

### **Impact of Business Confidence in Nova Scotia – what are we so worried about? July 2008**

The latest Business Confidence Barometer released by CFIB in June, points to a problem in Nova Scotia - we like to worry. During the second quarter of 2008, Nova Scotia had the lowest confidence in the country at 93.3<sup>1</sup>, despite economic indicators that suggest we should be at least relatively optimistic, especially compared to other provinces with economies that are less diverse than our own. It's important to understand the psychology behind our pessimistic economic outlook and its root cause, as the impact of our attitude is monumental to the level of investment and growth in the province.

#### **Economic performance statistics for Nova Scotia**

Looking at the latest performance figures, Nova Scotians should not be the most cynical province in Canada. While several economic indicators point to a slight slowdown, others indicate that there is room for optimism.

##### *Unemployment rate*

In May 2008, the unemployment rate in Nova Scotia was 8.2% - up 0.2% over May 2007; however, the participation rate was up slightly as well, which means that more people were out looking for work. In April, the actual unemployment rate was 7.8%, down 0.4% when compared to April 2007.<sup>2</sup>

##### *Housing starts*

As reported by the Nova Scotia Business Journal, according to CMHC, residential construction in the first five months of 2008 in Nova Scotia, dropped slightly below those achieved during the same period in 2007. However, this is the case across the country - in urban centres in May, there were five per cent fewer housing starts than in May 2007. Single starts continue to support the new home construction market, while multiple-residential construction remains significantly lower than last year.<sup>3</sup>

##### *Consumer spending*

According to TD bank, "All of the stars appear to be aligned for weaker consumer spending, but not a major downturn," Craig Alexander, deputy chief economist at TD

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<sup>1</sup> [www.cfib.ca](http://www.cfib.ca)

<sup>2</sup> <http://www.statcan.ca/english/Subjects/Labour/LFS/lfs-en.htm>

<sup>3</sup> <http://www.novascotiabusinessjournal.com/index.cfm?sid=142226&sc=107>

Securities says.<sup>4</sup> Factors such as smaller wages and lower house prices, a slight increase in unemployment and higher interest rates, will make consumers more cautious in 2008 than they were in 2007, when consumer spending in Canada rose 4.5%.

### *Population growth*

In 2008, Nova Scotia had its fastest first quarter population increase since 1991, mainly as a result of the largest net interprovincial migration gains for a first quarter since 1984.<sup>5</sup> The population gain, while small, may be the start of a reverse trend, as more expatriates move back to Nova Scotia to take advantage of employment opportunities.

The government of Nova Scotia is hoping that the slight population gain is a trend. In fact, Nova Scotia's *Come to Life* campaign is banking on it. The campaign has an active web site, which has a job posting component and opportunities for expatriates to share their success stories about moving back home (<http://www.novascotialife.com/>). The cause of the renewed interest in moving back east remains to be determined; however, some are crediting a few factors such as; the rising cost of living in Western Canada, mainly in Alberta; new employment opportunities; and the high quality of life here in Nova Scotia, as key factors.

For an interesting testimonials from Nova Scotians who have moved west check out <http://calgaria.ca/testimonials/>. The entries below provide insight into why many may be moving back east:

*"I went "out west" because I felt it was time for a change. My husband and I moved back here to get married and we are currently in the midst of purchasing our first home. There is NO WAY that we could have ever afforded to buy a house in Edmonton. I do miss it sometimes....I met some great people during my five year stay, but home is where the heart is. ..."* - Melanie, Dartmouth

*"We moved to Calgary last fall to find opportunity, and opportunity we found, but it came at a cost. We left behind the clean, easily accessible, low cost city of Halifax. Traffic there doesn't seem so bad now that I'm dodging SUV's around every corner on my 1 hour commute home here in Calgary. I'm going back ASAP, cause I never realized how good I had it. ..."* - Drew, Calgary

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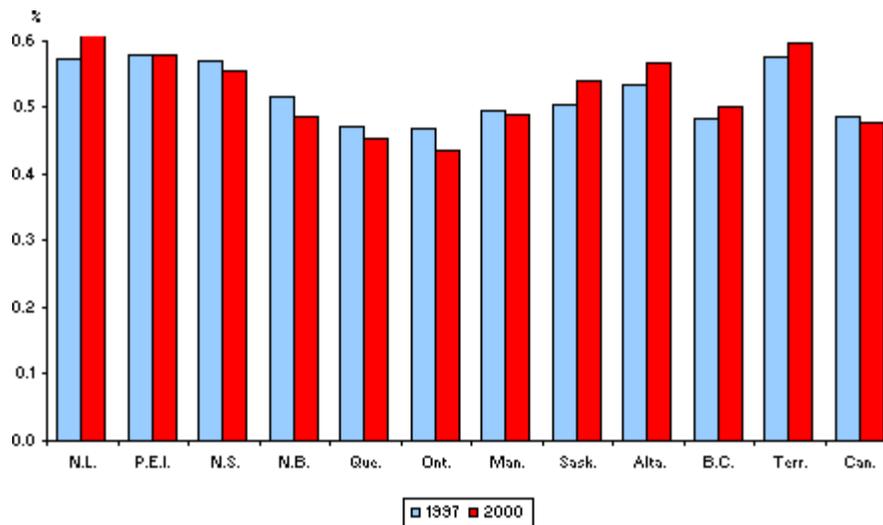
<sup>4</sup> <http://www.canada.com/windsorstar/news/business/story.html?id=b9fbcc7d-e5db-4cf1-b68a-1a3936615e42>

<sup>5</sup> <http://www.statcan.ca/Daily/English/080625/d080625b.htm>

## Nova Scotia has a relatively recession proof economy

Nova Scotia's economy is heavily dependent on the government and service sectors. This is very much a positive as these are "non-cyclical" industries - those which are not impacted by the business cycle, as much as the manufacturing industry, for example. According to a study done by Statistics Canada, Nova Scotia's economy is becoming more reliant on cyclical industries; which should be a cause for concern for all of us; but we are still relatively independent compared to many of the other provinces.

**Chart 2: Provinces' and territories' reliance on non-cyclical industries<sup>6</sup>**



## The psychology behind business confidence

Research and experience tell us that business confidence is critical to investment and growth. A confident business community stimulates investment and development of new technologies.<sup>7</sup> It has been known for a very long time, that the economy can be "talked" up and down. According to Robert Shiller, a Yale University economist "There's a general perception that government leaders and business leaders like to put an optimistic slant on things because they're aware that confidence is very important for the success of the economy. After all, Shiller says, it was President Herbert Hoover who said 'the fundamentals of the economy are sound'... just before the Great Depression."<sup>8</sup>

There is also the theory that consumers tend to react to their own circumstances - the chance of them losing their job for example. However, it takes time for consumers to react to their own financial situation. "Consumer behavior is like an oil tanker: it can take a very long time to turn around," says Peter Lunt, a senior lecturer in economic psychology at University College London.<sup>9</sup> Could this be the

<sup>6</sup> <http://www.statcan.ca/english/freepub/13-605- and XIE/2003001/chronology/2003provincial/cycles.htm>

<sup>7</sup> [http://www.greaterhalifax.com/site-ghp2/media/Parent/Stephen\\_Dempsey\\_2005\\_AGM\\_Speaking\\_Notes.pdf](http://www.greaterhalifax.com/site-ghp2/media/Parent/Stephen_Dempsey_2005_AGM_Speaking_Notes.pdf)

<sup>8</sup> [http://marketplace.publicradio.org/display/web/2008/02/15/consumer\\_confidence\\_low/](http://marketplace.publicradio.org/display/web/2008/02/15/consumer_confidence_low/)

<sup>9</sup> <http://news.bbc.co.uk/1/low/business/1561162.stm>

same for our business confidence, especially when measuring the business confidence of medium to small businesses, as the CFIB business barometer does?

The Nova Scotia *Comes to Life* branding initiative conducted research along this vein. In April 2007, they concluded that there were solid gains in the perception of Nova Scotia as a place to do business over 2004, but there were declines in some of the actual performance measures. Perceptually, gains were seen in: Nova Scotia being a great place to conduct business (up 13% to 43%), investing in Nova Scotia business as smart (up 9% to 47%), Nova Scotia as a dynamic place to do business (up 8% to 34%). One can gather from this, that there isn't always a strong co-relation between our province's actual economic performance and our confidence levels.<sup>10</sup>

### **Source of our worries in Nova Scotia**

It is likely that the drop in Nova Scotia's business confidence is due to two things; the rising price of gas and the lagging US economy. We also have indications that shipping at the Port of Halifax has decreased during the first quarter and Nova Scotia Power has applied for a substantial rate increase this fall - 13.1%. Despite this, one would think that Ontario, given its dependence on manufacturing, particularly in the auto sector and exporting to the US, would be the most pessimistic province during the first quarter of 2008. Indeed, Ontario's business barometer sits at 96.6 for the first quarter of 2008 - which is lower than the national average of 100.7, but still not as low as Nova Scotia's 93.3.<sup>11</sup>

Perhaps Ontarians have faith in the government's five-point plan and the hope that the US economy will rebound. Or perhaps they are ignoring the rumors fueled by Federal Finance Minister Jim Flaherty that Ontario is in jeopardy of becoming a "have-not" province, or perhaps, it will take them time to adjust to their new national image. Either way, I think it's unlikely that if Ontario was in Nova Scotia's current economic position, that they would be as pessimistic as we are - and that is something that as a province and as a business community, we must strive to change.<sup>12</sup>

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<sup>10</sup> [http://www.novascotialife.com/newsletter\\_files/Survey\\_Results-Nova\\_Scotia.pdf](http://www.novascotialife.com/newsletter_files/Survey_Results-Nova_Scotia.pdf)

<sup>11</sup> <http://www.cfib.ca/research/barometer/provincial-summaries/Business-Barometer-ON-200806.pdf>

<sup>12</sup> <http://ontariobudget.ca/english/chpt2.html>