



PRINCE EDWARD ISLAND **BUDGET PAPER** BACKGROUND NOTES ON THE ECONOMY



Presented by
J. Heath MacDonald
*Minister of Finance and
Chair of Treasury Board*

2018

Highlights of the Prince Edward Island Economy

Prince Edward Island Budget Paper

- As of July 1, 2017, Prince Edward Island's population is estimated to be 152,021, an increase of 1.7 per cent over 2016, the fastest growth amongst provinces.
- Total labour income on the Island grew by 4.4 per cent in 2017, the strongest growth in the region, and faster than the national average.
- The number of employed persons on the Island increased 3.1 per cent in 2017, while the unemployment rate decreased 0.9 percentage points to 9.8 per cent, the lowest annual average since 1978.
- Retail sales grew 7.4 per cent in 2017, the fastest growth in the region, and third amongst provinces.
- Consumer prices increased 1.8 per cent in 2017.
- The value of new motor vehicles sold increased by 3.0 per cent to reach a new all-time high.
- Housing starts totaled 911 in 2017, an increase of 63.8 per cent, in 2017. This was the fastest growth amongst provinces, and far exceeded the national growth rate of 11 per cent.
- Manufacturing shipments increased 8.4 per cent in 2017, with growth in both durable and non-durable goods.
- International exports increased 4.6 per cent in 2017. This compares to growth for all of Canada at 5.6 per cent.
- Farm cash receipts are flat through the first three quarters of 2017.
- Tourism has been positive on the Island this year. Information from the department of Economic Development and Tourism indicates that total overnight stays on the Island increased by 6.5 per cent in 2017 to exceed 1 million stays for the first time.
- The average of private sector forecasts for real GDP for the Island in 2017 is 2.2 per cent.

INTRODUCTION

The following document is an update to the economic situation of the Province of Prince Edward Island since the release of the 2017 Fall Economic Update. 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 March 27, 2018.

International and National Economic Context

The global economic recovery continues to strengthen. According to the International Monetary Fund (IMF), global real gross domestic product (GDP) is projected to have expanded by 3.7 per cent in 2017, an increase of 0.1 percentage points from their fall Outlook, and its best performance since 2011. Growth in advanced economies is projected to have expanded 2.3 per cent, while growth in emerging market economies is projected to have expanded by 4.7 per cent, both revised up 0.1 percentage points from the fall. Growth in 2017 was broad based across regions and economy types, with higher than expected growth coming from Germany, Japan, Korea, the United States, Brazil, China and South Africa. After increasing since 2014, the share of

countries in recession also fell in 2017, a trend that is projected to continue over the next several years.

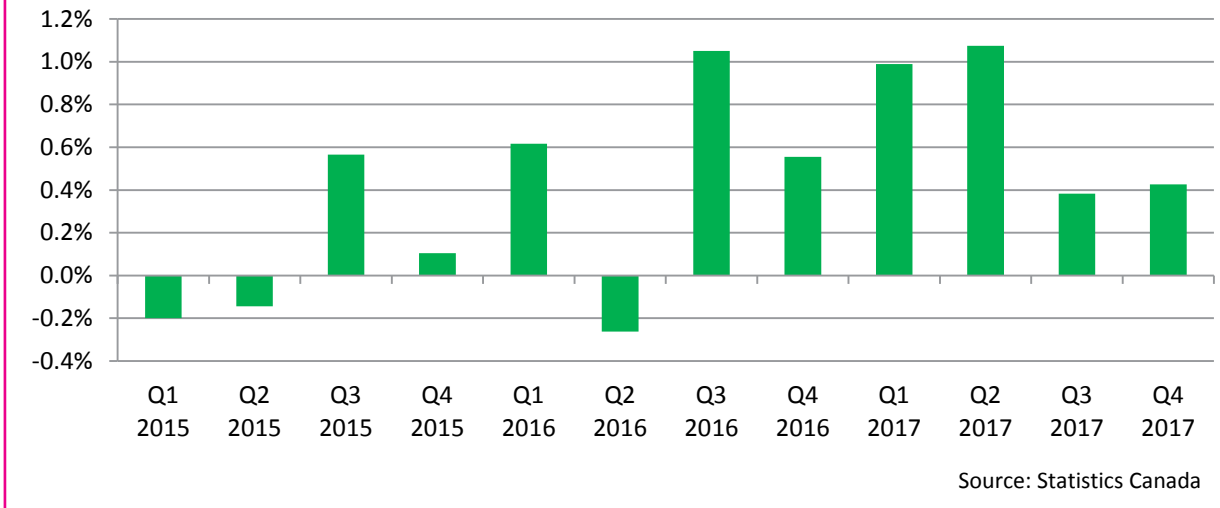
The economic situation in the United States continues to improve. Real GDP expanded by 2.3 per cent in 2017, compared to growth of 1.5 per cent in 2016. Economic growth in 2017 was driven by personal consumption expenditures, private inventory investment, non-residential fixed investment and exports. The number of employed people increased 1.6 per cent in 2017, while the unemployment rate averaged 4.4 per cent over this time period, a decline of 0.5 percentage points from 2016, below pre-crisis levels.

On December 22, 2017, a tax reform package was signed into law valued at approximately \$1.46 trillion over 10 years. The main elements of this reform are a reduction of the corporate income tax rate from 35 per cent to 21

per cent and a temporary allowance for the full expensing of investment, and a reduction in personal income tax rates, though these rates are set to expire after 2025. Due to the impact of the tax changes, the IMF forecasts that real GDP in the United States will be 1.2 per cent higher by 2020 than absent these measures. Growth will be lower after 2022 as some of the temporary provisions begin to expire, offsetting some of the earlier gains in growth. This is projected to add between four and seven percentage points to the debt over a 10-year period compared the status quo.

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

Figure 1: Quarterly Real GDP Growth Canada



rate on five occasions so that it presently sits between 1.50 and 1.75 per cent. It is expected that the strengthening of the economic environment will warrant additional increases in the federal funds rate, though this is projected to be a gradual process, with the rate projected to be below the long run rate for some time. Further, the Federal Open Markets Committee began its balance sheet

year, before growth decelerated in the second half of the year. Household final consumption expenditures increased 3.5 per cent in 2017, with increased expenditures on both goods and services. Business gross fixed capital formation expanded by 2.6 per cent in 2017, with increased investment in machinery and equipment, residential structures and non-residential structures. Exports of

of growth since 2011. Notable increases include the mining, quarrying and oil and gas extraction industry, up 7.8 per cent, wholesale trade, up 7.5 per cent, real estate, rental and leasing, up 2.8 per cent, manufacturing, up 3.3 per cent, and construction, up 3.9 per cent. The only industrial sectors to see declines were agriculture, forestry, fishing and hunting, down 0.7 per cent and management of companies and enterprises, down 3.4 per cent.

“Broad-based economic expansion characterized 2017.”

normalization program in October, beginning a process of unwinding the \$4.5 trillion in stimulus it acquired as a result of the 2008 recession. The Federal Reserve plans to shed \$10 billion in assets a month, gradually increasing the amount to \$50 billion a month by October 2018.

In Canada, real GDP grew by 3.0 per cent in 2017, a faster rate of growth than the 1.4 per cent recorded in 2016. As can be seen in Figure 1, most of the GDP growth came in the first two quarters of the

goods and services expanded further in 2017, while imports increased 3.6 per cent, after contracting by 1.0 per cent in 2016.

Broad-based economic expansion characterized 2017. On an industry basis, 18 of 20 industrial sectors in the Canadian economy expanded in 2017. After contracting in both 2015 and 2016, goods producing industries rebounded 4.6 per cent, while service producing industries expanded 2.8 per cent, the fastest rate

For the first time in seven years, the Bank of Canada began raising its target for the overnight rate in July 2017 due to strong economic growth in the Canadian economy, led by household spending. It further increased the target for the overnight rate to 1 per cent in September, and 1.25 per cent in January 2018 due to stronger than expected economic data, an economy that is operating at close to capacity and inflation that is approaching the 2 per cent target. At its last rate announcement on March 7, 2018, the Bank of Canada decided to keep the target for the overnight rate at 1.25 per cent, citing uncertainty around recent trade policy developments, and the evolution of the housing market.

Provincial Economic Context

The Prince Edward Island economy has strengthened over the last number of years.

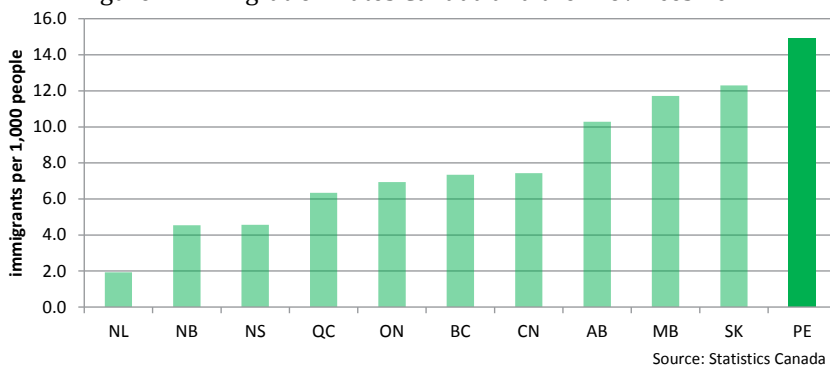
The Prince Edward Island economy has strengthened over the last number of years. The province has posted solid economic growth over the past decade, with GDP expanding by 2.3 per cent in 2016, a faster pace than the 1.4 per cent expansion nationally and the largest increase in 10 years. The majority of economic indicators posted significant growth in 2017, with the result being that the average of private sector forecasts for real GDP is 2.2 per cent, and increase of 0.2 percentage points from the Fall Economic Update. The driving force behind the uptick in the province's economic fortunes – population growth – is projected to continue to grow significantly through the medium term. Consequently, this should continue to have a positive impact on the Islands' economic indicators in 2018 and beyond.

On September 27, 2017 Statistics Canada published its preliminary provincial population estimates for July 1, 2017, as well as revisions to the 2013 to 2016 population estimates. As of July 1, 2017, Prince Edward Island's population is estimated to be 152,021, surpassing the Province's goal of 150,000 residents in 2017 as part of Canada's 150 celebrations. This represents a yearly increase of 2,549 persons or a 1.7 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. Prince Edward Island once again recorded the fastest population growth in the Atlantic region, with Nova Scotia's population growing at 0.6 per cent, and New Brunswick growing at 0.3 per cent. Newfoundland and Labrador's population declined by 0.3 per cent in 2017. Indeed, Prince Edward Island had the fastest rate of population growth amongst provinces and the second highest growth rate in the country, behind Nunavut, at 2.2 per cent.

International migration remains an important factor in population growth for PEI. International immigration increased for the second consecutive year, rising by 12.4 per cent in 2016-17 following a 50.5 per cent increase in 2015-16. From July 2016 to June 2017, 2,264 international immigrants came to the province, as compared to 2,015 the previous year. At a rate of 15.0 per thousand, the province had the highest immigration rate in the country, ahead of Saskatchewan at 12.4 per thousand. The immigration rate for

The second consecutive year the province has exceeded the national population growth rate

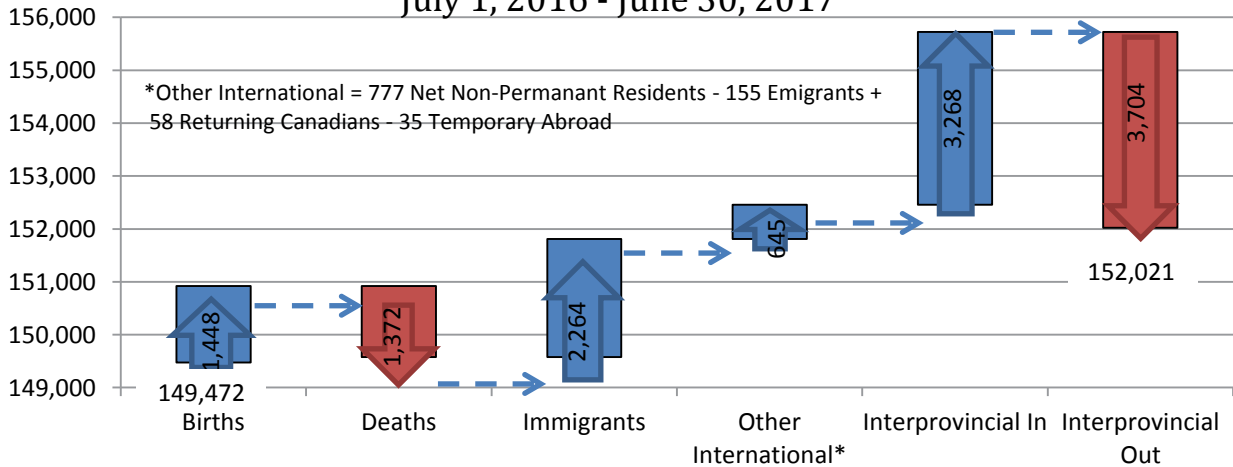
Figure 2: Immigration Rates Canada and the Provinces 2017



Population and Immigration

As of July 1, 2017, Prince Edward Island's population is estimated to be 152,021, surpassing the Province's goal of 150,000 residents in 2017 as part of Canada's 150 celebrations.

**Figure 3: Prince Edward Island Components of Growth
July 1, 2016 - June 30, 2017**



Canada was 7.5 per thousand (see Figure 2). In addition, other international migration components resulted in a net increase of 645 persons. This resulted in a total increase of 2,909 due to international migration, which is a new all time high for Prince Edward Island since modern record keeping began in the early 1970s.

A total of 3,268 inter-provincial migrants came to PEI in 2016-17, while 3,704 people left the province for other areas of Canada for a net interprovincial loss of 436 persons. There were 1,448 births and 1,372 deaths on Prince Edward Island from July 1, 2016

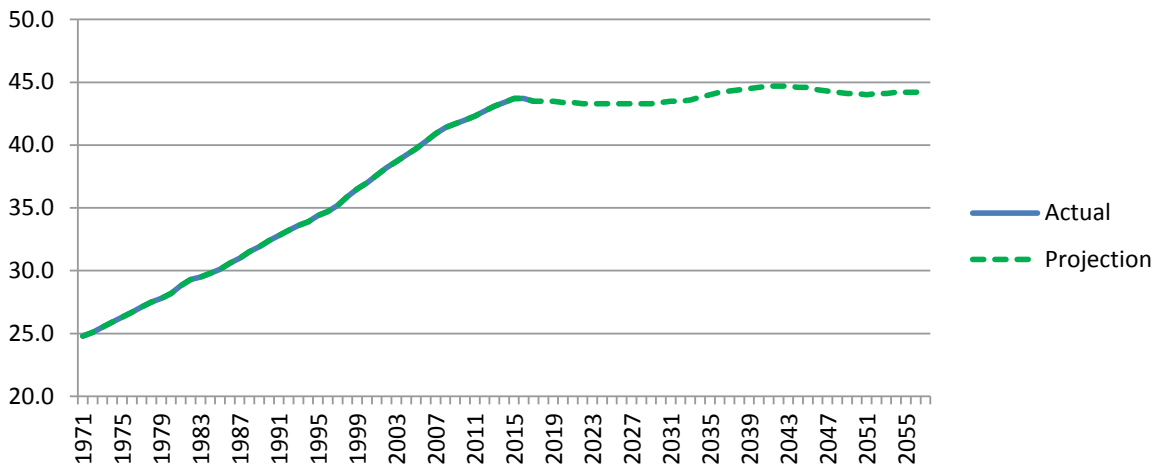
to June 30, 2017, resulting in natural growth (births minus deaths) of 76. Figure 3 shows the population flows that contributed to PEI's population.

Though the Island's population is ageing, the pace of that ageing is beginning to slow. The median age on Prince Edward Island on July 1, 2017 was 43.5, a decline of 0.2 over 2016, the first time the median age for PEI has declined since 1967. Since a low of 23.9 in 1967, the median age has risen by 19.6 years.

This slowdown in ageing is a result of the large number of immigrants to the Island who have arrived recently, and

are younger than the general population. Approximately two thirds of the immigrants coming to the Island are under age 40. The increase in women under age 40 is expected to increase the number of births on the Island. This combination is projected to stabilize the median age in the near future (see Figure 4). This is having a positive effect on the broader economy, especially in terms of consumption, housing and the labour market. The Province's Population Growth Strategy is an ambitious plan to add 10,000 people over the next 5 years to avoid the consequences of an ageing and declining provincial population.

Figure 4: Median Age Prince Edward Island



Employment

The Island labour force saw a very successful 2017. According to the Labour Force Survey (LFS), employment on Prince Edward Island averaged 73,700 in 2017, an increase of 3.1 per cent from 2016, and the second strongest growth amongst provinces.

An expansion in full-time employment, up 4.4 per cent in 2017, offset a decline of 2.5 per cent in part-time employment. As can be seen in Figure 5, employment growth was strongest in British Columbia, Prince Edward Island and Quebec in 2017. Newfoundland and Labrador, and Saskatchewan recorded declines in employment over this time period. Nationally, employment grew by 1.9 per cent in 2017.

The labour force on the Island expanded 1.9 per cent to average 81,700 people in 2017, reversing a trend of declines seen in recent years. This reversal is due to the high levels of immigration to the province over the last number of years. The participation rate averaged 66 per cent, up 0.2 percentage points from the same period in 2016. Prince Edward Island continues to have the fourth highest participation rate amongst provinces behind Alberta, Saskatchewan and Manitoba. The unemployment rate averaged 9.8 per cent in 2017, down 0.9 percentage points from 2016. This is the first time the annual average unemployment rate has been less than 10 per cent since 1978. Nationally, the unemployment rate averaged 6.3 per cent in 2017.

On an industry basis on the Island, employment in the goods sector increased 6.0 per cent in 2017. Gains were widespread in the goods sector, with notable increases in construction employment up 12.8 per cent, and manufacturing employment up 8.3 per cent. Manufacturing continues to be the largest employer in the goods producing sector, with employment averaging 6,500 in 2017. Nationally, the goods sector expanded 1.2 per cent in 2017.

Figure 5: Employment Growth Canada and the Provinces
2017

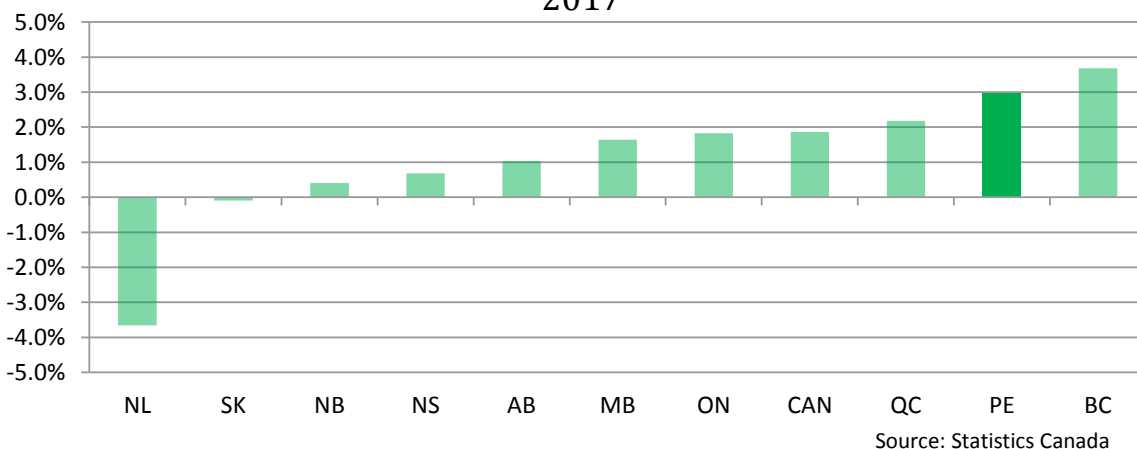


Table 1:

Employment by Industry Prince Edward Island				
	2016	2017	percentage change	total change
	persons unless specified			
Goods Producing Sectors	16.6	17.6	6.0%	1.0
<i>Agriculture</i>	3.1	3.1	0.0%	0.0
<i>Other Primary Industries</i>	2.4	2.5	4.2%	0.1
<i>Utilities</i>	0.3	0.2	-33.3%	-0.1
<i>Manufacturing</i>	6.0	6.5	8.3%	0.5
<i>Construction</i>	4.7	5.3	12.8%	0.6
Service Producing Sector	55.0	56.1	2.0%	1.1
<i>Trade</i>	10.3	11.1	7.8%	0.8
<i>Transportation and Warehousing</i>	2.5	2.8	12.0%	0.3
<i>Finance, Insurance and Real Estate</i>	2.7	2.7	0.0%	0.0
<i>Professional, Scientific and Technical Services</i>	3.7	3.5	-5.4%	-0.2
<i>Management, Administrative and Other Support Services</i>	2.3	1.9	-17.4%	-0.4
<i>Educational Services</i>	5.1	5.3	3.9%	0.2
<i>Health Care and Social Assistance</i>	10.1	10.5	4.0%	0.4
<i>Public Administration</i>	6.8	6.9	1.5%	0.1
<i>Information, Culture and Recreation</i>	2.6	2.7	3.8%	0.1
<i>Accommodation and Food Services</i>	5.8	5.5	-5.2%	-0.3
<i>Other Services</i>	3.1	3.3	6.5%	0.2
Total	71.5	73.7	3.1%	2.2

Source: Statistics Canada

“The unemployment rate averaged 9.8 per cent in 2017, down 0.9 percentage points from 2016. This is the first time the annual average unemployment rate has been less than 10 per cent since 1978.”

Employment in the service sector increased 2.0 per cent in 2017. Notable employment gains occurred in trade, health care and social assistance, and transportation and warehousing, while notable declines occurred in management administrative and other support services, accommodation and food services, and professional, scientific and technical services. Retail/wholesale trade continues to be the largest employer on the Island, averaging 11,100

people, followed by health and social assistance, averaging 10,500 people. Nationally, the service sector grew by 2.0 per cent over this time period. See Table 1 for more details concerning employment by industry on the Island.

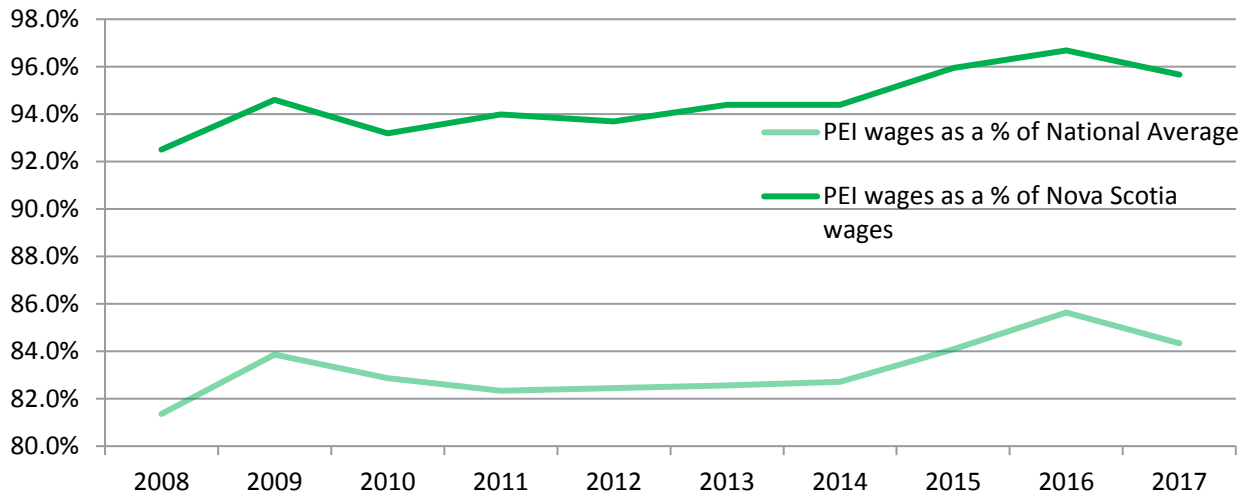
According to the Survey of Employment, Payroll and Hours (SEPH), the number of jobs on the Island increased 3.5 per cent in 2017. Gains were made in both the goods producing indus-

tries, up 6.0 per cent, and in service producing industries, up 2.6 per cent. Employment measures from the two major workforce surveys (SEPH and the LFS) have been following a similar upward trend over the last year.

Average weekly earnings increased 0.4 per cent in 2017. Average weekly earnings grew in all provinces in 2017, with growth ranging from a high of 2.7 per cent in Quebec, to a low of 0.4 per cent on Prince Edward Island. For Canada as a whole, average weekly earnings increased 2.0 per cent in 2017.

Though Prince Edward Island recorded growth in average weekly earnings in 2017, the Island, at an average weekly wage rate of \$822.55, still had

Figure 6: PEI Average Weekly Wages as % of Select Wages



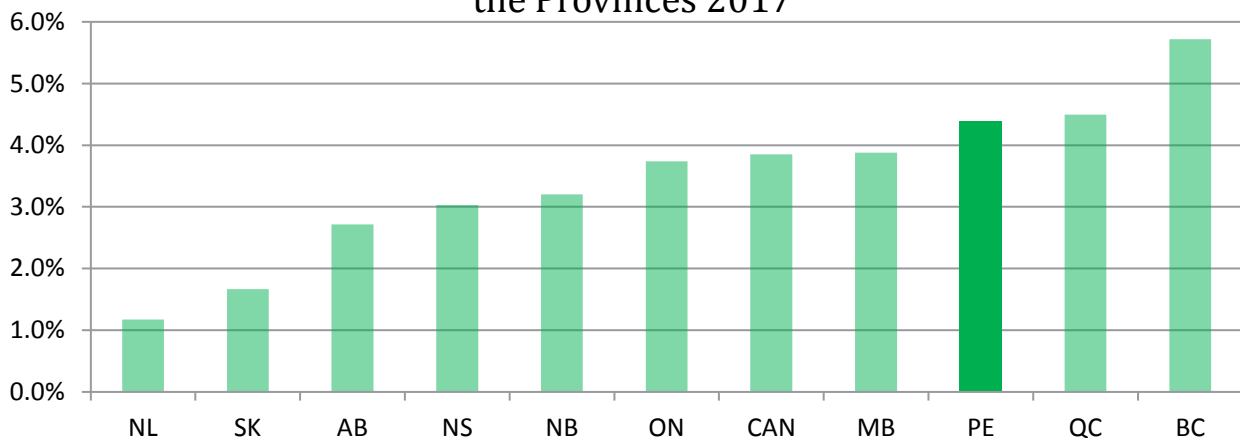
the lowest average weekly earnings in the country, an average of \$37.29 lower than the next lowest province, and \$152.67 less than the national average. Over time, the trend in average weekly wages on the Island has been towards convergence, with continued growth relative to the national average wage and the wage rate in Nova Scotia since 2012, a trend that reversed in 2017 (see

Figure 6). Notably, average weekly wages in the construction sector increased 5.4 per cent in 2017.

As can be seen in Figure 7, the compensation of employees on the Island grew 4.4 per cent in 2017, the third fastest rate of growth in the country behind British Columbia, at 5.2 per cent, and Quebec at 4.5 per cent. Nationally, the compensation of employees grew by 3.9 per cent over this time period.

Slow growth in average weekly earnings can coincide with strong growth in the compensation of employees, as was seen in 2017. Strong employment growth on the Island in 2017 increased the number of people working, contributing to an increased gross total (compensation of employees), even though the average wages of individual workers remained largely unchanged.

Figure 7: Growth in Compensation of Employees Canada and the Provinces 2017



Source: Statistics Canada

Retail Trade and Motor Vehicle Sales

Continued strong population growth, increased employment and an impressive tourism season contributed to another strong year for retail sales in 2017. Retail sales advanced a healthy 7.4 per cent in 2017, the third-fastest growth amongst provinces. Retail sales have grown every year in the province since 2010. Retail sales in the other Maritime provinces grew by 6.3 per cent in Nova Scotia and by 7.2 per cent in New Brunswick. Nationally, retail sales increased 6.7 per cent in 2017.

Retail sales on the Island have seen strong growth across all components in 2017. Notable contributions to growth have come from motor vehicle and parts dealers, up 9.3 per cent, gasoline stations, up 14.3 per cent, and building centre and garden materials stores, up 8.9 per cent.

The value of new motor vehicle sales increased 3.0 per cent, while the volume of new motor vehicles sold decreased 2.1 per cent in 2017. Truck sales increased, 1.3 per cent on volume, and 6.7 per cent on value. Passenger cars declined, down 8.1 per cent on volume, and 7.2 per cent on value, continuing a trend seen since 2013 (see Figure 9). Trucks now account for more than two thirds of new vehicles sold on Prince Edward Island. Nationally, the volume of new motor vehicles sold increased 4.7 per cent, while their value increased 9.8 per cent over this time period.

Figure 8: Growth in Retail Sales Canada and the Provinces 2017

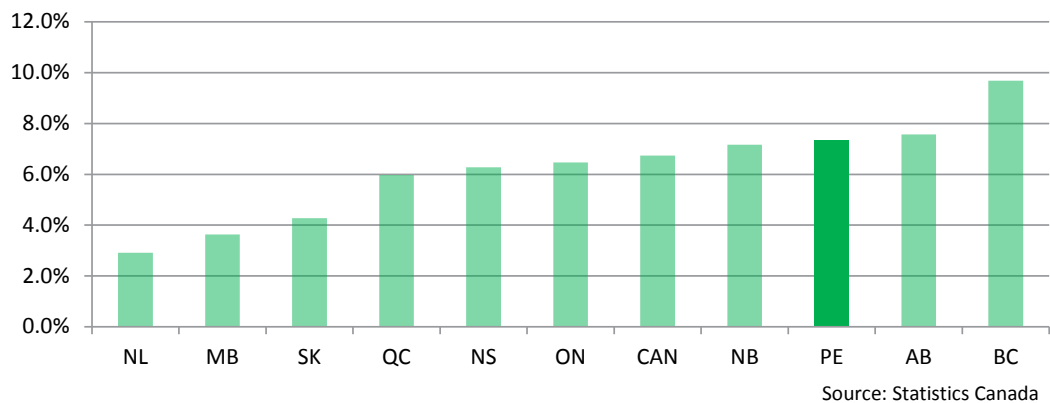
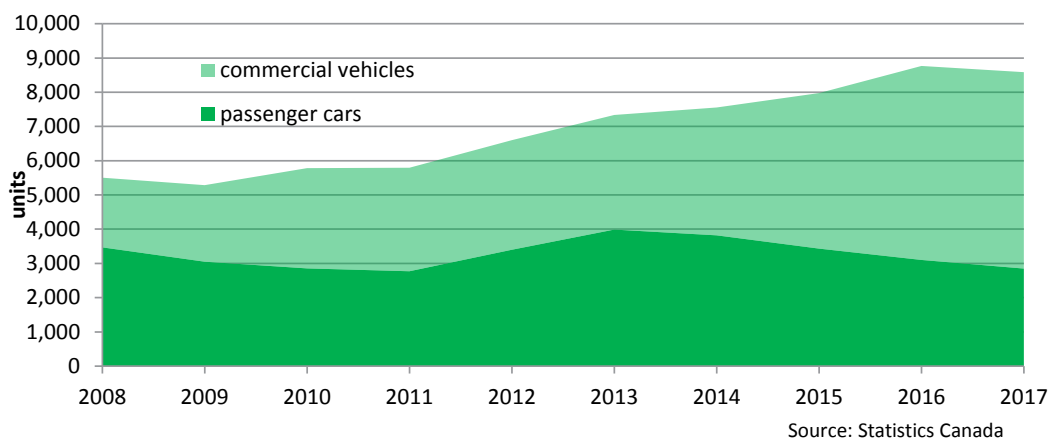


Figure 9: Number of New Motor Vehicles Sold PEI



Consumer Prices

Consumer prices increased 1.8 per cent on Prince Edward Island in 2017. Food inflation decreased 2.1 per cent, while shelter inflation and energy inflation increased 1.8 per cent and 7.3 per cent respectively.

Prices for gasoline and household heating fuel continued to increase, and were 10.1 per cent and 8.3 per cent higher in 2017 than in 2016. 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 1.1 per cent over this time period. Core inflation on the Island (the measure of inflation excluding volatile components such as food and energy) increased 1.9 per cent in 2017. Nationally, consumer prices increased 1.6 per cent in 2017, ranging from an increase of 2.4 per cent in Newfoundland and Labrador, to an increase of 1.0 per cent in Quebec.

The construction industry on the Island saw a very positive 2017.

Construction and Housing

This improvement stems from several sources. On the residential side, the increase in the number of persons coming to the Island had an impact on housing demand, both for new construction and resale. On the non-residential and engineering construction side, increased spending for infrastructure projects by all levels of government, as well as increased commercial building drove growth.

Total building permits increased 37.1 per cent in 2017. Non-residential permits increased 24.9 per cent due to increases across all permit categories. Industrial permits increased 15.6 per cent, commercial permits increased 0.7 per cent and government and institutional permits increased 126.5 per cent. Residential permits increased 44.5 per cent over this timeframe. Nationally, building permits increased 10.9 per cent in 2017, with residential permits growing by 8.3 per cent and non-residential permits by 15.6 per cent.

Non-residential Investment

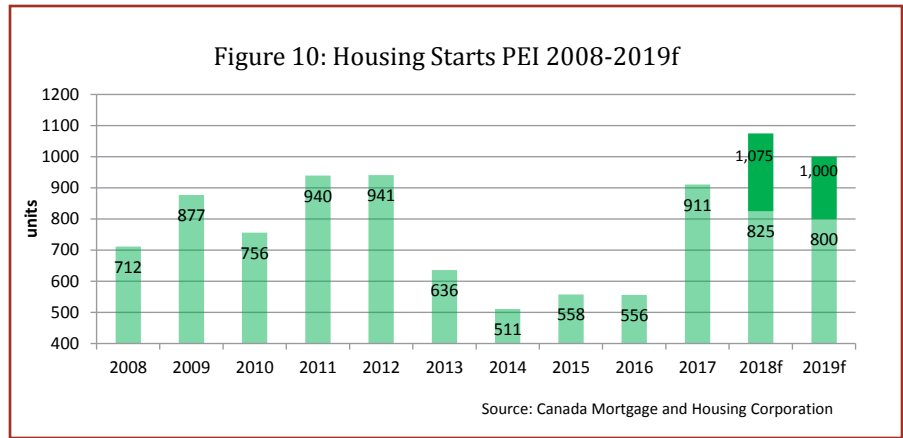
Total non-residential investment increased by 12.9 per cent on the Island in 2017. Both commercial and government and institutional investment increased by 18.8 per cent and 20.9 per cent respectively, while industrial investment declined by 7.1 per cent. Nationally, non-residential investment increased 1.9 per cent over this time period. Growth ranged from a high of 30.8 per cent in New Brunswick, to a decline of 14.1 per cent in Saskatchewan.

Capital Investment Intentions

Capital investment intentions are projected to decline 6.9 per cent in 2018. The large decrease in investment intentions is due to the installation of the new electric cables between the province and New Brunswick which was completed in 2017. The decline in capital spending intentions is due to both decreased spending on construction and machinery and equipment, down 11.8 per cent and 0.8 per cent respectively. The decrease in capital investment is largely being driven by the public sector, as public capital intentions are projected to decline 15.4 per cent in 2018, as spending levels return to lower levels after the cable project, while private investment intentions are expected to decline by 2.0 per cent.

Resale Housing

According to the PEI Real Estate Association, annual home sales on Prince Edward Island totaled 2,140, an increase of 3.8 per cent from 2016, and a new annual record. The average price in 2017 was \$203,028, an increase of 12.4 per cent from 2016. The supply of houses has been trending sharply lower over the last two years as increased demand has been absorbing the inventory. As of December 2017, there were 913 active residential listings, down 27 per cent from December of 2016.

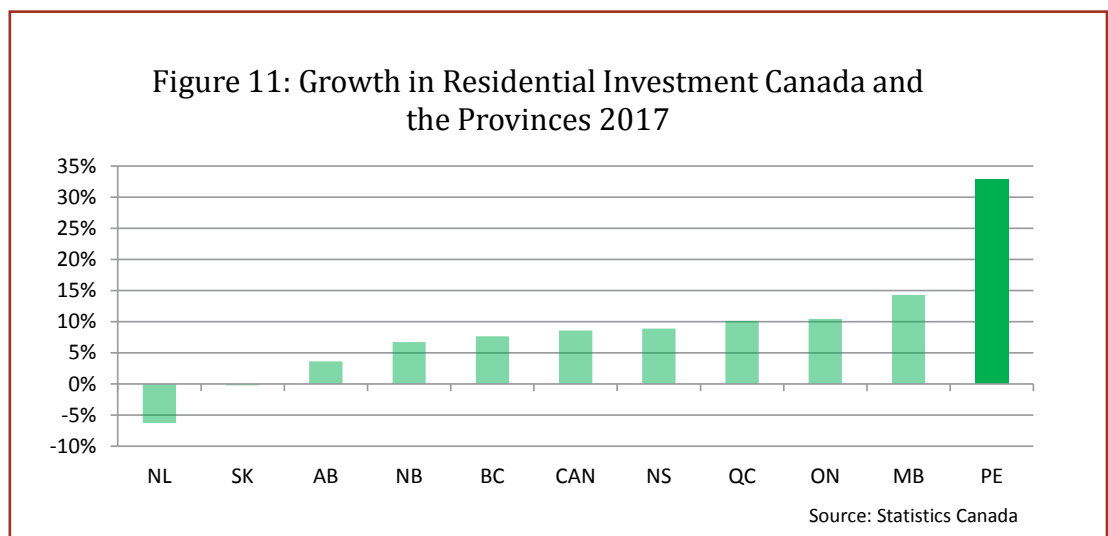


Housing Starts

There were 911 housing starts on the Island in 2017, an increased 63.8 per cent. As can be seen in Figure 10, this is the largest number of starts seen on the Island since 2012. Gains were recorded in both the single-detached segment, up 80 per cent, while in the multi-unit segment, semi-detached housing increased 122.7 per cent and apartments increased 51.4 per cent. Row housing construction was flat in 2017. Prince Edward Island recorded the fastest rate of growth in housing starts amongst provinces in 2017, well exceeding the national growth rate of 11 per cent.

Residential Investment

The total value of residential investment increased 32.8 per cent in 2017, the fastest growth amongst provinces. Investment increased across most components, notably in single-family housing where investment grew 88.9 per cent in 2017. Renovations, the largest component of residential investment, grew 9.1 per cent in 2017. Nationally, residential investment increased 8.6 per cent in 2017. Figure 11 shows the annual growth in residential investment. Growth ranged from an increase of 32.8 per cent in Prince Edward Island to a decrease of 6.3 per cent in Newfoundland and Labrador.



Primary Industries

Fishing

The fishery continues to be an important sector on Prince Edward Island creating full time and seasonal employment in rural communities for approximately 8,000 people each year. According to the department of Agriculture and Fisheries, the preliminary landed value of the 2017 lobster fishery is \$226 million which is \$33 million more than 2016, and a new record high. Volumes are also up over 2016 levels. The top four seafood species fished and harvested on the Island are lobster, mussels, snow crab and oysters. The commercial fishery and aquaculture sectors were worth more than \$537 million dollars in 2016.

Farming

Farm cash receipts through the first three quarters of 2017 totaled \$362.9 million, a decrease of 0.1 per cent compared to the same period in 2016. Crop receipts are down 1.8 per cent, with potato receipts down 1.6 per cent. Receipts for livestock are up 3.4 per cent, while direct payments to farmers are up 2.9 per cent.

Planted potato acreage was down 1,000 acres in 2017 to 88,000 acres. The harvested area declined by 1.9 per cent to 87,000 acres. The average yield of the potato crop declined 6.2 per cent to 272 hundredweight per harvested acre. A dry growing season in 2017 contributed to the low average yield observed in the potato crop this past year, though the quality of the crop was good.

the price of soybeans, the Island's second-largest crop by value, increased 6.4 per cent over the past year.

Livestock prices for most commodities have been weak, particularly for cattle. Prices for slaughter cattle and calves declined 1.8 per cent and 5.4 per cent respectively, while the prices for feeder cattle and calves declined 8.9 and 5.6 per cent respectively. The price for chickens declined 1.1 per cent while the price for eggs declined 0.7 per cent. Over this time period, hog prices increased 8.2, while the price of slaughter lambs increased 11.4 per cent. Milk prices increased 0.4 per cent in 2017.

Tourism

Tourism had a very successful 2017. Information from the department of Economic Development and Tourism indicates that total overnight stays on the Island increased by 6.5 per cent. At fixed roof accommodations, the number of room nights sold increased by 4.1 per cent, while at campgrounds the number of site nights sold increased by 11.6 per cent. Overall, there were more than 1 million overnight stays on the Island in 2017.

Traffic to the Island via the Confederation Bridge increased 2.7 per cent, while air traffic increased 4.6 per cent. Ferry traffic increased 25.2 per cent, the large increase being a result of having both Island ferries returning to normal operations after mechanical difficulties

“ ... total overnight stays on the Island increased by 6.5 per cent in 2017”

Farm product prices for field crops have been mixed in 2017. Prices for wheat and oats were down 11.4 per cent and 4.5 per cent. Prices for barley increased 4.0 per cent in 2017, while

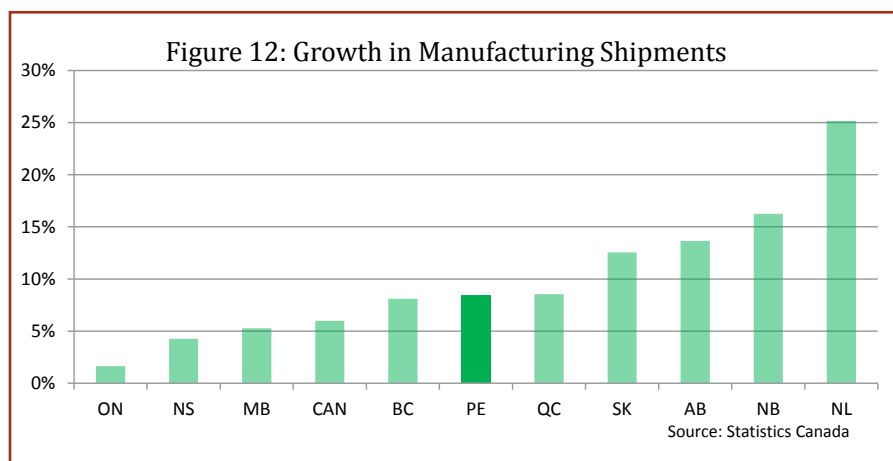
in 2016. However, the increase in ferry traffic cannot all be accounted for by just returning to regular operations; an increase in demand was apparent with this mode of transportation to the Island as well. The cruise ship season was successful in 2017. The number of cruise ship visits was up 34.7 per cent, with a 31 per cent increase in passengers and crew visiting the Island compared to 2016 despite several cancellations resulting from bad weather and speed restrictions put in place to help protect right whales. The number of motorcoach visits to the Island was flat in 2017.

As part of the 150th anniversary of Confederation, entry into Canada's national parks was free in 2017. Visits to Green Gables increased by 35.5 per cent, while Prince Edward Island National Park was the most visited national Park in Atlantic Canada. Provincial heritage sites also saw an increase in visitation, with total visitors up 13.8 per cent.

Sales at food services and drinking places on the Island advanced 5.7 per cent in 2017. Nationally, sales at food services and drinking places grew by 5.3 per cent over this time period. Sales ranged from a high of 7.6 per cent in British Columbia, to a decline of 0.6 per cent in Saskatchewan.

Manufacturing Shipments

The value of seasonally adjusted manufacturing shipments from the Island increased 8.4 per cent in 2017 to \$1.8 billion, and a new record high. Growth was recorded in both the durable and non-durable goods sectors at 5.4 and 9.6 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, all provinces recorded positive growth in manufacturing shipments in 2017, ranging from 1.6 per cent in Ontario, to 25.2 per cent in Newfoundland and Labrador. Higher resource prices have improved the manufacturing shipments of the more resource dependent provinces. Nationally, manufacturing shipments grew 6.0 per cent over this time period.

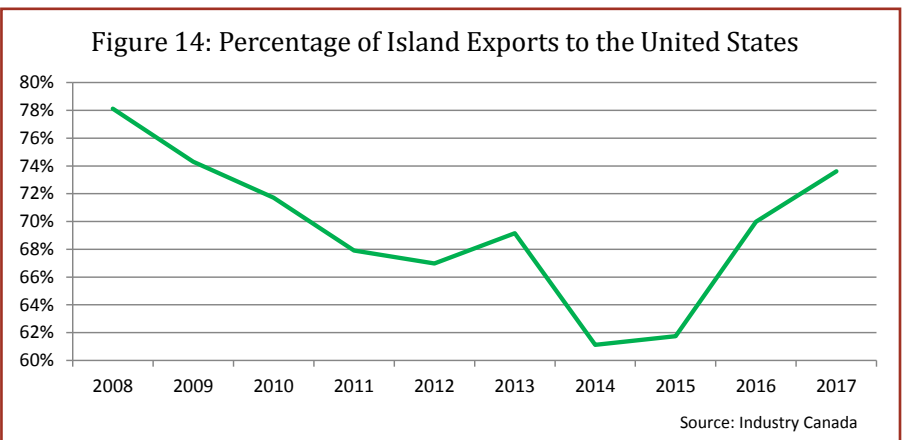
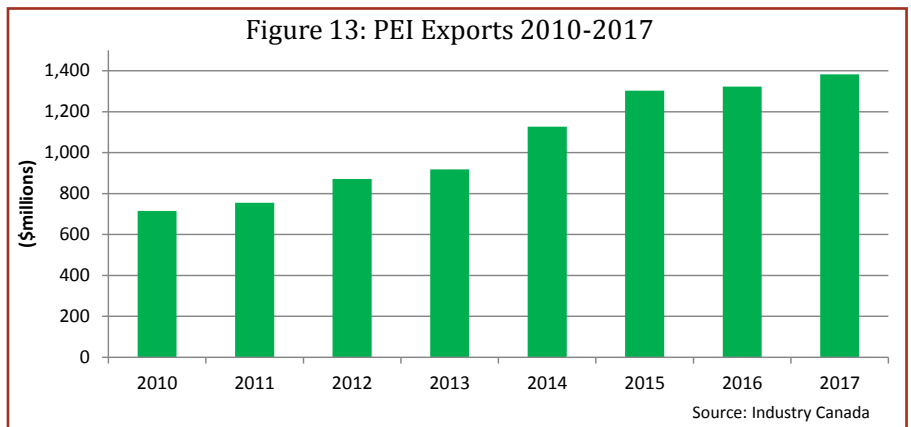
“ The value of seasonally adjusted manufacturing shipments from the Island increased 8.4 per cent in 2017 to \$1.8 billion”

Exports

Exports from the Island grew by 4.6 per cent in 2017. This performance builds on continued yearly export growth since, as can be seen in Figure 13. Frozen food manufacturing – the Island’s largest export industry - grew by 7.0 per cent in 2017. Industries related to seafood have not fared as well, with seafood product preparation and packaging down 4.4 per cent, aquaculture down 0.9 per cent and fishing down 10.2 per cent in 2017. Vegetable and melon farming saw exports grow 4.0 per cent in 2017.

Aerospace exports were strong in 2017, with engine, turbine and power transmission equipment manufacturing exports up 78.7 per cent, and aerospace product and parts manufacturing up 36.7 per cent. Bioscience exports were mixed with pharmaceutical and medicine manufacturing up 12.0 per cent, while other basic organic chemical manufacturing exports were down 26.9 per cent in 2017. Paperboard and container manufacturing continues to expand on the Island, and is now the Island’s 10th largest export industry, with exports increasing by 7.6 per cent in 2017.

Nationally, exports increased 5.6 per cent in 2017. Strong growth was seen in Alberta, up 26.4 per cent, Newfoundland and Labrador, up 20.9 per cent, and New Brunswick, up 20.4 per cent. The strong growth in these province’s exports in 2017 largely reflects the improved fortunes in the energy sector. On a Canada-wide basis, exports of oil and gas, and refined petroleum products increased 31.9 per



cent and 41.5 per cent respectively. Ontario was the only province to record a decline in international trade in 2017, down 3.4 per cent.

Prince Edward Island exported 73.6 percent of all its goods to the United States in 2017, the value of which exceed \$1 billion. This is an increase of 10.0 per cent over the same period in 2016. As can be seen in Figure 14, beginning in 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, Singapore and South Korea round out the rest of the top five

destinations for Island goods in 2017, though together they only account for 8.2 per cent of the Island’s trade.

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 2017 fall in a range of 1.7 per cent growth to 2.6 per cent growth, averaging 2.2 per cent, while forecasts for 2018 range from 1.1 per cent growth to 2.8 per cent growth, averaging 1.7 per cent. Forecasts have been revised up slightly since the 2017 Fall Economic Update, where growth was forecast at 2.0 per cent for 2017 and 1.6 per cent for 2018. Driving the upward revisions in the forecast for the Island is the strong performance seen across a wide variety of economic indicators.

Table 2:

Private Sector Forecasts				
Organization	Real GDP (% growth)			Date Issued
	2017f	2018f	2019f	
Conference Board of Canada	2.6%	2.8%	1.4%	Winter 2018
TD Bank	2.5%	2.0%	1.3%	15-March 2018
RBC	2.4%	1.5%	1.4%	12-March 2018
CIBC	2.4%	1.7%	0.8%	22-March 2018
BMO	1.7%	1.1%	1.1%	23-March 2018
Scotiabank	1.9%	1.6%	1.2%	28-Feb 2018
National Bank	2.0%	1.9%	1.5%	March 2018
Atlantic Provinces Economic Council	2.4%	1.9%	--	6-Nov 2017
Average	2.2%	1.7%	1.2%	

Though immigration and its associated impacts have factored into the economic forecast for 2017, there is some divergence as to the permanence of these factors in the private sector forecasts for 2018 and beyond. Increased retail sales and increased housing starts are likely to be persistent factors throughout the medium term given the projected increases in the Island's population. Consequently, there is likely upside to the average of the private sector forecasts.

Outlook 2018

According to the IMF, the outlook for the global economy in 2018 is for growth to accelerate to 3.9 per cent from the 3.7 per cent recorded in 2017. Growth is also projected to expand by 3.9 per cent in 2019. This is an upward revision of 0.2 percentage points from their fall Outlook, and is largely a result of increased global momentum, and the near-term impacts of the American tax policy changes.



In the 2018 Budget, the Government of Canada revised its real GDP forecast up to 2.2 per cent for 2018, a 0.2 percentage point increase from Budget 2017, and a 0.1 percentage point increase from the Fall Economic Statement, while GDP growth is projected to be 1.6 per cent in 2019, 0.1 percentage points lower than Budget 2017, but identical to the Fall Economic Statement. The projections for economic growth are largely in line with the economy returning to a more sustainable pace. Economic activity is expected to remain strong, but due to a lack of excess productive capacity in

the economy, as well as other factors such as increasing interest rates, and less of a boost from fiscal policy, growth will moderate.



Prince Edward Island saw strong economic growth in 2016, at 2.3 per cent, while growth for 2017 is forecast to be in the same range. As the population is forecast to grow by approximately 1.3 per cent through the medium term, and the underlying economic situation of the province has not deteriorated, economic expansion in the plus two per cent range is likely through the medium term.

Budget 2018-19 is projecting a small surplus, continuing a trend from the 2017-18 budget which also presented a small surplus. This trend of small surplus budgets is forecast to continue throughout the forecast horizon. The improved fiscal situation of the province will allow the government to make targeted investments in the areas of health, education and housing amongst others. The fiscal situation is

expected to continue to improve over the forecast horizon with the net-debt-to-GDP ratio declining in every year, and is projected to be below 32 per cent by 2020-21.

Due to the mix of industries found on the Island, the Island economy has been more stable than other parts of the country, and the province has been able to benefit both from the depreciation in the Canadian dollar and the lower price of oil that have become the new normal for the last number of years. The economic improvements experienced in the national and international economy also have benefitted the Island through improved trade and tourism. These are trends we expect to continue.



Prince Edward Island should continue to benefit from strong international in-migration in 2018. The provincial Population Action Plan released in the spring of 2017 has plans to grow the population to 160,000 by 2022 through a combination of immigration, positive inter-provincial migration and

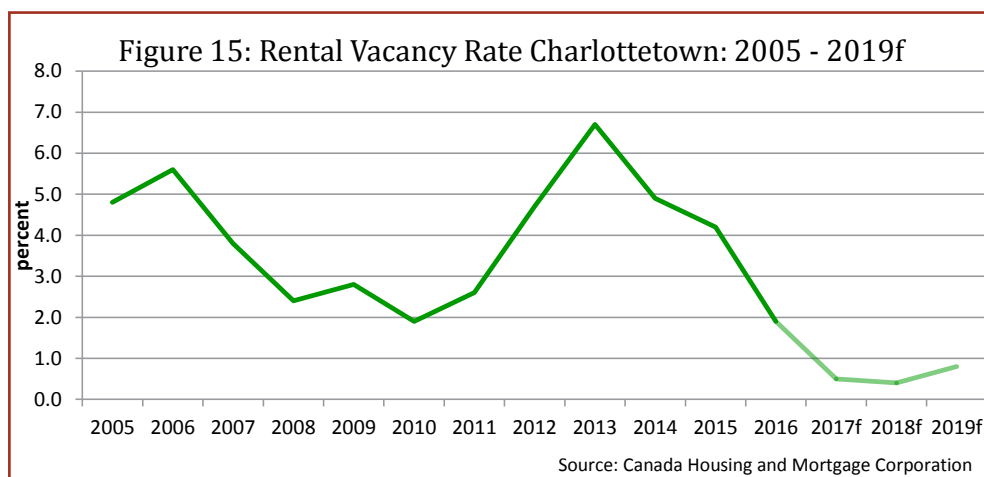
increased retention of international students. Continued strong immigration through the provincial nominee streams should result in an additional 2,360 immigrants coming to the Island in 2018, with the forecast for immigration increasing to 2,600 people annually by 2021. This will continue to help boost domestic demand through 2018 and beyond, and higher retention rates should help the Island's population to continue to grow through the medium term at rates above the national average.

Demographic factors will continue to impact the Island's labour force as the

The construction sector should continue to see gains through 2018 due to strong demand on both the residential and non residential front. Building permits for January portend a strong start to the year, up 81.9 per cent compared to January 2017, and up 20.9 per cent from December 2017, with increases in both residential and non-residential permits. This should continue to drive increased employment in the sector, and continue to have a positive impact on wages. Recognizing this potential shortage, the province has invested in programs to increase the number of persons in the skilled trades.

listings has resulted in the lowest level of inventory of existing homes for sale at the end of January in three decades.

According to CMHC, average housing prices are projected to rise close to 25 per cent between 2016 and 2019. CMHC forecasts for 2018 project between 825 and 1,075 new units constructed, while 2019 is forecast to have between 800 and 1,000 new units built. Even this increased level of building may not be enough to ease pressure in the housing market as rental vacancies in Charlottetown are projected to fall to 0.4 per cent in 2018 before increasing slightly to 0.8 per



population continues to age. The high levels of immigration that the province has been recently witnessing have forestalled this trend, with the median age falling, and the core-aged working population growing again in 2017. So long as immigration rates remain elevated, pressure on the Island's median age and core-aged working population will be muted through the medium term. The aging of the population and its associated effects will continue to be felt in the areas of labour and health care.

Due to both immigration and demographic factors, new housing construction is expected to continue to accelerate, especially in the greater Charlottetown area, through the medium term. More people are looking to downsize, combined with an increase in the number of single-person households, will necessitate more apartment-style accommodations. Downsizing on its own will not produce enough housing to accommodate new arrivals and new household formation. Strong housing sales in January, combined with fewer active

cent in 2019. As can be seen in Figure 15, rental vacancies reached a high of 6.7 per cent in 2013, when immigration to Prince Edward Island temporarily slowed by two thirds just as new stock was entering the market. The rise in immigration beginning in 2015 has helped reduce the vacancy rate to less than 2 per cent by 2016.

Outlook 2018

Non-residential construction will continue to benefit from capital investments from all levels of government, as well as from increased private sector building. With a balanced budget, provincial government spending is projected to contribute positively to GDP in 2018. Capital spending in 2018-19 is projected to be \$134 million, with investments in the areas of education, health, transportations and communications technology. This is an increase of \$37.8 million from the 2017-18 capital plan. The town of Stratford is increasing its capital budget from \$3 million to \$5 million in 2018, largely to accommodate the construction of a new emergency services facility. Federal infrastructure spending is expected to accelerate in 2018, with more than \$366 million in green infrastructure spending available to the Island over the next number of years.

The legalization of cannabis is scheduled to take place in 2018. In order to facilitate this market on the Island, the province is planning to operate four retail locations, one each in Charlottetown, Summerside and Montague, and one to be located in West Prince. Prince Edward Island is also well placed to benefit from the burgeoning cannabis economy, as the province is home to several businesses in this area. Canada's Island Garden, a licensed grower, has indicated it has plans to

expand worth \$20 - \$25 million, which could add up to 70 new positions. Advance Extraction Systems, a company that produces equipment for cannabis oil extraction, is also planning to add about 20 new employees over the next several years due to strong demand in this industry.

The federal government has indicated that carbon pricing will be coming to all provinces and territories beginning 1 January 2019, in the absence of an

quota could expand this fishery on the Island, while increases to oyster growing areas could yield increased product in the medium term. Additional increases to the carapace size for lobsters are planned for both the spring and fall fisheries, the impacts of which the industry will continue to monitor. Potential restrictions due to right whales in the Gulf of St. Lawrence, and continued labour shortages in the processing sector could negatively impact the industry going forward, though

increased investment in the seafood sector through the Atlantic Fisheries Fund could provide some upside.

Expansions in productive capacity on the Island, coupled with new contracts and clients should aid in sustaining and growing manufacturing shipments and exports in 2018. Numerous Island businesses from sectors as varied as live-bottom trailers,

“ The province plans to release a climate action plan in the spring of 2018, and remains in discussion with the federal government on carbon pricing implementation.”

approved provincial plan, beginning at a rate of \$20/tonne of CO₂e. The province plans to release a climate action plan in the spring of 2018, and remains in discussion with the federal government on carbon pricing implementation.

The primary sectors of the economy should continue to positively contribute to economic growth in 2018. The seafood sector is poised to have another good year in 2018. The involvement of the Abegweit First Nations as part of the consortium awarded surf clam

protective clothing and grains, to better known Island products such as seed potatoes and seafood products have succeeded in expanding and diversifying their markets entering 2018. New sources of funding, including the recently announced Ocean Supercluster located in the Atlantic region, and the Protein Industries Supercluster, of which the Food Island Partnership is a member, have the potential to further increase production and export opportunities through the medium term.

Agriculture should have a positive year in 2018, with more market demand for fresh and frozen potatoes providing some optimism. The planted acreage for potatoes is likely to be between 88,000 and 90,000 acres. The planted area for soybeans is likely to be flat, though price is likely to be up in 2018 as producers lock in contracts at higher prices. New Leaf Essentials, a pea processing facility in Slemon Park began shipping product in 2018, and is looking to expand the planted acreage of pulses on the Island.



Tourism should continue to be a positive through 2018, with the industry looking to build on the momentum of the last number of years. New hotel stock being constructed in the capital region will refresh the tourism offering in the province going forward. Potential risks to the tourism market include an appreciation in the value of the Canadian dollar and the impact of speed restrictions in the Gulf of St. Lawrence on the cruise ship industry going forward.

Risks to the outlook stem largely from events beyond the province's control. The uptick in global demand and improved economic situation internationally bodes well for the Island in

2018, though potential fallout from NAFTA renegotiations could prove detrimental to exports going forward, as more than 70 per cent of the Island's exports are to the United States. More positively on the export front is the coming into force of the Canada-Europe Comprehensive Economic and Trade Agreement (CETA), especially as economic growth prospects in Europe are improving. The recent signing of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) should provide increased export opportunities for Island businesses in future years.

Domestically, the strengthening of the Canadian dollar, increases in interest

rates, high levels of Canadian household debt, and the impact of reforms to the housing sector provide risk to the outlook. Closer to home, slow wage growth in an environment of rising prices could constrain spending going forward. Due to the rapid pace of

building, concern has been expressed 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 project completion in 2018. Lack of suitable accommodations may complicate retention and repatriation efforts in 2018. 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 labour, shipments and exports in the near to medium term.



Outlook 2018

