

PRINCE EDWARD ISLAND Economic Update 2018



As of July 1, 2018, Prince Edward Island's population is estimated to be 153,244, an increase of 1.8 per cent over 2017, and tied for the fastest growth amongst provinces.

Total labour income on the Island, through the second quarter of 2018, grew by 4.1 per cent on a year-to-date basis, tied with New Brunswick for the fastest growth in the region.

Employment on Prince Edward Island averaged 75,900 on a year-to-date basis through October, an increase of 3.1 per cent from the same period in 2017, and the strongest performance amongst provinces.

On a year-to-date basis through September, consumer prices have increased by 2.5 per cent.

On a seasonally adjusted basis through July retail sales have advanced 4.5 per cent, the fastest growth amongst provinces.

The volume of new motor vehicle sales has decreased 8.8 per cent on a year-to-date basis through September, while the value of new motor vehicles sold has declined by 6.8 per cent.

Highlights of the Prince Edward Island Economy



On a year-to-date basis through September, the value of manufacturing shipments has increased 6.6 per cent.

Through the first three quarters of 2018, housing starts have increased 3.6 per cent compared to the same period last year.

On a year-to-date basis through September, international exports are up 1.1 per cent.

Information from the department of Economic Development and Tourism indicates that total overnight stays on the Island will likely exceed the one million mark for the second year in a row.

The average of private sector forecasts for real GDP for the Island in 2018 is 2.1 per cent.

Introduction

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The Island economy has expanded every year since 2008, the only jurisdiction in Canada to do so



Notable increases over this time period were recorded in construction, up 19.2 per cent, manufacturing, up 5.6 per cent, and real estate, rental and leasing, up 2.9 per cent.



The following document is an update to the economic situation of the Province of Prince Edward Island since the release of the 2018 Budget. This release begins with a discussion of the international and national economic context, and follows with

a detailed discussion of the Island's economic indicators, including the labour force, exports, consumer prices, primary industries, population and construction. All information in this document is current to November 19, 2018.

International and National Economic Context

Growth is steady amongst the emerging market and developing economies, though risks have risen in some economies due to a variety of factors including tightening financial conditions, higher oil prices and geopolitical uncertainty.



On a year-to-date basis, GDP by industry is up 2.7 per cent through August, the seventh consecutive month of growth.

(in Canada)

The international economy is steadily expanding. According to the International Monetary Fund (IMF), global real gross domestic product (GDP) is projected to expand by 3.7 per cent in 2018, with growth in advanced economies expanding by 2.4 per cent and growth in emerging market economies expanding by 4.7 per cent. The slight acceleration in growth in advanced economies is being driven by the United States, whose economy is projected to expand by 2.9 per cent in 2018; growth in the other advanced economies is projected to be either slower, or on par with 2017. Growth is steady amongst the emerging market and developing economies, though risks have risen in some economies due to a variety of factors including tightening financial conditions, higher oil prices and geopolitical uncertainty. Trade tensions, particularly the fallout between China and the United States is weighing on global growth, contributing to lower prices for some commodities, while slowing trade and investment growth.

The United States economy is benefitting from a strong economic environment. Real GDP expanded at an annualized rate of 2.2 per cent in the first quarter, accelerating to an annualized rate of growth of 4.2 per cent in the second quarter, before slowing slightly to 3.5 per cent in the third quarter. Economic growth is being driven by personal consumption expenditures, private inventory investment, state and local government spending, federal government spending and nonresidential fixed investment. This was partially offset by a decline in exports and residential fixed investment. Imports increased over this period. The

number of employed people has increased by 1.6 per cent on a year-to-date basis through October, while the unemployment rate averaged 3.9 per cent over this time period, a decline of 0.5 percentage points from the same period in 2017.

In December of 2015, the United States Federal Reserve began increasing the federal funds rate, which previously had not been changed since December 2008. Since that time, the Federal Reserve has increased the federal funds rate on eight occasions so that it presently sits between 2 and 2.25 per cent. There have been three increases so far in 2018, and it is expected that due to the economic environment present in the United States, additional increases in the federal funds rate will come before the end of the year. The balance sheet normalization program that began in October of 2017 continues as planned. As of October 2018, the Federal Reserve is shedding \$50 billion in assets a month from its balance sheet.

As can be seen in Figure 1, Canadian quarterly real GDP growth has been positive during the first half of 2018. Real GDP increased by 0.4 per cent in the first quarter, before strengthening by 0.7 per cent in the second quarter. Exports and household final consumption expenditures contributed the most to growth in the second quarter. The gain in exports was the largest since the second quarter of 2014, while household final con-



sumption expenditures expanded 0.6 per cent in the second quarter, after increasing 0.3 per cent in the first quarter. Imports and inventories detracted from GDP growth in the second quarter of 2018.

On an industry basis, the Canadian economy is performing well. On a year-to-date basis, GDP by industry is up 2.7 per cent through August, the seventh consecutive month of growth. Goods producing industries have advanced 3.7 per cent over this time period, while services producing industries have grown by 2.2 per cent. Notable gains over this period occurred in mining, up 5.7 per cent, construction, up 4.3 per cent, wholesale trade, up 4.5 per cent, manufacturing, up 2.5 per cent, and professional, scientific and technical services, up 4.1 per cent. Declines occurred in information and cultural industries, down 0.4 per cent, management of companies and enterprises, down 1.4 per cent, agriculture, down 0.1 per cent, and administrative support, waste management and remediation services.

At its latest rate announcement on October 24, 2018, the Bank of Canada increased its target for the overnight rate by 0.25 percentage points to 1.75 per cent. The Bank cites the broader growth in the Canadian economy, and an interest rate environment that is projected to stay close to the 2 per cent target as factors for the rate increase. The Bank of Canada began raising interest rates in the second half of 2017. Since that time, the target for the overnight rate has increased by 1.25 percentage points.

Provincial Economic Context

The Prince Edward Island Economy has seen solid economic growth over the last number of years.



On an industry basis, economic strength was widespread on the Island in 2017, with the goods producing industries increasing by 7.3 per cent, and the service producing industries increasing by 2.2 per cent.

The Island economy has expanded every year since 2008, the only jurisdiction in Canada to do so. In 2017, the Prince Edward Island economy grew by 3.5 per cent, the fastest pace of expansion since 2005. Business gross fixed capital formation was the main driver of growth in 2017, due largely to increased residential construction, and the completion of the power cables running from New Brunswick to Prince Edward Island. Imports, which detract from growth, increased 5.3 per cent, while exports increased 1.8 per cent. Household spending was also higher, increasing by 2.4 per cent. Prince Edward Island was the third fastest growing province in the country, behind Alberta and British Columbia, and grew at a faster pace than the 3.0 per cent growth seen nationally.

On an industry basis, economic strength was widespread on the Island in 2017, with the goods producing industries increasing by 7.3 per cent, and the service producing industries increasing by 2.2 per cent. Economic growth was recorded in 19 of 20 industries in 2017, administrative and support, waste management and remediation services showing declines. Notable increases over this time period were recorded in construction, up 19.2 per cent, manufacturing, up 5.6 per cent, and real estate, rental and leasing, up 2.9 per cent.

Fiscal Policy

The fiscal situation of the province has also been improving. With the release of its 2017/18 public accounts, the province posted a surplus of \$75.2 million, considerably stronger than the \$1.2 million surplus projected at budget. Stronger own-source revenues contributed to this result, particularly stronger corporate income tax and sales tax revenue. This better than anticipated result has resulted in the net debt declining by \$37.2 million in 2017/18, while the net-debt-to-GDP ratio has fallen to 32 per cent.

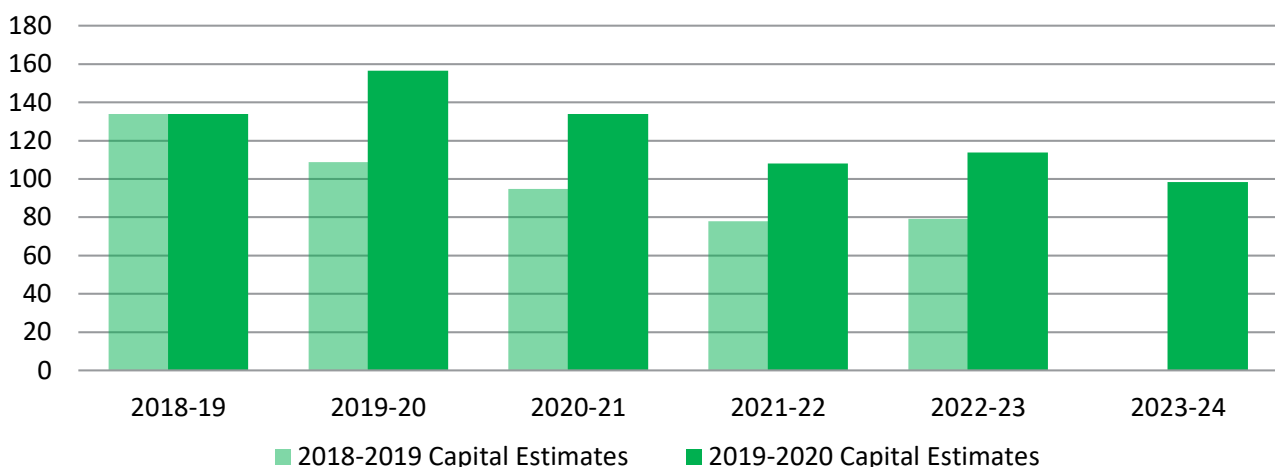
On November 6, 2018, partly as a result of the better than anticipated fiscal situation of the province, the Minister of Finance announced tax relief measures targeted to individuals and small businesses. Effective January 1, 2018, the basic personal exemption will rise by \$500 to \$9,160. An additional reduction in

the small business tax rate of 0.5 percentage points will take effect January 1, 2019. Taken together these measures will result in an additional \$5.3 million in tax savings to businesses and individuals. Previously, the government had announced that it intends to lower the provincial tax on gasoline and diesel, effective January 1, 2019.

On October 17, 2018 the legal regime for cannabis began in Prince Edward Island and across Canada. In order to facilitate this market, the province is operating four retail locations across the Island, three of which are open, and one of which remains under construction, as well as facilitating mail-order delivery. In the initial year of legalization, the province expects to collect tax revenue of \$623,000 from the sale of legal cannabis.

On October 23, 2018 it was announced that the Province has secured an agreement with the Federal Government concerning implementing a price on carbon. The province will administer a fuel charge for purchasers of carbon-based fuels at the prescribed federal rates, with the exception of heating fuel and propane. Farmers, fishers and aquaculturists will be exempted, while other parties currently subject to tax exemptions will only pay carbon tax on the incremental amount in excess of the current provincial tax on gasoline and diesel. Prince Edward Island will have the Government of Canada implement Part 2 of the Greenhouse Gas Pollution Pricing Act on the Island, beginning January 1, 2019, as was previously announced in the Climate Change Action Plan released in Spring of 2018.

Figure 2: Capital Spending Prince Edward Island



Source: PEI Department of Finance

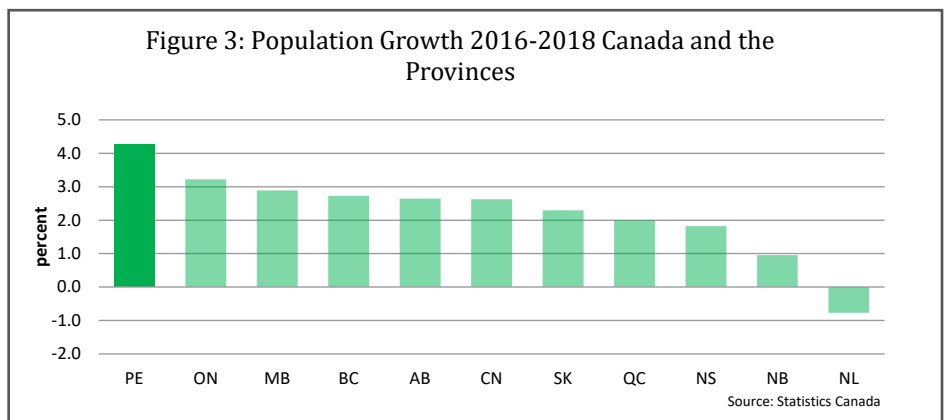
On November 16, 2018 the Province released its 2019-2020 Capital Budget Estimates outlining the government's priorities for capital and infrastructure investment for the next five years. Government is committed to spending \$156.6 million in 2019-2020, an increase of 44 per cent from the \$108.8 million budgeted in the 2018-2019 capital budget. A positive fiscal situation, and increasing needs arising from a growing population are driving the increase in capital expenditures. As can be seen in Figure 2, though the trajectory of capital spending remains the same, the level of spending has increased in every year. Health, education and highways and bridges continue to be the focus of government capital spending, with notable initiatives including \$100 million for investments in mental health and addictions, \$38 million for a new secondary school in Stratford, and new electric vehicle charging stations across the Island.

Population and Immigration

Prince Edward Island once again recorded the fastest population growth in the Atlantic region in 2018

On September 27, 2018 Statistics Canada published its preliminary provincial population estimates for July 1, 2018 as well as revisions to the 2001 to 2017 population estimates. As of July 1, 2018, Prince Edward Island's population is estimated to be 153,244. This represents a yearly increase of 2,678 persons or a 1.8 per cent annual growth rate. This compares to a national growth rate of 1.2 per cent, and the second consecutive year the province has exceeded the national population growth rate. Over the last two years the Island's population has grown by 4.3 per cent, the fastest growth amongst provinces. Figure 3 shows the population growth rates of Canada and the provinces from 2016-18.

Prince Edward Island once again recorded the fastest population growth in the Atlantic region in 2018, with Nova Scotia's population growing at 1.0 per cent, and New Brunswick growing at 0.5 per cent; Newfoundland and Labrador's population declined by 0.6 per cent in 2018. The latest population estimates are now based on the 2016 Census counts adjusted for census net undercoverage and incompletely enumerated Indian reserves.

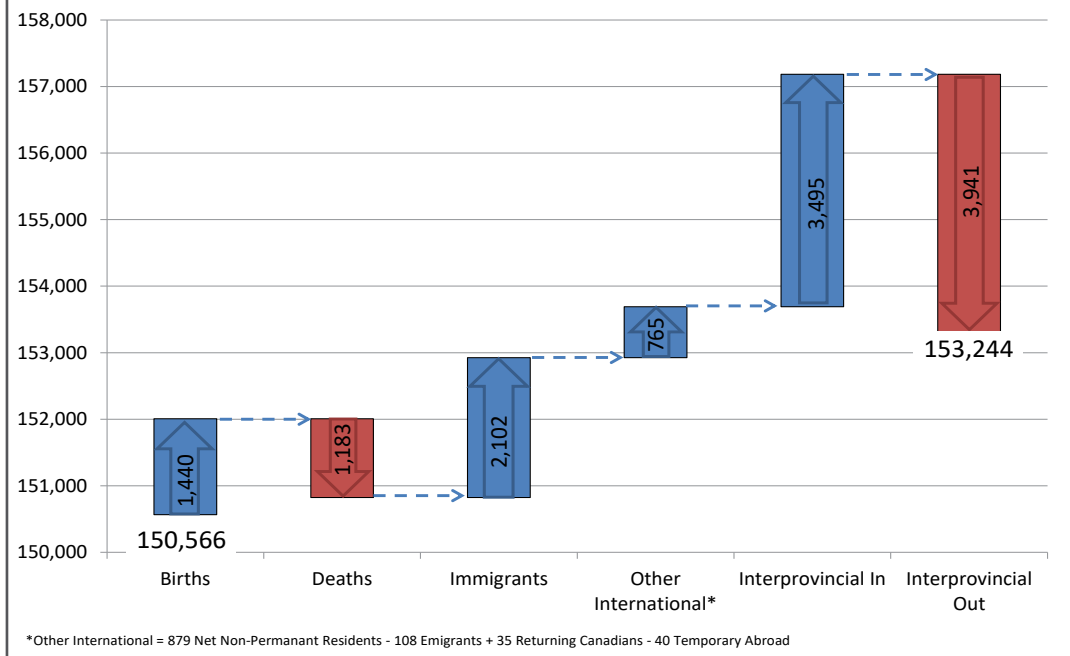


Net international migration was estimated to be 2,876 in 2017/18. This consisted of 2,102 international immigrants, 879 non-permanent residents and 34 returning Canadians entering the province, while 108 international emigrants and 40 temporarily abroad Canadians left the province. The number of international immigrants coming to the province declined by 7.1 per cent compared to the previous 12 months. This follows a 12.3 per cent increase

in immigrants in 2016/17. Though the number of immigrants coming to the province declined slightly in 2017/18, Prince Edward Island still had the highest immigration rate in the country at 13.8 per thousand. The immigration rate for Canada as a whole was 8.2 per thousand.

Between July 1, 2017 and June 30, 2018 Prince Edward Island had an estimated net inter-provincial out-migration of 446 people (3,495 in-migrants less 3,941 out-migrants). Revisions to the 2016/17 estimates now show that net inter-provincial migration for the Island over that period was 440, marking positive inter-provincial migration for two consecutive years (2015/16 and 2016/17). This is the first time that has happened since 2002/03 and 2003/04.

Figure 4: Prince Edward Island Components of Growth
July 1, 2017 - June 30, 2018



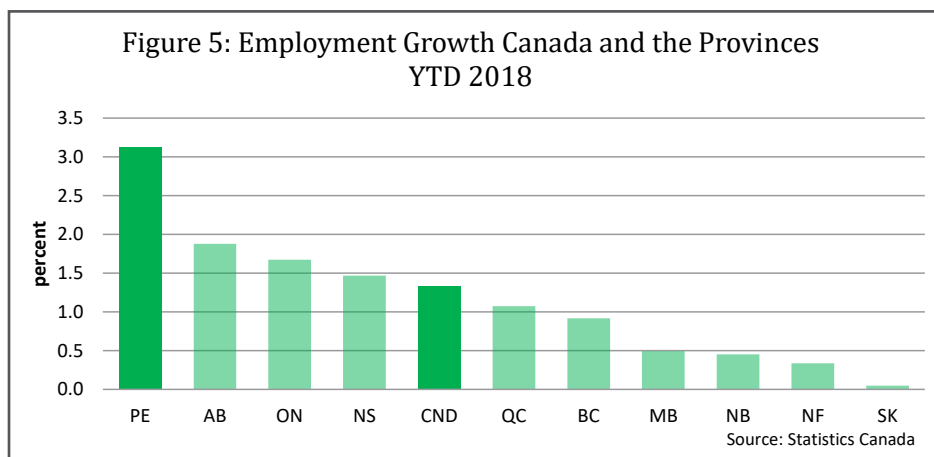
There were 1,440 births and 1,183 deaths on Prince Edward Island from July 1, 2017 to June 30, 2018, resulting in natural growth (births minus deaths) of 257. Figure 4 shows the population flows that contributed to PEI's population.



Over the last two years the Island's population has grown by 4.3 per cent, the fastest growth amongst provinces.

Employment

Prince Edward Island continued to have the fourth highest participation rate amongst provinces behind Alberta, Saskatchewan and Manitoba over this period.



Through October, employment indicators on the Island have been positive. According to the Labour Force Survey (LFS), employment on Prince Edward Island averaged 75,900 on a year-to-date basis through October, an increase of 3.1 per cent from the same period in 2017, and the strongest growth amongst provinces.

Through October, there has been an expansion in full-time employment, up 3.2 per cent, while part-time employment has increased by 2.8 per cent. As can be seen in Figure 5, employment growth to date has been strongest in Prince Edward Island, Alberta and Ontario. Nationally, employment has grown by 1.3 per cent through October.

The labour force on the Island has expanded by 2.6 per cent to average 83,800 people through October. Prince Edward Island's labour force

had peaked in 2013, and saw year-over-year declines until this trend began to reverse in 2017. If the pace of labour force expansion continues through the final quarter of the year, PEI will exceed its previous labour force high recorded in 2013. The participation rate has averaged 66.8 per cent, up 1.1 percentage points from the same period in 2017. Prince Edward Island continued to have the fourth highest participation rate amongst provinces behind Alberta, Saskatchewan and Manitoba over this period.

Though the labour force is expanding, the unemployment rate is continuing to fall, averaging 9.5 per cent year-to-date, down 0.5 percentage points from the same period one year ago. Nationally, the unemployment rate averaged 5.9 per cent over this time period.

On an industry basis on the Island, employment in the goods sector increased 10.8 per cent through October. Gains were recorded in agriculture, construction, manufacturing, and other primary industries. Through September, manufacturing has been the largest employer in the goods producing sector, with employment averaging 6,800 to date. Nationally, the goods sector has expanded 1.6 per cent over this time period.

Employment in the service sector has increased 0.7 per cent through October. Notable gains to date have occurred in accommodation and food services, finance insurance and real estate and educational services, while notable declines occurred in public administration, transportation and warehousing and other services. On a year-to-date basis through September, retail/wholesale trade continues to be the largest employer on the Island, averaging 11,200, followed by health and social assistance, averaging 10,600 people. Nationally, the service sector has grown by 1.2 per cent over this time period. See Table 1 for more details concerning employment by industry on the Island.

According to the Survey of Employment, Payroll and Hours (SEPH), the number of jobs on the Island have increased 1.1 per cent on a year-to-date basis through August. The number of jobs has increased in both the goods producing industries, up 3.8 per cent, and in service producing industries, up 0.6 per cent. Growth ranged from a high of 3.8 per cent in British Columbia, to a decline of 2.2 per cent in Newfoundland and

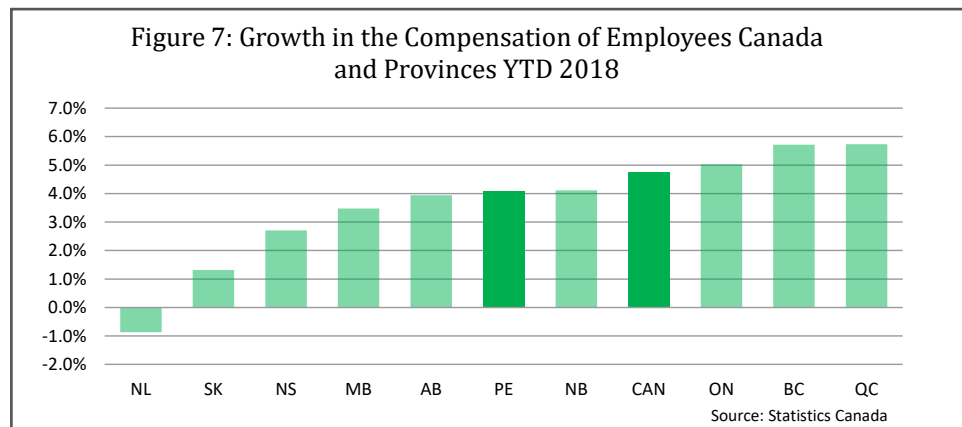
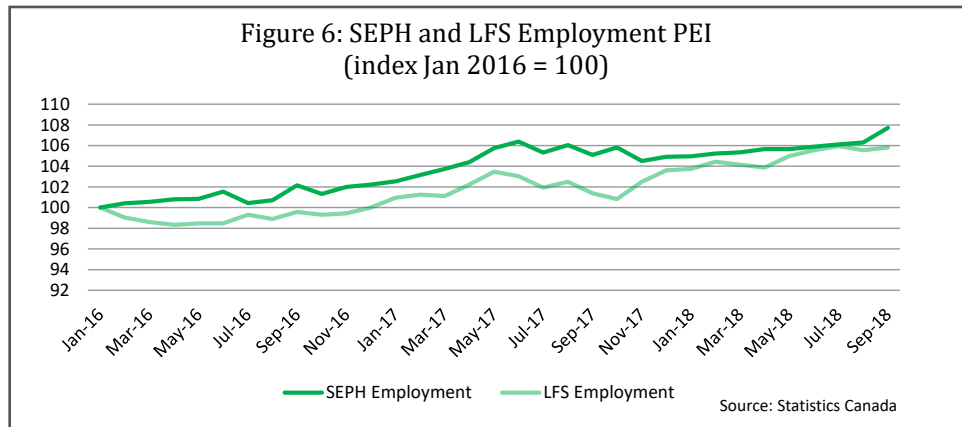
Labrador. Nationally, SEPH employment advanced 2.2 per cent over this time period. Employment measures from the two major workforce surveys (SEPH and the LFS) have been following a similar trend over the last number of months, as can be seen in Figure 6.

Average weekly earnings have increased 2.1 per cent on a year-to-date basis through August. Average weekly earnings have grown in all provinces through August, with growth ranging from a high of 3.7 per cent in Quebec, to a low of 0.7 per cent in Saskatchewan. Average weekly earnings on the Island have grown by 2.0 per cent in the service sector, led by gains in administrative support, retail/wholesale trade and arts, entertainment and recreation. Average weekly earnings in the goods producing sector have increased 1.7 per cent through August. Over this time period wages in the manufacturing sector have increased 1.4 per cent while wages in the construction sector have increased 1.2 per cent.

Table 1:

Employment by Industry Prince Edward Island YTD October				
	2017 YTD	2018 YTD	percentage change	total change
thousands of persons unless specified				
Goods Producing Sectors	17.4	19.2	10.8%	1.9
<i>Agriculture</i>	3.0	3.8	26.4%	0.8
<i>Other Primary Industries</i>	2.5	2.7	8.6%	0.2
<i>Manufacturing</i>	6.5	6.8	4.9%	0.3
<i>Construction</i>	5.2	5.8	10.1%	0.5
Service Producing Sector	56.2	56.6	0.7%	0.4
<i>Trade</i>	11.1	11.2	0.7%	0.1
<i>Transportation and Warehousing</i>	2.8	2.5	-11.1%	-0.3
<i>Finance, Insurance and Real Estate</i>	2.6	2.9	11.1%	0.3
<i>Professional, Scientific and Technical Services</i>	3.5	3.5	2.0%	0.1
<i>Management, Administrative and Other Support Services</i>	1.9	1.9	-1.5%	0.0
<i>Educational Services</i>	5.3	5.5	3.6%	0.2
<i>Health Care and Social Assistance</i>	10.5	10.6	0.9%	0.1
<i>Public Administration</i>	6.9	6.6	-4.1%	-0.3
<i>Information, Culture and Recreation</i>	2.8	2.7	-1.4%	0.0
<i>Accommodation and Food Services</i>	5.6	6.2	9.6%	0.5
<i>Other Services</i>	3.3	3.1	-4.9%	-0.2
Total	73.5	75.8	2.9%	2.3

Utilities were suppressed to meet the requirement of the *Statistics Act*
Source: Statistics Canada



Though Prince Edward Island has recorded growth in average weekly earnings so far in 2018, the Island, at an average weekly wage rate of

\$834.21, had the lowest average weekly earnings in the country through August, an average of \$31.76 lower than the next lowest province. For Canada as a whole, average weekly earnings have increased 3.0 per cent on a year-to-date basis through August.

As can be seen in Figure 7, total labour income on the Island, through the second quarter of 2017, grew by 4.1 per cent on a year-to-date basis, tied with New Brunswick for the fastest growth in the region. Nationally, the compensation of employees grew by 4.8 per cent over this time period.

Construction and Housing

The supply and demand of housing has been a major focus through 2018 so far, with demand for housing outstripping supply, and mismatches between the type of housing sought and what is on offer. New home construction and investment in the residential construction sector continue to grow, though perhaps not at a fast enough pace to alleviate pressure. In the resale market, supply has trended sharply lower over the last number of years as strong demand has eroded the supply of homes. Inventory levels are persistently around half of their long run average.

Building Permits

On a year-to-date basis through September, total building permits have increased by 11.8 per cent. Non-residential permits have increased 14.4 per cent as increases in industrial and commercial permits of 62.2 and 12.5 per cent respectively were enough to offset a 29.7 per cent decline in the value of government and institutional permits. Residential permits have increased 10.3 per cent over this timeframe, with growth in both single and multiple permits. Nationally, building permits through September have increased 3.2 per cent, with growth occurring in both residential and non-residential components.

Housing Starts

Through the first three quarters of 2017, housing starts have increased 3.6 per cent, compared to the same period last year. At 698 starts, the Island would need in excess of 213 starts to surpass last year's total of 911 starts¹. Growth has been dominated by the multi-unit segment, up 10.9 per cent, particularly apartments, up 46.0 per cent. Single-family home starts are down 1.2 per cent through three quarters. Nationally, housing starts have declined 2.5 per cent over this time period. Growth ranged from a high of 19.1 per cent in Nova Scotia to a decline of 28.6 per cent in Saskatchewan, as can be seen in Figure 9.

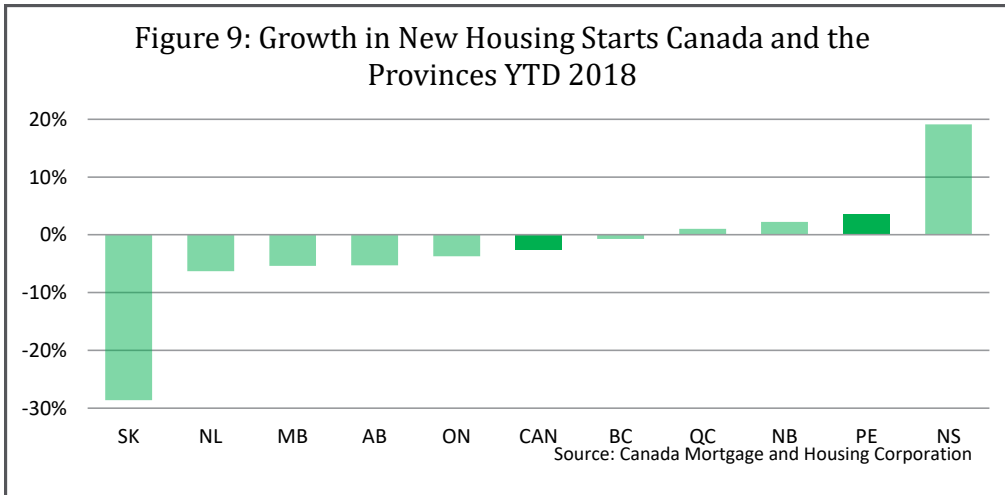
Through October, in centers on the Island with more than 10,000 people, housing starts have declined 9.9 per cent. Multi-unit starts were flat over this period, while single family starts declined 20 per cent.

¹ For reference, there were 237 starts in the fourth quarter of 2017. Other years with strong housing growth (i.e. 2011 and 2012) has starts of 303 and 251 units in their respective fourth quarters.

Resale Housing

According to the PEI Real Estate Association, on a year-to-date basis through October home sales totaled 1,798 units, a decrease of 4.8 per cent from the same period in 2017. The year-to-date average price was \$209,246, an increase of 3.0 per cent from 2017.

Figure 9: Growth in New Housing Starts Canada and the Provinces YTD 2018



Residential Investment

The total value of residential investment has increased 24.9 per cent through the second quarter of 2018, as compared to the same period in 2017, the fastest growth amongst provinces for the second year in a row. Investment is up across most components, notably in apartment housing where investment has grown 220.4 per cent year-to-date. However renovation, formerly the largest component of residential investment, is down 0.6 per cent through the second quarter. Nationally, residential investment increased 7.6 per cent over this time period.

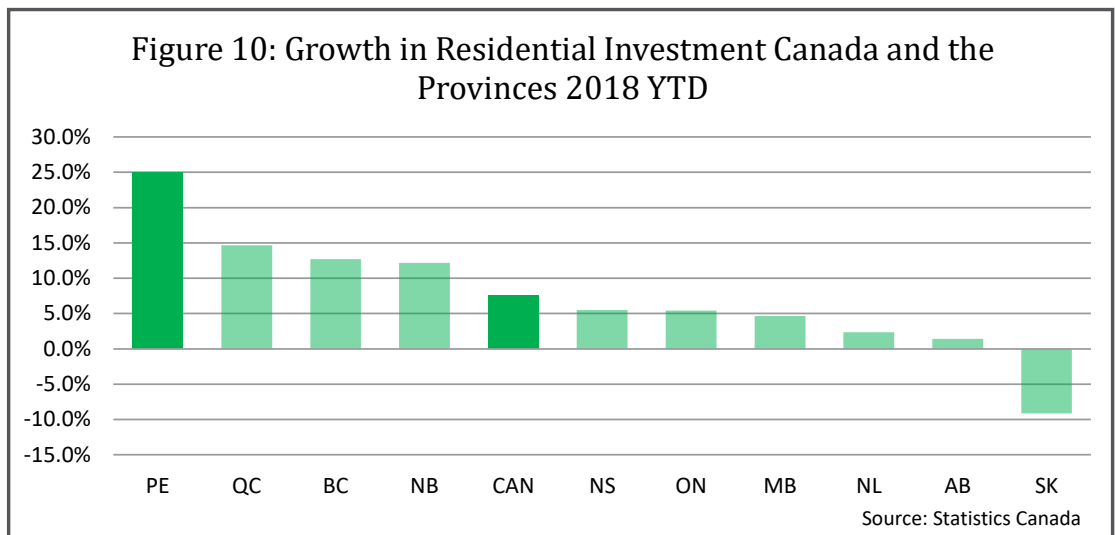
Figure 10 shows year-to-date growth in residential investment. Growth ranged from an increase of 24.9 per cent in Prince Edward Island to a decrease of 9.1 per cent in Saskatchewan. It is expected that the value of residential investment should continue to grow through the latter part of 2018, following the rising trend in building permits and housing starts.

Prince Edward Island has been leading the country in growth in new housing investment, with growth up 42 per cent on a year to date basis through August. The Island has seen strong growth across all housing types, with single detached starts up 25.9 per cent, semi-detached starts up 34.4 per cent and row houses up 9.9 per cent, though apartment starts on the Island have increased 204.4 per cent over this time period. Nationally new housing construction has increased 6.4 per cent over this time period.

Non-residential Investment

Through the first three quarters of 2018, non-residential investment has declined by 5.3 per cent compared to the same period in 2017. A 51.7 per cent increase in industrial construction was not enough to offset declines in the commercial and government and institutional sector of 15.3 and 27.8 per cent respectively. Nationally, non-residential investment has increased 7.3 per cent over this time period. Growth ranged from a high of 44.4 per cent in Newfoundland and Labrador, to a decline of 8.7 per cent in Saskatchewan.

Figure 10: Growth in Residential Investment Canada and the Provinces 2018 YTD



PRIMARY INDUSTRIES

Farming

Farm cash receipts through the first quarter of 2018 totaled \$127.5 million, a decrease of 1.5 per cent compared to the first quarter of 2017. Crop receipts are down 3.5 per cent due to decreases in both potatoes (down 3.8 per cent), and other crops (down 1.7 per cent). Livestock receipts are up 6.1 per cent, while direct payments to farmers are down 13.9 per cent. Absent direct payments, farm cash receipts are down 0.4 per cent over this time period.

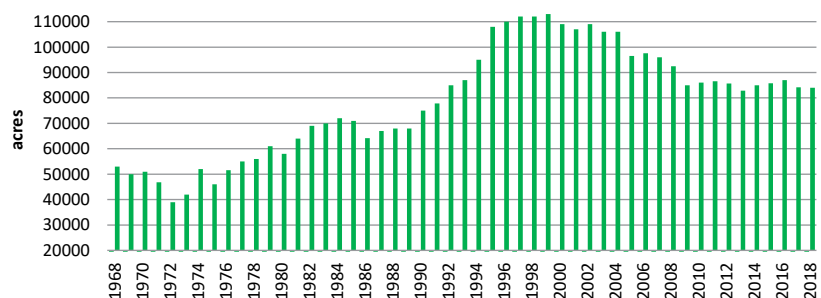


Livestock prices for most commodities have also been weak, particularly for cattle. Prices for slaughter cattle and feeder cattle are down 8.3 per cent, and 10.9 per cent respectively. However, prices for both slaughter calves and feeder calves are up 6.3 and 6.4 per cent respectively. Hog prices are down 11.7 per cent, while slaughter lambs are down 1.4 per cent. For the supply-managed commodities, the price for chickens has increased 0.8 per cent while the price for eggs is up 1.9 per cent through September. Milk prices are down 3.6 per cent through September.

Crop prices, through September, have largely been higher than those recorded in 2017, with prices for wheat, oats and barley up 9.9 per

cent, 22.4 per cent, and 23.1 per cent respectively. However, prices for soybeans, the Island's second-largest crop by value have declined 7.8 per cent through September. Planted potato acreage was down by 200 acres in 2018 to 84,000 acres, the second smallest planted area since the early 1990s. As can be seen in Figure 11, planted acreage followed a largely upward trend from the early 1970s and peaked in 1999 at 113,000 planted acres, before beginning to decline. Harvesting of the potato crop was delayed due to wet weather. This has resulted in farmers not being able to harvest a significant portion of the potato crop in 2018.

Figure 11: Fifty Years of Potato Planting PEI



Source: Statistics Canada

Fishing

The fishery continues to be an important sector on Prince Edward Island, and demand for Island seafood products remains strong. The top four seafood species fished and harvested on the Island are lobster, mussels, snow crab and oysters.

According to the department of Agriculture and Fisheries, the volume of lobster landed in 2018 increased from 2017 levels, while mussels and oysters also had a good year, and are seeing solid demand. Disturbances from the new measures intended to protect right whales had a minimal impact on the fishery, though the snow crab fishery was impacted forcing fishermen from Quebec, New Brunswick and Prince Edward Island to fish closer together.

Tourism

Information from the department of Economic Development and Tourism indicates that total overnight stays on the Island have decreased by 1.8 per cent on a year-to-date basis through August. The number of

room nights sold at both fixed-roof accommodations and campgrounds have decreased by 1.1 per cent respectively. Though tourism figures are slightly below those recorded in 2017, Canada's sesquicentennial, they are trending above those recorded in 2016.

Traffic to the Island via the Confederation Bridge has increased 0.7 per cent year-to-date, while air traffic is down 1.0 per cent. Ferry traffic has increased by 2.6 per cent year-to-date, this increase after having both Island ferries returning to normal operations for all of 2017. The number of motorcoach visits has decreased by 4.0 per cent over this time period.

The cruise ship season is ongoing in 2018, with ships scheduled to visit into November. Over 100,000 passengers and 45,000 crew are scheduled to visit the Island this cruise season on 91 ships. The number of cruise ship visits through August is down 0.5 per cent.

Visits to the Prince Edward Island National Park have increased by 17.9 per cent through August, while visits to Green Gables have decreased by 22.8 per cent. Visits to provincial heritage sites are down, with total visitors down 6.2 per cent year-to-date.

On a seasonally adjusted basis through August, sales at food services and drinking places have advanced 6.1 per cent. Growth in food services and drinking places ranged from a high of 7.4 per cent in British Columbia, to a decline of 0.2 per cent in Newfoundland and Labrador. Nationally, sales at food services and drinking places have grown by 5.1 per cent over this time period.



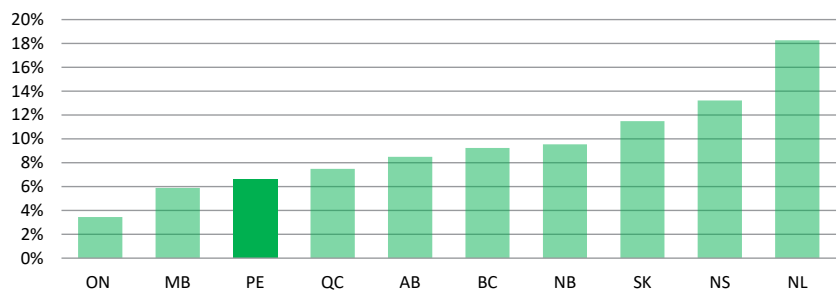
Over 100,000 passengers and 45,000 crew are scheduled to visit the Island this cruise season on 91 ships.

Manufacturing Shipments and Exports

On a year-to-date basis through September, the value of seasonally adjusted manufacturing shipments has increased 6.6 per cent.

Growth was recorded in both the durable and non-durable goods sectors at 13.9 and 3.5 per cent respectively. Non-durable goods, largely composed of food and seafood shipments, represent approximately 70 per cent of the Island's manufacturing shipments, while durable goods are responsible for the remaining 30 per cent. As can be seen in Figure 12, through September, all provinces have recorded positive growth ranging from 3.5 per cent in Ontario, to 18.3 per cent in Newfoundland and Labrador. Nationally, manufacturing shipments grew 6.1 per cent over this time period.

Figure 12: Growth in Manufacturing Shipments YTD September

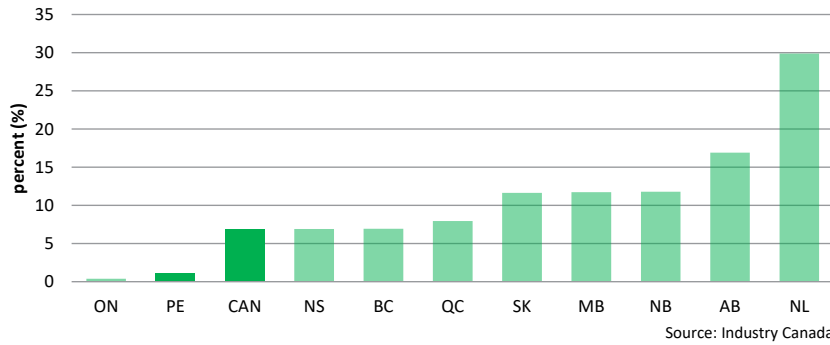


Source: Statistics Canada



Aerospace exports have been positive on a year-to-date basis through September, with engine, turbine and power transmission equipment manufacturing up 6.5 per cent and aerospace product and parts manufacturing up 12.1 per cent.

Figure 13: Growth in Exports Canada and the Provinces YTD September



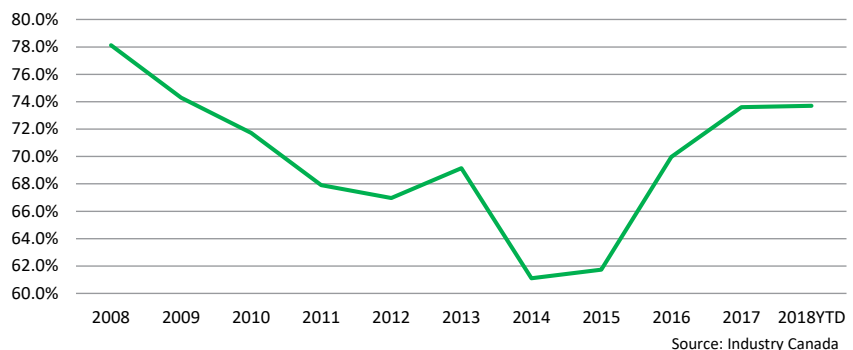
On a year-to-date basis through September, international exports have increased 1.1 per cent. Over this time period, Newfoundland and Labrador has seen the fastest growth in international exports amongst provinces, up 29.9 per cent, followed by Alberta at 16.9 per cent, and then New Brunswick. This performance is partially reflective of strong energy prices seen in 2018 to date. Nationally, international exports have increased 6.9 per cent through September.

The Island's food industries have seen some softening in exports so far this year. Frozen food manufacturing – the Island's largest export industry - has seen exports decline by 0.9 per cent year-to-date, while seafood product preparation and packaging is down 6.4 per cent. Aquaculture is down 3.4 per cent, while fishing is down 20.6 per cent on a year-to-date basis through September. Vegetable and melon farming (potatoes) is up 40.2 per cent year to date.

Aerospace exports have been positive on a year-to-date basis through September, with engine, turbine and power transmission equipment manufacturing up 6.5 per cent and aerospace product and parts manufacturing up 12.1 per cent. Bioscience exports have been mixed with pharmaceutical and medicine manufacturing down 10.6 per cent, while other basic organic chemical manufacturing have increased 2.4 per cent on a year-to-date basis through September. Other industrial machinery manufacturing continues to expand on the Island, and is now the Island's 8th largest export industry, and has grown 23.2 per cent year-to-date.

The United States continues to be the destination of the majority of the Island's exports, with 73.7 per cent of the Islands exports heading there through September. This is an increase of 3.1 per cent over the same period in 2017. As can be seen in Figure 14, since 2008 there had been a general decline in the share of the Island's exports going to the United States, a trend which has since reversed with the decline of the Canadian dollar against the US dollar. Germany, France, the Netherlands, and China round out the rest of the top five destinations for Island goods in 2018, though together they only account for 8.1 per cent of the Island's trade.

Figure 14: Percentage of Island Exports to the United States



Retail Trade, Motor Vehicle Sales and Wholesale Trade

Continued strong population growth, higher income growth and a positive tourism season are contributing to another strong year for retail sales in 2018. On a seasonally adjusted basis through August, retail sales have advanced a healthy 4.6 per cent, the fastest growth amongst provinces. Through August, retail sales in the other Maritime provinces grew by 2.9 per cent in Nova Scotia and by 1.9 per cent in New Brunswick. Nationally, retail sales increased 3.3 per cent over this time period.

On an unadjusted basis through August, retail sales on the Island have seen strong growth across all components. Notable contributions to growth have come from motor vehicle and parts dealers¹, up 4.3 per cent, food and beverage stores, up 4.4 per cent, and building material and garden equipment and supplies dealers, up 8.9 per cent.

¹ Motor vehicle and parts dealers include new and used car dealers, other motor vehicle dealers and automotive parts and accessories and tire stores.

Wholesale trade on the Island has increased 23.4 per cent on a year to date basis through August, the fastest growth amongst provinces. Nationally, wholesale trade has advanced 4.5 per cent over this time period.

The value of new motor vehicle sales has decreased 6.8 per cent on a year-to-date basis through September, while the volume of new motor vehicles sold has decreased by 8.8 per cent. Declines have occurred across all components with sales of both passenger cars, and trucks down 16.6 and 4.8 per cent respectively. Nationally, the volume of new motor vehicles sold has decreased 1.1 per cent, while their value has increased 3.0 per cent over this time period.

Consumer Prices

On a year-to-date basis through September, consumer prices have increased by 2.5 per cent. Food inflation has increased by 0.3 per cent on a year-to-date basis, while shelter inflation and energy inflation have increased 3.5 per cent and 12.1 per cent respectively. Prices for gasoline and household heating fuel continue to increase, and are 14.9 per cent and 21.9 per cent higher on a year-to-date basis through September as compared to the same period in 2017. As Prince Edward Island is relatively more dependent on oil for heating than other parts of the country, energy commodities have a larger weight in the province's CPI basket, with the result being the large impact on inflation seen so far this year. Absent energy, consumer prices have increased 1.3 per cent over this time period.

Core inflation on the Island (the measure of inflation excluding volatile components such as food and energy) has increased 1.6 per cent through September. Nationally, inflation has increased 2.3 per cent over this time period.

Figure 8: Growth in Retail Sales Canada and the Provinces
YTD August



Source: Statistics Canada

Private Sector Forecasts

Below, in Table 2, are the forecasts for real GDP growth for the Island from Canada’s major banks and two think tanks. Forecasts for 2018 fall in a range of 1.4 per cent growth to 2.8 per cent growth, averaging 2.1 per cent, while forecasts for 2019 range from 0.8 per cent growth to 2.5 per cent growth, averaging 1.7 per cent.

Table 2:

Private Sector Forecasts				
Organization	Real GDP (% growth)			Date Issued
	2017	2018f	2019f	
Conference Board of Canada		2.8%	2.5%	Summer 2018
TD Bank		2.2%	1.7%	18-Sept
RBC		1.4%	1.6%	12-Sept
CIBC		1.7%	0.8%	4-Oct
BMO		1.8%	1.1%	9-Nov
Scotiabank		2.0%	1.6%	15-Oct
National Bank		2.5%	2.0%	November 2018
Atlantic Provinces Economic Council		2.2%	2.0%	5- Nov
Average	3.5%	2.1%	1.7%	

Forecasts have been revised up since the 2018 Budget, where growth was forecast at 1.7 per cent for 2018 and 1.2 per cent for 2019. Driving the upward revisions in the forecast for the Island is the strong performance seen across a wide variety of economic indicators. However, some forecasters still view the population increases on the Island as a temporary phenomenon. Beginning at the end of 2016, increased immigration began to have a positive impact on the Island’s labour market, and other economic indicators. This trend is likely to continue through the medium term, and consequently, there is likely upside to the average of the private sector forecasts.



Outlook 2019

Prince Edward Island has benefitted over the last number of years from modest, stable growth in real GDP



The construction sector should continue to see gains through 2019 due to strong demand on both the residential and non residential front.

According to the IMF, the outlook for the global economy in 2019 is for the global economy to expand at a pace of 3.7 per cent, the same pace as in 2017 and 2018, and a downward revision of 0.2 percentage points from its April Outlook. The Bank of Canada revised its forecast down marginally for the Canadian economy in 2019 from 2.1 per cent in July to 2.0 per cent in October due to slightly weaker consumption, net exports and inventories.

Recently, Prince Edward Island has seen a solid expansion in real GDP. Due to the mix of industries found on the Island, the Island economy has been more stable than other parts of the country over the last number of years. Though the economic fundamentals of the Island economy remain in place, Prince Edward Island has of late been benefiting from the increase in population that has largely been driven by immigration, increasing demand for goods and services on the Island. This is expected to continue into 2019. Due to the above factors the Province is projecting real growth in the order of 2.5 per cent, owing approximately 1.5 percentage points to factors driven by population growth, and 1 percentage point to other economic factors.

Prince Edward Island should continue to benefit from strong international in-migration in 2019. The provincial Population Action Plan released in the spring of 2017 has plans to grow the population to 160,000 by 2022 through a com-

ination of immigration, positive inter-provincial migration and increased retention of international students. Continued strong immigration through the provincial nominee streams should result in an additional 2,360 immigrants coming to the Island in 2019, increasing to 2,600 by 2021. This will continue to help boost domestic demand through 2019 and beyond.

In September of 2018, Prince Edward Island closed its immigrant investor stream of provincial nominees to the province to new applicants. The impact of this closure will begin to be felt in 18 to 24 months, as current applicants are processed. The province has recently indicated that it intends to nominate additional immigrants through its other provincial nominee streams, so that there will be no decline in the number of international immigrants moving to the province. This has the potential to increase retention rates, as labour market immigrants are viewed as more likely to stay, which should help the Island's population to continue to grow, at a faster pace.

Employment should continue to grow through the medium term as the labour force continues to expand due largely to increased immigration, especially as more immigrants are being brought into the province through the skilled labour stream. The economy has been able to absorb the new entrants into the labour market with little difficulty, and with many sectors of the economy looking for additional labour,

this is a trend that should continue into the future. The minimum wage will increase by 70 cents in 2019, to \$12.25 an hour, maintaining the highest minimum wage in the region, continuing to support wage growth on the Island.

The construction sector should continue to see gains through 2019 due to strong demand on both the residential and non residential front. On the residential side, new housing construction will continue to accelerate through the medium term due to continued levels of immigration and changes to household composition on the Island. The Canada Housing and Mortgage Corporation (CMHC) forecasts starts in the range of 675 to 875 units in 2019 and 650 to 850 units in 202, significantly below projected demand. Demographic factors and immigration point to the need for an additional 1,300 units per year to meet demand, from both household formation and immigration, a much higher level of housing completions than has occurred on the Island in recent memory (1986 was the last time there were more than 1,000 completions on the Island). This indicates significant capacity for future expansion in residential construction sector (see Figure 15).

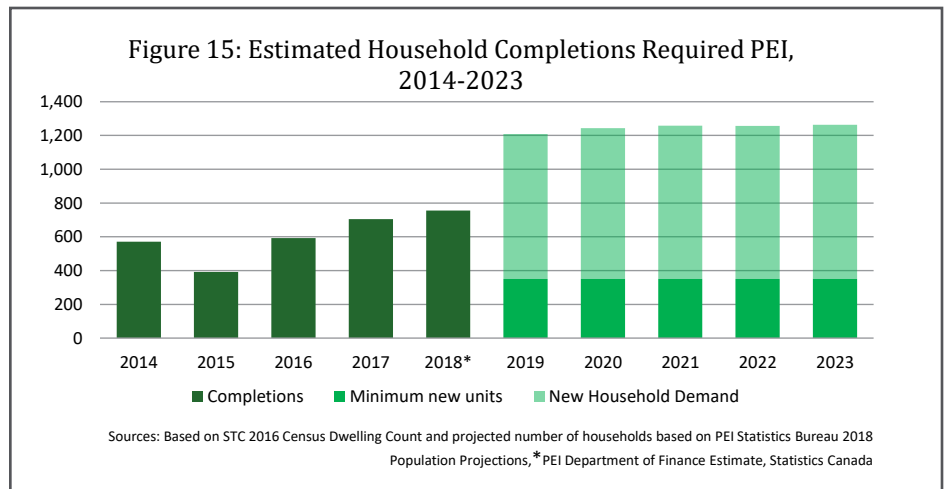
The supply of resale housing at the end of October is at its lowest level in sixteen years due to several years of very strong demand. CMHC forecasts home sales on the Island to be in the range of 1,950 to 2,200 per year through to 2020, with average

prices continuing to increase. Vacancy rates are projected to be in the range of 1.2 per cent in 2019, climbing slightly to 1.5 per cent in 2020. The recent adoption of the new National Building Code in Charlottetown will allow builders to build an additional story, which should allow for a further increase in housing, and increased densification.

Non-residential construction will rebound in 2019 after lagging slightly in 2018. It is projected to benefit



There are a significant number of major projects which are projected to start, or have their largest construction year in 2019, setting up the potential for one of the strongest construction years ever on the Island.



from capital investments from all levels of government, as government spending on social infrastructure will need to increase to service the growing population. There are a significant number of major projects which are projected to start, or have their largest construction year in 2019, setting up the potential for one of the strongest construction years ever on the Island. Commercial building should also see gains in 2019, as the investment cycle for commercial construction often lags the residential construction cycle. This should continue to drive increased employment in the sector, and continue to have a positive impact on wages.

The resolution of the North American Free Trade Agreement (NAFTA) into the United States Mexico Canada Agreement (USMCA) should reduce the uncertainty around trade in North America in the near future. This may prompt improved business confidence and investment which would aid in sustaining and growing manufacturing shipments and exports in 2019 and beyond. Royal Ascent on the Comprehensive and

Progressive Trans-Pacific Partnership (CPTPP) happened on October 25, 2018. This makes Canada the fifth country to ratify the agreement (after New Zealand, Mexico, Japan and Singapore). This could provide additional avenues for Island companies to diversify their trade in an area of the globe where they have already made successful inroads.

Tourism growth should rebound in 2019 after an artificially high 2017 due to the 150th anniversary of Confederation. The low value of the Canadian dollar and the strength of the American economy should bode well for tourism in 2019. Renovations at Green Gables in the PEI National Park are expected to be complete by next tourist season, while new hotel stock catering to different price points is being constructed in the capital region. Increased accommodation capacity will be necessary if the province is to achieve the Tourism Industry Association's goal of increasing tourism to 1.75 million visitors annually by 2021.

The primary sectors of the economy should continue to positively contribute to economic growth in 2018. The seafood sector looks to have had a strong year in 2018, a trend that is likely to continue. Investments being made through the Atlantic Fisheries Fund, including funds to help shellfish companies acquire new equipment, should provide upside to the fishery going forward. The potato crop suffered from a second summer of dry weather, potentially causing smaller yields in the areas where the least rain was received. However, as in 2017, this phenomenon impacted other potato growing regions as well, particularly other areas of Canada and Europe, which may put upward pressure on prices. However, real GDP will still be negatively impacted even though prices are likely to improve in nominal terms.

The dairy industry will be exposed to increased international competition as a result of the conclusion of the USMCA and the CPTPP, putting pressure on local farmers and processors and potentially decreasing output, though as a result of these agreements, increased export opportunities also exist for Island producers. Risks to the outlook stem largely from events beyond the province's control. Trade disputes leading to weaker global growth could lower manufacturing shipments and exports. However the positive resolution to the USMCA, as well as opportunities that present themselves from CETA and the new CPTPP should provide an outlet for Island goods and services, should they be pursued.

Domestically, increases in interest rates, high levels of Canadian household debt, and their impact on consumption and the housing sector could provide some downside risk. Closer to home, due to the rapid pace of population increase, finding suitable accommodation, especially in the capital region is challenging. Lack of suitable accommodations is already complicating retention and repatriation efforts in 2018, a situation that is not projected to improve in 2019, unless significant additional building can take place. Concern has been expressed however that demand for both labour and capital are tight. This is likely to make it difficult to increase the pace of building, and may result in increased cost inflation and longer timelines for projects. Unless enough labour can be secured, certain projects that were scheduled to begin in 2019 may need to be postponed.

Labour shortages, an issue in 2018, are projected to continue into 2019 in numerous industries, including construction, aquaculture, fish processing and agriculture, retail sales and accommodation and food services. Increasing the productive capacity of Island industries so that the volume of goods and services produced continues to expand quickly enough to take advantage of new opportunities will be essential for continued growth in the medium term.



From small things,
big things come

We may be small in size, but we're big on ambition. An incubator for entrepreneurial spirit, PEI inspires people to dream big, think without boundaries, and act with passion. All supported by a government committed to helping your ideas become reality.

The Mighty Island

For more examples of how anything is possible on Prince Edward Island, visit...
princeedwardisland.ca/mighty-island

