St. John's BOARD of TRADE

2011 Economic Survey

August 17, 2011

Executive Summary

The summer 2011 economic review is a summary of information and data from multiple sources to provide insight into the economies of St. John's and Newfoundland and Labrador. This report is designed to provide current information about economic conditions that business operators and managers can use in making decisions; it is not comprehensive but does provide a wide overview of the local business climate.

Both the St. John's and Newfoundland and Labrador economies are carrying their strong economic performance from 2010 into 2011. First quarter statistics are showing increases in housing prices and employment for St. John's from the same time period a year earlier. High oil prices in the last quarter of 2010 helped bring the originally forecasted deficit of $194 million from the 2010 Budget into a surplus of $485 million for 2011 (Department of Finance). Net debt, however, rose to $16,152 per capita in 2010 after four years of decline.

Selected Economic Indicators					
	Newfoundland and Labrador (May 2010-May 2011)			St. John's (July 2010-2011)	
Indicator	**2010**	**2011**	**Change**	**2011**	**Change from 2010**
Labour Force (000s)	264.4	264.7	0.1%	113.5	1.7%
Employed (000s)	227.2	232.1	2.2%	106.4	3.4%
Unemployed (000s)	37.2	32.6	-12.4%	7.1	-18.4%
Unemployment Rate	14.1%	12.3%	-1.8pts	5.6%	-2.0pts
Participation Rate	61.8%	61.7%	-0.1pts	69.6%	0.7pts
Employment Rate	53.1%	54.1%	1.0pts	65.7%	2.1pts
(Government of Newfoundland and Labrador Department of Finance) (City of St. John's)					

Consumer Affairs

Hourly Wages

The minimum hourly wage remains at $10.00/hour.
Average hourly wage by profession:

	July 2010		July 2011		May 2010-May 2011
Occupational Classification	Number of Employees (000s)	Avg. Hourly Wage	Number of Employees (000s)	Avg. Hourly Wage	Percent Change in Wages
Full-time	12,246.9	23.45	12,564.3	23.73	1.2
Part-time	2,436.8	15.88	2,393.1	16.05	1.1
Union coverage[2]	4,485.4	25.93	4,455.6	26.06	0.5
No union coverage[3]	10,198.3	20.55	10,501.7	20.99	2.1
Permanent job[4]	12,333.7	23.28	12,524.7	23.57	1.2
Temporary job[5]	2,350.0	16.51	2,432.7	16.98	2.8
Management occupations	1,021.7	34.95	970.7	34.62	-0.9
Business, finance and administrative occupations	2,783.5	21.17	2,857.8	21.65	2.3
Natural and applied sciences and related occupations	1,106.4	30.50	1,142.8	31.54	3.4
Health occupations	987.6	26.01	1,016.8	26.73	2.8
Occupations in social science, education, government service and religion	1,290.1	28.35	1,224.8	29.15	2.8

Occupations in art, culture, recreation and sport	406.2	21.52	432.6	21.74	1.0
Sales and service occupations	3,774.0	15.20	3,822.9	15.31	0.7
Trades, transport and equipment operators and related occupations	2,167.5	22.15	2,297.7	22.41	1.2
Occupations unique to primary industry	369.6	17.71	358.9	18.72	5.7
Occupations unique to processing, manufacturing and utilities	777.2	18.79	832.5	19.24	2.4

1. Employees who are members of a union and employees who are not union members but who are covered by a collective agreement or a union contract.
2. Employees who are not members of a union or not covered by a collective agreement or a union contract.
3. A permanent job is one that is expected to last as long as the employee wants it, given that business conditions permit. That is, there is no pre-determined termination date.
4. A temporary job has a predetermined end date, or will end as soon as a specified project is completed. Includes seasonal; temporary, term or contract jobs including work done through a temporary help agency; casual jobs; and other temporary work jobs; temporary, term or contract jobs including work done through a temporary help agency; casual jobs; and other temporary work. (Statistics Canada)

Housing

Average prices increased compared to 2010 according to the Second Quarter Report from the Canadian Housing and Mortgage Corporation. The St. John's area housing market had another strong first quarter but did not surpass the record activity from 2010. There were 241 housing starts from January to March in the Census Metropolitan Area (CMA), down 2% from the same time period in 2010. In the city of St. John's there were 91 starts versus 104 starts in 2010 (Canadian Mortgage and Housing Corporation).

Average Housing Prices

Area	Price ($)	Percent Change 2010Q2 to 2011Q2
St. John's CMA	346,476	7.0%
St. John's City	367,498	8.0%
MLS	265,615	8.5%
NL	248,525	7.0%

(Canadian Mortgage and Housing Corporation)

New Motor Vehicle Sales

Newfoundland and Labrador was ranked first in the country for growth in new car sales for the year 2010 with a total of 31,669 sales (Government of Newfoundland and Labrador Department of Finance). These record breaking sales represent a 10.1% increase since 2009 and topped all other provinces for growth in new car sales in the country. It is interesting to note that the value of cars ($948M, an increase of 14.5% from 2010) rose more rapidly than the number of units sold- which means people were buying more expensive cars.

From January to April 2011 the total car sales were approximately $279,804,000, an increase of 3.1% from the same time period in 2010.

New motor Vehicle Sales				
	$(000s)		Units	
Retail Sales Trade Group ($ millions)	**2010**	**2011**	**2010**	**2011**
January	45,866	48,194	1,545	1,546
February	49,972	51,462	1,693	1,684

March	81,442	87,394	2,822	2,897
April	94,187	92,754	3,161	3,105
May	103,556	94,664	3,456	3,155
Total:	375,023	374,468	12,677	12,387

(Government of Newfoundland and Labrador Department of Finance)

Macroeconomics

Consumer Price Index

- Provincially: Due to increases in prices in all categories Newfoundland and Labrador consumers paid 2.4% more for goods in services in 2010 compared to 2009. Consumers paid 2.8% more for goods and services in the first quarter of 2011 than in the same period of 2010. With 2002 as the base year (=100), the CPI for Newfoundland and Labrador as of June2011 was 120.9, a year-over-year percentage increase of 3.2%. (Government of Newfoundland and Labrador Department of Finance)
- St. John's CMA: With 2002 as the base year (=100), the CPI in St. John's CMA is listed at 120.8 for June 2011, an increase of 3.1% from June 2010. The CPI listed for the year 2010 is 117.4. (Government of Newfoundland and Labrador Department of Finance)

Employment

In addition, Newfoundland and Labrador saw 4,900 new employees in May 2011 compared to May 2010, an increase of 2.2%.This increase in employment resulted in a decline in the unemployment rate to 12.3% (Government of Newfoundland and Labrador Department of Finance).

Population

The preliminary post census population estimate of the St. John's CMA is 192,326. As of April 1, 2011 the Newfoundland and Labrador population is 508,410 according to the Economic Research and Analysis Division. This represents a decrease of 738 persons from January 1, 2011 and 1,670 persons from 12 months before (Government of Newfoundland and Labrador Department of Finance).

Population Breakdown:

Population October 1, 2010	**509,239**
Natural population change	**-53**

Births	1,088
Deaths	-1,141
Total Net Migration	**-38**
Inter-provincial net migration	156
Inter-provincial in-migration	2,093
Inter-provincial out-migration	-1,937
International migration	-194
Population January 1, 2011	**509,148**

(Government of Newfoundland and Labrador Department of Finance)

Business and Industry

City Building Permits

City Building Permits (February)			
Type	**2010 ($)**	**2011 ($)**	**Variance (%)**
Commercial	39,300,800	22,000,000	-44
Industrial	0	1,500,600	650
Institutional	32,500,600	21,300,700	-34
Residential	72,700,200	102,700,700	41
Repairs	2,700,800	2,200,100	-19
Total:	147,402,400	149,702,100	2

(City of St. John's)

Capital Expenditures

Planned capital expenditures for Newfoundland and Labrador in 2011 are $8.3 billion (up 27.2% from 2010), with the most significant contributions coming from the mining and oil and gas extraction sectors combining for $2.6 billion (Department of Finance).

The city of St. John's is considering several projects:

Proposed Development Projects	
Project	**Value (Millions)**
Canadian Forces Base, Pleasantville	$150
Henry Bell Development condos/parking garage, Duckworth and Henry Street	$150
Long term care facility, Pleasantville	$100
Fortis office building, New Gower St. /Springdale St.	$50
Eastport Properties office building, 351 Water Street	$40
Metrobus Depot, Messenger Drive	$29
Airport investments (Cat III Landing System)	$26
Bell Alliant, FibreOptic infrastructure	$22
(City of St. John's)	

Non-Residential Building Construction

Non-Residential Building Construction 2010 Q2-2011 Q2					
Type	2nd Quarter 2010	1st Quarter 2011	2nd Quarter 2011	2011Q1 to 2011Q2	2010Q2 to 2011Q2
	$ millions			% change	
Total non-residential	**71.3**	**123.9**	**129.5**	**4,5**	**81.7**
Industrial	4.2	16.8	17.2	15.6	309.8
Commercial	26.7	35.5	41.1	15.6	53.8
Institutional	40.3	71.5	71.2	-0.3	76.6

(Statistics Canada)

Oil and Gas

Oil production in the first half of 2011 is down 7.4% (or 3.9 million barrels) compared to the same period in 2010. Natural declines and temporary shutdown of several wells at Terra Nova were the primary causes for the lower production (Government of Newfoundland and Labrador Department of Finance). In 2010, 31% of revenues came from oil demonstrating the province's reliance on the non-renewable resource. Over the past two decades real GDP has risen by 52% with over half of the growth attributed directly to the oil industry. In 2009 oil extraction and activities accounted for 27.5% of the provinces nominal GDP, yet it contributes less to employment than the fishery (Department of Finance).

Retail sales

Retail sales totalled about $7.4 billion in 2010, representing an increase of 3.7% over 2009. Growth in sales was recorded in most store types (Government of Newfoundland Department of Finance). *Motor Vehicle and Parts Dealers* was the largest contributor to gains on an annual basis (up $140.9 million or 8.9%). The value of new motor vehicles sold was up 14.5% in 2010. A significant increase in the value of sales was also recorded by *Food and Beverage Stores* (up $47.9 million or 2.8%). This was partially due to higher food prices (up 2.0%).

Retail sales were up 3.9% compared to the same period of 2010 (total $1.6 billion). Growth in sales was recorded in most store types. The greatest increases were in automotive stores (11.4%) and health and personal care stores (6.2%). The value of new car sales and gasoline prices, up 5.4% and 11.3% respectively in 2011Q1 compared to 2010Q1, is the reason for the boost in the automotive category.

Retail Sales by Industry				
Retail Sales Trade Group ($ millions)	**2010Q1 ($M)**	**2011Q1 ($M)**	**Actual Change ($M)**	**Percent Change**
Automotive	553.6	616.9	63.3	11.4%
Motor vehicle and parts dealers[5]	336.6	358.0	21.4	6.4%

Gasoline stations	217.0	258.9	41.9	19.3%
Furniture, home furnishings and electronics	60.5	59.5	-1.1	-1.8%
Building and outdoor home supplies	94.9	88.8	-6.1	-6.4%
Health and personal care	106.1	112.6	6.6	6.2%
Clothing and accessories	42.7	44.1	1.3	3.1%
Sporting goods, hobby, music and bookstores	21.3	22.3	0.9	4.3%
Food and beverage stores	398.0	400.9	3.0	0.7%
Other stores [6]	264.2	256	-8.3	-3.1%
TOTAL	**1,541.4**	**1,601.1**	**59.7**	**3.9%**

5. The motor vehicle figure displayed here includes some used car sales, as well as parts and service labour, and are higher than those appearing in the Car Sales Bulletin.
6. Other stores include miscellaneous stores and general merchandise stores
(Government of Newfoundland and Labrador Department of Finance)

Total retail sales in the first quarter of 2011 outperformed sales within the same period in 2010 with an increase of 3.9%.

Retail Sales Q1 2011

Month	2010 (000s)	2011 (000s)	Percent Change
Jan	492,180	502,249	2.04%
Feb	473,134	493,265	4.25%
Mar	576,075	605,949	5.11%
Apr	608,208	637,528	4.82%
May	634,327	676,414	6.63%
Total:	2,783,924	2,915,405	4.72%
(Government of Newfoundland Department of Finance).			

Survey of Board Membership

An electronically-administered survey of St. John's Board of Trade membership allowed the business community to provide insights into local business and economic conditions of the capital. The survey provided a sample of over 50 respondents, representing approximately 7% of members. Respondents represented a variety of company sizes as usual, and were somewhat diverse in industrial make-up, though predominantly in the professional services sector. Questions were posed in seven categories:

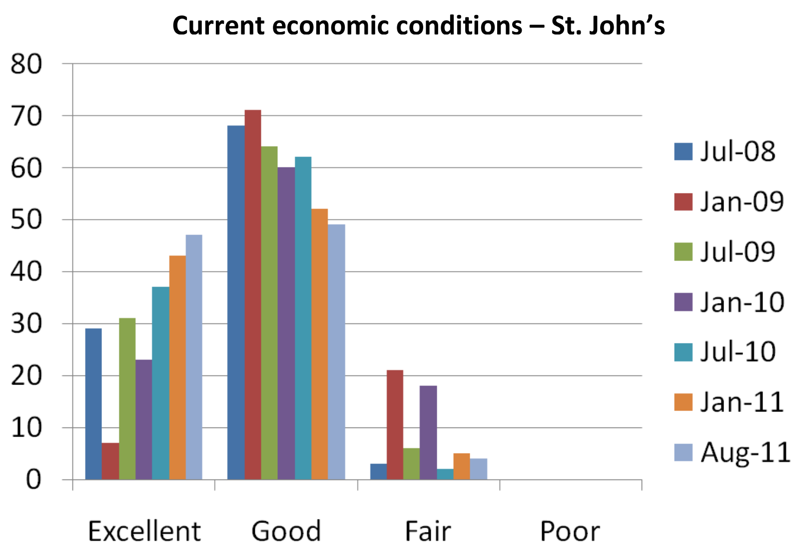
- Economic conditions
- Your company
- Labour and Employment
- Year-to-date
- Enabling Economic Growth
- Forecasting the next year
- Demographics.

Please note that numbers are rounded to the nearest whole number. All numbers are shown as percentages.

Section 1: Economic Conditions

Question 1: Would you describe the current economic conditions in the City of St. John's as: excellent, good, fair, or poor?

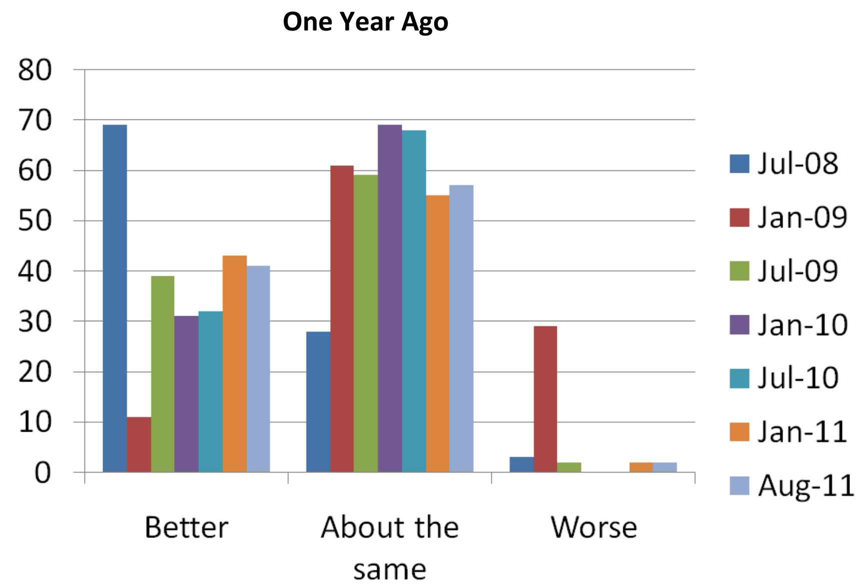
As predicted in the January edition of the survey, convergence in the 'excellent' and 'good' responses is occurring, indicating an even stronger level of confidence in economic conditions locally. Nearly all respondents indicated that they would characterize current economic conditions in the city as excellent or good.



Question 2: Compared to one year ago, would you describe the economic conditions in the City of St. John's as: better, about the same, or worse?

Respondents are asked to compare existing conditions against the past. There now seems to be a trend, with roughly 4-in-10 saying that things are better than one year ago and between 50% and 60% saying that economic conditions are about the same as they were 12 months ago.

This may be a concern, considering the general sense of bullishness in the city with respect to development, etc. If people are saying that conditions are, essentially no better but not worse, the question has to be asked as to why this is the case.

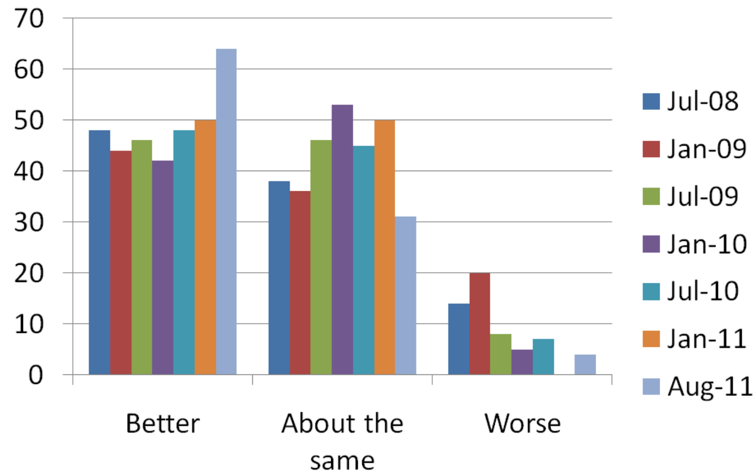


Question 3: Compared to one year ago, would you rate your company's financial position as: better, about the same, worse?

There is now a movement away from the trend that was settling around 50% of respondents saying that their own financial position was better than a year previous. This will have to be tracked to see if it is actually a pattern change or just an anomaly, but the chart speaks for itself, moving from about half of respondents saying this to about two-thirds.

As usual, people are generally just a bit more bullish about their own company's fortunes than those of the business community as a whole.

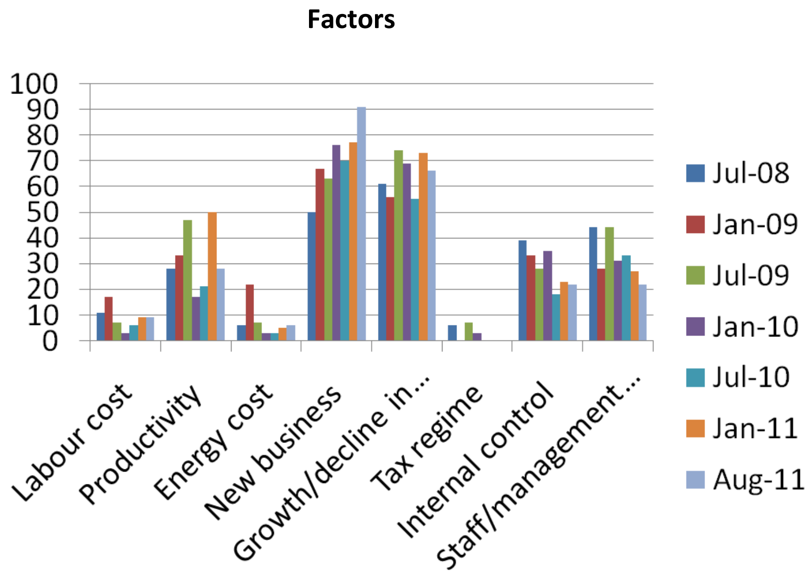
Company Financial Position



Question 4: If you selected 'better' or 'worse', to which factors do you attribute this change in your company's financial position (click all that apply): labour costs, productivity improvements/declines, energy costs, new business gained/lost, growth/decline within existing lines of business, advantageous/disadvantageous taxation regime, internal controls, staff/management training and skill development?

New business gained/lost is still the major factor in determining changes to a business' financial position. In other words, winning or losing the competition for clients and business has the greatest impact on both the top and bottom lines. Other factors continue to play second fiddle to attracting new business or losing old clients. The ability to manage existing clients – perhaps upselling or offering new products and services or factoring in cost control and delivering savings – is a relatively close second considering where the other factors rank.

The main analysis to be taken away here is that businesses have a tendency to focus on their own actions and what's under their control as the reasons why they are succeeding or failing. New business, growth/decline, staff/management, internal control and productivity are all 'internal' factors and they all rank higher than labour, energy or tax costs which are more externally focused. Businesses seems to indicate a self-reliance for success (and would probably blame themselves for failure) rather than consider what obstacles labour costs, energy costs and taxation might put in front of them.

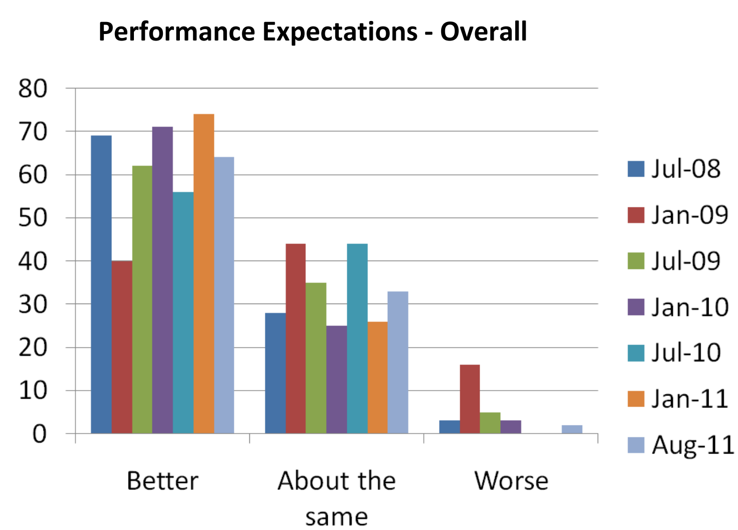


Question 5: As compared to 2010, how do you expect your company to perform in 2011 (overall)?

Note to reader: the time period reference changes annually on this question (i.e. in 2010, the Board asked about comparisons to 2009, while in 2009 it asked about that year in relation to 2008)

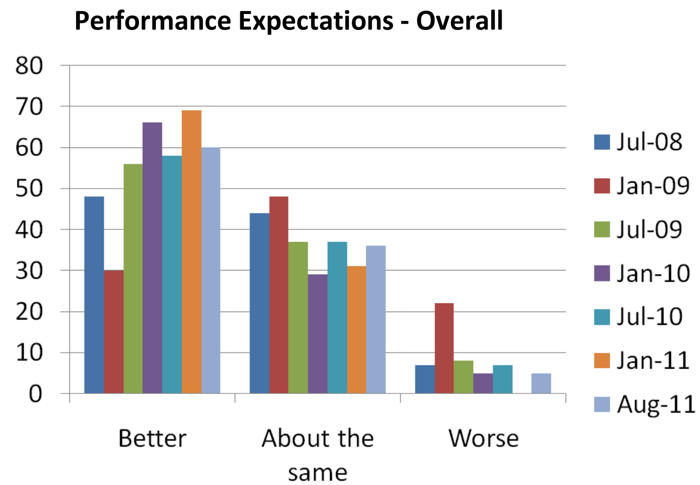
There may be New Year's euphoria: January seems to be a more bullish time than the summer, creating a 'W' effect. Businesses may think 'this is going to be our year' but monthly or quarterly results by the summer may temper their expectations. This trend continues with some of the expectations shifting from 'better' to 'about the same.

Overall though, performance expectations remain high no matter what time of year and about two-thirds of respondents still have overall expectations that this year will be better than the last.



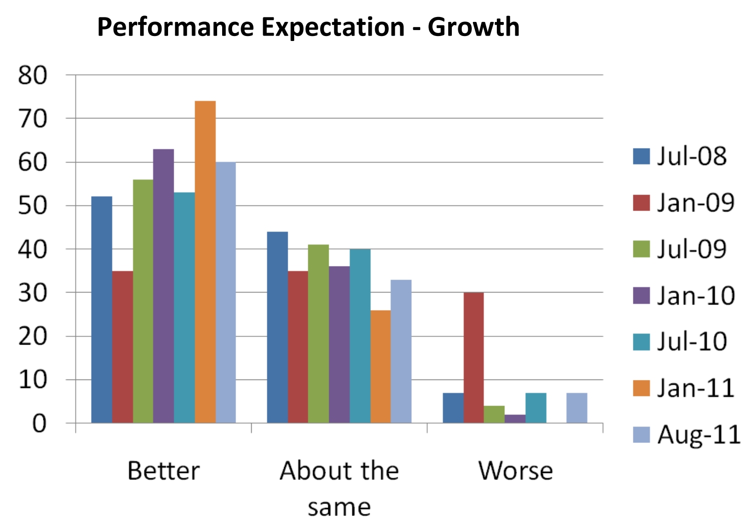
Question 6: As compared to 2010, how do you expect your company to perform in 2011 (profit)?

Half-way into the year and respondents are slightly less bullish about profit potential for 2011. Still, there is strong confidence that profits will either be better (60%) or about the same (36%).



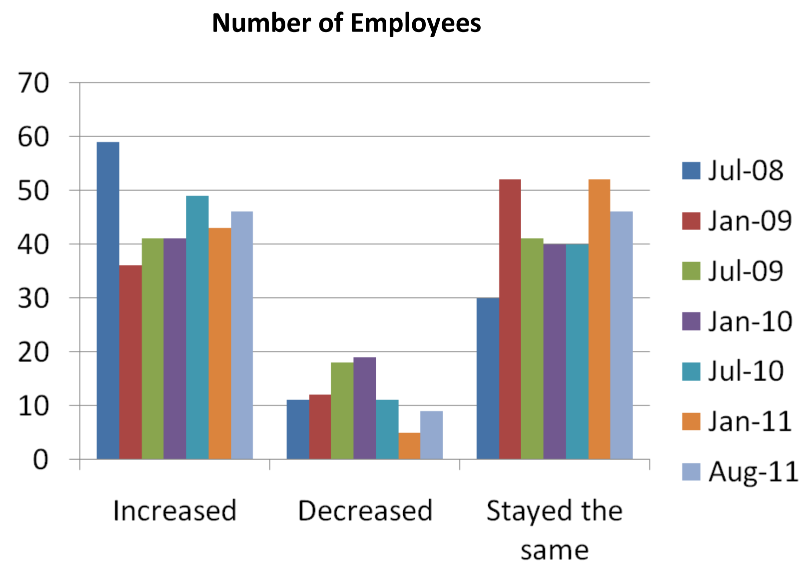
Question 7: As compared to 2010, how do you expect your company to perform in 2011 (growth)?

There is some softening in confidence now that businesses are half-way through the year, which may be a trend in this survey. Still, 6-in-10 respondents see growth being better while one-third see it being the same, so there still is a strong level of confidence. While there were some respondents who expected growth to be worse, it is still a small sub-set of respondents and something to watch for only if it becomes a trend.



Question 8: As compared to exactly one year ago, has the number of persons your company employs: increased, decreased, stayed the same?

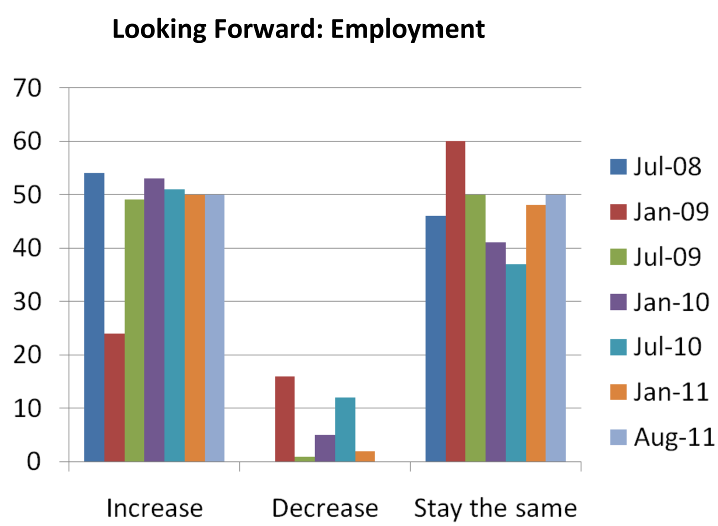
The vast majority of respondents (90%) – have either increased employment levels or maintained them in the past year. There is a little movement between categories, but not enough to indicate any change in trends or negative issues emerging at the moment.



Question 9: Looking forward one year, do you anticipate that the number of persons your company will employ will: increase, decrease, stay the same?

There continues to be confidence with predictions on employment levels. All employers expect employment to increase (50%) or be maintained at existing levels (50%). This suggests a solid hiring climate in the city for the next 12 months.

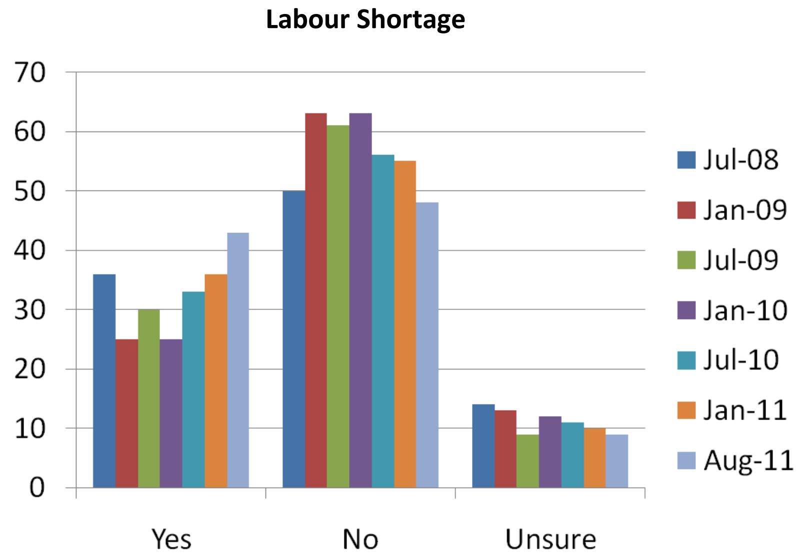
The number of respondents stating that they will increase hiring levels is evening out at around 50% while there is some small movement back and forth between staying the same and decreasing.



Question 10: Does your company face any shortages of labour that restrict your ability to meet demand?

Recognition of a labour shortage is on an upward swing, with substantial movement from the beginning of this year. A few more percentage points and the 'yes' and 'no' responses will even out, meaning as many employers will have labour shortages severe enough to restrict their business as employers who won't. This will be interesting from an HR perspective – attraction, retention, and recruitment all appear to be growing concerns.

Another interesting point: 'unsure' responses are coming down very gradually. There may be more recognition that labour shortages could be a challenge in the present and future, but there may also be a reluctance to admit it.

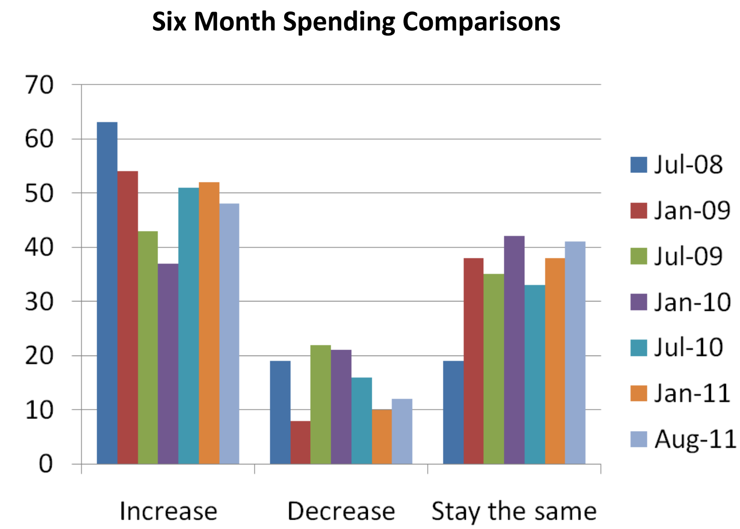


Question 11: Comparing the first half of 2011 to the first half of last year, did your company's overall spending: increase, decrease, stay the same?

Note to readers: the time period referenced changes in this question each time it is asked, asking respondents to compare 6 month periods.

Although there is some minor movement, it looks like spending is settling into a trend, with around half of respondents saying that spending is increasing each year, roughly 4-in-10 saying that it's staying the same, and only 1 out of 10 reporting a decrease in their company's overall spending.

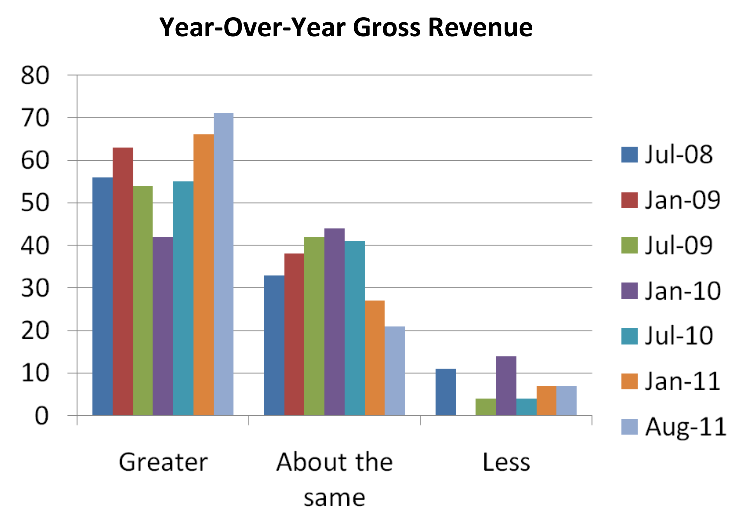
This is key data for consumers and business partners as it could suggest that higher costs will be passed on or it could also indicate that businesses are ready to invest and spend. It is difficult to say whether increased spending is a positive (i.e. a willingness to spend) or a negative (i.e. costs are being driven up).



Question 12: Would you describe your company's gross revenues for 2011, compared to 2010, as: greater, about the same, less?

Note to reader: the time period referenced in the question changes from year to year.

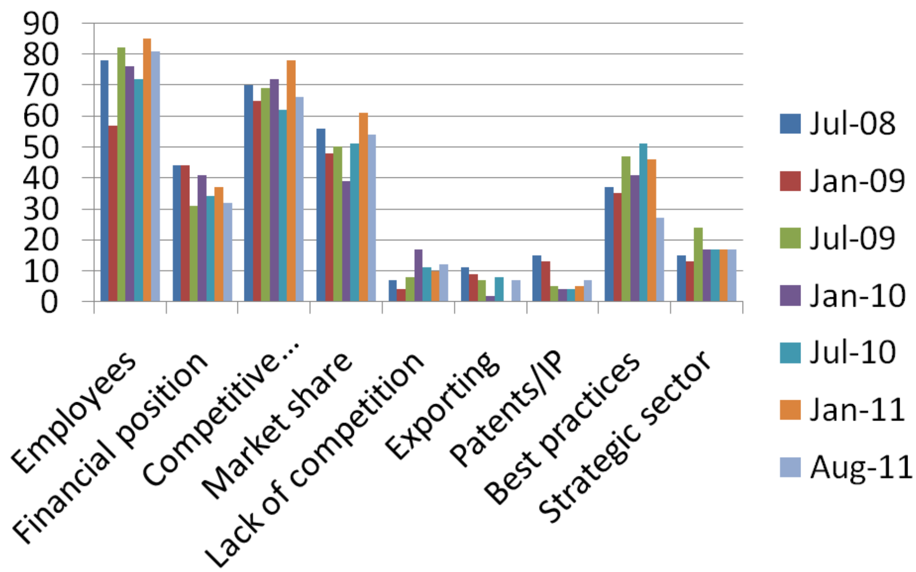
Seven out of ten of those surveyed noted that their year-over-year gross revenue increased. Referenced against the results of the previous question – that spending increased –it may simply mean that more money exchanged hands, not necessarily that profits increased.



Question 13: In your opinion, what factors enable your own company's economic growth (check all that apply): employee skills and knowledge, financial position, competitive advantage, market share, lack of competition, export opportunities, patents and other intellectual property, industry best practices, involvement in a strategic sector.

Companies recognize that staff are the key to their business success and economic growth. Competitive advantage and market share retain their places as the #2 and #3 responses. Most other factors are holding relatively steady, although there has been a significant decline in 'best practices' from 6-12 months ago so that will be an interesting factor to watch to see if a pattern evolves or the fluctuation continues.

Factors - Growth

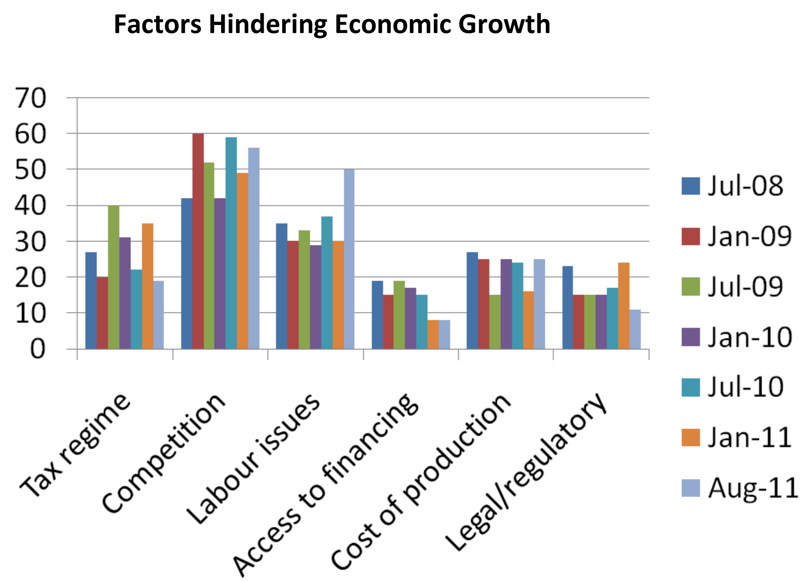


Question 14: And what factors hinder your company's economic growth (check all that apply): taxation regime, competition, labour issues, access to financing, cost of factors of production, legal/regulatory issues?

As usual, competition is the most significant hinderance to any given organization. Labour issues have made a significant jump upward, with half of respondents noting that labour issues are a hinderance to growth. This is bucking a trend that had been seen for a few years of around 30% of respondents raising this as an issue.

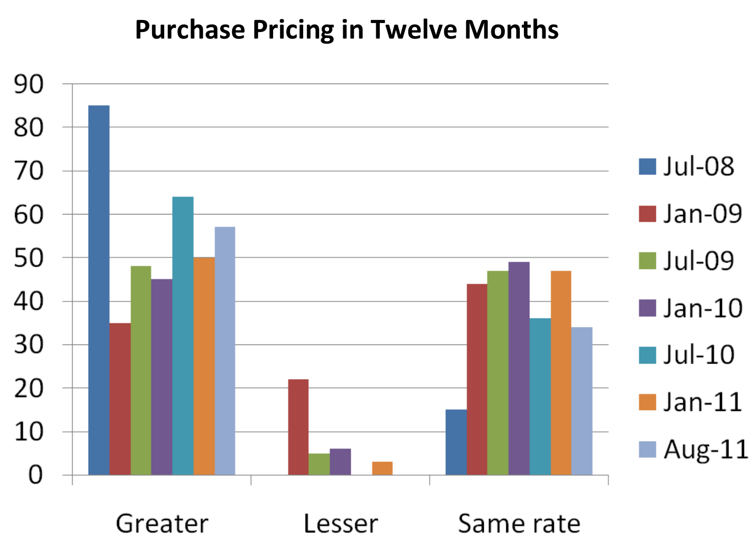
Other hinderances appear to be falling into some trends, with only 'tax regime' bouncing around and not really show much of a trend.

Other responses included strong demand for talented employees (which probably means competition for talent) and the timing of project work (that may mean on-going projects or anticipated 'mega' projects).



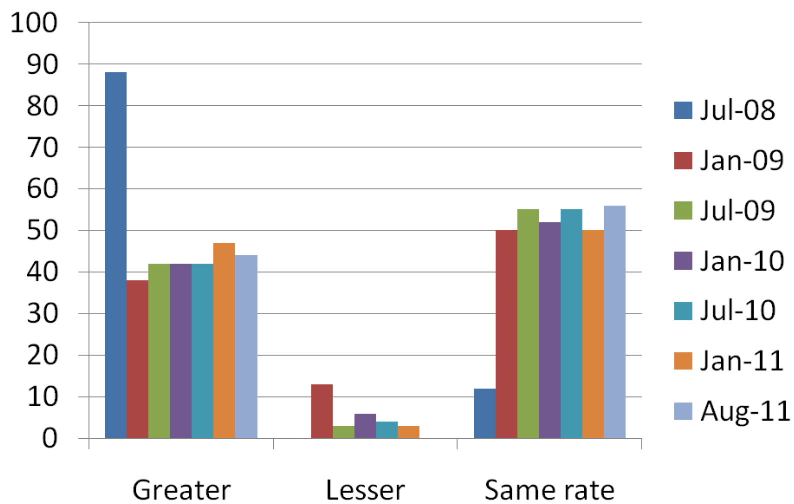
Question 15: In the next 12 months, are prices of products and/or services that you purchase expected to increase at a greater, lesser or the same rate as over the past year?

Don't anticipate lower prices for products and services next year. Respondents state that the cost of the factors of production are expected to become higher (57%) or stay the same (43%). The impact is clear as higher costs to businesses will either be taken away from investments (equipment, staff, etc), or costs will be passed on.



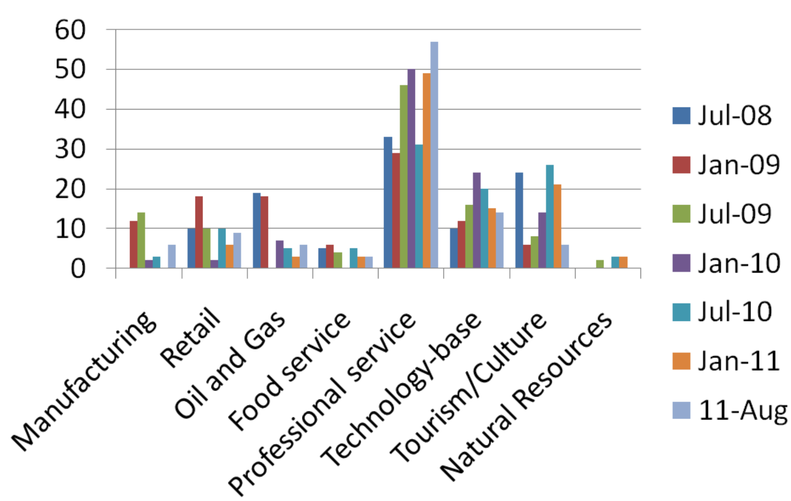
Question 16: In the next 12 months, are prices of products and/or services that you sell expected to increase at a greater, lesser or the same rate as over the past year?

Even though results from the last question suggest that costs to businesses will go up, these results seem to indicate reluctance by businesses to pass the costs on. Responses in August 2011 indicate that less than half of respondents think that their selling prices will go up in the next year, and this now looks to be a trend in the low 40% area. Most businesses think that their selling prices will remain the same and no one thinks that selling prices will be decreasing.



Question 17: In what industry do you operate?

This demographic question is asked to get a better sense of who is operating in the area and responding to the survey. It is troubling to note that the highest percentage of responses come from professional service firms, not because of their opinions but because they are service providers to primary industries who may be underrepresented in the economy. That trend seems to be increasing. Primary industries drive new economic wealth and opportunities and this demographics chart might indicate a clear need for economic diversification.



Question 18: How many people does your company employ in the City of St. John's?

Again, this is a demographical question to try to further understand more about the composition of membership. Distribution is evening out a little, and there is good representation from companies of a variety of sizes with no dominant size range emerging.

Question 19: What are your company's annual revenues?

The final demographic question gathers information on company size by revenue. There are no significant trends emerging here. Having a cross-section of company sizes is important in determining whether the views expressed in economic confidence are held in different parts of the business community.