HALIFAX SHIPBUILDING CONTRACT TO BOOST ECONOMIC PROSPECTS FOR NOVA SCOTIA

Highlights

- The $25 billion contract recently awarded to Irving Shipbuilding does not noticeably alter our 2011-12 Nova Scotia economic outlook. As the project gets underway late in 2012, we expect improvement to trickle its way through the economy via increased residential housing starts and new jobs.
- The impact to our provincial economic forecast is most noticeable in 2013, when shipbuilding production begins in earnest and federal funds are flowing. Relative to our September call, provincial real GDP is now projected to be $228 million higher. The economy should churn out 3,200 net new jobs over and above our previous forecast.
- With many details still pending and negotiations underway, it is too early to quantify the long-term benefits associated with the shipbuilding contract. Regardless, this new project appears likely to create many thousands of new high-paying jobs over the next twenty or thirty years.

Jubilation and exuberance hit the streets across Nova Scotia late last month when Irving Shipbuilding Incorporated was awarded a $25 billion, multi-year shipbuilding contact. While the ink must still dry on this agreement, we analyze the near-term economic impacts associated with the deal. With the year almost complete, our 2011 forecast has not changed. Next year, a modest improvement, relative to our baseline case, in new housing construction and business investment is anticipated.

The most significant revision to our Nova Scotia forecast is recorded in 2013, when we assume the shipbuilding process gets underway and federal funds begin to flow. Relative to our September call, we have ratcheted up real GDP and employment growth by 0.5 and 0.7 percentage points, respectively. Put another way, this boost translates into an additional $228 million in real GDP and 3,200 new jobs over and above our previous forecast. With negotiations still ongoing, it is too early to quantify the economic benefits over the duration of the contract. Regardless, this new project appears likely to create many thousands of new high-paying jobs over the next twenty or thirty years.

Shipbuilding procurement largest in post-war era

After a request for proposals were issued in the Spring as part of the National Shipbuilding Procurement Strategy, the federal government announced the winners of two multi-billion dollar shipbuilding contracts in late October. This public sector procurement process represents one of the largest, in dollar value, in the post-war period. Shipyards in Halifax and Vancouver were winners of the contracts.
Irving Shipbuilding was given the larger of the two projects, valued at $25 billion, and is tasked with building combat vessels including frigates, destroyers and patrol ships over a twenty to thirty year period. In a provincial economy that is $34 billion in size, the shipbuilding contract should have sizeable ripple impacts. By contrast, the Vancouver non-combat vessel project represents a much smaller share of the total economic pot. In turn, any prosperity boost ought to be more muted in nature.

Many details are pending for the Irving deal. For example, timelines have not yet been set in stone and it is uncertain when federal funds will begin to flow and what amounts will be allocated each year. Based on news releases and media statements, it seems that production will get underway late in 2012 and we use this year as the benchmark for our analysis.

**Modest economic growth to persist in 2011 and 2012**

When we issued our provincial economic update in September, we forecast modest real GDP growth (1.4%) for Nova Scotia in 2011. The outlook was constrained by a disappointing job and retail sales' performance and fairly weak demographics. News of the shipbuilding contract and the optimism that comes with undertaking such a project seems to have re-energized consumer confidence. However, much of 2011 is in the record books and, as a result, our annual forecast requires little revision.

The recent boost in consumer and business morale will seep into 2012, at the same time that the project gets underway. To reflect the trickle down effects of positive sentiment, we have increased our real GDP growth forecast by 0.2 percentage points to 1.6%. For employment, we expect 6,300 jobs to be created in 2012, or 900 more than our September estimates. News of the contract suggests that a good portion of these net new jobs will be recorded in the shipbuilding industry, as managers and engineers begin to get attached to the project. To accommodate the new positions, we have increased our housing starts forecast by 400 units, or 10% of the annual total, relative to our previous baseline scenario.

According to the 2011 first quarter fiscal update, the Province sits on a deficit of $319 million, or 0.8% of GDP, for the current fiscal year. As part of its fiscal austerity efforts, the government had announced a variety of measures, including restraining growth in program spending. At this early stage, it is not anticipated that the shipbuilding project will require additional support from the provincial government. However, in the event that it does, we would expect the Province to manage through appropriate adjustments to fiscal policy in order to avoid larger deficit loads and higher debt burdens in the future.

**Positive momentum extends into 2013**

In 2013, we must assess both the direct and indirect impacts of the shipbuilding contract. Benefits are not limited to the Greater Halifax Area; instead, we anticipate a province-wide boost in GDP growth. First, Statistics Canada’s Business Patterns (2010) estimates that nearly 40% of Nova Scotia’s research and development, engineering and technical consulting service firms are located outside the capital city. Second, almost 70% of the province’s manufacturers are housed outside Greater Halifax. Third, national impacts were noted during the federal government’s Canadian Patrol Frigate Project in the 1980s. This program represents
a recent example when Atlantic Canada led the design and construction of new frigates.

When we determine the shipbuilding influence this time around, we take note of the federal government’s Industrial and Regional Benefit policy which applies to procurement contracts. The policy stipulates that a substantial amount of work must be given to small- and medium-sized enterprises (SMEs). Using Industry Canada data, SMEs make up 99.8% of employer businesses in Nova Scotia. On an employment basis, SMEs house roughly one-in-two positions. In turn, a large share of businesses and residents should reap the benefits from shipbuilding production and related services.

Increased consumer spending and residential construction are poised to occur. We have boosted our forecasts for both retail trade and housing starts accordingly, relative to our September call. Provincial government revenues should increase across all major categories. This revenue windfall ought to help ameliorate the government’s fiscal position and reduce its debt load. All the same, improvement will not be recorded overnight and, as a consequence, fiscal austerity should remain in place for 2013. Still, there is an upside risk that the government could return to a surplus position before 2013-14, the current timetable.

On the job front, we have lifted employment growth by 0.7 percentage points, or 3,200 net new positions, in 2013 compared to our September forecast. With more jobs at hand, the unemployment rate is poised to decrease to 8.5%, on an annual basis, in 2013. If realized, this jobless rate would be the lowest registered since 2006. Still, net new in-migration to the province and greater labour force participation rates (both of which are positive trends) are poised to limit the extent of downward movement in the jobless rate over the next few years.

After taking into account all the sector level changes associated with the shipbuilding contract, we have increased our real GDP forecast for Nova Scotia in 2013 by 0.5 percentage points; the growth projection now sits at 2.6%. This reading moves the province up in ranking in 2013 from near the bottom to near the top, leaving it tied with Newfoundland and Labrador.

With the Greater Halifax Area now positioned to be the focus of the heightened flurry of activity, the region is on track to record real GDP growth of 3.2% in 2013. This translates into a percentage point boost relative to our September call.

Details pending, but benefits may cross borders

Armed with the shipbuilding contract, the provincial economic outlook beyond 2013 looks more promising – the multi-year nature of this large-scale project should yield a reliable and stable income-generating source for many Nova Scotians. In its news release, the government states that the project will create an additional 11,500 jobs and almost $900 million real GDP during peak production years of 2018-20. The economic analysis supporting this statement was performed by the Conference Board of Canada in May 2011; their methodology takes into consideration the long-term direct, indirect and induced impacts associated with the project. However, the numbers represent estimates, as timelines and/or federal funding allocations could be different relative to the assumptions made at the time of writing the report.

Shipbuilding benefits could also accrue outside provincial boundaries, and some estimates of this spillover are presented in the chart above. As negotiations continue, we should receive enough information to assess long-term benefits resulting from the shipbuilding work. Still, our near-term assessment of the Nova Scotia economy suggests that brighter fortunes look to be on tap.

Sonya Gulati
Economist - Regional and Government Finances
416-982-8063
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