



2023

Fall Fiscal and Economic Update

Department of Finance

The following is a reflection of what Government expects its financial results to be by the end of the fiscal year based on information known since the release of the Budget in May 2023, with a particular focus on fiscal and economic indicators for 2023, as well as the economic outlook for 2024 and beyond. All data in this document is current to November 17, 2023.

In comparison to the 2023-2024 Operating Budget, the Province is now forecasting a deficit position of \$98.6M, an increase of \$1.0M from May 2023 when the budget was tabled.

This report outlines the strong signs of economic recovery for PEI during 2022 and the first half of 2023, and showcases Government's commitment to supporting Islanders and the plan outlined in Budget 2023-2024.

2023 Fall Fiscal and Economic Highlights

The current forecast for the FY 2023-2024 is a deficit of \$98.6 million, a \$1.0M increase from the budget released in May 2023.

After reaching a low in March 2023, investment in building construction has increased every month, exceeding \$100 million in August 2023, for the first time since May 2022.

Provincial revenues have increased by \$25.7 million primarily due to increases in tax revenues of \$7.5 million stemming from continued economic growth in the Province, as well as increased federal revenues.

The value of international exports from Prince Edward Island has increased 16.9 per cent on a year-to-date basis through September, while nationally they are down 3.0 per cent.

Provincial expenditures are expected to increase by \$26.7 million. This reflects anticipated increased uptake in energy efficiency programs and costs associated with an increase in caseloads for Social Programs.

As of July 1, 2023, PEI's population was 173,787, a new all-time high. At a rate of 3.9 per cent (6,599 persons), Prince Edward Island had the fastest annual rate of growth for the province on record and the second fastest growth amongst jurisdictions over this timeframe, behind Alberta.

The change in the All-Items Consumer Price Index for P.E.I. was 3.4 per cent on a year-to-date basis through September. The inflation rate for food and shelter were 4.8 per cent, and 3.2 per cent over this period, while energy declined 5.6 per cent. Nationally inflation increased 4.1 per cent through September.

Forecasted net debt as a percentage of GDP for fiscal 2023-2024 has improved in comparison to what was anticipated when the 2023-2024 Operating Budget was tabled in May 2023 as a result of stronger than expected GDP growth, as well as better than anticipated results in the Public Accounts for 2022-2023 and the forecasted deficit for 2023-2024.

Total labour income continues to grow on the Island, up 8.2 per cent through June, the fastest growth amongst provinces.

The seasonally adjusted value of retail sales has increased by 6.7 per cent on a year-to-date basis through August.

The value of manufacturing shipments has increased 12.9 per cent on a year-to-date basis through September, totaling \$2.5 billion. Nationally, manufacturing shipments increased 1.5 per cent through September.

The tourism sector is continuing its rebound through 2023. Bridge and air traffic to the Island are up 26 per cent and 29 per cent respectively, though total overnight stays are down 1 per cent through July.

2023-2024 Fall Fiscal Update

The purpose of the fiscal update is to provide information on the government's projected revenues and expenses as factors change throughout the year. The forecast has been compiled from information provided by management and is based on updated information and assumptions available since the budget was tabled.

The current forecast for 2023-2024 indicates a deficit of \$98.6 million. This represents an increase of \$1.0 million compared to the deficit plan of \$97.6 million outlined in the spring 2023-24 Operating Budget.

SUMMARY

(Millions)	2023-24 Budget Estimate	2023-24 Fall Fiscal Update Forecast	2023-24 Budget Variance
	\$	\$	\$
Total Revenue	2,995.2	3,020.9	25.7
Total Program and Consolidated Agency Expenditures	2,809.3	2,833.7	24.4
Total Interest and Amortization	283.5	285.8	2.3
Total Expenditures	3,092.8	3,119.5	26.7
CONSOLIDATED DEFICIT	(97.6)	(98.6)	(1.0)
NET DEBT - End of Year	2,800.3	2,749.7	(50.6)

Revenue Forecast Highlights:

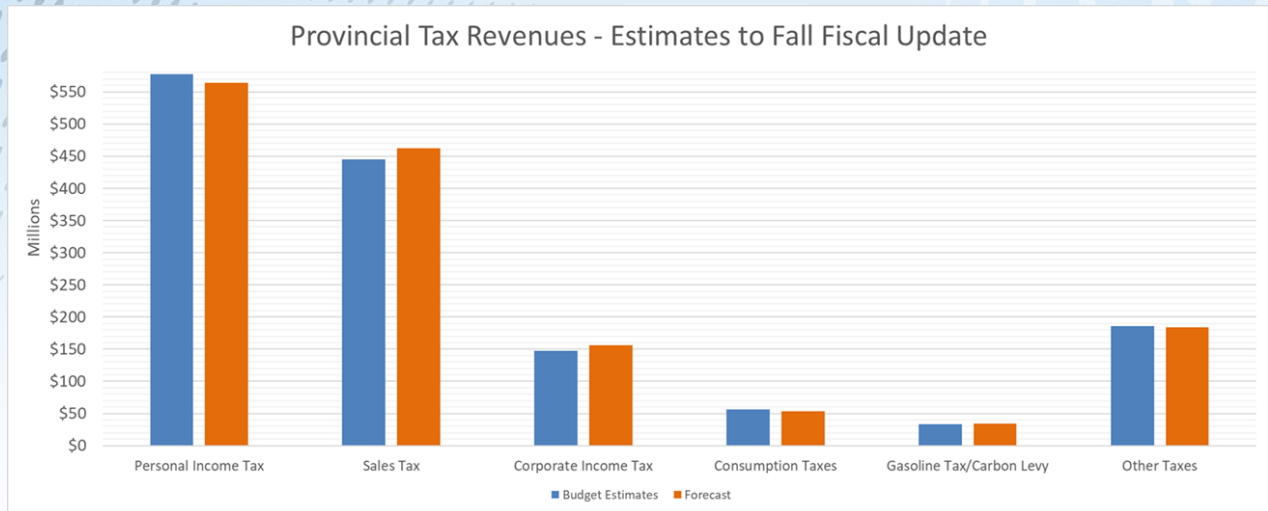
Total revenues are forecast to increase by \$25.7 million from the Fiscal 2023-2024 Budget Estimates prepared in the Spring of 2023. Tax receipts are currently anticipated to increase by \$7.5 million. Increased federal revenues of \$12.7 million have also contributed to the additional total revenue reflected in the Fall 2023 forecast.

REVENUE SUMMARY BY SOURCE

	2023-24 Budget Estimate	2023-24 Fall Fiscal Update Forecast	2023-24 Budget Variance
	\$	\$	\$
PROVINCIAL OWN SOURCES			
Taxes.....	1,446,450,100	1,453,968,200	7,518,100
Licenses and Permits.....	44,582,800	44,322,000	(260,800)
Fees and Services.....	102,941,100	102,087,800	(853,300)
Investments/Sinking Fund.....	38,482,700	46,096,700	7,614,000
Other Revenue.....	8,106,500	9,208,300	1,101,800
TOTAL PROVINCIAL OWN SOURCES.....	1,640,563,200	1,655,683,000	15,119,800
GOVERNMENT OF CANADA.....	1,215,093,500	1,227,771,700	12,678,200
TOTAL CURRENT REVENUE.....	2,855,656,700	2,883,454,700	27,798,000
Consolidated Agencies.....	77,812,700	77,674,700	(138,000)
Net Consolidated Surplus of Government Business Enterprises.....	61,711,900	59,795,600	(1,916,300)
TOTAL REVENUE.....	2,995,181,300	3,020,925,000	25,743,700

The forecasted increase of \$25.7 million in total revenue is primarily related to increased Federal revenue, interest from investments and stronger forecasted tax revenue than anticipated in the Budget Estimates. Revenue from taxes are currently anticipated to increase by \$7.5 million. This increase is driven primarily by an increase in forecasted sales tax and corporate income taxes that stems from continued economic growth in the Province. Sales tax is forecasted to increase by \$17.1 million and corporate income tax to increase by \$8.2 million, with personal income tax forecasted to decrease by \$13.8 million as a result of adjustments made after reviewing the 2022 income tax return data.

Additionally, a \$2.5 million decrease to the health tax on tobacco is based on consumption trends and \$2.0 million decrease in real property transfer taxes is due to changes in the number of conveyances forecasted for Fiscal 2023-2024.



Federal Government transfers are expected to be \$12.7 million greater than budgeted. Federal funding for heating efficiency programs is forecasted to increase by \$10.0 million from Budget as well as funding for Infrastructure Programs are anticipated to increase by \$1.8 million. The Canada Health Transfer is anticipated to be \$6.3 million lower than what was included in Fiscal 2023-2024 Budget. Additionally, an external audit has resulted in an additional forecasted \$7.8 million in HST revenues to be recovered in Fiscal 2023-2024.

Interest on investments, Treasury Notes, and accounts held for operations across Government are also forecasted to increase by \$7.6 million, as a result of rising interest rates.

Government Business Enterprises are forecasting a decrease in Net Consolidated Surplus of \$1.9 million compared to Budget, primarily as a result of decreased net profit from operations of the PEI Liquor Control Commission and PEI Energy Corporation.

Expenditure Forecast Highlights:

Total program expenditures are forecast to increase by \$24.4 million and total expenditures by \$26.8 million.

EXPENDITURE SUMMARY BY DEPARTMENT

	2023-24 Budget Estimate	2023-24 Fall Fiscal Update Forecast	2023-24 Budget Variance
	\$	\$	\$
PROGRAM EXPENDITURES			
Agriculture	21,104,700	20,839,800	(264,900)
PEI Agricultural Insurance Corporation.....	53,519,300	53,519,300	-
Economic Development, Innovation and Trade.....	2,983,600	2,907,500	(76,100)
Innovation PEI.....	66,262,900	66,262,900	-
Education and Early Years	102,707,800	103,052,800	345,000
La Commission scolaire de langue française.....	23,292,000	23,512,000	220,000
Public Schools Branch.....	277,366,700	281,436,700	4,070,000
Environment, Energy & Climate Action.....	111,720,200	140,783,900	29,063,700
Executive Council.....	12,080,000	11,157,300	(922,700)
Finance.....	78,404,600	76,943,800	(1,460,800)
Employee Benefits.....	51,710,000	32,288,000	(19,422,000)
General Government.....	49,232,100	45,455,100	(3,777,000)
PEI Public Service Commission.....	11,473,100	11,473,100	-
Fisheries, Tourism, Sport and Culture.....	24,355,500	24,410,800	55,300
Tourism PEI.....	26,586,500	27,302,600	716,100
Health and Wellness.....	87,470,700	89,787,700	2,317,000
Health PEI.....	957,691,100	953,220,300	(4,470,800)
Housing, Land and Communities.....	44,631,800	47,016,600	2,384,800
PEI Housing Corporation.....	56,639,700	57,542,700	903,000
Justice and Public Safety.....	82,291,000	82,299,500	8,500
Social Development and Seniors	162,326,100	177,493,100	15,167,000
Transportation and Infrastructure.....	254,261,800	253,349,000	(912,800)
Workforce, Advanced Learning and Population.....	145,773,200	146,143,200	370,000
Employment Development Agency.....	6,840,100	6,840,100	-
PEI Student Financial Assistance Corporation.....	14,235,000	14,235,000	-
Legislative Assembly.....	14,130,600	14,130,600	-
Other Consolidated Agencies.....	70,202,900	70,267,600	64,700
TOTAL PROGRAM EXPENDITURE.....	2,809,293,000	2,833,671,000	24,378,000
Interest Charges on Debt.....	162,699,500	165,085,900	2,386,400
Amortization of Tangible Capital Assets.....	120,758,800	120,758,800	-
TOTAL EXPENDITURE	3,092,751,300	3,119,515,700	26,764,400

The following sections gives further explanation to the figures presented in the Expenditure Summary by Department chart:

The Public Schools Branch and La Commission scolaire de langue française are forecasting a combined \$4.3 million increase resulting from additional Educational Assistant positions, as well as increased operational costs for school heating/maintenance and fuel and repairs for buses.

The Department of Environment, Energy and Climate Action is projecting an increase of \$29.0 million compared to Budget. \$18.8 million is the forecasted increase due to demand for the Free Heat Pump, Free Home Insulation and Free Domestic Hot Water Electrification Programs. Additionally, the Department is forecasting an increase of \$7.7 million for solar installation rebates and \$2.5 million increase to deliver the PEI Energy Rebate Program (10% rebate on residential electricity), due to additional residential electricity consumption and rising electricity rates.

The Department of Finance is anticipating a reduction to Employee Benefit costs for FY2023-2024 of \$19.4 million due primarily to changing to interest/discount rates. In addition, the Department is projecting a decrease of \$3.8 million in General Government, resulting from Response and Recovery Contingency funds for Hurricane Fiona being captured in the prior fiscal year.

The Department of Health and Wellness is forecasting to spend an additional \$2.3 million compared to budget consisting of additional Safe Restart programming carried forward from last year and a Bridging and Transition to Registered Nursing in Canada initiative. Both of these are offset by additional federal revenues.

Health PEI is forecasting a decrease in expenditures of \$4.5 million and offsetting additional revenue of \$1.26 million for a net overall decrease of \$5.7 million to their operational net budget. Operational issues affecting Health PEI include decreases in overall compensation due to recruitment challenges for staffing new and existing programs and services, and reduced utilization of Out of Province health services. These are offset by increased grants to Private Nursing Homes and Long-Term Care facilities, funding for health initiatives to address recruitment and access barriers as well as increased costs for utilities and security costs.

The Department of Housing, Land and Communities is forecasting increased expenditures of \$2.4 million compared to budget. Property Tax Rebates and Equalization Grants to municipalities are forecasted to increase by \$1.9 million due to estimated increases in property assessment values, with the remaining increase attributable to from additional operational costs incurred in order to establish the new Department. Additionally, the PEI Housing Corporation is projecting an increase of \$903,000 in expenditures relating to additional support for delivering housing initiatives.

The Department of Social Development and Seniors is anticipating an increase in expenditures of \$15.2 million primarily driven by greater caseloads in Social Programs. The Social Assistance Program is forecasted to increase by \$3.3 million, AccessAbility Supports Program increasing by \$7.1 million, \$2.4 million for Seniors Independence Initiative, and \$2.6 million for specialized residential client needs.

In addition to the variances noted for Program Expenditures, interest charges are anticipated to cost an additional \$2.4 million due to the rise in interest rates, which is offset by the forecast of additional revenue from Government held investments and accounts.

Government Business Enterprises:

The Net Consolidated Surplus from Government Business Entities is forecast to be reduced by \$1.9 million from Budget Estimates. This is primarily a result of decreased wind energy revenues forecasted by the PEI Energy Corporation, as well as tighter margins and decreased sales anticipated at the PEI Liquor Control Commission. These are offset by stronger than originally planned net profits from the PEI Lotteries Commission and PEI Cannabis Management Corporation.

NET CONSOLIDATED SURPLUS OF GOVERNMENT BUSINESS ENTERPRISES

	2023-24 Budget Estimate	2023-24 Fall Fiscal Update Forecast	2023-24 Budget Variance
	\$	\$	\$
Government Business Enterprises			
Charlottetown Area Development Corporation (Note).....	459,200	459,200	-
Island Investment Development Inc.....	10,815,800	10,815,800	-
Island Waste Management Corporation.....	459,200	520,300	61,100
Prince Edward Island Cannabis Management Corporation.....	1,090,300	1,506,800	416,500
Prince Edward Island Energy Corporation.....	4,575,500	3,033,200	(1,542,300)
Prince Edward Island Liquor Control Commission.....	22,111,900	20,395,300	(1,716,600)
Prince Edward Island Lotteries Commission.....	22,200,000	23,065,000	865,000
Total Government Business Enterprises.....	61,711,900	59,795,600	(1,916,300)
NET CONSOLIDATED SURPLUS OF GOVERNMENT BUSINESS ENTERPRISES	61,711,900	59,795,600	(1,916,300)

Note: Budget Estimate and Forecast include 83% of the total surplus of the Charlottetown Area Development Corporation.

Net Debt:

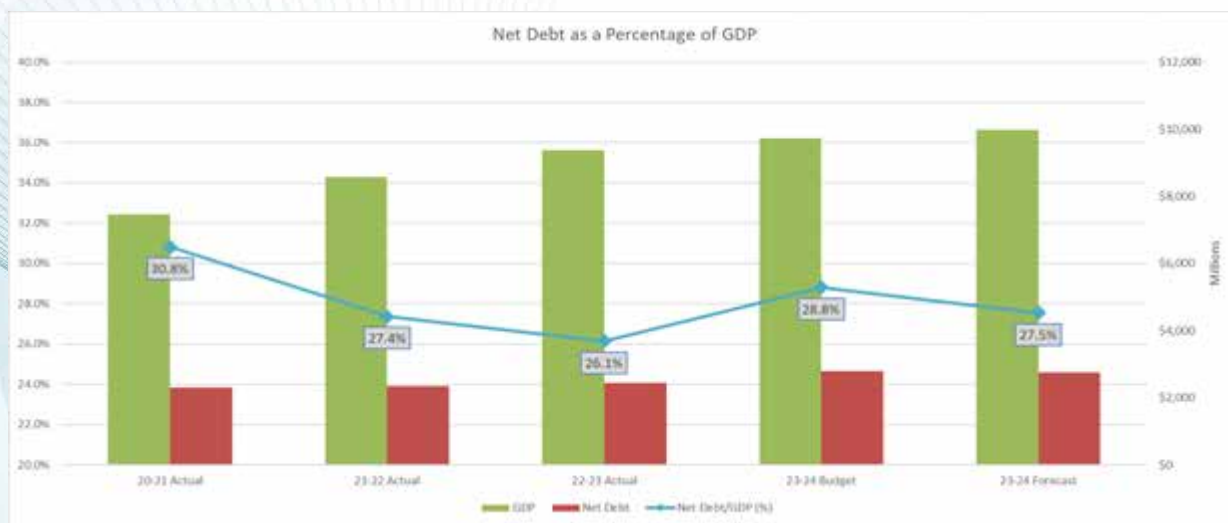
Net debt is one of the key indicators used to measure the relative financial position of the Province. It represents the amount of future cash flow required to pay for past transactions.

SCHEDULE OF NET DEBT

<u>(Millions)</u>	2023-24 Budget Estimate	2023-24 Fall Fiscal Update Forecast	2023-24 Budget Variance
	\$	\$	\$
NET DEBT - BEGINNING OF YEAR.....	2,515.4	2,450.8	(64.6)
Deficit.....	97.6	98.6	1.0
Acquisition of Tangible Capital Assets.....	308.1	321.1	13.0
Amortization.....	(120.8)	(120.8)	-
Increase in Net Debt.....	284.9	298.9	14.0
NET DEBT - END OF YEAR.....	2,800.3	2,749.7	(50.6)

Note: Net Debt for the beginning of the year was revised to reflect the closing net debt recorded in the 2022-23 audited financial statements

A determination of anticipated net debt was included in the 2023 budget estimates and was based on financial information at that time. The significant factors that lead to changes in net debt are deficits or surpluses incurred and net investments in capital assets. The forecast for net debt at the end of the current fiscal year is expected to decrease (improve) by \$50.6 million. The improvements are primarily related to the better than expected audited results for 2022-23 resulting in a lower opening Net Debt for Fiscal 2023-2024 than Budget, offset by an increase to forecasted acquisition of Tangible Capital Assets. The improvement in net debt as a percentage of GDP shown below is also due to stronger GDP growth expected for 2023-2024 than what was anticipated when the budget was tabled in May 2023.

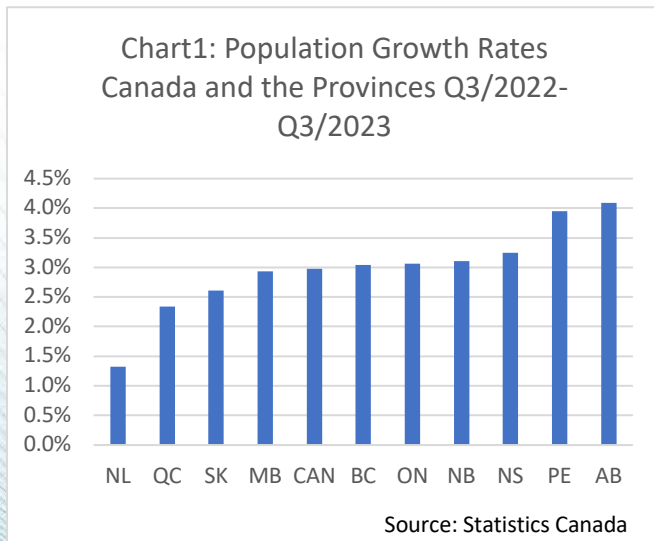


2023 Fall Economic Update

Introduction

The economic climate remains difficult, with high interest rates and elevated inflation still dominating the economic landscape slowing activity both in Canada and abroad, as well as increased geopolitical tension. The interest rate and inflationary environment, coupled with scarce labour, is constraining the rebound in construction activity that was anticipated to begin earlier in the year. Consequently, the segments of the economy more closely aligned to housing and construction have been slower to rebound. Continued high immigration, has seen segments of the economy more closely aligned with consumer demand continue to perform well. Manufacturing shipments and exports continue to advance due to strong demand for the Island's products, but are also benefitting from expansions in productive capacity, a trend that looks like it will continue. Overall, the economy has evolved largely as anticipated at the time of the spring operating budget, with the exception of the construction sector, which had a slow start in the first quarter before beginning to gain momentum. The performance of the construction sector in 2023 is likely to be close to 2022 levels, before performing better in 2024. All information in the document is current to November 17, 2023.

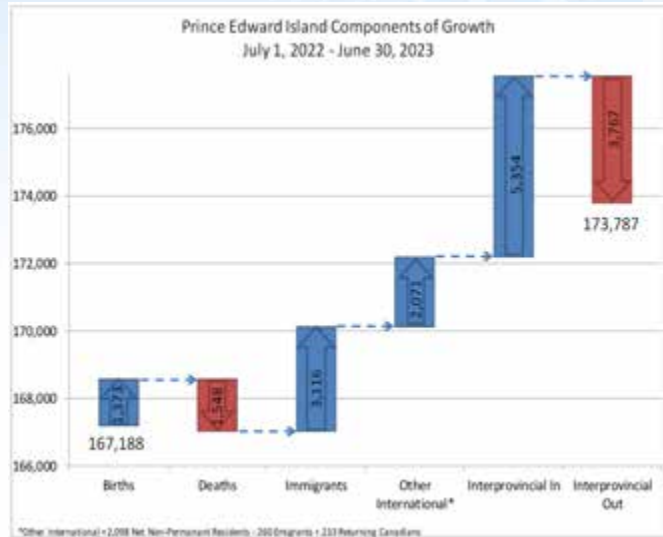
Population



The Island's population is continuing to grow. On September 27th, 2023 Statistics Canada published its preliminary estimates for July 1, 2023. Population estimates are now based on the 2021 Census counts. As of July 1, 2023, the population on the Island was estimated to be 173,787. This represents a yearly increase of 6,599 persons for a growth rate of 3.9 per cent. This was the highest growth rate on record for the Island, and second fastest amongst provinces, behind Alberta, which grew by 4.1 per cent. Nationally, the growth rate for 2023 was 3.0 per cent. The population has grown on the Island every year since 2014

and has exceeded the national growth rate since 2016. Over the last five years (2018-2023), the population on the Island has grown by 14.1 per cent, faster than all provinces and territories. Over the same period, the national growth rate was 8.2 per cent.

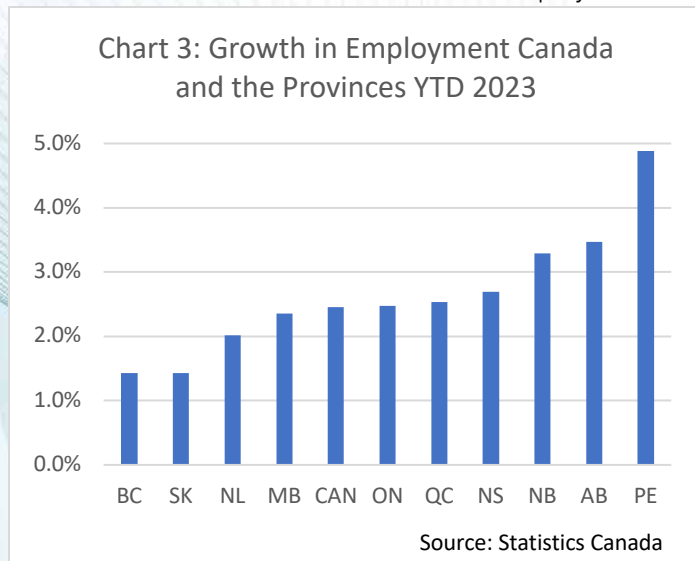
International immigration continues to be the main driver of population growth on the Island, as the natural increase (births minus deaths) in the population has been declining since the early 1990s and has been negative for five of the last six years. Both international immigrants, and net non-permanent residents contribute to this trend, with 3,116 international immigrants, and 2,098 net non-permanent residents coming to the Island last year. Inter-provincial in-migration has also been a positive source of population growth. Inter-provincial migration to the province has been positive for the past eight consecutive years beginning in 2015-16. Before this period there was only one year of positive inter-provincial migration to the province in the past decade.



Employment

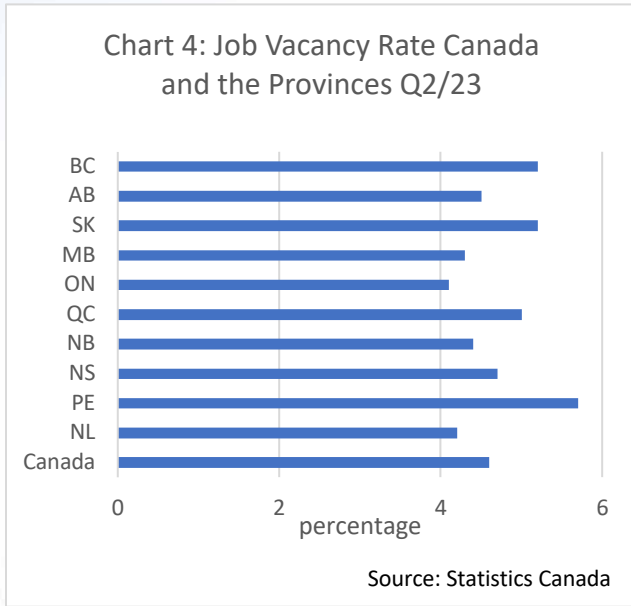
The labour force performance on the Island continues to be robust in 2023. Through October, the labour force has expanded by 4.3 per cent to reach 95,400 people, a new all-time high. Employment remains robust, growing by 4.9 per cent to total 88,500 people, also a new high, and the fastest growth amongst provinces. Employment growth has been concentrated in full-time work, expanding by 5.8 per cent, while part-time work has expanded by 0.2 per cent through October. Nationally, employment grew by 2.5 per cent through October.

Employment gains have been widespread, with gains accruing to all broad age groups and to both males and females. Notable increases in employment so far this year have occurred for core aged (25-



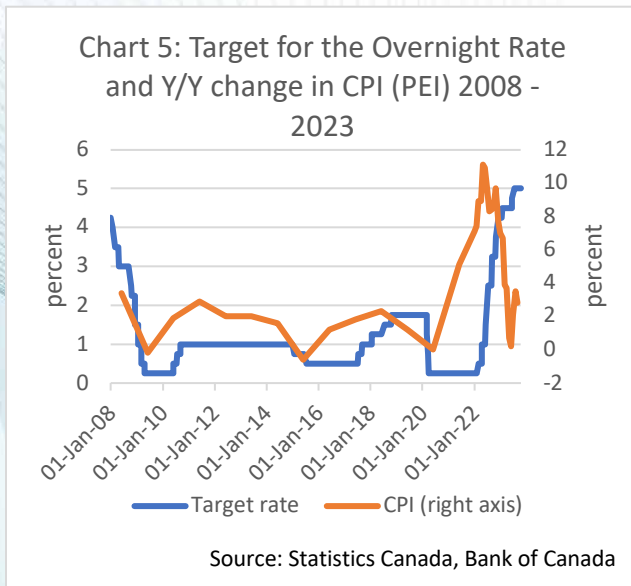
54 years) men and women, up 4.0 per cent, or 1,050 people and 5.2 per cent, or 1,320 people respectively. The unemployment rate has averaged 7.2 per cent over this time period, down 0.5 percentage points from the same period in 2022, while the employment rate has increased to 61.4 per cent, an increase of 0.6 percentage points. The participation rate on the Island has increased by 0.4 percentage points to average 66.2 per cent through October. This is the fourth-highest participation rate in the country, behind the three prairie provinces.

The compensation of employees continues to grow on the Island, up 8.2 per cent on a year-to-date basis through June, the fastest growth amongst provinces. Over this timeframe there was growth in the compensation of employees in all provinces. Nationally the compensation of employees increased 6.4 per cent through June. Average weekly earnings are continuing to grow on the Island, up 4.7 per cent through August, the fastest rate of growth amongst provinces. Overall, the aggregate industrial wage has averaged just over \$1,000 so far through 2023, the first time this has happened on the Island. Faster growth in wages is allowing PEI to close the gap with the national average weekly wage from 83.4 per cent over this time period in 2022 to 84.7 per cent in 2023.



Job prospects remain good on the Island, and job vacancies continue to remain elevated. In the second quarter of 2023, there were 4,100 job vacancies on the Island, for a job vacancy rate of 5.7 per cent, the highest vacancy rate amongst provinces. This is down compared to the second quarter of 2022, when there were 4,520 job vacancies, for a job vacancy rate of 6.4 per cent. Prior to the pandemic, the job vacancy rate only ever exceeded 3.7 per cent once (in the second quarter of 2018 with 2,910 job vacancies for a rate of 4.7 per cent). Since the onset of the pandemic, the vacancy rate has remained above 4.5 per cent since the first quarter of 2021. Nationally, the job vacancy rate in the second quarter of 2023 was 4.6 per cent.

Consumer Prices and the Bank Rate



The pace of inflation has slowed on the Island so far through 2023. Inflation in January was 7.0 per cent compared to January 2022, with the rate of inflation declining every month through the first half of the year before increasing slightly through the third quarter. On a year-to-date basis through September the consumer price index on PEI averaged 3.4 per cent. Over this time period energy prices have declined 5.6 per cent, while food prices have increased 8.4 per cent and shelter prices have increased 3.2 per cent. Though the rate of inflation is cooling, the price level in the economy remains elevated. Nationally, inflation has slowed to 4.1 per cent through the first three quarters of 2023.

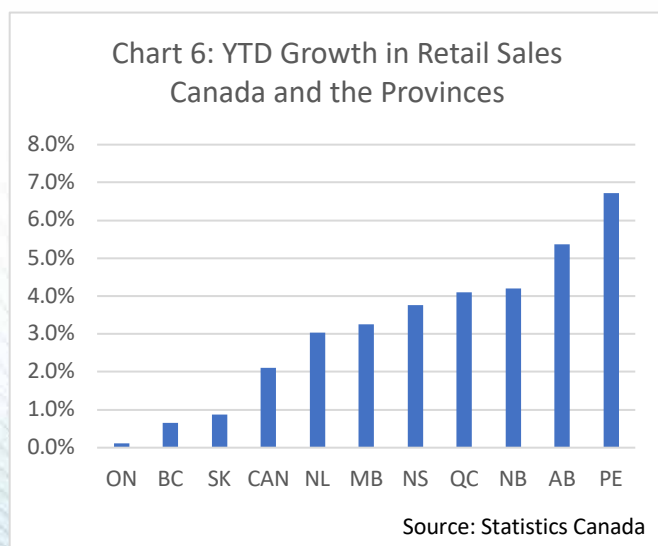
The Bank of Canada began aggressively hiking interest rates at the beginning of 2022, and has continued to increase rates in 2023, though at a more moderate pace than the seven rate increases in 2022 that brought the bank rate from 0.25 per cent to 4.25 per cent. So far through 2023, the Bank has increased interest rate on three occasions, and has held the interest rate steady at 5 per cent since July, a level last seen in the spring of 2001.

Retail and Wholesale Trade

Retail trade continues to grow on the Island, up 6.7 per cent on a year-to-date basis through August, the fastest growth amongst provinces. Nationally, retail sales have increased 2.1 per cent over this time-period.

On an unadjusted basis through August, retail sales saw significant growth in motor vehicle and parts dealers, up 9.6 per cent, gasoline stations, up 12.2 per cent, and food and beverage retailers, up 4.5 per cent. Notable declines were in furniture, home furnishings, electronics and appliances retailers, down 3.4 per cent and clothing and accessories, down 2.0 per cent.

New motor vehicle sales are up so far in 2023, after contracting in 2022, as supply chain pressures ease and consumers are able to access goods. The volume of vehicles sold has increased by 9.3 per cent



through September, while the value of those vehicles has increase by 27.7 per cent.

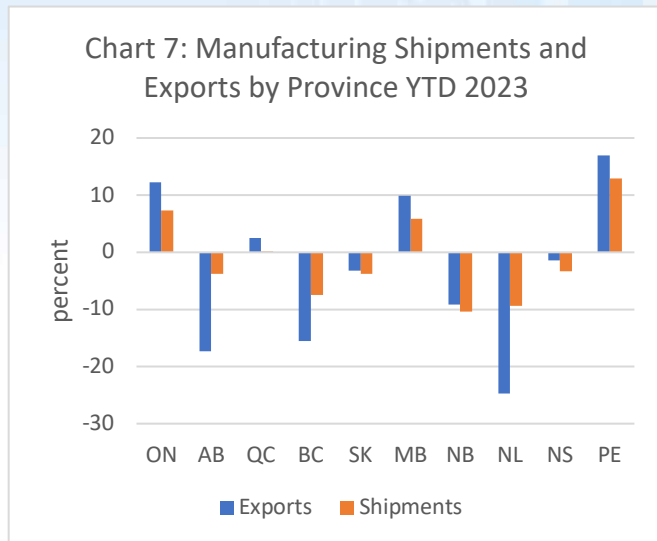
Nationally, the volume of new motor vehicle sales increased 10.5 per cent through September, while the value of vehicles sold increased by 18.1 per cent.

Wholesale trade continues to grow on the Island, up 9.2 per cent on a seasonally adjusted basis through September. Nationally, wholesale trade has increased by 46.3 per cent over this time period, due largely to a significant increase in wholesale trade in Alberta.

Manufacturing Shipments and Exports

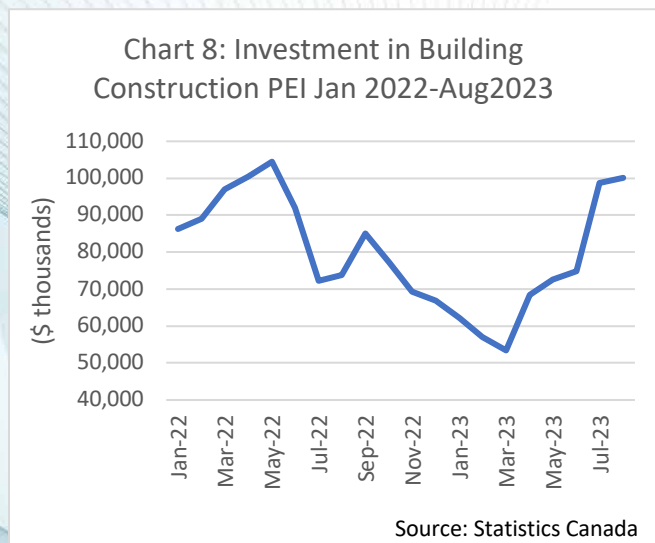
The seasonally adjusted value of manufacturing shipments has increased by 12.9 per cent through September, the fastest growth amongst provinces. Non-durable goods have increased by 16.8 per cent over this time period, while durable goods have increased by 5.6 per cent.

International exports have increased by 16.9 per cent on a year-to-date basis through September, the fastest growth amongst provinces. Frozen food manufacturing continues to be the top export industry in the province, growing by 32.8 per cent so far this year, while fresh potatoes have seen the value of their exports increase by 122.9 per cent. Pharmaceutical and medicine manufacturing has also seen good growth, up 16.0 per cent, while growth in aerospace has increased 6.6 per cent over this time period, but still remains below pre-pandemic levels. Processed seafood exports have declined by 16.8 per cent through September, while fishing has declined by 15.7 per cent. Aquaculture, after a difficult year due to hurricane Fiona in 2022, has seen exports increase by 1.8 per cent to date. Most Island exports are destined for the United States, with over 77 per cent of exports destined there. This is followed by Belgium, France, Germany and Australia. Nationally, exports have declined by 3.0 per cent over this time period.



Housing and Construction

The housing and construction sector is adjusting to the effects of high inflation, higher interest rates and labour shortages on the Island. This has resulted in lower levels of building construction through the early part of the year. More recent data suggest activity in housing starts and investment in building construction beginning to pick up from early-year lows. There is significant demand in the market for housing and construction, with incentives from all orders of government to accelerate the construction of housing, and necessary services to satisfy the Island's growing population. These interventions look like they may start to be having an effect on the industry.



Investment in building construction is down 17.9 per cent on a year-to-date basis through August. Declines were observed in both residential and non-residential construction, down 22.4 per cent and 2.7 per cent respectively. On the residential side, investment in single detached dwellings were down 26.6 per cent, while multi-unit was down 10.8 per cent. On the non-residential side industrial and commercial investment were down 40.2 per cent and 5.1 per cent respectively. Investment in institutional and government has increased 104.1 per cent so far through 2023. Though investment is low,

especially considering that prices have increased, things are beginning to turn a corner on the Island. As can be seen in Chart 8, after reaching a low in March 2023, investment has increased in each of the subsequent months, exceeding \$100 million in August for the first time since May of 2022.

The decline in building investment so far this year has occurred in all provinces, with declines ranging from 33.3 per cent in Newfoundland and Labrador to 0.6 per cent in Nova Scotia. Nationally, investment in building construction has decreased 7.9 per cent.

The value of building permits has decreased by 10 per cent on a year-to-date basis through September. Both residential and non-residential building have seen declines, down 9.5 per cent and 11.1 per cent respectively. On the non-residential side industrial and institutional permits are down 24.7 per cent and 50.2 per cent respectively, while commercial construction – the largest component of non-residential construction – has grown by 20.2 per cent. Growth in building permits has ranged from a high of 4.2 per cent in Saskatchewan, to a decline of 19.6 per cent in Newfoundland and Labrador.

Nationally building permits have declined 3.7 per cent through September. A 12.5 per cent increase in non-residential permits has not been enough to offset a 12.0 per cent decline in residential building permits.

After having the second-strongest number of housing starts in the third quarter on record, housing starts for the year are down by 2.3 per cent through the first three quarters of 2023 to total 886 starts. Single detached starts have declined by 26.7 per cent, while multi-unit starts have increased by 18.3 per cent over this time period, due to a 69.7 per cent increase in apartment starts. Across the country, housing starts have ranged from a decline of 29.5 per cent in Newfoundland and Labrador to an increase of 8.3 per cent in British Columbia. Nationally, starts are down 8.6 per cent.

The resale housing market is also feeling the effects of higher interest rates. On a year-to-date basis through August there were 1,300 home sales on the Island, a decline of 8.6 per cent from 2022. Houses are also taking slightly longer to sell, with single-detached homes taking on average 46 days to sell in the third quarter of 2023, compared to 38 days in the third quarter of 2022. Prices for housing on the Island remain elevated compared to historical levels, with the year-to-date average price of homes sold was \$386,835 a slight decline of 1.8 per cent from the same period last year, but still well above pre-pandemic levels.

Primary Industries

Farming

Farm cash receipts for the first half of 2023 totaled \$410 million, up \$53 million or 14.8 per cent compared to the same period in 2022. Crop receipts increased by 32.3 per cent to \$286.2 million, due almost entirely to an increase of potato receipts of \$66.8 million. Livestock receipts increased by 5.1 per cent to total \$99.3 million, while direct payments to farmers declined by 46.5 per cent to \$24.9 million. This was mostly due to the 2022 payments through the surplus Potato Management Response program that did not repeat in 2023, and a decline in crop insurance payments. Nationally, farm cash receipts increased by 9.9 per cent through the first half of 2023.

Prices for crops have declined from the highs seen in 2022, with prices for wheat, oats, barley and soybeans all down on a year-to-date basis through September. Prices for livestock have been mixed, with prices for cattle and calves up strongly, while prices for lambs and hogs are both down. Prices for supply managed commodities (chickens, milk and eggs) have also seen an increase in farm product prices so far through 2023.

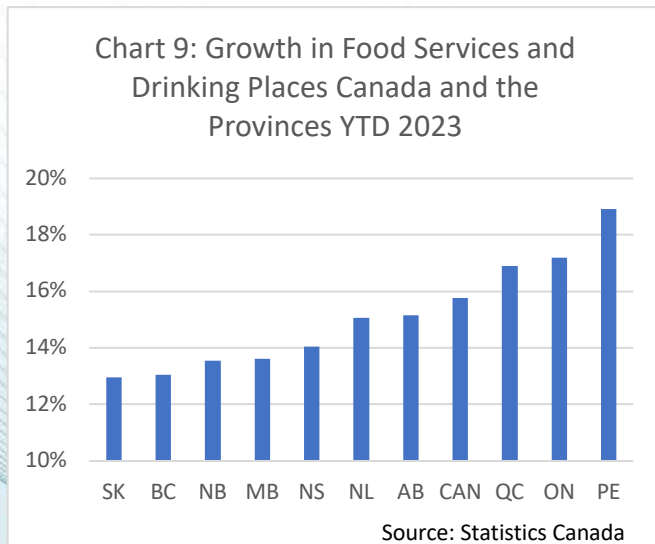
Fishing

The spring lobster season contended with a cold start to the season, and a partial closure due to a right whale sighting in the Gulf of St. Lawrence. Despite these issues, catches were on par with historical levels but were down about 3.7 per cent from 2022 levels – which was a record for the spring fishery. Prices were in the \$6.50-\$7.50 range for the majority of the season.

Tourism

After several pandemic years, the tourism sector on the Island is continuing to recover. On a year-to-date basis through July, bridge and air traffic are up 26 per cent and 29 per cent respectively. Ferry traffic is down 32 per cent after a series of mechanical failures on the MV Confederation left the Island without any ferry service for several weeks. Motorcoach tours have also made a return to the Island, up 19 per cent compared to 2022.

The cruise ship season on the Island ended on November 4th 2023 and welcomed 89 cruise ships, carrying just under 120,000 passengers. This was a new record for the number of ships visiting the Island, and the number of visitors was almost on par with pre-pandemic levels.



The US and overseas markets are recovering so far through 2023, with overnight stays by US visitors up by 27 per cent and overseas visitors up 26 per cent. Total overnight stays on the Island have declined by 1 per cent through July however, due in part to fewer tourists from Ontario and Quebec, and also due to fewer Islanders consuming tourism service on the Island.

As the tourism sector has begun to further normalize through 2023, sales at food services and drinking places increased by 18.9 per cent on a year to date basis through August, the

fastest growth amongst provinces. Sales grew in all provinces over this time period, with sales increasing by 15.8 per cent nationally.

Outlook 2023-2024

Private Sector Outlook for PEI

On November 8, 2023 Statistics Canada released its preliminary gross domestic product by income and expenditure. By this measure, GDP at market prices on the Island was valued at \$9.4 billion for a growth rate of 2.9 per cent in chained 2017 dollars. This was tied for the sixth largest increase amongst provinces. Growth on the Island was led by household spending, largely as a result of population growth. Inventory investment, and exports also made notable contributions to growth, while imports had a negative impact on GDP. Prince Edward Island had the highest growth in imports among all jurisdictions.

Table 1:

Private Sector Outlook			
Organization	2023(f)	2024(f)	Date Issued
CBoC	2.6%	1.7%	4-Oct-23
Atlantic Economic Council	2.7%	1.4%	20-Oct-23
BMO	1.2%	0.8%	10-Nov-23
Scotiabank	2.0%	1.2%	23-Oct-23
TD	2.0%	1.3%	20-Sep-23
RBC	1.7%	2.1%	13-Sep-23
National Bank	1.7%	0.4%	13-Oct-23
Average	2.0%	1.3%	

Table 1 shows the outlook for real GDP for the province from the major banks and several private sector forecasters. The average of private sector forecasters has GDP growth for 2023 at 2.0 per cent and at 1.3 per cent for 2024. Private sector forecasts for the Island have generally underestimated the Island's economic performance by discounting the impact of population growth on all sectors of the economy. The timing of the rebound in the construction industry, and the impact of higher interest rates on consumption spending are other areas where private sector forecasts are more pessimistic.

Provincial Outlook

The Department of Finance is forecasting real GDP growth in the range of 3 per cent in 2023, largely as a result of continued strong population growth and solid domestic demand for PEI before expanding further to 3.5 per cent in 2024 as the rebound in the construction industry increases activity in that area, while growth in the rest of the economy remains robust.

There are significant challenges to economic growth heading into 2024, but PEI has some advantages that should allow the economy to continue to expand. The population is projected to grow in the 2.0 per cent range, similar to rates observed pre-pandemic. This growth will be largely as a result of international immigration, net non-permanent residents and positive inter-provincial migration. The growing share of these latter groups has the potential to push the rate of population growth above the projected estimate.

Current provincial population projections show that the population of the Island is expected to reach 200,000 people by 2030. As the province emerges from the pandemic, it is projecting the arrival of approximately 3,300 international immigrants per year, higher than what was previously projected. As this continued population growth is the underpinning to the general economic growth on the Island, the province is in the process of creating a population growth strategy to outline how to manage this growth in a sustainable way into the future. Absent population growth, real GDP growth would likely be 1 to 1.5 percentage points lower than currently estimated.

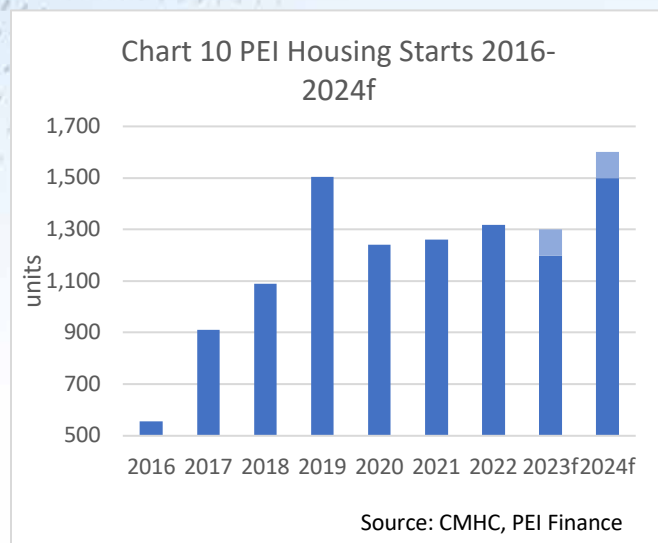
As migration into the province is very much tied to the labour market, employment growth is projected to be approximately 3 per cent in 2024, a pace slightly slower to what we have seen so far thorough 2023. There is still significant labour demand in the economy, especially in industries such as health care and social assistance and construction, and the number and rate of job vacancies remains high overall, especially compared to pre-pandemic.

Wages will also increase in 2024 due to increases to the minimum wage, continued strong competition for workers, and the impact of settling several large collective agreements on the Island through the second half of 2023. Employment growth, coupled with wage growth, will see total labour income grow by 5 per cent in 2024.

Inflation will likely continue to moderate on the Island through 2024, declining to 3 per cent, as supply chain pressures ease and fuel prices moderate. Policies such as the clean fuel standard, and the Island joining the fuel charge portion of the Federal carbon pricing regime will place pressure on inflation. Carbon pricing rebates will help to offset the impact of that policy on household budgets. Though inflation will begin to subside, the price level in the economy will likely remain elevated. Retail trade will continue to advance, largely supported by the influx of new people into the economy, though pressures from increased interest costs may constrain discretionary purchases until rates begin to subside, likely some time toward the last half of 2024.

The construction industry will contribute positively to the Island in 2024, with its impact constrained only by its ability to attract the requisite amount of capital and labour. Continued strong demand for housing, and large-scale new investments will bolster the sector. Part of this is an expansionary provincial capital plan with planned spending of approximately \$700 million over the next two fiscal years. Government policy has also been stimulative to the housing sector, with Budget 2023 including several measures to increase the supply and affordability of housing, and recently announced incentives to rebate the provincial portion of the harmonized sales tax on new rental construction. The effect of these policies will begin to be felt in earnest in 2024 and beyond.

The price of housing is likely to remain elevated even in the current interest rate environment as prices for housing on the Island remain relatively affordable compared to other parts of the country. A strong labour market, coupled with the increase in remote work opportunities will likely continue to attract



people from other parts of the country to the province. These high prices will continue to put pressure on the rental market resulting in continued low vacancy rates and upward pressure on rents. Housing starts will likely be in the 1,200 - 1,300 unit range in 2023, and continue to grow in 2024 to the 1,500 - 1,600 unit range, but will still be below the 1,800-2,600 start level that is required to restore affordability and provide a vacancy rate of approximately 3 per cent in the market. Growing the level of housing starts on the Island will require a further expansion of the construction workforce on the Island.

Economic diversification will continue in 2024 and beyond as the province continues to build on previous successes and makes inroads into new areas. Expansions in the Bioscience and food processing sectors are proceeding with investments in a new biomanufacturing facility and Innovation center respectively, while the recently completed mRNA vaccine production facility is expected to begin commercial production in mid-2024. These, and earlier expansions that are now in production will continue to help support the Island's manufacturing shipments and exports should continue to support the Island economy, as demand for the Island's goods and services remains robust. Earlier in 2023, ground was broken on the new Clean Tech Park, an initiative to create new industries and opportunities in the emerging clean tech sector on the Island.

Demand for PEI's primary agricultural products remain robust, though a growing season where conditions were wet impacted the timing and quality of the potato harvest, as well as other field crop and grain production. The aquaculture sector continues to recover from Hurricane Fiona, and their ability to positively contribute to the economy in 2024 will improve as their capacity is rebuilt, though demand for products from the fishing and aquaculture sector continue to remain elevated. The tourism sector will continue to recover in 2024 as the normalization of travel continues. Increased air service through the main tourist season, but also through the fall and winter will continue to make the Island more accessible, while the purchase of a new ferry should improve tourism in the eastern end of the province after two seasons of intermittent service.

Risks to the outlook continue to be focused on inflation and interest rates. Further supply chain disruptions, an escalation of the wars in Ukraine and Israel/Gaza, national and global economic recessions and strained international financial markets provide the downside risk, while an easing of global tensions and a swifter taming of inflation could provide a boost to the outlook.

Table 2:

Prince Edward Island Select Economic Indicators					
	2019	2020	2021	2022	2023 YTD % change
Population	155,792	159,193	162,133	167,188	3.9
Labour Force ('000)	87.3	85.8	88.5	91.2	4.3
Employment ('000)	79.5	76.8	79.9	84.2	4.9
Participation rate (percent)	67	64.8	65.9	65.5	0.4*
Unemployment rate (percent)	8.9	10.5	9.7	7.6	(0.5)*
Total Labour Income (\$millions)	3,708	3,775	4,185	4,601	8.2
Consumer Price Index (2012 = 100)	137.9	137.9	144.9	157.7	3.4
Farm Cash Receipts (\$ millions)	545.1	576	532.4	727.7	14.8
Manufacturing Shipments SA (\$millions)	2,330	2,226	2,578	3,015	12.9
Exports (\$millions)	1,492	1,508	1,697	1,988	16.9
Housing Starts (units)	1,504	1,240	1,260	1,318	-2.3
Building Permits (\$millions)	474.0	531.1	601.9	558.3	-10.0
Retail Sales SA (\$millions)	2,590	2,610	3,110	3,367	6.7

*percentage points





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