



Prince Edward Island **Budget Paper on the Economy**

June 2020



The following is an update to the economic situation of the Province since the release of the *Revised Economic Outlook* in May. This document will provide a revised outlook for 2020, as well as a discussion of the current economic indicators released so far for 2020. All information in this document is current to June 5, 2020.

Highlights of the Prince Edward Island Economy

Through the first four months of 2020



- Real GDP for the Island increased by 4.5 per cent over 2018, the strongest growth in Canada for the second year in a row.
- As of January 1, 2020, Prince Edward Island's population was 158,158. This represents a yearly increase of 3,047 persons or a 2.0 per cent annual growth rate.
- As a result of the COVID-19 pandemic, both the labour force and employment have fallen compared to the same period in 2019, down 0.1 per cent and 0.7 per cent respectively.
- Consumer prices increased 1.0 per cent through April, with prices increasing for food, up 4.8 per cent, and shelter, up 1.0 per cent and prices declining for energy, down 8.2 per cent.



- Total labour income increased in the first quarter of 2020, up 2.9 per cent compared to 2019.
- Retail sales, through March increased 1.3 per cent on a seasonally adjusted basis.
- On a year-to-date basis through April, permits fell by 32.2 per cent, with residential building permits falling by 19.6 per cent and non-residential building permits falling by 63.3 per cent.
- Investment in building construction increased 18.5 per cent through the first quarter of 2020.
- Through the first quarter of 2020, housing starts are up 71.4 per cent, or 75 units.



- Compared to the first quarter of 2019, farm cash receipts increased 1.1 per cent. Receipts have increased for both crops and livestock, up 14.4 per cent and 2.7 per cent respectively.
- Manufacturing sales increased 17.6 per cent through the first quarter, the fastest rate of growth amongst provinces.
- Island exports increased 6.3 per cent through April, the fastest growth amongst provinces.
- The average of private sector forecasters is projecting GDP to contract by approximately 5.1 per cent in 2020 before rebounding by 5 per cent in 2021.

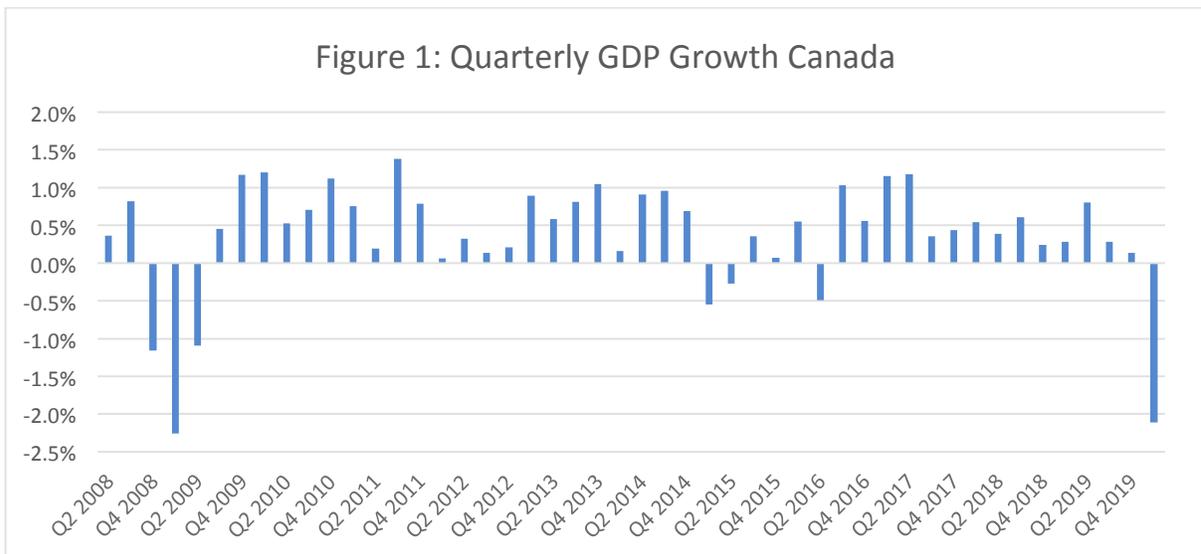


International and National Economic Context

The COVID-19 pandemic continues to have a detrimental impact on the global economic situation. Forecasts for global growth have been revised down on numerous occasions as the breadth and depth of the COVID shutdown became apparent. The International Monetary Fund (IMF) has revised down its forecast for global growth and now projects

the global economy to contract by 3.0 per cent in 2020, significantly worse than the performance during the 2008-09 recession. Advanced economies are projected to fare worse than emerging economies, with GDP contracting by 6.1 per cent and 1 per cent respectively. The IMF forecast for Canada has a contraction of 6.2 per cent, close to the average of advanced

economies. Economic forecasts are fraught with uncertainty at the present time, as much depends on the containment of the coronavirus, and the success of reopening measures (including the ability to contain any further waves of the disease). Consequently, there is considerable downside risk to these forecasts.



Source: Statistics Canada



International and National Economic Context

Real GDP growth for Canada for the first quarter of 2020 fell by 2.1 per cent as a result of the measures put in place to control the spread of COVID-19, such as school and non-essential businesses closures, border shutdowns and travel restrictions, as well as the impact of other events in the first quarter of the year, such as the teacher's strike in Ontario and the rail blockades in February. The decline in GDP was the sharpest since the first quarter of 2009.

On an industry basis, there were losses across all industrial sectors in the first quarter of 2020, except in real estate, rental and leasing. Goods producing industries declined by 1.1 per cent, the third consecutive quarter

of decline. Manufacturing was the main contributor to the decline in goods production in the first quarter. Service producing industries declined by 2.4 per cent, the first decline in services since the first quarter of 2009, as many service industries, such as arts, entertainment and recreation, performing arts, spectator sports and related industries, and heritage institutions, and amusement, gambling and recreation industries were in essence shut down beginning in the middle of March.

Extraordinary measures have been put in place in Canada in order to combat the COVID-19 pandemic, the most significant of which are the Canada Emergency Response Benefit

(CERB), which provides income relief to those who have been laid off during the pandemic, and the Canada Emergency Wage Subsidy (CEWS), providing a 75 per cent wage subsidy to qualifying businesses in order to keep employment relationships intact where possible. These measures have been complimented by a number of provincial measures which aim to fill in the gaps in federal benefits, as well as to respond to more specific local circumstances. Together this suite of benefits has cushioned the financial blow of the pandemic, and has allowed Islanders and Canadians to follow the recommendations of the Chief Public Health Officer to combat the spread of COVID-19 through social distancing.

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Provincial Economic Situation

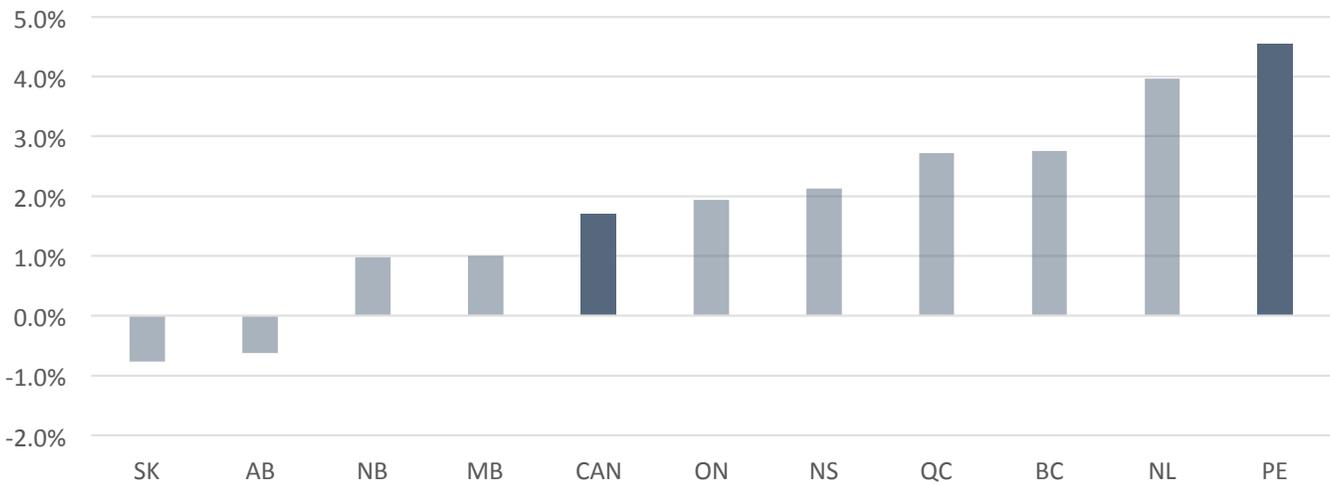
Prince Edward Island entered the COVID-19 pandemic in good economic shape. On June 1, 2020 Statistics Canada released preliminary Provincial Gross Domestic Product (GDP) by Industry data for 2019. Real GDP increase by 4.5 per cent over 2018. This was the twelfth straight year of growth on the Island and the highest growth rate amongst provinces for the second consecutive year. By this

measure, the Island economy grew by 2.8 per cent in 2018 and by 4.4 per cent in 2017. The last time PEI saw sustained economic growth at comparable levels was the late 1990's. Nationally, GDP grew by 1.7 per cent over this time period.

Growth was broad-based in 2019 with 19 of 20 industries reporting growth. Goods sector industries grew

by 7.5 per cent while service sector industries grew by 3.5 per cent. The sectors that contributed the most to growth in 2019 were construction, agriculture, forestry fishing and hunting, real estate rental and leasing and manufacturing.

Figure 2: GDP Growth Canada and the Provinces 2019



Source: Statistics Canada



Population

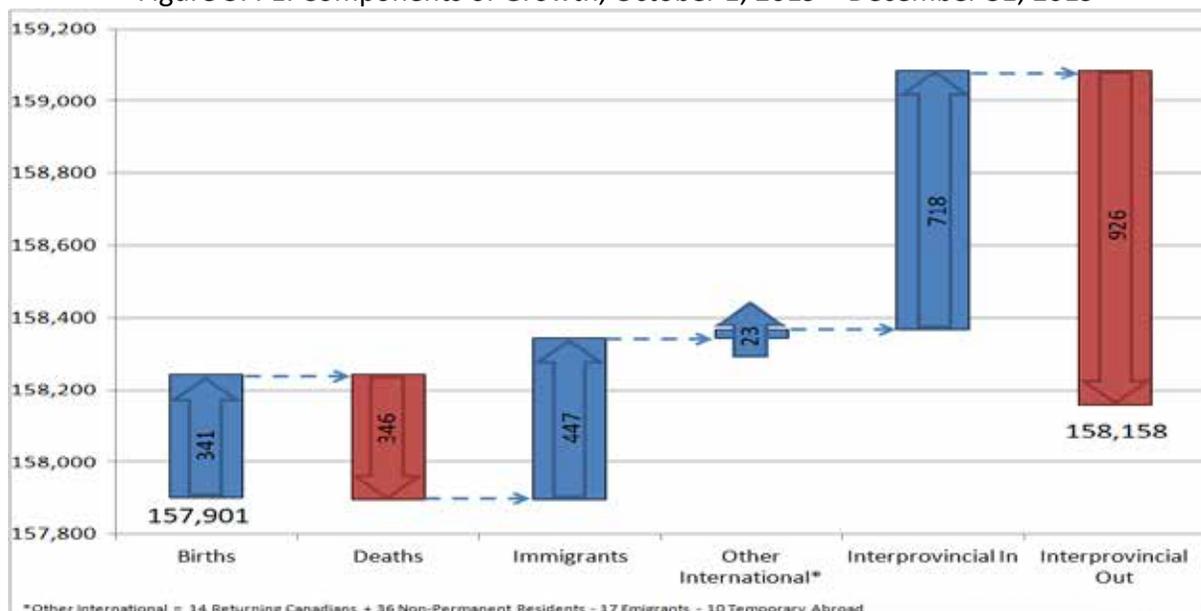
As of January 1, 2020, Prince Edward Island’s population was 158,158. This represents a yearly increase of 3,047 persons or a 2.0 per cent annual growth rate. This is the highest year over year growth rate amongst provinces and territories, along with Nunavut also at 2.0 percent. This

compares to a rate of 1.6 per cent for Canada as a whole.

There were 341 births and 346 deaths in the fourth quarter of 2019 resulting in natural growth of -5. International immigration added an additional 447, while non-permanent residents

added an additional 36 people to the population. There were 718 inter-provincial migrants who came to the Island over this time period, while 926 people left for other areas of the country, for a net interprovincial loss of 208 persons.

Figure 3: PEI Components of Growth, October 1, 2019 – December 31, 2019





Employment

The Prince Edward Island employment situation began the year on a strong note. However, the employment situation shifted radically at the end of March and into April as COVID-19 measures came into effect. The result being a significant deterioration in the employment situation. The May employment data show an improvement in the employment situation, as the economy begins to reopen, though the major shift in Island employment (Phase 3 of the re-opening plan) came after the end of the collection period for the Labour Force Survey. Consequently, a bigger shift back towards higher employment will likely be evident in June.

Through May, the labour force and employment were both down compared to the same period in 2019 by 0.1 per cent and 0.7 per cent respectively. On a year-to-date basis the unemployment rate increased by 0.6 percentage points to 9.8 per cent, while the number of unemployed increased

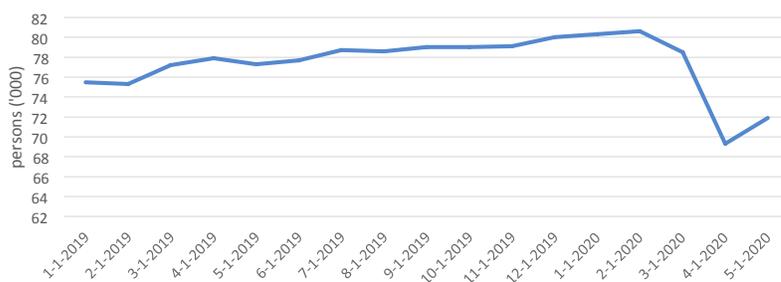
by 5.1 per cent. The participation rate and the employment rate fell by 1.7 percentage points and 1.8 percentage point respectively.

According to the survey of employment payroll and hours (SEPH), employment on the Island increased 1.2 per cent through the first quarter of 2020. Employment increased in both the goods-producing sectors and the service producing sectors, up 3.4 per cent, and 3.6 per cent respectively. Like the LFS, SEPH employment saw a decline in March, with employment declining by 4.2 per cent between

February and March, and down 2.2 per cent from March of 2019. Average weekly earnings continued to increase through the first quarter of 2020, up 4.5 per cent compared to the same period in 2019.

Total labour income increased in the first quarter of 2020, up 2.9 per cent compared to 2019. Growth in total labour income ranged from a decline of 0.1 per cent in Manitoba to a high of 4.8 per cent in Quebec. Nationally, growth in total labour income increased 3.1 per cent over this time period.

Figure 4: Total Employment PEI Jan 2019-May2020, seasonally adjusted



Source: Statistics Canada

Consumer Prices

Consumer prices increased 1.0 per cent through April, with prices increasing for food, up 4.8 per cent, and shelter, up 1.0 per cent and prices declining for energy, down 8.2 per cent. COVID-19 restrictions were in force throughout April impacting consumer prices. This largely led to continued low prices

for energy due to lower demand and over supply. Gasoline prices fell 39.3 per cent compared to April 2019, the largest year-over-year decline on record. Prices were also lower for traveler accommodations, clothing and footwear due to non-essential business restrictions. Prices for food

items such as dry and preserved goods and meat increased due to shoppers stocking up on basic goods, and supply issues. Core inflation on the Island through April was 1.6 per cent.



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Retail and Wholesale Trade

Retail sales, through March increased 1.3 per cent on a seasonally adjusted basis. Retail sales fell significantly in March, down 9.4 per cent compared to March 2019, as non-essential businesses closures impacted sales through the latter part of the month. On an unadjusted basis, motor vehicle and parts dealers saw the largest decline in sales, while sales at clothing and accessories stores and gasoline

stations also saw declines, the latter due largely to the significant decline in prices observed in March. Food and beverage stores however saw sales increase 21.8 per cent on an unadjusted basis, with all components showing growth.

Wholesale trade increased 15.5 per cent through March. Food, beverage and tobacco merchant wholesalers and machinery, equipment and

supplies merchant wholesalers account for approximately 70 per cent of wholesale trade on the Island. Both wholesale and retail trade are projected to weaken further in April, before beginning to see improvements in May as restriction on businesses ease.



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Housing

Prior to the declaration of the COVID-19 pandemic, the construction industry on the Island was poised to have another record year. This is evident from the first quarter results. Building permits increased 20.6 per cent compared to the first quarter of 2019. However, as a result of restriction put in place to combat the COVID-19 pandemic, building permits in April fell to approximately 1/10th of the value recorded in March (approximately \$3.6 million). Consequently, on a year-to-date basis through April, permits fell by 32.2 per cent, with residential building permits falling by 19.6 per cent and non-residential building permits falling by 63.3 per cent. As permitting was permitted to

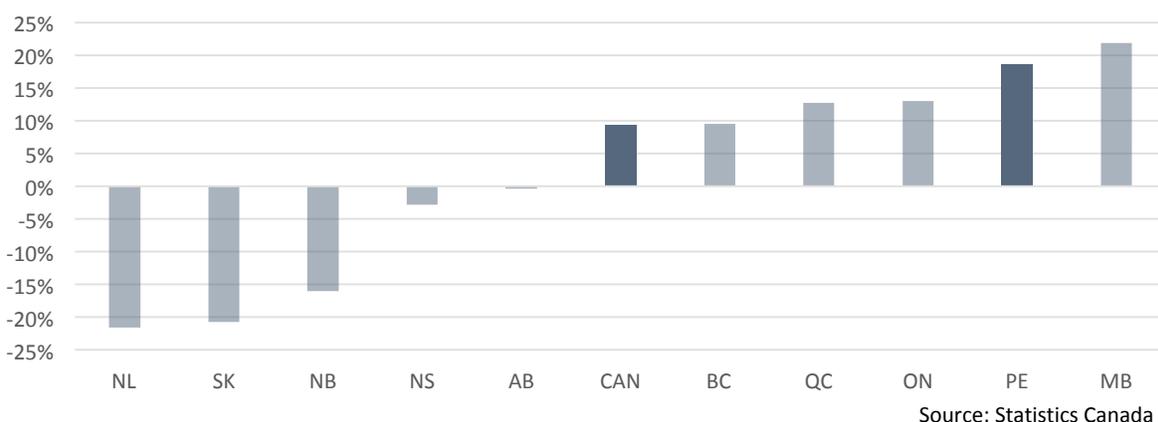
resume in phase 1 of the reopening on May 1st, it is likely that there will be a rebound in permits issued in the coming months.

Investment in building construction increased 18.5 per cent through the first quarter of 2020. Investment increases were seen in both the residential construction sector, up 14.3 per cent, and the non-residential sector, up 34.1 per cent. Unlike other sectors, residential investment did not fall off in March, with both residential and non-residential investment showing gains 12.7 per cent and 1.4 per cent respectively over February. Investment in building construction ranged from a high of 21.8 per cent in Manitoba to a decline of 21.6 per

cent in Newfoundland and Labrador. Nationally, investment in building construction increased 9.5 per cent over this time period.

Housing starts were also projected to have another record year in 2020. Through the first quarter, housing starts are up 71.4 per cent, or 75 units. Starts increased for both the single-detached segment, up 141 per cent, or 31 starts, while multi-unit starts increased 44.7 per cent or 34 starts. Due to delays, it is likely that the number of starts this year will fall below 2019 levels, but are likely to remain high by historical standards.

Figure 5: Investment in Building Construction Year-to-Date 2020
Canada and the Provinces





Primary Industries

Agriculture

Compared to the first quarter of 2019, farm cash receipts increased 1.1 per cent. Receipts have increased for both crops and livestock, up 14.4 per cent and 2.7 per cent respectively. Potato receipts increased 15.3 per cent, while receipts for other crops increased 9.6 per cent. Receipts for hogs, dairy and other increased 8.7 per cent, 3.5 per cent and 15 per cent respectively, while cattle receipts declined by 9 per cent. Direct payments to farmers decreased by \$13.6 million, or 45.9 per cent. Farm cash receipts, absent direct payments to farmers increased 10.8 per cent.

Compared to the first four months of 2019, the majority of farm product prices have seen increases. Prices for wheat, oats and barley increased 14.8 per cent, 4.6 per cent and 11.3 per cent respectively. Prices for slaughter cattle and calves increased 2.0 per cent and 5.6 per cent respectively, while feeder cattle and calves increased 9.7 per cent and 5.6 per cent respectively. The price of lambs increased 29.2 per cent through April. For the supply managed commodities, prices for chickens, milk and eggs increased 3.6 per cent, 6.0 per cent and 7.9 per cent respectively. Soybeans and hogs were the only commodities to see a decrease in prices, down 6.3 per cent and 1.7 per cent through April.

Fishing

There were delays in the openings of most fishing seasons on the Island in 2020 in order to determine how to go about fishing in a safe manner in light of COVID-19, and also due to concerns about the availability of markets due to widespread lockdowns and their impact specifically on the food and restaurant industry. After a delay of two weeks, the lobster season began on May 15, 2020. However, the amount of processing is down due to labour shortages resulting in catch quotas for fishers. The beginning of the shellfishery was also delayed until May 18, 2020 due to a lack of demand due to restaurant closures throughout North America.





Tourism

The tourism season is facing considerable difficulty in 2020. The industry effectively shut down as a result of border and businesses closures to deal with the COVID-19 pandemic. Currently, bridge traffic is limited to commercial and essential travel only, while ferry traffic is limited to commercial vehicles. Flight capacity at the Charlottetown airport is currently limited to one daily flight to Montreal and a twice weekly flight to Toronto. Transport Canada has cancelled all cruise ships with over 100 persons to dock at Canadian ports until November, effectively cancelling the

2020 cruise ship season. Though the province has recently moved into phase 3 of its ease back plan, which allows hotels and campgrounds to open to locals, as well as in-establishment dining, restrictions on visitors to the province remain in place. Some allowances are being made for seasonal residents, however the requirement to self-isolate for 14 days remains in effect. Atlantic Provinces are exploring the potential of a travel bubble within the region, which would provide an additional boost to the tourism sector.



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Manufacturing Shipments and Exports

Manufacturing sales increased 17.6 per cent through the first quarter, the fastest rate of growth amongst provinces. Increases were recorded in both non-durable manufacturing and durable manufacturing, up 10.9 per cent and 31.4 per cent respectively.

On a year-to-date basis, Island exports increased 6.3 per cent through April, the fastest growth amongst provinces. Island exports did decrease significantly in April, down 18.5 per cent compared to March 2020, and down 13.4 per cent compared to April 2019, though on both of these metrics exports decreased by less than in all other provinces except Saskatchewan. Frozen food manufacturing continued to be the Island's number one export over this time period, followed by fresh potatoes. Bioscience continue to perform well, with both pharmaceutical and medical manufacturing

and chemical manufacturing up year-to-date through April, with pharmaceutical and medicine manufacturing being the Island's third largest export category to date. Aerospace exports are down compared to the same time last year, while the seafood sector has seen mixed results. Seafood product preparation and packaging is up 74.6 per cent year-to-date, though both aquaculture and fishing are down 27 per cent and 30.4 per cent respectively. Nationally, exports fell by 9.8 per cent over this time period.

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Private Sector Forecasts

Coming off a banner 2019, where real GDP expanded by 4.5 per cent, forecasts for the Island have revised down several times in attempts to capture the impact of the measures to combat the COVID-19 pandemic. Based on the average of published private sector forecasts as noted in Table 1, the economy is projected to contract by 5.1 per cent in 2020. Growth is projected to rebound significantly in 2021, to 5.0

per cent. There is a considerable amount of uncertainty surrounding the forecasts. Results could be improved depending on the timing and success of reopening measures, both on the Island, as well as those of other Canadian provinces and trading partners.

Table 1:

Private Sector Forecasts as of June 5, 2020			
Real GDP (% growth)			
Organization	2020	2021	Date Issued
Conference Board of Canada	-2.6%	5.5%	May 27, 2020
TD Bank	-4.0%	3.9%	April 23, 2020
RBC	-6.0%	4.7%	May 11, 2020
CIBC	-7.1%	6.4%	April 24, 2020
BMO	-3.0%	4.5%	May 29, 2020
Scotiabank	-8.1%	6.7%	April 17, 2020
National Bank	-4.8%	3.3%	May 2020
Average	-5.1%	5.0%	



Outlook 2021

Budget Paper on the Economy



Outlook 2021

The Provincial outlook is still challenging with an economic contraction forecast for the year as a whole, but as businesses begin to open up, and things begin to return to normal, there is an opportunity for increased economic activity going forward. While we are not immune to the economic damage wrought by the virus, Prince Edward Island has been spared the worst of the health effects of COVID-19. The Federal and Provincial government have taken extraordinary financial measures to support both individuals and businesses through the course of the pandemic. These transfers to individuals and businesses will help to keep economic relationships intact, and allow for an easier return to economic activity once public health directives deem it safe to do so.

The phased approach to re-opening the Island economy is well underway. As of June 1st, all non-essential

The resumption of immigration and inter-provincial migration activity will be key to continuing to support domestic demand, and provided that this occurs over the medium term, the Island is still on track to achieve its target of having 160,000 residents by 2022.

businesses were able to re-open to the public, as well as in-room dining and accommodation services and campgrounds re-opened for Island residents. Gathering limits were further relaxed, allowing for an

expansion in childcare services, while provisions are being made to visit residents in the Island's long-term care homes. Provincial border restrictions remain in place, as well as the State of Emergency and the State of Public Health emergency. However, seasonal residents will be permitted into the Province under certain conditions, such as the requirement to self-isolate for 14 days upon arrival. Phase 4 of the re-opening plan has been set for June 26, with this phase focused on further loosening gathering restrictions.

The population is projected to continue to grow in 2020, largely as a result of growth that took place prior to border restrictions coming into force. Population growth is estimated as of each July 1 and currently, population growth to July 1, 2020



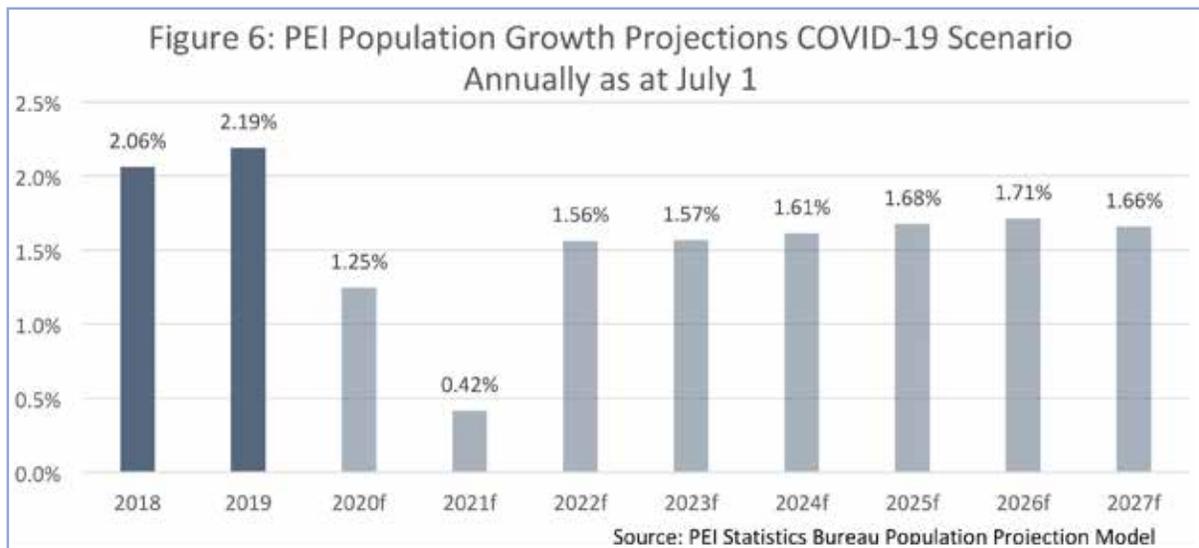
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is estimated to be 1.25 per cent as three quarters of the period were completed before border restrictions came into effect. Population growth is projected to be lower in 2021 – at 0.42 per cent – as conditions slowly normalize and return to a more normal level in the latter half of 2021. As can be seen in the chart below, PEI is projected to return to normal levels of immigration by 2022. The resumption of immigration and inter-provincial migration activity will be key to continuing to support domestic demand, and provided that

this occurs over the medium term, the Island is still on track to achieve its target of having 160,000 residents by 2022. Immigration is contributing an estimated 1.5 percentage points to the Island’s underlying real GDP growth rate.

Consistent with the results seen to-date on employment and unemployment, as well as the new guidance surrounding what is to be reopened when, the Province has updated its projections for employment. The newly modelled projections, contain information up to

and including the May Labour Force Survey (LFS). Compared to the original March projection, employment did not decline as much, and rebounded faster than projected. However, the current modelling shows a slower return to baseline employment, with employment levels only reaching previous levels by October/November, as compared to September in the original model. Both employment, and unemployment are projected to continue to increase through the summer months as the amount of seasonal hiring that normally occurs



will be muted due to continued restrictions around gatherings and travel. In the present scenario, employment remains below the baseline employment outlook until October, as shown in Figure 7.

As with prior estimates, *Accommodation and Food Services*, remains the industry most affected compared to the baseline scenario, with employment levels remaining below the baseline until well into the fall.

The construction sector, is poised to continue to contribute positively to the economy in 2020. Continued population growth should continue to propel residential building, with several new multi-unit developments announced and set to begin construction within the calendar year, while an ambitious capital plan and investments from other levels of government should continue to propel non-residential investment through the end of 2020. The future of the construction on the Island also looks

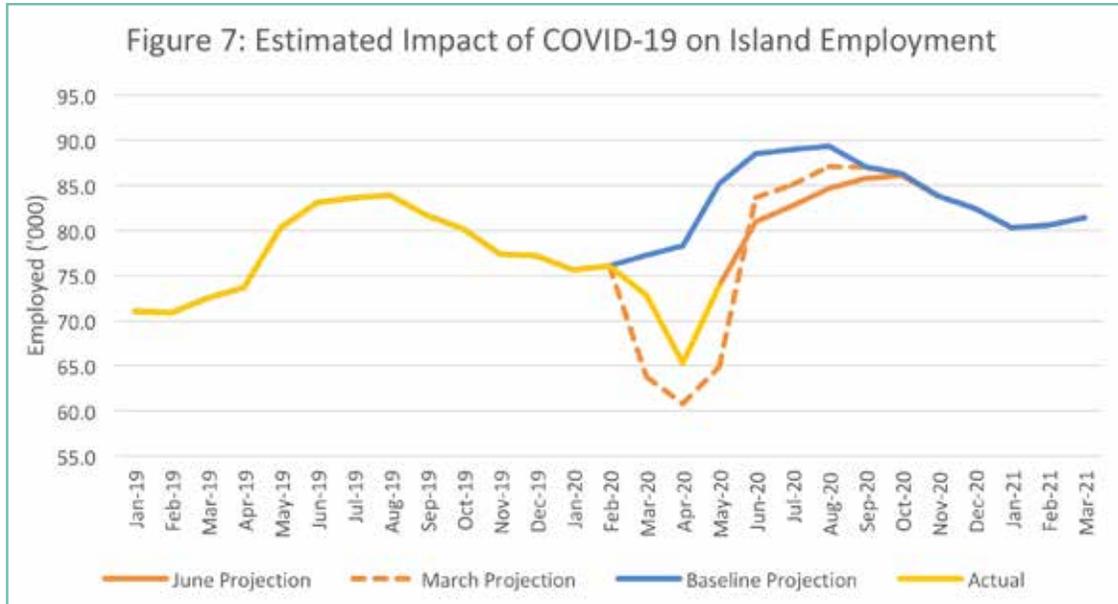
promising out through the medium term with several new large capital projects in 2021 and beyond.

A significant amount of pent-up demand as a result of the non-essential businesses closures is likely to be alleviated in the coming months as retail establishments, restaurants, and accommodation services are able to re-open to customers. This should be positive for the retail and wholesale trade industries. Manufacturing shipments and exports, though

dependent on the health of the Island's trading partners should continue to support growth on the Island. So far through 2020 the island is once again diversifying its export destination, something that will need to continue to happen throughout the recovery so that markets can grow and diversify.

Agriculture should continue to contribute positively to the economy throughout the year, though questions surrounding labour issues remain. Though some temporary foreign workers have been able to enter the province, there has been concern about the availability of labour to harvest crops. The

outlook for fishing is mixed and its contribution will depend ultimately on the availability of labour as the season progresses, as well as how quickly markets for seafood products return. Tourism is forecast to have one of its worst showings on record. Though spending by locals will make up some of the difference, it will not be



*This represents a potential path of recovery in the labour market, based on our current restart plan. Actual results may vary.

enough to offset spending from out of province spending.

Though the progression through these phases will relieve a significant amount of pressure on the economy, the resumption of 'normal' economic

activity may be a long way off. The ultimate path of employment will depend on the success of the public health measures put in place to contain the virus, as well as the success of the first three phases of

the plan to open back up the Island's economy and society.





Prince Edward Island

Budget Paper on the Economy