



MERRY CHRISTMAS AND A HAPPY NEW YEAR

Economic outlook for 2023

by Heidi Riley

The **Atlantic Provinces Economic Council (APEC)** held a Business Outlook Conference in Charlottetown in November. APEC shared its outlook for 2023, key indicators to watch, and how businesses can best navigate the risks ahead.

Some key economic issues

- With **recession** concerns escalating, what should Atlantic businesses do to prepare for 2023?
- How high will **interest rates** go to slow rising prices?
- **Labour shortages** are intensifying.
- Can we sustain the rapid **population** growth we have seen over the last few years?
- What can **governments** do to provide support over the next year?

APEC's **David Chaundy**, President & CEO, hosted and moderated the session, and **Fred Bergman**, Senior Policy Analyst, presented APEC's economic findings, predictions, and solutions.

"The Canadian economy has strongly rebounded from the pandemic," says Fred. "However, in the near future, the GDP outlook is not as positive. Economic growth is likely to stall in early 2023 because of persistent inflation and higher interest rates, which will weigh on domestic spending and investment."

"APEC does not expect a deep recession such as the one in 2008/2009. In the second half of 2023, we expect inflation to cool and interest rates should begin to go down, which will lead to a pickup in growth."

Regional outlook

The Atlantic economy will outperform the rest of Canada in 2023 because of expected strong population gains.

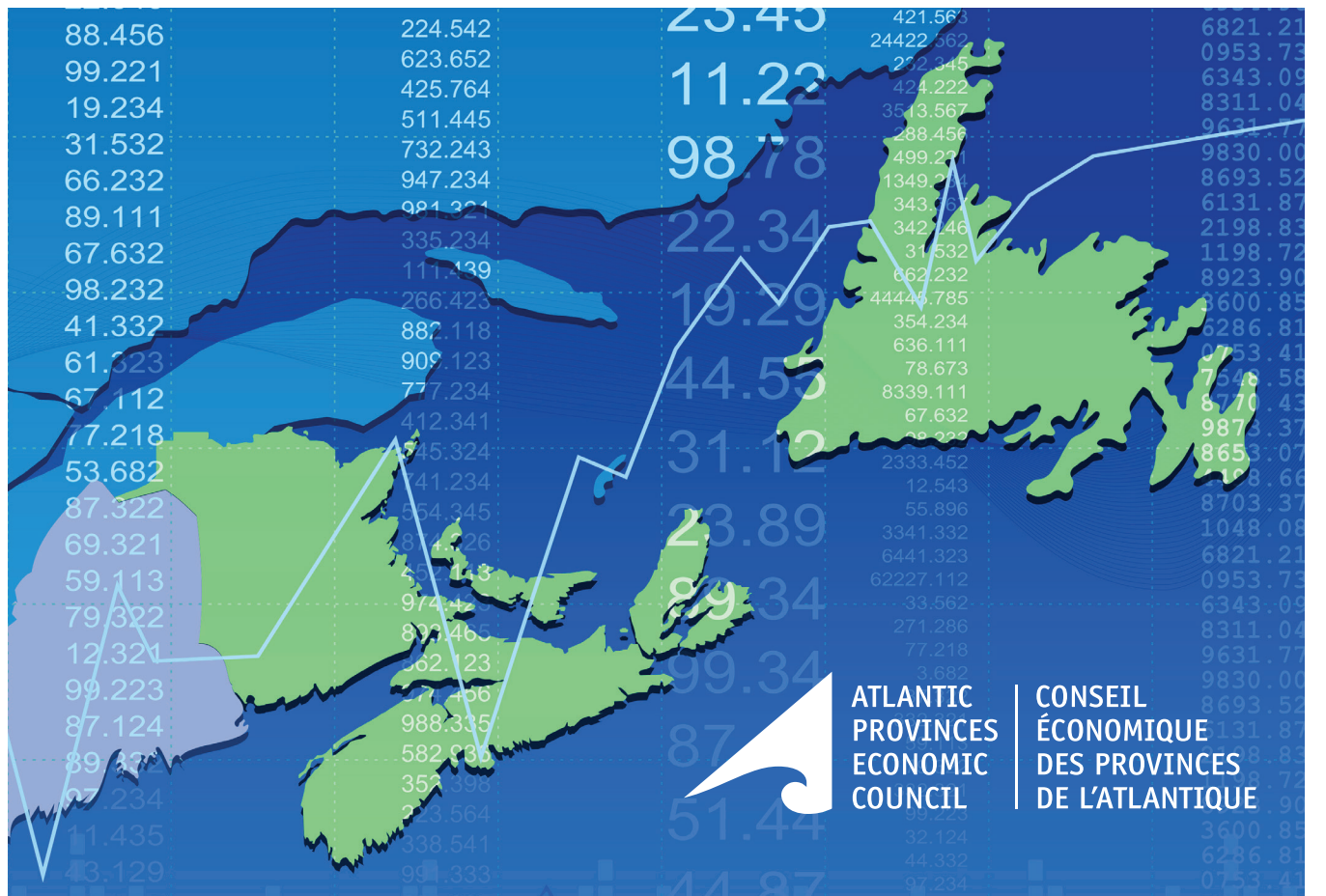
"However, the Maritimes will still face higher inflation and higher interest rates, which will cool consumption and investment over the next year."

The Maritimes outperformed Canada last year partially because of stronger population growth in the region.

Immigration to PEI has increased. From July 2021 to June 2022, a total of **3,436** international immigrants came to the province. Net interprovincial migration to PEI was about 2,200 persons this year. "APEC expects interprovincial migration to slow next year."

The Maritime provinces led the country in population growth, and the Atlantic region increased by about 62,000 over the last year.

In addition, PEI's population grew by about 3.6 percent, and APEC forecasts that PEI's population will grow by about 2.9 percent over the next three years. "Atlantic Canada still has an aging population and a low birthrate, so we need to keep attracting immigrants."



Canadian outlook

High inflation and interest rates are top concerns for consumers. In June 2022, inflation was 8.1 percent in Canada, the highest rate in 40 years. The number went down to 6.9 percent in September but on PEI, inflation was at 8.4 percent - food prices were up 10.6 percent, and energy prices, which affect transportation and shelter, were up 24 percent.

The five-year fixed mortgage rate rose almost two percentage points in the past six months. "A rise in interest rates takes more than a year to make a dent in inflation. Pausing interest rates to see the effect on the economy is not a bad strategy," says Fred.

The Bank of Canada is working to lower inflation to two percent per year, and it does not expect to reach that goal until the end of 2024. "Until then, we can expect interest rates to continue to climb. It is reasonable to expect that inflation will be back to two percent by the end of 2024."

Global outlook

Atlantic Canada is a small economy, and regional forecasts are severely affected by developments around the globe. "Global growth is predicted to shrink by about 3.2 percent this year and about 2.7 percent next year. Forces that weigh on the global economy include rising interest rates to combat inflation, especially in the US. Further rate hikes could cause a broad-based recession."

Russia's invasion of Ukraine is destabilizing the global economy. This has led to a severe energy crisis in Europe, and has driven up the cost of food, minerals, fertilizers, wheat, and energy prices. "If Russia halts gas supplies to Europe, energy prices will spike higher than they already are."

In addition, frequent COVID-19 lockdowns in China affects their economy and creates global supply chain disruptions and hampers trade activity.

"As the world economy slows, there will be less demand for goods to be shipped, which will ease the current supply chain bottlenecks."

COVID-19 measures have jammed up the flow of goods and services, but pressures on the supply chain started to ease in May of this year. "As consumer demand softens, transportation bottlenecks and supply chain disruptions should continue to normalize, which will bring down inflation a bit. It is important for businesses to consider using local supply chains and build their inventory."

"Inflation may ease faster than expected, which could lead to fewer interest rate increases. Unfortunately, for next year, growth may be depressed further than expected. Prices that are sensitive to the conflict in Ukraine could flare up. Extreme weather could hamper food production and impact food security."

Predictions for PEI's economy

PEI's economy grew by four percent in 2022, and that growth is expected to slow to about two percent in 2023. PEI's total exports increased by about 21.5 percent in the first three quarters of 2022 as compared to last year. "A recession in the US is expected to soften PEI exports next year," says Fred.

This year's provincial deficit is estimated to be \$93 million. The province is facing increasing spending pressures, including \$58 million in support to help offset higher inflation.

Read further to find out about the impact to individual industry and more: [click here](#).

