



# The **Economic Review 2010**

  
Newfoundland  
Labrador



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(Dept. of Finance)



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# Global Economic Environment

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## The World

The global economy rebounded in 2010 with most major economies showing positive growth in Gross Domestic Product (GDP). This followed one of the worst recessions in decades. The recovery, however, was dampened by sluggish job growth in many advanced economies and financial market uncertainty created by sovereign debt problems in some European countries.

The recovery initially started with growth in most economies accelerating in the last half of 2009 and early 2010. However, the pace slowed in subsequent quarters as an initial boost from government spending and business inventory rebuilding, following the recession, waned.

The slowdown was further exacerbated last spring by sovereign debt concerns in Europe which resulted in special funding support for Greece (US\$145 billion) and a further US\$1 trillion in emergency funds earmarked for other potentially troubled European Union countries. Recently, Ireland has emerged as the latest country requiring assistance to support a troubled financial sector. Concerns over debt levels in Spain, Portugal and Italy are also contributing to economic uneasiness.

Despite the uncertainty in many advanced economies, global economic growth continues. The Asia-Pacific region is driving the global recovery with countries such as China and India contributing disproportionately to global growth (see chart). The Asia-Pacific region and Latin America are fuelling commodity demand and, as a result, major commodity producing countries like Canada and Australia have performed better than most other advanced countries. Commodity prices have been

## GDP Growth (%)

	2010f	2011f
<b>World</b>	<b>4.8</b>	<b>4.2</b>
China	10.5	9.6
India	9.7	8.4
Brazil	7.5	4.1
Russia	4.0	4.3
Germany	3.3	2.0
<b>Canada</b>	<b>3.1</b>	<b>2.4</b>
Australia	3.0	3.5
Japan	2.8	1.5
<b>United States</b>	<b>2.7</b>	<b>2.5</b>
United Kingdom	1.7	2.0
France	1.6	1.6
Italy	1.0	1.0
Spain	-0.3	0.7

f: forecast  
 Source: Canada - Survey of Major Canadian Banks; U.S. - Survey of Professional Forecasters, U.S. Federal Reserve Bank of Philadelphia; all other jurisdictions - International Monetary Fund, October 2010.

stronger throughout most of 2010—the Bank of Canada’s commodity price index and Brent oil prices increased 24% and 30%, respectively, in the first 11 months compared to the same period in 2009. Also, mid-summer fears of a possible economic slowdown in China have been calmed by 10.2% annualized growth in the second quarter. The International Monetary Fund (IMF) is projecting 4.8% global GDP growth for 2010 and 4.2% for 2011.

## United States

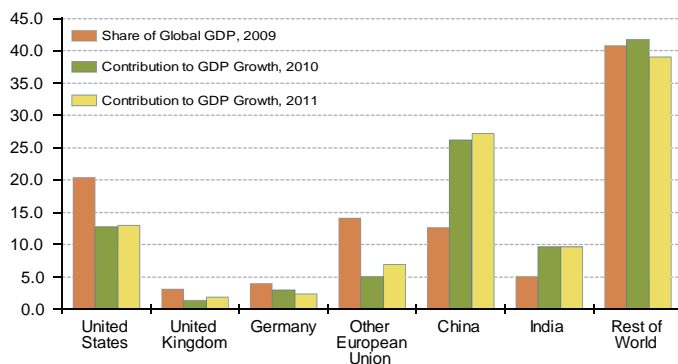
Growth in the United States economy, the world’s largest economy, lost momentum after the first few months of this year. GDP growth slowed from 3.7% in the first quarter to 1.7% and 2.5% in the second and third quarters respectively, and the unemployment rate, at 9.6% in October, remained stubbornly high. The recovery in the labour market has been lackluster and the economy has only regained about one-fifth of the jobs lost during the recession. The U.S. housing market continues to demonstrate weakness with housing starts at historically low levels.

As a result of the slow pace of recovery, the U.S. Federal Reserve pledged on November 3, 2010 to embark on a second round of quantitative easing (known as QE2), involving the purchase of US\$600 billion of long-term U.S. Government debt over the next seven months. This strategy was also previously used to counter the immediate effects of the financial crisis in 2009. QE2 is intended to lower longer-term borrowing costs and the value of the U.S. dollar, thereby strengthening exports and investment, and creating employment. The latest Survey of Professional Forecasters from the Federal Reserve Board of Philadelphia predicts GDP growth of 2.7% in 2010 and 2.5% in 2011.

## Canada

Canada escaped the severest effects of the 2009 recession and in 2010 experienced a modest economic recovery. GDP growth, at annualized rates, was a robust 5.6% in the first quarter of 2010 and 2.3% in the second quarter before slowing to 1.0% in the third quarter. The economy has been bolstered by increased global demand for commodities, strong growth in residential construction and a rebound in key manufacturing industries. All provinces are expected to record an annual increase in GDP in 2010 and most provinces have posted employment increases in the first 10 months of the year.

## Share of Global GDP and Contribution to Growth



Source: International Monetary Fund

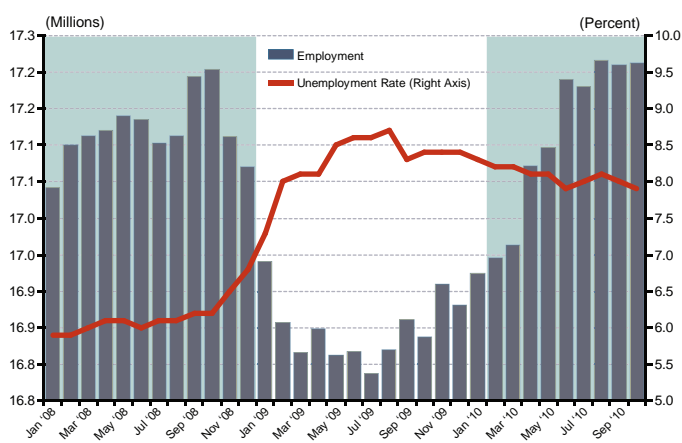
Employment has fully recovered the 400,000 jobs lost during the recession (see chart), however, the decline in the unemployment rate has been slow as the labour force has grown almost in tandem with employment. The unemployment rate has fallen 0.4 percentage points since January this year, sitting at 7.9% in October.

The continued strength of the Canadian recovery will be impacted by international events. The U.S. is Canada's largest trading partner and therefore the slow recovery in the U.S. is a concern. In addition to dampened demand from the U.S., a strengthening Canadian dollar will continue to challenge exporters. The U.S. Federal Reserve's second round of quantitative easing will likely lead to a further appreciation of the Canadian dollar. The Canadian dollar has been relatively strong throughout 2010 and, on a number of occasions, has been close to parity with the U.S. currency. In November the dollar averaged 98.7 cents US. The Bank of Canada is predicting modest growth for the Canadian economy throughout the remainder of 2010 and into 2011 as household and government spending growth slows, and the strong dollar continues to restrain exports.

Nevertheless, with strong growth in emerging market economies, commodity markets are expected to remain solid and this will benefit commodity producing regions of Canada such as Alberta and Newfoundland and Labrador.

Growth expectations by the major banks suggest that Canadian GDP is expected to grow by 3.1% in 2010 and 2.4% in 2011. Growth across the provinces in 2010 is expected to range from 2.2% in Nova Scotia and Manitoba to 3.9% in Newfoundland and Labrador. This province is expected to be among the leaders in growth again in 2011. GDP growth in 2011 is expected to range from 1.7% in Nova Scotia to 3.7% in Saskatchewan. Growth of 2.9% is projected for Newfoundland and Labrador.

## Employment and Unemployment Rate Canada



Source: Statistics Canada

# Provincial Economic Overview

*Long-term care home and protective care residences, Corner Brook (Dept. of Finance)*



Economic growth resumed in Newfoundland and Labrador this year after enduring the impacts of the global recession in 2009. Both GDP and employment are expected to post strong gains in 2010.

Real GDP, as forecast by the Department of Finance, is expected to expand by 5.4%, primarily due to higher investment spending related to major project development and increased mineral and oil production. Growth in Newfoundland and Labrador is projected to be the highest in the country in 2010.

A rebound in exports from depressed levels in 2009—partly related to the recession—is contributing to overall growth in GDP this year. Oil production, during the calendar year, is expected to be up 5.1 million barrels due to production from the AA Blocks at Hibernia and the start-up of the North Amethyst field. Mineral production has increased due to improved market conditions and, consequently, higher output from most mines in the province. Service exports benefitted from a good tourism year. Fish products performed reasonably well, however, newsprint was down due to the closure of the Grand Falls–Windsor mill in 2009. Overall, real exports are expected to increase by 4.5% this year.

Higher levels of consumer spending also contributed to economic growth this year. Retail sales increased by 4.0% in the first nine months of 2010 compared to the same period of 2009, fuelled largely by higher spending on motor vehicles. The number of new cars sold in the province was up 9.4% to the end of September. Continued high levels of consumer confidence—the highest in Atlantic Canada—combined with employment and income growth supported consumer spending in the province.

Total capital investment is expected to total \$6.2 billion this year, an increase of 23.0% compared to 2009. Increased spending on major projects was the primary driver of investment growth. The largest major project expenditures in 2010 were on the Vale nickel processing facility in Long Harbour and Hibernia South Extension. Additionally, there was significant investment on other oil projects (e.g., Hebron, White Rose expansion) and the IOC expansion project. The continuation of government's infrastructure strategy and a robust housing sector also contributed to high levels of investment. Housing starts were up 30.6% in the first three quarters of 2010.

## Economic Indicators

	2009e	2010f	2011f	2012f	2013f
GDP at Market Prices (\$M) .....	24,970	28,102	30,391	30,577	30,851
% Change.....	-21.2	12.5	8.1	0.6	0.9
% Change, real .....	-10.2	5.4	5.4	-0.7	-0.6
% Change, real adjusted* .....	-1.1	4.9	4.0	2.4	2.9
Personal Income (\$M) .....	16,396	17,083	18,065	19,031	20,095
% Change.....	4.7	4.2	5.8	5.4	5.6
% Change, real .....	4.5	1.8	3.8	3.0	3.3
Personal Disposable Income (\$M).....	13,190	13,727	14,516	15,293	16,148
% Change.....	6.0	4.1	5.7	5.4	5.6
% Change, real .....	5.7	1.7	3.8	3.0	3.3
Retail Sales (\$M).....	7,120	7,430	7,792	8,093	8,410
% Change.....	1.6	4.4	4.9	3.9	3.9
% Change, real .....	3.3	3.3	3.7	2.1	2.4
Consumer Price Index (2002=100)....	114.6	117.3	119.5	122.2	124.8
% Change.....	0.3	2.4	1.8	2.2	2.2
Capital Investment (\$M) .....	5,042	6,200	7,750	7,173	7,716
% Change.....	0.1	23.0	25.0	-7.4	7.6
% Change, real .....	-6.9	20.1	20.7	-7.6	6.4
Housing Starts (Units) .....	3,057	3,510	3,226	2,959	3,024
% Change.....	-6.3	14.8	-8.1	-8.3	2.2
Employment (000s) .....	214.9	222.4	227.3	231.0	236.0
% Change.....	-2.5	3.5	2.2	1.6	2.2
Labour Force (000s).....	254.2	260.1	264.0	267.5	272.1
% Change.....	0.2	2.3	1.5	1.3	1.7
Unemployment Rate (%).....	15.5	14.5	13.9	13.7	13.3
Population (000s) .....	508.1	509.7	511.7	513.5	516.8
% Change.....	0.4	0.3	0.4	0.4	0.6

\* Adjusted GDP excludes production related income that will be earned by the non-resident owners of Newfoundland and Labrador mega-projects (oil projects and Voisey's Bay) to better reflect growth in economic activity that generates income for residents.

e: estimate; f: forecast, Department of Finance, November 2010  
Source: Statistics Canada; Department of Finance

## Labour Markets

Labour markets have rebounded from the recession-related downturn in 2009. Employment has risen, labour market participation is up and the unemployment rate has resumed its downward trend. In fact, employment growth has been strong enough to recoup losses recorded last year, marking the shortest recovery from a recession since at least the 1970s (see chart).

Employment increased in each month of 2010 through October and, on average, is up 3.5% compared to the first 10 months of 2009. Regionally, employment gains have been recorded throughout the province with the exception of the Notre Dame-Central-Bonavista Bay region, where a slight decline was experienced.



Job gains have spurred confidence in local labour markets, leading to an increase in the labour force participation rate. The participation rate averaged 60.4% in the first 10 months of 2010, 0.9 percentage points higher than the same period of 2009. The increase in the participation rate combined with a 0.7% increase in the population of labour force age (those aged 15 and over) resulted in a gain in the labour force of 2.2%.

The strong growth in employment led to a decline in the unemployment rate. The unemployment rate averaged 14.5% in the first 10 months of 2010, 1.0 percentage points lower than the same period of 2009. The unemployment rate in October 2010, at 11.6%, was the lowest unemployment rate for October since 1980.

Labour income in the province increased by 3.8% in the first nine months of the year aided by gains in employment and average weekly earnings. Average weekly earnings (including overtime) rose by 4.9% in the same time period. Continued gains in the minimum wage and pay raises in the public sector are some of the factors supporting gains in weekly earnings. Total personal income is expected to rise by 4.2% this year.

## Prices

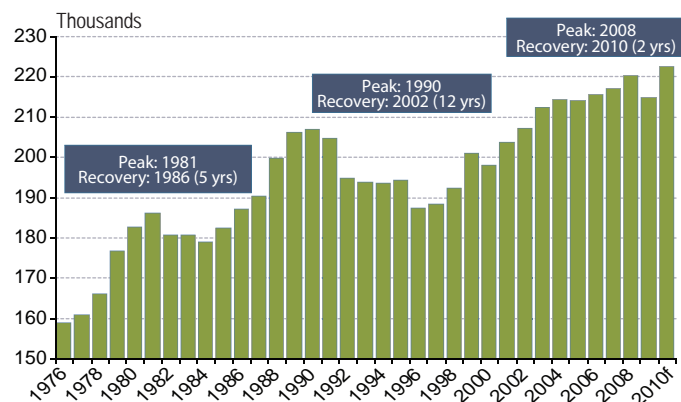
On a year-over-year basis, the Consumer Price Index (CPI) was 2.4% higher in the first 10 months of 2010. The increase in the CPI was largely driven by higher energy prices. The energy index increased by 6.9% in the first 10 months compared to the same period of 2009. Higher energy costs resulted in higher shelter (affected by home heating fuel) and transportation (affected by gasoline) components of the CPI. The *all-items excluding energy* index increased more moderately (1.8%) in the first 10 months of the year.

## Population

The current strength in the economy and continued optimism about the development of projects such as the Long Harbour nickel processing facility and the Hebron oil project are contributing to net in-migration and an increase in the province's population.

2010 marked the second consecutive year of population growth after 16 years of decline. As of July 1, 2010, Newfoundland and Labrador's population stood at 509,739, an increase of 0.3% compared to July 1, 2009. Population growth was the result of positive net-migration of almost 2,000 which offset a natural population decline (i.e., more deaths than births).

## Employment



f: forecast  
Source: Labour Force Survey, Statistics Canada; Department of Finance

## Medium-Term Outlook

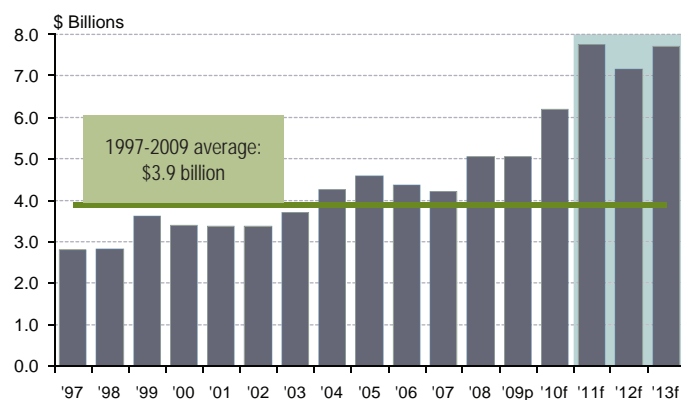
Economic growth is expected to continue to be robust next year, fuelled largely by major project development. Construction on Vale's nickel processing plant, the single largest development project next year, is expected to peak. Other major projects such as Hibernia South Extension, the White Rose expansion fields, Hebron, IOC expansion and the Lower Churchill project will also contribute to growth in 2011. Investment is expected to increase by 25% to reach \$7.8 billion, an unprecedented level. Real GDP is forecast to increase by 5.4% in 2011. Other economic indicators such as employment, income and retail sales are also expected to post further growth.

Beyond 2011, the economic outlook remains positive. While GDP growth will vary depending on major project timelines and oil production, other economic indicators such as employment and income are expected to continue to increase.

In addition, the unemployment rate is expected to continue to trend downward and high levels of consumer confidence will continue to support consumer spending.

Continued economic growth and optimism about the development of major projects is expected to lead to further net in-migration to the province and an increase in the population.

## Capital Investment



p: preliminary; f: forecast

Source: Statistics Canada; Department of Finance

# Oil and Gas

*Semi-submersible drilling unit Henry Goodrich (Transocean Ltd.)*



## Oil Production

The oil industry has become a vital part of the Newfoundland and Labrador economy since oil production began in 1997. Provincial real GDP has grown by nearly 52%, with over half the growth attributed directly to the oil and gas sector. In 2009, the industry accounted for about 28% of the province's nominal GDP and 2.4% of provincial employment.

Since the start of Hibernia development in the early 1990s, the oil and gas industry has represented approximately 30% of total capital investment in the province. In 2010 alone, over \$1.6 billion in capital expenditures is projected for the industry. Oil production from the province's offshore is expected to account for approximately 35% of Canada's conventional light crude production in 2010.

Oil production from the province's four producing fields is expected to total 102.8 million barrels in 2010, an increase of 5.1 million barrels (or 5.2%) relative to 2009 (see chart). This increase is mainly a result of production from the AA Blocks at Hibernia and the start-up of the North Amethyst field. During the January to September period of this year, total oil production was 76.9 million barrels, representing a 2.9% increase (or 2.2 million barrels) relative to the same period in 2009. Cumulative oil production since 1997 totalled 1.2 billion barrels of oil as of September 30, 2010.

The value of oil production is expected to increase by approximately 25.9% to \$8.4 billion in 2010 as a result of higher crude prices and output. The price of Brent crude oil is expected to average around US\$78.50/barrel in 2010, compared to US\$61.74/barrel in 2009.

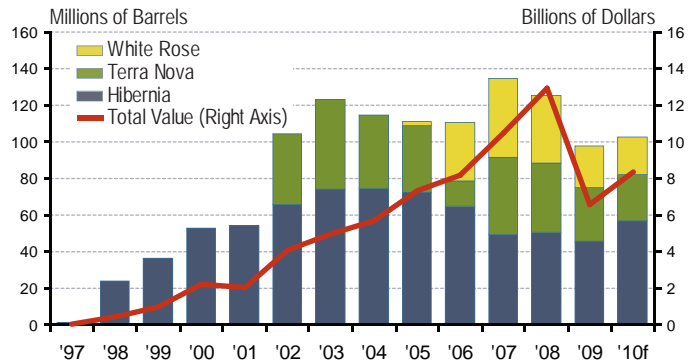
## Hibernia

The Hibernia field began producing oil in 1997 and is operated by Hibernia Management and Development Company Ltd. (HMDC). Oil is extracted using a Gravity Based Structure (GBS).

Hibernia produced 42.1 million barrels of oil during the first nine months of 2010, up 24.7% (or 8.4 million barrels) from the same period last year. Production was higher as a result of improved gas flood and water control measures, as well as the addition of production from the AA Blocks. For the

year as a whole, production is expected to total 56.8 million barrels compared to 45.9 million barrels in 2009. Cumulative Hibernia production to September 30, 2010 was 708.7 million barrels of oil. In October 2010, the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB) increased its estimate of recoverable oil reserves in the Hibernia field to 1,395 million barrels of oil, up from an earlier estimate of 1,244 million barrels (approximately a 12% increase).

## Offshore Oil Production



f: forecast

Source: Canada-Newfoundland and Labrador Offshore Petroleum Board; Department of Finance

The Hibernia project reached “payout” in June 2009, meaning that the province is now receiving a royalty rate of 30% of net revenues for oil extracted from the main part of the original Hibernia field. As of March 31, 2010, direct employment in the province in support of the Hibernia project was 1,090 persons, including tanker operations.

In February 2010, the provincial government signed a formal agreement with its industry partners to develop the Hibernia South Extension (HSE). This development is expected to return an estimated \$13 billion to the provincial government through a combination of royalties, returns on investment (through Nalcor Energy), and corporate income tax revenues.

The Hibernia South Extension comprises two areas—the AA Blocks (estimated recoverable reserves of 48 million barrels) and Hibernia South Extension Unit (estimated recoverable reserves of 167 million barrels). These developments are expected to extend the productive life of Hibernia by 5 to 10 years. Extraction from AA Blocks began in late 2009 using direct drilling from the Hibernia GBS. Oil produced from the AA Blocks is currently subject to a royalty rate of 42.5% of net revenues.

In October 2010, the C-NLOPB approved the amendment to the Hibernia Development Plan to allow the HSE Unit to proceed. The decision enables HMDC to develop the HSE Unit area utilizing existing oil production facilities and support infrastructure, and by adding subsea infrastructure. First oil from this project is expected in 2013. The province, through Nalcor Energy, acquired a 10% equity stake in the HSE Unit at a cost of \$30 million. Nalcor Energy will pay a proportional share of the project costs and receive a proportional share of production revenues.

## **Terra Nova**

Production from the Terra Nova field commenced in 2002. The field is operated by Suncor Energy Inc. using a floating production, storage and offloading unit (*Terra Nova FPSO*).

The Terra Nova project produced 19.8 million barrels of oil during the first nine months of 2010, a decline of 2.8 million barrels (or 12.2%) over the same period in 2009. Production was below the previous year's level as a result of natural declines and a scheduled maintenance turnaround in the third quarter. Production is expected to total 25.6 million barrels in 2010 compared with 29.0 million barrels in 2009.

Cumulative Terra Nova production to September 30, 2010 was 306.2 million barrels of oil. As of March 31, 2010 total employment in support of the Terra Nova project was 805 persons, including tanker operations.

## **White Rose (including North Amethyst)**

The White Rose field began production in 2005 and is operated by Husky Energy Inc. Oil is extracted using the *SeaRose FPSO*. The C-NLOPB estimates oil reserves and resources at White Rose to be 373 million barrels. This estimate includes the main South Avalon Pool, North Amethyst Field, South White Rose Extension, West Avalon Pool, North Avalon Pool and the Hibernia formation.

The White Rose project (including North Amethyst) produced 14.9 million barrels in the first nine months of 2010, down 3.4 million barrels (or 18.6%) from the same period of 2009. Year-to-date production is lower as a result of natural declines at the main field and the work to enable the North Amethyst tie-in. Annual production is expected to total 20.4 million barrels in 2010 compared with 22.8 million barrels in 2009.

Cumulative production at White Rose to September 30, 2010 was 152.0 million barrels of oil. As of March 31, 2010, total employment at White Rose was 1,236 persons, including tanker operations and 217 persons in support of the North Amethyst development.

Fabrication, installation and tie-in of the North Amethyst subsea equipment were completed in early October 2009 and first oil was produced in May 2010. The C-NLOPB currently holds recoverable oil reserves for the North Amethyst field at 68 million barrels. Since May, North Amethyst has yielded 2.0 million barrels of oil.

Drilling for West White Rose started on August 12, 2010, following the C-NLOPB's approval of the proposed pilot well scheme. The development strategy and timing of West White Rose are dependent on the outcome of the pilot. The C-NLOPB currently estimates that there are 40 million barrels of recoverable oil in the West White Rose Pool. The South White Rose Extension, which is the smallest of the tie-back developments (estimated reserves of 24 million barrels), received regulatory approval in 2007. Husky Energy Inc. continues to assess development scheduling options.

## Hebron

The Hebron field was discovered in 1981 and is located north of the Terra Nova field in the Jeanne d'Arc Basin (see map). In August 2008 the province signed the formal agreement with the Hebron consortium to develop the Hebron oil field, the province's fourth stand alone offshore oil project. The Hebron field, which is estimated to contain 581 million barrels of recoverable oil reserves, will be developed using a GBS, similar to, but smaller than, the Hibernia GBS.

The province, through Nalcor Energy, purchased a 4.9% equity stake in the Hebron project at a cost of \$110 million, and will pay a proportional share of project costs and receive its share of production revenues. The remaining Hebron partners are: ExxonMobil Canada Properties (36.0%), Chevron Canada Limited (26.7%), Suncor Energy Inc. (22.7%) and Statoil Canada Ltd. (9.7%).

Hebron's project office was established in St. John's in April 2009 and currently employs 82 staff. The Hebron Comprehensive Study Report was submitted to the C-NLOPB on June 16, 2010, and the submission of the Development Plan Application to the C-NLOPB is pending.

Two major contracts for development of Hebron were awarded in 2010. The Topsides Front End Engineering Design (FEED) contract, to be completed through 2011, was awarded to WorleyParsons Canada Services Ltd. in August. The second major contract, for the GBS FEED and site preparation at Bull Arm, was awarded to Kiewit-Aker Contractors (a 50/50 joint venture between Peter Kiewit Infrastructure and Aker Solutions) in November. Both contracts include the option—at the discretion of ExxonMobil Canada Properties—for the companies to provide engineering, procurement and construction services.

Construction of the GBS is expected to start in 2012 at the Bull Arm industrial fabrication site and is expected to create an estimated 4.1 million person hours of employment in the province. First oil is expected as early as 2017.

## Exploration

Offshore and onshore exploration continued throughout 2010. In total, nine wells (exploration, delineation and development) were spud offshore and three onshore. Seismic programs were undertaken in both areas as well. Following are some highlights of exploration activity in 2010.

### Offshore

- On February 22, 2010, the C-NLOPB issued a Significant Discovery Licence (SDL) to Statoil Canada Ltd. related to the Mizzen O-16 discovery well in the Flemish Pass Basin (see map). Information associated with the well is confidential until March 20, 2011. Additionally, Statoil Canada Ltd. completed a well site survey in the Jeanne d'Arc Basin in August 2010 and received approval for a seismic program in the Flemish Pass Basin.

- Suncor Energy Inc. drilled Ballicatters M-96 exploration well in the Jeanne d'Arc Basin in 2009. Drilling operations at M-96 were suspended in October 2009. While no results have been announced to date, Suncor Energy Inc. has mobilized the *Henry Goodrich* to the Ballicatters location in preparation to spud the Ballicatters M-96 Z well.
- Husky Energy Inc. drilled the exploration well Glenwood H-69 in EL 1090 in March 2010. No results have been announced. During the summer of 2010, Husky Energy Inc. commissioned a 3,005 km 2-D seismic survey in the Sydney Basin and a 5,550 km 2-D seismic survey off the coast of Labrador.
- Beginning in May 2010, Chevron Canada Limited and co-venturers drilled Lona O-55 exploration well in the Orphan Basin using the drillship *Stena Carron*. The C-NLOPB reports that the well was terminated on August 22, 2010 with a data release date of August 22, 2012. No results have been announced, however, the co-venturers have a vast amount of information to evaluate prior to determining future plans in the Basin.
- ConocoPhillips Canada and co-venture partner BHP Billiton completed drilling of the East Wolverine G-37 exploration well in the Laurentian Basin in April 2010 using the drillship *Stena Carron*. There is a two year confidentiality period from rig release date.
- Canadian Imperial Venture Corp. and Shoal Point Energy Inc. announced plans for up to three delineation wells into EL 1070 offshore Western Newfoundland to test the hydrocarbon potential of the Green Point shale formation. They are also proposing several stratigraphic wells in the onshore region to further delineate the formation.
- NWEST Energy Inc. commenced a farm-out marketing campaign in 2010 subsequent to its seismic acquisition program aimed at finding a joint-venture partner to further its exploration efforts. NWEST Energy Inc. holds petroleum rights to 1.6 million acres in the area.

## Onshore

- Progress has been made on the \$20 million three-well exploratory drilling program in the Parsons Pond area operated by Nalcor Energy with working interest held by Deer Lake Oil and Gas Inc., Investcan Energy Corporation, and Vulcan Minerals Inc. In May 2010, operations were completed on the Seamus #1 exploration well. While the results of the well are confidential for two years after the rig release date, Nalcor Energy announced that a gas zone was intersected and plans are underway to reenter the well to test the potential of this zone. The second of three wells, Finnegan #1, was spud on September 9, 2010.
- Vulcan Minerals Inc. and its partner Investcan Energy Corporation completed drilling two exploratory wells in the Bay St. George area in 2009. The Robinson's #1 well encountered positive gas finds, however, the full significance of this will not be known until the gas finds are adequately flow tested. The Red Brook #2 well brought natural gas flows to the surface on three drill stem tests. Completion and testing operations are currently ongoing for both wells.

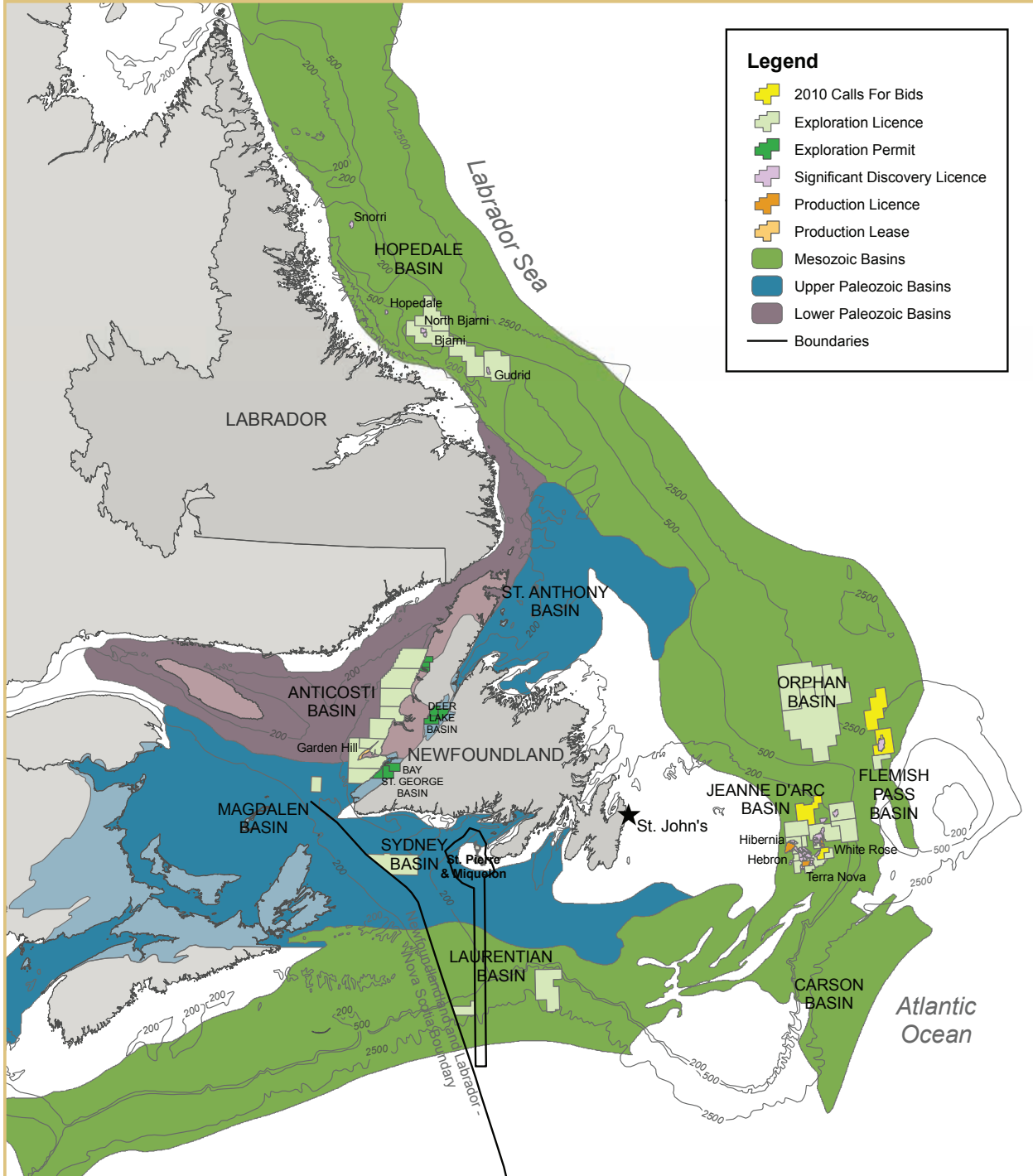
- Deer Lake Oil and Gas Inc. drilled Werner Hatch #1 well to a final total depth of 442 metres and released the rig on March 31, 2010. This is the first of two shallow wells proposed in the Deer Lake Basin to evaluate the shale gas potential of the Rocky Brook formation.

## **Licences, Bids and Land Sales**

- As of March 31, 2010, there were 37 active exploratory licences, 49 significant discovery licences, and eight production licences in the province's offshore area (see map). To date there is approximately \$882 million in exploration commitments to be undertaken by interest owners. The four successful bids during 2009 totalled \$47 million.
- The C-NLOPB issued three Calls for Bids in 2010:
  - Call for Bids NL 10-01 includes two parcels in the Jeanne d'Arc Basin comprising 169,400 hectares. This call closed on November 17, 2010 with successful bids received. Two bids, representing \$16.3 million in work expenditures, have been conditionally selected by the C-NLOPB.
  - Call for Bids NL 10-02 offers two exploration licences in the Central Ridge/Flemish Pass Region comprising 327,372 hectares. This call closes on November 30, 2010.
  - Call for Bids NL 10-03 comprises 3,773 hectares in the Central Ridge/Flemish Pass Region and offers a SDL adjacent to Mizzen O-16. This call closes on November 30, 2010.
- In October 2010, the Government of Newfoundland and Labrador issued a Call for Postings to identify prospective parcels of land in onshore western Newfoundland for possible future oil and gas exploration. This allows interested companies to nominate lands they believe have high petroleum prospects. Approximately seven million acres of land, totalling 28,000 square kilometres will be open for nomination. Areas include the Bay St. George, Anticosti and Deer Lake Basins where exploration is currently underway. Unexplored basins such as the Howley Basin and the onshore part of the St. Anthony Basin will also be included. The deadline for submissions is December 15, 2010. The issuance of a formal Request for Bids is contingent on an assessment of nominations.



# Newfoundland and Labrador Offshore



Source: Department of Natural Resources

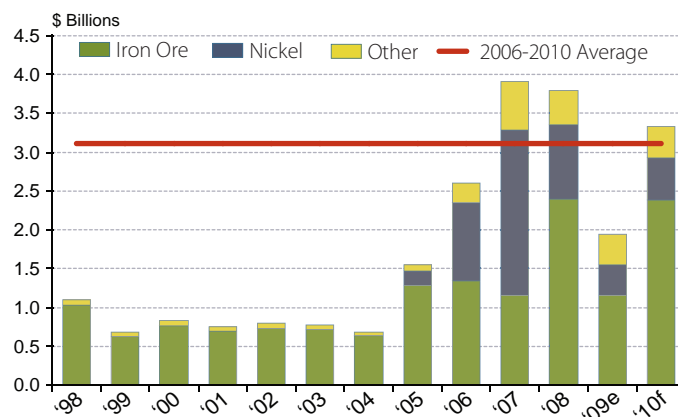


# Mining

Operations at Iron Ore Company of Canada (Dept. of Natural Resources)

The mining industry rebounded sharply in 2010 after experiencing many challenges during the recession last year. Demand and prices for mineral products increased—most returning to the high pre-recessionary levels. Strong demand from developing countries such as China and India supported an increase in mineral production, especially iron ore.

## Value of Mineral Shipments



e: estimate; f: forecast  
Source: Department of Natural Resources

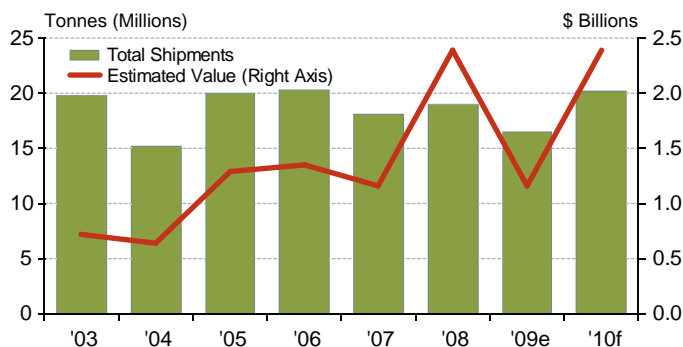
As a result of higher production and prices, the value of mineral shipments is expected to total over \$3.3 billion in 2010 which, if realized, would represent an increase of over 72% from 2009 (see chart). This increase is mainly due to higher iron ore production and prices. Exploration expenditures are expected to increase by over 30%—the result of various uranium, gold and iron ore projects. Total mining-related employment (including employment associated with construction and development activities) is expected to be around 5,100 person years—the highest level in almost three decades.

## Market Conditions

Demand for mineral products rebounded in 2010. Improving economic conditions have raised demand and prices for mineral products. Emerging market economies such as China, where the government has been directing considerable resources into infrastructure construction, have fuelled mineral commodity markets.

Many iron ore producers have been moving towards shorter-term contract pricing practices. Historically, most iron ore prices were negotiated between large buyers and sellers on an annual basis with a fixed price usually set by April. Only a small portion of the market used spot (immediate cash sale) markets to sell products. However, with the volatility in the market, prices are increasingly being negotiated on a quarterly basis and are based on prices observed in spot markets. Average iron ore prices for 2010 have risen by more than 70% for concentrates and over 76% for pellets.

## Quantity and Value of Iron Ore Shipments



e: estimate; f: forecast

Source: Department of Natural Resources

Nickel and copper prices have also risen substantially over 2009. Both mineral prices increased by more than 50% in the first three quarters of 2010 compared to the same period last year. Prices reached an average of US\$10.79/pound for nickel and US\$3.76/pound for copper in October 2010.

### Iron Ore

Iron ore production and prices have recouped losses recorded last year (see chart). Total iron ore shipments are expected to be about 20 million tonnes in 2010, an increase of 22.7% relative to 2009 due to production rebounds at both the Iron Ore Company of Canada (IOC) and Wabush Mines. The value of shipments is expected to more than double as a result of higher production and prices.

IOC announced in May 2010 the resumption of an \$800 million expansion plan to increase its annual capacity from 18 to 26 million tonnes. The expansion program was postponed in December 2008 as the global financial crisis took hold and iron ore demand weakened. Details of the expansion are presented in the sidebar.

# IOC Expansion

The expansion plan at IOC consists of three phases. **Phase I** is currently underway and carries a capital cost of \$539 million. This phase includes a new in-pit crusher, a 6.8 km conveyer, a new grinding mill and improvements to the storage barn. Employment during construction will average about 250 people with peak employment of about 390 people in July 2011. This phase of the program will increase annual production from 18 to 22 million tonnes and is expected to be completed by 2012.

**Phase II** is expected to start in January 2011, pending approvals. This phase includes an additional mill for magnetite processing, additional spiral lines for the primary recovery circuit and the associated equipment and services for these additions. Phase II will add an additional 1.2 million tonnes to annual production and is planned for commissioning by the end of 2012.

**Phase III** is currently under consideration. A pre-feasibility study revision will take place in 2011 with the possibility of starting later that year. This phase includes additional spiral lines and expansion and redesign of the hematite plant. Phase III would increase annual production to 26 million tonnes and is planned for commissioning by the end of 2015.

IOC's three-phased expansion program is expected to generate 700-800 direct jobs during construction and 90-120 direct jobs once operational.

Iron ore production at Wabush Mines in 2010 is expected to recover to levels recorded before the recession. Wabush Mines plans to make significant investments over the next couple of years. Capital expenditures of \$30 to \$35 million are planned to replace existing equipment and to acquire new equipment in the pit. Full implementation of the Manganese Reduction Project would mean further capital expenditures of \$30 million—the Manganese project could be operational within two years following an announcement of funding. There are also extra operational expenditures planned: \$20 million will be spent to improve reliability of equipment in the concentrator and up to \$30 million will be spent on environmental projects.

### **Voisey's Bay**

Throughout this year, Vale Newfoundland and Labrador's (VNL) operations at Voisey's Bay, Labrador continued to be challenged by a labour dispute which began in August 2009. The mine is operating with a reduced workforce. The company expects to ship over \$700 million of metal concentrates in 2010, an increase of about 27% compared to 2009. This increase is mainly the result of higher prices for nickel. On October 19, 2010 the provincial government announced the appointment of an Industrial Inquiry Commission into the labour dispute. This inquiry aims to promote the settlement of the dispute.

The construction of VNL's nickel processing facility in Long Harbour continues with site remediation, preparation of the port, and infrastructure installation. Modules for the construction camp were delivered recently and the company is preparing to install these modules at the site. The 500 person camp should be available for occupancy in the first quarter of 2011. More camp modules are expected to be delivered in 2011 to accommodate a workforce of 1,000 to 1,200 people. Capital expenditures for 2010 are anticipated to be \$441 million with employment estimated at 1,450 person years.

### **Other Mines**

Anaconda Mining Inc. announced that they had reached commercial gold production in September 2010 at its Pine Cove Mine in Baie Verte. First gold was poured in July 2008, but problems in the milling process delayed commercial production. As a result of these issues, Anaconda invested \$2.7 million to redevelop the mill. Construction was completed in June and by September the mill commenced production. This project is expected to employ approximately 44 people during operations.

Beaver Brook Antimony Mine Inc. (BBAM), located in Central Newfoundland near Glenwood, operates the only antimony mine in North America. The market price for antimony has increased dramatically—more than doubling since January 2009. The favourable price for the product and the sale of the mine in October 2009 to the biggest antimony company in the world, Hunan Nonferrous Metals Corporation, should provide stability for BBAM's concentrate sales in the future. The mine has 100 permanent employees.

There are various other mines in the province, such as Teck Duck Pond Operations in Central Newfoundland and Atlantic Minerals on the Port-au-Port Peninsula, which produce a wide variety of mineral products. Many of these operations were affected by the recession last year but are benefitting from robust market conditions in 2010.

## Exploration

Exploration expenditures are expected to increase to \$72 million this year from the \$55 million recorded in 2009. As the effects of the financial crisis dissipated, mining companies intensified mining exploration efforts. Exploration in Labrador has centred around iron ore, uranium and nickel while exploration on the Island has focused on base metals and gold. As well, record prices for rare earth elements and rare metals are generating high levels of interest in these minerals.

## New Developments

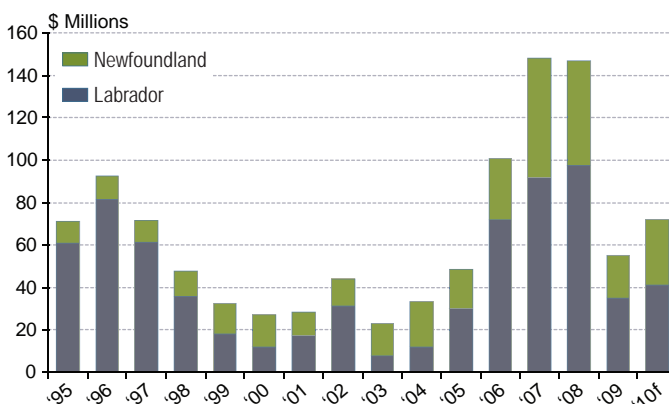
Mineral development activity in the province has been supported for several years by strong mineral market conditions. Investment in developing properties has continued and several projects have advanced.

Rambler Metals and Mining PLC continues to explore and develop the potential of mineral claims located on the Baie Verte Peninsula including the former Ming Mine gold/copper operation. A final feasibility study completed in late August 2010 suggests that the initial mine life could be six years with 650 tonnes of daily production. The company has been released from environmental assessment and is constructing an expansion to the mill building and an alternate mine evacuation shaft. Project financing has been arranged, the majority of which will be supplied by Sandstorm Resources in exchange for 25% of the first 175,000 ounces of gold produced by the project.

Canada Fluorspar Inc. continues efforts to reactivate the St. Lawrence fluorspar mines located on the Burin Peninsula. The company plans to develop and mine the two underground veins; complete upgrades to the existing mill; and construct a tailings management facility and a new marine terminal. The provincial government has released the project, with conditions, from environmental assessment. The project has also been released from environmental assessment by the federal government.

Labrador Iron Mines Holding Ltd. (LIM) proposes to mine and process high grade, direct shipping iron ore in Northwestern Labrador. The project has been released from environmental assessment subject to certain conditions and a number of operating permits have been issued. The project is now in its construction phase. The initial life of the mine is expected to be five years with a possible extension up to 15 years if nearby deposits are mined. Production is expected to begin in the second quarter of 2011 and about 110 jobs are expected to be created once the project is operational.

## Mineral Exploration Expenditures



f: forecast  
Source: Department of Natural Resources

New Millennium Capital Corporation (NMCC), also proposes to mine and process iron ore in Northwestern Labrador through a direct shipping project similar to that of LIM. An Environmental Impact Statement has been submitted and is currently being assessed by the Department of Environment and Conservation. NMCC recently announced that they will enter into a joint venture with Tata Steel (headquartered in India), the 10<sup>th</sup> largest steel producer in the world, to develop the deposits. Production is expected to begin in 2012 and 188 jobs are expected to be created once the mine is operational.

# Fishery

Harvesting salmon, St. Alban's (Steve Moyses)



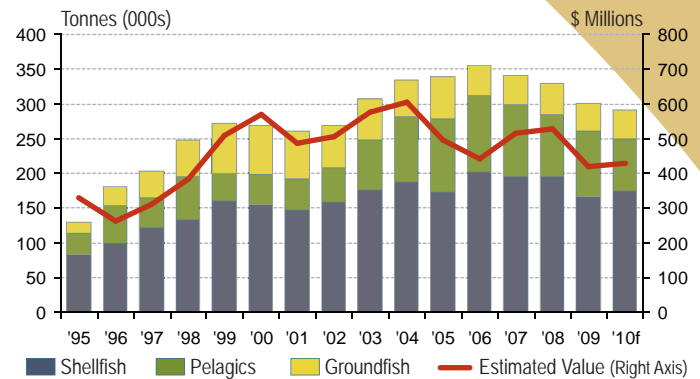
The Newfoundland and Labrador fishery performed well in 2010 despite early concerns from industry that the season would fare worse than 2009. Snow crab and shrimp prices improved in 2010 as global seafood supply fell. This development helped the industry endure challenges such as the high Canadian dollar, quota reductions and relatively high fuel prices. Snow crab and shrimp represent close to 80% of the landed value of the province's seafood industry.

Preliminary estimates indicate that fish landings in 2010 will approach 291,000

tonnes, a modest decrease of 3.3% compared to 2009 (see chart). Lower landed volume was mainly due to a decline in pelagic catches (capelin, herring and mackerel). The corresponding landed value is expected to increase to \$430 million, up 2.5%, mainly due to an increase in prices for some species (i.e., shrimp and turbot).

Employment levels in the fishery declined in 2010, with fewer workers in both the harvesting and processing sectors. Processing employment totalled 10,100, down 11% compared to 11,400 noted in 2009. As of late November, there were about 10,300 registered harvesters in the province. More harvesters will register with the Professional Fish Harvesters Certification Board by the end of the year, however, it is expected that harvesting employment will be lower than the 11,600 recorded last year.<sup>1</sup>

## Volume and Value of Commercial Fish Landings



f: forecast

Source: Department of Fisheries and Aquaculture; Fisheries and Oceans Canada

<sup>1</sup> Processing employment data are from the Department of Fisheries and Aquaculture's annual EI survey and are based on the number of individuals employed during the year. The harvesting employment data are based on the number of fish harvesters registered with the Professional Fish Harvesters Certification Board. These data differ from Statistics Canada Labour Force Survey data (included in the table on page 40) which use a person year concept of employment.

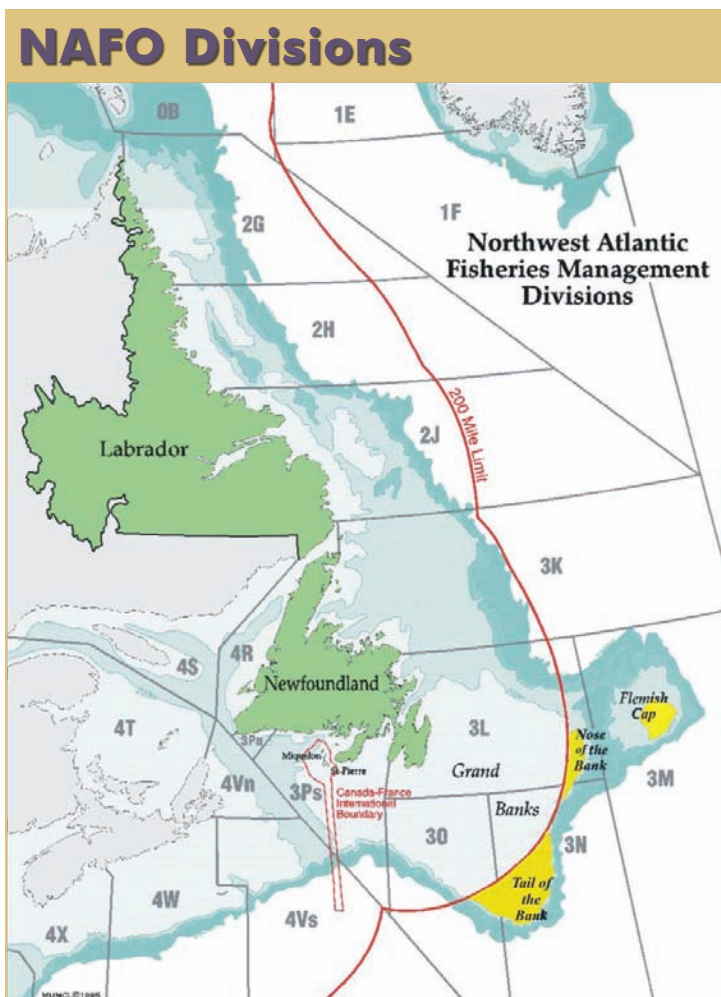
## Harvesting

### Shellfish

Shellfish landings are expected to increase by more than 5% in 2010 to reach close to 175,000 tonnes up from 166,191 tonnes in 2009. Total landed value is expected to increase by 3.5% to \$362 million. This improvement reflects higher shrimp landings and value.

Overall, 90,200 tonnes of shrimp are expected to be landed in 2010, valued at approximately \$136 million. Despite a reduction of 28% in the shrimp quota on the Northeast coast this year, the landed volume and value is expected to be up 16% and 24% respectively compared to 2009. The average landed price paid for the inshore and Gulf shrimp was \$0.48/pound in 2010, up from \$0.42/pound in 2009.

A month-long dispute over snow crab prices between processors and harvesters caused a delayed opening but appears to have had limited impact on the overall volume landed in 2010. In addition to stronger than



Source: Department of Fisheries and Aquaculture

anticipated market conditions this year, the annual quota was taken in almost all NAFO Divisions (see map) with the exception of 2,000 tonnes in NAFO Division 3K. This division was negatively impacted by the delayed opening. In total, snow crab landings were 52,200 tonnes in 2010, down 2.3% from 2009. The landed value decreased by 5.7%, to \$155 million from \$165 million in 2009. Despite high market prices for snow crab in 2010, harvesters received a minimum price of \$1.35/pound compared to a minimum price of \$1.40/pound in 2009.

Both lobster and whelk landings and prices were on par with those of 2009. Approximately 2,500 tonnes of lobster, valued at \$18 million, was landed in 2010. Whelk landings totalled 5,000 tonnes valued at \$4.5 million.



## Groundfish

Groundfish landings for 2010 are expected to be 41,700 tonnes, 6% higher than last year. Landed value is expected to increase by 4%, reaching \$50.4 million. Higher groundfish landings are primarily attributable to increased yellowtail flounder catches which are expected to be 47% higher than in 2009. In total, yellowtail flounder landings are forecast to be 8,000 tonnes in 2010, valued at \$2.4 million.

Although a variety of groundfish species are landed in the province, cod and Greenland halibut (turbot) result in the highest landings. About 14,000 tonnes of cod are expected to be landed in 2010, down slightly from the 14,565 tonnes landed in 2009. The value of cod landed is estimated to be \$14 million at a landed price of \$0.46/pound. This price was on par with 2009 but considerably lower than the \$0.73/pound recorded in 2008. The cod fishery was impacted by the 40% reduction in quota for Northern Gulf cod (NAFO Divisions 4R3Pn), lower catch rates and fishing effort in some areas, and increased competition from Nordic producers and China's cultured whitefish. Greenland halibut landings are expected to total 10,600 tonnes in 2010, valued at \$22.4 million, up from 2009.

## Pelagics

Pelagic species are highly migratory by nature and their availability is difficult to predict. Therefore, catches can vary significantly from year to year. It is expected that pelagic landings will total approximately 74,000 tonnes in 2010, valued at \$16 million. This represents a 22% decrease from 2009 landings and a drop of 21% in landed value.

The three key pelagic fisheries (capelin, mackerel and herring) are expected to decline in 2010. Total capelin catches for 2010 declined by 27% compared to 2009 (from 33,224 tonnes to 24,240 tonnes). In addition to unfavourable market and price conditions for capelin in recent years, there were reports of decreased capelin abundance in some areas.

Lower resource availability in NAFO Division 4R accounted for the decline in mackerel and herring catches this year. Overall, mackerel landings are expected to decrease to 25,000 tonnes in 2010, down from 34,000 tonnes in 2009. Herring landings are expected to total 25,000 tonnes in 2010, down 10% from 2009. The landed price per pound for capelin, mackerel and herring in 2010 was \$0.07, \$0.12 and \$0.10 respectively. These prices were on par with 2009.

## Seals

There was a slight improvement in the seal harvest in 2010. In total, 67,000 seals, valued at \$1.4 million, were harvested. This represented an increase of 25% in harvest levels compared to 2009 and a 70% increase in value. The average price per pelt in 2010 was \$21/pelt compared with \$14/pelt in 2009. Despite the improved performance in 2010, results were well below the \$6.7 million earned from the harvest of 208,000 seals in 2008. The seal harvest continues to be negatively impacted by lower demand for luxury fur products.

## Processing and Marketing

There were 115 seafood facilities operating in the province in 2010. Overall, 104 of these were primary processing (including aquaculture), and the remaining 11 were involved in either secondary processing or retail (i.e., retail businesses with a licence to process fish for the local market only).

Seafood production during the January to October period totalled 139,270 tonnes, down 12.3% from the same period in 2009. According to Statistics Canada's manufacturing survey, the value of seafood shipments during the first nine months in 2010 increased 35% compared with the same period last year. Increased aquaculture and shellfish production contributed to this increase.

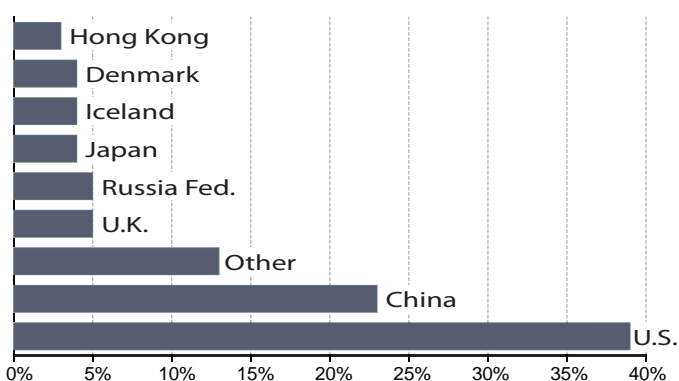
The United States and China remain the largest international markets for the province's seafood products. Other major markets include the United Kingdom, Russia, Japan, Denmark and Iceland (see chart). From January to August of this year, the province exported approximately 122,560 tonnes of seafood products to 49 countries, valued at approximately \$590 million.

The average market price for snow crab (5-8 oz. sections) during the January to November period of this year was US\$4.37/pound, up 28.5% from the same period last year. Due to lower global supply of snow crab, Japanese buyers were eager to purchase Canadian product.

Shrimp market prices also improved in 2010 after dropping off somewhat in 2009. The average U.S. price for imported 150-250 cooked and peeled coldwater shrimp, according to Urner Barry, increased 9.4% to \$3.73/pound during the January to November period of 2010 compared with the same period of 2009. The average market price for 250-350 cooked and peeled coldwater shrimp increased to US\$3.43/pound during the same period of 2010, up 6.1% compared to 2009.

The European Union (EU) continues to be a major market for cooked and peeled coldwater shrimp. Starting January 2010, the Autonomous Tariff Rate Quota (ATRQ) for cooked and peeled shrimp reduced the tariff from 6% to no tariff on the first 20,000 tonnes entering the EU. In addition, the ATRQ added yellowtail flounder into the flatfish category, which has a 10,000 tonne quota at no tariff. Past EU tariffs on yellowtail flounder were as high as 15%. While the new ATRQ benefits the province's seafood industry, the value of the ATRQ is limited since it does not allow fully processed product to enter at the reduced rate.

Percent of Total Seafood Export Value by Country (Jan - Aug 2010)



Source: Department of Fisheries and Aquaculture

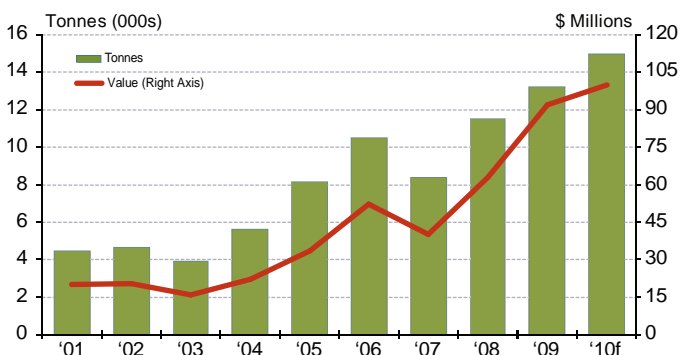
Capelin sizes increased somewhat in 2010 compared to the previous year, although they generally remained small by some market standards. Japanese markets pay a premium price for larger capelin and, similar to 2009, were not eager to buy again this year. Despite lower Japanese demand, the market price for capelin increased slightly in 2010 due to demand from non-Japanese buyers.

## Aquaculture

Newfoundland and Labrador is ideally suited for aquaculture and the province is strategically located for North American and European markets. The aquaculture industry continues to grow and currently, the province is the third largest aquaculture producer in Canada, next to British Columbia and New Brunswick. The industry in this province focuses on three primary species: steelhead trout, Atlantic salmon and blue mussels. The Department of Fisheries and Aquaculture estimates approximately 655 people are directly employed at about 120 aquaculture sites in the province.

Aquaculture production is expected to be about 15,000 tonnes in 2010, up 10% compared to 2009 with an associated export value totalling \$100 million (see chart). This rise is mainly driven by growth in the production of Atlantic salmon. A shortfall in the international supply of farmed salmon, caused by problems in Chile's aquaculture industry, has created opportunities in the U.S. marketplace. This development has spurred additional investment in the province's salmon aquaculture industry. The mussel sector continues to address marketing issues but is starting to see markets slowly recover.

## Aquaculture Production and Value (all species)



f: forecast  
Source: Department of Fisheries and Aquaculture



# Forestry and Agrifoods

Corner Brook Pulp and Paper Limited (Dept. of Finance)

## Forestry

### Newsprint—North America

The North American newsprint industry continues to face declining demand at home and is increasingly relying on offshore export markets to bolster shipments.

Recent U.S. newspaper circulation figures are down about 18% from two years ago, indicating that newspaper readership continues to tumble. During the first nine months of 2010, newsprint consumption by U.S. dailies was down 9.8% while total newsprint consumption in the U.S. declined by 8.7%. In contrast, industry insiders are reporting solid increases in offshore exports, in particular to Latin America and Asia (e.g., India). Offshore exports now account for one-third of North American newsprint shipments, a significant shift in market orientation compared to a few years ago when these markets accounted for less than 20% of shipments.

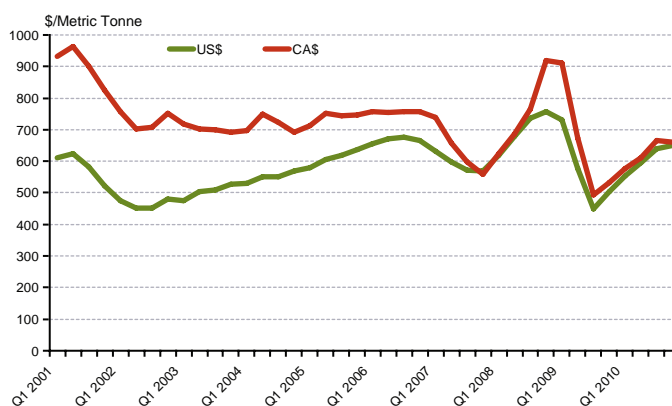
Growth in offshore exports and considerable capacity reductions in recent years (to stabilize the industry and raise prices) have facilitated an improvement in key industry indicators. During the first nine months of this year, North American newsprint production rose 7.6% and shipments increased 9.1%. In August, North American mills operated at 94% capacity compared to annual operating rates around 75% in 2009.

Newsprint prices increased as well. After bottoming out at around US\$435/tonne in the third quarter of 2009, newsprint prices posted solid gains. By the third quarter of 2010 prices were reported to be around US\$630-640/tonne (see chart), with further upward movement anticipated.

### Newsprint—Province

The provincial newsprint industry has faced many of the same challenges as the North American industry. Montreal-based AbitibiBowater closed its Stephenville mill in

### Newsprint Prices



Q3 and Q4 2010 are projections by TD Economics  
 Source: TD Bank Financial Group; Bank of Canada;  
 Department of Finance

2005 and its Grand Falls-Windsor mill in March 2009. Consequently, the Corner Brook mill, operated by Corner Brook Pulp and Paper Limited, is currently the only newsprint operation in the province. The company presently operates two paper machines (PM No. 2 and PM No. 7) with a combined capacity of 260,000 tonnes per year.

Newsprint shipments totalled 189,776 tonnes during the first nine months of 2010, a decrease of 7.5% from the same period in 2009. This decline reflected the closure of the Grand Falls-Windsor mill which produced roughly 21,000 tonnes of newsprint in 2009. For the year as a whole, shipments are expected to total around 255,000 tonnes, down about 4% from 2009. The estimated value of newsprint shipments is expected to be down by over 10% in 2010, reflecting lower volume and the stronger Canadian dollar.

Corner Brook Pulp and Paper Limited recently filed documents with the provincial Department of Environment and Conservation indicating a proposal to install a Tire Derived Fuel (TDF) storage, handling and blending system. This system will add shredded tires to the list of alternative fuel sources available to the mill for the #7 power boiler with the goal of reducing dependency on fossil fuels. The current proposal before government is to proceed with a TDF trial to ensure that all environmental limits and pollution control standards can be met. If the trial is successful, the mill may then proceed with the engineered systems required for the co-firing of TDF. A decision by the Minister of Environment and Conservation on this proposal is due before the end of 2010.

## **Lumber**

The volume of lumber production in the province is expected to increase to about 77 million board feet in 2010, up 12% from 2009. While this is a significant increase, it is still well below the annual production capacity of the industry which is between 120 and 140 million board feet. The provincial lumber industry, like the North American industry, was hit hard by the downturn in the U.S. and Canadian housing markets in 2009 and the subsequent drop in lumber prices. While new residential construction in Canada has made a comeback this year, U.S. housing demand remains historically low.

Despite the continued weakness in the U.S., lumber prices made some gains in 2010 largely due to increased Chinese demand. During November 2010, lumber was trading for approximately US\$274/thousand board feet (tbf), compared to US\$192/tbf one year ago. For the year, prices are expected to average US\$287/tbf, up from an annual average of US\$222/tbf in 2009. Higher production and improved prices are expected to lead to an increase in the value of lumber production in the province this year.

Lumber production is expected to continue to recover in the near-term, reflecting better market conditions and modernization investment projects by several of the province's larger sawmills. There is also an acknowledgement by industry stakeholders that the long-term viability of the sawmill sector can only be ensured through market diversification and an expanded product line. To this end, a marketing strategy is being coordinated by the province. The strategy will benefit all integrated

sawmills in the province and support value-added wood enterprises. It will identify and develop overseas markets to reduce Newfoundland and Labrador's reliance on U.S. markets.

## Agrifoods

### Farm Cash Receipts

Total farm receipts increased 6.6% to \$86.6 million in the first nine months of 2010 compared to the same period in 2009. Livestock and livestock products, which account for over 80% of farm receipts, were up by 6.7% to \$72.9 million. Fur production receipts totalled \$7.1 million during the first nine months of 2010, up from \$2.8 million for the same period in 2009. Egg production receipts increased 8.7% to \$11.2 million. Although farm receipts for chicken production are no longer published, data from the Chicken Farmers of Canada indicate that the volume of chicken produced in the province increased by 3.2% to 10.3 million kilograms during the first nine months of 2010. Production of dairy products and cattle declined by 4.9% (to \$33.5 million) and 5.5% (to \$1.5 million) respectively. Crop production increased 4.2% to reach \$13.2 million during the first nine months of 2010.

### Cranberry Industry

Growing cranberries in Newfoundland and Labrador started as a research initiative to help diversify rural economies within the province. This year, the province produced an estimated 160,000 kilograms of fruit from 23 acres of harvested cranberry fields. The farm gate value of this crop would be approximately \$106,000 based on last year's prices—the final crop prices for this year are not available. Processing added an estimated \$200,000 of value to the crop. Currently, there are five development sites in production within the province including Deadman's Bay; Terra Nova; Stephenville Crossing (Route 490); Stephenville (White's Road); and Frenchman's Cove (Burin Peninsula). Most of these sites have expanded over the past three years and, in total, have added an additional 65 acres of planted cranberry fields. In addition, 120 acres of new cranberry acreage is under development in the Exploits region. Most of the cranberries produced in the province are purchased by Indian Bay Frozen Foods in Bonavista Bay.

Cranberries are grown in peat bogs or marshes where the soil is acidic and there is an abundant supply of water. Although it takes a few years for a new cranberry bed to produce a harvestable crop, the vines will continue to produce for several decades. Water is used for irrigation, frost protection and harvesting. At harvest time, the cranberry beds are flooded causing the berries to float to the surface so they can be easily dislodged by rakes or mechanical harvesters.

Although this industry is still very much in a development stage, it has not been immune to the negative impacts of the global recession which softened cranberry demand and prices over the last couple of years. Some improvement in prices is anticipated over the near-term and this combined with additional productive acreage expected in the province bodes well for this industry's future.

# Manufacturing

*North Atlantic Refining Ltd., Come By Chance (Dept. of Finance)*



Manufacturing accounts for about 4% of GDP and 6% of total employment in the province. There are many manufacturers in the province producing a wide variety of products, however, most activity is concentrated in three major groups—food processing (mainly fish), newsprint and refined petroleum.

The value of provincial manufacturing shipments rebounded this year mainly due to higher market prices for refined petroleum and fish products. For the first nine months of 2010, shipments rose to more than \$3.7 billion, representing an increase of 12% compared to the same period last year. Nationally, the value of manufacturing shipments rose almost 10% over the same time frame.

Manufacturing employment averaged 10,300 in the first 10 months of this year, representing a decrease of 16.0% over the same period in 2009. Losses were recorded in both the fish processing and non-fish processing sectors.

The fish processing industry faced many challenges last year, however, market conditions improved in 2010 for some species (see *Fishery* for details). The value of manufactured fish products for the first nine months of 2010 increased by almost 35% compared to the same period in the previous year, reflecting higher prices and aquaculture production.

Newsprint shipments declined in 2010. For the first three quarters, the volume of newsprint shipments decreased by 7.5%, reflecting the closure of the Grand Falls-Windsor mill during the first quarter of 2009. On an annual basis, newsprint shipments are expected to be roughly 255,000 tonnes in 2010, a decline of about 4% from 2009 (see *Forestry and Agrifoods* for details).

According to Industry Canada, the value of refined petroleum product exports increased by 2.3% during the first nine months of 2010 versus the same period last year. Harvest Operations Corp., owners of the North Atlantic refinery, continues to invest in its operation. The company is spending \$300 million on a debottlenecking project which will increase the refinery's overall capacity by an average of 5,000 barrels of oil a day, increase product yield value and reduce both overall energy needs and greenhouse gas emissions. The project was released from Environmental Assessment on

# Manufacturers

## Recent Developments

### **North Atlantic Refining Ltd.**

- \$300 million for debottlenecking project (Come By Chance)

### **Vale**

- \$441 million in 2010 for construction of nickel processing plant (Long Harbour)

### **Corner Brook Pulp and Paper Limited**

- Documents filed with the Department of Environment and Conservation proposing to install a Tire Derived Fuel storage, handling and blending system (Corner Brook)

### **Northstar Networks Ltd.**

- Received a contract to manufacture wing parts for a U.S. Customs and Border Protection aircraft (St. John's)

### **Rutter Technologies**

- Received six orders totalling US\$2 million for its oil spill detection system (St. John's)

### **Ocean Choice International**

- Received a \$1 million loan to adapt a new technology to fish processing (Marystown)

### **Kiewit Offshore Services**

- One of two Atlantic companies on a short list for the federal government's National Shipbuilding Procurement Strategy (Marystown)

### **Argentia Metal Works**

- Renovating a 50,000 sq. ft. building to manufacture steel pressure containers (Argentia)

### **Atlantic Hydraulics & Machine Ltd.**

- Investing \$500,000 to construct a new waterfront fabrication store (Corner Brook)

### **Jendore Ltd.**

- \$3.0 million expansion of an existing pipe fabrication facility (St. John's)

October 28, 2010 and began in the fall of 2010. It is scheduled to be completed in the winter of 2011.

Investment in manufacturing remains robust. Strong investment in 2010 is due in part to a \$441 million investment in the development of Vale's nickel processing plant in Long Harbour as well as the refinery project referenced earlier. While the bulk of investment is concentrated in large-scale commodity processing, other manufacturers (those that provide finished products to smaller, more specialized markets) have also been expanding their operations. Some recent developments in manufacturing are outlined in the sidebar.



# Construction

*Parking garage construction at Memorial University (Dept. of Finance)*



The construction industry accounts for about 5% of GDP and 7% of total employment in the province. The industry is on track to post a strong performance in 2010. Construction investment is expected to reach \$5.0 billion, up 27.5% from 2009, according to the Statistics Canada investment survey. This is primarily driven by non-residential construction investment.

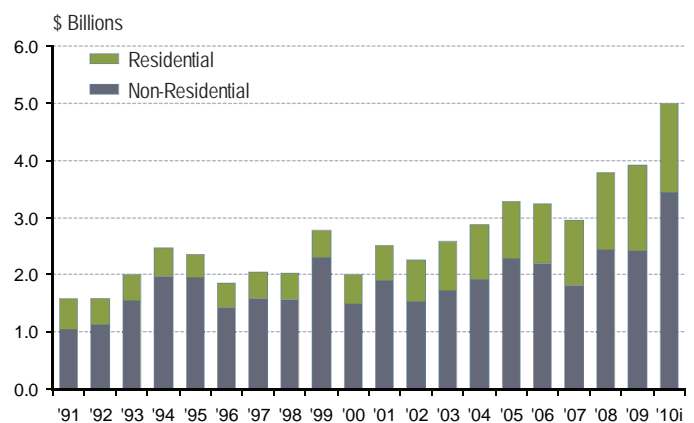
## Non-Residential Construction

Non-residential construction generally accounts for the largest portion of construction expenditure. According to the investment survey, non-residential construction is projected to increase by 42.4% in 2010, bringing the total to \$3.4 billion. This increase reflects the construction of the nickel processing facility in Long Harbour, expansion in the oil and gas industry, and significant public sector investment.

## Residential Construction

Investment in residential construction is expected to remain strong in 2010. In February, the investment survey indicated potential growth of 3.5% in residential spending in 2010, for a total expenditure of \$1.6 billion. Year-to-date statistics point to considerable potential for upward revisions in this projection. Housing starts for the first nine months rose 30.6% over the same period in 2009 (see *Real Estate*). During the first nine months of 2010, residential construction data indicated significantly higher expenditures on new dwellings (+31.9%) and a modest increase in spending on renovations (+5.9%) compared to the same period in 2009.

## Construction Investment



i: intentions  
Source: Statistics Canada

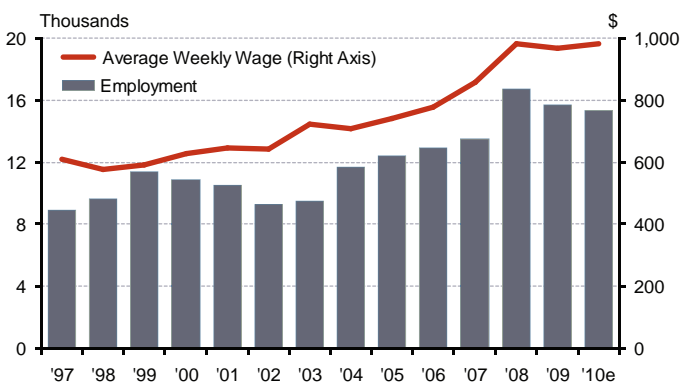
## Construction Employment and Wages

Construction wages have shown a steady increase over the past decade, despite a temporary recession-induced dip in 2009. In the first 10 months of 2010, average weekly earnings were up 1.7%, similar to 2008 levels which was a very strong year. Construction employment has similarly shown notable growth over the past decade. It is believed that a portion of the employment decline recorded in this province since 2008 is due to a drop in the employment of residents who commute outside the province to work. Nonetheless, employment in the construction industry remains among the highest levels in more than a decade.

## Building Permits

During the first nine months of 2010 the value of building permits issued in Newfoundland and Labrador increased by 48.5% to \$867 million. This was the largest increase among provinces and is significantly higher than the national average of 27.7%. The growth was driven by increases in both the residential and non-residential sectors—up 22.3% and 137.2% respectively.

## Construction Employment and Wages



e: estimate based on year-to-date growth  
 Source: Statistics Canada; Department of Finance

# Real Estate

*New home construction, Maddox Cove (Dept. of Finance)*



The residential real estate market posted another solid performance in 2010. Strong demand for housing during the first half of 2010 continued to be fuelled by record low interest rates, changes to mortgage qualification rules, and the continuation of strong economic fundamentals. During the second half of 2010, housing starts remained strong but sales activity softened. The residential rental market remained strong in 2010 with continued low vacancy rates and increasing rents.

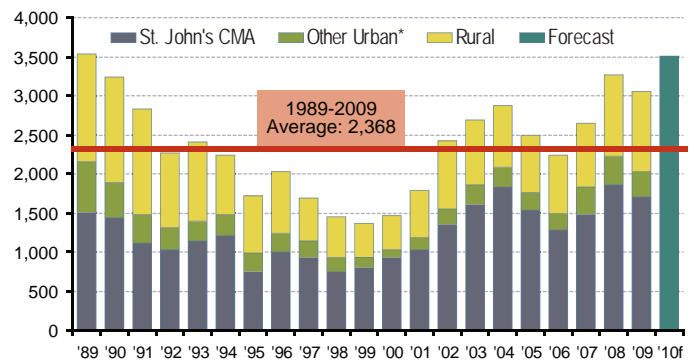
## Housing Starts

During the first three quarters of 2010, housing starts totalled 2,729 units, up 30.6% compared to the same period in 2009 and on track to reach the highest level in more than 20 years (1989). By comparison, housing starts were up 19.7% in the Maritimes and 39.5% in Canada over the same period. Both urban and rural areas recorded an increase in housing starts in the first nine months of 2010 compared to the same period in 2009. Urban housing starts (which account for approximately two-thirds of housing starts in the province) were up 12.9% to 1,617 units and rural starts were up 69.0% to 1,112 units. Total housing starts are expected to reach 3,510 units in 2010, an increase of 14.8% from 3,057 units in 2009. Since 1989, housing starts have averaged 2,368 units per year (see chart).

## Sales Activity and Prices

While residential sales activity and prices remain at, or near, historically high levels, sales activity is slowing and prices seem to be stabilizing, a trend also observed nationally. The number of residential properties sold in the province through the Canadian Real Estate Association's Multiple Listing Service® (MLS®) during the first 10 months of 2010 was 3,611, an increase of 0.4% from 3,596 during the

## Housing Starts

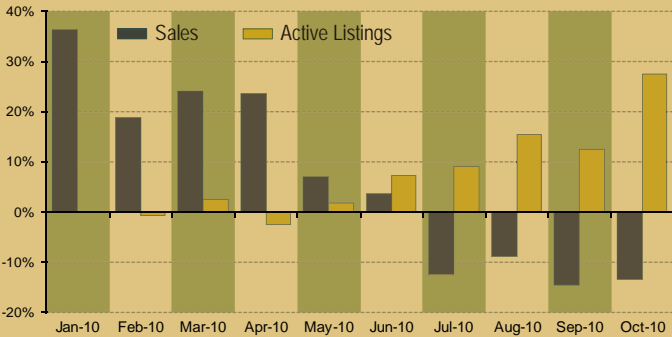


f: forecast

\* 'Other Urban' includes Census Agglomerations: Carbonear (to 1991), Labrador City (to 2007), Bay Roberts, Corner Brook, Gander, Grand Falls-Windsor.

Source: Canada Mortgage and Housing Corporation; Department of Finance

## Residential MLS® Sales and Active Listings NL, % Change Year-over-Year



Source: Canadian Real Estate Association (CREA)

## Residential MLS® Average Price

	2007	2009	2010f	2007-10f
CA	\$307,137	\$320,333	\$330,200	7.5%
BC	\$439,119	\$465,725	\$487,500	11.0%
AB	\$356,235	\$341,201	\$350,100	-1.7%
ON	\$299,544	\$318,366	\$336,200	12.2%
SK	\$174,405	\$233,695	\$241,400	38.4%
<b>NL</b>	<b>\$149,258</b>	<b>\$206,374</b>	<b>\$233,200</b>	<b>56.2%</b>
QC	\$207,530	\$225,412	\$231,900	11.7%
MB	\$169,189	\$201,343	\$216,800	28.1%
NS	\$180,989	\$196,690	\$205,100	13.3%
NB	\$136,603	\$154,906	\$157,900	15.6%
PE	\$133,457	\$146,044	\$148,700	11.4%

Source: Canadian Real Estate Association (November 2010)

same period in 2009. This increase was the result of a very strong first half as changes to mortgage rules effective April 19, 2010 and the fear of interest rate increases pulled buying decisions to the first part of the year (see chart). During the last four months (July-October) residential sales activity was down 12.3% compared to the same four month period in 2009. At the same time, active listings (a measure of inventory in the resale housing market) have been increasing, up 7.8% during the first 10 months compared to the same period in 2009. Nationally, residential sales were down 2.4% during the first 10 months of 2010.

During the first 10 months of 2010, the average MLS® residential price in the province was \$233,912, an increase of 15.4% compared to the same period in 2009. The average MLS® residential price over the same period in the St. John's Census Metropolitan Area (CMA) was \$249,290, an increase of 16.0% over 2009. According to Canada Mortgage and Housing Corporation (CMHC), prices appear to have stabilized around the \$235,000 level in the province and around the \$250,000 level in the St. John's CMA during the third quarter. While prices continue to be strong, continued weakness in sales combined with an increase in active listings may slow further upward price movement and create a more balanced market. Nationally, the average MLS® residential price increased 6.5% to \$338,211 during the first 10 months of 2010.

## **New Developments**

On February 8, 2010, the Canadian Competition Bureau announced that it was formally challenging rules imposed by the Canadian Real Estate Association (CREA) concerning the use of its Multiple Listing Service®. The Competition Bureau alleged that these rules were anti-competitive by limiting consumer choice and preventing innovation in the market for residential real estate services. On October 24, 2010, at a special general meeting, members of CREA approved an agreement with the Competition Bureau. The new 10-year agreement gives Canadians the ability to choose which services they want from a real estate agent when buying and selling a home, and to pay only for those selected services, compared to the current traditional full-service commission-based structure. In addition, the agreement will ensure that real estate agents have the flexibility to provide innovative service and pricing options that meet the needs of consumers.

## **Rental Market**

Residential rental vacancy rates remain at, or near, historical lows throughout Newfoundland and Labrador. Vacancy rates in urban areas decreased from a high of 15.4% in 1997 to just 1.1% in the spring of 2010 and have been near or below 1% since 2008. In April 2010 (latest data available), urban vacancy rates were 0.6% in Gander, 0.8% in the Corner Brook Census Agglomeration (CA), 1.1% in the St. John's CMA, and 2.3% in the Grand Falls-Windsor CA. Although vacancy rates are low, rents remain the lowest in Atlantic Canada. In April, the average monthly rent for a 2-bedroom apartment in Newfoundland and Labrador was \$640, up from \$616 in April 2009. However, this rent was still low compared to \$842 in Nova Scotia, \$707 in Prince Edward Island, and \$659 in New Brunswick. It is expected that improved labour markets, positive net-migration, higher housing prices and a slowdown of rental construction will continue to keep vacancy rates low and place upward pressure on rents.



# Travel and Tourism

*Puffins (Dept. of Tourism, Culture and Recreation)*

## Global and National Travel

Travel and tourism worldwide rebounded in 2010 following a difficult year in 2009. Global international tourist arrivals increased 6.8% in the first eight months of 2010 to 642 million, according to the World Tourism Organization. Growth was positive in all major regions, led by robust performance in the emerging economies. Overall, international arrivals are expected to increase between 5% and 6% in 2010. With this strong rebound, the level of activity would be higher than the record year of 2008.

Tourism activity at the national level was somewhat mixed in 2010. International inbound travel to Canada declined over the January to September period (down 0.6%) because of a drop in the number of same day trips made by U.S. residents (down 4.9%). This reflects, in part, a weak U.S. recovery, tighter border crossing regulations, and a stronger Canadian dollar. However, overnight visits made by U.S. residents were roughly on par with the same period in 2009 (-0.2%) and visits by residents of other countries were up 7.2% over 2009. Domestic travel by Canadians increased in the first half of 2010—Canadians made 106.2 million trips within Canada, up 4.7% over the first six months of 2009.

## Provincial Travel

The Newfoundland and Labrador travel and tourism industry performed well in 2010. The number of non-resident visitors to the province is projected to grow by an estimated 7% to over 518,000. Associated spending is expected to increase by about 9% to over \$405 million. Indicators suggest that this province's tourism sector has outperformed the other Atlantic Provinces, particularly in air travel and related services. Newfoundland and Labrador airports recorded a 6.5% increase in passenger travel for the first 10 months of 2010, compared to growth of 5.2% in New Brunswick, 4.7% in Prince Edward Island and 2.6% in Nova Scotia. Increases in accommodation occupancy rates and the number of room nights sold in Newfoundland and Labrador during the first nine months exceeded the other Atlantic Provinces.

Air travel is the largest segment of the province's non-resident tourism sector, accounting for 72% of visitors and 80% of spending in 2009. Activity in this segment continued to rise in 2010, driving

overall growth in tourism. The number of non-resident air travelers is expected to reach a record 379,600 in 2010, up by 9% over 2009. The overall increase in non-resident air visitors reflects, in part, improvements in airline seat capacity and more competitive airfares. Inbound direct seat capacity in 2010 is expected to grow 9% over 2009, reflecting more seat capacity from other parts of Canada and the addition of international direct flights from the United Kingdom.

Intra-provincial seat capacity is forecast to increase over 6% in 2010, with capacity increases expected for most airports. The province plans to enhance air transportation access over the next several years through its new air access strategy *Taking Flight: An Air Access Strategy for Newfoundland and Labrador*, launched in October 2010. A total of \$5 million has been committed over three years to support strategy goals including airline/airport business development and route promotion.

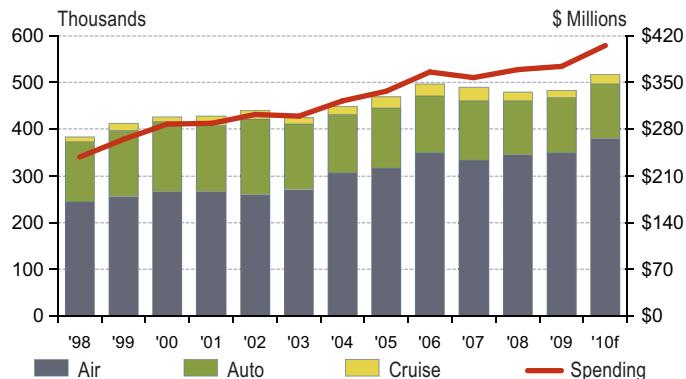
Non-resident automobile visitation is expected to total 116,400 in 2010, down 1.9% over 2009. Based on January to October results, lower non-resident automobile traffic reflected declines in visitors from the Maritimes (down 4.7%), Ontario (down 2.2%) and Quebec (down 3.9%), which offset increases in visitors from the United States (up 9.6%) and Western Canada (up 1.7%).

Non-resident automobile traffic was remarkably good this year considering the number of problems reported by Marine Atlantic—primarily capacity constraints and mechanical issues with its older vessels—during the peak travel season. In a move to improve the ferry service between the province and Nova Scotia, the Government of Canada has committed over \$520 million in new funds over five years to renew the fleet and shore facilities, and to increase the available capacity and reliability of the service. More than \$300 million of this new funding is earmarked for the fleet including refits, upgrades and the chartering of two vessels in 2011 to replace the aging *MV Caribou* and *MV Joseph and Clara Smallwood*. The goal of this investment is to increase capacity to meet current demand and to provide room for future growth.

Scheduled cruise visitations for 2010 were up considerably over the previous year. The number of cruise ship port calls totalled 133, up 24.3% from the 107 recorded in 2009. The number of non-resident cruise visitors<sup>2</sup> increased about 37% to 22,100. Overall, cruise ships visited 48 different ports around the province.

<sup>2</sup> This figure is a Department of Tourism, Culture and Recreation estimate based on a review of itinerary information. This estimate counts passengers only once regardless of the number of ports visited. This should be distinguished from “cruise ship passenger visits”, which is the industry standard, whereby passengers are counted at each port call made by their vessel. In 2010, cruise ship passenger visits totalled 32,968, an increase of 32.8% over 2009 levels.

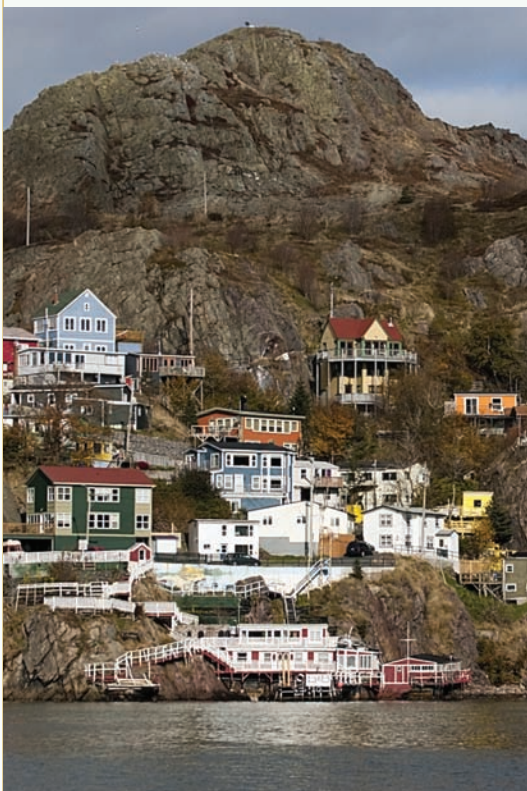
## Non-Resident Travel and Tourism Visitors and Spending By Mode of Transportation



f: forecast  
Source: Department of Tourism, Culture and Recreation

# AVALON PENINSULA TOP COASTAL DESTINATION

In its November-December 2010 issue, *National Geographic Traveler* magazine rated Newfoundland's Avalon Peninsula as its top rated coastal destination. The magazine ranked 99 coastal areas from Italy to Mozambique, using a panel of 340 experts on sustainable tourism and destination stewardship. In its commentary, the magazine described the Avalon Peninsula as "home to brightly painted fishing villages and to the lively city of St. John's."



Early indications suggest that residents of Newfoundland and Labrador are taking more trips at home this year. Preliminary estimates from Statistics Canada indicate that residents took almost 1.4 million trips within the province during the first half of this year compared to just over 1.3 million for the same period in 2009. Expenditure data showed a slight decline, indicating that travelers may have been more frugal this year than in 2009.

Other data to the end of October 2010 showed solid increases in visitations at provincial and national historic sites of 7.6% and 4.8% respectively. There were also gains in visitors to provincial visitor information centres (up 3.5%).

Occupancy rates are pointing to another good year for the accommodations industry. The provincial occupancy rate reached 52.5% for the period ending September 2010, up 2.1 percentage points compared to the same period in 2009. Gains in occupancy rates on the Avalon (+2.7 percentage points), Central (+0.5) and Labrador (+13.5) offset declines elsewhere. The advance in occupancy rates in Labrador was particularly noticeable and is linked in part to a strong mining sector and increased access via the Trans Labrador Highway. Preliminary data also indicated an increase of 3.2% in the overall provincial average daily hotel room rate during the first nine months of 2010.

Major meeting and convention activity was robust in the St. John's Metropolitan Area in 2010. The number of room nights used by major meeting and convention delegates (those booking 50 or more guest rooms per night) is expected to be up around 14% for the year. Preliminary information indicates that many hotels in the downtown core of St. John's have, at times, been completely



booked this year. To the end of October, approximately 40,600 room nights were sold, up significantly from 34,600 for the same period in 2009.

During April 12-18, 2010, St. John's hosted the JUNO Awards, recognizing Canadian artists for excellence in recorded music. The weeklong celebration in St. John's included many events. The JUNO Awards created a substantial increase in activity for hotels, taxis, restaurants and airlines operating in the St. John's area. The number of accommodation room nights sold in the St. John's area in April increased 20% over the same month in the previous year, resulting in an increase of 30% in associated revenue. In addition, the events provided valuable media exposure for the tourism sector—the value of the media coverage was estimated to be equivalent to \$2.8 million in advertising. It is estimated that 6.5 million Canadians watched all or part of the awards broadcast, up about 60% from the previous year.

The Cupids 400<sup>th</sup> Anniversary Celebrations was a major event this year. This yearlong celebration commemorated the founding of Cupids, the first English settlement in Canada, by John Guy and his colonists in 1610. Over 200 individual events were staged as part of this celebration throughout the Northern Avalon Peninsula region, culminating in the six-day Cupids Cove Soiree in August which attracted over 25,000 visitors. One of the many highlights of these celebrations was the official opening of the Cupids Legacy Centre, a new state-of-the-art visitor interpretation facility which hosted about 9,500 visitors.

The province has increased its own marketing effort substantially in recent years, contributing to the growth in tourism activity. In the 2010-11 budget, \$13 million was committed to tourism marketing, more than double the level six years ago. Furthermore, there are new and exciting avenues for marketing the province. Tourism consumers are increasingly accessing travel information through electronic and online resources. During the first 10 months of 2010, interest—as measured by enquiries for information and visits to the province's official tourism web site—increased by 10% over 2009. Electronic activities and utilization of social media continue to provide opportunities to significantly increase the awareness of Newfoundland and Labrador as a tourist destination.

# GDP and Employment

	Gross Domestic Product		Employment	
	2009e		2009	
	\$ Millions	% of Total	Person Years, 000s	% of Total
<b>Goods-Producing Sector</b>	<b>11,176.6</b>	<b>47.9</b>	<b>45.2</b>	<b>21.0%</b>
Agriculture	62.6	0.3	0.8	0.4%
Forestry & Logging	105.1	0.5	0.5	0.2%
Fishing, Hunting & Trapping	155.0	0.7	5.6	2.6%
Mining	1,565.7	6.7	3.3	1.5%
Oil Extraction & Support Activities*	6,415.6	27.5	5.2	2.4%
Manufacturing	985.0	4.2	11.9	5.5%
Fish Products	185.0	0.8	4.7	2.2%
Other	800.0	3.4	7.2	3.4%
Construction	1,226.3	5.3	15.7	7.3%
Utilities	661.3	2.8	2.1	1.0%
<b>Services-Producing Sector</b>	<b>12,142.4</b>	<b>52.1</b>	<b>169.7</b>	<b>79.0%</b>
Wholesale Trade	643.6	2.8	5.2	2.4%
Retail Trade	1,199.9	5.1	29.6	13.8%
Transportation & Warehousing	698.3	3.0	11.7	5.4%
Finance, Insurance, Real Estate & Business Support Services	2,896.1	12.4	14.5	6.7%
Professional, Scientific & Technical Services	605.7	2.6	7.7	3.6%
Educational Services	1,239.3	5.3	17.3	8.1%
Health Care & Social Assistance	1,770.9	7.6	34.6	16.1%
Information, Culture & Recreation	624.3	2.7	8.8	4.1%
Accommodation & Food Services	386.1	1.7	13.1	6.1%
Public Administration	1,654.6	7.1	16.9	7.9%
Other Services	423.7	1.8	10.3	4.8%
<b>Total, All Industries</b>	<b>23,319.0</b>	<b>100.0%</b>	<b>214.9</b>	<b>100.0%</b>

e: estimate, Department of Finance

\*Includes support activities for mining and oil and gas

**Note:** GDP is expressed at basic prices, measuring payments made to the owners of factor inputs in production. This differs from GDP at market prices. The difference is attributable to taxes less subsidies on products. Industry components may not sum to total due to independent rounding.

**Source:** Statistics Canada; Department of Finance





# The Economic Review 2010

Economic Research and Analysis Division  
Department of Finance  
December 2010