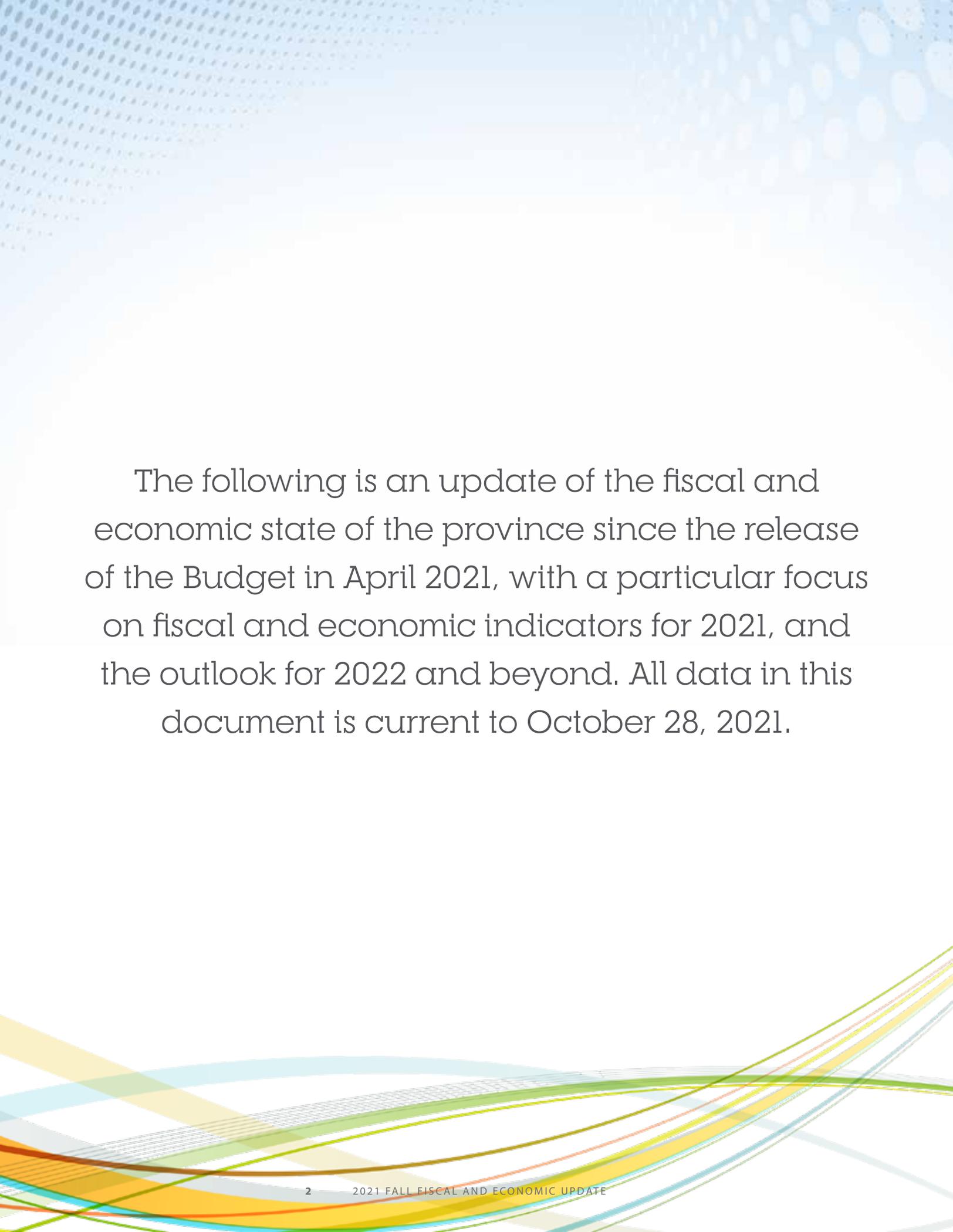


DEPARTMENT OF FINANCE



2021 Fall Fiscal and Economic Update





The following is an update of the fiscal and economic state of the province since the release of the Budget in April 2021, with a particular focus on fiscal and economic indicators for 2021, and the outlook for 2022 and beyond. All data in this document is current to October 28, 2021.

INTRODUCTION

The COVID-19 pandemic has and continues to impact people's lives and livelihoods in order to abide by public health restrictions designed to protect Islanders. The ability for people, businesses and governments to quickly adapt to the restrictions was improved by the significant financial supports by the federal and provincial governments. Since the beginning of the pandemic, the spread of COVID-19 has been effectively controlled within the population of PEI. This has helped to minimize the potential negative impacts of the pandemic on population health, the economy and government finances. Consequently, the variances between actual results and forecasts are larger than would be expected in an average year.

The Province's Public Accounts for 2020-21 tabled on October 29, 2021 show a deficit of \$5.6 million compared to the anticipated \$120 million deficit for the third quarter of 2020-21, which was presented in the 2021 Spring Budget. Looking at the variance between the prior year forecast and the audited financial statements, the difference can be attributed to an \$88.1 million increase in revenues and expenditures that were lower than budgeted by \$26.3 million for the year ending March 31, 2021.

Better than previously estimated economic results for 2020 have translated into higher than expected provincial tax revenues for 2021 and 2022. Data received in summer of 2021 in relation to the 2020 income tax assessments showed an increase of \$39.1 million in personal income tax, and \$11.0 million in corporate income taxes compared to the amounts forecasted in the third quarter of the 2020-21 fiscal year. Revenue from sales taxes are expected to rebound this year based strong retail sales to date. Additional federal transfers for health, early learning and childcare and municipal infrastructure were announced in the federal budget tabled April 19, 2021.

The current forecast for 2021-22 indicates a deficit of \$60.6 million down from the plan presented in the budget in March of 2021. The improvements relate to improved revenues of \$89.2 million with an offsetting increase in expenditures of \$37.6 million.



HIGHLIGHTS:

Year-to-date

- As of July 1, 2021, Prince Edward Island's population is estimated to be 164,318. This represents a yearly increase of 2,989 persons or a 1.9 per cent annual growth rate.
- Through three quarters, employment on the Island has grown 3.1 per cent to average 78,800 people.
- The unemployment rate has averaged 9.7 per cent through September.
- On a year-to-date basis through September, consumer prices have increased 4.5 per cent, the fastest growth amongst provinces.
- Retail sales have increased by 24 per cent on a year-to-date basis through August, while wholesale sales have increased 36.7 per cent over the same period.
- On a year-to-date basis through August, building permits are up 49.4 per cent, while investment in building construction has increased 64.2 per cent.
- Housing starts are down 4.3 per cent through the first three quarters of 2021.
- Manufacturing shipments are up 14.3 per cent through August.
- On a year-to-date basis through August, exports from the Island have increased 8.9 per cent to total \$1.06 billion.
- Farm cash receipts have increased 15.3 per cent through the first two quarters of 2021 to total \$338.6 million.
- Preliminary estimates for the lobster fishery have the value of the catch at approximately \$350 million, an all-time high.
- Through August there have been 495,752 overnight stays on the Island, an improvement of 46 per cent from 2020, but still 39.4 per cent below their 2019 level.

OUTLOOK 2022

- Economic growth is projected to be 3.9 per cent in 2021 and 3.3 per cent in 2022.
- Population growth is projected to return to pre-pandemic levels.
- Provincial Capital Budget of \$212 million will continue to support construction activity.
- After two cancelled seasons the Port of Charlottetown is expecting 75 cruise ships in 2022.

2021-2022 Fall Fiscal Update

The current forecast for 2021-2022 indicates a projected year end deficit of \$60.6 million. This represents a significant improvement compared to the deficit plan of \$112.2 million outlined in the Spring 2021 Operating Budget. The effects of COVID-19 on the normal operations for the Province continue to provide challenging circumstances for forecasting what the overall results will be in March 2022.

BUDGET/FORECAST SUMMARY

(Millions)	2021-2022 Budget Estimate \$	2021-2022 Budget Forecast \$
REVENUE		
Provincial Own Sources	1,290.2	1,355.1
Federal Sources	974.0	996.6
Net Consolidated Surplus of Government Business Enterprises	58.5	63.6
Consolidated Agencies	66.8	63.4
Total Revenue	2,389.5	2,478.7
PROGRAM AND CONSOLIDATED AGENCY EXPENDITURES		
Program Expenditures	2,212.1	2,258.2
Consolidated Agencies	63.4	59.3
Total Program and Consolidated Agency Expenditures	2,275.5	2,317.5
SURPLUS BEFORE INTEREST AND AMORTIZATION	114.0	161.3
INTEREST AND AMORTIZATION		
Interest Charges on Debt	127.5	123.2
Amortization of Tangible Capital Assets	98.6	98.6
Total Interest and Amortization	226.1	221.8
CONSOLIDATED DEFICIT	(112.1)	(60.6)
NET DEBT - End of Year	2,634.2	2,493.8

REVENUE SUMMARY BY SOURCE

	2021-2022 Budget Estimate \$	2021-2022 Fall Fiscal Update Changes \$	2021-2022 Budget Forecast \$
PROVINCIAL OWN SOURCES			
Taxes.....	1,141,612,600	52,251,600	1,193,864,200
Licenses and Permits.....	38,216,800	1,011,000	39,227,800
Fees and Services.....	78,089,100	1,746,200	79,835,300
Investments/Sinking Fund.....	17,821,300	787,500	18,608,800
Other Revenue.....	14,441,100	9,155,600	23,596,700
TOTAL PROVINCIAL OWN SOURCES.....	1,290,180,900	64,951,900	1,355,132,800
GOVERNMENT OF CANADA.....	974,041,700	22,515,300	996,557,000
TOTAL CURRENT REVENUE.....	2,264,222,600	87,467,200	2,351,689,800
Net Consolidated Surplus of Government Business Enterprises.....	58,463,200	5,179,700	63,642,900
Consolidated Agencies.....	66,818,900	(3,408,800)	63,410,100
TOTAL REVENUE.....	2,389,504,700	89,238,100	2,478,742,800

Revenue Forecast Highlights:

Total revenue is forecast to increase by \$89.2 million, primarily due to:

- Stronger tax revenue than anticipated. In total, taxes are currently projected to be \$52.5 million more than budget. The significant increases in revenues related to sales tax of \$40.7 million and personal income tax of \$24.8 million are due to higher than anticipated for 2021 and 2022. Offsetting these increases are lower than expected corporate income tax of \$4.0 million and carbon levies of \$14.7 million. The implementation date of the next phase of carbon levies is currently in negotiation with the Federal Government.
- Federal Government transfers are expected to be \$22.6 million greater than budgeted.
 - Funding to COVID-19 has increased by \$30.7 million and relates to funding for healthcare, home and community care, mental health, addictions, support for the rollout of vaccines and contact tracing and data management. Confirmation of these additional revenue sources were received subsequent to the 2021 Spring Budget being adopted.
 - The transfers for health and social services are based on population. Recent updates to population numbers show our growth rate is higher than the rest of Canada. This rate of growth is expected to add \$5.0 million to the health and social transfers.

- Other changes to Federal revenue are tied directly to expected changes in expenditures. The Canada-PEI Canada Wide Early Learning and Childcare Agreement was signed in July. The agreement will provide an additional \$9.9 million in revenue. The Department of Education and Lifelong Learning will have additional expenditures to enhance early years programming.
- Offsetting the additional federal revenue is an expected reduction of \$25.0 million in revenue to be received under Infrastructure programs. This reduction is due to delays to municipal and community projects funded through the Investing in Canada Infrastructure Plan and the New Build Canada Fund. The reduction in revenue is offset by a reduction in expenditures for the Department of Transportation and Infrastructure.

EXPENDITURE SUMMARY BY DEPARTMENT

	2021-2022 Budget Estimate	2021-2022 Fall Fiscal Update Changes	2021-2022 Budget Forecast
	\$	\$	\$
CURRENT			
Agriculture and Land.....	38,906,700	(1,600,000)	37,306,700
Economic Growth, Tourism and Culture	39,980,700	8,139,400	48,120,100
Innovation PEI.....	47,301,500	(300,000)	47,001,500
Tourism PEI.....	22,362,300	2,086,500	24,448,800
Education and Lifelong Learning	421,714,000	13,456,000	435,170,000
Island Regulatory and Appeals Commission.....	1,600,300	500,000	2,100,300
Environment, Energy & Climate Action.....	77,093,800	(279,800)	76,814,000
Executive Council.....	9,973,700	450,000	10,423,700
Finance.....	65,169,600	(1,372,800)	63,796,800
Employee Benefits	69,590,000	-	69,590,000
General Government	65,272,500	16,284,700	81,557,200
Fisheries and Communities.....	40,855,600	950,000	41,805,600
Employment Development Agency.....	5,936,000	-	5,936,000
Health and Wellness.....	63,921,500	11,937,300	75,858,800
Health PEI.....	782,260,600	9,114,100	791,374,700
Justice and Public Safety.....	66,393,600	133,000	66,526,600
Social Development and Housing	172,967,500	11,084,300	184,051,800
Transportation and Infrastructure.....	201,525,700	(24,102,400)	177,423,300
Auditor General.....	2,671,600	(339,900)	2,331,700
Legislative Assembly.....	8,019,300	-	8,019,300
P.E.I. Public Service Commission.....	8,575,600	-	8,575,600
PROGRAM EXPENDITURE.....	2,212,092,100	46,140,400	2,258,232,500
Consolidated Agencies.....	63,409,600	(4,158,800)	59,250,800
Interest Charges on Debt.....	127,548,200	(4,306,900)	123,241,300
Amortization of Tangible Capital Assets.....	98,608,800	-	98,608,800
TOTAL EXPENDITURE	2,501,658,700	37,674,700	2,539,333,400

Expenditure Forecast Highlights:

Total program expenditure is forecast to increase by \$46.1 million including:

- A budget of \$50.0 million was established in the Department of Finance General Government to support COVID-19 activities throughout the year. The spending on COVID-19 activities is expected to be \$15 million greater than the budget and a Special Warrant has been issued to authorize the additional planned spending. To date Health PEI received approval for \$12.2 million to support testing, vaccination programs and support for border control sites. The Department of Health and Wellness received spending authority of \$13.0 million for border control programs, support for temporary foreign workers, staffing and contract support within the Office of the Chief Public Health Officer to approve COVID-19 operational plans and carry out contact tracing. The Department of Education and Lifelong Learning received funding of \$6.4 million to support the Early Years Sector and provide an enhanced back-to-school plan. The other significant provider of for COVID-19 programs is the Department of Economic Growth, Tourism and Culture. These funding programs tailored to support individuals and businesses are currently forecasted to be \$22.4 million.
- The Department of Education and Lifelong Learning is forecasting to spend \$13.4 million more than allocated. Most of the additional spending relates to the implementation of new programs for the Early Years Sector as a result of the funding agreement signed with the Federal government. The current price of home heating fuel and diesel is also expected to result in costs greater than the school board budgets.
- The Department of Health and Wellness is forecasting to spend an additional \$11.9 million. The majority of the additional spend relates to activities funded through in health specific safe restart agreements that are in addition to the Government's COVID-19 contingency budget. The costs related to contact tracing and data management activities under the health specific safe restart agreements are expected to be \$3.7 million while the activities outlined in the Home and Community Care and Mental Health and Addictions agreement will generate \$6.1 million in programming.
- Health PEI anticipates that it will spend an additional \$9.1 million with offsetting additional revenue of \$2.7 million for a net overall expected spending increase of \$6.4 million. Issues affecting Health PEI include the cost to implement the new National Day for Truth and Reconciliation as a provincial holiday of \$1.2 million, physician services billings forecast to be \$3.4 million greater than budgeted, staffing costs increases within Community Hospitals West of \$1.2 million and additional services provided through labs, and diagnostic services of \$1.0 million.
- Transportation and Infrastructure is forecasting decreased expenditures of \$24.1 million due to delays to municipal and community projects funded through the Investing in Canada Infrastructure Plan and the New Build Canada Fund.
- Social Development and Housing is forecasting to spend an additional \$11.1 million on its programs. Funding programs for community partners, social assistance and accessibility support clients, along with increases to housing support programs are putting pressure on the departmental budget.
- The Department of Environment, Energy, and Climate Action is expecting revenue from carbon levies to be \$14.7 million lower in 2021. As a result, planned expenses for rebates will be implemented once negotiations with the federal government are complete. Offsetting this reduction in expenses are higher demand in the following areas: providing rebates on the purchase of electric vehicles, projects under the active transportation program and the heat pump and solar rebate programs.
- Lower expenses for interest on long term debt of \$4.3 million are expected due favorable borrowing conditions and lower than expected interest rates.

NET CONSOLIDATED SURPLUS OF GOVERNMENT BUSINESS ENTERPRISES

	2021-2022 Budget Estimate	2021-2022 Fall Fiscal Update Changes	2021-2022 Budget Forecast
	\$	\$	\$
Government Business Enterprises			
Charlottetown Area Development Corporation (Note).....	187,500	-	187,500
Island Investment Development Inc.....	18,643,600	(1,500,000)	17,143,600
Island Waste Management Corporation.....	(1,436,300)	1,055,600	(380,700)
Prince Edward Island Cannabis Management Corporation.....	611,600	5,100	616,700
Prince Edward Island Energy Corporation.....	7,706,400	(426,200)	7,280,200
Prince Edward Island Liquor Control Commission.....	19,590,400	1,145,200	20,735,600
Prince Edward Island Lotteries Commission.....	13,160,000	4,900,000	18,060,000
Total Government Business Enterprises.....	58,463,200	5,179,700	63,642,900
NET CONSOLIDATED SURPLUS OF GOVERNMENT BUSINESS ENTERPRISES	58,463,200	5,179,700	63,642,900

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

Government Business Enterprises:

Forecast Net Consolidated Surplus of Government Business Enterprises is anticipated to increase by \$5.1 million primarily due to stronger than planned profits from the PEI Liquor Commission and the PEI Lotteries Commission. As the Province continues to ease COVID-19 restrictions additional activity is leading to additional sales. The expected results for the Island Waste Management Corporation are better than budgeted as a result of a rate increase authorized by the Island Regulatory and Appeals Commission after the budget was approved. Island Investment Development Inc. is forecasting a decrease in net profit due to an anticipated decline in deposit defaults.

NET CONSOLIDATED SURPLUS OF CONSOLIDATED AGENCIES

	2021-2022 Budget Estimate	2021-2022 Fall Fiscal Update Changes	2021-2022 Budget Forecast
	\$	\$	\$
Consolidated Agencies			
Finance PEI.....	(254,700)	750,000	495,300
PEI Agricultural Insurance Corporation.....	-	-	-
PEI Grain Elevators Corporation.....	(278,800)	-	(278,800)
PEI Marine Science Organization.....	(158,700)	-	(158,700)
PEI Self-Insurance and Risk Management Fund.....	3,371,000	-	3,371,000
Summerside Regional Development Corporation	730,500	-	730,500
NET CONSOLIDATED SURPLUS OF CONSOLIDATED AGENCIES.....	3,409,300	750,000	4,159,300

SCHEDULE OF NET DEBT

	2021-2022 Budget Estimate \$ millions	2021-2022 Fall Fiscal Update Changes \$ millions	2021-2022 Budget Forecast \$ millions
NET DEBT - BEGINNING OF YEAR.....	2,424.8	(125.5)	2,299.3
Deficit.....	112.1	(51.5)	60.7
Acquisition of Tangible Capital Assets.....	195.9	36.6	232.5
Amortization.....	(98.6)	-	(98.6)
Increase in Net Debt.....	209.4	(14.9)	194.5
NET DEBT - END OF YEAR.....	2,634.2	(140.4)	2,493.8

Note: Net Debt for the beginning of the year was revised to reflect the closing net debt recorded in the 2020-21 audited financial statements

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. A determination of anticipated net debt was included in the 2021 Spring Budget and was based on financial information at that time. The significant factors that lead to changes to 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 \$140.4 million. These improvements are related to the better than expected audited results for 2020-21 and the better than expected results for the current fiscal year.

Economic Update Fall 2021

Introduction

The economic event that continues to dominate through 2021 remains the COVID-19 pandemic, and the ongoing possibility of its variants. This has forced governments to, once again, re-think re-opening plans, resulting in an economic recovery that is more tepid than forecast back in the spring. Despite this new hurdle, as a result of containment measures and the availability of effective vaccines, a recovery is taking place. However, the recovery has not been even, and has been marred by labour weakness, inflation, and continued supply chain disruptions which are leaving their mark, both here on the Island and elsewhere.

Provincial Context

After seeing a contraction in economic activity in 2020 as a result of the COVID-19 pandemic, 2021 has seen some improvement. The decline in 2020 was largely the result of a difficult year for tourism and related sectors, while sectors more affected by the underlying drivers of the economy (i.e. trade, construction, exports) saw growth.

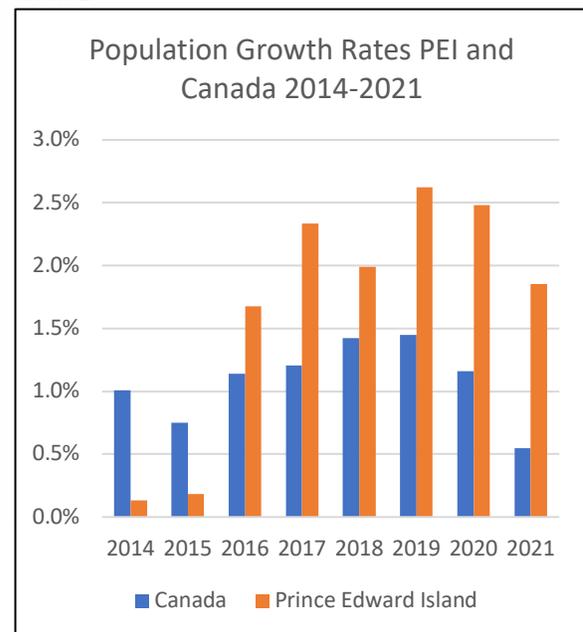
Supports to individuals and businesses from the Government of Canada have totaled approximately \$1.3 billion to-date. This has resulted in the maintenance of the provincial income tax bases, both individual and corporate, while also supporting demand, thus increasing sales and property taxes.

Learning to live with the virus has meant a continued reliance on border measures and capacity limits, but otherwise much of the economy has been able to function. With the widespread distribution of safe and effective vaccines, those sectors of the economy most disrupted by the pandemic have begun to see gains as the province allowed more visitors, first from within the Atlantic region, then nationally and finally internationally.

Population

As a result of restrictions put in place to combat the COVID-19 pandemic, Prince Edward Island's 2020-21 rate of population growth slowed from the highs seen in recent years. As of July 1, 2021, Prince Edward Island's population is estimated to be 164,318. This represents a yearly increase of 2,989 persons or a 1.9 per cent annual growth rate.

Chart1

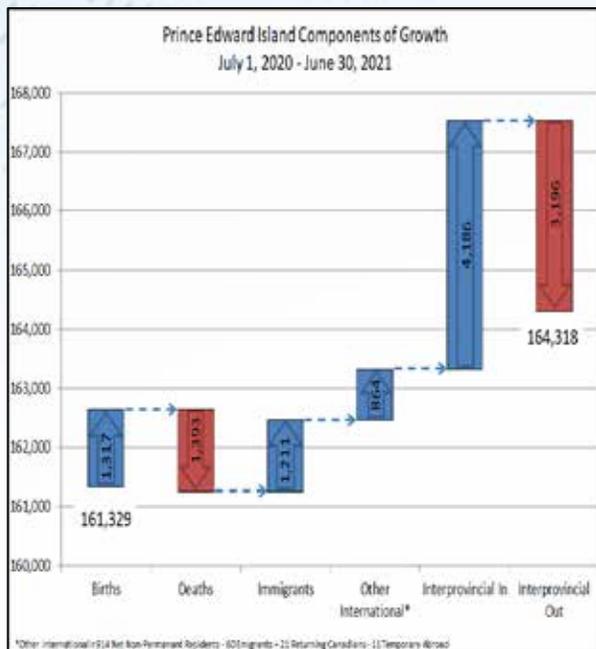


Source: Statistics Canada

The impact of the pandemic was apparent, as population growth has been at 2 per cent or above since 2017. However, Prince Edward Island, along with Nunavut, had the highest growth rate among all jurisdictions in 2021. Growth on the Island has again exceeded the national growth rate for the sixth consecutive year.

Population growth was driven by international migration. Despite a decline caused by the pandemic, 1,211 international immigrants came to PEI over this time period. Along with Manitoba, PEI continues to have the highest immigration rate in the country at 7.4 per thousand.

Chart 2



Source: Statistics Canada

Prince Edward Island has been successful in attracting migrants from elsewhere in Canada. Between July 1, 2020 and June 30, 2021, the Island had an estimated net inter-provincial in-migration of 990 people, which was the sixth consecutive year of positive net inter-provincial migration, beginning in 2015-16. For the fourth year in a row, deaths outnumbered births on the Island in 2020-21, for a natural decrease of 76.

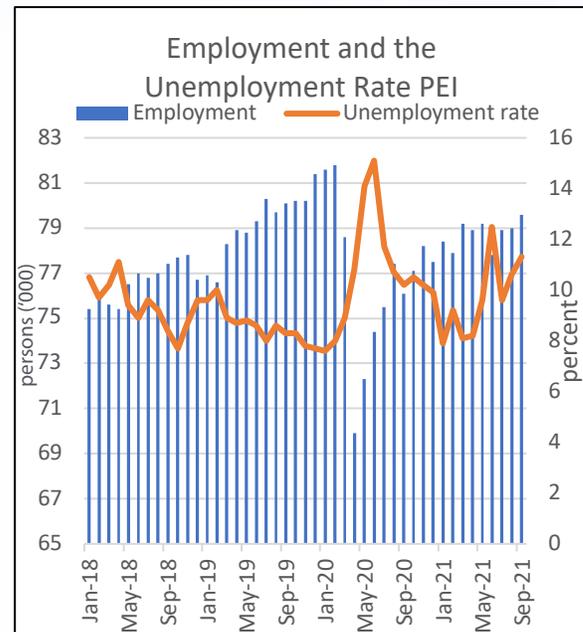
Labour Force

After contracting by 3.2 per cent in 2020, employment on the Island has been recovering through 2021. On a year-to-date basis through September, employment has increased 3.1 per cent to average 78,800 people. Employment has grown in all provinces over this time period, and ranged from 2.7 per cent in Saskatchewan, to 7.4 per cent in British Columbia. Nationally, employment grew 5 per cent over this time period.

Employment, by September averaged 97.3 per cent of its pre-COVID level (February 2020) on the Island. As can be seen in *Chart 4*, PEI remains the jurisdiction furthest away from pre-COVID employment levels. Canada achieved pre-COVID employment levels in September 2021 for the first time since the pandemic began.

The unemployment rate on the Island has averaged 9.7 per cent through September, a decrease of 1.1 percentage points from 2020.

Chart 3

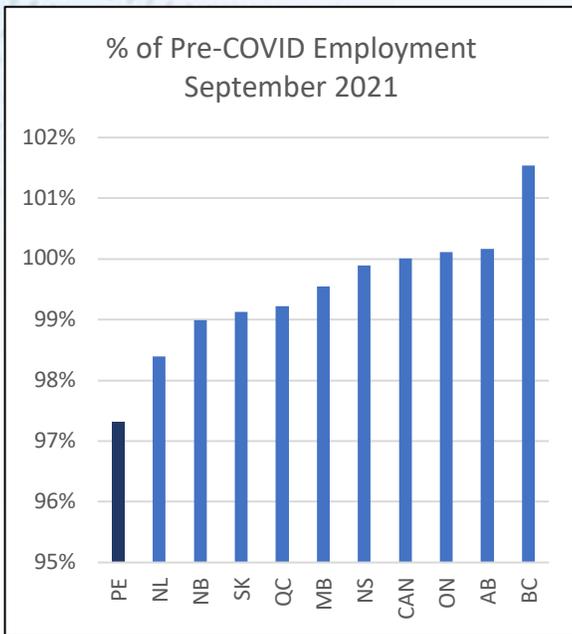


Source: Statistics Canada

The participation rate has averaged 65.2 per cent through September, an increase of 0.4 percentage points from the same period in 2020. As of September 2021, the participation rate on the Island was 66.3 per cent, the fourth highest amongst provinces (behind Alberta, Saskatchewan and Manitoba).

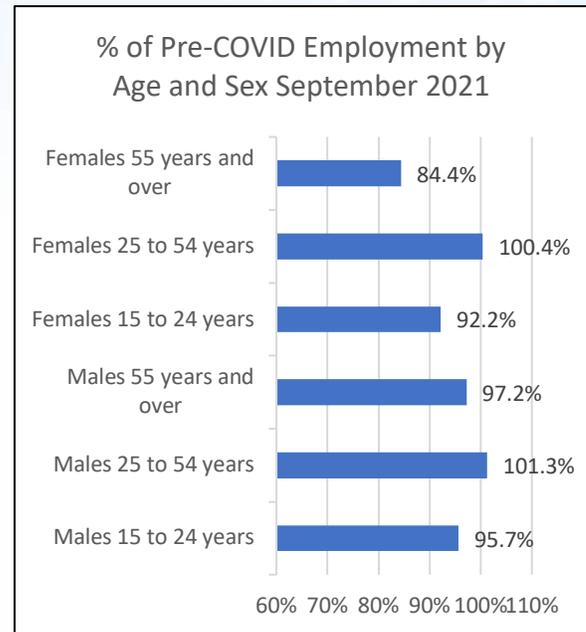
The COVID-19 pandemic had a disproportionate impact on the services producing sector, and as the economy has re-opened to certain activities, employment has increased. Employment in the services sector has increased 5.3 per cent on a year-to-date basis through September. Notable increases were seen in Education (+700), Healthcare and Social Assistance (+600), and Public Administration (+600). Employment in Accommodation and Food Services – the sector most impacted by pandemic-related closures – increased by 10.9 per cent over this time period. Employment in the goods producing industries contracted 3.1 per cent through September, with notable declines in Construction (-900) and Agriculture (-600).

Chart 4



Source: Statistics Canada

Chart 5

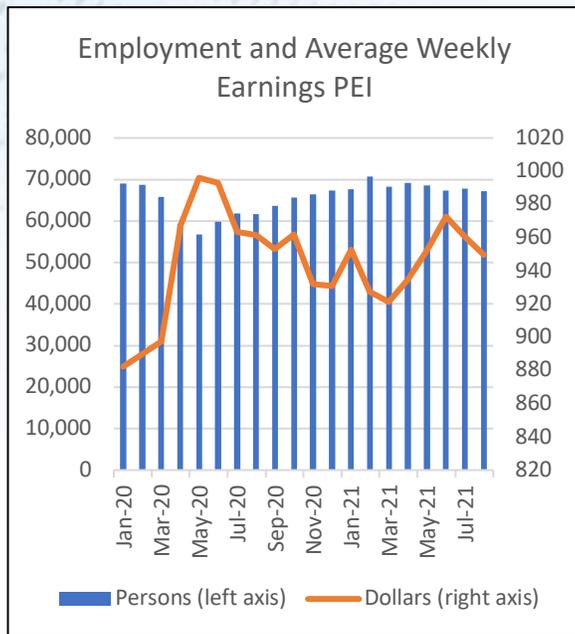


Source: Statistics Canada

The pandemic continues to have different impacts on different types of workers. Core aged workers (those aged 25-54) – both male and female - have exceeded pre-pandemic employment, while younger and older workers have employment below pre-pandemic levels. Whereas younger workers have made gains, over the course of the pandemic, the employment levels of older workers have fallen, especially over the last six months. This is especially true of older men, who throughout the first year of the pandemic had more than recovered employment losses, only to have them deteriorate over the last seven months.

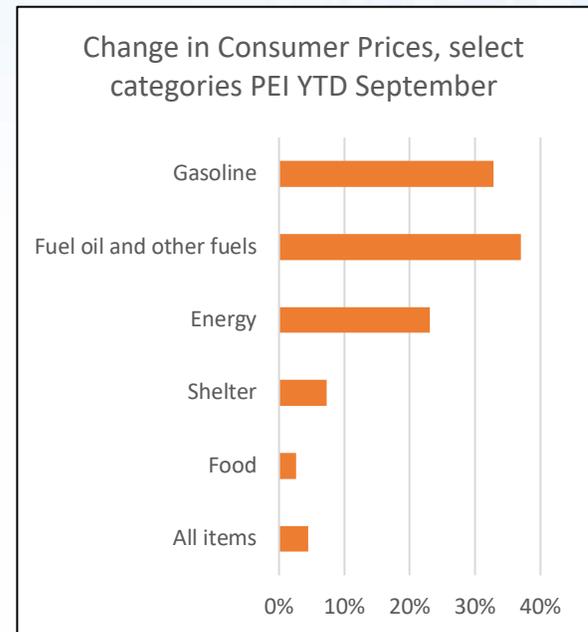
Average weekly earnings increased 0.3 per cent on a year-to-date basis through August, as more hourly and low-wage employees laid off during the pandemic re-entered the labour force. Wages rose quickly during the onset of the pandemic as higher wage and salaried workers were less likely to lose their jobs, but this began to unwind as more sectors of the economy began to re-open. Wages have been increasing more recently but have yet to see the highs experienced during the beginning of the pandemic.

Chart 6



Source: Statistics Canada

Chart 7



Source: Statistics Canada

The weaker recovery seen so far in the labour market is not due to a lack of job openings. According to the Job Vacancy and Wage Survey (JVWS), there were 3,240 job vacancies in the second quarter of 2021, compared to 2,325 vacancies in the second quarter of 2019. The Island has seen an increase in job postings compared to pre-pandemic levels. The job vacancy rate increased from 3.6 per cent to 5 per cent between these time periods, while the average offered hourly wage increased \$3.40 to \$18.55.

Consumer Prices

After being flat in 2020, consumer prices have seen a sustained increase so far through 2021. On a year-to-date basis through September, prices have increased 4.5 per cent, the fastest growth amongst provinces. The increase in inflation has been broad based, with food increasing 2.6 per cent, shelter increasing 7.3 per cent, and energy increasing 23.1 per cent, with notable increases in fuel oil and other

fuels, up 37 per cent and gasoline, up 32.8 per cent. Clothing and footwear was the only major CPI component to decline over this time period, down 1.1 per cent. Core inflation (all items excluding energy and food) has increase 2.6 per cent through September. Nationally, inflation has increased 2.9 per cent through August.

Retail Trade

After growing by 1.1 per cent in 2020, retail sales have increased by 24 per cent on a year-to-date basis through August, despite ongoing supply-chain disruptions that continue to affect the retail trade industry. As can be seen in *Chart 8*, this is faster than the national growth rate of 14.9 per cent, and is the fastest growth amongst provinces.

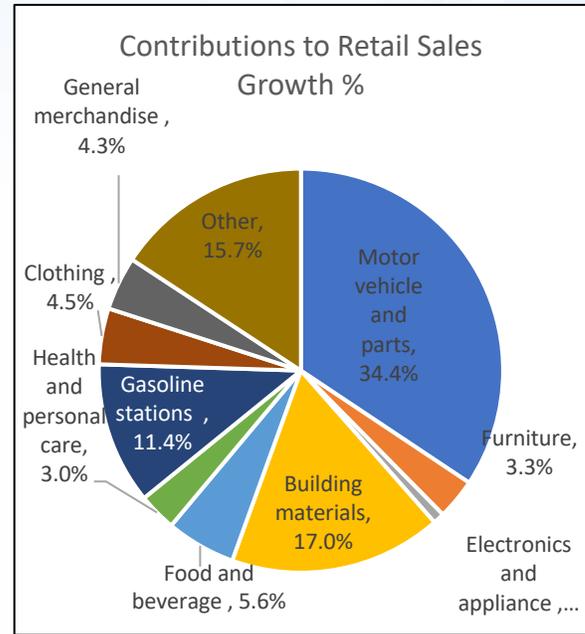
On an unadjusted basis, growth was recorded in all sub-components of retail trade, led by growth in motor vehicle and parts dealers, building material, equipment and supplies dealers and gasoline stations.

Chart 8



Source: Statistics Canada

Chart 9



Source: Statistics Canada

After seeing a significant contraction in 2020, the sale of new motor vehicles has been robust so far through 2021. Through August, the volume of new vehicles sold has increased 30.1 per cent, while the dollar value has increased 41.9 per cent. This compares to an increase of 17.1 per cent in volume and 21.9 per cent in value nationally. Trucks continue to be the new vehicles of choice amongst Islanders, accounting for 81.1 per cent of new vehicles purchased.

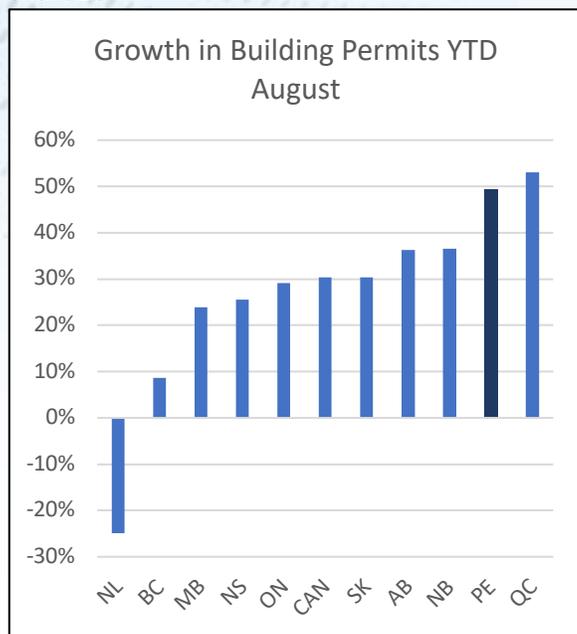
Construction and Housing

Despite the ongoing effects of the pandemic, the construction and housing sectors on the Island have continued to be robust, as this sector continues to be influenced by the population growth that has continued in spite of the pandemic.

Despite lumber price increases through the early part of the year, and supply chain issues creating difficulty for finding both materials and labour, most indicators have improved over what was a solid year for the construction sector in 2020.

Building permits have continued to increase so far this year. On a year-to-date basis through August, permits are up 49.4 per cent, with residential permits up 43.7 per cent and non-residential permits up 65.9 per cent. Growth in building permits ranged from a high of 53 per cent in Quebec, to a decline of 24.9 per cent in Newfoundland and Labrador. Nationally, building permits increased 30.4 per cent over this time period.

Chart 10



Source: Statistics Canada

After increasing by 10.7 per cent in 2020, investment in building construction has increased 64.2 per cent on a year-to-date basis through August, the fastest growth amongst provinces. Gains were recorded in both the residential and non-residential sectors, up 70.4 per cent and 48.5 per cent respectively. Investment in single dwelling construction (up 109.6 per cent YTD) is responsible for the majority of the growth in building construction, likely as a result of the pandemic and the desire for additional space to accommodate work/recreation at home. Conversely, investment in multi-unit construction declined 4.8 per cent over this period. Nationally, investment in building construction has increased 24.4 per cent through August.

According to the Prince Edward Island Real Estate Association, home sales on the Island continued to be robust through the first three quarters of this year. There were 1,833 home sales through September, an increase of 16.5 per cent from the same period last year. Housing prices also continued to increase, up 22.6 per cent to average \$337,801 over this time period. Low levels of supply continue to be a limiting factor in the Island real estate market. The length of time Island houses spend on the market has fallen significantly over the last number of years.

Chart 11



Source: Statistics Canada

Housing starts are down 4.3 per cent through the first three quarters of 2021 entirely due to low numbers of apartment starts. Through this period, apartment starts have declined 84.1 per cent. A 141.7 per cent increase in semi-detached starts, and a 56 per cent increase in row house starts was not enough to offset the declines in apartments, resulting in a 38.6 per cent decline in multi-unit construction. Single-detached starts increased 57.6 per cent over this time period.

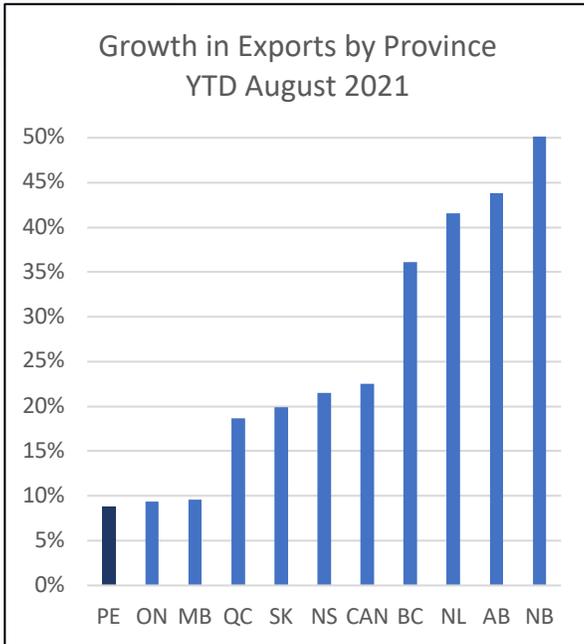
Housing completions increased 0.5 per cent through three quarters to total 1,065 completions. Multi-unit completions increased 3.5 per cent, while single-detached completions fell 3.9 per cent through September.

Manufacturing Shipments and Exports

After declining by 4.3 per cent in 2020, manufacturing shipments have shown strength so far through 2021, up 14.3 per cent through August. Island manufacturers did not see the same shutdowns experienced in other parts of the country, and consequently were not expecting as significant a rebound in activity as elsewhere. Gains have been recorded in both durable goods manufacturing, up 8.6 per cent, and non-durable goods manufacturing, up 17.1 per cent.

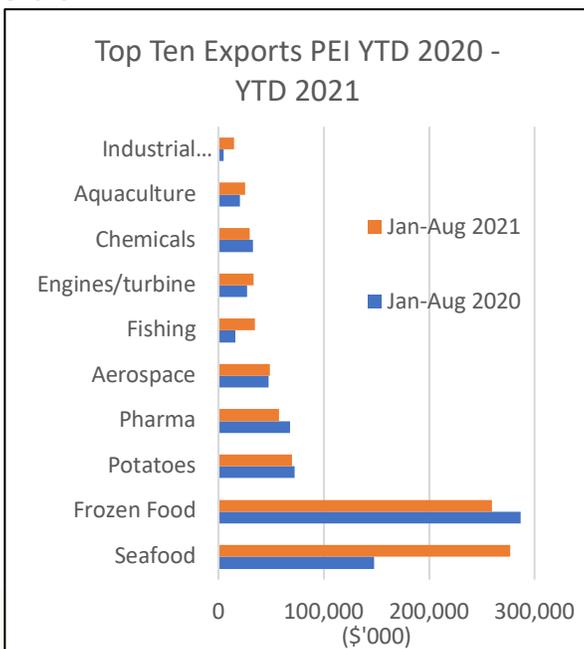
After being only one of two provinces to report positive growth in exports in 2020, growth has continued in 2021. On a year-to-date basis through August, exports from the Island have increased 8.9 per cent to total \$1.06 billion. Nationally, exports increased 22.5 per cent over this time period, largely on improved prices for petroleum products compared to 2020, as well as high lumber prices.

Chart 12



Source: Industry Canada

Chart 13



Source: Industry Canada

Growth in exports has been driven by the strong performance of the Island's seafood sector with

seafood product preparation and packaging up 87 per cent, fishing up 114 per cent, and aquaculture up 27 per cent.

The aerospace sector and related industries are beginning to recover as pandemic restrictions ease, with aerospace product and parts manufacturing up 3 per cent and engine and turbine manufacturing up 21 per cent. These and other gains were enough to offset losses in frozen food manufacturing, down 9.5 per cent, potatoes, down 3.9 per cent, pharmaceuticals, down 15.4 per cent and chemicals, down 9.4 per cent.

Primary Industries

Agriculture

Through the first half of 2021, farm cash receipts increased 15.3 per cent to total \$338.6 million. Crop receipts increased 17.2 per cent, due to strength in other crops; potato receipts declined by 2.9 per cent, while soybean receipts increased by 38.1 per cent. Livestock receipts increased 6.9 per cent due to stronger hog receipts, up 69.7 per cent, and a 9.2 per cent increase in dairy receipts. Direct payments to farmers increased 31.3 per cent over this time period due to crop insurance payments (\$12 million), as well as payments made from the Dairy Direct Payment Program (\$5.9 million), Post-tropical Storm Dorian Response Program (\$1.1 million) and the 2020 PEI Seed Potato Recovery Program (\$1.2 million). Absent direct payments, farm cash receipts increased by 14.3 per cent through two quarters. Nationally, farm cash receipts totaled \$38.2 billion for the first half of 2021, up 12.4 per cent from the same period in 2020.

After seeing near universal price increases for farm commodities in 2020, prices continued to increase through the first eight months of 2021, largely as a result of increased exports to the United States. Prices increased for wheat, oats, barley and soybeans, with the latter seeing prices increase by 29.8 per cent.

After falling in 2020, hog prices have increased 55.2 per cent year-to-date, while cattle prices have been mixed. Supply managed commodities continued to record price increases with prices for chicken, milk and eggs up 9.6 per cent, 2.1 per cent and 7.2 per cent respectively through August.

Fishing

The fall lobster fishery reported record high prices, and catches on par with previous years. The seafood industry has made a strong comeback in 2021, with demand for lobster, snow crab, mussels and oysters being very strong, both domestically and internationally. Prices and catches from the spring lobster fishery are up significantly. Inventory from the spring season was completely committed before the commencement of the fall season. The fall lobster fishery ended October 11th and reported record high prices, and catches on par with past years. Demand continues to be strong through the fall, and it is

anticipated that the fall catch will be sold quickly. Overall, the preliminary total value of the 2021 lobster catch is estimated to be over \$350 million, a new all-time high.

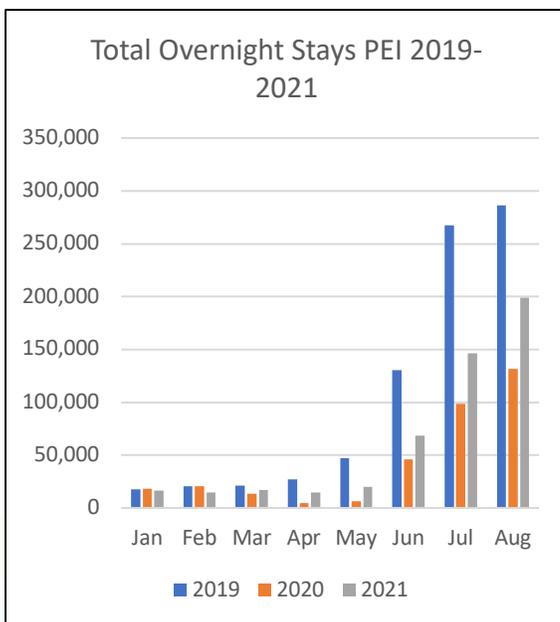
Heavy rains in the fall have had an impact on the PEI shellfish industry, stopping harvesting for a period of time in September, and delaying the beginning of the Island's oyster season. However, demand for oysters and mussels continues to be strong, and is helping that portion of the industry recover from decreased sales, especially from food service in 2020.

Tourism

Tourism sector continues to be the sector most affected by the ongoing restrictions in place to combat the pandemic. The province opened up to vaccinated, and partially vaccinated travelers from the Atlantic region in late June, and then expanded to allow fully vaccinated travelers from the rest of Canada in mid-July. Fully vaccinated American travelers were able to enter as of August 8th, and fully vaccinated international travelers on September 7th. To date, through August there have been 495,752 overnight stays on the Island, an improvement of 46 per cent from 2020, but still 39.4 per cent below their 2019 level.

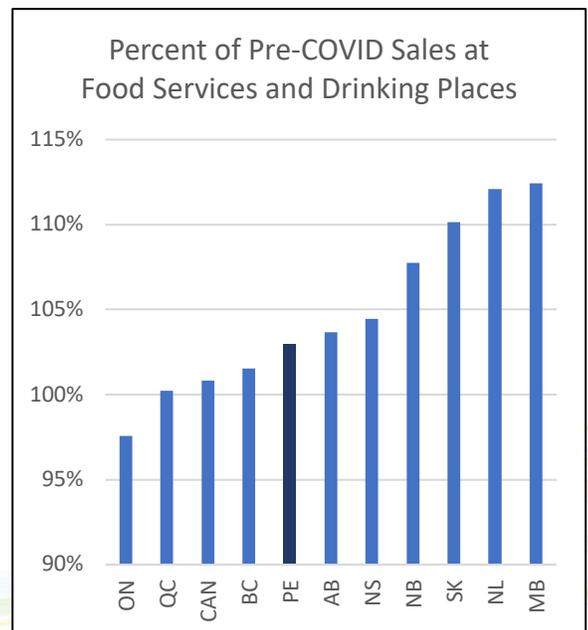
Through August, traffic to the Island continued to be down, with bridge and air traffic down 8.3 per cent and 20.7 per cent respectively. Ferry traffic saw a 45.4 per cent increase over this time period. Due to the cancellation of the cruise ship season, no boats are scheduled to visit the Port of Charlottetown this year. Motorcoach tours began operating in August on the Island, and were up 62.1 per cent over the same period in 2020.

Chart 14



Source: Dept. of Economic Growth, Tourism and Culture

Chart 15



Source: Statistics Canada

After showing a significant decline in 2020, sales at food services and drinking places began to recover through 2021. This industry has continued to be impacted by capacity limitations and physical distancing requirements. As of August, PEI had achieved 102.9 per cent of its pre-COVID sales (compared to February 2020), the first time this has happened since the beginning of the pandemic. As of August, only Ontario had sales levels below its pre-pandemic level, at 97.6 per cent. Nationally, sales at food services and drinking places were at 100.8 per cent of pre-COVID levels.

Private Sector Outlook

At the onset of the pandemic, the province made the decision to implement border measures to protect the health of the public, the effect of which was a major curtailment of the tourism sector, a sector that has a larger importance on the Island than in other parts of the country.

Table 1: Private Sector Real GDP Growth Forecasts as of October 28, 2021

Organization	2021	2022	Date Issued
CBoC	5.9	3.9	August 2021
APEC	3.9	3.0	Oct 27, 2021
BMO	2.5	3.0	Oct 22, 2021
CIBC	3.9	3.9	July 6, 2021
Scotiabank	3.7	3.0	Oct 20, 2021
TD	4.0	3.0	Sept 22, 2021
RBC	3.6	2.7	Sept 13, 2021
National Bank	3.5	3.8	October 2021
Average	3.9%	3.3%	

However, as a result of these decisions, PEI has been able to avoid extended, severe lockdowns, which allowed the majority of the economy to function fairly close to normal as a closed population. As a result, at -3.0 per cent, Prince

Edward Island had the smallest economic contraction amongst provinces. Consequently, the Island is not forecast to have as strong a rebound in economic activity, as it did not diminish as much as in other provinces.

The average of private sector forecasters places growth for the Island economy at 3.9 per cent in 2021 and 3.3 per cent in 2022. With the arrival of the Delta variant of COVID-19, and the subsequent slowing of re-opening plans, forecasted growth has been revised down both for PEI and across the country. However, as the underlying fundamentals driving growth in the economy, such as population growth, as well as the progressive re-opening of the more tourism focused parts of the Island economy continue, this should support growth over this time period.

Outlook 2022

As in the spring, the main factor influencing the outlook for Prince Edward Island will continue to be the trajectory of the COVID-19 pandemic. As of October 25, 2021, Prince Edward Island has seen 315 cases of COVID-19, with few hospitalizations, and no deaths.

Population is an area that is expected to experience growth moving forward. Despite the pandemic, the Island had the highest rate of population growth in the country, something that should continue into 2022 based on the overall trajectory of population growth expected over the medium term. As was the case prior to the pandemic, the province anticipates welcoming approximately 2,000 international immigrants to the province each year. This continued high level of migration into the province will continue to support growth in employment and domestic demand as the province recovers from the pandemic.

Inflation is projected to remain elevated throughout the rest of 2021 and into 2022 as a result of base-year effects, supply chain bottlenecks, and elevated prices for energy commodities. It is expected that these pressures will begin to dissipate towards the middle of 2022.

The recovery in employment is expected to continue, as sectors of the economy more exposed to tourism and travel are able to remain open. Current testing measures, and high vaccination rates, should provide some confidence to Island businesses looking to hire or expand. This should also provide some upside to the employment recovery continuing into 2022, as the Island has yet to recover all of its pre-pandemic gains.

Recent changes to the unemployment insurance program will result in an increase in hours to qualify (from 120 hours to 420 hours), and a return to the utilization of region-specific unemployment rates, which will change the draw period for benefits. These changes, combined with increased labour demand, may entice some individuals back into the labour market.

Pandemic supports to individuals and businesses are being transitioned, with the major supports to businesses and individuals having wound down by October 23rd. These benefits are being replaced with more targeted supports for hard-hit sectors, continued support for hiring, and a new program for employees affected by lockdown measures. Caregiving and sickness benefits are to remain intact.

As of October 5, 2021, Prince Edward Island, like many Canadian jurisdictions, implemented a vaccination passport in order to participate in certain activities (restaurant dining, indoor fitness, festivals and events etc.). This should allow the services sector - and especially those industries most impacted by gathering limits - to make a positive contribution to the economy this year, and into 2022. Tourism will also continue to be supported through the interim period by the Federal Government's new Tourism and Hospitality Recovery Program.

Construction will again play an important role in the Island economy, as the needs are great on both the residential and non-residential sides of the industry as a result of the continued growth in the population. On October 26, 2021, the province tabled an ambitious capital budget

outlining \$212 million in spending for 2022-23. Notable commitments include, \$21 million for school construction and renovations, \$7.9 million for electric school buses, \$30 million for health facilities, and \$22 million for housing construction. Private sector expansion is also keeping pace, with several ongoing expansions to bioscience facilities, and an increase in commercial investment.

Housing starts and completions are projected to increase in 2021 and into 2022 as the need for housing continues to be an issue on the Island. Supply bottlenecks are projected to ease through 2022, and the price of lumber is continuing to trend back toward pre-recession levels. This should allow projects to be completed on a more timely basis, and price additional projects back into the market.

Primary industries are poised to make a significant positive contribution to the economy in 2021, and into 2022. The seafood sector is on course to have a record year, and the potato industry has had a good growing season, with significant yields recorded through Harvest Season 2021.

Manufacturing shipments and exports should continue to contribute positively to the economy as the demand for Island products remains strong both domestically and internationally. Seafood should continue its positive contribution, while other sectors such as aerospace are recovering from their pandemic losses and are well placed to grow as the rebound in global air travel continues.

Risks to the outlook continue to be focused on the pandemic, and are largely to the downside. Further supply chain disruptions, coupled with an increase in more transmissible variants provide the downside risk, while the speedy approval of a pediatric vaccine, coupled with strong uptake, could allow the province to recover sooner than currently anticipated.



2021 Fall Fiscal and Economic Update