



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



2016

# Budget Paper 2016

## *Highlights of the Prince Edward Island Economy*

- The average of private sector forecasts puts provincial GDP growth in 2015 at 1.2 per cent. Growth is expected in the range of 1.4 per cent in 2016 and 1.4 per cent in 2017.
- Employment has averaged 73,200 in 2015, a decrease of 1.1 per cent from 2014. The unemployment rate averaged 10.4 per cent, a decline of 0.2 percentage points from 2014.
- Average weekly wages grew 3.5 per cent in 2015, the fastest growth amongst provinces.
- Total labour income rose 3.6 per cent to reach \$3.1 billion.
- The value of retail sales increased 2.5 per cent in 2015.
- The all-items consumer price index decreased 0.6 per cent in 2015 due to lower energy prices.
- Housing starts increased 9.2 per cent in 2015.
- The value of seasonally adjusted manufacturing shipments increased 1.5 per cent in 2015.
- The value of international exports increased 15.5 per cent in 2015, the fastest growth amongst provinces.
- Lobster landings were up 8.1 per cent in 2015, while the value of the catch was up 28 per cent compared to last year.
- According to the Department of Economic Development and Tourism, overnight stays on the Island increased 2.9 per cent in 2015.
- As of July 1, 2015, Prince Edward Island's population is estimated to be 146,447, an increase of 0.2 per cent over 2014, and the fastest growth in the Atlantic region.

## Introduction

The following document is an update to the economic situation of the Province of Prince Edward Island since the release of the 2015 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 April 7, 2016.

### *International and National Economic Context*

Global economic activity in 2015 was modest. The pace of growth in advanced economies advanced marginally, while the pace of growth in emerging economies declined for the fifth straight year. According to the International Monetary Fund (IMF), global real gross domestic product (GDP) is projected to have expanded by 3.1 per cent in 2015, with growth in advanced economies expanding by 1.9 per cent and growth in emerging market economies expanding by 4.0 per cent. The transitioning global economy with lower oil and commodity prices, a slowdown and re-orientation of the Chinese economy, and the commencement of the return to more normal monetary conditions in the United States, have impacted, and will continue to impact the global economy going forward.

The economic situation in the United States continued to improve in 2015. Real GDP expanded at a pace of 2.4 per cent, the same pace of expansion recorded in 2014. The number of employed people increased by 1.7 per cent, and the unemployment rate averaged 5.3 per cent, a decline of 0.9 percentage points from 2014. After peaking in 2010 at 9.6 per cent, the unemployment rate in the United States has declined every year since. In December of 2015, the United States Federal Reserve increased the federal funds rate to between  $\frac{1}{4}$  and  $\frac{1}{2}$  percent. This marks the first time the US Federal Reserve has increased the federal funds rate

since 2006, and marks the beginning of the return to more normalized monetary policy in the United States.

The Canadian economic context in 2015 shifted significantly over the course of the year. A lower valued Canadian dollar and lower prices for commodities weakened the economic situation nationally. The Bank of Canada began lowering its target for the overnight rate in January 2015 as a precaution against the effects of a fall in oil prices, and then further lowered the target rate to 0.5 per cent in July, where it remains, due to the persistent weakness in the Canadian economy through the first half of the year. As a result of the fall in commodity prices and its effects on the broader economy, real GDP growth in Canada advanced at a pace of 1.2 per cent, less than half of the pace recorded in 2014, and the slowest rate of growth since the 2009 recession (see Figure 1). The decline in business gross fixed capital formation, particularly the decrease in non-residential structures, was the major contributor to the deceleration in growth witnessed between 2014 and 2015.

According to data from Statistics Canada's Labour Force Survey (LFS), the number of employed people in Canada increased 0.8 per cent, but this was not enough to keep the employment rate from falling by 0.1 percentage points. Employment grew by 1.2 per cent in the services sector, but declined



by 0.7 per cent in the goods producing sector, led by declines in other primary industries (which includes the oil and gas sector), and agriculture. Unemployment in Canada was unchanged at 6.9 per cent in 2015.

### *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 1.2 per cent in 2015, 1.4 per cent in 2016 and 1.4 per cent in 2017.

### *Employment*

The labour force on the Island contracted 1.3 per cent in 2015 to average 81,700 people. Prince

Edward Island's core-aged working population (those aged 15-64), peaked in 2012 at 97,200 people. In 2015 this had declined to 95,100 people, a decline of 0.7 per cent from 2014, and a 2.2 per cent decline from the peak. The participation rate has averaged 67.6 per cent, down 1.1 percentage points from 2014. Even with this decline in the participation rate, Prince Edward Island continued to have the fourth highest participation rate amongst provinces behind Alberta, Saskatchewan and Manitoba over this period. The unemployment rate averaged 10.4 per cent in 2015, down 0.2 percentage points from one year ago.

According to the Labour Force Survey (LFS), employment on Prince Edward Island averaged 73,200 in 2015, a decrease of 1.1 per cent from 2014, and the largest decline in employment growth amongst provinces. Employment growth was strongest in Manitoba, British Columbia and

*Table1:*

**Employment by Industry Prince Edward Island**

	2014	2015	percentage change	total change
persons unless specified				
<b>Goods Producing Sectors</b>	<b>18.0</b>	<b>17.2</b>	<b>-4.4%</b>	<b>-0.8</b>
Agriculture	3.7	3.2	-13.5%	-0.5
Other Primary Industries	2.5	2.4	-4.0%	-0.1
Utilities	0.3	0.4	33.3%	0.1
Manufacturing	5.6	6.0	7.1%	0.4
Construction	5.8	5.2	-10.3%	-0.6
<b>Service Producing Sector</b>	<b>56.1</b>	<b>55.9</b>	<b>-0.4%</b>	<b>-0.2</b>
Trade	11.0	11.0	0.0%	0.0
Transportation and Warehousing	2.9	2.5	-13.8%	-0.4
Finance, Insurance and Real Estate	2.3	2.5	8.7%	0.2
Professional, Scientific and Technical Services	2.9	3.1	6.9%	0.2
Management, Administrative and Other Support Services	2.3	2.5	8.7%	0.2
Educational Services	5.6	5.3	-5.4%	-0.3
Health Care and Social Assistance	10.5	9.9	-5.7%	-0.6
Public Administration	7.0	7.4	5.7%	0.4
Information, Culture and Recreation	2.6	2.4	-7.7%	-0.2
Accommodation and Food Services	5.5	6.0	9.1%	0.5
Other Services	3.3	3.4	3.0%	0.1

Source: Statistics Canada

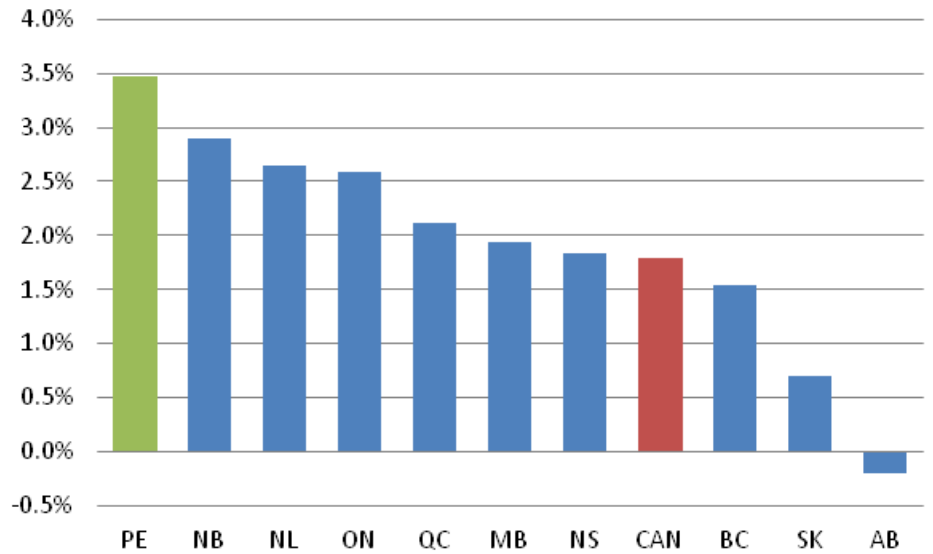
Alberta, while the majority of Atlantic Canada saw employment declines in 2015. Full-time employment on the Island contracted 2.1 per cent in 2015, while part-time employment grew by 4.2 per cent.

On an industry basis on the Island, employment in the goods sector declined 4.4 per cent in 2015. Gains in manufacturing were not enough to offset losses in agriculture, other primary industries, and construction. Manufacturing has taken over as the largest employer in the goods producing sector, with employment averaging 6,000 in 2015.

Employment in the service sector declined 0.4 per cent in 2015. Notable gains occurred in accommodation and food services, public administration, and finance insurance and real estate while notable declines occurred in health services, transportation and warehousing and educational services. The largest employer in the services sector is wholesale/retail trade accounting for 11,000 people in 2015. See Table 1 for more details.

Average weekly earnings expanded 3.5 per cent on Prince Edward Island in 2015, the fastest growth in the country. As can be seen in Figure 2, average weekly earnings grew in all provinces in 2015, except for Alberta. Average weekly earnings on the Island grew 2.7 per cent in the service sector, led by a 6.7 per cent gain in professional services, and by 7.1 per cent in the goods sector, led by growth in the manufacturing sector. Though Prince Edward Island recorded the strongest growth in average weekly earnings in 2015, the Island at an average weekly wage rate of \$801, still has the lowest average weekly earnings in the country. For Canada

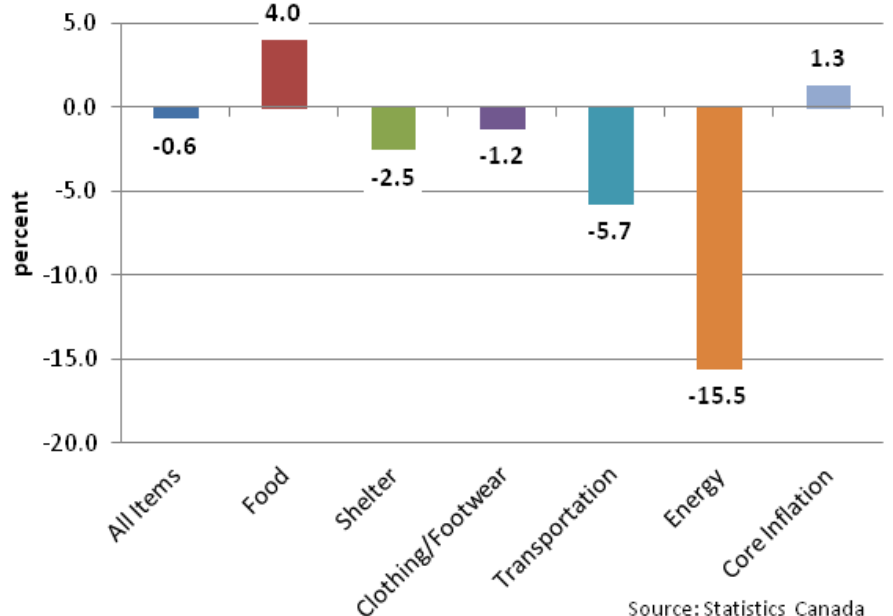
Figure 2: Growth in Average Weekly Earnings Canada and Provinces 2015



Source: Statistics Canada

as a whole, average weekly earnings increased 1.8 per cent in 2015, with earnings in the goods sector growing by 0.5 per cent and earnings in the service sector growing by 2.3 per cent. Overall growth in the compensation of employees grew 3.6 per cent on the Island in 2015, compared to 2.6 per cent for Canada as a whole.

Figure 3: Consumer Price Index, Annual Change Prince Edward Island 2015



Source: Statistics Canada

## *Consumer Prices*

The all-items consumer price index (CPI) contracted 0.6 per cent in 2015, the first contraction since 2009. Prince Edward Island was the only province to record a decline in consumer prices in 2015. As can be seen in Figure 3, the decline in the CPI in 2015 was largely attributable to the 15.5 per cent decline in energy. Prices for both gasoline and home heating fuel decreased significantly compared to 2014, with the price of gasoline declining approximately 20 per cent, and the price of home heating fuel falling 23 per cent.

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 in 2015. Food inflation increased 4.0 per cent in 2015, while the shelter index decreased 2.5 per cent, the clothing and footwear index decreased 1.2 per cent, and the transportation index decreased 5.7 per cent. Core inflation (the measure of inflation excluding volatile components such as food and energy) on the Island was 1.3 per cent in 2015.

## *Retail/Wholesale Trade and Motor Vehicle Sales*

The value of retail sales increased 2.5 per cent in 2015. After contracting in 2009, the value of retail sales on the Island has increased every year since. In the region, the growth in the value of sales on the Island was higher than in Nova Scotia, up 0.2 per cent, and Newfoundland and Labrador, up 0.4 per cent, but weaker than in New Brunswick, where sales increased 3.2 per cent. Nationally, sales increased 2.2 per cent in 2015.

On an industry basis, sales increased at motor vehicle and parts dealers, up 14.2 per cent, building material and garden equipment and supplies dealers, up 5.7 per cent, furniture and home furnishing stores, up 12.4 per cent, health and personal care stores, up 1.0 per cent, and clothing and clothing accessories stores, up 0.1 per cent. Sales declined at gasoline stations, down 11.5 per cent, food and beverage stores, down 2.4 per cent, and electronics and appliance stores, down 4.6 per cent.

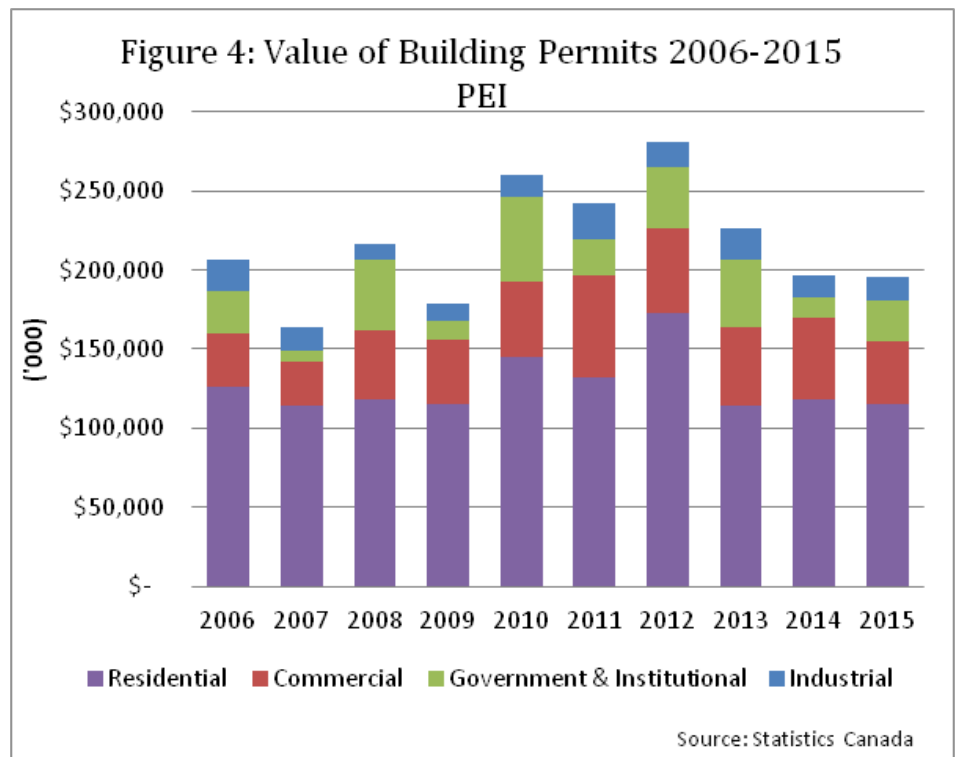
The number of new motor vehicles sold on Prince Edward Island increased 5.6 per cent in 2015, while the value of those vehicles sold increased 11.4 per cent to reach a new all-time high. The increase in motor vehicle sales is attributable to commercial vehicles, as the value and sale of passenger cars continues to decline. Nationally, new motor vehicle sales increased 2.6 per cent in 2015, while the value of those vehicles increased 5.6 per cent.

The value of wholesale trade on the Island increased 6.5 per cent in 2015. Nationally, wholesale trade increased 4.0 per cent. In 2015, growth in wholesale trade ranged from a high of 8.3 per cent in Saskatchewan, to a decline of 5.6 per cent in Alberta.

## Construction and Housing

### Building Permits

The total value of building permits declined 0.2 per cent in 2015. As can be seen in Figure 4, building permits peaked in 2012, and have been declining every year since. Residential permits decreased 2.4 per cent, while non-residential permits grew by 3.2 per cent as a result of a 102.5 per cent increase in government and institutional permits, and a 16 per cent increase in industrial permits. Commercial permits declined 24.5 per cent in 2015. Nationally, total building permits grew by 0.2 per cent as a 4.6 per cent increase in residential permits offset a 6.3 per cent decline in non-residential permits.

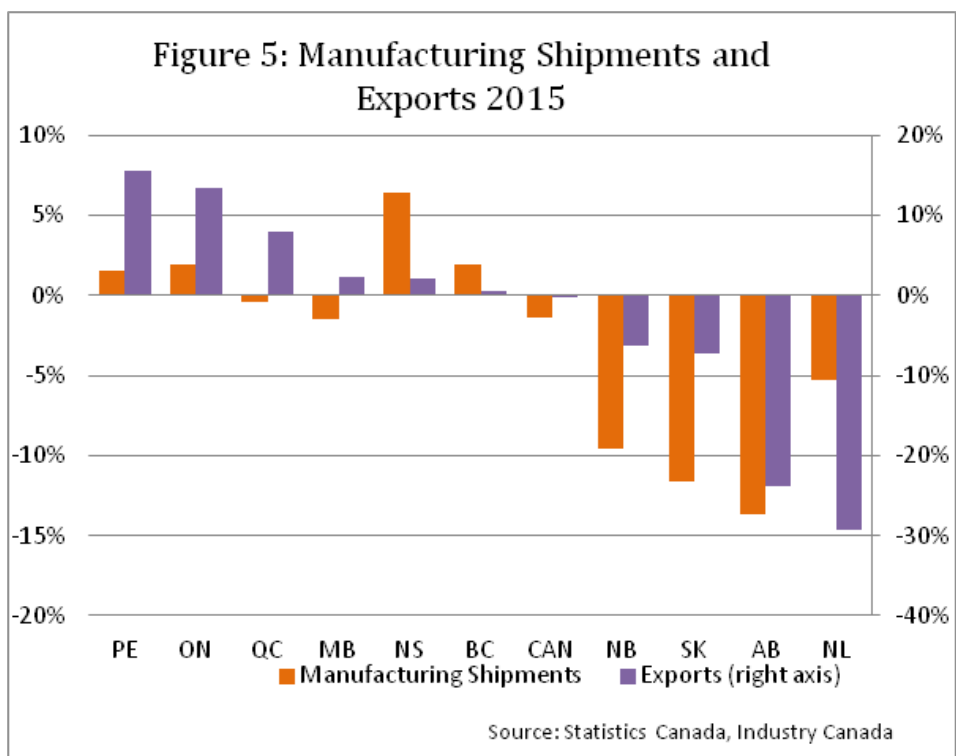


### Housing Starts

After declining in both 2013 and 2014, housing starts increased 9.2 per cent in 2015 to total 558 starts. Starts of single-detached homes declined by 2.1 per cent, while all categories of multi-unit construction recorded gains, led by apartment construction, up 37.1 per cent. Nationally, housing starts increased 3.3 per cent in 2015.

### Residential Investment

The total value of residential investment increased 4.5 per cent in 2015. Renovations, the largest component of residential investment, increased 3.0 per cent, while investment in new dwellings increased by 14.8 per cent. Residential investment in conversions and cottages also increased. Total acquisition costs decreased by 24.4 per cent in 2015, while residential investment in mobiles



also decreased. Nationally, total residential investment increased 4.3 per cent. Growth was strongest in Ontario at 11 per cent, and weakest in Saskatchewan, where residential investment declined 14.8 per cent.

## Non-residential Investment

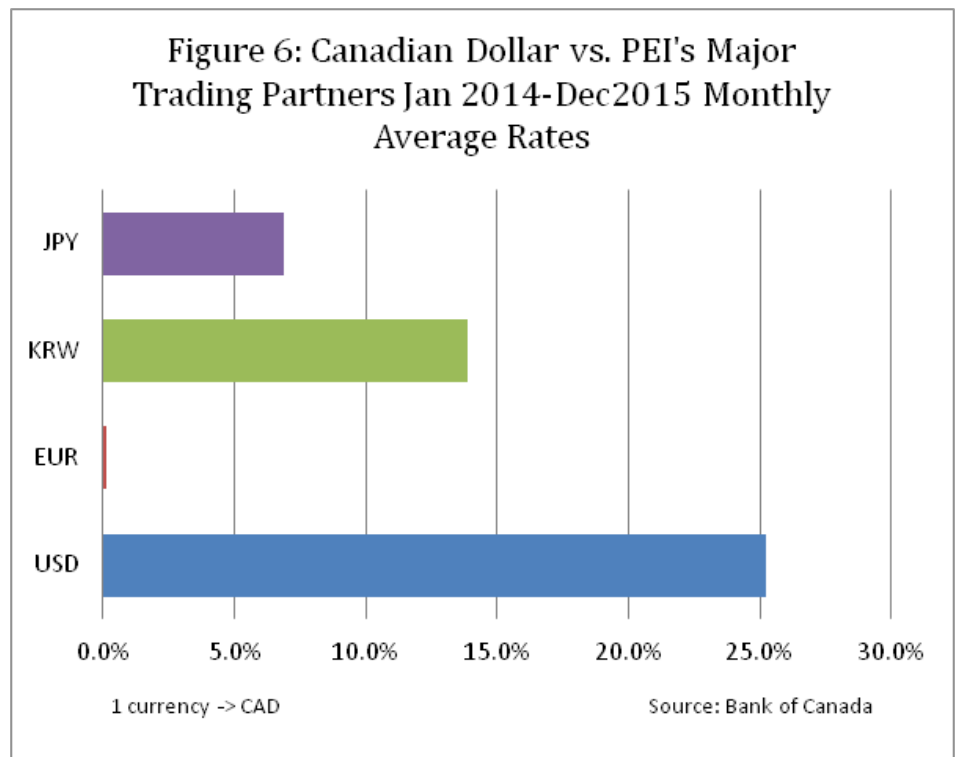
The total value of non-residential investment on Prince Edward Island contracted 29.1 per cent in 2015, the largest decline amongst provinces. All segments of non-residential investment declined, with commercial declining by 20.7 per cent, institutional and governmental declining by 32.2 per cent and industrial declining by 43.9 per cent. Nationally, non-residential investment increased 3.0 per cent. Growth was strongest in Nova Scotia at 10.9 per cent.

## Manufacturing Shipments and Exports

The value of manufacturing shipments from Prince Edward Island increased by 1.5 per cent in 2015, to reach \$1.6 billion, continuing a recovery in manufacturing shipments going back to 2011 and a new all-time high. The value of non-durable goods, which accounted for 69.2 per cent of the value of manufacturing shipments in 2015, declined by 4.1 per cent, while the value of durable goods increased by 16.6 per cent. Growth in the value of manufacturing shipments was led by Nova Scotia, up 6.4 per cent, while Ontario and British Columbia both recorded gains of 1.9 per cent respectively. The large declines in the value of manufacturing shipments observed in the resource dependent provinces are due to the decline in the price of commodities, largely oil, seen in 2015. Nationally, the value of manufacturing shipments declined by 1.4 per cent, the first annual decrease since 2009.

The value of the international export of goods from Prince Edward Island increased 15.5 per cent in 2015, to total \$1.3 billion, the fastest growth in the country and a new all-time high. Nationally, the value of international exports declined by 0.3 per cent in 2015. Figure 5 shows manufacturing and export performance by province in 2015.

The appreciation of the currencies of Prince Edward Island's major trading partners against the



Canadian dollar has given a boost to exporters as the price of Canadian goods becomes relatively cheaper. Notably, between January 2014 and December of 2015, the value of the US dollar has appreciated 25.2 per cent against the Canadian dollar, while the value of the South Korean won has appreciated 13.8 per cent against the Canadian dollar. Conversely, over this time period, the European euro has only appreciated 0.1 per cent against the Canadian dollar. Figure 6 shows the appreciation of the currencies of PEI's major trading partners vis- a- vis the Canadian dollar between January 2014 and December 2015. Over this time period, the Canadian dollar has lost value against all of PEI's major export markets.

Of PEI's top ten merchandise export industries, eight recorded gains in 2015, while two recorded declines. Table 2 provides details of the Island's top ten export industries. Notably, frozen food manufacturing, the Island's largest export industry representing 20.2 per cent of exports, grew by 19.3 per cent in 2015. The value of seafood product preparation and packaging, representing 15.3 per cent of exports, declined by 0.3 per cent in 2015. Fishing recorded gains of 46.5 per cent, while animal aquaculture recorded a 0.6 per cent decline due largely to a delayed opening of its season. Taken together, these three seafood industries recorded growth of 4.1 per cent in 2015.



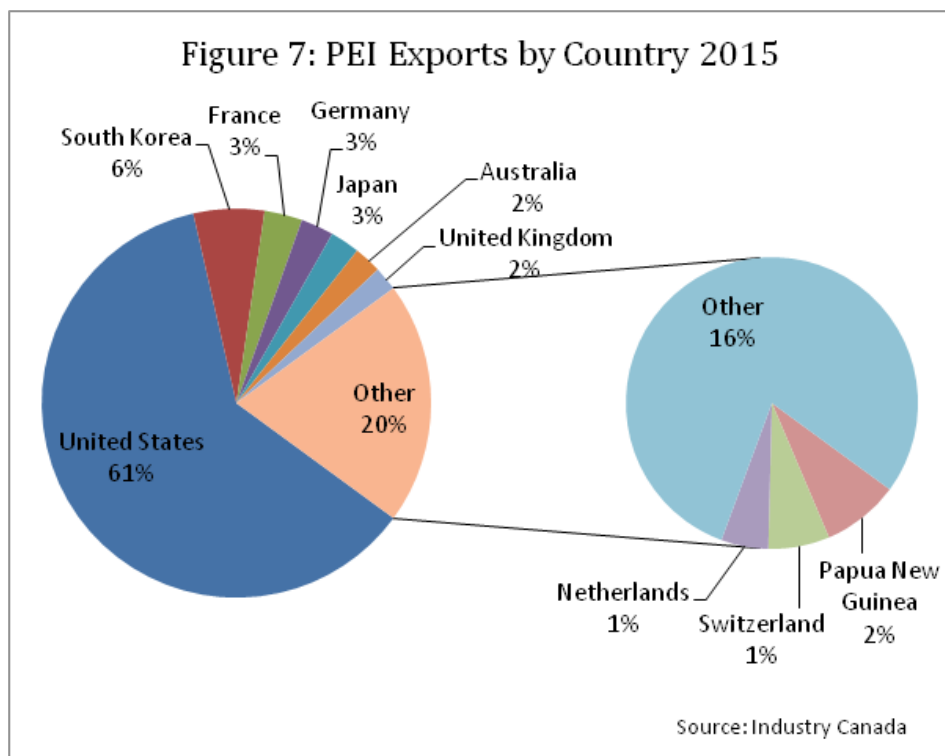
Table 2:

## Top 10 Export Industries Prince Edward Island ('000)

	Jan-Dec 2014	Jan-Dec 2015	% Change 2015/2014	% of exports 2015
Frozen Food Manufacturing	218,757	260,984	19.3	20.2
Seafood Product Preparation and Packaging	198,099	197,517	-0.29	15.3
Engine, Turbine and Power Transmission Equipment Manufacturing	83,215	84,555	1.61	6.5
Aerospace Product and Parts Manufacturing	73,911	83,493	12.97	6.5
Vegetable and Melon Farming	65,055	71,257	9.53	5.5
Pharmaceutical and Medicine Manufacturing	50,164	58,604	16.82	4.5
Other Basic Organic Chemical Manufacturing	47,811	48,647	1.75	3.8
Animal Aquaculture	37,354	37,116	-0.64	2.9
Fishing	24,443	35,806	46.49	2.8
Electrical Equipment Manufacturing	3,497	34,705	892.46	2.7
Sub-Total	802,306	912,684	13.76	70.7
Others	316,395	378,943	19.77	29.3
<b>Total (All Industries)</b>	<b>1,118,701</b>	<b>1,291,627</b>	<b>15.46</b>	<b>100.0</b>

Source: Industry Canada

Engine, turbine and power transmission equipment manufacturing grew by 1.6 per cent and accounted for 6.6 per cent of exports, while aerospace products and parts manufacturing grew by 13 per cent and represented 6.5 per cent of exports in 2015. Vegetable and melon farming grew by 9.5 per cent, while pharmaceutical and medicine manufacturing and other basic organic chemical manufacturing grew by 16.8 and 1.8 per cent respectively. Electrical equipment manufacturing grew by 892 per cent. Prince Edward Island's top ten export industries represented 70.7 per cent of all merchandise exports from the Island in 2015.



Prince Edward Island continued to trade with a diverse group of countries in 2015. The United States continues to be the Island's

largest trading partner, with 61.4 per cent of exports destined there. Five of the Island's top-ten export destinations are in Europe, while four more are

located in the Pacific. Eighty-four per cent of the Island's trade by value occurs with these top ten countries. Increased access to markets in Europe and among the Trans Pacific countries could allow future growth in trade. Figure 7, shows PEI's top ten export destinations in 2015.

## Primary Industries

### *Fishing*

A ten day delay in the opening of the spring lobster fishery had an insignificant impact on the season as reported landings were 32.2 million pounds, an 8.1 per cent improvement to the record level set last year. Strong landings coupled with improved prices increased the dollar value of the catch by \$32.9 million, up 28 per cent compared to 2014. The mussel industry faced challenges in 2015 as poor weather delayed the beginning of the harvest, whereas the oyster industry saw growth in both prices and volumes. Manufacturing shipments of fish products from the Island increased 10.7 per cent in 2015.

### *Farming*

Farm cash receipts for Prince Edward Island have increased 1.5 per cent through the first three quarters of 2015. Potato receipts have been flat through the first three quarters of 2015. Livestock receipts have increased 4.8 per cent as increased receipts for cattle and calves (up 30.2 per cent), and other livestock (up 6.1 per cent) have offset losses in hogs (down 19.9 per cent). Total direct payments to farmers have decreased 6.0 per cent through the first three quarters of 2015. Absent direct payments to farmers, total farm cash receipts increased 1.9 per cent through the first three quarters of 2015.

The prices farmers received for agricultural products in 2015 increased 5.3 per cent in 2015. Crop prices increased 8.0 per cent, while livestock prices declined 0.1 per cent. Within these groups, prices for grains, vegetables (excluding potatoes), and potatoes increased 8.1 per cent, 1.1 per cent and 9.6 per cent respectively, while the prices for

oilseeds, and fruit declined by 3.8 per cent and 1.1 per cent. Cattle and calves was the only livestock category to show an increase, up 20.9 per cent. This was not enough to offset the decline in the value of hogs (down 21.9 per cent), poultry (down 4.1 per cent), eggs (down 0.8 per cent) and dairy (down 4.9 per cent).

Prince Edward Island potato growers planted 89,500 acres of potatoes in 2015, a decrease of 1.1 per cent or 1,000 acres. Of those planted acres, 89,000 were harvested, a decline of 1.3 per cent from 2014. Production declined 1.5 per cent, while the average yield decreased by 0.2 per cent.

### **Tourism**

In 2014, the Island saw the successful celebrations of the 150<sup>th</sup> anniversary of the Charlottetown Conference, which boosted the number of overnight stays on the Island by 5.9 per cent. The 2015 tourism season got off to a slow start, but made up ground as the year progressed. The department of Economic Development and Tourism reported total overnight stays increased 2.9 per cent in 2015. At fixed roof accommodations, room nights sold increased 2.0 per cent, while the occupancy rate increased 1.4 percentage points. At campgrounds, the number of site nights sold increased 4.7 per cent, while the occupancy rate increased by 1.2 percentage points.

Traffic to the Island via the Confederation Bridge increased 6.4 per cent, while ferry traffic increased 8.2 per cent, and motorcoach traffic increased 8.6 per cent in 2015. Air traffic declined 0.4 per cent, while cruise ship traffic declined by 6.3 per cent. New cruise lines and ships continue to visit the Island, with some ships staying in port overnight, a new development on the Island in this sector.

Sales at food services and drinking places on the Island increased 5.7 per cent in 2015. Sales increased in all provinces, from a high of 8.4 per cent in Newfoundland and Labrador, to a low of 0.9 per cent in Alberta. Nationally, sales at food services and drinking places increased 4.2 per cent.

## Population and Immigration

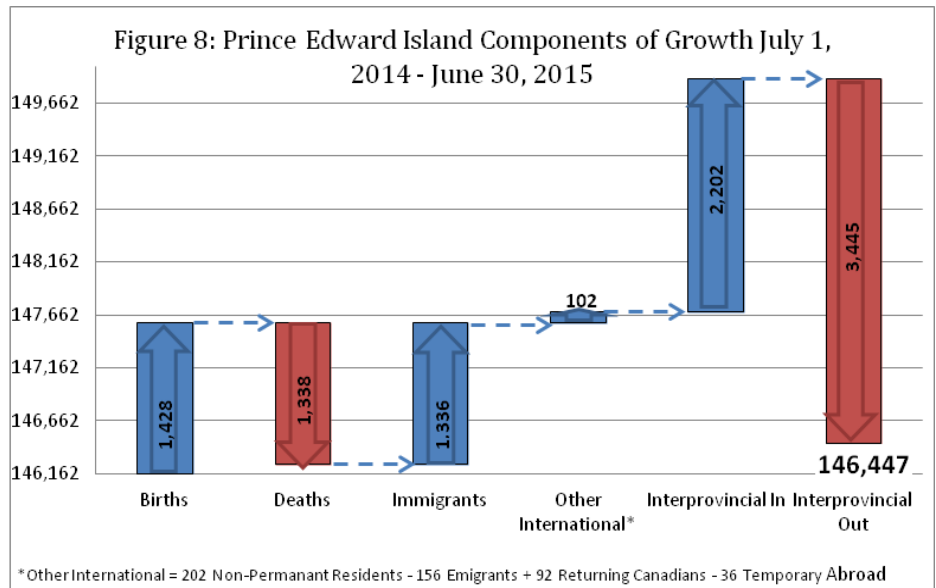
As of July 1, 2015, Prince Edward Island's population is estimated to be 146,447. This represents a yearly increase of 285 persons or a 0.2 per cent annual growth rate, the fastest growth in the Atlantic region. International migration remains an important factor in population growth for PEI. After an increase of 62.2 per cent in 2013-14 international immigration declined by 4.6 per cent. From July 2014 to June 2015, 1,336 international immigrants came to the province, as compared to 1,400 the previous year. At a rate of 9.1 per thousand, the province had the fourth highest immigration rate in the country behind Manitoba, Saskatchewan and Alberta. The immigration rate for Canada was 6.7 per thousand.

A total of 2,202 inter-provincial migrants came to PEI in 2014-15, while 3,445 people left the province for other areas of Canada for a net interprovincial loss of 1,243 persons. There were 1,428 births and 1,338 deaths on Prince Edward Island from July 1, 2014 to June 30, 2015, resulting in natural growth (births minus deaths) of 90. This is the lowest natural increase for PEI on record. Figure 8 illustrates the different population flows for Prince Edward Island.

The population for Canada as of July 1, 2015 is estimated to be 35,851,774, an increase of 308,116 persons or 0.9 per cent over July 1, 2014. For the first time in Canada, the number of persons aged 65 and over exceeded the number of children aged 0 to 14.

## Outlook 2016

The outlook for global growth for 2016 is muted. In its January update, the IMF lowered its world economic growth projections for 2016 and 2017 by 0.2 percentage points each to 3.4 and 3.6 per cent respectively. Though expansion seems firmly rooted in the United States, growth in the rest of the world is being constrained by recessions in emerging economies, the rebalancing of



the Chinese economy, and the lower value of the price of oil and other commodities on the countries that are exporters. Growth in the national economy continues to be revised down, with several forecasters predicting that growth in the Canadian economy in 2016 will be close to 1 per cent. Consequently, this has led to a situation in which lower growth will persist for longer than originally forecast, internationally, nationally and on Prince Edward Island.

Demographic pressures will continue to impact the labour force in 2016 as the core-aged working population is projected continue to shrink. The Island population, however, is projected to keep growing, and this growth will largely be driven by immigration. Presently PEI expects to receive approximately 1,250 immigrants this year, with that number growing to approximately 1,500 people by 2017. This higher level of people will continue to support domestic demand on the Island. Also supporting domestic demand on the Island going forward are the increases in transfers to persons announced in the 2016 Federal Budget. Notably, the new Canada Child Tax benefit and the increase to the guaranteed income supplement (GIS) for low income seniors will positively impact consumption on the Island.

Due to the national economic situation, and the international geopolitical situation, some demographic pressures on the Island may be more muted in the short term. The Province has

committed to accepting 250 Syrian refugees as part of Canada's commitment, and this will likely provide some upside to the immigration figures. Due to the economic weakness in Western Canada, there may be less inter-provincial out-migration in 2015-16, and more inter-provincial in-migration. However, in general, the overall trend is that even with increased participation at older age groups, and immigration at current levels, this will be not enough to offset the overall decline in the core working age population.

Growth in employment on the Island in 2016 will be in those industries and sectors that are benefitting from the low dollar and low price of oil, such as manufacturing, and emerging industries that have expanded in the recent past, such as finance and professional, scientific and technical services. Tourism should see another positive year in 2016 as the low price of gasoline and the low value of the Canadian dollar will likely result in an increase in visitation from central Canada and the United States. Fiscal restraint at the provincial level will constrain growth in the public sector, though federal employment gains will have a positive impact on employment. Temporary hiring for the 2016 Census began in February and will last until July. Veteran's Affairs Canada is restoring its staffing compliment on the Island, and will be re-opening its service office in Charlottetown as was announced in the 2016 Federal Budget. Overall, both unemployment, and the unemployment rate are likely to continue to fall in 2016.

Capital spending in 2016/17 is expected to total approximately \$78 million, an increase of approximately \$9.1 million from the 2015/16 capital expenditure plan. Capital expenditures will be largely focused on highway improvements, long-term care facilities, and school construction and renovations. Non-residential investment should get a boost in 2016 as projects, such as the electricity cable between Prince Edward Island and New Brunswick begin. This project will have a large dollar impact, but will be relatively minor in terms of local material content and labour. On

the whole, efforts by the provincial government to balance its budget will continue limit its contribution to economic growth.

In the 2016 Federal Budget, the Federal Government has committed \$11.9 billion over five years as Phase 1 of its plan to increase infrastructure spending. Funding through this program amounts to \$3.4 billion over three years to upgrade and improve public transit systems across Canada; \$5.0 billion over five years for investments in water, wastewater and green infrastructure projects across Canada; and \$3.4 billion over five years for social infrastructure, including affordable housing, early learning and child care, cultural and recreational infrastructure, and community health care facilities on reserve. Funds available under the old Build Canada program are also to be accelerated. Subject to federal program details, these initiatives may provide some upside to capital spending in 2016-17 and beyond.

After declining for several years, residential investment and housing began to grow again in 2015. This trend should continue into 2016, though housing starts will still be below their 10-year average. The rental vacancy rate, forecast by the Canada Mortgage and Housing Corporation (CMHC), was 5.5 per cent in 2015 and is forecast to decline to 5.0 per cent by 2017 which may precipitate some additional construction of rental units providing some stimulus to the construction industry, and build on the increase begun in 2015.

Manufacturing shipments and international exports will continue to contribute to growth, though lower prices for Canadian products will prevail as importers adjust to the lower value of the Canadian dollar. Both the traditional sectors such as frozen food manufacturing, and emerging sectors such as bioscience, engineering technology and aerospace will continue to drive Island exports. As many of Prince Edward Island's top trading partners are either countries in the European Union, or part of the Trans-Pacific Partnership, the ratification of these agreements should provide increased export opportunity to the Island. However, an

expansion in productive capacity will likely be necessary to significantly increase the volume of exports from the Island in 2016 and beyond.

Agricultural output for 2015 was largely flat, a trend that is likely to continue into 2016. Potential changes to the temporary foreign worker program may provide some relief for fish processors, provided labour can be in place for the beginning of the season. Winter weather has been less severe than in 2015, which has allowed mussel harvesting to proceed, and should result in an on-time start to the lobster season.

Risks to the outlook stem largely from factors outside the province's control. A slowdown in global trade stemming from the ongoing rebalancing in the Chinese economy, and the low price of commodities could negatively impact the Island's export sectors. Weaker growth than expected in the United States could have a detrimental impact on both exports and tourism, though a stronger resurgence in growth in the United States could have the opposite effect. Domestically, the volatility of the Canadian dollar, the low price of oil and other commodities as well as the high levels of Canadian household debt continue to provide risk to the outlook.

### *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. Between the Fall Update, and April 1, 2016, four forecasters have revised their 2015 forecasts down, while two remain unchanged, and two have been revised up, for an average downward revision of 0.3 percentage points. The 2016 forecasts have shown less variance with four forecasts revised down, three unchanged and one revised up for an average downward revision of 0.1 percentage points. The average of forecasts shows a modest improvement in the outlook for real GDP through to 2017.

Table 3:

**Private Sector Real GDP Forecasts (% growth)**

Organization	2015F	2016F	2017F	Date Issued
TD	0.9	2.0	1.9	5 April 2016
RBC	1.5	1.2	0.9	March 2016
CIBC	1.1	0.8	1.4	4 March 2016
BMO	1.1	1.2	1.0	1 April 2016
Scotiabank	1.4	1.5	1.8	11 March 2016
National Bank	1.6	1.5	1.3	February 2016
APEC	1.1	1.3	--	November 2015
Conference Board	1.1	1.7	1.7	March 2016
<b>Average</b>	<b>1.2</b>	<b>1.4</b>	<b>1.4</b>	