

Macro Economic Outlook 2018 - 2022 NOVA SCOTIA



Canmac Economics Ltd.
Strategic Outlook Service
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Section 1 – Nova Scotia’s Economic Drivers

Nova **S**cotia’s economic growth is dependent on its external environment:

- Exports to other countries and to the rest of Canada;
- Fiscal and Monetary Policy

Export Markets

Canmac’s assumptions on the external market growth is based on a review of the Bank of Canada outlooks, Federal Finance and the World Bank. The general consensus is for a strengthening in the world economy with Canada and the U.S. growing above two percent and South East Asia in the six percent range.

Table 1.1 World Economic Outlook, Percent Growth GDP						
	2017	2018	2019	2020	2021	2022
Canada	3.0	2.2	2.1	2.0	2.0	2.0
U.S.	2.3	2.6	2.3	2.3	2.3	2.3
China	6.8	6.4	6.3	6.3	6.3	6.3
World	3.4	3.4	3.0	2.9	2.9	2.9

Source: Canmac Review

There are significant risks to the world economic outlook. The rise in protectionism will limit growth opportunities and create uncertainty. In particular, there is a strong potential that the NAFTA negotiation will not end successfully. The general consensus is that Canada without NAFTA will result in slower growth – but not a catastrophic event. Furthermore, the global economy is full of ‘black swans’ that may show themselves at any moment.

Fiscal and Monetary Policy

The federal government has undertaken a moderately expansive fiscal policy. As noted in the fall 2017 economic statement:

“The Government’s plan to invest in the economy and strengthen the middle class is working. The recent resurgence in gross domestic product (GDP) makes Canada the fastest growing economy in the Group of Seven (G7). The economy has created over 450,000 jobs since late 2015, and the unemployment rate has dropped to its lowest level since 2008. Consumer confidence is up, thanks in part to the Canada Child Benefit (CCB), and growth is forecast to be 3.1 percent in 2017 – significantly above expectations at the beginning of the year.”

Federal expenditures are expected to be above trend for purchases of goods and services, capital investment and transfer payments. However, a stronger economy results in an improvement in the government deficit:

Budget 2017 Balance	-23.0	-28.5	-27.4	-23.4	-21.7
Budget 2017 balance with forecast adjustment (before policy actions)	-17.0	-16.6	-14.0	-10.7	-9.8
Source: Federal Economic Statement Fall, 2017					

Monetary policy is expected to be moderately contractionary over the forecast period leading to higher interest rates. Monetary authorities anticipate the buildup of inflationary pressures given the stronger outlook for the world economy and the federal government’s expansionary mood. In addition, the contractionary policy underway in the U.S. will require the Canadian monetary authorities to match these to some extent to ensure a stable exchange rate.

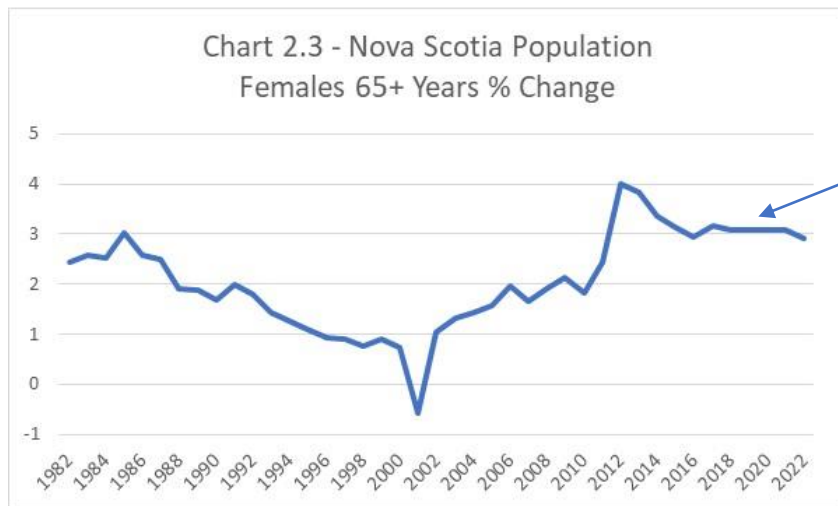
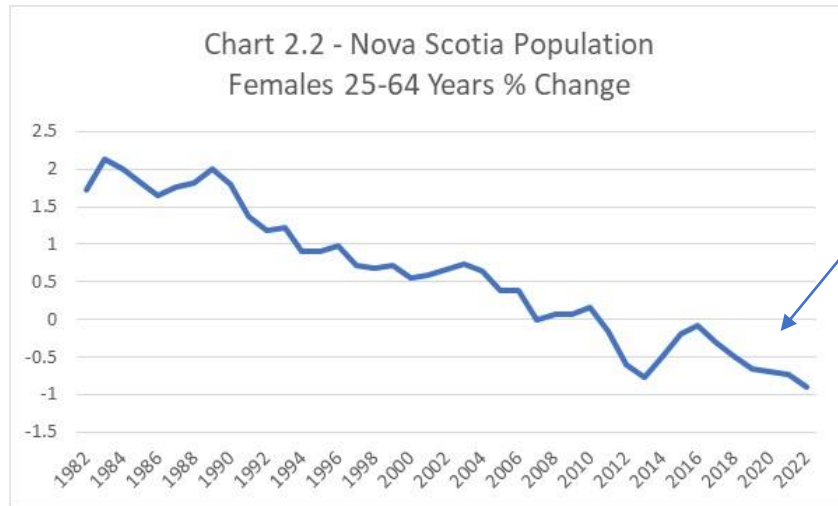
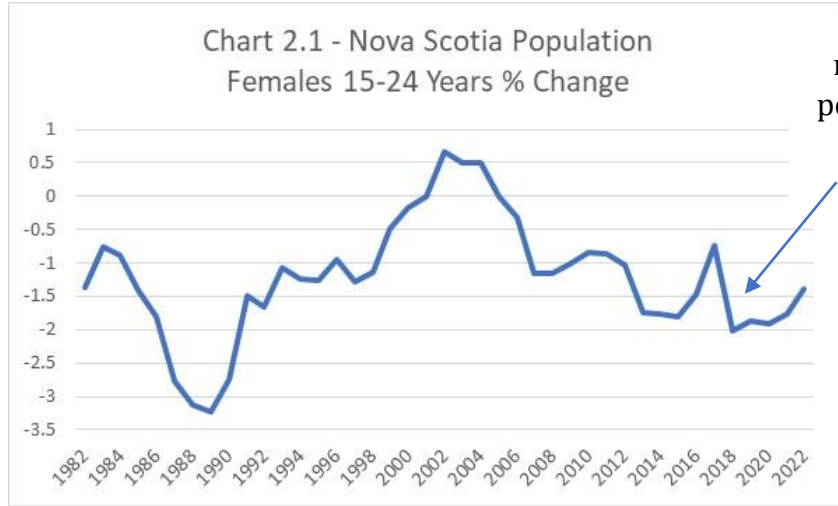
	2016	2017	2018	2019	2020	2021	2022	2017-2021
3-month treasury bill rate	0.5	0.8	1.5	2.0	2.3	2.5	2.7	1.8
10-year government bond rate	1.3	1.8	2.5	2.9	3.1	3.3	3.5	2.7
Exchange rate (US cents/C\$)	75.5	77.8	81.3	81.2	81.4	81.2	82.4	80.6
WTI crude oil price (\$US per barrel)	43	50	53	54	56	59	62	54

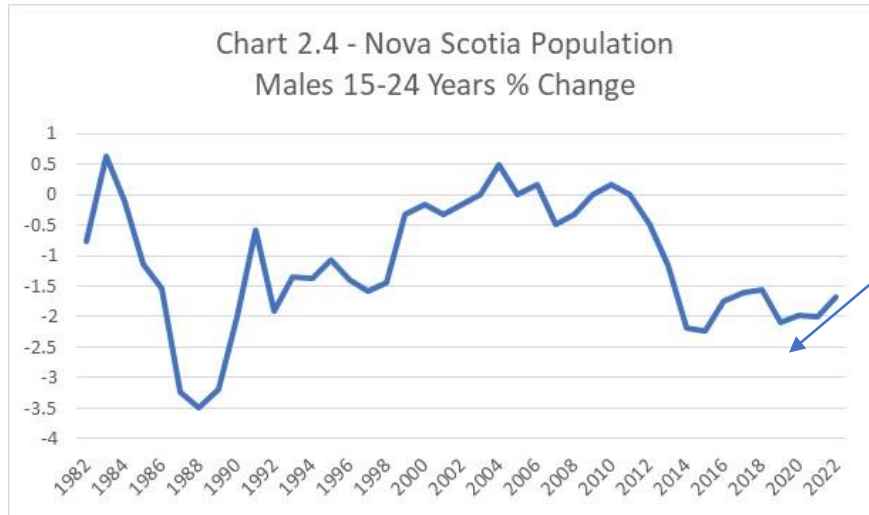
Source: 2017 Fall Economic Statement

Section 2 – Nova Scotia Outlook

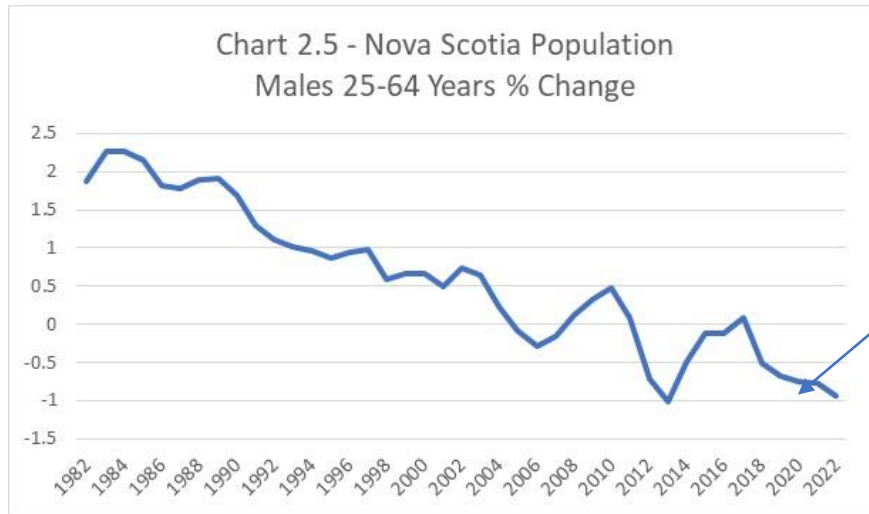
Demographic

Nova Scotia's labour force population experienced a modest increase in 2016 due primarily to an above trend in migration. Over time the forecast is for continued slow growth with the population greater than 65 experiencing the largest growth. The entry level population (15-24) will exhibit continued modest declines. (See charts 2.1 to 2.6)

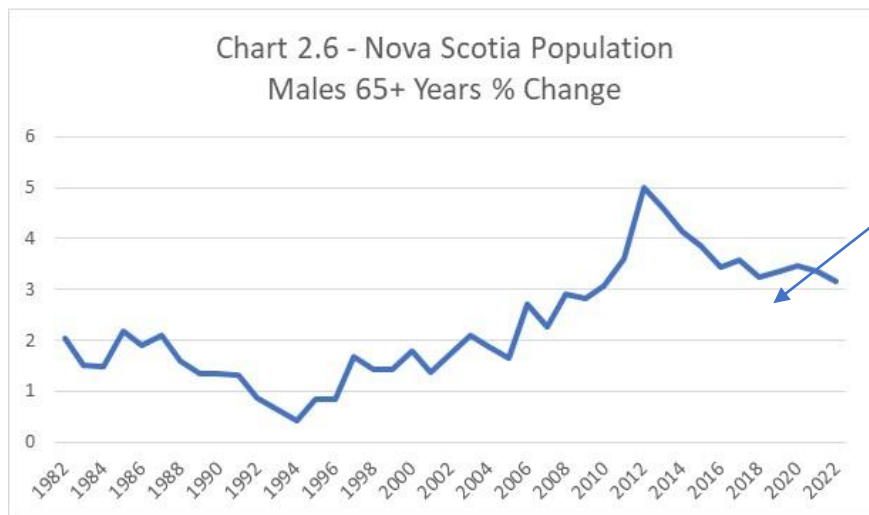




negative population growth



negative population growth



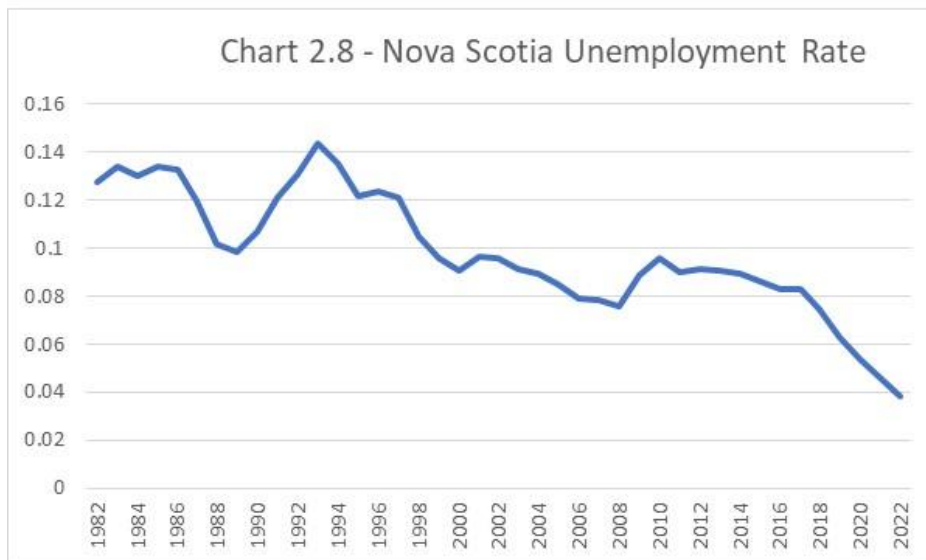
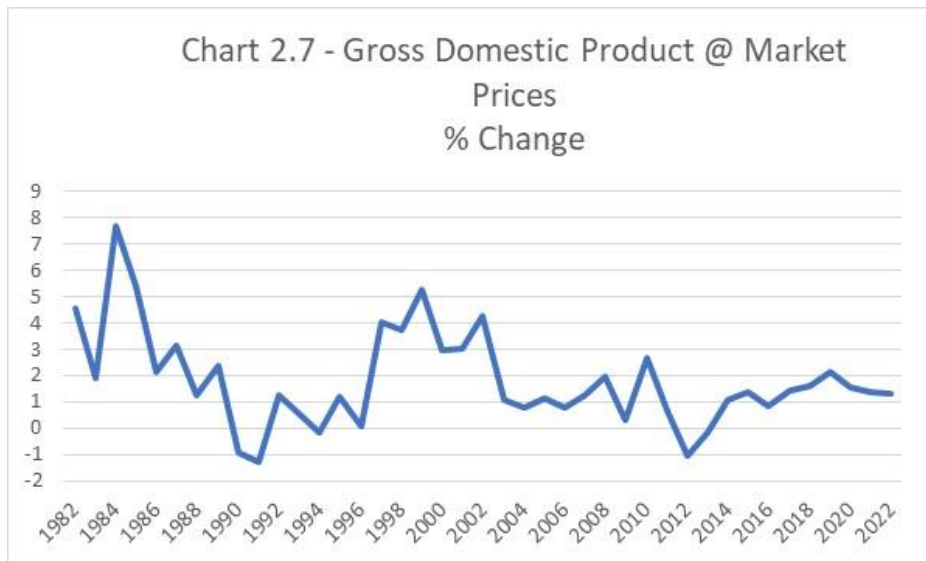
positive population growth

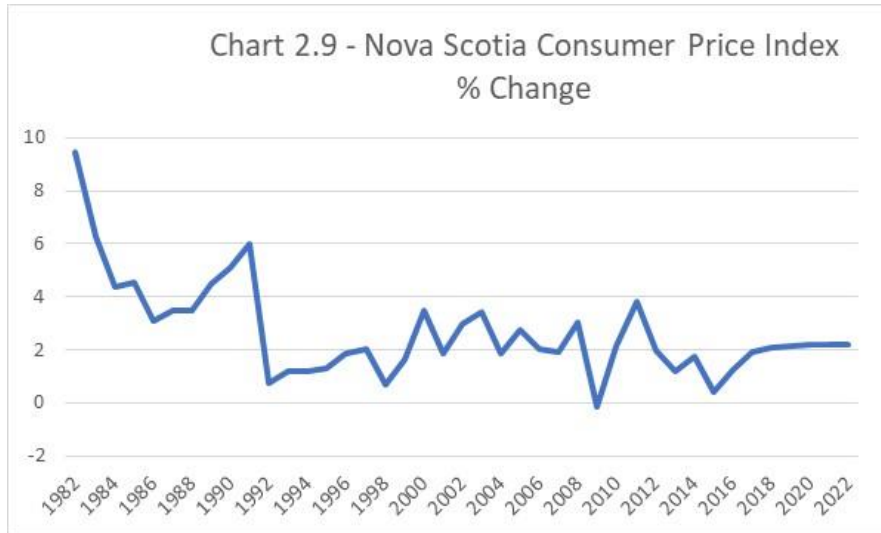
Macro Indicators

Over the next five years we expect the Nova Scotia economy to grow an average of 1.6% which is near the historic 1981 – 2016 average of 1.8. Labour force growth which is driven largely by population growth will continue to show modest growth of 0.27%. The slow growth in GDP will result in a slow growth in employment demand. However, the slower growth in the labour force will see unemployment rates decrease to 3.8% by 2022. Inflation rates will average 2.2% over the forecast period, kept under control by a

contracting
monetary

policy.

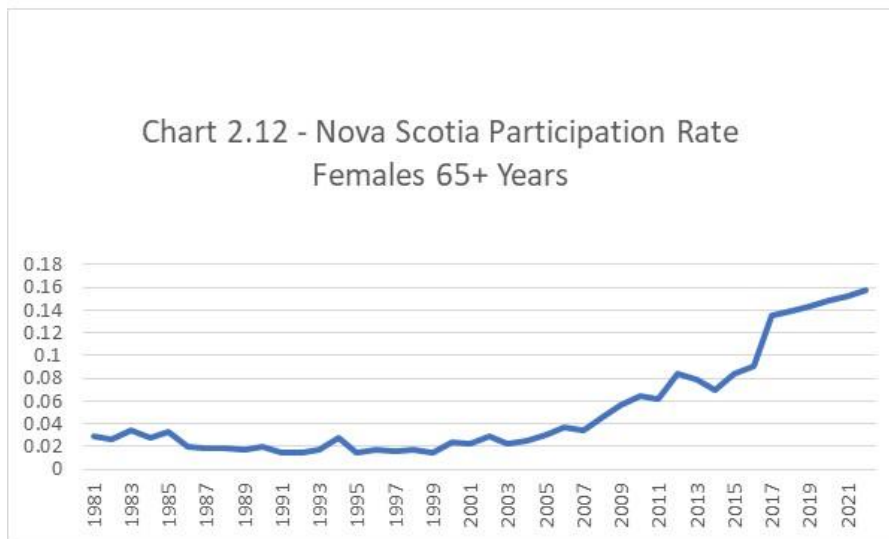
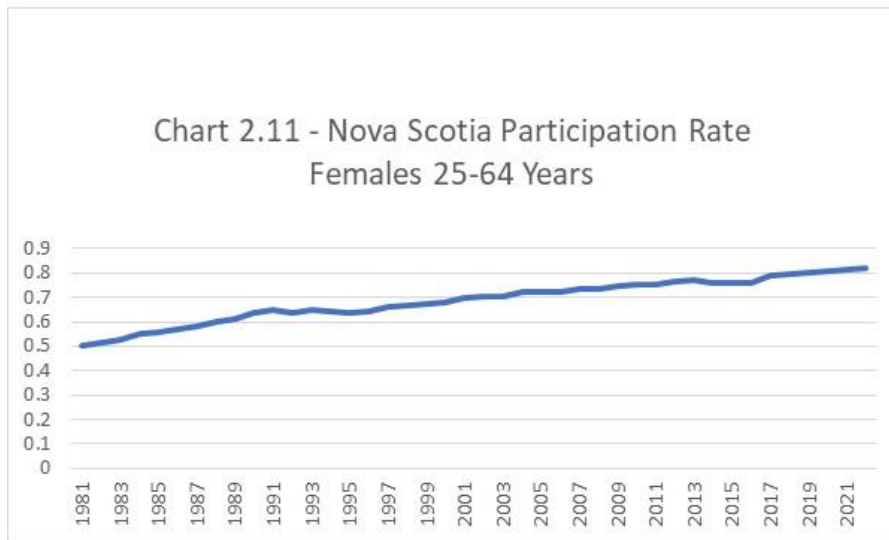
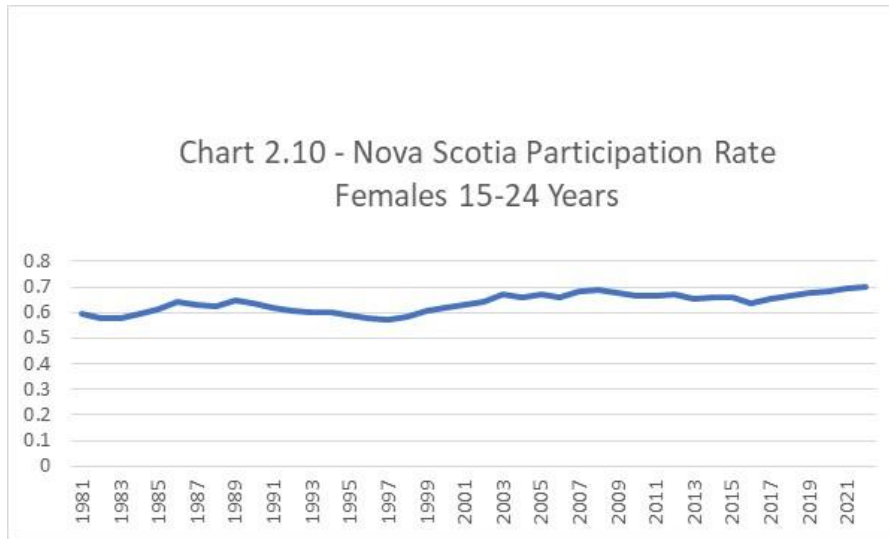


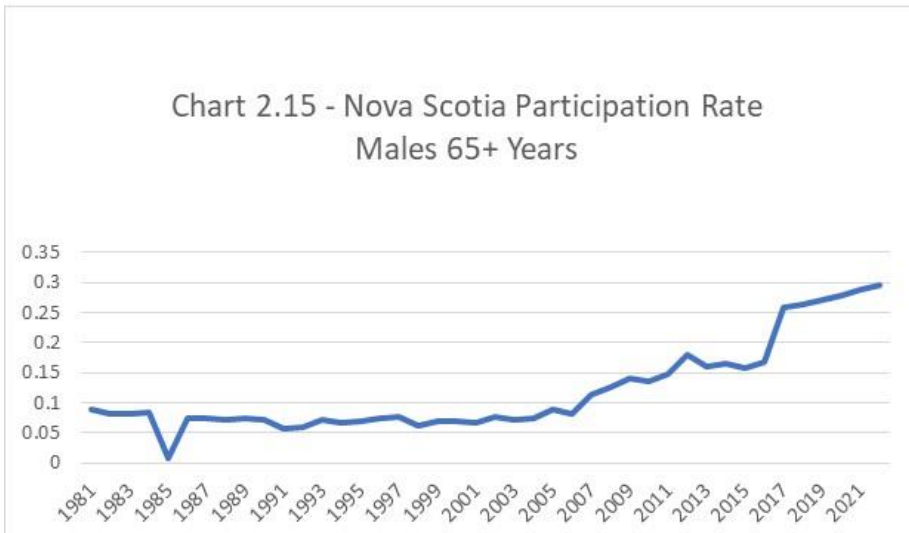
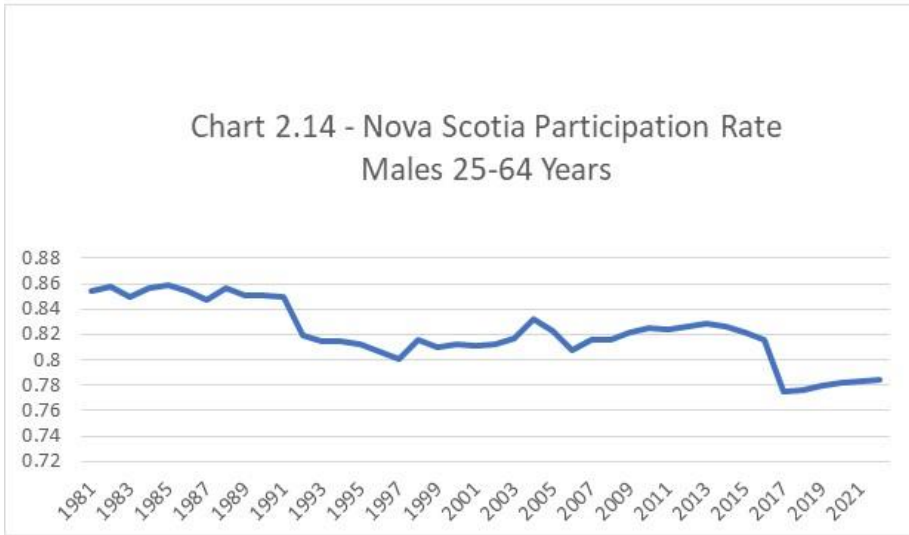
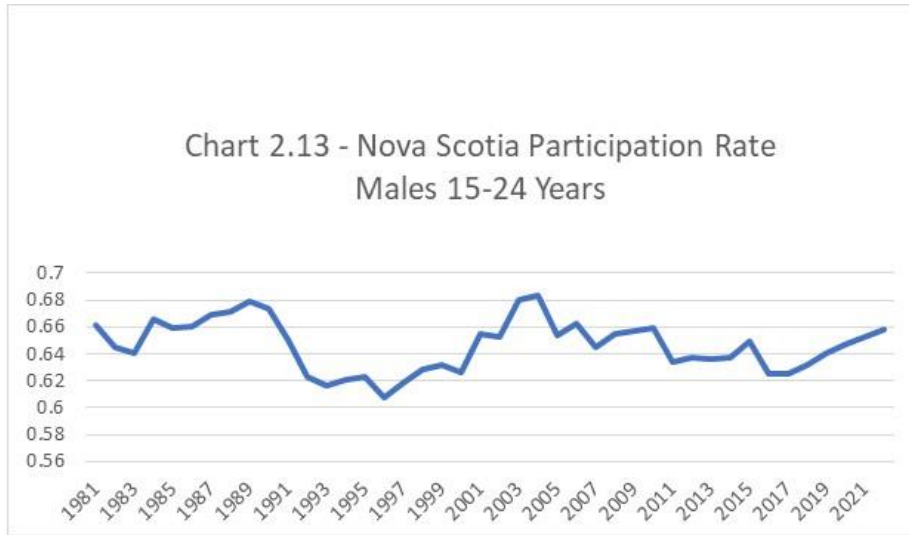


Household Sector

The household sector makes up about 72% of gross domestic product expenditures. The weak growth in employment demand coupled with wage rates constrained by weak employment demand implies household income will grow slowly from earned income. However, the increase in retirees will fuel an increase in income transfer payments so that household income will grow at an average rate of 3.36% over the forecast period. Accordingly, household consumption will grow by 1.64% on average over 2018 – 2022.

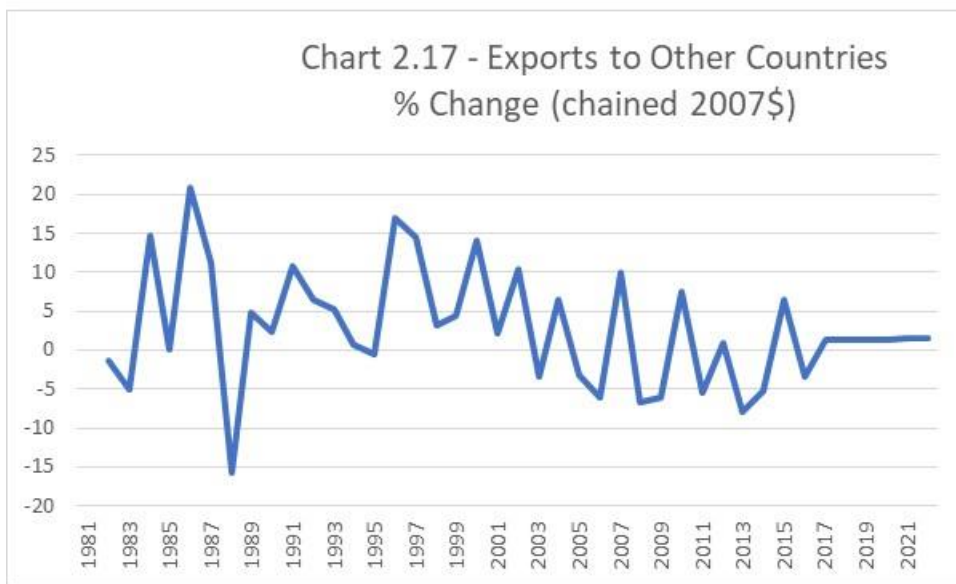
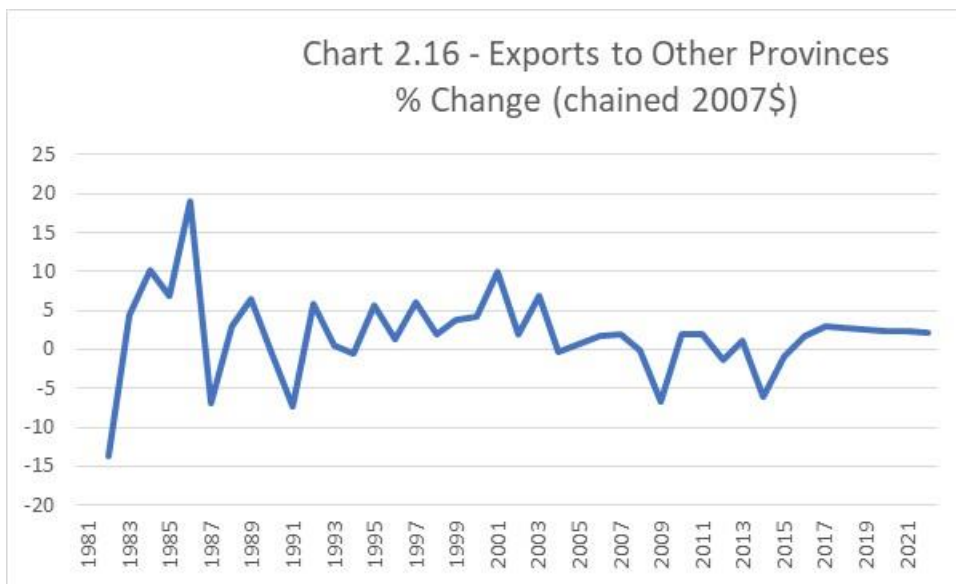
Household participation rates are expected to decline or show marginal growth for the primary workforce. The 65+ participation rates will continue to grow as retirees' compliment retirement income with earned income.





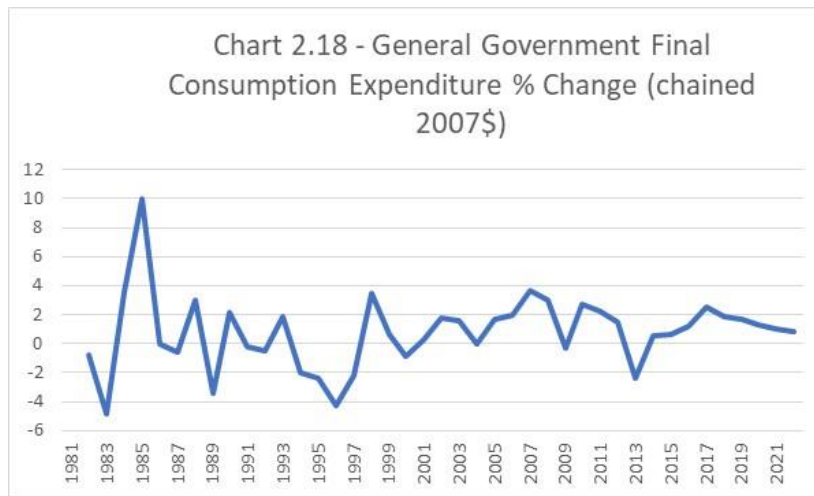
Exports

With a strengthening in growth of Nova Scotia’s trading partners, Nova Scotia’s exports will provide above average growth. Total exports are expected to average 1.94% over the forecast period.



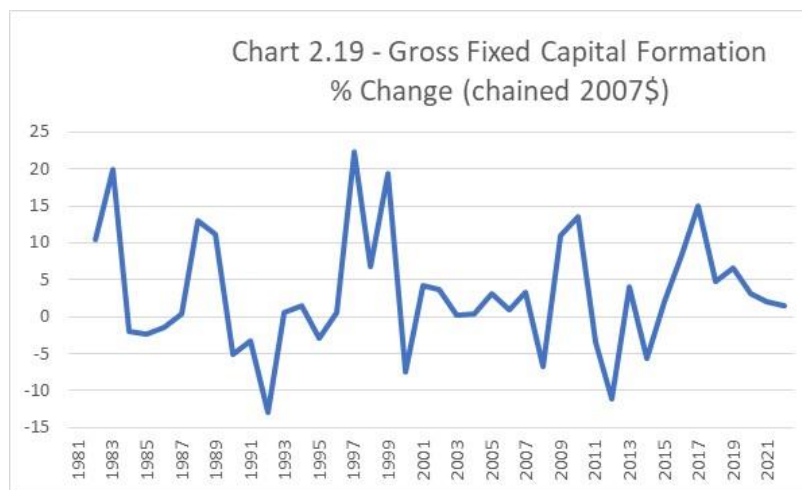
Government Goods and Services

The growth in household income fuels growth in government services and hence purchases of goods and services. With an expansionary fiscal policy, total government goods and services are expected to average 1.3%.



Total Investment

Investment expenditures are expected to increase due to government’s proposed increase in infrastructure and to slow due to the completion of several large private sector projects such as the \$400 million Nova Centre Office/Convention Complex. On balance, we expect an average investment growth rate of 3.6% over the period.



Conclusion

Nova Scotia's recent economic performance and Canmac's base cast forecast should be of concern to policy stakeholders. Over the period 1982 – 2016 Nova Scotia's real GDP grew by 1.87% on average per year. Since 2011, the Nova Scotia economy has grown below average – despite the award of the \$30 billion plus shipbuilding contract to Irving Shipyard! The base case projection continues with a below average growth scenario based on Canmac's econometric model. Furthermore, Canmac's base case is premised on an expansionary fiscal policy of above average government expenditures and investment, i.e. not strong private sector growth. It is time government policy makers started to explore the structural reasons why the Nova Scotia economy is performing so badly!

Appendix A – Forecast Tables

	2016	2017	2018	2019	2020	2021	2022
Gross Domestic Product at Market Price	36,654	37,183	37,790	38,598	39,202	39,751	40,268
Total Labour Force	486.6	490.8	492.5	494.3	495.5	496.7	497.6
Total Employment	446.3	450.2	455.7	463.3	468.8	473.9	478.7
Unemployment rate	0.083	0.083	0.075	0.063	0.054	0.046	0.038
Household Final Consumption Expenditure	26,156	26,511	26,917	27,364	27,826	28,295	28,766
Total Exports	13,051	13,337	13,618	13,885	14,150	14,415	14,682
General Governments Final Consumption Expenditure	11,510	11,797	12,021	12,222	12,383	12,512	12,613
Gross Fixed Capital Formation	7,648	8,795	9,212	9,819	10,128	10,331	10,487
Household Disposable Income	27,054	27,802	28,703	29,783	30,777	31,779	32,797
Consumer Price Index	130.9	133.4	136.2	139.1	142.1	145.2	148.5

Source: Canmac Econometric Model Base Case NSMACRO Update 2018

	2016	2017	2018	2019	2020	2021	2022
Gross Domestic Product at Market Price	0.82	1.44	1.63	2.14	1.57	1.40	1.30
Total Labour Force	-0.73	0.86	0.34	0.36	0.25	0.24	0.18
Total Employment	-0.40	0.88	1.21	1.66	1.19	1.08	1.01
Unemployment rate	-3.6	-0.2	-9.7	-16.0	-14.0	-14.7	-17.3
Household Final Consumption Expenditure	1.34	1.36	1.53	1.66	1.69	1.68	1.66
Total Exports	-0.78	2.19	2.11	1.96	1.91	1.87	1.85
General Governments Final Consumption Expenditure	1.22	2.49	1.90	1.67	1.32	1.04	0.81
Gross Fixed Capital Formation	8.5	15.0	4.7	6.6	3.1	2.0	1.5
Household Disposable Income	3.08	2.76	3.24	3.76	3.34	3.26	3.20
Consumer Price Index	1.24	1.93	2.06	2.14	2.18	2.20	2.22

Source: Canmac Econometric Model Base Case NSMACRO Update 2018