

# Budget Paper 2017

## *Highlights of the Prince Edward Island Economy*

- Private sector forecasts put provincial GDP growth in 2016 at 1.4 per cent. Growth is expected in the range of 1.3 per cent in 2017 and 1.2 per cent in 2018.
- As of July 1, 2016, Prince Edward Island's population is estimated to be 148,649, an increase of 1.3 per cent over 2015, and the fastest growth in the Atlantic region.
- Average weekly wages grew 2.3 per cent in 2016, the second fastest growth amongst provinces.
- The value of retail sales increased 6.6 per cent in 2016.
- The value of new motor vehicle sales increased 16.9 per cent in 2016 to reach a new all-time high.
- Non-residential investment increased 13.9 per cent in 2016, the fastest among provinces.
- Residential investment saw growth of 5.2 per cent in 2016.
- The value of seasonally adjusted manufacturing shipments increased 5.8 per cent in 2016, to reach \$1.7 billion, a new all time high.
- The value of international exports increased 1.1 per cent in 2016.
- The value of lobster landings were up 28.5 per cent compared to last year.
- According to the Department of Economic Development and Tourism, overnight stays on the Island increased 10.2 per cent in 2016 to reach a record high.
- Employment has averaged 71,500 in 2016, a decrease of 2.3 per cent from 2015. The unemployment rate average 10.7 per cent, an increase of 0.3 percentage points from 2015.

## Introduction

The following document is an update to the economic situation of the Province of Prince Edward Island since the release of the 2016 Fall Economic Update. This release begins with a discussion of the 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, 2017.

## National Economic Context

The Canadian economy expanded by 1.4 per cent in real terms in 2016. This was an improvement over 0.9 per cent growth in 2015. The main driver of growth in 2016 was a 2.2 per cent increase consumer spending and was supported by a 2.9 per cent increase residential investment and increased government spending. Canada's trade performance also improved. Due to continued low commodity prices, business investment in non-residential structures declined by over 10 per cent for a second year in a row.

Employment averaged 0.75 per cent higher in 2016 while the unemployment rate edged up to 7.0 per cent.

The outlook for the Canadian economy is for a modest strengthening in 2017 with real GDP expected to grow by 1.9 per cent and employment to rise by 0.9 per cent. Inflation is expected to rise to 2 per cent and interest rates are anticipated to begin to increase after remaining at historically low levels for nearly a decade.

## Provincial Economic Context

The Prince Edward Island economy has shown resiliency in light of the national and international context of the last number of years. The province has posted solid economic growth over the past decade. Private sector GDP forecasts see modest growth continuing on the Island, with average real GDP projected at 1.4 per cent in 2016, 1.3 per cent in 2017 and 1.2 per cent in 2018.

## Employment

The labour force on the Island contracted 1.8 per cent in 2016 to average 80,200 people. Prince Edward Island's core-aged working population (those aged 15-64), peaked in 2012 at 98,041 people. In 2016, this has increased slightly over 2015, to reach 97,247 people, a decline of 0.8 per cent from the 2012 peak. The participation rate has averaged 65.8 per cent, down 1.8 percentage points from 2015. Even with this decline in the participation rate, Prince Edward Island continues to have the fourth highest participation rate amongst provinces behind Alberta, Saskatchewan and Manitoba. The unemployment rate averaged 10.7 per cent in 2016, up 0.3 percentage points from one year ago.

According to the Labour Force Survey (LFS), employment on Prince Edward Island averaged 71,500 in 2016, a decrease of 2.3 per cent from 2015, and the lowest it has been since 2010. The only provinces to see employment growth in 2016 were British Columbia, Quebec and Ontario. All other provinces saw employment declines in 2016.

Employment by Industry Prince Edward Island				
	2015	2016	percentage change	total change
<i>(x 1,000 persons except percentage change)</i>				
<b>Goods Producing Sectors</b>	<b>17.2</b>	<b>16.6</b>	<b>-3.5%</b>	<b>-0.6</b>
Agriculture	3.2	3.1	-3.1%	-0.1
Other Primary Industries	2.4	2.4	--	--
Utilities	0.4	0.3	-25.0%	-0.1
Manufacturing	6.0	6.0	--	--
Construction	5.2	4.7	-9.6%	-0.5
<b>Service Producing Sector</b>	<b>55.9</b>	<b>55.0</b>	<b>-1.6%</b>	<b>-0.9</b>
Trade	11.0	10.3	-6.4%	-0.7
Transportation and Warehousing	2.5	2.5	--	--
Finance, Insurance and Real Estate	2.5	2.7	8.0%	0.2
Professional, Scientific and Technical Services	3.1	3.7	19.4%	0.6
Management, Administrative and Other Support Services	2.5	2.3	-8.0%	-0.2
Educational Services	5.3	5.1	-3.8%	-0.2
Health Care and Social Assistance	9.9	10.1	2.0%	0.2
Public Administration	7.4	6.8	-8.1%	-0.6
Information, Culture and Recreation	2.4	2.6	8.3%	0.2
Accommodation and Food Services	6.0	5.8	-3.3%	-0.2
Other Services	3.4	3.1	-8.8%	-0.3

Table 1 - Source: Statistics Canada

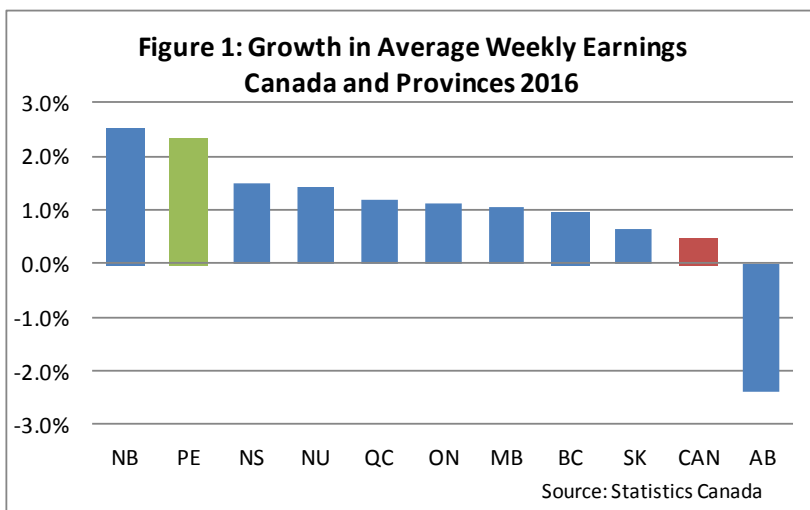
Full-time employment on Prince Edward Island contracted 2.5 per cent in 2016, while part-time employment contracted by 1.6 per cent.

On an industry basis on the Island, employment in the goods sector declined 3.5 per cent in 2016. This was due to a 9.6 per cent decline in construction employment, while there was little change in employment in other goods producing industries. Manufacturing remained the largest employer in the goods producing sector, with employment averaging 6,000 in 2016.

Employment in the service sector declined 1.6 per cent in 2016. Notable gains occurred in professional, scientific and technical services, information, culture and recreation services, and finance insurance and real estate. Notable declines occurred in trade, public administration and other services. The largest employer in the services sector remains wholesale/retail trade accounting for 10,300 people in 2016. See Table 1 above for more details.

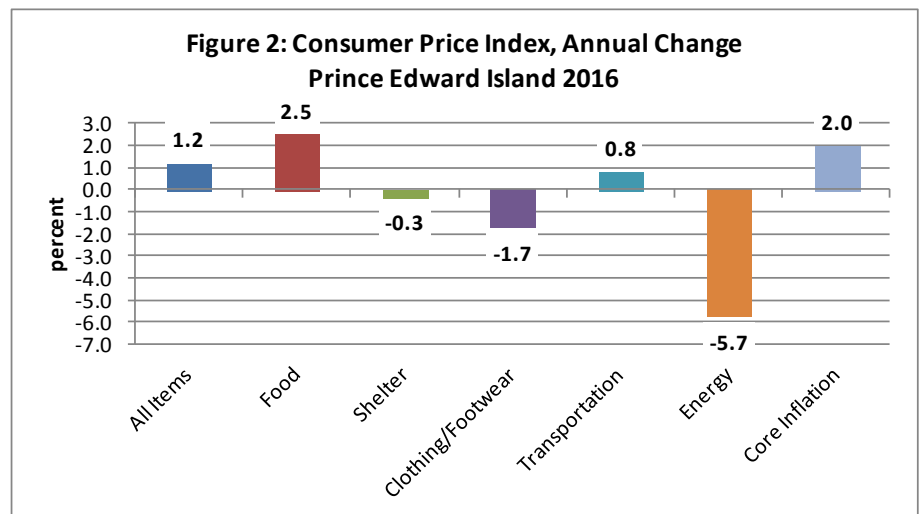
Average weekly earnings expanded 2.3 per cent on Prince Edward Island in 2016, the second fastest growth in the country behind only New Brunswick. As can be seen in Figure 1, average weekly earnings grew in all provinces in 2016, except for Alberta.

Average weekly earnings on the Island grew 1.3 per cent in the service sector, led by an 11.6 per cent gain in finance and insurance, and by 6.5 per cent in the goods sector, led by a 10.4 per cent increase in the manufacturing sector. Though Prince Edward



Island recorded the second strongest growth in average weekly earnings in 2016, the Island at an average weekly wage rate of \$819, still has the lowest average weekly earnings in the country. For Canada as a whole, average weekly earnings increased 0.5 per cent in 2016, with earnings in the goods sector growing by 0.2 per cent and earnings in the service sector growing by 0.7 per cent. Overall growth in the compensation of employees grew 3.6 per cent on the Island in 2016, compared to 2.5 per cent for Canada as a whole.

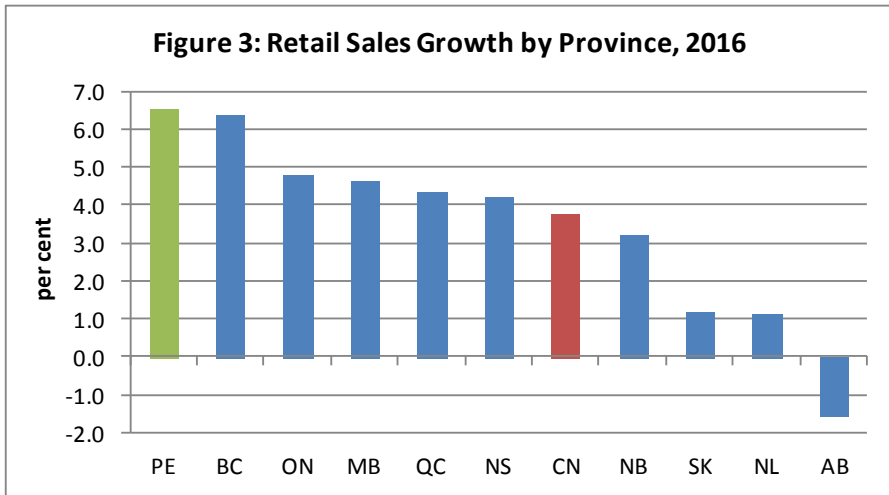
## Consumer Prices



The all-items consumer price index (CPI) increased 1.2 per cent in 2016, following a contraction of 0.6 per cent in 2015. As can be seen in Figure 2, the all-items CPI increased in 2016 despite a 5.7 per cent decline in energy prices. Food inflation increased 2.5 per cent in 2016, while the shelter index decreased 0.3 per cent, the clothing and footwear index decreased 1.7 per cent, and the transportation index increased 0.8 per cent. Core inflation (the measure of inflation excluding volatile components such as food and energy) on the Island was 2.0 per cent in 2016.

## Retail/Wholesale Trade and Motor Vehicle Sales

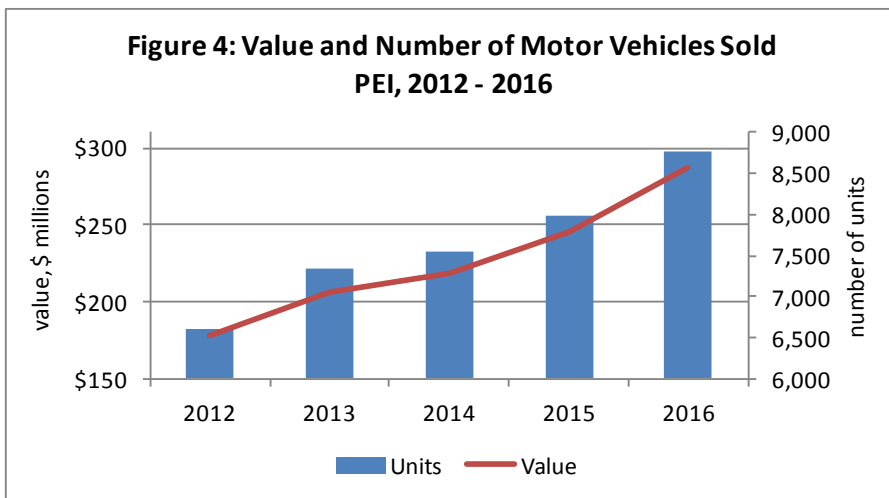
The value of retail sales increased 6.5 per cent in 2016. This was the highest growth amongst provinces for 2016, as shown in Figure 3, and resulted in a new all time high for PEI at \$2.2 billion. After contracting in 2009, the value of retail sales on the Island has increased every year since. Retail sales



for Canada saw an increase of 3.7 per cent. In the region, the growth in the value of sales on the Island was higher than in Nova Scotia, up 4.2 per cent, and Newfoundland and Labrador, up 0.9 per cent, and New Brunswick, where sales increased 3.2 per cent.

On an industry basis, sales increased at motor vehicle and parts dealers, up 16.0 per cent, gasoline stations, up 6.1 per cent, furniture and home furnishing stores, up 24.9 per cent, building material, garden equipment and supplies dealers, up 4.3 per cent, and health and personal care stores, up 2.8 per cent. Sales declined at supermarkets, down 1.3 per cent, and electronics and appliance stores, down 7.4 per cent.

As seen in Figure 4, the number of new motor vehicles sold on Prince Edward Island increased 9.9 per cent in 2016, while the value of those vehicles sold increased 16.9 per cent to reach a new all-time high. This was the highest percentage growth in the country, ahead of Ontario at 11.3 per cent. The increase in motor vehicle sales is attributable to commercial vehicles, as the value and sale of passenger cars continues to decline. Nationally, new motor vehicle sales increased 2.3 per cent in 2016, while the value of those vehicles increased 7.6 per cent.



## Construction and Housing

The construction sector showed broad strength as both residential and non-residential investment rose in 2016. Housing continues to build momentum and population growth is expected to further stimulate this sector into 2017. Laying new electric cables to the mainland was a major project in 2016.

### Building Permits

The total value of building permits increased 11.8 per cent in 2016. As can be seen in Figure 5, building permits peaked in 2012, and declined for three consecutive years before the increase in 2016. Residential permits increased 18.1 per cent, while non-residential permits grew by 2.8 per cent due mainly to a 27.1 per cent increase in commercial permits. Government and institutional permits fell by 47.5 per cent, while industrial permits increased by 25.6 per cent. Nationally, total building permits grew by 0.9 per cent as a 3.4 per cent increase in residential permits offset a 3.2 per cent decline in non-residential permits.

### Residential Investment

The total value of residential investment increased 5.2 per cent in 2016. Renovations, the largest component of residential investment, increased 3.6 per cent, while investment in new dwellings increased by 1.1 per cent. Residential investment in cottages increased by 46.7 per cent, while investment in conversions decreased by 39.2 per cent. Total acquisition costs increased by 41.7 per cent in 2016, while residential investment in mobiles also increased.

### Housing Starts

After an increase in 2015, housing starts declined slightly in 2016 by 0.4 per cent to total 556 starts. Starts of single-detached homes increased by 6.6 per cent. Starts for multi-unit construction fell by 7.7 per cent. A 118.2 per cent increase in starts for row housing was not enough to offset a 24.1 per cent decline in semi-detached starts and a 34.7 per cent decline in apartment construction. Nationally, housing starts increased 1.2 per cent in 2016.

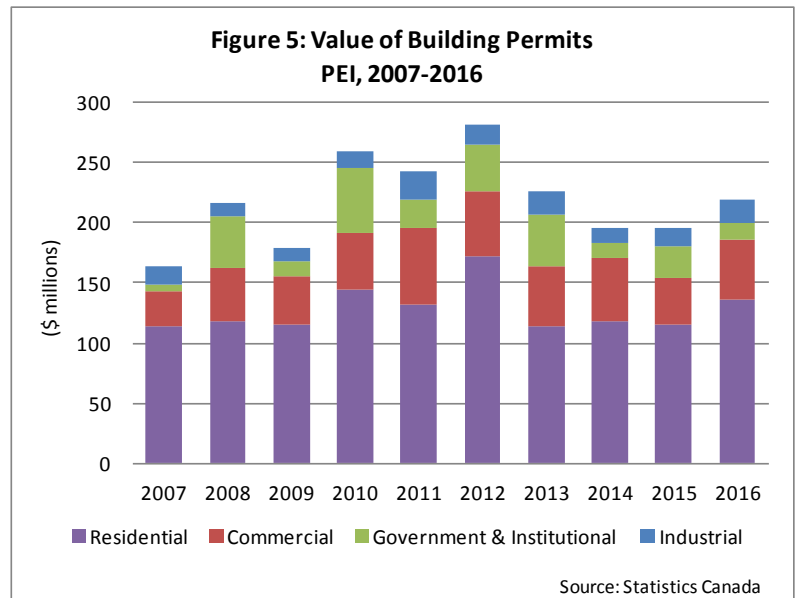
## Non-residential Investment

The total value of non-residential investment on Prince Edward Island increased 13.9 per cent in 2016, the largest percentage increase amongst provinces. All segments of non-residential investment increased, with commercial growing by 3.2 per cent, institutional and governmental by 2.2 per cent and industrial by 67.8 per cent. Nationally, non-residential investment decreased 1.2 per cent.

## Manufacturing Shipments and Exports

The value of manufacturing shipments from Prince Edward Island increased by 5.1 per cent in 2016, to reach a new all time high of \$1.7 billion. As can be seen in Figure 6, this was the largest percentage increase amongst provinces and continues a recovery in manufacturing shipments that began in 2011. The value of non-durable goods, which accounted for 69.6 per cent of the value of manufacturing shipments in 2016, increased by 8.0 per cent, while the value of durable goods decreased by 1.5 per cent. Growth in the value of manufacturing shipments was led by Prince Edward Island, while Ontario and British Columbia both recorded gains of 4.0 per cent. Nationally, the value of manufacturing shipments increased by 1.0 per cent, following a decline in 2015.

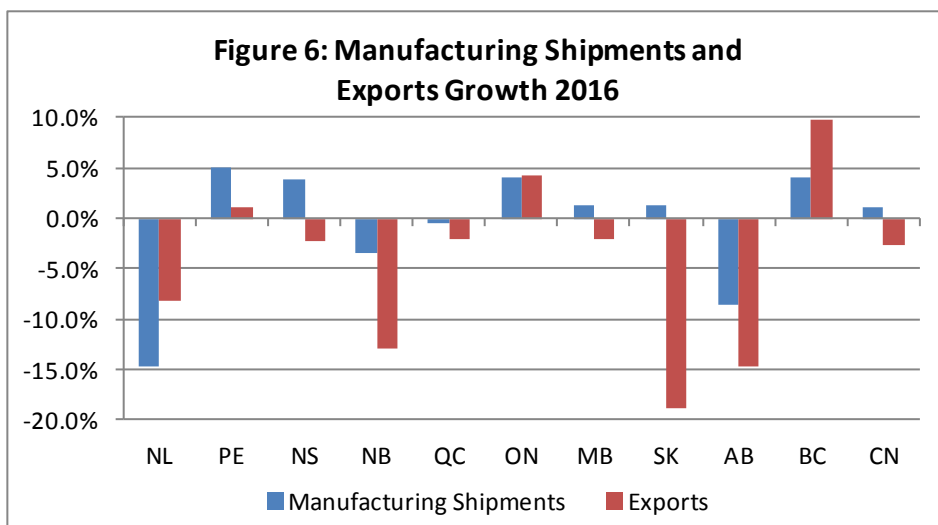
The value of international exports of goods from Prince Edward Island increased 1.1 per cent in 2016, to total \$1.26 billion. This was the third highest in the country, behind British Columbia (9.9 per



cent) and Ontario (4.2 per cent). Those three provinces were the only provinces to see increases in both manufacturing shipments and exports in 2016. Nationally, the value of international exports declined by 2.6 per cent in 2016.

Of PEI's top ten merchandise export industries, seven recorded gains in 2016, while three recorded declines. Table 2 below provides details of the Island's top ten export industries. Notably, frozen food manufacturing, the Island's largest export industry representing 24.4 per cent of exports, grew by 14.0 per cent in 2016. The value of seafood product preparation and packaging, representing 17.7 per cent of exports, grew by 12.2 per cent in 2016. Fishing declined by 10.2 per cent, while animal aquaculture recorded a 12.3 per cent increase. Taken together, these three seafood industries recorded growth of 9.2 per cent in 2016.

Prince Edward Island's top ten export industries represented 77.9 per cent of all merchandise exports from the Island in 2016.



Top 10 Export Industries Prince Edward Island ('000)				
	2015	2016	% Change	% of total
Frozen Food Manufacturing	268,604	306,255	14.0	24.4
Seafood Product Preparation and Packaging	197,926	222,086	12.2	17.7
Aerospace Product and Parts Manufacturing	81,987	94,742	15.6	7.5
Engine, Turbine and Power Transmission Equipment Manufacturing	76,956	85,761	11.4	6.8
Vegetable and Melon Farming	72,040	74,717	3.7	5.9
Pharmaceutical and Medicine Manufacturing	54,000	53,439	-1.0	4.3
Animal Aquaculture	37,867	42,537	12.3	3.4
Other Basic Organic Chemical Manufacturing	48,647	42,363	-12.9	3.4
Fishing	36,637	32,901	-10.2	2.6
Paperboard Container Manufacturing	18,984	23,560	24.1	1.9
Sub-Total	893,647	978,361	9.5	77.9
Others	349,456	278,116	-20.4	22.1
<b>Total (All Industries)</b>	<b>1,243,104</b>	<b>1,256,477</b>	<b>1.1</b>	<b>100.0</b>

Table 2 - Source: Industry Canada

## Primary Industries

### Fishing

Lobster continues to be the most important species for the PEI fishing industry. Improved prices increased the dollar value of the catch by \$43.0 million, up 28.5 per cent compared to 2015. Reported lobster landings were 30.5 million pounds in 2016, a 5.3 per cent decrease from the record level set in 2015. Mussel landings in 2016 were approximately 43 million pounds, continuing PEI's position as the dominant producer of fresh mussels in North America. Preliminary indications of oyster landings for show that 2016 was a strong year and PEI Oysters continue to be in demand in the US and Canada. The seafood industry in PEI employs approximately 8,500 persons each year.

### Farming

Farm cash receipts for Prince Edward Island have increased 0.2 per cent through the first three quarters of 2016, due in large part to a 3.5 per cent increase in potato receipts. Total crop receipts have increased by 2.3 per cent. Livestock receipts have decreased 4.9 per cent as decreased receipts for cattle and calves (down 23.9 per cent), and hogs (down 17.9 per cent) have offset increased for dairy receipts (up 5.2 per cent) and other livestock (up 2.7 per cent). Total direct payments to farmers have increased 8.8 per cent through the first three quarters of 2016. Total farm cash receipts minus

direct payments to farmers has decreased 0.1 per cent through the first three quarters of 2016.

Prince Edward Island potato growers planted 89,000 acres of potatoes in 2016. Better growing conditions resulted in higher average yields, producing an estimated 25.7 million hundredweight.

### Tourism

The Department of Economic Development and Tourism reported 2016 was a year of recording break results for tourism on PEI. Overnight stays increased by 10.2 per cent to reach a record 922,337 nights.

Fixed roof accommodations, room nights sold increased 9.9 per cent. At campgrounds, the number of site nights sold increased 10.7 per cent, while the occupancy rate increased by 1.4 percentage points. Early estimates indicate that approximately 1.5 million tourists arrived on PEI in 2016 with total tourism expenditures estimated to be \$430 million.

Not surprisingly, traffic to the Island via the Confederation Bridge increased 9.8 per cent, while air traffic increased 11.9 per cent. Ferry traffic declined 13.7 per cent due to Northumberland Ferries operating only one ferry during most of the tourist season due to mechanical issues. Motorcoach traffic increased 26.5 per cent in 2016, while cruise ship traffic declined by 15.6 per cent.

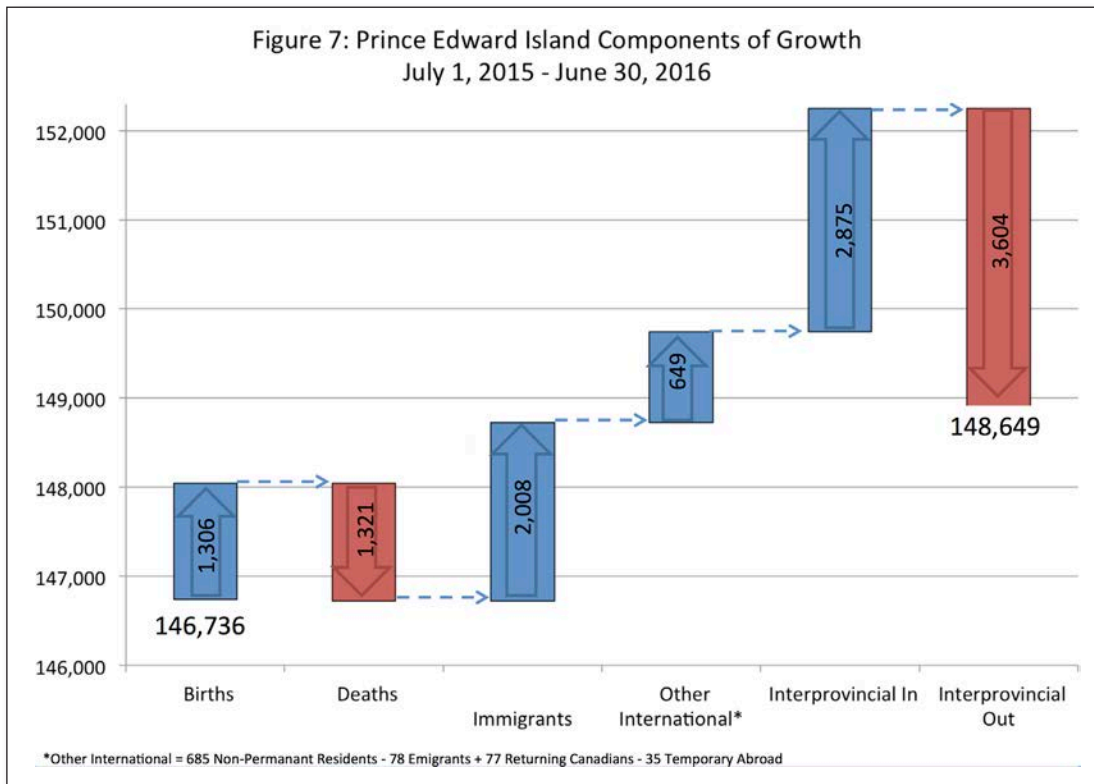
Sales at food services and drinking places on the Island increased 2.0 per cent in 2016. Sales increased in all provinces, from a high of 10.0 per cent in British Columbia, to a low of 0.5 per cent in Alberta. Nationally, sales at food services and drinking places increased 6.2 per cent.

## Population and Immigration

As of July 1, 2016, Prince Edward Island's population is estimated to be 148,649. This represents a yearly increase of 1,913 persons or a 1.3 per cent annual growth rate, the fastest growth in the Atlantic region. International migration remains an important factor in population growth for PEI. After a decrease of 4.4 per cent in 2014-15, international immigration saw an increase of 50.0 per cent in 2015-16. From July 2015 to June 2016, 2,008 international immigrants came to the province, as compared to 1,339 the previous year. At a rate of 13.6 per thousand, the province had the highest immigration rate in the country tied with Alberta. The immigration rate for Canada was 8.9 per thousand. A total of 2,875 inter-provincial migrants came to PEI in 2015-16, while 3,604 people left the province for other areas of Canada for a net interprovincial loss of 729 persons. There were 1,306 births and

1,321 deaths on Prince Edward Island from July 1, 2015 to June 30, 2016, resulting in negative natural growth (births minus deaths) for the first time on record. Figure 7 below illustrates the different population flows for Prince Edward Island.

The population for Canada as of July 1, 2016 is estimated to be 36,286,425, an increase of 437,815 persons or 1.2 per cent over July 1, 2015.



## Private sector forecasts

Below, in Table 3, are the forecasts for real GDP growth for PEI from the major Canadian banks and two think tanks. The average of all forecasts for PEI real GDP growth is 1.4 per cent in 2016, 1.3 per cent in 2017 and 1.2 per cent in 2018.

Private Sector Real GDP Forecasts (% growth)				
Organization	2016F	2017F	2018F	Date Issued
TD	1.7	1.5	1.4	20 December 2016
RBC	1.1	1.0	1.0	March 2017
CIBC	1.0	0.9	1.0	3 February 2017
BMO	1.2	1.1	1.0	24 March 2017
Scotiabank	1.3	1.2	1.3	19 January 2017
National Bank	1.3	1.3	1.2	Winter 2017
APEC	1.5	1.5	--	Fall 2016
Conference Board	1.9	2.2	1.7	Winter 2017
Average	1.4	1.3	1.2	

Table 3

## Outlook 2017

Private sector economic forecasts for PEI range from 0.9 and 2.2 per cent, with an average of 1.3 per cent for 2017.

The Provinces' focus on economic development and actions under the Atlantic Growth Strategy are expected to contribute to growth in 2017. Increasing international immigration is a major pillar of the economic growth strategy.

Updated population projections by the PEI Statistics Bureau show the population of PEI exceeding the goal of 150,000 during Canada's 150th celebration year and could exceed 175,000 in just 15 years (2032). Population growth is projected to be 1.3 per cent per year between 2017 and 2019.

The pace of population growth will have a significant upswing in the demand for housing. The rental vacancy rate estimated at 2.1 per cent for PEI with the rate of 1.7 per cent in the Charlottetown area.

Population growth through immigration is expected to reverse the decline in labour force that has happened since 2012. Growth shows momentum in early 2017 as seasonally adjusted employment has increased by 900 or by 1.2 per cent during the first two months and manufacturing shipments increased 18 per cent in January.



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