St. John's BOARD of TRADE

2010 Economic Survey

February 1, 2010

2010 Economic Survey

Executive Summary

The January 2010 economic review provides insight into a continuously changing economy, and one that is currently viewed as distinct from the Canadian and North American experience as St. John's has largely avoided economic turmoil seen in other places. 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 ranging overview of the local business climate.

The economy of St. John's and Newfoundland and Labrador appears to remain strong, but not without challenge. The population of St. John's has increased slightly, as has the employment rate. Provincially, minimum wage has increased to $9.50, 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.

Recent selected provincial economic indicators from Statistics Canada include:

- Employment: 217,200 (December 2009; up 0.3%)
- Unemployment rate: 15.2% (December 2009; up 1.5%)
- Participation rate: 59.5% (December 2009; up 0.8%)
- Labour income: $818,700,000 (September 2009; up 4.3%)
- Average weekly earnings: $823.79 (November 2009; up 4.68%)
    - All numbers seasonally adjusted and compare to previous year.

The Board's survey of membership reflects confidence in the economic and business conditions in St. John's. Highlights of the member survey include:

- 83% of respondents said that present local economic conditions were 'good' or 'excellent';
- More than 70% said that 2010 would be a better year than 2009 in overall performance, with approximately 1-in-3 saying it would be a better year in both profits and growth; and,
- Over half anticipated employment growth within their own business within 12 months.

Survey results substantially suggest on-going confidence in the economy; however, there are still issues which affect economic growth. Survey respondents point to labour (shortage and skills), transportation (including infrastructure), economic diversification, and taxation/government spending as potential factors that might affect economic growth. The biggest factors enabling individual company growth continue to be employee skills and knowledge, competitive advantage, and market share, with financial position and industry best practices also being raised by 40% of respondents. The biggest factors hindering an individual company's economic growth are consistent with previous surveys: competition, taxation regime, and labour issues.

Consumer Affairs

Hourly Wages:

The hourly minimum wage as of January 1, 2010 was $9.50.
On July 1, 2010 the minimum wage will be raised to $10.00/hour.

Average hourly wage by profession:

Occupational Classification	December 2008 ($)	December 2009 ($)	% change, year-over-year
Management occupations	30.20	29.27	-3.1
Business, finance and administrative occupations	17.89	18.88	5.5
Natural and applied sciences and related occupations	28.07	29.03	3.4
Health occupations	22.56	23.76	5.3
Occupations in social science, education, government services and religion	27.45	28.75	4.7
Occupations in art, culture, recreation and sport	15.31	17.14	12
Sales and service occupations	12.27	12.96	5.6
Trades, transport and equipment operators and related occupations	20.26	19.76	-2.5
Occupations unique to primary industry	24.30	24.53	0.9
Occupations unique to processing, manufacturing and utilities	14.88	20.02	34.5

Adapted from Statistics Canada.

Housing

In a Fall 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 $275,000 for 2009 while the median price was forecast at $238,500. For 2010, these figures are forecast to be $290,000 and $251,500 respectively. From 2006 to the 2009 forecast, the average price of a single detached dwelling increased from $202,698 to $275,000, or 19.3%. In the same time period, the media price moved from $175,812 to $238,500, also the same 19.3%.

New Motor Vehicle Sales

Preliminary November 2009 numbers (seasonally adjusted; also the latest available at time of Board of Trade publication) note that year-over-year (November 2008-November 2009) new motor vehicle sales in Newfoundland and Labrador increased by 7.8%, from 2,017 to 2,174.

Macroeconomics

Consumer Price Index:

St. John's metropolitan: With 2002 as the base year (=100), the CPI in St. John's Metropolitan according to Statistics Canada was 114 in 2008 and listed at 114.6 for the whole of 2009. From 2008 to 2009, this was a growth of 0.3%.

Provincially: With 2002 as the base year (=100), the CPI for Newfoundland and Labrador as of December 2009 according to Statistics Canada was 115.2, a year-over-year percentage change of 1.9 (December 2008 – CPI was 113.1)

Employment:

Employment in the St. John's metropolitan area grew from 2008 to 2009, moving up 0.7% from 98,500 to 99,200. Due to growth in the labour force locally, from 106,800 in 2008 to 108,200 in 2009, the unemployment rate increased by half a percentage point from 7.8 to 8.3.

Population:

The population of the St. John's metropolitan area has increased by 1.1% to 187,700. Births have also held constant over the past few years provincially:

Number of births	2004-05	2005-06	2006-07	2007-08	2008-09
	4,543	4,526	4,495	4,521	4,488

(Note: 2008-09 numbers are preliminary estimates; years are considered to be July 1-June 30 of the following year)

Provincial population growth from July 1, 2008-June 30, 2009 breaks down as follows (adopted from Statistics Canada, including definitions/context):

Category	**Number**
Births	4,488
Deaths	4,766
Immigration (A landed immigrant is a person who does not have Canadian citizenship but was granted the right by immigration authorities to live in Canada on a permanent basis)	565
Emigration (emigrant: Canadian citizen or immigrant who has left Canada to establish a permanent residence in another country.	93
Net temporary emigration (the variation in the number of temporary emigrants between two dates. Temporary emigration includes Canadian citizens and immigrants living temporarily abroad who have not maintained a usual place of residence in Canada)	260
Returning emigrants (Canadian citizen or immigrant having previously emigrated from Canada and subsequently returned to the country)	40
Net non-permanent residents (A non permanent resident belongs to one of the five following groups: persons residing in Canada claiming refugee status; persons residing in Canada who hold a study permit; persons residing in Canada who hold a work permit; persons residing in Canada who hold a minister's permit; all non-Canadian born dependants of persons claiming refugee status, or of persons holding study permits, work permits or minister's permits and living in Canada)	178
Net interprovincial migration (movement from one province or territory	2,332

involving a permanent change in residence)	

Business and Industry

City building permits:

City Building Permits	(Dec. 14, 2009)		
Type	2008	2009	Variance
Commercial	$55,500,000	$65,400,600	17.8% ↑
Industrial	$2,700,500	$4,000,800	48.2% ↑
Institutional	$35,900,500	$22,700,600	36.8% ↓
Residential	$145,200,800	$160,500,600	10.5% ↑
Repairs	$3,600,500	$4,500,500	24.9% ↑
Total	**$242,902,300**	**$257,103,100**	5.8% ↑

The value of building permits provincially is as follows (millions $):
2004: $501.2
2005: $494.1
2006: $538.4
2007: $660.1
2008: $802.5

Capital Expenditures:

Capital expenditures are at significant levels in Newfoundland and Labrador. In 2005, $4.576B was expended and, while 2006-2008 saw a slight decrease, intended 2009 capital expenditures are at $4.768B. Housing capital expenditures far exceed any other category, accounting for $1.403B of intended spending in 2009. Public administration, at $491.5M is the next highest category, with transportation and warehousing the only other category with more than $200M allocated for 2009.

Non-residential building construction:

Provincial quarterly non-residential building construction, by building type (millions $); seasonally adjusted. From Statistics Canada

Type	4th quarter 2008	3rd quarter 2009	4th quarter 2009 (projected)	Q3 2009 to Q4 2009	Q4 2008 to Q4 2009
Total non-residential	$91.1M	$74.3M	$67.4M	-9.3%	-26.0%
Industrial	$13.9M	$4.8M	$4.2M	-12.1%	-69.5%
Institutional	$34.1M	20.9M	20.8M	-0.4%	-39.1%
Commercial	$43.0M	$48.6M	$42.4M	-12.8%	-1.5%

Oil and Gas:

- According to the provincial Department of Finance, oil production totalled 81.6 million barrels in the first ten months of 2009, down 21.7% (or 22.6 million barrels) relative to the same period of 2008. The decline is the result of lower production at all three producing fields.

Retail and Wholesale Trade:

Retail sales totaled approximately $5.2 billion for January-September 2009, an increase of 1.5% compared to January-September 2008. Growth was noted in all store categories except automotive, and was driven primarily by gains in:

- building and outdoor home supplies stores (14.9%)
- pharmacies and personal care (13.4%)
- furniture, home furnishings and electronics stores (7.5%).

Sales related to automotives did decline 6.4% for new car dealers and 12.7% for gas stations. Much of the decrease for new car dealers can be considered a return to moderation after high levels of sales in 2008; new car sales from January-September 2009 are actually very similar to that timeframe in years prior to 2008. Much of the decrease in gas station sales can be attributed to the 22.7% decline in the price of gas from January -September 2009.

Notably, while Newfoundland and Labrador showed a small increase of 1.5%, for Canada as a whole, retail sales decreased by 4.8% in the first nine months of 2009 (relative to the same period in 2008). A November forecast states that retail sales are expected to stay on the 1.5% growth track and reach about $7.2 billion for all of 2009.

Retail Sales by Trade Group

Newfoundland and Labrador: January to September

Retail Sales Trade Group ($ millions)	2008	2009	Actual Change	Percent Change
Stores				
Automotive	2,160.8	1,987.9	-172.9	-8.0
New car dealers (1)	1,009.7	944.8	-64.9	-6.4
Used and recreational motor vehicle and parts	418.5	403.3	-15.2	-3.6
Gasoline stations	732.6	639.8	-92.8	-12.7
Furniture, home furnishings and electronics	159.0	171.0	12.0	7.5
Building and outdoor home supplies	389.8	447.9	58.1	14.9
Supermarkets	798.9	840.6	41.7	5.2
Pharmacies and personal care	255.2	289.4	34.2	13.4
Clothing and accessories	149.2	154.5	5.3	3.6

Sporting goods, hobby, music and book stores	55.3	58.8	3.5	6.3
Other stores (2)	1,189.6	1,285.5	95.9	8.1
TOTAL	**5,157.8**	**5,235.6**	**77.8**	**1.5**

Source: Statistics Canada

(1) New car dealer figures reflect all sales by businesses that predominantly sell new vehicles. As a result the figures displayed here include some used car sales, as well as parts and service labour, and are higher than those appearing in the Car Sales Bulletin. (2) Other stores include department, other general merchandise, convenience and specialty food, beer-wine and liquor, and miscellaneous stores.

Wholesale trade has grown from 2004-2008, provincially. Figures are in $M.

2004: $2,285.0

2005: $2,405.2

2006: $2,569.0

2007: $2,855.8

2008: $3,177.4

Survey of Board Membership

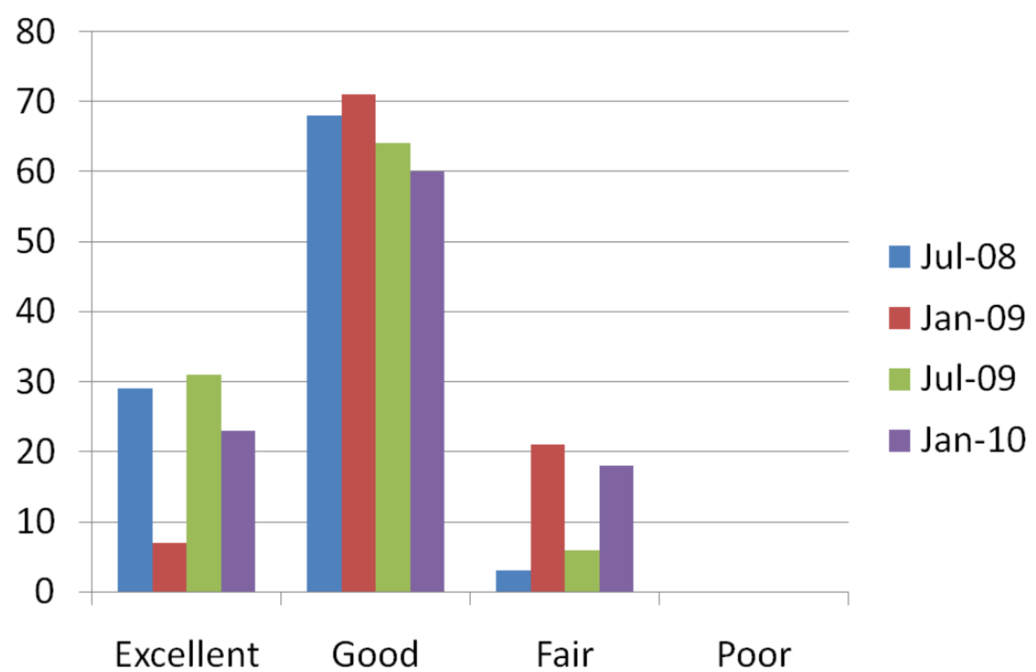
An electronically-administered survey of St. John's Board of Trade membership allowed the business community to provide insights into local business and economic conditions of the capital. The survey provided a sample of over 60 respondents, representing approximately 8% of members. Respondents represented a variety of company sizes as usual, and were somewhat diverse in industrial make-up, though predominantly in the professional services sector. 18 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.

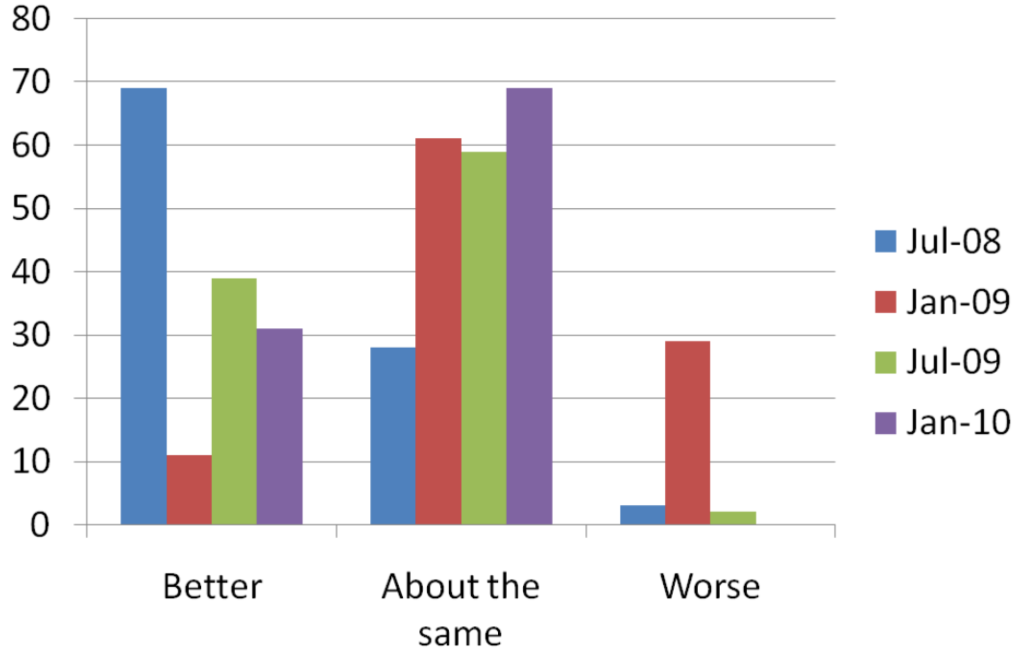
Section 1: Economic Conditions

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



60% of respondents stated that present local economic conditions were 'good' with nearly one-in-four (23%) stating that they were 'excellent'. This continued positive response indicates that Board of Trade members have confidence at this time.

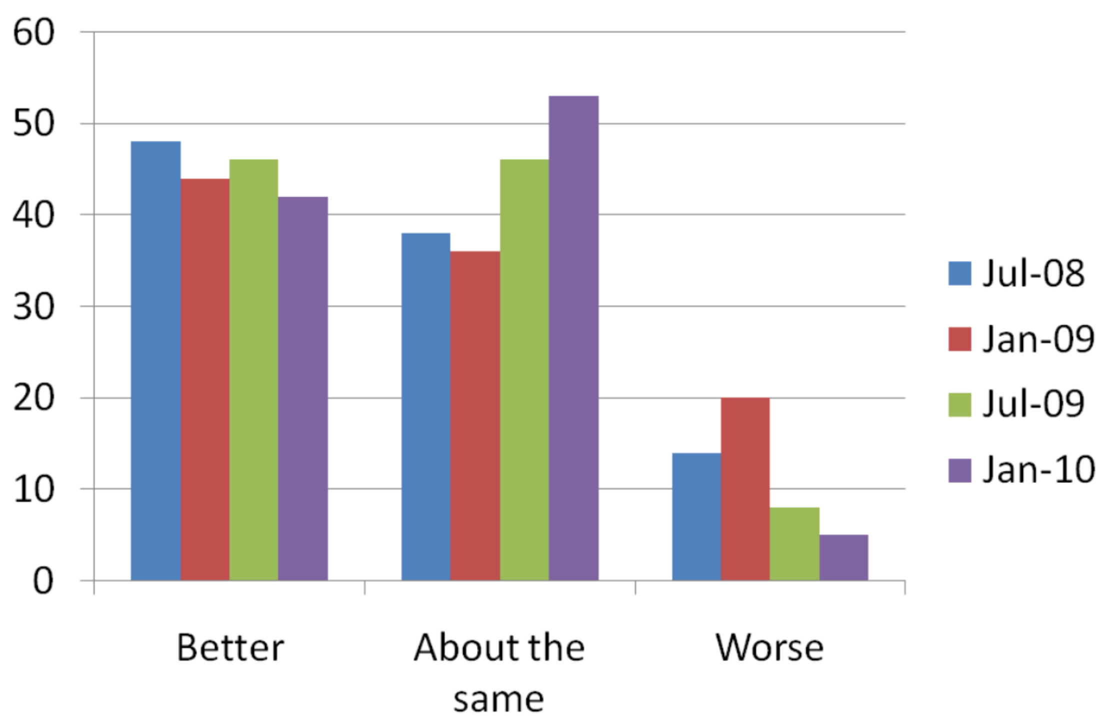
Question 2: Compared to one year ago, would you describe the economic conditions in the City of St. John's as: better, about the same, or worse?



Responses indicate a feeling of confidence about the direction that business is going in locally. The improvement is incremental considering that the last response from the summer of 2009 was almost unanimous; all respondents described economic conditions as 'better' (31%) or 'about the same' (69%) as one year ago, though the number appears to be softening from 'better' to 'about the same' and any potential trend should be noted and tracked.

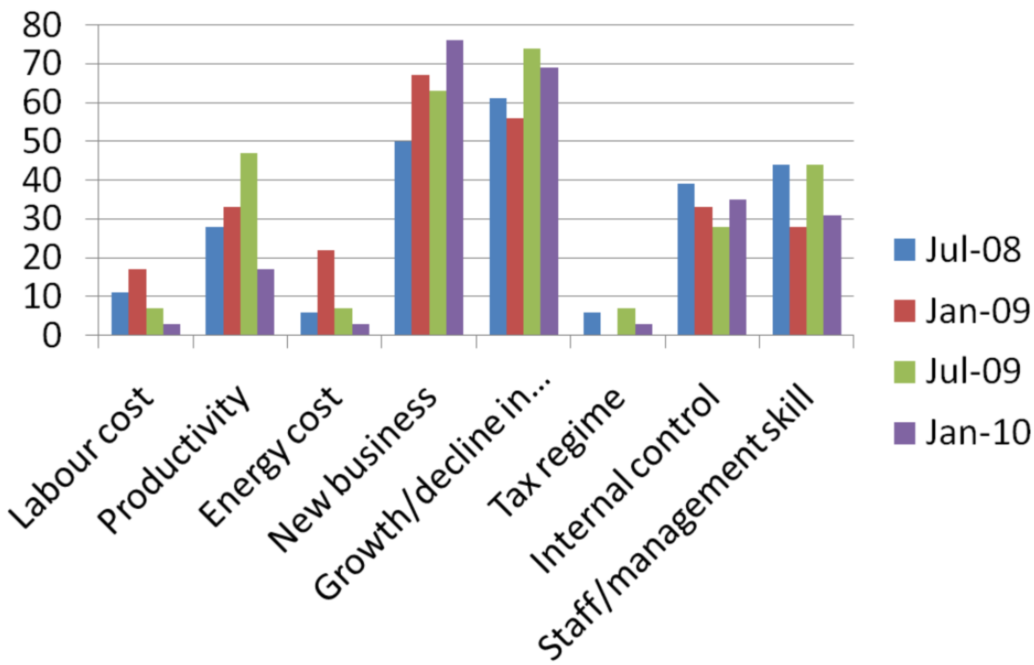
<u>Section 2: Your Company</u>

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



Individual business people were positive about their own situations. More than four-in-ten (42%) stated that their company's financial position was better now compared to one year ago and about half (53%) viewed their financial position as about the same.

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?



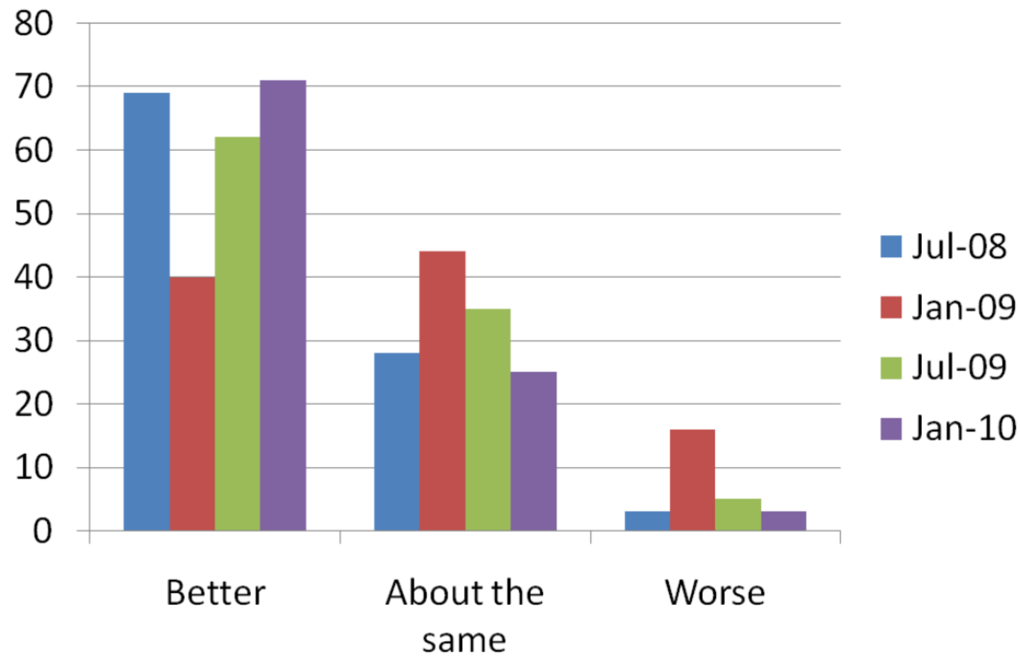
As usual, responses to this question were varied, as respondents can select more than one option. Most respondents continue to point to internal factors, rather than the external environment, as the reasons for changes in financial position, potentially indicating an inclination to focus on self-determined factors rather than things outside of the control of the individual or business.

'New business gained/lost' was the top response, with 76% indicating that this was a factor, followed by 69% of respondents attributing change to 'growth/decline within existing lines of business'. These two responses remain the clear factors that members identify as affecting the financial position of an individual business.

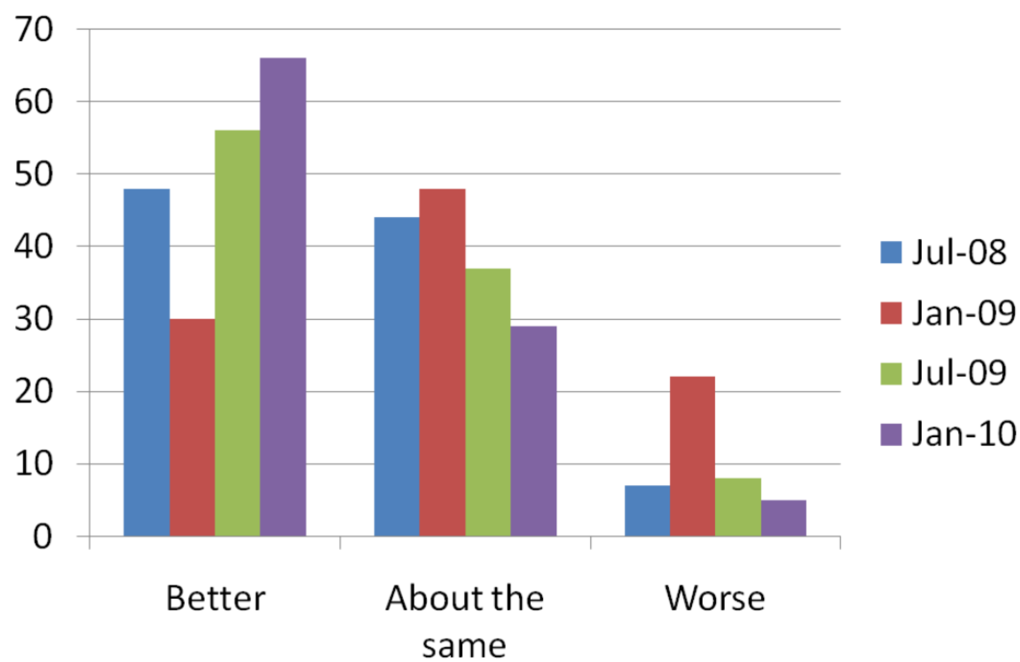
'Internal controls' and 'staff/management training and skill development' remain important; both recognizes by about one-third of respondents (35% and 31% respectively). 'Productivity improvements/declines' dropped significantly as an internal factor of consequence but this will be tracked to determine any trends. External factors such as labour costs, energy costs and taxation regime once again made for a very small percentage of responses. This developing trend lends credence to the observation that financial position is largely dictated by internal workings rather than external events.

Question 4: As compared to 2009, how do you expect your company to perform overall, in profits, and in growth, in 2010: better, about the same, or worse?

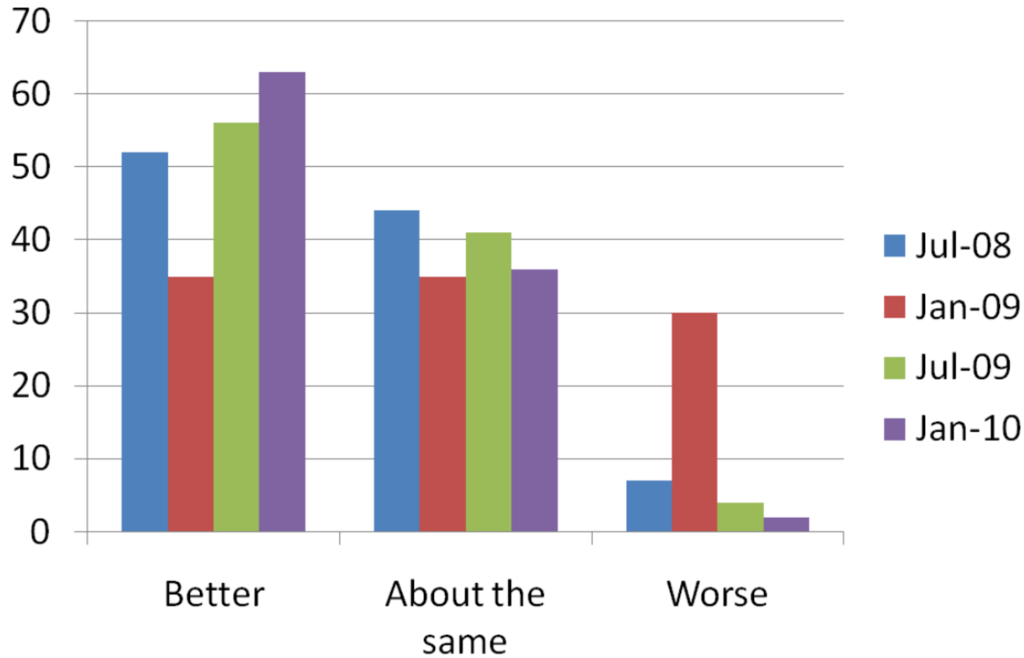
Overall



Profits



Growth



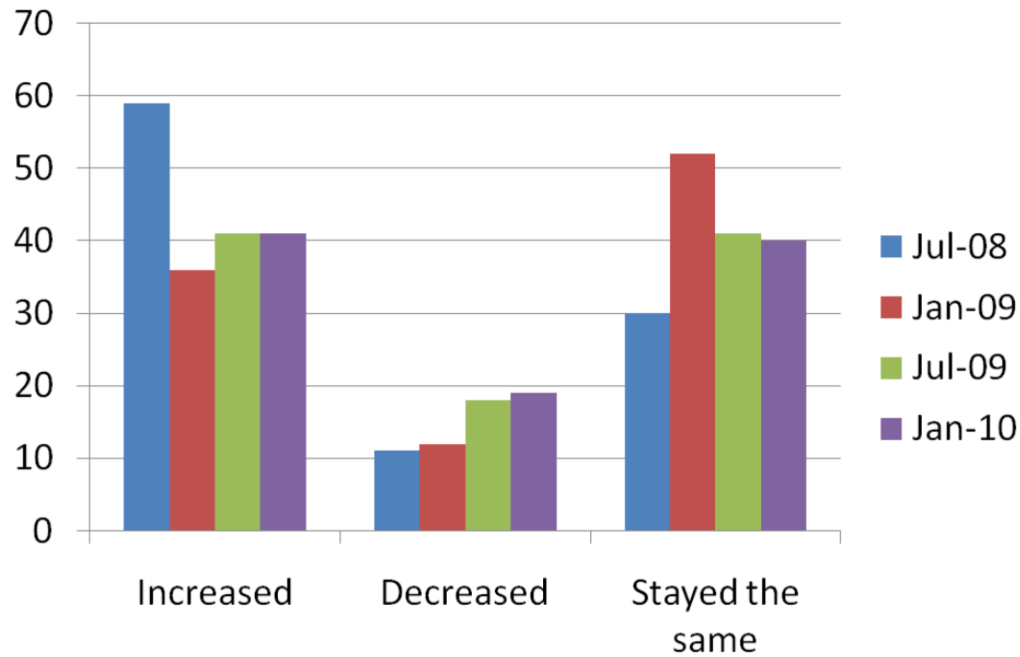
When asked about overall performance, 71% suggested that 2010 would be a better year than 2009 (compared to 64% in the last survey), while 25% indicated that the year would likely be about the same (down from 34%). Two-thirds of respondents indicated that profits would likely be better for 2010 as compared to 2009 while 29% saw a year on par with 2009, showing an increase in confidence.

As well, more than six-in-ten (63%) see growth in 2010 as better than last year (up from 56%) while 36% said growth would not change from 2009 (41% in the last survey; some respondents have moved toward a more bullish outlook). Again, respondents were very close in their projections on higher growth and profits while overall performance ranked even higher (66% and 63% versus 71% for overall performance). Again, this might suggest a bullish attitude about a business factor aside from strict bottom-line results.

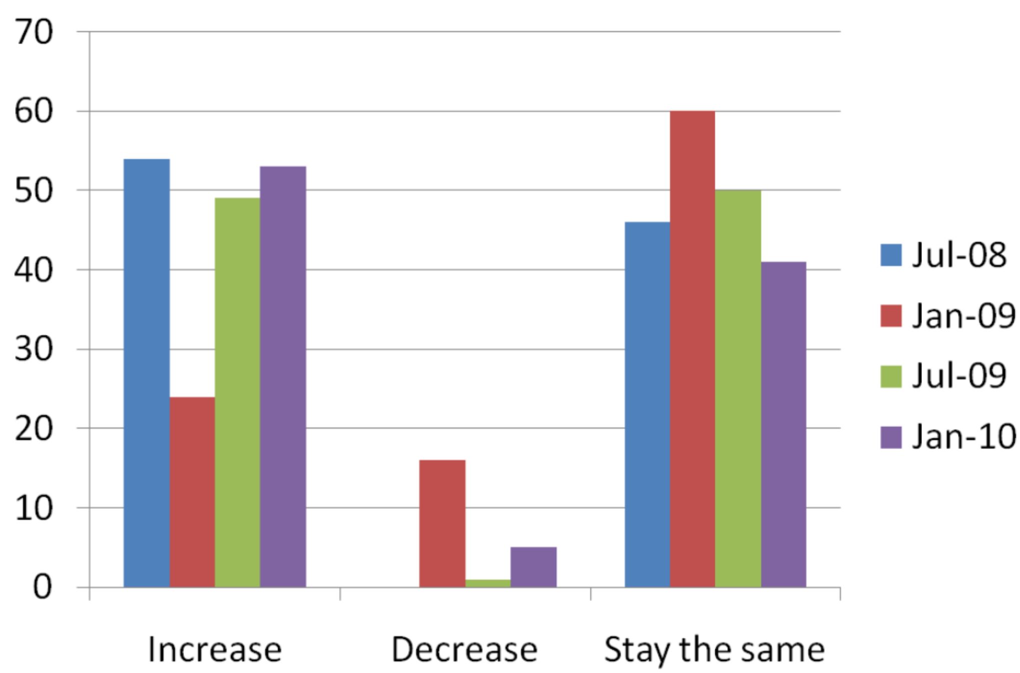
<u>Section 3: Labour and Employment</u>

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

41% of respondents stated that they have increased the number of employees, with only 19% indicating that their headcounts have decreased; this is nearly identical to the previous survey. The remaining 40% indicated that the employment of their individual businesses has remained the same as compared to one year ago.

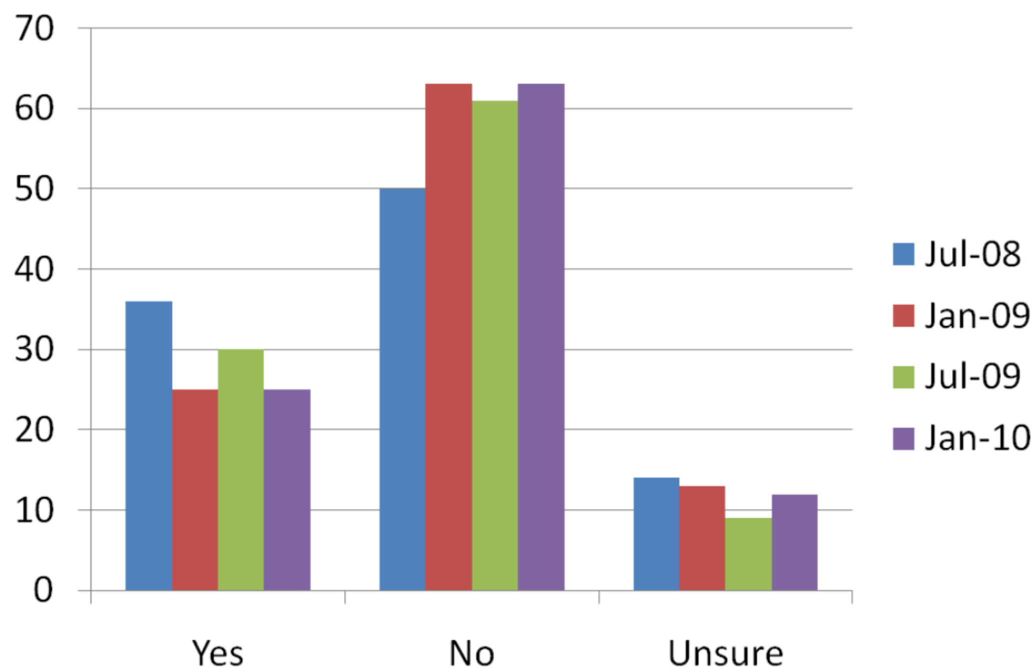


Question 6: Looking forward one year, do you anticipate that the number of persons your company will employ will: increase, decrease, or stay the same?



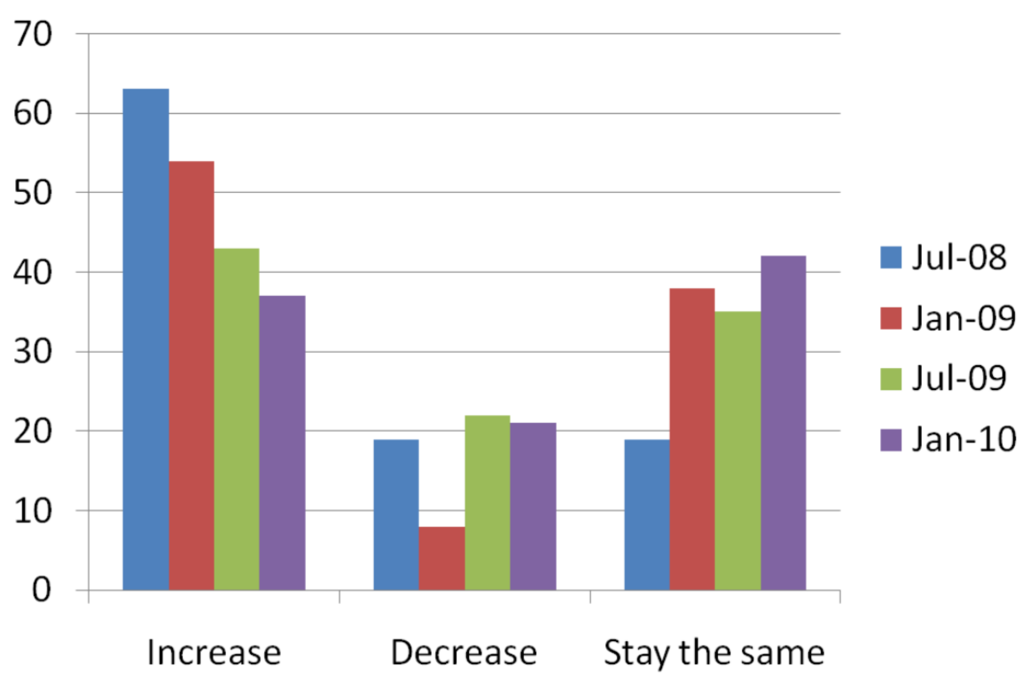
On a forecasting basis, respondents were somewhat bullish, with 53% stating that they anticipated employment growth within their own businesses within a one year timeframe. 41% believed that their employment levels would remain the same to this point in 2011, with a small increase (from 1%) noted in forecasted employment decrease over the next 12 months (now at 5%).

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



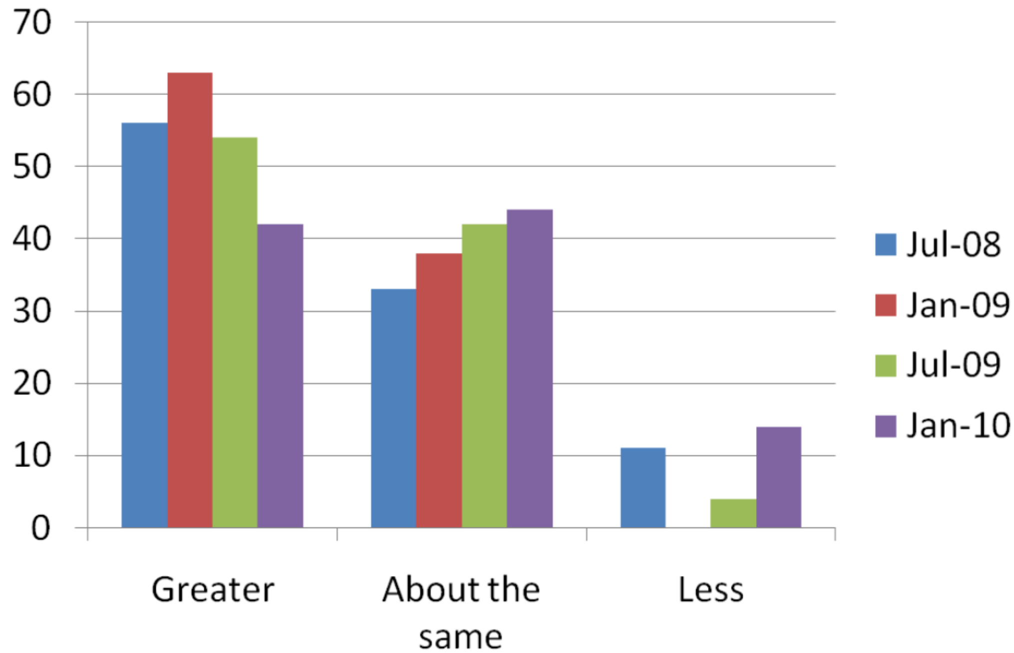
Section 4: Year-to-date

Question 8: Comparing the second half of 2009 to the first half of the year, has your company's overall spending: increased, decreased or stayed the same?



This question asks respondents to compare the most recent half of the year to the half-year preceding it on a rolling basis. 37% 44% of respondents indicated that their spending has increased for the second half of 2009 as compared to the first half of 2009, while 22% of respondents indicated that spending had decreased and 42% noted that spending had 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?

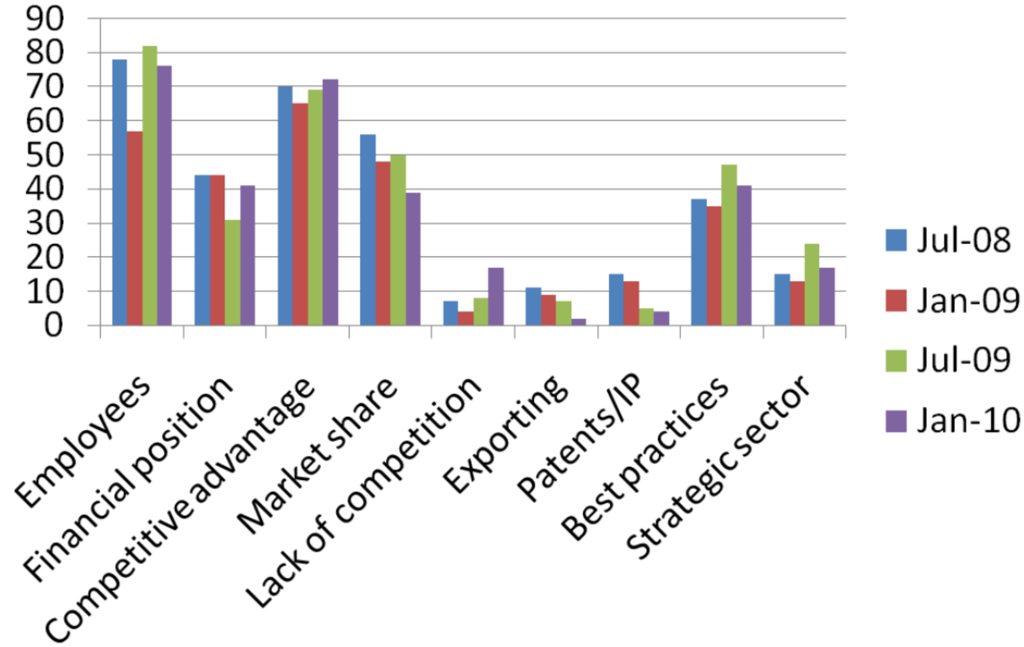


About an equal amount of respondents noted that gross revenues for 2009 compared to 2008 were either greater (42%) or about the same (44%). A significantly higher percentage (14%, up from 4%) noted that gross revenues were less, year-over-year.

Section 5: Enabling Economic Growth

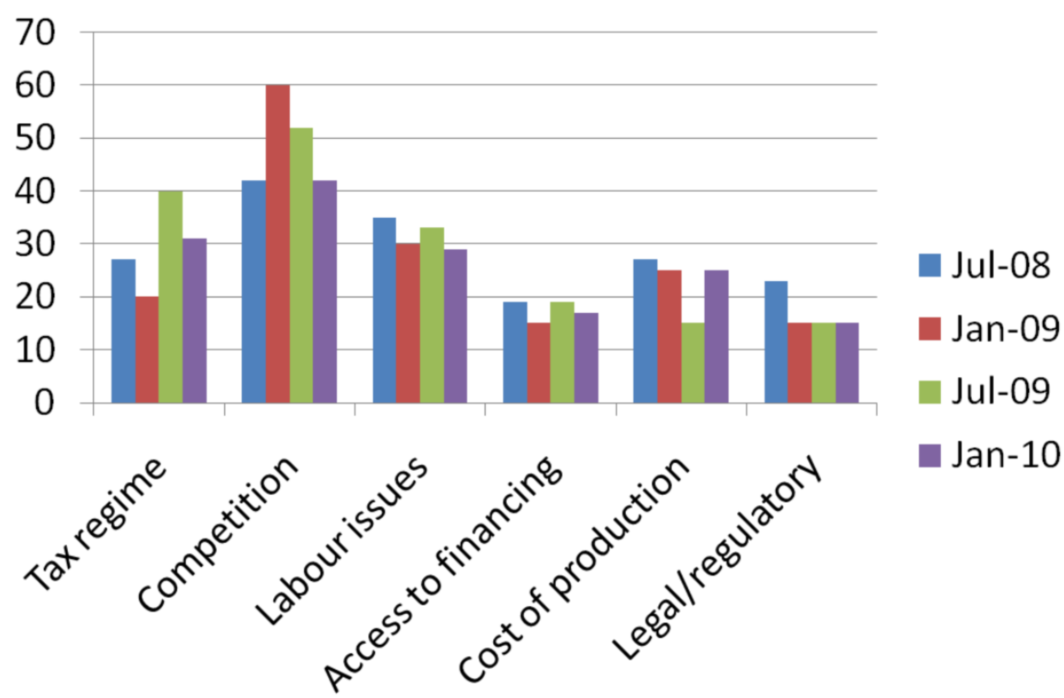
Question 10: In your opinion, what factors enable your own company's economic growth [check all that apply]: employee skills and knowledge, financial position, competitive advantage, market share, lack of competition, export opportunities, patents and other intellectual property, industry best practices, and involvement in strategic sector such as IT?

'Employee skills and knowledge' continued to be the key factor identified as enabling economic growth with just over three-quarters (76%) selecting this factor. This was once again the top response but 'competitive advantage' remains a very close second at 72%. Other significant factors raised included the 'company's financial position' (41%), 'market share' (39%) and 'industry best practices' (41%). There was a drop in attributing success to 'involvement in a strategic sector' (down to 17% from 25%). As has been seen in the past, factors such as 'export opportunities', 'patents and other intellectual property' and 'lack of competition' were not particularly significant factors in an individual company's economic growth.



Question 11: 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?

'Competition' remains the top hindrance to growth though results from this survey were more evenly distributed than in the past. 42% noted 'competition' while 31% said 'taxation regime', 29% said 'labour issues', 25% noted 'cost of factors of production', 17% note that 'access to financing' is an issue, and 'legal/regulatory issues' was seen as a limiting factor for 15% of respondents.

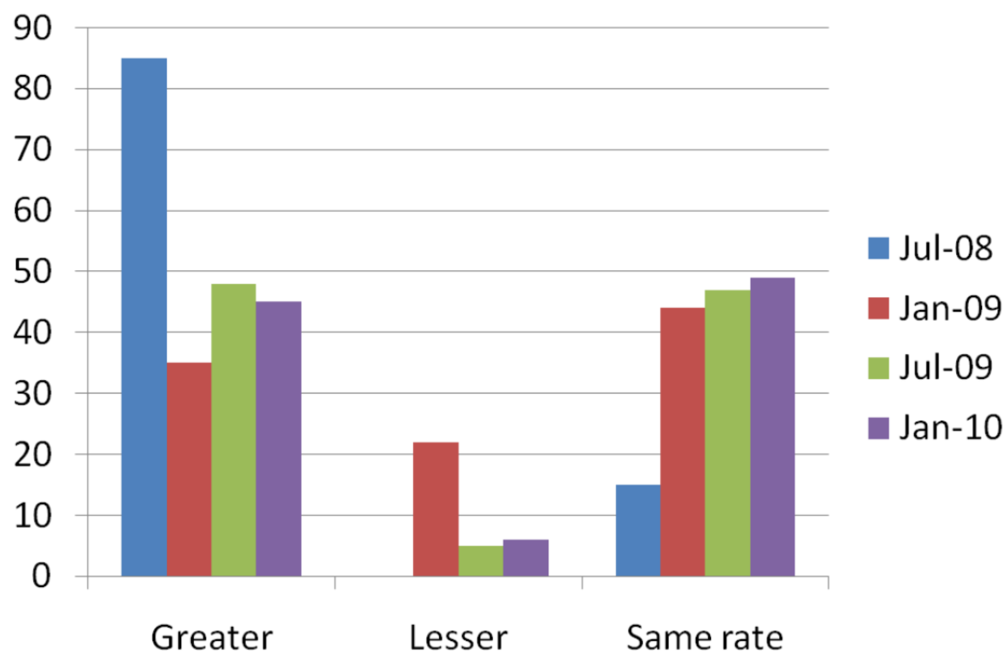


Question 12: In your opinion, what are the most significant issues the province faces related to economic growth?

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 (shortage and skills), transportation (including infrastructure), economic diversification, and taxation/government spending. In the prior survey, these issues were: labour issues (cost and availability), taxation, and managing growth.

Section 6: Forecasting the next year

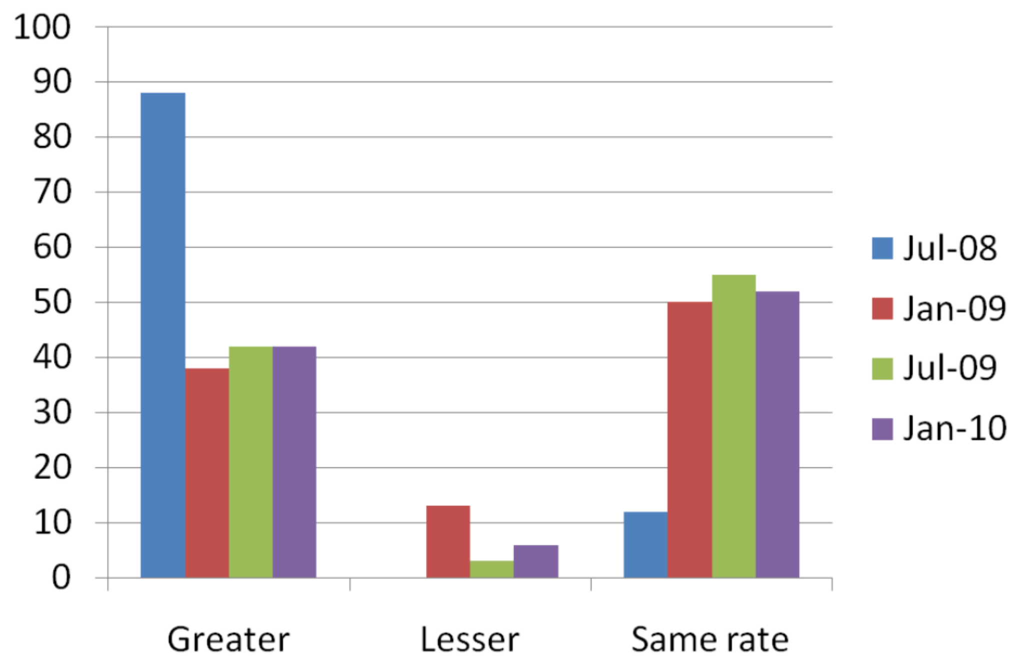
Question 13: In the next 12 months, are prices of products and/or services that you purchase expected to increase at a greater, lesser, or the same rate as over the last year?



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. 45% of respondents suggested that local companies can expect to pay more in the next year, and at a rate of growth higher than the previous year; this is down slightly from 49%. 49% of respondents stated that prices would be stable (up slightly), with 6% expecting a lower price for products and services in the next 12 months.

Question 14: 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?

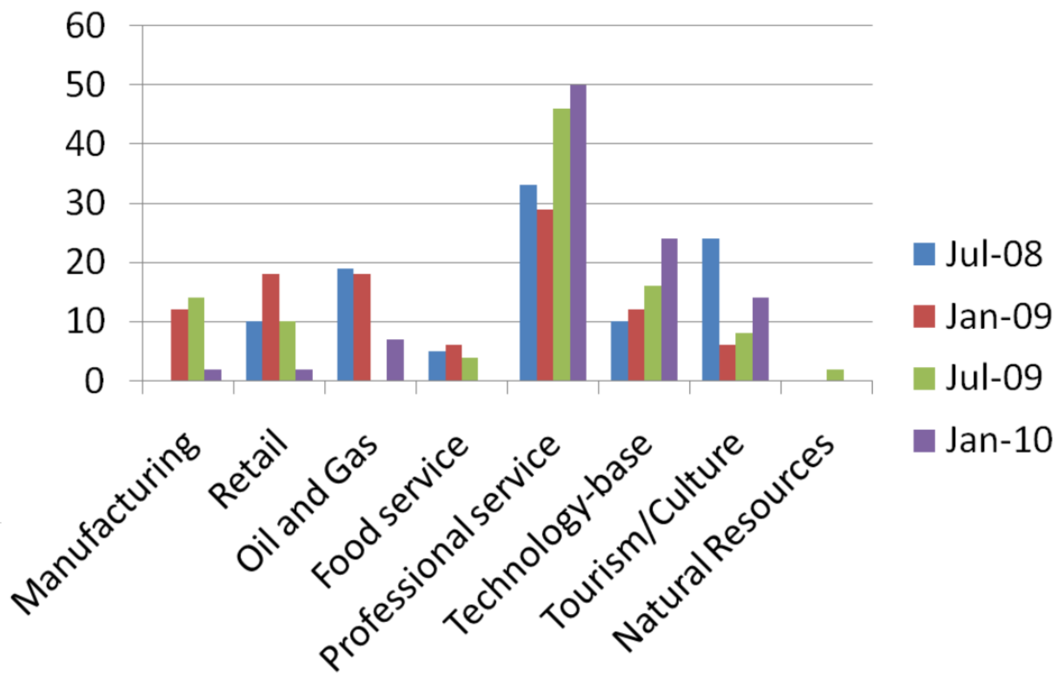
As the corollary question to the purchase price query, respondents were surveyed to determine what selling prices local businesses and consumers could expect over the next year. 42% of respondents indicated that they expect to sell their products or services at an increased price that grows faster than last year, and 52% indicated that prices of the products and services they sell are expected to move at the same rate as last year. However, 6% predicted a lesser rate, a small increase in that response.



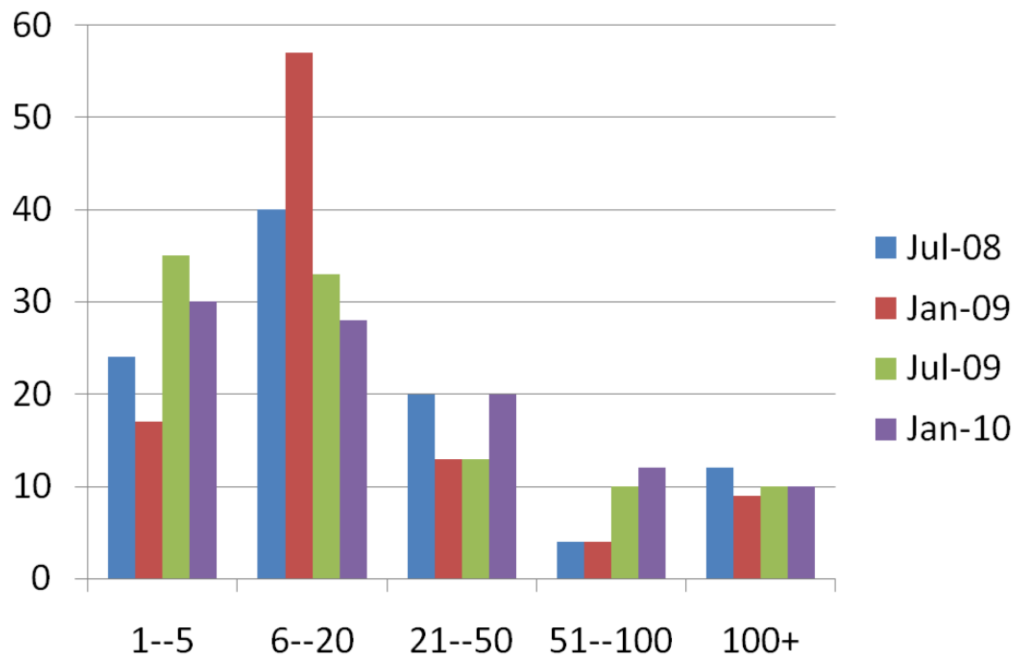
Section 7: Demographics

Question 15: 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]?

50% of respondents operated in the professional services industry; joined with 23% in technology-based enterprise and 14% in tourism and culture, this accounts for the vast majority (87%) of responses. Oil and gas, at 7%, is the other notable component.

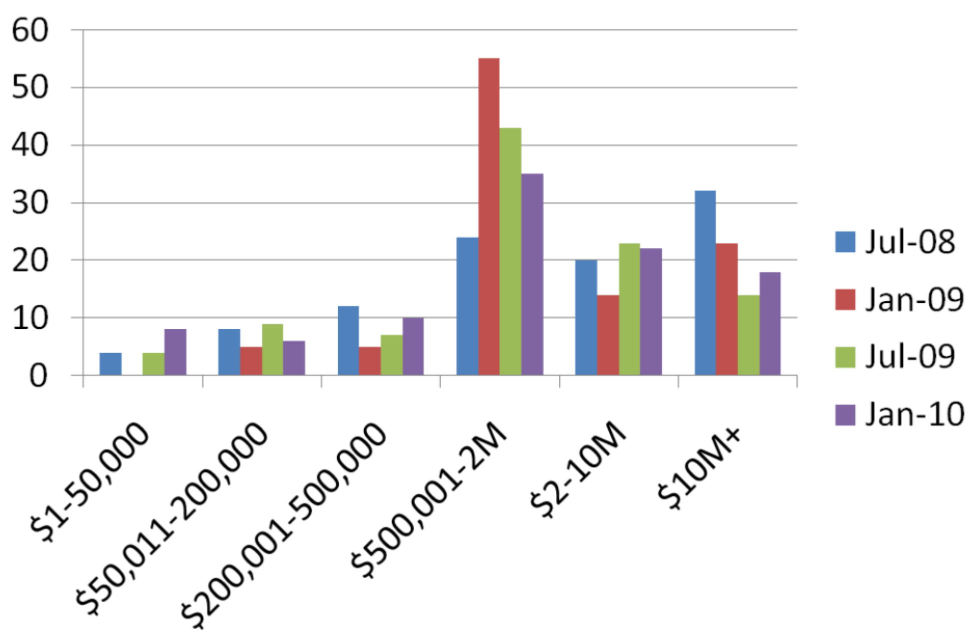


Question 16: How many people does your company employ in the City of St. John's [1-5, 6-20, 21-50, 51-100, 100+]?



The highest percentage of respondents were from companies with 1-5 employees (30%), while companies of 6-20 employees (28%) comprised the next highest demographic. This essentially reflects the demography of Board of Trade membership. Companies of 21-50 employees (20%), 50-100 (12%) and 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 17: What are your company's annual revenues [less than $50K, 50-200K, 200-500K. 500K-2M. 2-10M. 10M+]?



The most frequent response indicated that participants work in companies with annual revenues between $500K and $2 million; one-third of respondents indicated this was the case. 22% indicated revenues between $2 and $10 million, and 18% self-reported annual revenues of greater than $10 million.