

ECONOMIC OUTLOOK 2018

ST. JOHN'S CENSUS METROPOLITAN AREA JULY 2018



OUTLOOK FOR 2018

Economic activity in the St. John's Census Metropolitan Area (CMA) in 2018 is expected to be relatively unchanged from 2017. Real GDP is forecast to grow by 0.7%, largely due to oil production gains. Capital investment is expected to continue to decline as the Hebron project has been completed. However, the start of construction on Husky's wellhead platform should offset this somewhat. In addition, provincial government deficit reduction measures are expected to curtail expenditures in the public sector.

Real GDP excluding the oil sector is expected to decline by 0.2% bogged down by the declining construction investment. Employment is expected to decline 1.3% in line with decreasing major project investment. The labour force is also expected to decline by 1.9% as people exit the labour market. Since the labour force declines are expected to be larger than that of employment, the unemployment rate is expected to decrease by 0.5 percentage points.

Household income is expected to grow by 0.1% as wage gains just barely offset the employment declines. As a result, retail trade is expected to be subdued, growing by only 0.4%. Housing starts are expected to rise slightly to 765 units.

Despite the slowdown in the local economy, the St. John's CMA population should continue to benefit from historically high levels of international migration. The population of the St. John's CMA is expected to continue

to grow in 2018 to 220,500 persons, an increase of 0.6% compared to 2017.

2017 PERFORMANCE

ECONOMY

Economic performance in the St. John's CMA was mixed in 2017. Real gross domestic product (GDP) is estimated to have grown by 2.8% due to oil production gains, but most other indicators, in particular the labour markets, were weak. Offshore oil production increased to 80.6 million barrels from 76.7 in 2017. Construction activity declined as the Hebron oil development was completed. Real GDP excluding the oil sector grew by 0.1%.

LABOUR MARKET

Employment in the St. John's CMA declined by 5.6% to 109,900 in 2017 in line with the overall declines experienced by the province as a whole. Goods sector employment declined 9.7% while services sector employment decreased by 4.6%. The labour force declined by 5.0% to 120,000 and since labour force declines were smaller than that of employment, the unemployment rate increased by 0.6 percentage points to 8.4%. Among all the 33 CMAs in Canada, only Calgary had a higher unemployment rate than that of the St. John's CMA in 2017.

HOUSEHOLD INCOME, RETAIL SALES & HOUSING STARTS

Household income increased by 1.2% in 2017 to \$11.1 billion, the lowest rate of growth in this indicator since 1997. The slow growth in household income was largely reflective of the employment declines which more than offset wage growth. Retail trade performed comparatively better, growing by 2.4% despite the weak income growth. Activity in the residential sector softened with housing starts falling by 8.4% to 763 units due to lower single detached starts. Canadian Real Estate Association MLS® data indicates that housing sales and average sales prices in the CMA fell by 17.0% and 1.2% per cent respectively in 2017.

POPULATION

The population of the St. John's CMA was estimated to be 219,207 as of July 1, 2017, a 0.7% increase from the previous year. Gains resulted from natural population growth (more births than deaths) and net in-migration to the region.

ECONOMIC INDICATORS ST. JOHN'S CENSUS METROPOLITAN AREA

	2017e	2018f	% Change
Real GDP (2007\$M)	13,737	13,834	0.7
Employment (000s)	109.9	108.4	-1.3
Labour Force (000s)	120.0	117.7	-1.9
Unemployment Rate	8.4%	7.9%	-0.5 ppts
Participation Rate	65.1%	63.3%	-1.8 ppts
Household Income (\$M)	11,080	11,095	0.1
Retail Trade (\$M)	4,047	4,064	0.4
Housing Starts	763	765	0.3
CPI (2002=100)	135.3	137.7	1.8
Population (000s)	219.2	220.5	0.6

Source: Source: Statistics Canada; Economic and Project Analysis Division, Department of Finance, Government of Newfoundland and Labrador. e: estimate; f: forecast

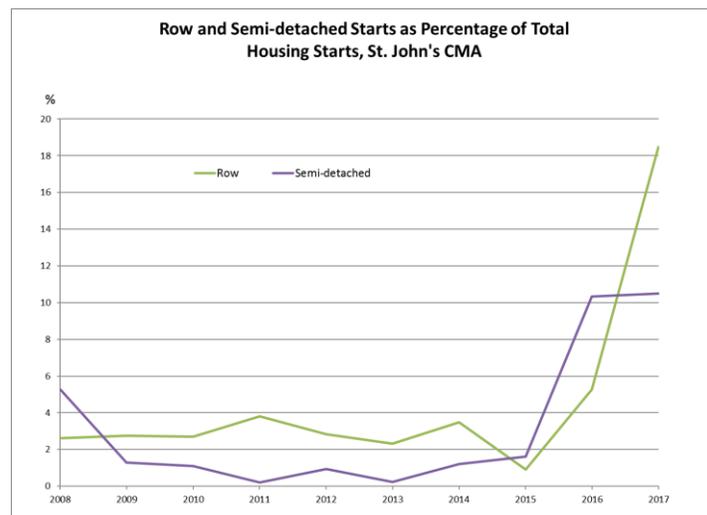
REAL ESTATE MARKET ST. JOHN'S CMA

HOUSING MARKET ACTIVITY

The St. John's area housing market experienced significant growth from 2007 to 2014 with housing demand driven by increased in-migration, strong income growth and a robust labour market. Housing starts and house prices were also driven higher by speculative home building which led to an increase in the number of detached homes with basement apartments and the emergence of luxury home construction in the \$500,000 to \$1,000,000 range.

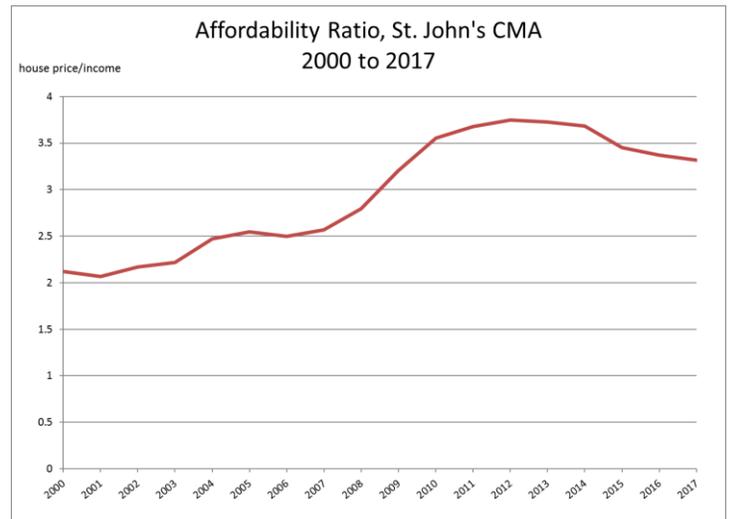
The decline in oil prices in mid-2014 and the subsequent economic downturn has had a negative impact on housing market activity, resulting in lower new home starts, lower existing home sales and lower house prices. From a recent peak of 2,153 in 2012, housing starts in the St. John's CMA have fallen steadily reaching 763 starts in 2017, the lowest number of starts since 1998. The average residential sales price has also fallen in recent years from a high of \$324,941 in 2014 to \$303,713 in 2017. This decline in average sale price is partly due to a decline in the average resale price of existing homes and

partly due to the changing composition of the new home market, from larger single-detached homes to more affordable semi-detached and row houses. The number of row and semi-detached starts has risen dramatically since 2015, with semi-detached starts representing over 10% of total starts in 2016 and 2017, and the number of row starts in 2017 representing 18.5% of the overall number of starts (see chart, below)



HOUSING MARKET AFFORDABILITY

A common measure of how affordable homes are for buyers is the affordability ratio, which equals the average price of a home divided by the average household income. The affordability ratio for St. John's increased from 2.12 in 2000 (indicating that the average house price is approximately twice the average family income) to a high of 3.75 in 2012. Since 2012, the index has fallen to 3.32, indicating that homes have become more affordable. The increased supply of homes for sale has led to a buyer's market which has driven down the price of existing homes, and the supply of more affordable row and semi-detached homes has increased as homebuilders have targeted the preferences of first-time home buyers, millennials and people looking to downsize.



Prepared by the Government of Newfoundland and Labrador (Economic and Project Analysis Division, Department of Finance) and the City of St. John's (Economic Development, Culture and Partnerships Division, Department of Community Services).

ST. JOHN'S

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