



PEOPLE
INNOVATION
CAPITAL
INFRASTRUCTURE
AGILITY

New Brunswick's Economic Growth Plan:

Why growth is imperative

August 2016



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I. Why does New Brunswick need a growth plan?

1960-2007: Fifty years of slow but steady progress

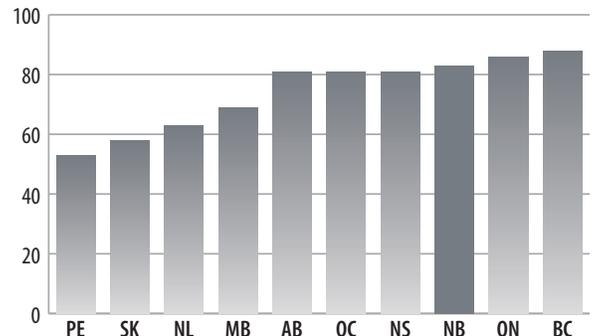
Here in New Brunswick, we have made great progress as a province throughout the 20th Century. Imagine:

- In 1960, per-capita personal income was 40 per cent less than the Canadian average. By 2014, this gap had narrowed to 11 per cent.
- In 1976, 15.5 per cent of us earned low incomes. By 2011, this rate had gone down to 5.8 per cent¹.
- While unemployment is still too high, more of us are working than ever before. In the past 30 years, only one other province achieved a faster increase in the workforce employment rate (the percentage of adults with a job) than New Brunswick.
- Not that long ago, the only modern four-lane highways were in Saint John, Moncton and Fredericton. Today, we have more than 750 km of four-lane highway; two key corridors, Route 1 and Route 2 (the Trans-Canada Highway) have been twinned from end to end.
- Our airports and seaports are far more advanced now than several decades ago. The Greater Moncton International Airport can accommodate the largest cargo planes. The Port of Belledune has joined the Port of Saint John in providing ice-free port service.

We rank third among the 10 provinces for the percentage of households with access to high-speed broadband infrastructure (Figure 1).

- Until the 1960s, the quality of schools, hospitals and social services throughout New Brunswick varied widely, depending on the strength of the local tax base and other factors. Wealthier areas enjoyed more or better quality services. Less affluent ones received fewer or poorer quality services. Then came Equal Opportunity. Today, we have access to a wide range of quality public services regardless of where we live.

Figure 1: Percentage of households with access to 25 Mbps broadband infrastructure or higher (2014)



Source: CRTC Communications Monitoring Report, October 2015

- According to Statistics Canada's 2014 *Canadian Community Health Survey*, 93.4 per cent of us have a regular doctor – the highest rate among the provinces.

Our standard of living is much better. Our quality of life is higher. We are living longer than ever. Our stewardship of the environment has improved substantially.

¹ Low income cut-offs after tax, 1992 base. Source: Statistics Canada CANSIM Table 202-0802.

2008: New Brunswick's economic progress stalls

New Brunswick had a promising start to the 21st century. The economy was growing. Employment was increasing. Businesses were investing. From 2000 to 2007 more than \$8 billion was invested in large-scale projects. The introduction of natural gas brought a clean and efficient source of energy. Forestry was at its peak in terms of its economic contribution and jobs. We became a hotbed for customer contact centres and national back offices, drawing on an advanced telecommunications infrastructure and a bilingual workforce. The Information Technology (IT) sector was growing, and we were at the front end of a substantial expansion of public- and private-sector research spending that doubled investments in R&D between 2000 and 2007. The government was in a solid fiscal position, had balanced its books and, along with all other provinces, was benefitting from a significant expansion of federal government transfers.

But there were storm clouds in the distance. For decades, a surplus of workers meant that industries did not have to worry about recruiting and retaining employees. Then came the 2001 Census, which projected the province was on the cusp of an unprecedented demographic shift. For the first time, New Brunswick's population declined from the previous census taken in 1996. The government responded by creating a population growth strategy. Addressing these challenges became the focus of the government in 2006 as it targeted a 100,000-increase in the population by 2026.

A range of economic and demographic challenges all came together in the mid-2000s. The labour market was tightening. Many of the industries that had sustained growth were showing signs of weakness. The Canadian dollar was rising, eroding the competitiveness of key industries such as tourism. Manufacturing was beginning to feel increased global competition. Mining was in decline and was set to drop even further with the closure of the Bathurst-area Brunswick Mines. The customer contact centre and national back office cluster, which had peaked in 2004, was shedding workers. Several large forestry mills closed and were dismantled. Forestry lost one-half of its value to the provincial economy in just a few short years.

This left New Brunswick's economy in a weak position when the recession hit in 2008. After the recession, the federal government decreased its direct and indirect

spending in the province. The large private investment boom fizzled. All the while, unsettling demographic and industry trends continued. The other provinces emerged with at least some growth and net new employment. Our economy, however, remained stagnant and so did employment.

Deeper dive: The impact of the Canadian dollar on our economy

We depend on the United States as an export market more than all other provinces. In 2015, 90 per cent of our international merchandise exports (by value) went to the United States. The ongoing fluctuation of the Canadian dollar compared to the American dollar creates challenges for our economy. In January 2001, \$1 Cdn was worth 62 cents U.S. By November 2011, the value of the Canadian dollar had skyrocketed by 78 per cent to \$1.10 U.S., but by May 2016, \$1 Cdn had fallen back down to 76 cents U.S.

Our exporters suffer when the Canadian dollar is high. On the other hand, they can generate above-average profits from U.S. sales when the dollar is low. In the long run, New Brunswick exporters need to build business models that are profitable at currency conversion rates in the range of \$1 Cdn being worth 80 to 85¢ U.S. When the Canadian dollar is weak, exporters should invest in productivity improvements to help sustain their business when the dollar is stronger.

In the longer term, New Brunswick exporters must diversify their markets to be less reliant on the United States.

Between 2008 and 2014, real gross domestic product (GDP) – the broadest measure of the economy – declined in New Brunswick by 0.1 per cent. During the same period, GDP rose by five per cent in Nova Scotia and nine per cent on Prince Edward Island.

The number of people working has also declined. We had 6,800 fewer people working in 2014 than in 2008. Manufacturing alone shed 5,200 workers. By

comparison across the country nearly 800,000 more people were working in 2014 than in 2008.

Business investment has gone down by nearly \$1 billion per year. Many of the industries that created jobs in the early 2000s are now cutting jobs.

Our population younger than 45 has declined steadily – dropping by 84,000 between 2000 and 2014. *This is more than the population of Saint John.*

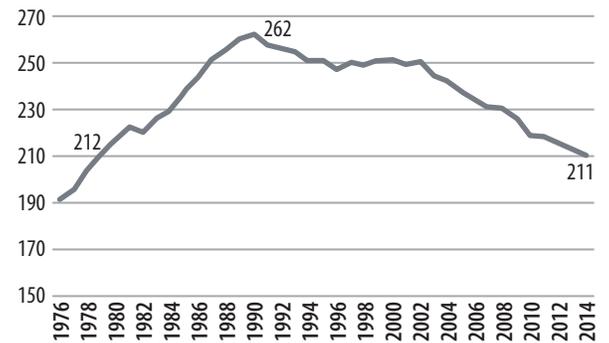
We have to go back to 1979 to find as few people younger than 45 participating in our workforce as there were in 2014 (Figure 2). During the same period, the number of people younger in this age group in the national workforce swelled by more than 2.5 million.

The weak economy is hampering the ability of government to fund needed public services. The pressure on government to continue to provide quality public services and infrastructure at a time of stagnant growth

has pushed up public debt levels not seen in more than 50 years.

Our quality of life and standard of living will be in jeopardy if we cannot return to solid and sustained economic and population growth.

Figure 2: Number of New Brunswickers younger than 45 in the workforce (000s)



Source: Statistics Canada CANSIM Table 282-0002

2015 and onward: A pivot back to economic growth

New Brunswick is beginning to witness positive economic trends and recent successes that will position the province for further economic growth.

- Last year New Brunswick's economy grew at its fastest rate since 2010 and is showing signs of continued growth into 2016.
- Average weekly earnings have increased by 2.7 per cent since 2014, compared to Canadian growth of 1.8 per cent.
- Retail sales have increased for 11 of the last 12 quarters and the first quarter of 2016 saw gains of 9.4 per cent, the highest quarterly growth rate since the first quarter of 2010.
- New Brunswick has the best Internet access in the country by a significant margin over other provinces, with average download speeds of around 27 Mbps, according to a report from the Canadian Internet Registration Authority.
- Fredericton, Moncton and Saint John were ranked as three of the four most cost competitive cities in Canada to do business, as reported in KPMG's Competitive Alternatives 2016 report.

Setting the Stage: The role of government to foster economic growth

A primary objective of government must be to restore growth and create jobs. We must realize the status quo is not acceptable. If nothing changes, eventually all of us will be hurt one way or another. What is holding us back? We have already taken steps to address our fiscal situation and grow our economy. The trends are proof of the steady gains in the economy but there is more to do. The climate is right for economic growth. We need to take bold steps and work in partnership to find solutions to the challenges we are facing and continue the recent positive economic growth trends.

- **Address the PEOPLE challenge: Reverse the shrinking workforce.** Even as we face relatively high unemployment, we cannot be distracted from the problem of our shrinking workforce. We will not return to sustained growth without a deliberate and focused effort to expand the workforce, particularly among those younger than 40.
- **Address the INNOVATION gap:** Our companies, institutions and governments spend less on R&D as a share of GDP than all other provinces. We rank near the bottom among the provinces for innovation capacity. If we want to return to sustained growth,

Deeper dive: We need to embrace the global economy

New Brunswick is a small province. Most of the products we consume – from food to consumer products like electronics and vehicles – are not produced here. To have a strong and growing economy, we must export products and services across Canada and beyond. At the same time, global competition for export markets, investment and talent has never been greater. There are global trends that will influence us regardless whether we are ready. We cannot pretend we are immune from them. We must find and exploit our place in the global economy. We must attract investment and talent from around the world.

we must **expand investment in research, foster innovative companies and invest in the infrastructure that will make us a smarter province.**

- **Address the CAPITAL gap: Ensure there is enough**

investment capital to foster growth. We need to ensure that entrepreneurs across the province have access to a broad range of private capital sources to spur investment and economic growth.

- **Address the strategic economic INFRASTRUCTURE challenge: We must invest in infrastructure that fosters competitiveness and stimulates private-sector growth.** We are committed to investing – from gateway infrastructure like ports and airports to innovation-enabling infrastructure – to drive competitiveness and growth.
- **Address the government’s AGILITY challenge:** We must become more agile in how we work with industry and more proactive in our focus on economic development. There are many ways government can be more nimble and promote a more positive business climate while ensuring growth is consistent with social, environmental, aboriginal and community objectives. It can cut red tape. It can improve procurement. It can take less time to make decisions. Looking ahead, we will devote more time and effort to build a compelling value proposition that convinces companies to invest here.

II. What do we want to achieve?

We want New Brunswick to be a place where people who work hard can get ahead.

We want New Brunswick to be a place where entrepreneurial risk is rewarded by new wealth creation.

We want New Brunswick to be a place where people, young and old, can build happy and fulfilled lives; where families can thrive; and where new Canadians can prosper.

We have proven we can compete and win in the global economy. There are examples all over the province of entrepreneurs who have built globally competitive businesses. We have attracted global companies to invest in our natural resource-based and our knowledge-based industries. We must build on these examples. We have the tools for success at our fingertips.

The vision for New Brunswick: 2020

If the *New Brunswick Economic Growth Plan* is successful, what are we hoping to achieve in the short term? What will a growing and vibrant New Brunswick look like in 2020? We need to focus our talent development, economic development, innovation investments and other activities of the provincial government to help

bring New Brunswick back to a strong rate of economic growth. The Government of New Brunswick needs a growing tax base/economic foundation on which to raise enough revenue to fund quality public services and public infrastructure.

People	The workforce is expanding and the province has returned to net employment growth. The economy will expand again, driving new employment in export-oriented and local services-oriented sectors. The population is returning to solid growth – particularly among those 40 and younger. Increasing the number of younger New Brunswickers is critical to supporting long-term growth.
Innovation	Investment in R&D is increasing. Entrepreneurs are building innovative start-ups. New Brunswick companies are investing in competitiveness.
Capital	New Brunswick-based, national and international firms are boosting their investment here. Start-up companies and fast-growing entrepreneurs have access to capital.
Infrastructure	The \$150 million set aside by the provincial government each year for strategic investments is renewing key public- and private-sector infrastructure. New innovation-boosting infrastructure has been built around the province.
Agility	Government has become more agile. Decisions have been made that put the provincial government finances on a firm foundation and ensure that tax rates remain stable and quality public services and infrastructure can be maintained. It is easier to start a business. Red tape has been reduced and the time it takes to get permits and other approvals has gone down. Many regulations that impact business across the Maritimes Provinces have been harmonized. Government decision-making occurs in a more timely fashion.

Deeper dive: GDP growth, taxes and public services

If the economy is not growing, it becomes more difficult to raise enough tax revenue to fund public services. For example, the Saskatchewan government spent \$11,558 per person on programs in 2014-15. During the same fiscal year, we spent \$10,383 per person on programs. While per-capita spending was actually more in Saskatchewan, provincial government

program spending was equivalent to only 16.2 per cent of that province's GDP, compared to 24.1 per cent of GDP in New Brunswick. This represents our province's fundamental challenge. If the economy is not growing and creating higher-value economic activity, it becomes harder to pay for public services and infrastructure.

The vision for New Brunswick: Beyond 2020

In the longer term, a sustained focus on the elements of the *New Brunswick Economic Growth Plan* is meant to create a strong economic foundation and the basis for a high quality of life for all of us. We will have addressed:

- our *PEOPLE* challenge:
 - by growing our workforce,
 - by providing more targeted training and skills alignment efforts, and
 - by significantly growing the number of new and returning New Brunswickers settling here.
- our *INNOVATION* challenge:
 - by fostering an innovative, competitive and entrepreneurial economy, and
 - by investing in Research and Development.
- our *CAPITAL* challenge:
 - by attracting private-sector investment based on the strength of our business climate.
- our *INFRASTRUCTURE* challenge:
 - by making a long-term commitment to investing in infrastructure that will ensure industries continue to invest here and talent from around the world will come to call our province home.
- our *AGILITY* challenge:
 - by increasing the speed at which government responds to economic opportunities, changing global markets and our citizens within a sustainable fiscal framework.

In the longer term, a growing economy and expanding workforce will enable us to continue the progress started in the 1960s.

People	A demographically balanced, growing population and economy creating a sustainable economic foundation for all regions. Multicultural, diverse and thriving communities.
Innovation	An innovative economy and population creating higher-value activity.
Capital	An environment that is attractive to private-sector investment and that encourages us to invest locally.
Infrastructure	World-class infrastructure supports economic and social objectives.
Agility	A government fiscal framework that is sustainable and reduces our dependency on fiscal equalization payments. The focus on agility means that New Brunswick is known across North America as an excellent location in which to invest. We have an economy providing opportunities for all.

Deeper dive: Taking control of our destiny

Sometimes it feels, as individuals, communities and a province, that events outside our control are shaping our destiny. Even though we are buffeted by global and national economic forces, we have to realize that no one else is coming to our rescue. In Paris, Shanghai, Mumbai, New York, Toronto and even Ottawa, our challenges do not show up on the radar. But in Saint John, Beresford, Edmundston, Riverview

and Minto, how we address these challenges will determine our future. To us, they mean everything.

We must take control of our collective destiny. If we are to achieve the vision for our province in the long term, it will be our decisions – as individuals, families, business owners, community leaders and government – that will make it happen.