



**2009 Mid-year Economic  
Review**

**August 18, 2009**



## 2009 Mid-year Economic Review

### Executive Summary

The mid-year economic review provides readers with information on the continuously changing economy. It discusses the key factors and indicators leading to these changes, as well as issues happening locally in 2009. It provides current information about economic conditions, which is very useful for business operators and managers in making decisions.

Newfoundland and Labrador's economic growth is strong. The population has increased 2% from this time last year while the employment rate has decreased by 1%. Minimum wage increased twice this year, as planned, and consumer confidence is growing at a substantial rate. The province currently holds the highest growth percentage in retail and wholesale trade in the country.

The consumer price index is growing significantly, having the second highest rise in consumer prices throughout the country. Spending on housing has drastically increased, while motor vehicles sales have slightly decreased.

The Board's survey of membership reflects confidence in the economic and business conditions in the City of St. John's and echoes the current growth and expansion within the region. Highlights of the member survey include:

- 94% of respondents said that present local economic conditions were 'good' or 'excellent';
- Nearly half said their company's financial position halfway through 2009 was better than in 2008;
- Half suggested that 2009 would be a better year than 2008 in overall performance; and,
- Over half anticipated employment growth within their own business within 12 months.

While all indications show an increase in confidence regarding the economy and economic growth at a substantial rate, there are still issues which affect economic growth. As identified in the survey, issues that might affect economic growth are: labour issues, taxation, and managing growth. The biggest factors enabling individual company growth are: employee skills and knowledge, competitive advantage, and market share. The biggest factors hindering the individual company's economic growth are: competition, taxation regime, and labour issues.



## Consumer Affairs

- Personal Income:**  
 Personal income and disposable income are expected to grow by 3.0% and 3.7% respectively, aided by wage gains and tax cuts at the federal level along with the full implementation of 2009 provincial tax reductions.
- Hourly Wages:**  
 The hourly minimum wage as of January 1, 2009 was \$8.50. On July 1, 2009 the minimum wage was raised to \$9.00.

Average hourly wage by profession:

Occupational Classification	June 2008	June 2009	% change, year-over-year
Management occupations	\$29.43	\$28.09	-4.6
Business, finance and administrative occupations	\$16.97	\$18.41	8.5
Natural and applied sciences and related occupations	\$25.83	\$28.10	8.8
Health occupations	\$21.70	\$23.79	9.6
Occupations in social science, education, government services and religion	\$25.49	\$26.03	2.1
Occupations in art, culture, recreation and sport	\$19.15	\$15.51	-19.0
Sales and service occupations	\$11.69	\$12.05	3.1
Trades, transport and equipment operators and related occupations	\$19.12	\$19.79	3.5
Occupations unique to primary industry	\$17.41	\$18.36	5.5
Occupations unique to processing, manufacturing and utilities	\$13.71	\$13.85	1.0

Adapted from Statistics Canada.

- Housing**  
 In a Spring 2009 report, the Canadian Mortgage and Housing Corporation was forecasting the average price of a single detached home in the St. John's CMA to be \$260,000 while the median price is forecast at \$225,650. The Newfoundland and Labrador Realtors Association notes that the average price of a 1,000 square foot bungalow across the Island is \$214,000; in St John's \$240,000 and east extern \$237,000.
- New Motor Vehicle Sales**  
 June 2008 = 3,159 vehicles sold / June 2009 = 3,142 vehicles sold. This decrease of just .5% makes Newfoundland and Labrador the province with the lowest decrease in new motor sales from this time last year.

## Macroeconomics

- Consumer Price Index:**  
 June 2008 = 114.8 / June 2009 = 115.8 An increase of 0.9%, the second highest rise in consumer prices in Canada.
- Employment:**



On a year-to-date basis (January to June), the employment rate saw a 3.5% decrease over the same period in 2008 throughout the province. According to the St. John's Census Metropolitan Area (CMA), the City's employment rate as of July 2009 was 63.7% in comparison to 64.9% in July 2008. The unemployment rate in July 2009 was 8.6% while it was 8.0% in July 2008.

- **Population:**  
The population of the City of St. John's has increased 2.0%. The population in July 2008 was 154.3 thousand, while the population as of July 2009 was 157.1 thousand.

### **Business and Industry**

- **Building spending:**  
The Building Canada Fund will provide \$131.33M towards infrastructure initiatives in the province under the following two components: Communities Component for smaller communities (\$56.33 million) and Major Infrastructure Component for large scale initiatives (\$75 million). Work is underway to launch the Communities Component.
- **City building permits:**

<b>City Building Permits</b>			
Type	2008	2009	Variance
Commercial	\$19,700,900.00	\$47,600,500.00	141.6% ↑
Industrial	\$1,800,000.00	\$1,000.00	99.9% ↓
Institutional	\$29,700,800.00	\$17,200,000.00	42.1% ↓
Residential	\$65,000,800.00	\$90,700,000.00	39.5% ↑
Repairs	\$2,000,000.00	\$2,400,400.00	20% ↑
<b>Total</b>	<b>\$118,202,500.00</b>	<b>\$157,901,900.00</b>	<b>33.6% ↑</b>

- **Non-residential building construction:**  
There is a major increase from \$40M to \$60M when examining the second quarter of each year. There is also a 2% increase from \$58M to \$60M from the first to the second quarter of 2009.
- **Mining and Minerals:**  
Vale Inco began construction of the Long Harbour commercial nickel processing facility in April.  
The value of mineral shipments is expected to decrease by about 35% to \$3 billion as a result of decreases in nickel, copper and iron ore production in combination with lower mineral prices.  
Also, major capital projects related to mineral exploration are expected to total \$71 million, with \$49M worth of work in Labrador and \$22M on the island.
- **Oil and Gas:**  
Newfoundland produces more than 340,000 barrels of crude oil per day representing 12.5% of Canada's total crude oil production. The province reached a milestone in early 2009 when its billionth barrel of oil was produced offshore.



According to the province's Economic Research and Analysis which provides forecasts on the oil industry from 2009-2012, "offshore oil production is expected to decrease by about 21% to 98.5 million barrels as declines are anticipated at all three fields. Oil production is expected to average just over 94 million barrels per year over the remainder of the forecast period."

That said, capital investment for mining and oil and gas extraction for 2009 are forecast to grow by \$328.3M to \$1.431 billion, a 29.8% increase over 2008. This significant increase in investment supports longer term capacity in an industry which already counts for more than one-third of the province's GDP.

Some estimates indicate that six billion barrels of oil and 60 trillion cubic feet of gas remain undiscovered offshore Newfoundland and Labrador. This may provide the potential to sustain petroleum activity for decades. As the White Rose satellite fields continue to develop and Hebron's construction of the GBS is expected to begin in 2012, signs of continuing prosperity are good.

- **Retail and Wholesale Trade:**

From May 2008 to May 2009, retail trade in Newfoundland and Labrador increased by 3.7%, or \$20 million. Wholesale trade increased by 14.6%, or \$37 million, in the same timeframe, making Newfoundland and Labrador the highest growth in both retail and wholesale during this time.

- **Travel and Tourism**

Overall the number of non-residential automobile and air visitors to the province reached an estimated 122,900 visitors for the period ending May 2009, a decrease of -1.4% over 2009 levels.

Non-residential automobile visitors reached 18,900 to the end of May 2009, a decrease of -1.3% from last year. Non-residential air visitors reached an estimated 104,100 to the end of May 2009, a decrease of -1.4% from last year.

Provincial roofed accommodations reached 43% occupancy for the period ending June 2009, an increase of 1.5 points over the same period in 2008.

Marine Atlantic passenger movements reached 80,960 to the end of May 2009, an increase of 0.7% from last year. Passenger-related vehicles movements also increased 2.0% during the same period to 25,600 vehicles.

### **Government Spending**

- **Provincial Government Budget:**

The 2009 budget supports local business and maintains many advantages this province has for building a strong economy.



- Net Debt reduced to \$7.9 billion- the net debt per capita is reduced to approximately \$15,500
- Increase in the small business threshold under the Corporate Tax from \$400,000 to \$500,000. Approximately 4,400 companies will benefit from this measure
- \$87 million in business development programs including \$59 million in tax credits and incentives including Small Business Tax Credit, Manufacturing and Processing Profits Tax Credit, Scientific Research and Experimental Development Tax Credit, Direct Equity Tax Credit and the Resort Property Investment Tax Credit

\$3.9 million investment in 2009-10 to support implementation of a Youth Retention and Attraction Strategy;

- Labour Market development - specifically \$492,000 to remove financial disincentives and barriers that make it difficult for people to work; and
  - The infrastructure stimulus package - including \$3.5 million to enable the ocean technology sector to leverage new business technology development opportunities in international markets and \$2 million as a first step in expanding capacity and opportunity in our province's aerospace and defence sector.
- Federal Government Budget:  
While immediate, targeted and short-term stimulus that was necessary to ensure that Canadians can continue to pay the bills and keep their jobs was initiated, the return to deficit spending is worrying. Signals that spending could continue to increase in the next few years are of additional concern.
    - Canada's Economic Action Plan will provide almost \$30 billion in support to the Canadian economy this year. This is equivalent to 1.9 per cent of our total economy.
    - Providing up to \$200 billion through the Extraordinary Financing Framework to improve access to financing for consumers and allow businesses to obtain the financing they need to invest, grow and create new jobs.
    - Providing \$8.3 billion for the Canada Skills and Transition Strategy, which includes extra support for Canadians most affected by the economic downturn, including enhancements to Employment Insurance and more funding for skills and training.
    - Protecting jobs and supporting sectoral adjustments with \$7.5 billion in extra support for sectors, regions and communities. This includes targeted support for the auto, forestry and manufacturing sectors, as well as funding for clean energy.

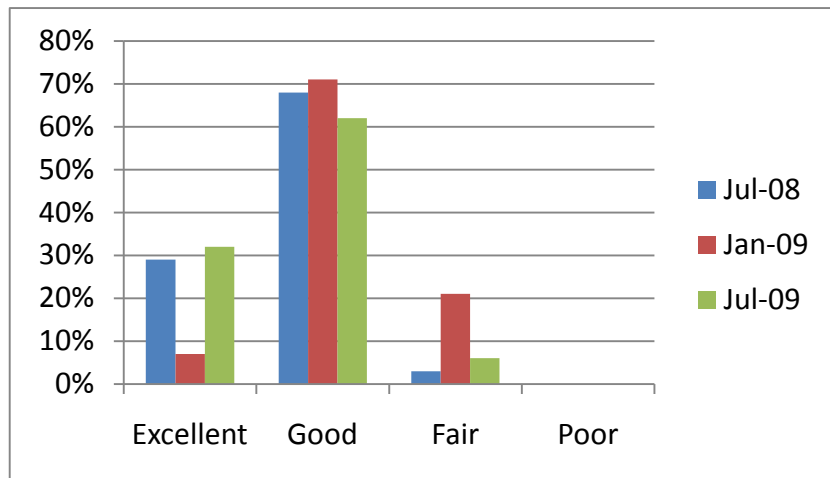


### **Survey of Board Membership**

An electronically-administered survey of St. John's Board of Trade membership provided some key insights into the local business sector and economic conditions of the capital. The survey provided a sample of more than 80 respondents, representing more than 10% of members, and also a demographically diverse group comprising of respondents from a variety of industries and varying company sizes. A total of 18 questions were posed in seven categories; including:

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

Overall, responses indicated that Board members think positively about economic conditions and business opportunities in St. John's.

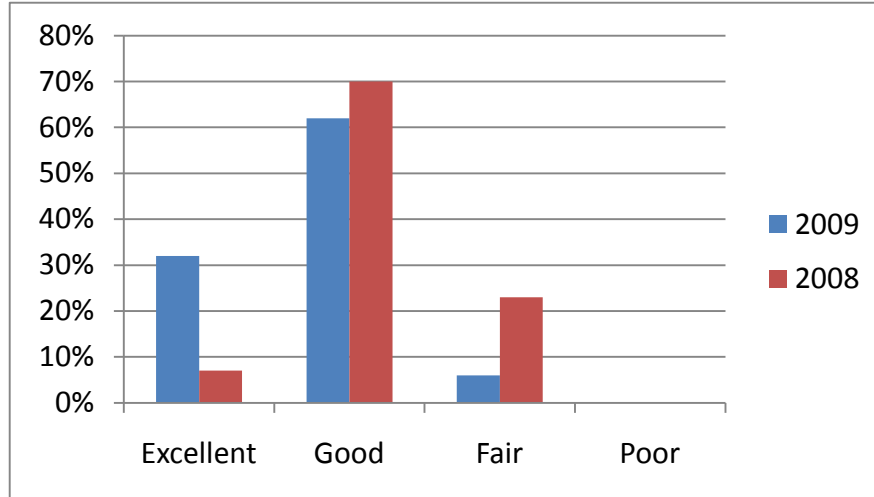


Respondents' opinion of the current economic conditions in the City of St. John's

Analysis of each question follows.

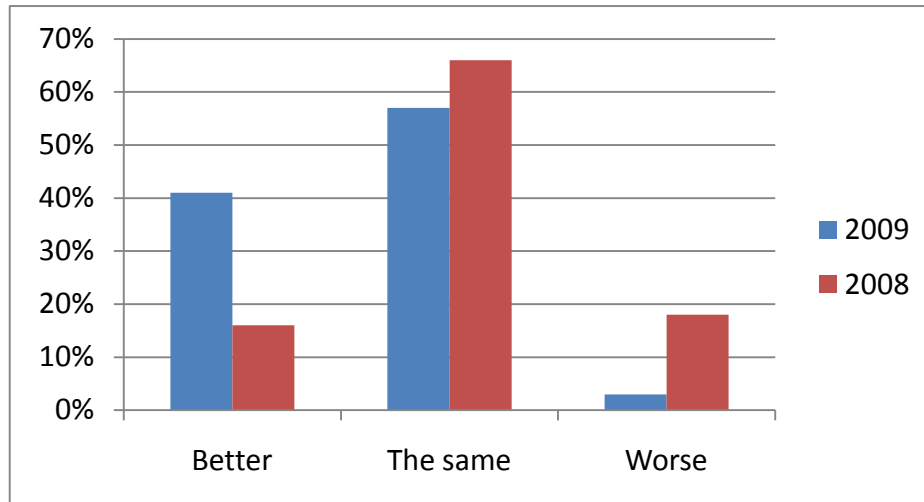
#### **Section 1: Economic Conditions**

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



62% of respondents stated that present local economic conditions were ‘good’ with a further three-in-ten (32%) stating that they were ‘excellent’. This overwhelming positive response clearly indicates that the Board of Trade’s membership sees significant benefit to being involved in the local business community at this time.

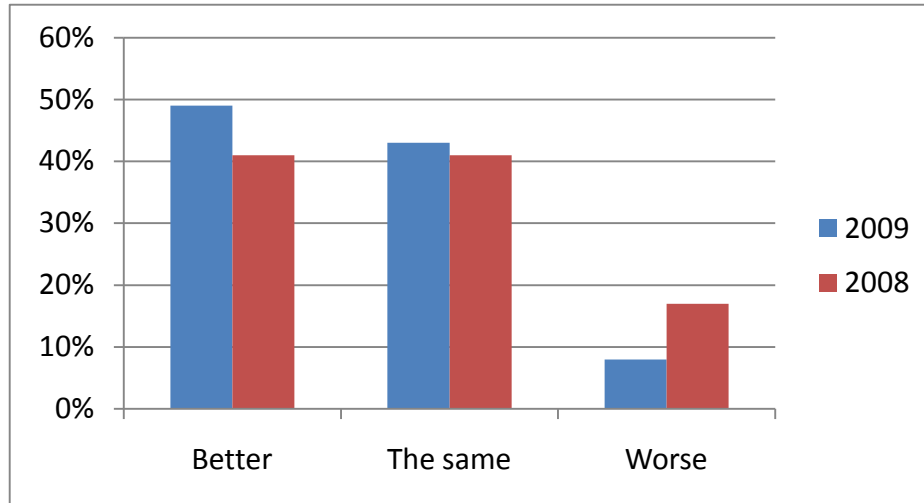
**Question 2: Compared to one year ago, would you describe the economic conditions in the City of St. John’s as: better, about the same, or worse?**



Responses indicate a feeling of confidence about the direction that business is going in locally. Again, nearly all respondents (~98%) described economic conditions as ‘better’ (41%) or ‘about the same’ (57%) as one year ago.

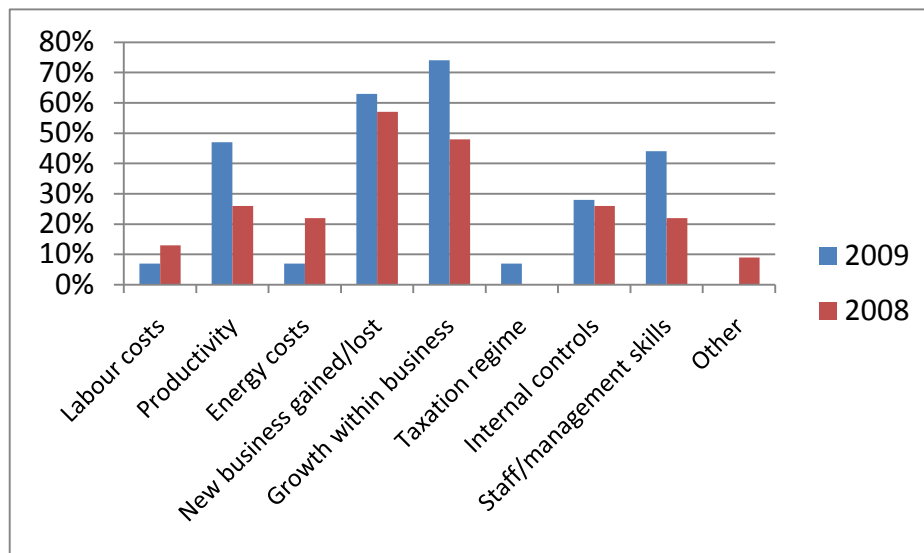
Section 2: Your Company

**Question 3: As compared to 2008, would you rate your company’s financial position to this point in 2009 as: better, about the same, or worse?**



On an individual business level, respondents were positive about their own situations. Just under half (49%) stated that their company’s financial positions halfway through 2009 is better than in 2008. A little over four-in-ten (43%) viewed their financial position as about the same for 2009 as it was for 2008.

**Question 3a: If you selected ‘better’ or ‘worse’, to which factors do you attribute this change in your company’s financial position [check 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?**

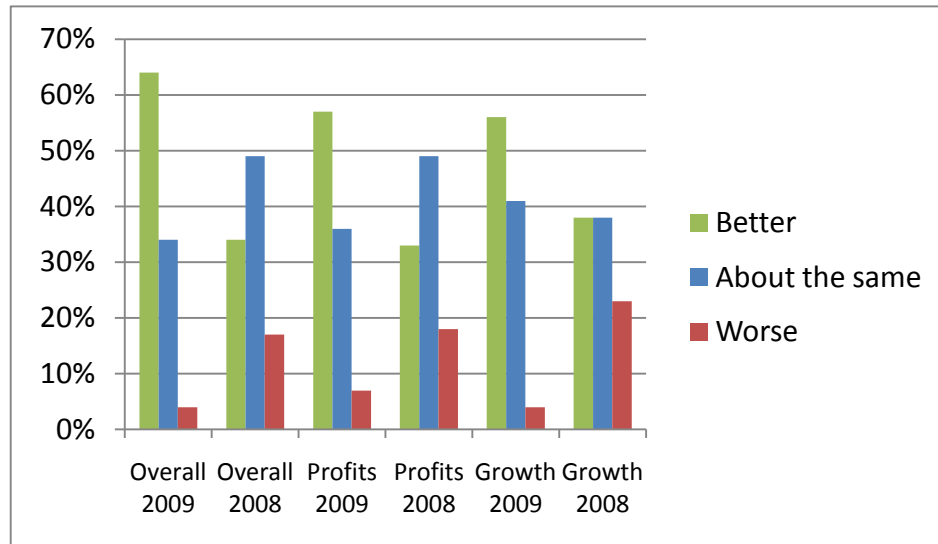


Responses to this question were varied, as respondents were able to select more than one option. Most respondents pointed to internal factors, rather than the external environment, as the reasons for changes in financial position. ‘Growth or decline in existing lines of business’ was the top response, with 74% stating that this was a factor, followed by 63% of respondents attributing change to ‘new business gained or lost’. At 47%, ‘productivity improvements/declines’ was a significant factor, as was ‘staff/management training and skill development’ at 44%, and ‘internal controls’ at 28%.



External factors such as labour costs, energy costs and taxation regime made for a very small percentage of responses, indicating that financial position is largely dictated by internal workings rather than external events.

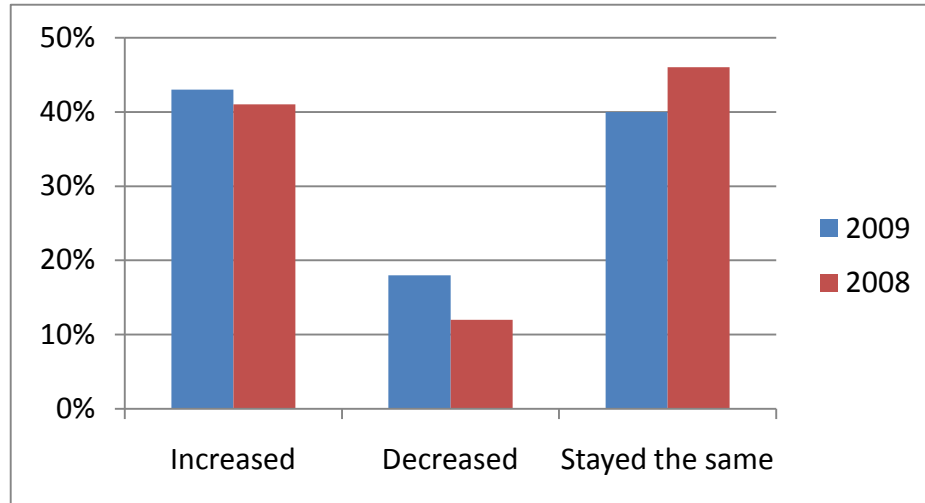
**Question 4: As compared to 2008, how do you expect your company to perform overall, in profits, and in growth, in 2009: better, about the same, or worse?**



When asked about overall performance, 64% suggested that 2009 would be a better year than 2008, while 34% indicated that the year would likely be about the same. Interestingly, more than half of respondents (57%) indicated that profits would likely be better for 2009 as compared to 2008 while 36% saw a year on par with 2008. As well, more than half (56%) saw growth in 2009 as better than last year while 41% said growth would not change from 2008. Responses were essentially equal on higher growth and profits, but the overall performance was ranked even higher (56-57% versus 64% for overall performance). This might suggest that employers were pleased with their HR or their productivity or another factor aside from bottom-line results.

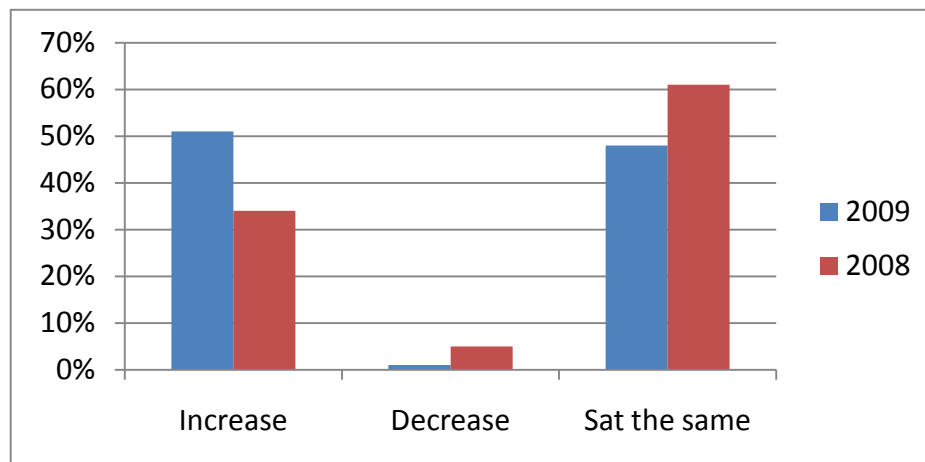
Section 3: Labour and Employment

**Question 5: As compared to exactly one year ago, has the number of persons your company employs: increased, decreased, or stayed the same?**



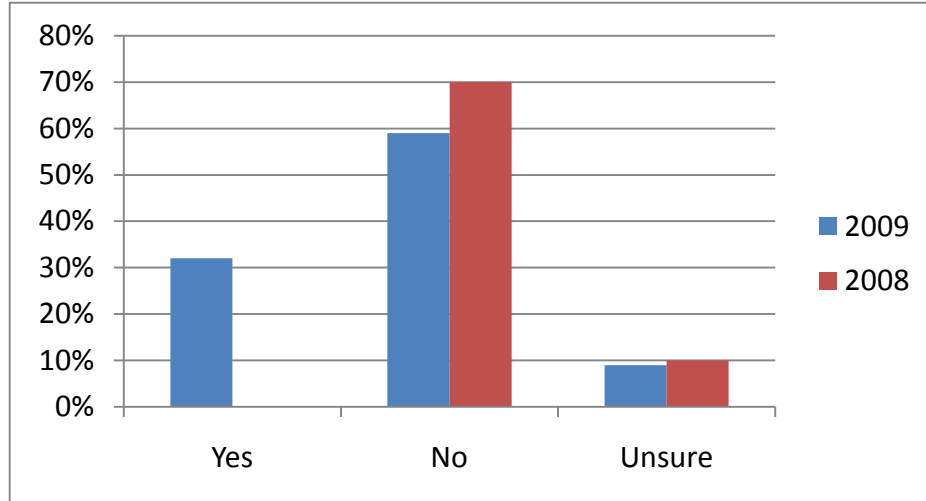
43% of respondents stated that they have increased the number of employees, with only 18% indicating that their headcounts have decreased. The remaining 40% indicated that the employment of their individual businesses has remained the same as compared to one year ago.

**Question 6: Looking forward one year, do you anticipate that the number of persons your company will employ will: increase, decrease, or stay the same?**



On a forecasting basis, respondents were somewhat bullish, with 51% stating that they anticipated employment growth within their own businesses within a one year timeframe. 48% believed that their employment levels would remain the same to this point in 2010, while only 1% forecasted an employment decrease over the next 12 months.

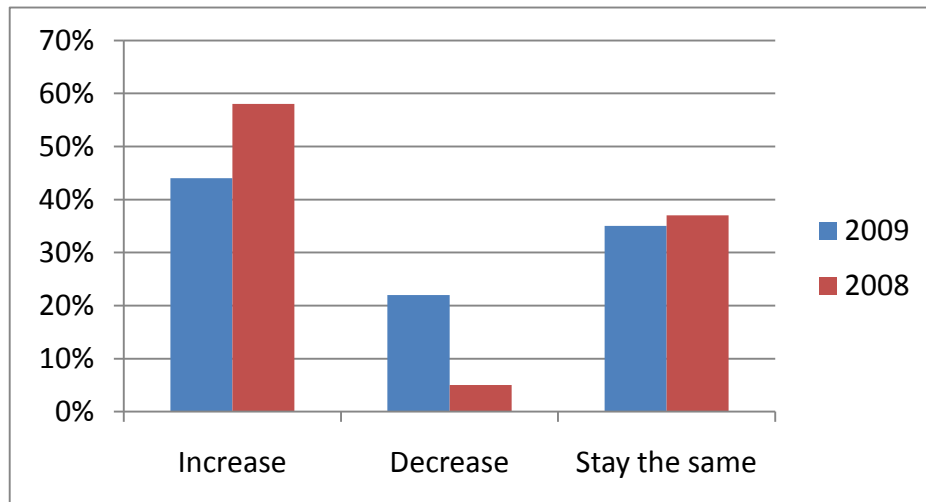
**Question 7: Does your company face any shortages of labour that restrict your ability to meet demand: yes, no or don't know/unsure?**



A significant portion of respondents (32%) stated that their company faced a shortage of labour that restricts the company's ability to meet demand. It is notable that while 59% of respondents stated that they did not face labour shortages which would restrict their ability to meet demand, 9% responded that they did not know or were unsure of labour shortages affecting their own situation.

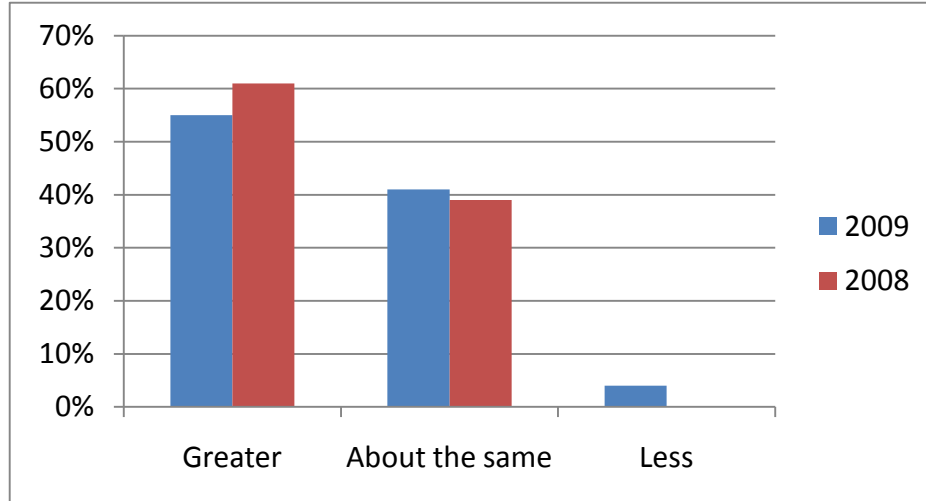
#### Section 4: Year-to-date

**Question 8: As compared to the first half of 2008, has your company's overall spending to this point in 2009: increased, decreased or stayed the same?**



44% of respondents indicated that their spending has increased for the first half of 2009 as compared to the first half of 2008, while 22% of respondents indicated that spending had decreased and 35% stayed the same.

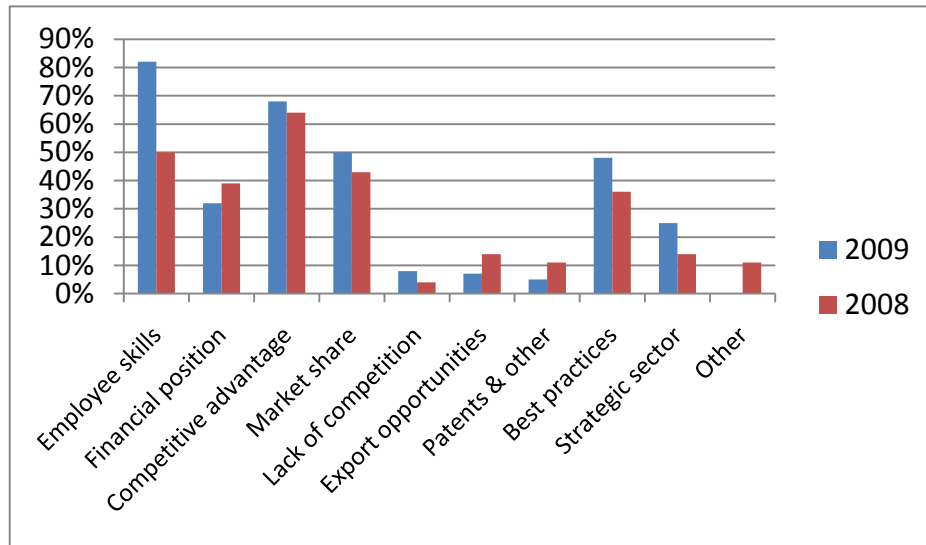
**Question 9: Would you describe your company's gross revenues for 2009, compared to 2008, as: greater, about the same, or less?**



More than half (55%) of respondents stated that their company's gross revenues to date for 2009 are greater than last year, while 41% stated they were about the same. Only a small percentage (4%) noted that gross revenues were down year-over-year.

#### Section 5: Enabling Economic Growth

**Question 10: 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, and involvement in strategic sector such as IT?**

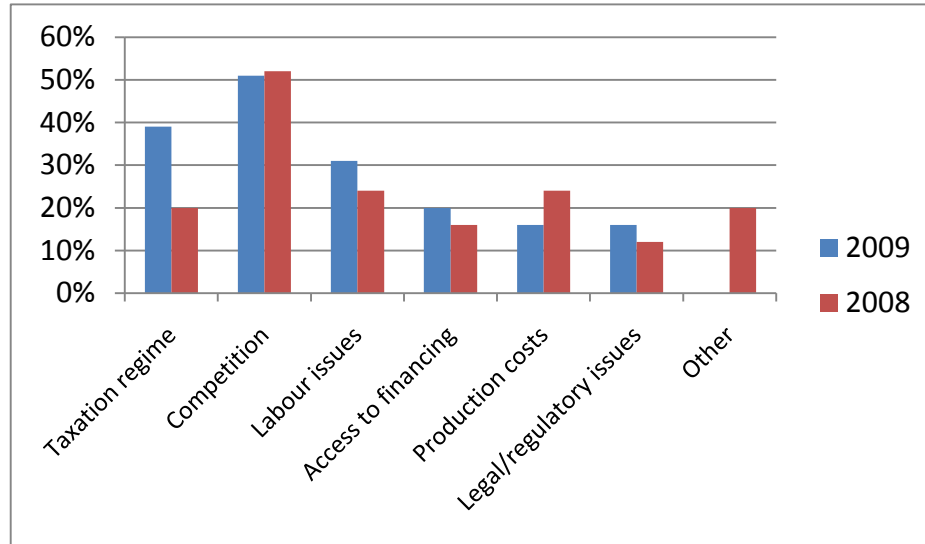


82% of respondents indicated that 'employee skills and knowledge' enabled economic growth; this was significantly more than other options with the exception of 'competitive advantage' at 68%. Again, this is an indication that internal factors play a greater role in success as external influences such as 'market share' (50%) and 'industry best practices' (48%) were generally identified as factors by a lower margin. Other significant factors raised included the 'company's financial position' (32%) and 'involvement in a strategic sector' (25%). 'Export opportunities' (7%), 'patents and other



intellectual property' (5%) and 'lack of competition' (8%) were not particularly significant factors in individual company's economic growth.

**Question 10a: 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, and legal/regulatory issues?**



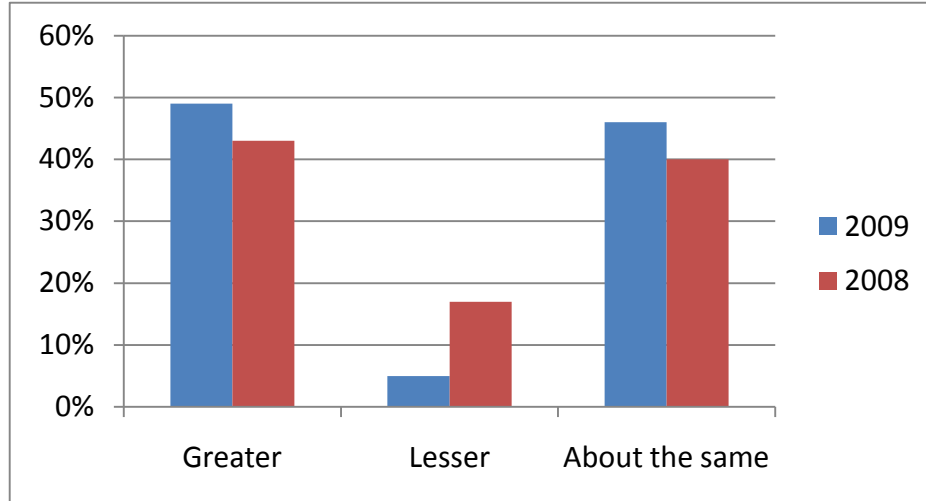
51% of respondents said that 'competition' hinders growth, 31% said 'labour issues', while 39% of responses centered around 'taxation regime'. 20% note that 'access to financing' is an issue, while both 'legal/regulatory issues' and the 'cost of factors of production' were seen as a limiting factor for 16% of respondents.

**Question 11: In your opinion, what are the most significant issues the province faces related to economic growth?**

This open-ended question allowed respondents to state, in their own words, what they believed to be the most significant economic growth issues for the province. The most commonly used answers can be summarized as: labour issues (cost and availability), taxation, and managing growth.

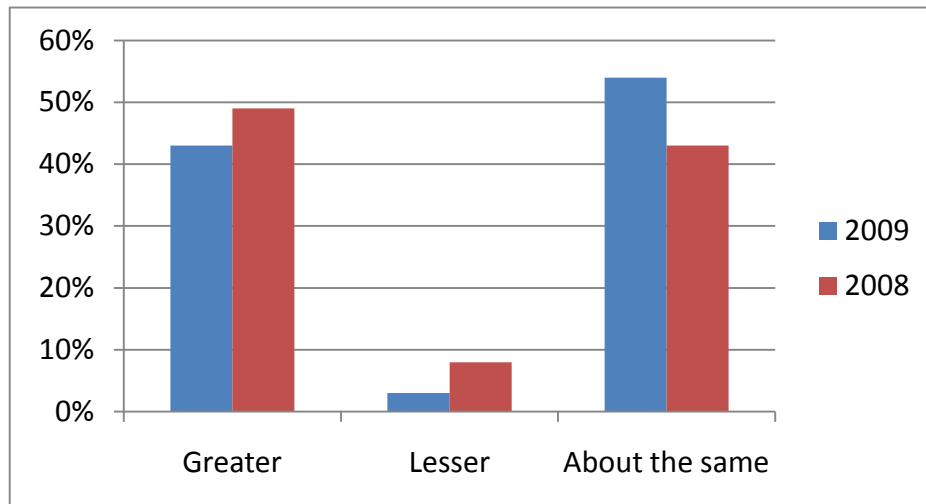
Section 6: Forecasting the next year

**Question 12: 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 last year?**



To determine if local businesses are viewing inflation with the same lens as economic forecasters, this question seeks to determine if St. John’s companies are looking at increased expenditures on cost of production items next year. 49% of respondents suggested that local companies can expect to pay more in the next year at a rate of growth higher than 2008. 46% of respondents stated that prices would be stable, with 5% expecting a lower price for products and services in the next 12 months.

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

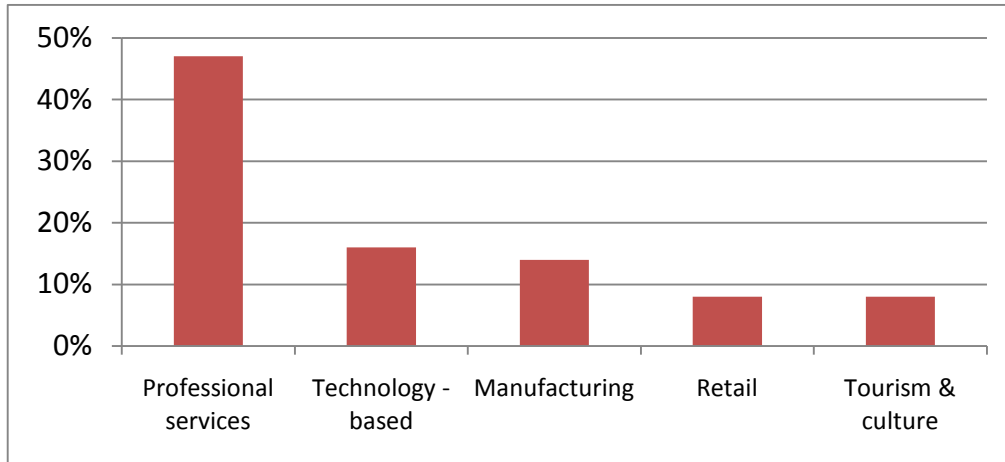


As the corollary question to the purchase price query, respondents were surveyed to determine what selling prices local businesses and consumers could expect over the next year. 43% of respondents indicated that they expect to sell their products or services at an increased price that grows faster than in 2008, 54% indicated that prices of the products and services they sell are expected to move at the same rate as last year and 3% predicted a lesser rate.

Section 7: Demographics

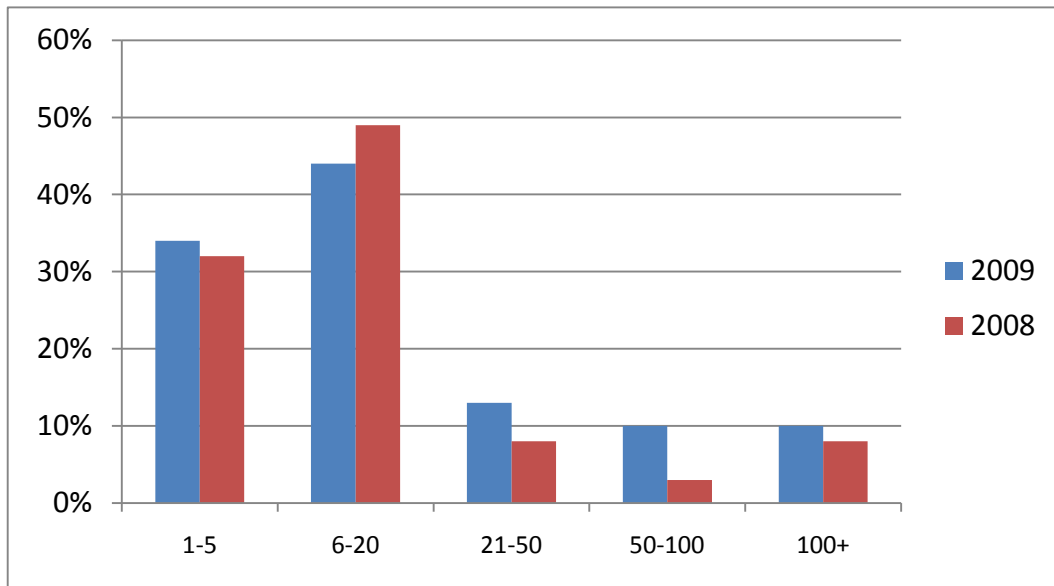


**Question 14: In what industry do you operate: manufacturing, retail, oil and gas, food service, professional services, technology-based industry, tourism and culture, natural resources, other [please specify]?**



47% of respondents operated in the professional services industry; joined with 16% in technology-based enterprise and manufacturing (14%), this accounts for just over three-quarters (77%) of responses. Retail and tourism and culture (at 8% each) made up the majority of the rest of respondents.

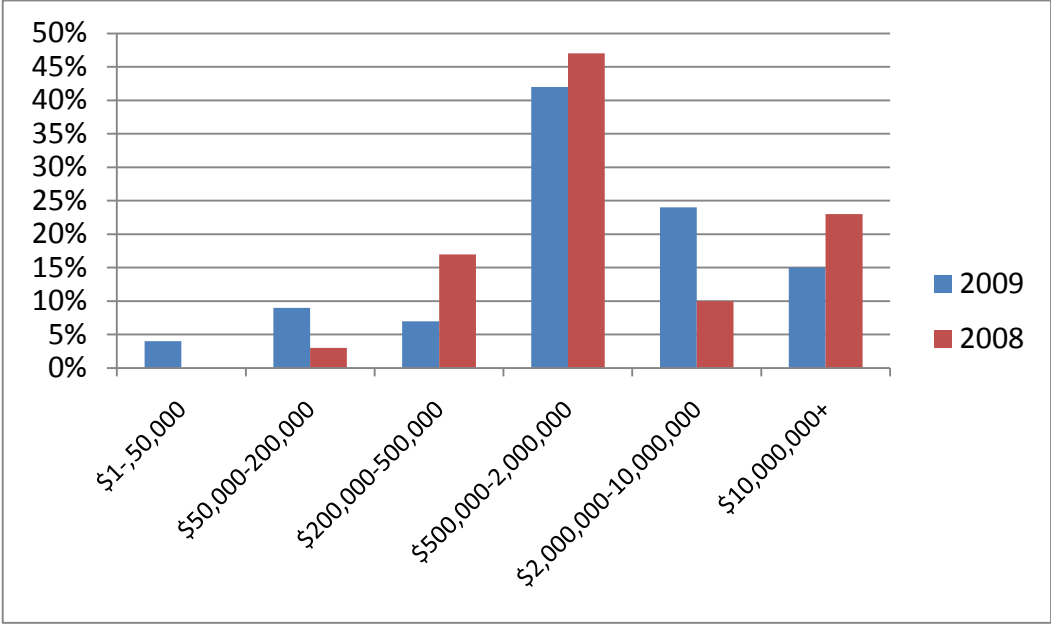
**Question 17: How many people does your company employ in the City of St. John’s [1-5, 6-20, 21-50, 51-100, 100+]?**



The highest percentage of respondents were from companies with 6-20 employees (44%) while companies of 1-5 people (34%), 21-50 employees (13%), and those with 50-100 (10%) also show significant response rates. The fact that 10% of respondents self-indicated that their company employs more than 100 people in the city further suggests that responses were obtained across a diverse demographic group.



**Question 16: What are your company's annual revenues [less than \$50K, 50-200K, 200-500K, 500K-2M, 2-10M, 10M+]?**



Most of the respondents indicated that their company's annual revenues were between \$500K and \$2 million, 24% indicating revenues between \$2 and \$10 million, and 15% self-reporting annual revenues of greater than \$10 million.



## **SOURCES:**

All Expectations for 2009/ Highlights of 2008

[http://www.economics.gov.nl.ca/E2009/highlights\\_and\\_expectations.pdf](http://www.economics.gov.nl.ca/E2009/highlights_and_expectations.pdf)

1) Hourly Wages...

<http://www.cbc.ca/canada/prince-edward-island/story/2009/01/07/pe-atlantic-wage.html>

<http://canadaonline.about.com/library/bl/blminwage.htm>

2) Population & Employment

<http://www40.statcan.ca/l01/cst01/lfss04a-eng.htm>

3) Consumer Price Index

<http://www40.statcan.gc.ca/l01/cst01/cpis02a-eng.htm>

4) Non-residential Building Construction

<http://www40.statcan.gc.ca/l01/cst01/econ84a-eng.htm>

5) Motor Sales

<http://www40.statcan.gc.ca/l01/cst01/econ58a-eng.htm>

6) Provincial Government Budget

<http://www.thetelegram.com/index.cfm?sid=236162&sc=79>

7) Federal Government Budget

<http://www.fin.gc.ca/n08/09-011-eng.asp>

Governances in general

<http://www.budget.gc.ca/2009/pdf/budget-planbugetaire-eng.pdf>

8) Travel and Tourism / Accommodations Sector

[http://www.stats.gov.nl.ca/Statistics/Tourism/PDF/TourismPerformance\\_2009.pdf](http://www.stats.gov.nl.ca/Statistics/Tourism/PDF/TourismPerformance_2009.pdf)

9) Building Spending

<http://www.buildingcanada-chantierscanada.gc.ca/regions/nl/nl-eng.html>

10) Retail and Wholesale Trade

<http://www40.statcan.gc.ca/l01/cst01/trad43a-eng.htm>

&

<http://www40.statcan.gc.ca/l01/cst01/trad09a-eng.htm>