of July 1, 2023, an increase of 2,314 persons, or 0.4 per cent, from April 1, 2023. A net

gain in international migration (+2,594) and interprovincial migration (+183), was partially offset by negative natural population change (-463). Most of the international migration gains stemmed from a large influx of immigrants (+1,107) and net non-permanent residents (+1,505). On an interprovincial basis, net migration gains were from Ontario (+250), while the losses were mostly to Prince Edward Island (-78) and Saskatchewan (-73).

On an annual basis, Newfoundland and Labrador's population increased by 7,022 persons, or 1.3 per cent, from July 1, 2022 to July 1, 2023. This marked the largest annual increase in population since 1972. The annual increase was driven by gains of both international and interprovincial migration, mitigated by losses in natural population change (lower births than deaths). Net international migration reached the highest

level (+9,040) since consistent records began in 1972, largely due to record numbers of immigrants (+5,337) and net non-permanent residents (+3,854), which includes the relocation of Ukrainians to the province. Net interprovincial in-migration was positive for a third consecutive year (+542), and was dominated by a net gain from Ontario (+1,252). The largest net loss was to Alberta (-680). Losses from natural population change totalled 2,560. Natural change losses have been accelerating for the last seven years, reflecting an aging population.

## Economic Outlook

Despite the downward revision to real GDP and housing starts, most other economic indicators for the province are expected to remain on track to meet or exceed the Budget 2023 forecast (see Table 1). For the year as a whole, employment is forecast to increase by 2.2 per cent, while the unemployment rate is forecast to decrease by 1.2 percentage points to average 10.1 per cent. If realized, this would be the lowest annual unemployment rate since consistent records began in 1976. Consumer spending is expected to remain strong, with the value of retail sales forecast to increase by 4.0 per cent. Inflation is expected to average 3.2 per cent, down from a historically high annual rate of 6.4 per cent in 2022. Additionally, given the strong population growth in the province so far in 2023, annual population growth has been revised upward to 1.3 per cent. Of note, the number of housing starts forecast in the province has been revised down significantly, primarily due to higher interest rates among other factors.

There are a number of reasons for optimism in the medium-to-long term with opportunities in both existing sectors, such as oil and gas and mining, and emerging sectors, such as wind-hydrogen and aquaculture. The wind-hydrogen sector is expanding rapidly, with the Province announcing on August 30, 2023, that four companies have been granted the exclusive right to pursue the development of their project through the Crown land application and approval process, which includes a referral to Environmental Assessment, while a fifth project is anticipated to be developed on private land. The construction, operations and decommissioning phases (ranging from 35 to 40 years) of the four Crown land projects represents potential capital spending of \$66 billion in the province and an anticipated overall economic impact (GDP) of \$206.2 billion. In the mining sector, work continues on the Voisey's Bay Mine Expansion project and Champion Iron continues to explore the potential to develop the Kami iron ore project in Labrador. Mineral exploration activities are expected to total \$238.6 million in 2023, driven by continued gold mineral potential on the island portion of the province, and increased interest in critical minerals and rare earth elements. In the aquaculture industry, production and the associated value is projected to increase significantly in 2023, as the sector rebounds from a year of production scale backs and mortality events in 2022. The Government of Newfoundland and Labrador also continues to work proactively with the technology and film and television sectors to create more opportunities and accelerate growth within those industries.

**Table 1: Economic Indicators Forecast (Calendar Year 2023)**

	2022	Fall Update 2023f	Per cent change since 2022
Nominal GDP (\$M)	42,021	39,868	-5.1
Real GDP (\$2012M)	32,449	32,233	-0.7
Household Income (\$M)	30,184	31,511	4.4
Retail Sales (\$M)	11,221	11,670	4.0
Consumer Price Index (2002 = 100)	153.9	158.8	3.2
Housing Starts (units)	1,379	899	-34.8
Capital Investment (\$M)	8,042	8,323	3.5
Population (thousands)	531.6	538.6*	1.3
Employment (thousands of PYs)	232.5	237.7	2.2

f: forecast

\*: actual

\$M: millions; PYs: person years

Source: Statistics Canada; Department of Finance



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