



GOVERNMENT OF
NEWFOUNDLAND AND LABRADOR

The Economic Review

November 1996



OVERVIEW

The Provincial economy is undergoing a period of adjustment stemming from the winding down of Hibernia construction and government downsizing. Primarily due to these factors, economic activity is expected to contract by 2.9 percent this year. While overall performance is expected to be weak, some sectors of the economy including mining, fishing and manufacturing are performing quite well.

Employment declined by over four percent in the first ten months of the year, with losses concentrated in the service sector. The goods sector experienced higher employment thanks to an improved fishery.

Labour income fell in the January to July period compared to the same period in 1995, reflecting lower employment and lower average weekly earnings. Weekly earnings for the January to July period averaged \$532, a decline of 1.1 percent. Employment Insurance benefits for the same period increased by 2.3 percent.

Canadian Snapshot

Most forecasters expect Canadian GDP to expand in real terms by between 1.4 and 1.6 percent this year. Canadian GDP grew by 1.3 percent in the second quarter primarily as a result of an improved trade balance. An increase in exports combined with a decline in imports was more than enough to compensate for weak final domestic demand. Employment for the first ten months of this year was up 1.2 percent compared to the same period last year.

Inflation and interest rates have been very favourable this year: inflation averaged 1.3

percent in the first nine months of 1996 while interest rates currently stand at levels not seen in decades. As of November 6, the prime interest rate was 5.00 percent and the one and five year mortgage rates were 5.35 and 7.20 percent respectively.

Selected Economic Indicators Newfoundland and Labrador (percent change unless otherwise indicated)		
	1995	1996f
Real GDP	1.5	-2.9
Personal Income	0.5	-1.8
Retail Trade	1.8	-1.5
Capital Investment	3.6	-18.2
Labour Force	-1.2	-3.1
Employment	1.4	-4.2
Unemployment Rate (%)	18.3	19.2
CPI	1.4	1.4
Housing Starts	-23.7	3.9

Notes: f: forecast (Government of Newfoundland and Labrador), October 1996.
Source: Statistics Canada; Economics and Statistics Branch, Department of Finance.

Interest rates

lowest in

decades

Low lending rates have positively impacted the housing sector. Housing starts for the first nine months were up 7.1 percent compared to the same period last year. However, the effects of lower employment and income are evident in retail trade which recorded a year-over-year 1.3 percent decrease in the January to August period.

The resource industries have posted mixed results so far this year. Production of iron ore faltered as the Iron Ore Company of Canada was hit by a strike, however, shipments for the year are expected to exceed last year's level. The fishing industry has performed well with a strong increase in total landings. Newsprint shipments for the first three quarters were down 7.7 percent as a result of slumping demand. ♦

MINING

The mining sector is expected to do well this year with gains of approximately 10 percent anticipated in the value of mineral shipments.

Shipments to Rise

Gains in shipments will be led by increases in copper, gold and iron ore. Increases in copper and gold are the result of new mine openings, specifically the Ming Minerals Inc. gold and copper mine and Raymo Processing which started gold production in early 1996. The total value of iron ore shipments over the year is expected to increase six percent.

Production of iron ore at Wabush Mines was up by 7.1 percent during the first six months. Overall, however, iron ore production for the Province was down by 15.9 percent due to a strike at the Iron Ore Company of Canada (IOCC). This strike affected operations for about six weeks between April and May, driving production levels down 23.7 percent for the first half of the year. The strike was resolved with a settlement package that provides for wage increases, a Cost of Living Allowance and other benefits. Workers at Wabush Mines also accepted a similar package.

Exploration Going Strong

Mineral exploration activity is proceeding at a good pace. While claim staking activity has slowed, development/exploratory drilling and infrastructure development are increasing. Exploration expenditures are expected to reach about \$100 million for 1996, a 40 percent increase over 1995 levels. As well, approximately 500 person years of employment are expected to be generated compared to 425 last year.

Voisey's Bay Development Proceeding
The Voisey's Bay Nickel Company (VBNC) is moving ahead with registration of the mining and milling aspects of this project. Construction is expected to begin in 1998 and continue into 1999, employing about 700 people.

The Company expects open pit mining to begin in 1999 and continue for seven years. Concurrent with this activity will be the development of underground mining operations slated to kick into high gear once the open pit is exhausted. The proponents require the mill to be producing by the fourth quarter of 1999 and intend to be refining material by 2000. About 500 people will be employed during surface mining and associated milling operations. More labour will be required as mining operations move underground. A site for the construction of a smelter and refinery is expected to be made public by December.

Exploration activity at Voisey's Bay continues with 340 holes drilled to the end of September. Official proven reserves remain at 32 million tonnes with indicated additional resources of 118 million tonnes. VBNC plans to spend \$20 million annually for the next four years on exploration. Currently, about 200 people are working on the project.

Hope Brook Mine to Close

The recent announcement that Royal Oak Mines Inc. will close the Hope Brook Mine in the third quarter of 1997 will affect gold production in the Province. The start-up of two new gold operations on the Baie Verte Peninsula (see *New Mining Projects* listing) in 1997, however, should lessen the overall impact. ♦

Value of
mineral
shipments up

New Mining Projects

Area	Proponent(s)	Details
GOLD		
Baie Verte Peninsula	Ming Minerals Inc.	Production began late 1995. Employment averaged 71 during 1996. Copper production continued until June 1996 at which time resources were shifted toward the production of gold.
Baie Verte Peninsula	Raymo Processing Ltd., a subsidiary of Electra Mining Consolidated	Processing system completed; production from the Rambler tailings started early in 1996. Employment expected to average 13 during 1996.
Baie Verte Peninsula	Richmont Mines Inc.	Bulk samples at Nugget Pond completed, reserves estimated at 390,000 tonnes grading 12.69 grams of gold per tonne or 160,000 ounces of gold. Mine construction to be completed early 1997 with gold production in February or March. Employment could average about 80 workers.
Baie Verte Peninsula	Electra Mining Consolidated, New Island Minerals and NovaGold Resources	The partners are targeting a 30,000 tonne bulk sample from the Pine Cove deposit to be processed at Raymo Processing Ltd. facilities. Past drilling indicates reserves of 2,870,000 tonnes grading 0.081 ounces of gold per tonne. Production could begin mid-1997.
ANTIMONY		
Central Newfoundland	Roycefield Resources Ltd.	The Company plans to bring an underground mine at Beaver Brook into production in the first half of 1997. Preparation for mill construction has started and the Company is in the process of raising financing for the project. Employment could exceed 100 workers. Reserves stand at 1.38 million tonnes grading 4.49 percent antimony.
FLUORSPAR		
Burin Peninsula	Burin Minerals Ltd.	Feasibility study completed. Results are positive, Company pursuing financing. Production could begin in 1997.
SLATE		
Bonavista Peninsula	Power Slate Inc.	The Company has developed its Keels slate deposit and has constructed a 3,000 square foot production facility. Initial shipments are expected this fall, followed by a full year of production in 1997.
GYP SUM		
Bay St. George	Atlantic Gypsum Resources, Inc.	The Company started mining gypsum at the Fischells Brook deposit in July 1996. The crushed gypsum is trucked to Atlantic Group Limited, a wallboard manufacturer in Corner Brook.q

OIL AND GAS

Increased investor confidence in the Province's potential oil reserves spurred industry activity in 1996 and is expected to support new project development and future exploration activities.

Investor confidence supports development and exploration

New Field Development

A Letter of Intent outlining the royalty regime, taxes and other benefit issues for the Terra Nova project has been signed by the Province and the Terra Nova Consortium led by Petro-Canada. A Development Plan Application was submitted to the Canada-Newfoundland Offshore Petroleum Board (CNOBP) and approval will take approximately one year. Three Alliance Groups have been short listed to propose a production system and selection is expected early in 1997. First production at the Terra Nova field is scheduled for 2001.

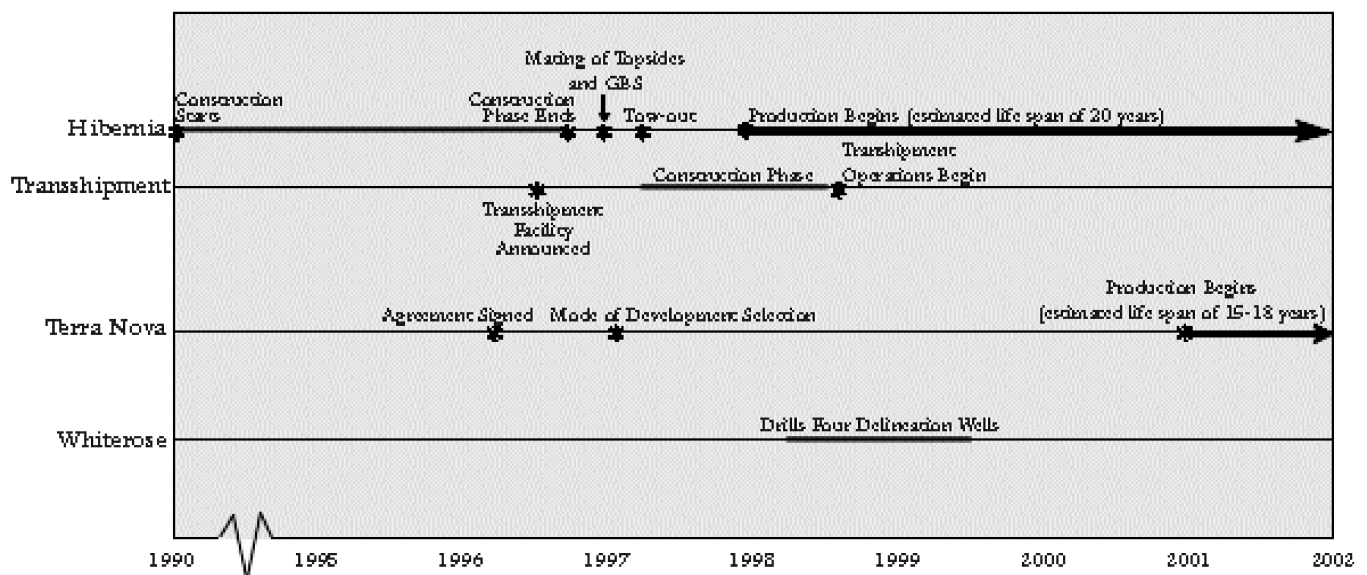
Capital and operating expenditures over the 15-18 year life of the Terra Nova project are

estimated at \$4.2 billion and peak production employment is estimated at 450. Terra Nova is expected to yield higher royalties to the Province than Hibernia due to lower project costs and a more favourable royalty regime.

Infrastructure Support

The construction and operation of a transshipment facility at Whiffen Head, Placentia Bay is another significant development for the Province's oil and gas sector. Crude oil from Hibernia will be carried by shuttle tankers to the facility where it will be stored until final shipment to market via conventional tankers. An agreement was reached between the Province and Mobil Oil Canada and partners to begin construction in 1997; completion is expected by fall 1998. The transshipment facility will have initial capacity for storage of up to 1.5 million barrels of oil and will be constructed in such a manner as to allow expansion. Employment will average about 150 over the construction phase. Once operational, the facility will employ 20-40 people year round.

Time Line for Provincial Oil and Gas Development



Hibernia Moves into Production Stage
Construction of the Gravity Base Structure and the Topsides for the Hibernia project are complete and operations are shifting to the production stage. The Offshore Loading System and Pipelines are scheduled for completion in the summer of 1997.

Hibernia related employment in Newfoundland averaged around 5,000 in the first ten months of 1996, compared with about 5,500 during the same period last year. Employment levels in the Province and particularly at Bull Arm have since been scaled down as construction on the project nears completion. By early November, employment had fallen to about 1,300 and will stabilize at 800 in 1998 as Hibernia enters the production stage.

Once Hibernia is operating, increased recovery beyond the 615 million barrels of recoverable oil currently identified may be possible as a result of new technologies. This would increase the economic viability of the project and ultimately increase the flow of taxes and royalties to the Province. Mobil Oil and partners have now awarded the management contract for one of the two Hibernia shuttle tankers - the *Motor Tanker (M/T) Kometik* - to Canship Ugland Inc. of St. John's. The first tanker is scheduled to arrive on site in October 1997 and the second tanker will arrive in January 1998.

Drilling Activity Increases

Interest in exploration continues off the Province's East Coast. Amoco plans to drill two new wells near Hibernia in 1997. Drilling should commence in May and continue through to the end of the year with expenditures of approximately \$25 million per well. Also, approximately \$125 million in work expenditures was pledged during a

recent Call for Bids by CNOBP against four East Coast parcels. The highest bid was approximately \$65 million.

West Coast exploration is also continuing with Hunt Oil, in collaboration with Mobil Oil, having submitted winning bids to the CNOBP against three west coast parcels. These bids, although relatively modest, indicate continued interest in the area. ♦

FISHERY

The Provincial fishery continued its transition from a groundfish dominated industry to one that is more broadly based. Industry performance to date has benefitted from a revival of capelin and squid fisheries, increased emphasis on shellfish species and higher levels of groundfish importation. For the first ten months of 1996, the total volume of fish landed in the Province, excluding imports, increased by about 30 percent to 157,000 tonnes.

First commercial
capelin fishery
since 1993

	Quantity (tonnes)		
	1995	1996	% Change
Groundfish	13,035	18,217	39.8
Pelagics	24,263	43,201	78.1
Shellfish	82,931	95,380	15.0
Total Landings	120,229	156,798	30.4
Imports for Processing	16,010	20,611	28.7
TOTAL	136,239	177,409	30.2

Source: Department of Fisheries and Oceans (DFO); and Department of Fisheries and Aquaculture.

Strong Growth in Landings

A commercial capelin fishery took place for the first time since 1993 following the removal of a minimum size requirement for

capelin catches. Over 32,000 tonnes of capelin were landed; total production reached 16,000 tonnes with an associated value of approximately \$25 million. The squid fishery also performed extremely well with landings of 3,300 tonnes for the first ten months, up from the 52 tonnes taken last year.

Improved landings for crab, scallops and surf clams also contributed to some of the increase in total Provincial fish landings. A record catch of 36,600 tonnes of crab was landed, despite the late start of the fishery caused by a dispute over prices paid to fishers. An oversupply of crab in the international marketplace caused prices to fall from an average of \$2.13 per pound in 1995 to \$1.00-\$1.20 per pound. This decline is expected to drive the value of crab landings below the 1995 peak of \$181 million.

A successful commercial seal fishery also occurred this year. Approximately 245,000 seals were harvested with an estimated total value of \$15-20 million. The seals were fully utilized with market conditions improving for many products.

Fish Imports Rise

Local processors continue to import unprocessed groundfish from other areas of the world. About 21,000 tonnes of fish, primarily cod from the Barents Sea, entered the Province for processing in the first eight months of 1996, up 28 percent from the same period last year.

TAGS Budget Shortfall

A larger number of fishery workers were accepted onto TAGS than originally anticipated and this generated a budget shortfall. Program parameters were changed to stay within the \$1.9 billion budget and accordingly, TAGS will end when the budget is

exhausted; possibly several months earlier than the original target of May 1999.

The licence and early retirement programs under TAGS are near completion. The Department of Fisheries and Oceans (DFO) anticipates that 390 licences will be retired in the Province at a cost of \$45.2 million. Client assessment under the early retirement program should be completed by December 1996. It is expected that approximately 850 fishers and plant workers will be approved for early retirement.

FPI Reports Gains

Fishery Products International (FPI) realized net income of \$3.6 million in the first nine months of the year compared with net income of \$1.9 million for the same period last year. This reflects a favourable performance from its primary groundfish, scallop and capelin operations. Increased volumes and earnings from the snow crab fishery also contributed to the Company's improved performance despite the late start.

Groundfish Recovery

Several recent indicators suggest some recovery of groundfish stocks, particularly along the South and West coasts of the Province. The Minister of Fisheries and Oceans will consider a limited reopening of zones 3Ps and 4RS,3Pn with a TAC of 16,000 tonnes (1,700 tonnes for France) for 1997.

Inshore Shrimp Fishery Announced

An exploratory inshore shrimp pot fishery has been announced for the Province to commence in November and continue into the spring of 1997. DFO will make harvesting licences available to fishers that meet established criteria. This initiative is based on the success of an inshore shrimp pot fishery in Nova Scotia and the abundance of shrimp in Newfoundland waters. ♦

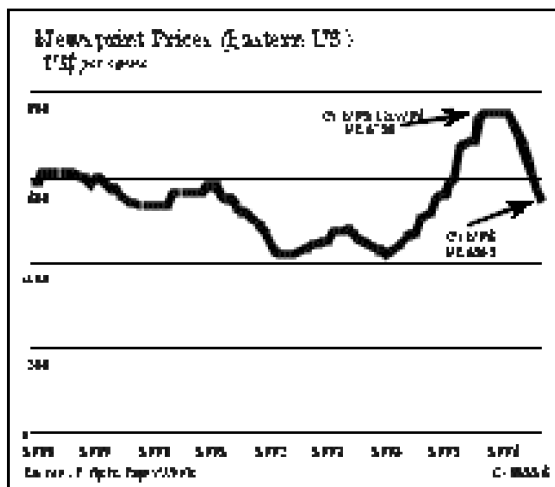
Crab catches

at

record levels

FORESTRY

Following record profits and prices in 1995, the newsprint industry is making considerable investments and repaying outstanding wage concessions to its workers. At the same time the industry is undergoing a price correction stemming from the rapid price growth last year. Performance in the lumber industry has been good with solid demand and higher average prices than last year.



Correction Occurring in Newsprint Markets
Newsprint markets rebounded last year and producers realized record profits. Expecting another good year for orders in 1996 and, anxious to recoup their losses from the recent industry recession, producers continued to increase prices sharply (see chart). Weaker than anticipated demand, however, derailed the upward movement in prices and excess supply is now forcing some adjustment through downtime and falling prices. Prices in the Eastern U.S. fell from a record high of US\$750 per tonne in January to US\$545 in October.

In an effort to stabilize prices, mills across North America have taken downtime. As of October 1996, the two Abitibi-Price Inc.

mills in the Province had taken a combined total of eight weeks of market related downtime (Grand Falls: 5 weeks, Stephenville: 3 weeks). Corner Brook Pulp and Paper Limited also took two weeks of downtime, however, it was in order to increase the speed on its biggest machine. The volume of newsprint shipped from the mills fell by 7.7 percent for the first nine months; at the national level (January to August) there was a decline of 7.2 percent. Because of high prices earlier in the year, the value of local shipments to date was down by only 2.2 percent.

Abitibi-Price, the only public paper firm in the Province, reported net earnings of \$113 million from all operations during the first nine months compared with \$182 million for the same period last year. The Company indicated that efficiency improvements achieved during the last industry downturn has put the Company in a better position to weather market variations.

Hydro-electric Project to Proceed

Abitibi-Price will proceed with the 15 MW Star Lake hydro-electric development in Central Newfoundland. It is pursuing this \$54 million project with its venture partner CHI Canada. Power produced will be sold to Newfoundland and Labrador Hydro with the earnings accruing to the Grand Falls mill. Construction is scheduled to start in 1996 and be finished by the summer of 1998.

Wage Concessions Repaid

Corner Brook Pulp and Paper Limited will repay \$10 million in wage concessions to approximately 1,400 of its workers in December. The wage concessions began in 1994 during the last newsprint downturn and involved a 10 percent rollback for the workers.

Abitibi-Price

reports positive

net earnings

Lumber Industry Performing Well

This should be a good year for the lumber industry with production reaching 70 million board feet of lumber, up from 68 million in 1995 and signalling a return to peak 1994 production levels. Lumber exporters are also benefitting from solid demand and prices in Central and Eastern Canada, the United States and local markets. ♦

TOURISM

Non-resident travel to the Province this year has declined due to the postponement of some non-resident trips in favour of the 1997 Cabot Celebrations. Year-to-date resident travel is also expected to be below 1995 reflecting the decline in Provincial employment and income levels.

Ski Facilities Preparing for Season

The Province's main ski facilities are expected to be fully operational for the coming ski season despite a disappointing season last year. The Government has reaffirmed its commitment to maintain the Marble Mountain facility. Also, White Hills, which went bankrupt earlier this year, has been successfully sold to a private sector operator.

Cabot 500 Celebrations Nearing

The much anticipated *John Cabot 500th Anniversary Celebrations* will take place next year focusing international attention on the Province's tourism product. The Celebration will provide a boost to the tourism industry with increased visitors and revenues. For the St. John's area alone, 1997 convention bookings are projected to reach \$16-20 million, double the normal levels of \$8-10 million. As part of the industry's efforts to foster high quality customer service, all volunteers for the John Cabot celebrations will be offered SuperHost training, a customer

service and tourism awareness program recognized internationally.

Development of the Tourism Destination Management System (*TDMS*) for the Province is on schedule and should be up and running by year end. *TDMS* is a tourism information service which will provide tourists with one-stop shopping for all information and reservation requirements via a 1-800 number. A detailed discussion of the *TDMS* is contained in *The Economy 1996*. ♦

MANUFACTURING

There was an increase of four percent in overall value of manufacturing shipments for the first eight months of the year due in part to the reopening of the capelin fishery during July.

There are numerous Provincial incentives to facilitate growth of the manufacturing sector. Presently the Province has the lowest manufacturing and processing tax rates in Canada and the Economic Diversification and Growth Enterprises (EDGE) program provides an attractive tax holiday and other benefits. Since its inception in 1995, approximately \$22.7 million has been invested in EDGE related manufacturing initiatives by 23 companies, creating approximately 450 jobs.

Refined Petroleum

Processing at the Come-By-Chance oil refinery has remained steady during 1996 at approximately two million barrels of crude per month. Operations slowed in July to undertake maintenance work, however, there was no impact on the 500 people employed. Production should increase by about 10 percent next year as markets are

Cabot

celebrations

boost convention

bookings

expected to remain stable and no maintenance work is scheduled. ♦

AGRICULTURE

Increased world demand for feed grains coupled with the termination of the Feed Freight Assistance program pushed feed costs to record highs in 1996. With feed accounting for 50-70 percent of the cost of production, prices for livestock products have also increased.

Farm cash receipts totalled \$32 million for the first six months of 1996, an 11 percent increase over 1995 levels. The value of egg production rose by nine percent in the first nine months of the year due to price increases as volume declined by 3.3 percent. The volume and value of chicken production grew by six and 15 percent respectively. Milk producers, however, who exceeded production quotas in 1995, kept within 1996 quotas resulting in declines of both volume and value this year. ♦

CONSTRUCTION

The Hibernia project continued to be a significant contributor to the Province's construction industry this year. Employment at Bull Arm averaged 4,600 in the first ten months of 1996, compared with 4,850 during the same period last year.

Public Infrastructure

The Canada/Newfoundland Infrastructure Works Agreement, designed to boost employment, has played an important role in non-residential construction in recent years. Approximately \$36.1 million was allocated for 1996/97 to a variety of projects ranging from water and sewer installation to

ice arenas. All Agreement projects must be approved by March 1997 with total expenditures expected to reach \$147.1 million. An update to the inventory of major projects contained in *The Economy 1996* is contained in this section. These projects should provide a positive boost to the non-residential construction sector.

Housing

The housing market has performed better in 1996 than originally anticipated. Mortgage interest rates dropped to the lowest levels since 1965, providing a significant boost to the resale and new housing market. The St. John's housing market, which typically accounts for 90 percent of total MLS® activity in the Province, experienced strong growth in the first nine months of the year with sales up almost 19 percent to 1,356 units. The vast majority of this activity is resale. New home construction has also improved with housing starts during the first nine months up 7.1 percent to 1,351 units. While both rural and urban housing starts are up, growth has been primarily in the St. John's area.

It is interesting to note that housing starts growth in rural areas stems from Goose Bay where the number of starts jumped from 14 in 1995 to 78 in 1996. This was due mainly to the positive climate generated by ongoing exploration and development at Voisey's Bay. ♦

Housing starts

up over

last year

Major Projects Update

Supplement to the Inventory in The Economy 1996

Project	Capital Cost (\$millions)	Start/End Date	Comments (Location)
Commercial			
Commercial Plaza	3.6	95/97	Consists of office space, restaurant and gas station as well as Cedar Hill Shopping Plaza. (Paradise)
Gas Station	2.0	96	Esso convenience store, gas station and car wash. (St. John's)
Environmental			
Environmental Clean-up	7.4	96/97	This project will involve expenditures of up to \$81 million over 5-10 years. Federal funds. (Argentia Base)
Health Care			
Redevelopment of Hospital Services	100.0	97/99	Funded through savings realized by consolidation of hospital services. (St. John's)
Institutional			
Arts & Science Building Renovations	1.0	96/97	Sir Wilfred Grenfell College. 50% Memorial University Opportunity Fund; 50% Provincial funds. (Corner Brook)
Correctional Centre	1.4	96/97	Replacement of existing facility for Federal inmates on conditional release. Federal funds. (St. John's)
Hospital Expansion	2.0	97/98	Completion of extension exterior shell, James Paton Memorial Hospital. Provincial funds. (Gander)
Mining			
Gold Mine	18.0	96/97	Development of the Nugget Pond gold deposit near Snooks Arm by Richmond Mines. (Baie Verte Peninsula)
Municipal Infrastructure			
Sewage Treatment Plant	1.0	96	Provincial and municipal funds. (Bonavista)
Water/Sewer/Road Upgrade	1.3	96	Provincial funds. (Nain)
Water System Improvements	1.2	96/97	Approximately \$1.0 million from Canada/Newfoundland Agreement for the Benefit of the Inuit Communities of Labrador, Federal/Provincial (2/3:1/3); with remaining funding from the community. (Makkovik)
Tourism			
Discovery Centre	5.0	96/99	Facility will have interpretative, educational and scientific capabilities. Federal funds. (Woody Point)
Golf Course Clubhouse	1.1	96/97	Facility to complement the Pippy Park golf course. Funded \$496,000 under the Infrastructure Works Agreement with the remaining funds from the private sector. (St. John's)
Transportation			
Harbour Development	1.5	96/97	New breakwater and dredging. Federal funds. (Port de Grave)
Road Upgrading and Paving	3.0	96/97	Federal funds. (Conne River Road)
Utilities			
Star Lake Hydro-electric Facility	54.0	96/98	Abitibi-Price Grand Falls Division and partner CHI Canada. (Central Newfoundland)
Miscellaneous			
Boathouse	1.5	96/97	HMCS Cabot. Construction of boathouse and other work at Pier 26. Federal funds. (St. John's)
Re-location of Innu Community	82.1	97/2004	Relocation of Davis Inlet. Federal funds. (Sango Bay)
Strategic Regional Diversification Agreement	10.7	94/98	Funding to date for various projects. Federal/Provincial cost-shared. (Various Locations) ¶

NOVEMBER 1996

The Economic Review is published annually by the Government of Newfoundland and Labrador, under the authority of The Honourable Paul D. Dicks, Q.C., Minister of Finance and Treasury Board.

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Copies of *The Economic Review* can be obtained by contacting the Office of the Queen's Printer at (709) 729-3649. *The Economic Review* is also available on the Internet at the Government of Newfoundland and Labrador web site <http://www.gov.nf.ca> ISBN 1-55146-052-1

Cover Scene:

Hibernia worksite at Bull Arm, Newfoundland with the Topsides in the foreground and the Gravity Base Structure in the background. Photograph courtesy of Hibernia Management & Development Company Ltd.



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