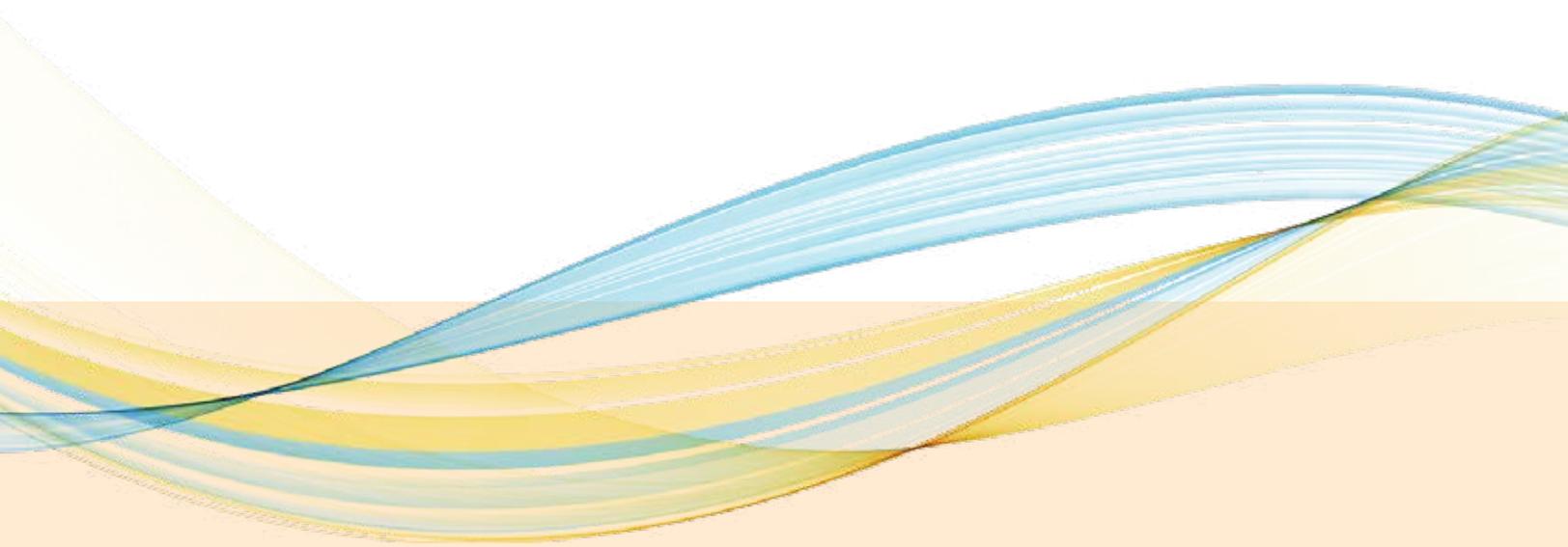
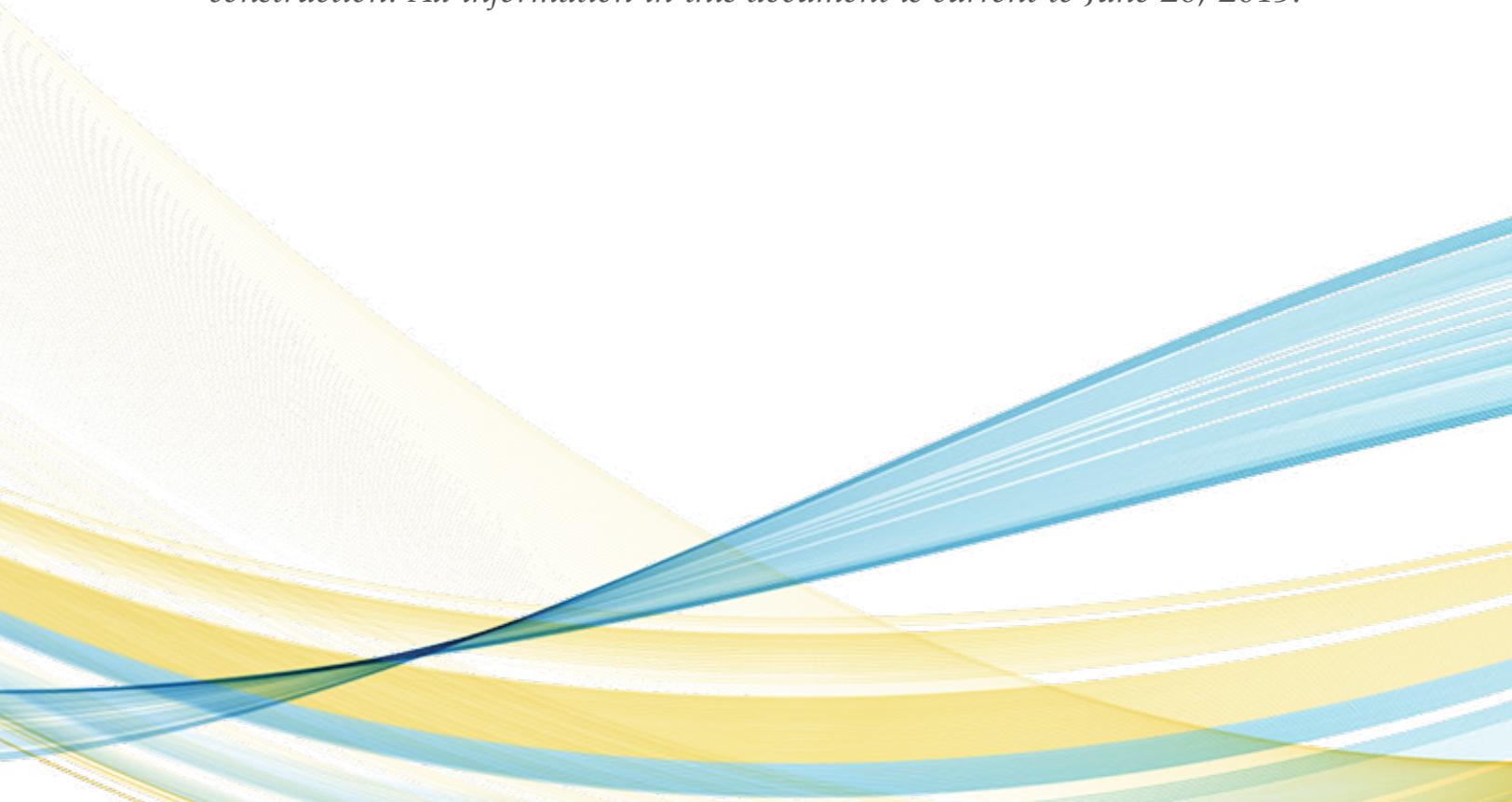




Prince Edward Island Budget Paper on the Economy



The following document is an update to the economic situation of the Province of Prince Edward Island since the release of the 2018 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 June 20, 2019.



Highlights of the Prince Edward Island Economy



- 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. Since then, PEI's population has continued to grow and was estimate at 155,318 for April 1, 2019.

- Total labour income on the Island grew by 4.0 per cent in 2018. Through the first quarter of 2019, it has accelerated to 5.1 per cent.

- The number of employed persons on the Island increased 3.1 per cent in 2018 to a new all-time high of 76,000, while the unemployment rate decreased 0.4 percentage points to 9.4 per cent. Through May 2019, employment has grown by 1.4 per cent, while the unemployment rate has averaged 9.3 per cent.

- Retail sales grew 2.9 per cent in 2018, the fastest growth in the region. Through March retail sales are up 2.4 per cent.



- Housing starts totaled 1,089 in 2018, an increase of 19.5 per cent, in 2018. The last time housing starts exceeded 1,000 units was in 1988. Through March, housing starts are down 13.2 per cent.

- The total value of residential investment increased 8.0 per cent in 2018, to total \$428.3 million. Through the first quarter of 2019, residential investment has continued to grow, up 24.7 per cent.

- Consumer prices increased 2.3 per cent in 2018. Through May, consumer prices have increased 0.9 per cent.

- Manufacturing shipments increased 8.2 per cent in 2018. They are up 12.5 per cent through April.



- International exports increased 5.0 per cent in 2018. Through April, exports are up 13.8 per cent.

- Farm cash receipts declined 2.0 per cent in 2018. Through the first quarter of 2019 they are up 15.6 per cent, largely as a result of increases in direct payments.

- Information from the department of Economic Development and Tourism indicates that total overnight stays on the Island exceeded 1 million stays for the second year in a row in 2018. Through the first quarter of 2019, bridge and air traffic, and room night's sold have all increased.



International and National Economic Context

The global economy continues to expand, but acceleration has stopped. According to the International Monetary Fund (IMF), global real gross domestic product (GDP) is projected to have expanded by 3.6 per cent in 2018, with weakness in the global economy becoming more prominent in the second half of 2018. This loss of momentum has carried through into the beginning of 2019. Increased trade policy uncertainty, slower industrial production, a slowdown in global trade, and continued geopolitical tensions continue to weigh on the global economy in 2019.

The economic situation in the United States continues to be a bright spot globally. Real GDP expanded by 2.9 per cent in 2018, while the number of employed people increased 1.7 per cent, and the unemployment rate averaged 3.9 per cent over this time period, a decline of 0.5 percentage points from 2017. These trends have continued so far in 2019, with GDP

growing by 3.1 per cent through the first quarter, while the unemployment rate through to May has averaged 3.8 per cent.

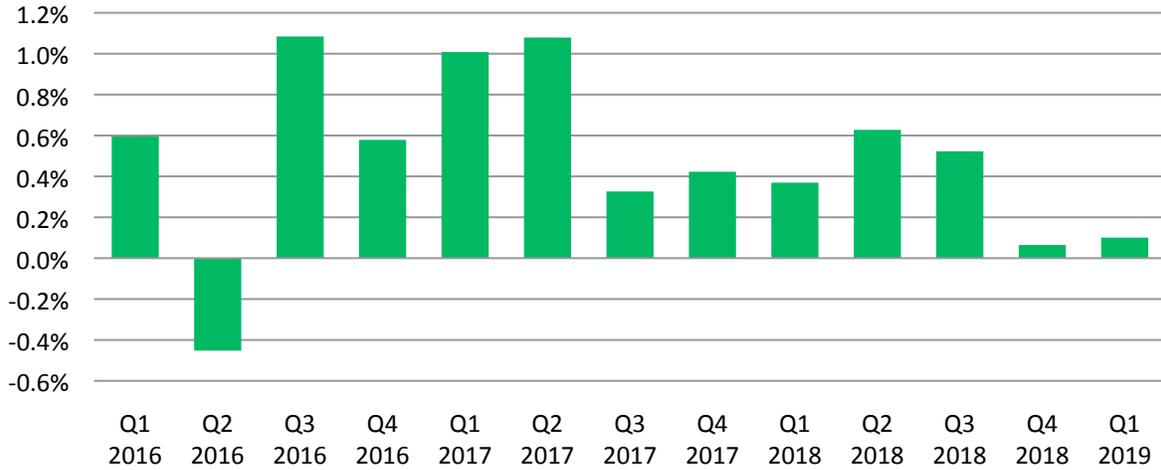
In Canada, real GDP grew by 1.8 per cent in 2018, compared to the 3.0 per cent growth recorded in 2017.

In Canada, real GDP grew by 1.8 per cent in 2018, compared to the 3.0 per cent growth recorded in 2017. As can be seen in Figure 1, GDP growth peaked in the second quarter of 2018 before decelerating in the third and fourth quarter. The slowdown in GDP growth was evidenced across most components, except exports. Household final consumption expenditures slowed to 2.1 per cent compared to the 3.6 per cent growth seen in 2017. Business gross fixed capital formation slowed to 0.3 per cent in 2018, with slower growth

in investment in machinery and equipment, residential structures and non-residential structures. Exports of goods and services expanded further in 2018, accelerating from 1.1 per cent growth in 2017 to 3.3 per cent in 2018. Growth accelerated marginally in the first quarter of 2019, driven by an increase in household spending and a rise in business investment in machinery and equipment.

On an industry basis, economic growth in Canada was once again broad-based in 2018; 18 of 20 industrial sectors in the Canadian economy expanded. The goods producing industries expanded for the second year in a row, up 2.4 per cent after contracting in both 2015 and 2016. Service producing industries expanded 2.1 per cent in 2018. . Through the first quarter of 2019, GDP by industry advanced 1.3 per cent at an annualized rate. Growth continues to be broad based with all sectors expanding, except mining and construction.

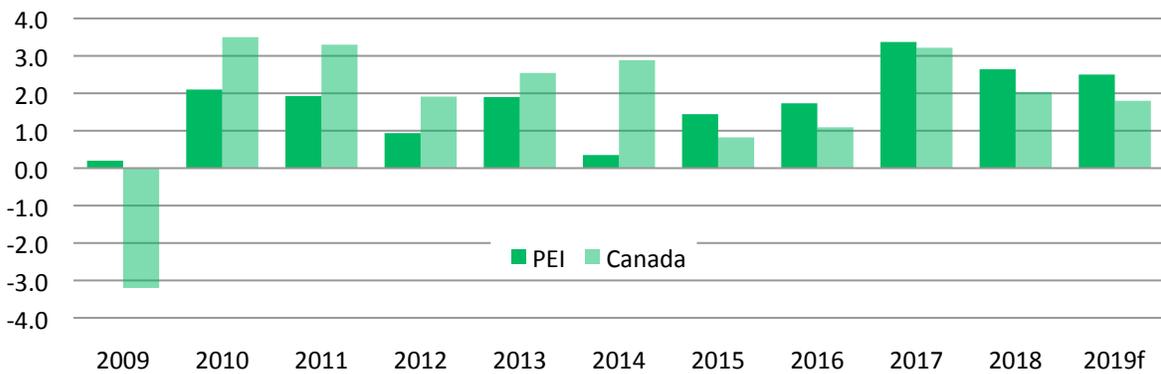
Figure 1: Quarterly Real GDP Growth Canada



Source: Statistics Canada

The Bank of Canada began raising the target for the overnight rate in the second half of 2017. Since that time the target for the overnight rate has increased by 1.25 per cent. At its last rate announcement on May 29, 2019, the Bank of Canada decided to keep the target for the overnight rate at 1.75 per cent. The Bank indicated that future rate adjustments will be guided by data, with particular attention paid to household spending, the oil sector, and the global trade environment.

Figure 2: Real GDP by Industry Growth PEI and Canada 2009-2019f



Source: Statistics Canada, PEI Department of Finance

Provincial Economic Context

The Prince Edward Island economy continues to strengthen with the province posting solid economic growth over the past decade.

On an industry basis, real GDP expanded by 2.6 per cent in 2018, a faster pace than the 2.0 per cent expansion nationally, and the fastest growth amongst provinces. The province has outpaced the national average GDP growth since 2015, and is on pace to do so again in 2019. After a very strong 2018, the majority of economic indicators are looking positive through the beginning of 2019. Continued growth across a broad range of economic indicators is anticipated in 2019 and beyond, with population growth continuing to be the driving force behind the uptick in the province's economic fortunes.

Population and Immigration

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, tied with Ontario for the fastest growth amongst provinces. 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.

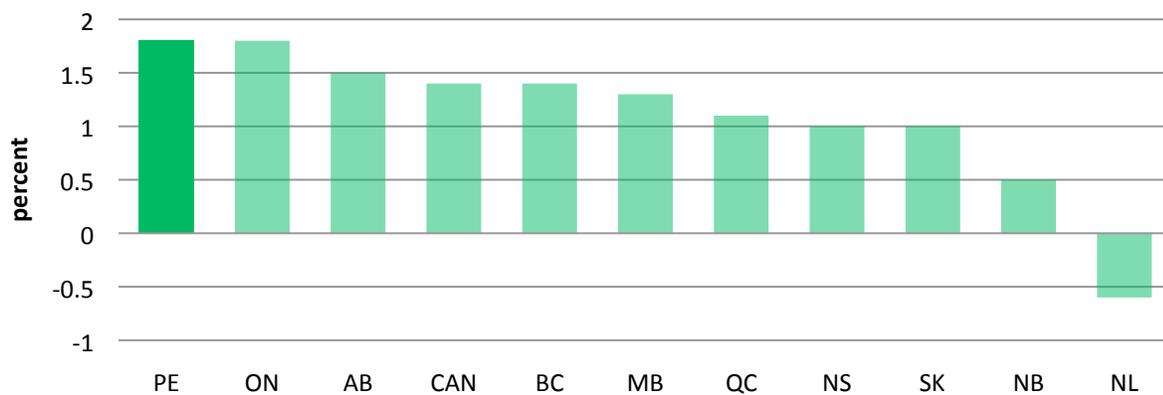
Prince Edward Island once again recorded the fastest population growth in the Atlantic region in 2018, with Nova Scotia's population growing at 1.0 per cent, and New Brunswick growing at 0.5 per cent; Newfoundland and Labrador's population declined by 0.6 per cent in 2018. The latest population estimates 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 2,867 in 2017/18, and is the prime driver of population growth. 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.

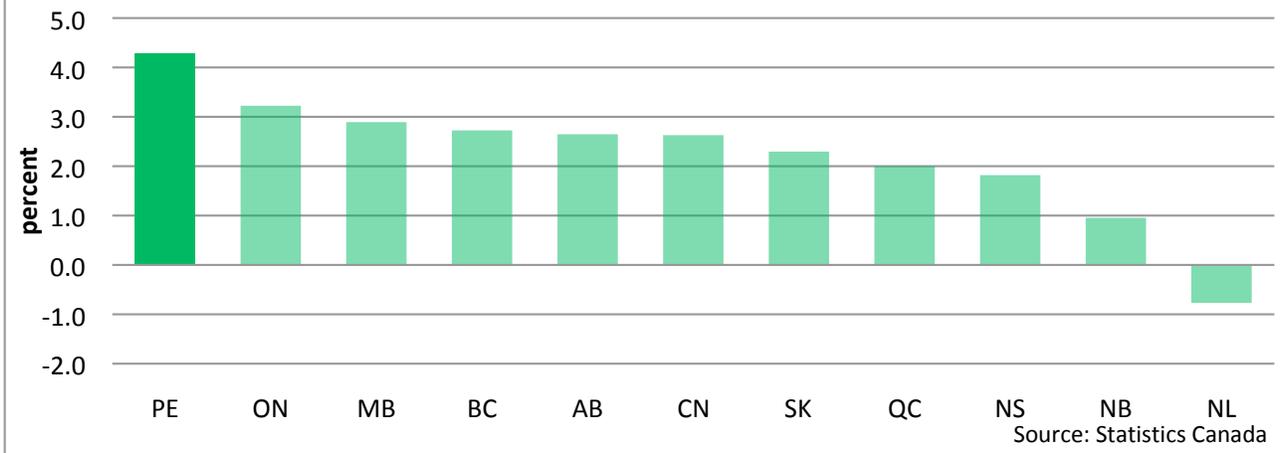
There were 1,440 births and 1,183 deaths on Prince Edward Island from July 1, 2017 to June 30, 2018, resulting in natural growth (births minus deaths) of 257.

Figure 3: Annual Population Growth Rates Province and Canada 2017-18



Source: Statistics Canada

Figure 4: Population Growth 2016-2018 Canada and the Provinces



Over the last two years the Island’s population has grown by 4.3 per cent, the fastest growth amongst provinces. Figure 4 shows the population growth rates of Canada and the provinces from 2016-18.

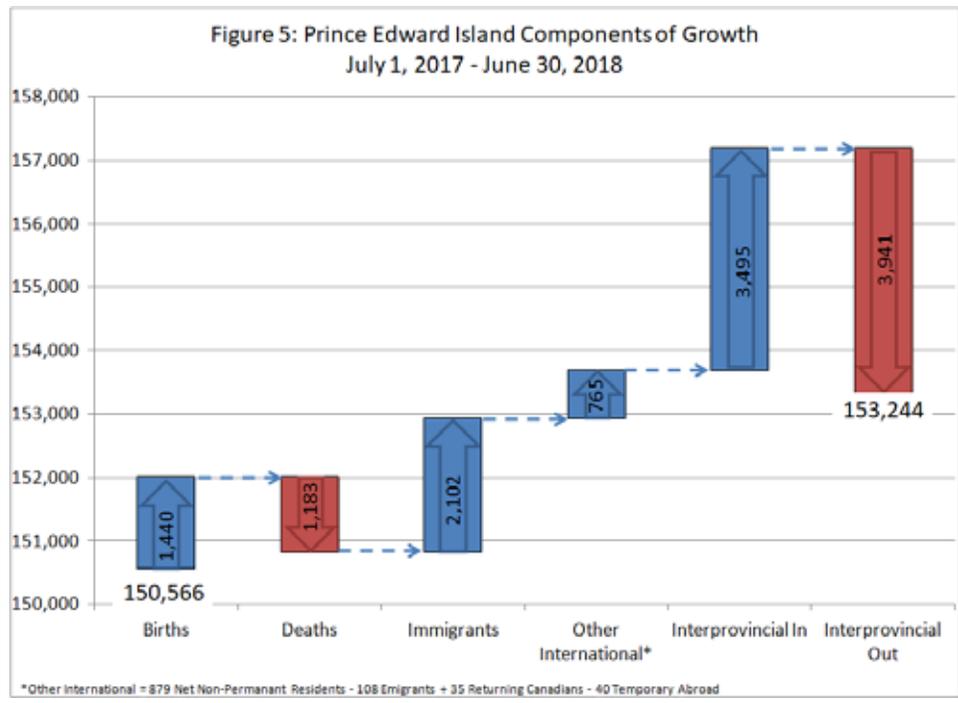
Figure 5 shows the population flows that contributed to PEI’s population. Though the Island’s population is ageing, the pace of that ageing is beginning to slow. The median age on Prince Edward Island on July 1, 2018 was 43.6, a decline of 0.1 from 2017, a second consecutive yearly decline. Prior to 2017, Prince Edward Island had not seen a decline in its median age since 1971.

The data shows Prince Edward Island’s population is estimated to be 155,318 as of April 1, 2019.

Between 1971 and 2016, the median age on Prince Edward Island rose from 24.8 years to 43.9 years. The Island’s population is

continuing to grow in 2019. On June 19, 2019 Statistics Canada published its provincial population estimates for the first quarter of 2019. The data shows Prince Edward Island’s population is estimated to be 155,318 as of April 1, 2019.

This represents a yearly increase of 3,309 persons or a 2.2 per cent annual growth rate. This is the highest year over year growth rate among provinces and territories and compares to a rate of 1.4 per cent for Canada as a whole.





Employment

The influx of new entrants into the provincial labour market is continuing to revive the employment situation on the Island, reversing the declines seen between 2013 and 2016. According to the Labour Force Survey (LFS), the labour force on the Island expanded 2.7 per cent to average 83,900 people in 2018, a second consecutive year of growth, for the largest labour force on record. Employment on Prince Edward Island averaged 76,000 in 2018, an increase of 2,300 persons, or 3.1 per cent from 2017.

This was the fastest growth amongst provinces, and a new all-time high for the province. Full-time employment grew 3.4 per cent in 2018, while

part-time employment was flat. Approximately three quarters of the employment gains recorded in 2018 accrued to people who lived in rural areas of the province. Employment growth has continued so far in 2019, with employment up 1.4 per cent through May. As can be seen in Figure 6, all provinces recorded positive employment growth in 2018, ranging from a high of 3.1 per cent for Prince Edward Island, to a low of 0.3 per cent in New Brunswick. Nationally, employment grew by 1.3 per cent in 2018.

Though the labour force has continued to increase over the last two years, the unemployment rate has continued

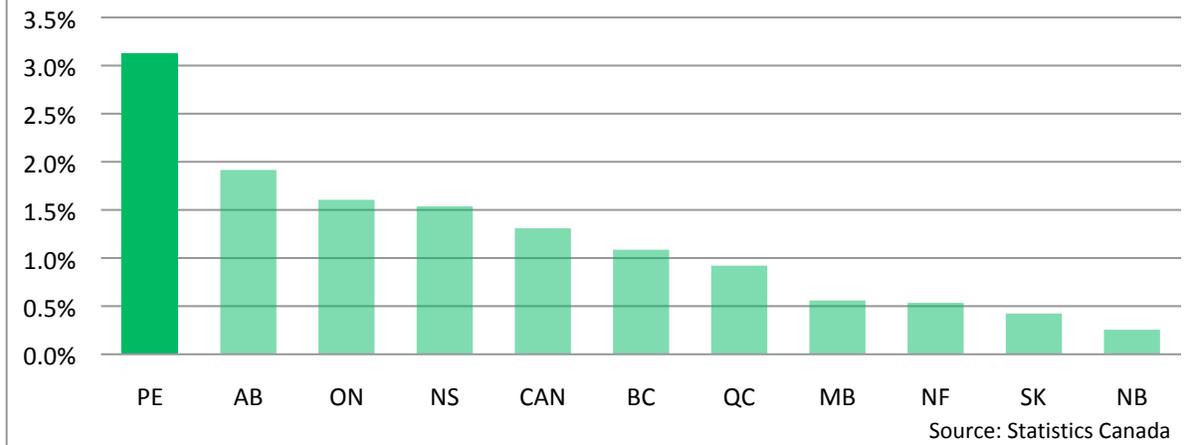
to fall. The unemployment rate averaged 9.4 per cent in 2018, down 0.4 percentage points from 2017.

"Though the labour force has continued to increase over the last two years, the unemployment rate has continued to fall."

This is the first time the annual average unemployment rate has been less than 10 per cent for two consecutive years since 1977/78.

Through May, the unemployment rate has continued to average 9.3 per cent.

Figure 6: Employment Growth Canada and the Provinces
2018



On an industry basis on the Island, employment in the goods sector increased 10.2 per cent in 2018. Gains were widespread in the goods sector, with notable increases in agricultural employment, up 29 per cent, construction employment, up 8.0 per cent and manufacturing, up 4.6 per cent.

Manufacturing continues to be the largest employer in the goods producing sector, with employment averaging 6,800 in 2018. Nationally, the

goods sector expanded 1.4 per cent in 2018. Goods sector employment continues to expand in 2019, up 3.9 per cent through May.

Employment in the service sector increased 0.9 per cent in 2018. Notable employment gains occurred in accommodation and food services, finance, insurance, real estate, rental and leasing, and educational services while notable declines occurred in transportation and warehousing, other services and public administration.

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 expanded 1.3 per cent over this time period.

Service sector employment has increased 0.6 per cent through May 2019.

Average weekly earnings increased 2.3 per cent in 2018.



**Employment on
Prince Edward
Island averaged
76,000 in 2018**

an increase of 2,300 persons,
or 3.1 per cent from 2017.

Figure 7: Growth in the Compensation of Employees Canada and the Provinces 2018



Earnings in the service sector increased 2.6 per cent, while earnings in the goods producing sector increased 0.8 per cent.

Average weekly earnings grew in all provinces in 2018, with growth ranging from a high of 3.2 per cent in Quebec, to a low of 0.3 per cent in Newfoundland and Labrador.

For Canada as a whole, average

weekly earnings increased 2.6 per cent in 2018. Through the first quarter of 2019, average weekly wages have increased 0.9 per cent, with wages in the service sector increasing 1.2 per cent and wages in the goods producing sectors down 1.3 per cent.

As can be seen in Figure 7, the compensation of employees on the Island grew 4.2 per cent in 2018.

Growth in the compensation of employees ranged from a high of 6.0 per cent in British Columbia, to a decline of 1.3 per cent in Newfoundland and Labrador. Nationally, the compensation of employees grew by 4.6 per cent over this time period.

Through the first quarter of 2019, the compensation of employees has increased 5.1 per cent on the Island.



Retail Trade, Motor Vehicle Sales and Wholesale Trade

Continued strong population growth and increased employment contributed to another strong year for retail sales in 2018. Retail sales advanced 2.9 per cent in 2018, tied for the second-fastest growth amongst provinces. Retail sales have grown every year in the province since 2010. Retail sales in the other Maritime

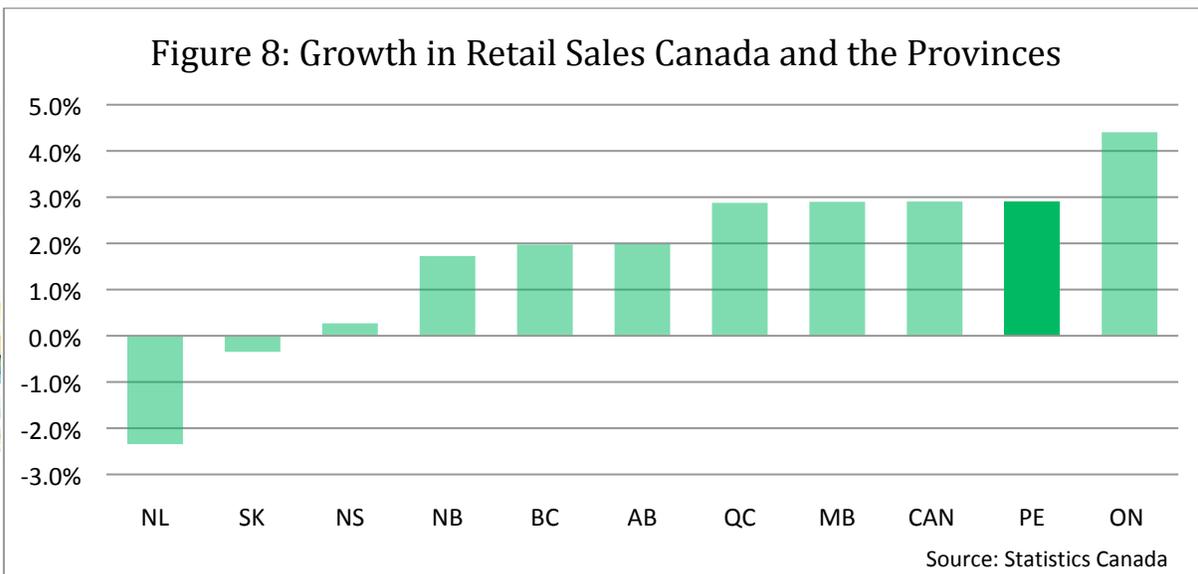
provinces grew by 0.3 per cent in Nova Scotia and 1.7 per cent in New Brunswick. Nationally, retail sales increased 2.9 per cent in 2018.

Retail sales on the Island showed growth for the majority of components in 2018. Notable contributions to growth have come from food and beverage stores, up 4.1 per

cent, building material and garden equipment and supplies dealers, up 6.5 per cent, and motor vehicle and parts dealers, up 1.8 per cent.

Through 2019, retail sales have continued to advance, up 2.4 per cent through the first quarter. Growth continues to be broad based, though lower sales were recorded over this

Figure 8: Growth in Retail Sales Canada and the Provinces



time period in gasoline stations and in health and personal care stores.

Wholesale sales continued its strong growth on the Island in 2018, increasing by 14.6 per cent in 2018, to total just over \$913 million, and the fastest growth amongst provinces. Nationally, wholesale trade increased 3.7 per cent in 2018.

So far in 2019, wholesale sales continue to be strong, up 20.5 per cent through the first quarter.

Following several record-breaking years for vehicle sales, the value of new motor vehicle sales decreased 9.2 per cent, while the volume of new motor vehicles sold decreased 9.9 per cent in 2018.

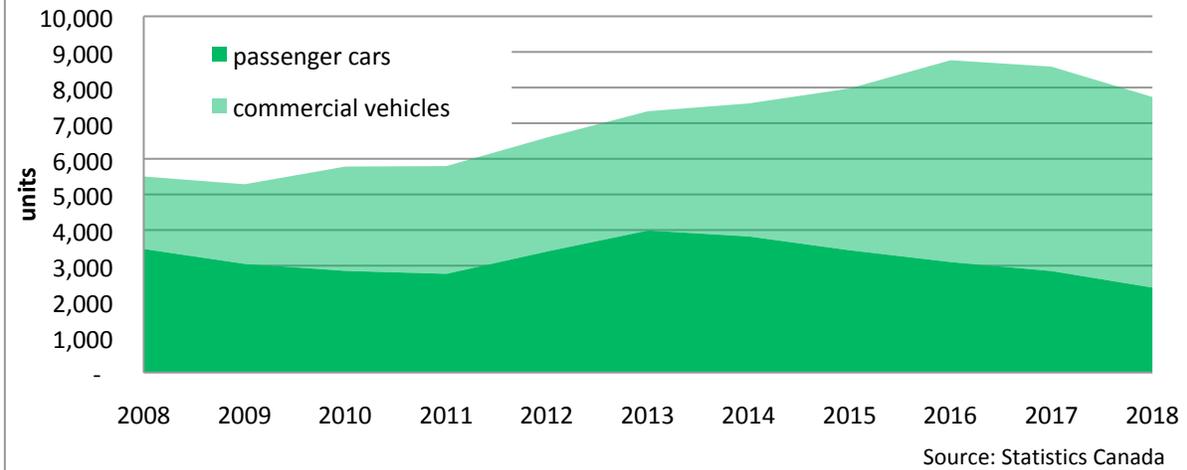
Truck sales decreased, 6.7 per cent on volume and value. Passenger cars declined, 16.4 per cent on volume, and 17.0 per cent on value, continuing a trend seen since 2013 (see Figure 9). Trucks now account for more than two

thirds of new vehicles sold on Prince Edward Island.

Nationally, the volume of new motor vehicles sold decreased 2.0 per cent, while their value increased 2.3 per cent over this time period.

Through the first four months of 2019, vehicle sales have increased 9.7 per cent on volume, and 12.3 per cent on value, with growth being recorded across all components of vehicle sales on the Island.

Figure 9: Number of New Motor Vehicles Sold PEI



Consumer Prices

Consumer prices increased 2.3 per cent on Prince Edward Island in 2018, continuing a trend of increasing inflation beginning in 2016.

Food inflation increased 0.5 per cent, while shelter and energy inflation increased 3.3 per cent and 10.0 per cent respectively.

Prices for gasoline and household heating fuel continued to increase, and were 11.4 per cent and 20.8 per cent higher in 2018. 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 by a muted 1.3 per cent over this time period, the takeaway being that underlying inflationary pressures are low.

Core inflation on the Island (the measure of inflation excluding

volatile components such as food and energy) increased 1.5 per cent in 2018. Nationally, consumer prices increased 2.3 per cent in 2018, ranging from an increase of 2.7 per cent in British Columbia to an increase of 1.7 per cent in both Newfoundland and Labrador and Quebec.

Through May, inflation has been more muted on the Island, up 0.9 per cent year-to-date. This is largely the result of a 3.9 per cent decrease in energy inflation observed over this period.



Housing

Construction and Housing

After a very strong 2017, the construction industry continued to perform well in 2018. Many of the same factors that led to the increase in 2017 were again at play in 2018. 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. Very low vacancy rates

are pushing up investment in rental property construction. On the non-residential and engineering construction side, strong private sector growth in industrial and commercial building drove growth. Total building permits increased 28.1 per cent in 2018. Non-residential permits increased 23.0 per cent due to increases in commercial permits, up 49.2 per cent, and

industrial permits, up 105.1 per cent. Government and institutional permits totaled just over \$21 million, a decline of 29.6 per cent, in 2018. Residential permits increased 23 per cent over this timeframe. Nationally, building permits increased 4.7 per cent in 2018, with residential permits growing by 5.3 per cent and non-residential permits by 3.8 per cent.



There were 1,089 housing starts on the Island in 2018, an increase 19.5 per cent from 2017. This is the highest number of housing starts seen on the Island since 1988.



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.



The supply of houses has been trending sharply lower over the last three years as increased demand has been absorbing the inventory.

Housing Starts

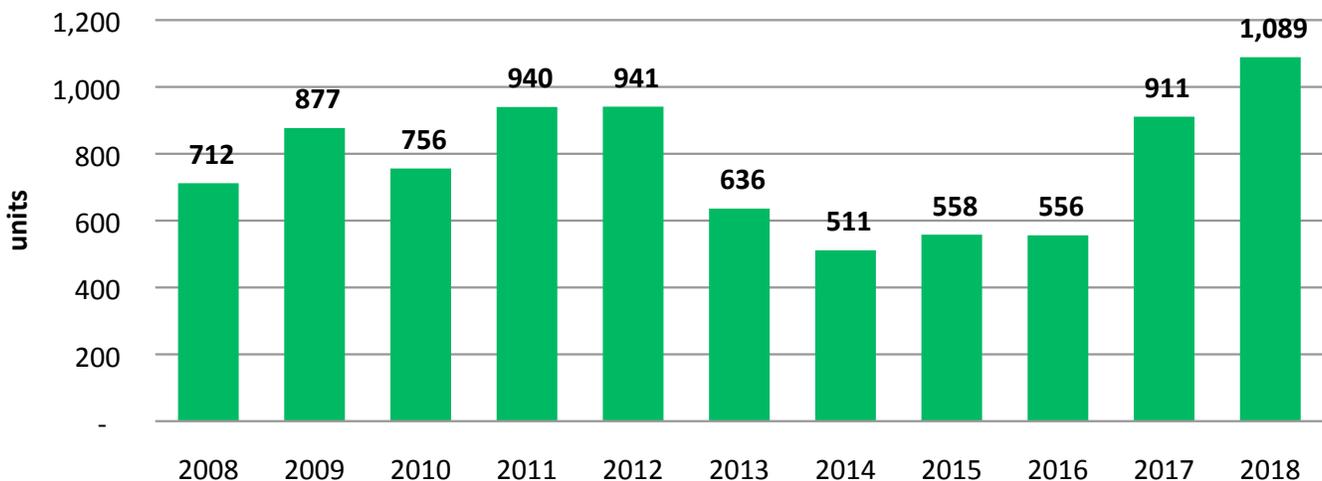
There were 1,089 housing starts on the Island in 2018, an increase 19.5 per cent from 2017. This is the highest number of housing starts seen on the Island since 1988. Gains were recorded in the multi-unit segment, with apartment starts up 103 per cent, while in the single-detached segment, starts were up 2.4 per cent. Semi-detached houses and row houses decreased 6.1 and 2.1 per cent respectively. Prince Edward Island recorded the second -fastest rate of growth in housing starts amongst provinces in 2018, behind Nova Scotia. Nationally, housing starts declined 3.1 per cent in 2018. Through the first quarter of 2019, housing starts are down by 13.2 per cent.

Resale Housing

According to the PEI Real Estate Association, annual home sales on Prince Edward Island totaled 2,050, a decrease of 4.6 per cent from 2017, and down 12 units from 2016, but still the third strongest year on record. The average price in 2018 was \$211,598, an increase of 4.1 per cent from 2017. The supply of houses has been trending sharply lower over the last three years as increased demand has been absorbing the inventory. This trend has continued into 2019, with year-to-date home sales down 12.7 per cent through May, though the average sales price has continued to increase, up 5.7 per cent to average \$230,667.



Figure 10: Housing Starts PEI 2008-2018



Source: Canada Housing and Mortgage Corporation

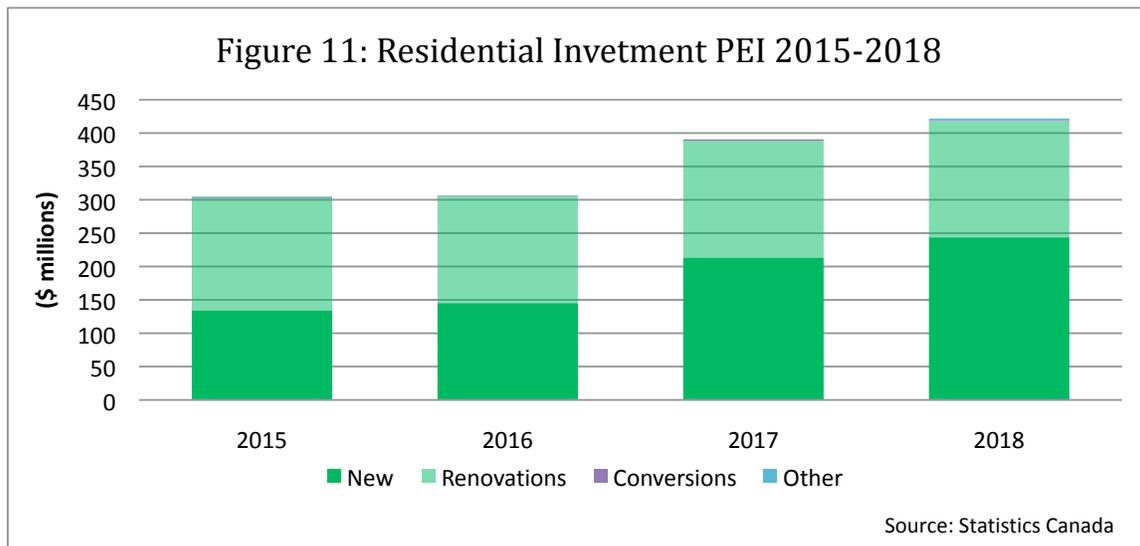
Residential Investment

The total value of residential investment increased 8.0 per cent in 2018, to total \$428.3 million.

Between 2015 and 2018, the value of residential investment has increased 38.4 per cent. As can be seen in Figure 11, new housing construction

has become the largest segment of residential investment over the last two years rising from 43 per cent of investment in 2015 to 57 per cent of investment in 2018. Renovations, formerly the largest component of residential investment have declined to 41 per cent of investment in 2018.

Through the first quarter of the year, residential investment has continued to grow, up 24.7 per cent. New construction continues to dominate this growth, up 55.1 per cent, while renovations continue to decline, down 16.4 per cent.



Non-residential Investment

Total non-residential investment increased by 7.4 per cent on the Island in 2018. Industrial investment increased 51.2 per cent, while commercial investment declined 5.9 per cent and institutional and government investment decreased 0.4 per cent. Nationally, non-residential investment increased 7.6 per cent over this time period. Growth ranged from a high of 69.2 per cent in Newfoundland and Labrador, to a decline of 9.6 per cent in Saskatchewan.

Through the first quarter of 2019, growth in non-residential construction investment has increased 24 per cent, with growth occurring in industrial, commercial and institutional and government sectors of 40 per cent, 26.3 per cent and 6.9 per cent respectively.

Capital Investment Intentions

The positive outlook for the construction sector is being reflected in the outlook for capital spending intentions for 2019. Capital investment intentions are projected to be \$679.9 million in 2019, an increase of 2.7 per cent from 2018 and the highest level of projected capital expenditures recorded since 2011. The increase in capital spending intentions is due to increased spending on construction and machinery and equipment, up 0.7 per cent and 5.1 per cent respectively. The increase in capital investment is largely being driven by the public sector, as public capital intentions are projected to increase 18.6 per cent in 2019, as numerous construction projects begin, or have their largest construction years in 2019. Investments in utilities, up 51.9 per cent, and real estate rental and leasing, up 27.4 per cent are also contributing to the increase.



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. 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 preliminary landed value of the 2018 lobster fishery was 38.7 million pounds, an increase of 6 per cent from 2017, and a new all-time high. Lower prices for lobster, however, had an offsetting impact on the value of the landed catch, down 12.8 per cent. The 2019 spring lobster fishery is ongoing, with

the reported catch above last year's levels, and a small increase in prices, though reportedly below the price being received in other fishing regions.

Farming

A late frost, dry summer followed by a wet harvest period resulted in lower yields for many crops in 2018. Planted potato acreage increased in 2018 to 86,000 acres, an increase of 2.1 per cent from 2017. Due to inclement weather (a late start to the planting season, dry summer and cold, rainy harvest season), the harvested area of the potato crop was 79,200 acres, the result being 7.9 per cent of the potato crop being left in the ground. Consequently, the average yield of the

potato crop declined 2.9 per cent to 285.4 hundredweight per harvested acre. Farm cash receipts in 2018 totaled \$496 million, a decrease of 2.0 per cent from 2017. Crop receipts declined 7.0 per cent, with potato receipts down 12.2 per cent. Receipts for livestock increased 1.1 per cent, while direct payments to farmers increased 35.1 per cent largely as a result of increased crop insurance payments. Through the first quarter of 2019, farm cash receipts increased 15.6 per cent. Crop receipts are up 4.4 per cent, with potato receipts up 2.2 per cent. Livestock receipts are up 0.4 per cent, while direct payments to farmers are up 17.3 per cent. Absent direct payments, farm cash receipts were up 3.1 per cent through the first quarter.

Tourism

After a very strong 2017, owing in part to the 150th anniversary of Confederation, tourism results were weaker in 2018. Information from the department of Economic Development and Tourism indicates that total overnight stays declined 1.3 per cent. At fixed roof accommodations, the number of room nights sold decreased 1.2 per cent, while at campgrounds the number of site nights sold increased by 1.6 per cent. Despite slightly lower figures, there were still more than 1 million overnight stays on the Island in 2018 for the second year in a row, while total visitation was projected to be approximately 1.58 million.

Traffic to the Island via the Confederation Bridge decreased 0.1 per cent, while air traffic was flat. Ferry traffic decreased 0.7 per cent in 2018.

The cruise ship season was successful in 2018; the number of cruise ship visits was up 8.2 per cent with increases in both the number of passengers and crew. Many of the transport links to the Island were negatively affected in the last quarter of 2018 due to the early onset of inclement weather. Through the first quarter of 2019, traffic to the Island via the bridge and by air have increased 4.6 per cent and 0.5 per cent respectively, while total overnight stays have increased by 7.3 per cent. Over this time period room night's available have increased 1.7 per cent while the occupancy rate has increased by 1.4 percentage points.

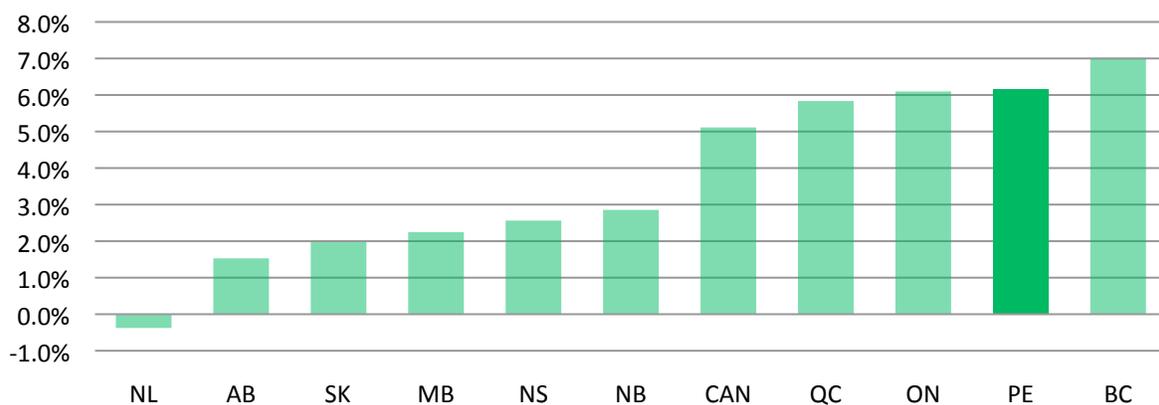
As can be seen in Figure 12, sales at food services and drinking places on the Island advanced 6.2 per cent in 2018, the second fastest growth amongst

provinces. Nationally, sales at food services and drinking places grew by 5.1 per cent over this time period. Prince Edward has continued to have strong sales in food services and drinking places through the first four months of 2019, growing by 8.8 per cent, the fastest growth amongst provinces.

The total revenue of private short-term accommodation in Prince Edward Island increased 54.5 per cent between 2017 and 2018, to total \$27.8 million. Growth in this segment of the tourism market has been rapid; as recently as 2015 revenue from this source totaled \$450,000.

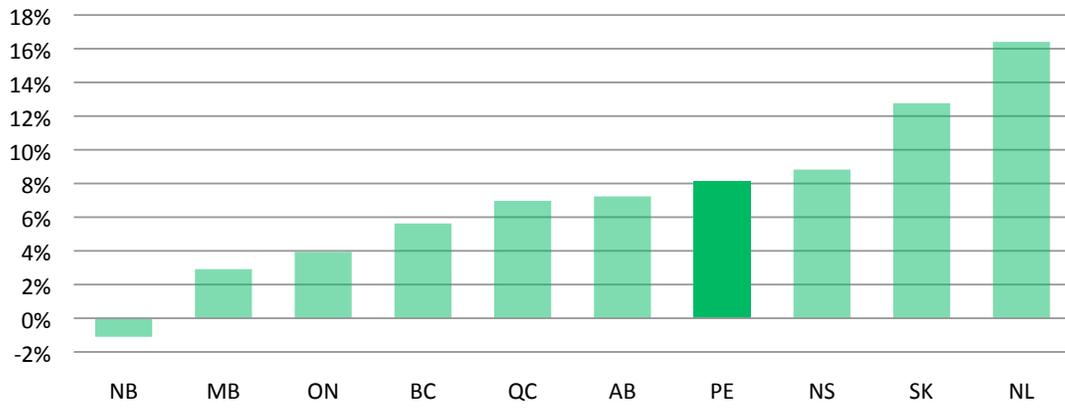
Nationally, growth in short-term accommodations increased 43 per cent in 2018. Growth ranged from a high of 73.4 per cent in Saskatchewan, to a low of 35.6 per cent in Quebec.

**Figure 12: Growth in Food Services and Drinking Places
Canada and the Provinces 2018**



Source: Statistics Canada

Figure 13: Growth in Manufacturing Shipments 2018



Source: Statistics Canada

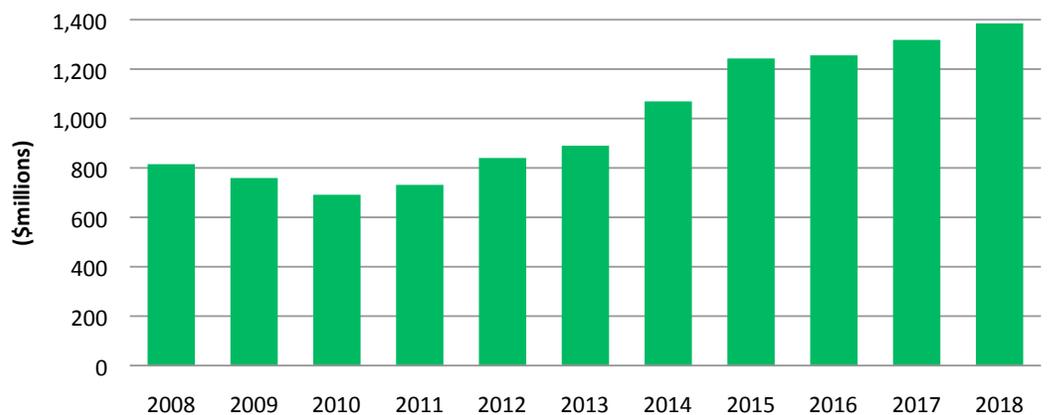
Manufacturing Shipments

The value of seasonally adjusted manufacturing shipments from the Island increased 8.2 per cent in 2018 to \$1.95 billion, and a new record high. Growth was recorded in both the durable and non-durable

goods sectors at 1.3 and 25 per cent respectively. Non-durable goods, largely composed of food and seafood shipments, represent approximately 2/3rds of the Island's manufacturing shipments, while durable goods are

responsible for the remaining 1/3rd. Manufacturing shipments have recorded growth in every year since 2010, a trend continuing in 2019, where shipments are up 12.5 per cent through on a year-to-date basis through April.

Figure 14: PEI Exports 2008-2018



Source: Industry Canada

Exports

Exports from the Island grew by 5.0 per cent in 2018 to reach \$1.38 billion. This performance builds on continued yearly export growth since 2010, as can be seen in Figure 14. Aerospace exports had a major

role in driving export growth in 2018, with engine, turbine and power transmission equipment manufacturing growing by 24 per cent, and aerospace products and parts manufacturing growing by

29 per cent. Together, these two industries accounted for close to \$350 million in exports in 2018. Raw potato exports, up 25 per cent in 2018 also drove export growth.

Frozen food manufacturing – the Island’s largest export industry – decreased by 0.5 per cent in 2018. Industries related to seafood also declined, with seafood product preparation and packaging down 6.2 per cent, aquaculture down 2.8 per cent and fishing down 12.3 per cent in 2017. Bioscience exports also declined with pharmaceutical and medicine manufacturing down 6.5 per cent, while other basic organic chemical manufacturing exports were down 21.8 per cent in 2018. Other industrial machinery manufacturing continues to grow on the Island, up 18.5 per cent in 2018 to reach \$24 million in exports. It

is now the 10th largest export industry on the Island.

Prince Edward Island exported 77.8 percent of all its goods to the United States in 2018, the value of which exceed \$1 billion.

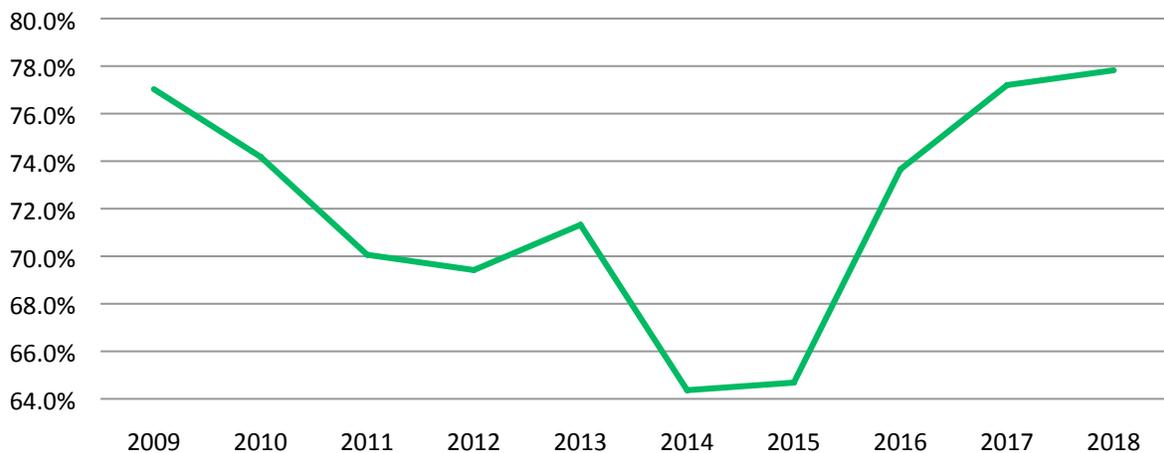
On a year-to-date basis through April, international exports from the Island have grown 13.8 per cent, led by exports of potato products, aerospace components and pharmaceutical exports.

This is the second-fastest growth

in exports nationally over this time period. Prince Edward Island exported 77.8 percent of all its goods to the United States in 2018, the value of which exceed \$1 billion.

As can be seen in Figure 15, 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, the Netherlands, France, and China round out the rest of the top five destinations for Island goods in 2018, though together they only account for 6 per cent of the Island’s trade in goods.

Figure 15: Percentage of Island Exports to the United States



Source: Industry Canada



Island Growth

Private Sector Forecasts

Below, in Table 1, are the forecasts for real GDP growth for the Island from Canada's major banks and two think tanks. Forecasts for 2019 fall in a range of 0.9 per cent growth to 3.1 per cent growth, averaging 1.9 per cent, while forecasts for 2020 range from 0.9 per cent growth to 2.6 per cent growth, averaging 1.5 per cent. Forecasts for 2019 have remained in a very similar range to those from the 2018 Fall Economic Update, while forecasts for 2020 have been revised up.

Table 1:

Private Sector Forecasts				
Organization	Real GDP (% growth)			Date Issued
	2018	2019f	2020f	
Conference Board of Canada		3.1%	2.6%	Spring 2019
TD Bank		2.0%	1.3%	17 June 2019
RBC		2.2%	2.0%	7 June 2019
CIBC		0.9%	1.0%	8 April 2019
BMO		1.2%	0.9%	14 June 2019
Scotiabank		1.5%	1.1%	7 June 2019
National Bank		2.0%	1.9%	June 2019
Atlantic Provinces Economic Council		2.2%	--	5 Nov 2018
Average	2.6%	1.9%	1.5%	

Immigration and its associated impacts have been major contributors to the Island economy for the last number of years leading to significantly stronger economic growth. This is a trend that is projected to continue, however, immigration and its associated impacts do not appear to have been factored into many of the forecasts for 2019

and beyond. Generally speaking, forecasts that have incorporated the effect of immigration to the Island have forecasts that are more positive than those that have not. Increased retail sales and housing starts are likely to be persistent factors throughout the medium term given the projected increases in the Island's population.

Though the Island is not immune from national and global economic conditions, the mix of industries found on the Island does provide a degree of isolation from economic conditions experienced elsewhere in the country. Consequently, there is likely upside to the average of the private sector forecasts.



Outlook 2019



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According to the IMF, the outlook for the global economy in 2019 is for growth to decelerate to 3.3 per cent from the 3.6 per cent recorded in 2018 before accelerating in 2020 back to 3.6 per cent. These are downward revisions of 0.4 percentage points and 0.1 percentage points respectively from their fall Outlook. This downward revision is a result of the growth rate of advanced economies declining more quickly than the IMF had originally anticipated, combined with a more temporary slowing in emerging economies coupled with the impact of the trade actions now being witnessed across the globe.

In the 2018 Budget, the Government of Canada revised its real GDP forecast down to 1.8 per cent for 2019, a 0.1 percentage point decrease from the Fall Economic Statement, and an increase of 0.2 percentage points from Budget 2018. GDP growth is projected to be 1.6 per cent in 2020, 0.1 percentage points lower than Budget 2018, but identical to the Fall Economic Statement. Though the

national economy remains sound, a more uncertain global economic environment, lower than expected oil prices and higher interest rates have slowed economic growth. Prince Edward Island saw strong economic growth in 2018, at 2.6 per cent driven by robust economic growth across multiple sectors of the economy and the positive effects of a growing population. As these conditions are

projected to persist in 2019, growth of a similar magnitude is forecast, with the Island economy being one of the faster growing economies in the country in 2019. As the population is forecast to grow by approximately 1.5 per cent through the medium term, and the underlying economic situation of the province has been steady, economic expansion in 2019 will likely fall in the plus two per cent range.

Real GDP growth is estimated at 2.6% in 2018.

PEI is expected to have one of the faster growing economies in the country in 2019.

Prince Edward Island should continue to benefit from strong international in-migration in 2019.

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 combination of immigration, positive inter-provincial migration and increased retention of international students. At current immigration rates, this target will be achieved ahead of schedule. Despite changes to the structure of the provincial nominee stream, the province is expecting similar numbers of immigrants coming to the province in 2019 as in previous years. Projected higher retention rates, as a result of these changes, should help the Island's population to continue to grow through the medium term at rates above the national average. The Island should see an additional 2,300 immigrants coming to

the Island in 2019, a level which looks to be maintained through the forecast horizon. This will continue to keep domestic demand high in 2019 and beyond.

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Demographic factors will continue to impact the Island's labour force as the 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 2018. 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.

Wages should continue to increase in 2019 due to planned increases in the minimum wage, targeted wage increases in specific sectors, and the potential resolution of several government labour contracts. Inflation should abate in the early months of 2019, as the changes made in support of the province's carbon pricing plan begin to be felt.

Tourism should see another good year in 2019. The number of visitors to the Island has been expanding every year for the past five years, and Tourism PEI has released a new strategy to continue to build on this momentum.



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The low value of the Canadian dollar coupled with continued strong performance in the American economy should help drive visitation by Americans and Canadians alike. New hotel stock is scheduled to come online this year, while work is underway to create more hotel space in downtown Charlottetown.

The 2019 cruise ship season is projected to run from the first of May until early November in 2019. There are 99 ships scheduled to visit the port this year containing 146,569 passengers and 63,482 crewmembers. In order to better accommodate all port users, the

port of Charlottetown is in the midst of an expansion which will allow two cruise ships to dock simultaneously. This project is expected to be completed by the fall of 2019.

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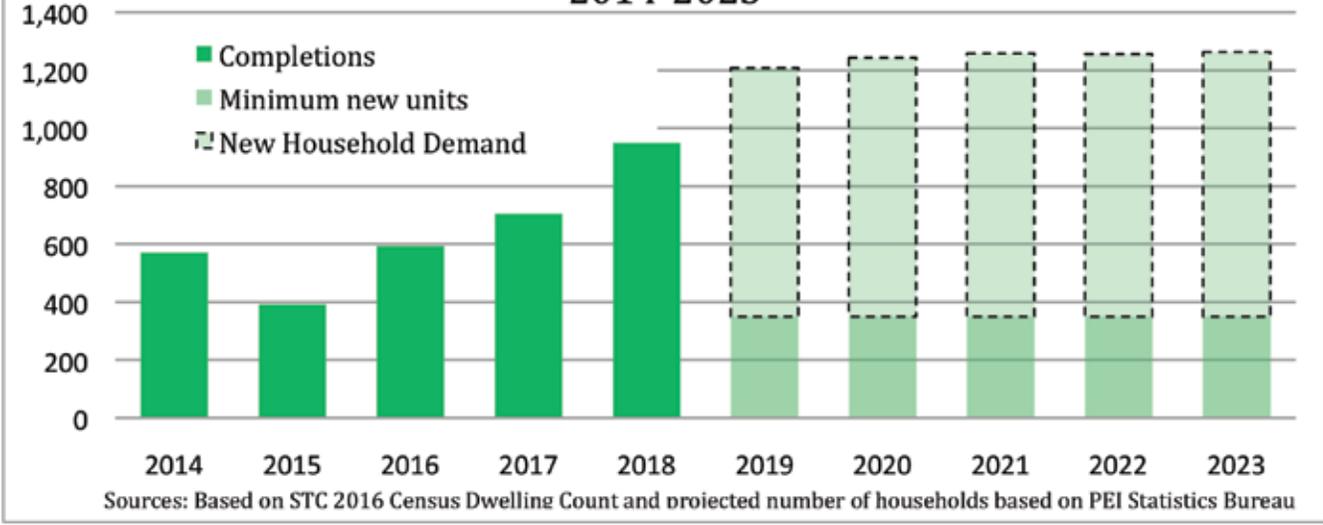
All three levels of government are projected to contribute positively to economic growth in 2019. As the population of the Island continues to expand, pressure is being placed on the capital stock.

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Health education and transportation continue to be the major focus of the



Figure 16: Estimated Household Completions Required PEI, 2014-2023



province’s capital expenditures.

The city of Charlottetown’s capital budget is projected to be \$2.1 million higher than in 2018. Other expenditures, such as the expansion of rural broadband - a partnership between the federal government, provincial government and service providers - are also slated to begin in 2019.

Non-residential and engineering construction are projected to have one of their best years on record in 2019 as numerous projects commence or are set to have their biggest construction year in 2019. One major government initiative, the realignment of the Trans-Canada highway away from the town of Cornwall is set to finish this fall. This should allow for increased efficiencies in the delivery of goods and services both coming to and originating from the Island, as well as provide future development

opportunities to the town of Cornwall going forward.

There remains considerable pressure in the residential property market on the Island. Property sales have been declining in line with lower inventory levels, while the average price of

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housing continues to increase. Finding suitable accommodation, especially in the capital region has become increasingly difficult.

Vacancy rates in and around Charlottetown are 0.2 per cent, while in Summerside they are 0.9 per cent, a significant decrease from one

year ago. Significant investments in residential property are being made by government as well as private developments, though the number of new housing completions required to stabilize the residential market has not yet been reached. A lack of resources could also continue to cause inflationary pressures in the sector. Consequently, the housing market will remain under pressure throughout 2019, and will likely not come back into balance before 2021.

Industrial expansion was a major feature of non-residential building in 2018, and looks to be a continued source of growth in 2019. Numerous Island businesses from a variety of sectors – bioscience, packaging, finance, agriculture - have announced expansion plans, both in terms of expanding their productive capacity, as well as increasing employment levels in those industries.

This should bode well for increased shipments and exports, as well as providing continued support, and a diversity of job offerings, to the labour market in 2019 and beyond.

There continues to be strong demand for Island agricultural commodities and absent the weather-related issues that have affected the industry over the last two growing seasons, should contribute positively to growth in 2019.

The aquaculture industry should see continued expansion in 2019, as new investments in technology and equipment continue to improve productivity.

The U.S. Food and Drug Administration has lifted a ban on genetically-engineered salmon eggs.

This should allow AquaBounty the ability to export its eggs to the United States, increasing exports in this area.

Though the Island economy has been somewhat isolated from some of the

economic fluctuations impacting other regions of Canada by nature of our differing resource base and rapid population growth, the Island is not immune to the overall forces of economic disturbance witnessed worldwide.

Island shipments and exports depend on positive economic conditions in Canada and internationally; lower trade volumes will have an impact on the Island.

New trade agreements may provide some relief against these headwinds, as

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Canada now has free trade agreements with all other G7 countries, as well as

with countries together representing two-thirds of the world's total GDP. However, to take full advantage, Island businesses would need to once again begin to diversify their export markets.

Nationally, increasing interest rates, high levels of household debt, lower consumption, a cooling housing sector and volatile oil prices provide some downward risk to the outlook. Closer to home, housing shortages and labour shortages are the major sources of risk in 2019, and forward. On the labour side, shortages are projected to continue into the foreseeable future across numerous industries upon which the Island's economic success depends including construction, agriculture, aquaculture, fish processing, accommodation and food services and retail trade.

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Prince Edward Island Budget Paper on the Economy