

# Prince Edward Island Budget Paper

## Background Notes on the Economy

*Moving Forward Together*



ONE ISLAND COMMUNITY



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**BUDGET PAPER:**  
**BACKGROUND NOTES ON THE ECONOMY**



# **BUDGET PAPER: HIGHLIGHTS OF THE PRINCE EDWARD ISLAND ECONOMY**

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## **Introduction**

The following document is an update of the economic situation of the Province since the release of the Fall Economic Update. Primarily, this document is a retrospective on the economic performance of the preceding year. This release begins with a discussion of the international and national economic context of the past year, and then moves on to a detailed discussion of the Island's economic indicators. All information in this document is current to March 31, 2011.

## **International Economy**

According to the International Monetary Fund (IMF), the world economy expanded by 5.0 per cent in 2010, after contracting by 0.6 per cent in 2009. Growth in the world economy is expected to continue through 2011, with the IMF predicting economic output to expand in the order of 4.5 per cent. However, as in years past, this growth will be unevenly divided between developing and developed economies.

Developed economies are continuing to recover from the global economic recession. Growth remains tepid, unemployment remains elevated, and sovereign debt issues continue to undermine confidence in markets. In order for the global recovery to take hold, credible plans discussed to remedy fiscal imbalances need to be implemented, and reforms to the financial systems must continue. Growth in developed economies in 2010 was 3.0 per cent, while growth in 2011 is forecast to be 2.5 per cent.

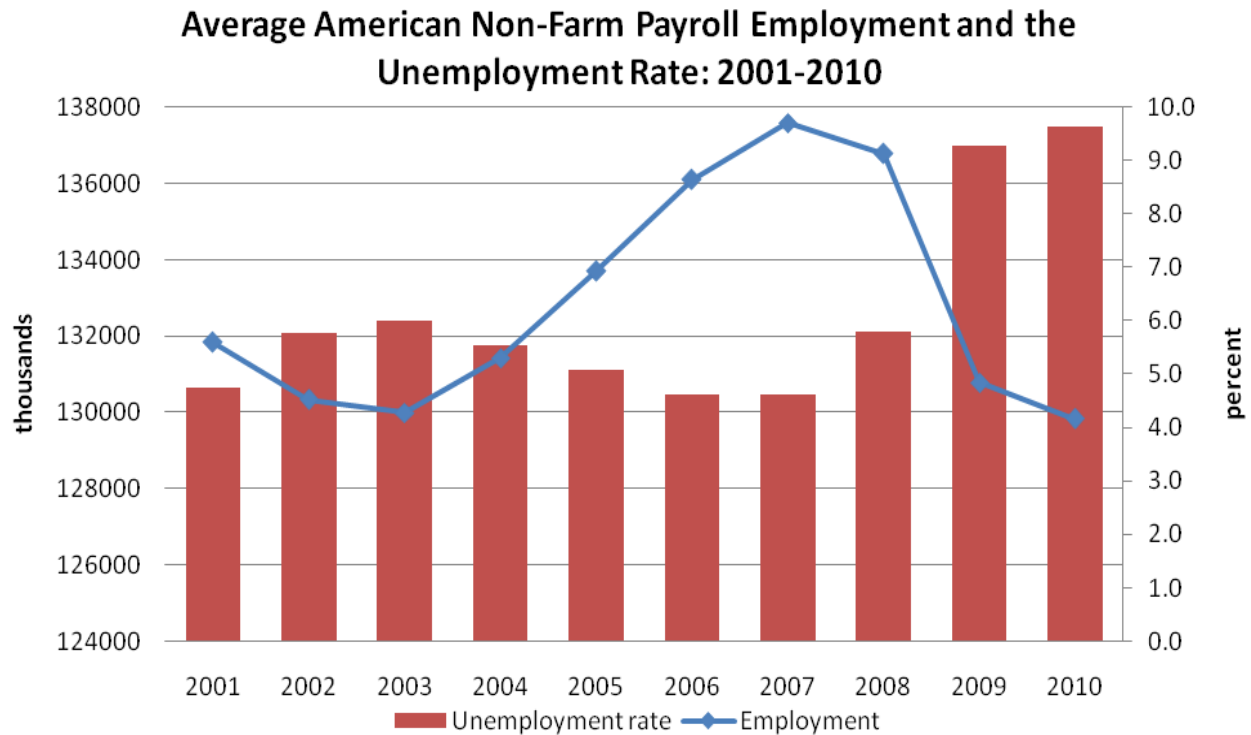
Developing economies are facing challenges very different from those in developed economies. Economic activity in these economies remains robust, in large part due to strong capital inflows. Consequently, inflation pressures and overheating are becoming a concern. Continued stable growth in these economies will require policies that address these issues. Emerging and developing economies grew on average at 7.1 per cent in 2010, and are forecast to grow by 6.5 per cent in 2011. Developing Asia is the segment of this group which is expected to grow fastest, with China and India expected to grow at 9.6 and 8.4 per cent respectively in 2011.

## **American Economy**

After a decline of 2.6 per cent in 2009, real GDP increased 2.8 per cent in 2010. Increases to real GDP came from a variety of components, including, private inventory investment, net exports, personal consumption expenditures, non-residential fixed investment, and Federal Government spending.

The employment situation in the United States remains weak. Employment declined in 2010 by 967,000 jobs, or 0.7 per cent. At the end of 2010, the United States remained approximately 7.7 million jobs below its peak level reached 2007. Employment began to improve in the last quarter

of 2010, with three months of employment growth. This growth has carried through the first two months of 2011. These five months of sustained employment growth are the first since August 2007.



Source: U.S. Bureau of Labor Statistics

Unemployment continues to be a pressing issue in the United States. The average annual unemployment rate in 2010 was 9.6 per cent, little changed from the year previous, and still close to double the rate prior to the beginning of the recession. The number of unemployed persons as of December 2010 was 14.7 million.

The American unemployment situation is widespread. It increased in 31 states and the District of Columbia, declined in 18 states, and remained the same in one state. Fifteen states recorded unemployment rates above 10.0 per cent, with Nevada (14.9 per cent) being the highest. North Dakota registered the lowest unemployment rate of any state, at 3.9 per cent.

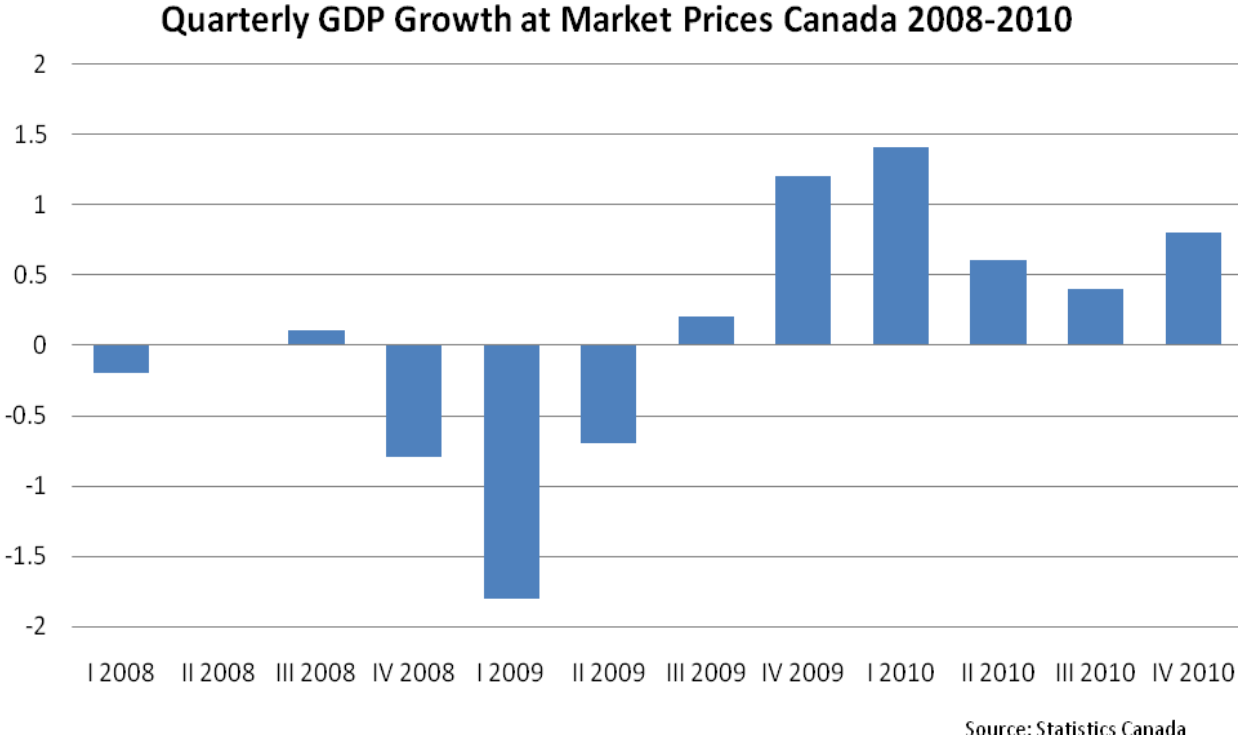
The housing situation in the United States remains less than ideal. The stock of existing homes available for sale remains at record levels; new home sales are still trending downward. The number of underwater borrowers remains close to eleven million, while over four million Americans had seriously delinquent mortgages in January 2011. Though they remain at elevated levels, mortgage delinquency rates have moderated. Prime loans in arrears have decreased 1.9 percentage points between January 2010, and January 2011, while sub-prime loans in arrears have declined 2.8 per cent, and Federal Housing Administration (FHA) loans in arrears have declined 2.2 percentage points over the same timeframe.

Interest rates in the United States have been at their lower bound since December 2010. As the economy is beginning to recover, and the employment situation, though improving, remains weak, it is unlikely that the United States Federal Reserve will change its current interest rate policy until the employment situation, and economic recovery are more firmly underway.

In November, the U.S. Federal Open Markets Committee (FOMC) announced that in order to help promote recovery, and sustain employment and inflation at levels consistent with its mandate over time, it was prepared to purchase up to \$600 billion of treasury securities by the second quarter of 2011. As the economic situation has not improved enough since November to merit a change of course, the FOMC, at its last rate adjustment meeting, elected to continue with this purchase program.

**Canadian Economy**

The Canadian economy expanded in 2010 by 3.1 per cent in real terms after contracting by 2.5 per cent in 2009. Beginning in the third quarter of 2009, Canada has seen six consecutive quarters of economic growth, a sign that the economic recovery is taking hold. Growth has been supported by increased expenditure on consumer goods, up 3.4 per cent. Government expenditures on goods and services have also increased 3.4 per cent. After a 16 per cent decline in 2009, business gross fixed capital formation increased 7.1 per cent in 2010, while investment in inventories increased 406.8 per cent. These two factors are necessary conditions for a successful transition out of government stimulus and into a sustained recovery. Exports of goods and services have rebounded from their 14.2 per cent decline in 2009, up 6.4 per cent in 2010. Net exports declined 48.9 per cent between 2009 and 2010.

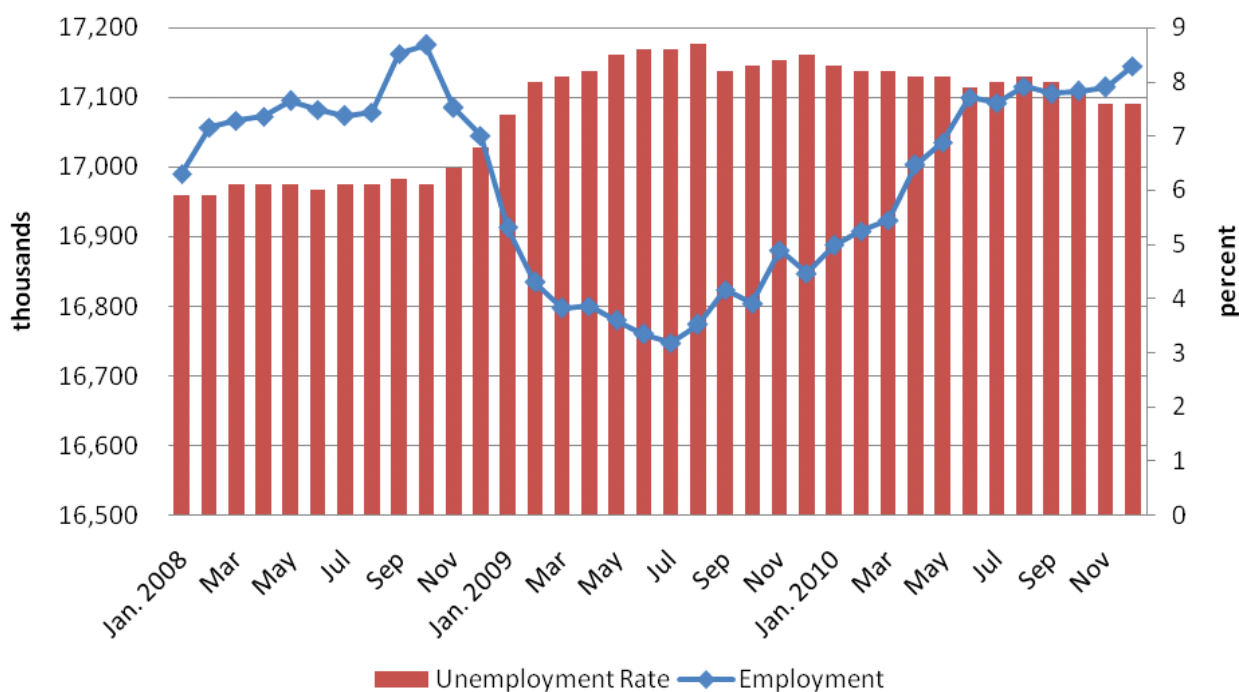


## Employment in Canada

Employment in Canada increased by 228,000 jobs, or 1.4 per cent in 2010. This increase in employment leaves Canada still shy of its pre-recession employment level by approximately 46,000 jobs. The composition of the Canadian labour force has also changed, with more Canadians working part-time, and more Canadians employed in the service sector.

Employment gains were recorded in both the goods and service sectors, at 0.4 and 1.6 per cent respectively. Notable employment gains include, professional scientific and technical services, up 6.3 per cent, construction, up 4.9 per cent and health care and social services, up 4.2 per cent. Notable declines occurred in agriculture, down 4.9 per cent, other services, down 4.3 per cent and manufacturing, down 2.1 per cent. The unemployment rate averaged 8.0 per cent in 2010, a decline of 0.3 percentage points from 2009.

**Employment and the Unemployment Rate in Canada: Jan 2008  
- Dec 2010**



Source: Statistics Canada

## Consumer Spending and Prices

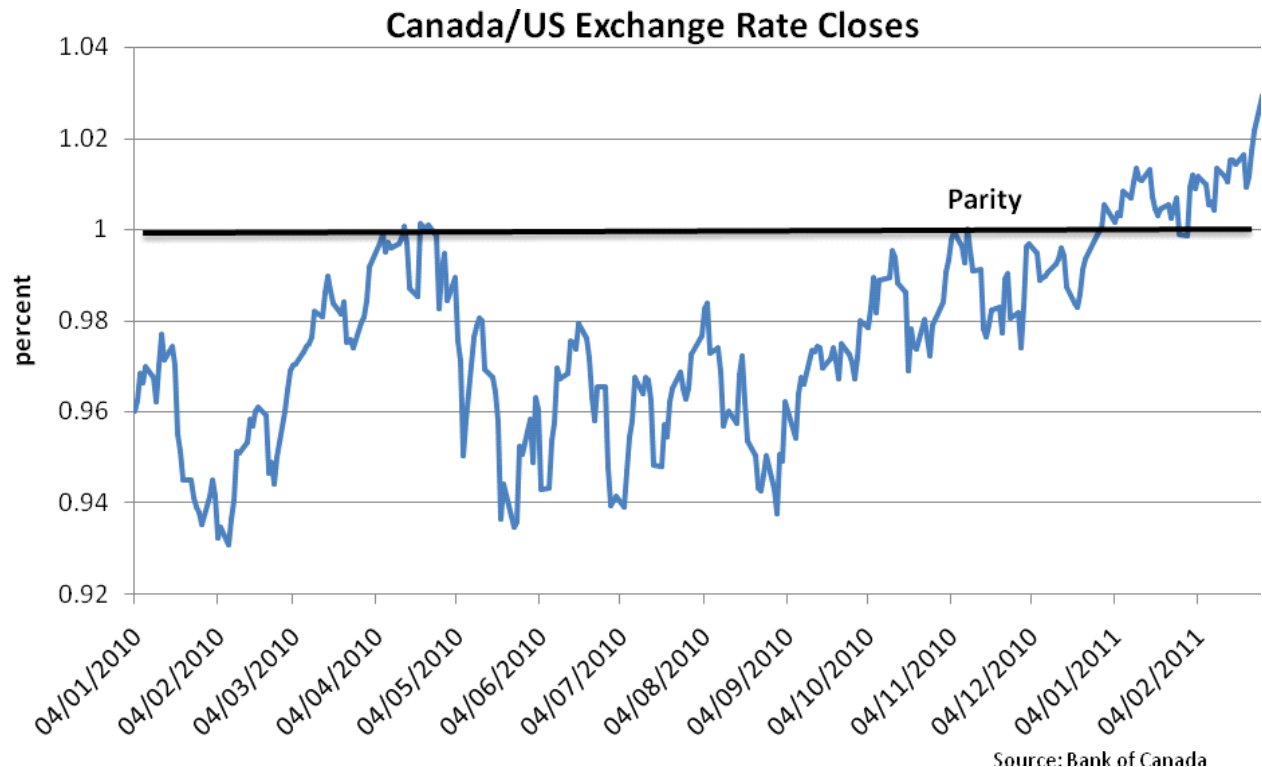
Consumer spending increased 4.8 per cent in 2010. Demand was up across all categories of goods, with non-durable, semi-durable and durable goods up 4.4 per cent, 3.4 per cent and 5.1 per cent respectively. Demand for services increased 5.0 per cent. Personal disposable income increased 4.6 per cent in 2010, while the savings rate declined 0.2 percentage points to 4.4 per cent.

The consumer price index increased 1.8 per cent in 2010. Increases were seen across all components, except clothing, with notable gains in health and personal care, up 2.7 per cent,

transportation, up 4.3 per cent, and energy, up 6.7 per cent. Core inflation was 1.3 per cent in 2010, below the Bank of Canada's two per cent target.

### Foreign Exchange

Throughout all of 2010, the Canadian dollar traded in a very narrow band between 93 cents US, and slightly above parity, a substantially smaller range than in 2009. However, since the end of December 2010, the Canadian dollar has closed above parity on all but two occasions. This increase in the Canadian dollar can be attributed to Canada's relatively strong economic and fiscal position, and uncertainty related to other developed economies. This sustained strength in the Canadian dollar is expected to continue despite the global economic recovery, as rising commodity prices for oil and other raw materials, and the interest-rate differential between Canada and the United States, will offset moderation from recovery in the United States and Europe. This will continue to put pressure on the export-oriented sectors of the economy by making Canadian goods more expensive.



### Interest Rates

The Bank of Canada, in its latest rate setting announcement on 1 March 2011, decided not to change the target for the overnight rate stating that though global economic condition, and conditions in Canada, are improving, risks remain elevated due to sovereign-debt issues and supply shocks from rapidly rising commodity prices. In Canada, though conditions are improving slightly faster than the Bank has forecast, exporters are still under pressure due to the strength of the Canadian dollar. Pressure on price levels is also still subdued.

After holding the target for the overnight rate steady through most of 2009, the Bank of Canada began raising rates in mid-2010. Three successive rate hikes of 25 basis points in June, July and September sent the overnight rate to one per cent, where it remains.

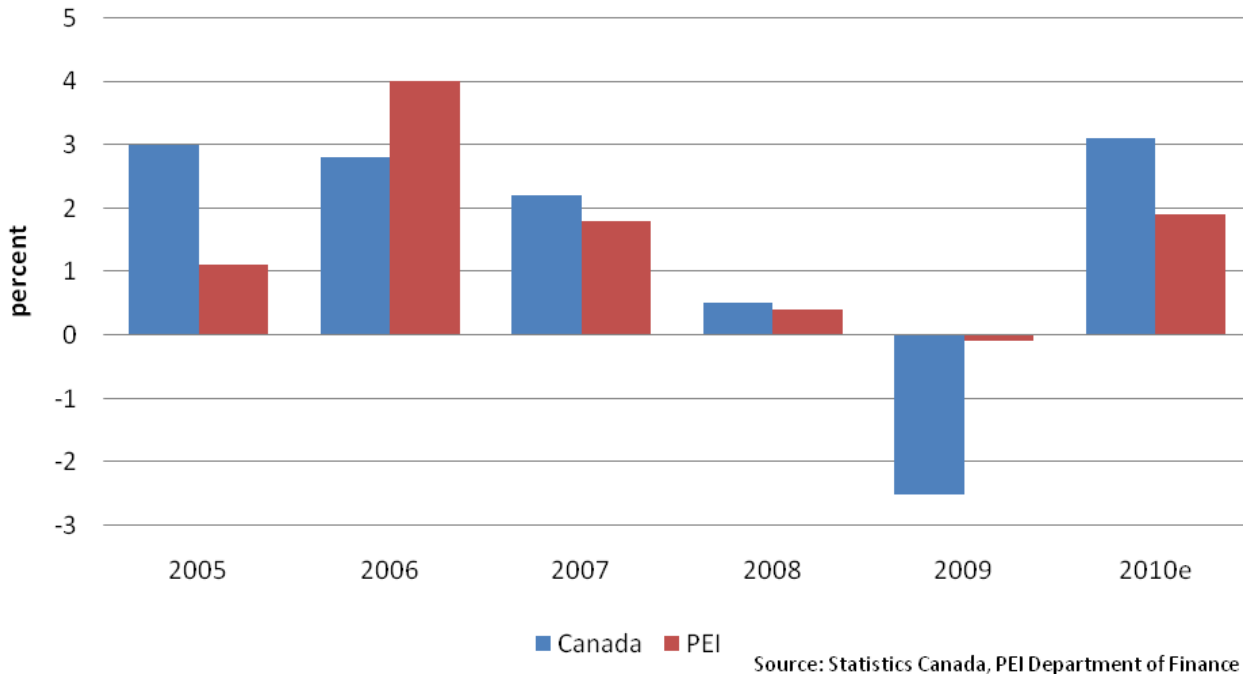
### **Highlights of the Prince Edward Island Economy**

- According to Statistics Canada, growth in real GDP for Prince Edward Island was -0.1 per cent in 2009. Provincial growth for 2010 is estimated at 1.9 per cent.
- Employment averaged 71,300 people in 2010, an increase of 2.6 per cent from 2009.
- The number of jobs in the wage economy has averaged 64,059 in 2010, an increase of 2.1 per cent over 2009.
- Total wages and salaries increased 2.7 per cent in 2010
- The value of building permits increased 39.5 per cent in 2010. Non-residential permits increased 67.1 per cent over this time period, while residential permits have increased 24.2 per cent.
- Capital expenditures increased 4.9%.
- The value of farm cash receipts decreased 2.9 per cent in 2010. This is largely attributed to a decrease in potato receipts, down 9.5 per cent.
- The fishing sector is recovering on the Island, with prices for lobster up 12 per cent from 2009. Lobster landings also reached an all-time high in 2010 at 23.8 million pounds.
- The all-items consumer price index advanced 1.8 per cent in 2010. Energy and shelter costs have risen 8.1 and 1.7 per cent respectively, while food prices have increased 1.5 per cent.
- As of July 1, 2010, Prince Edward Island's population is estimated to be 142,266. This represents a yearly increase of 1,169 persons, or 0.83 per cent growth since July 1, 2009.

### **Provincial Economy**

Prince Edward Island has not been immune from the downturn in the global economy. Statistics Canada estimates that real provincial GDP contracted 0.1 per cent in 2009. This decline was largely a result of a deterioration in net exports, and weaker than expected construction activity in the private sector. The Island economy is expected to have expanded in 2010, by approximately 1.9 per cent. This compares with growth of 3.1 per cent nationally.

## Real GDP Growth Canada and PEI 2005-2010e

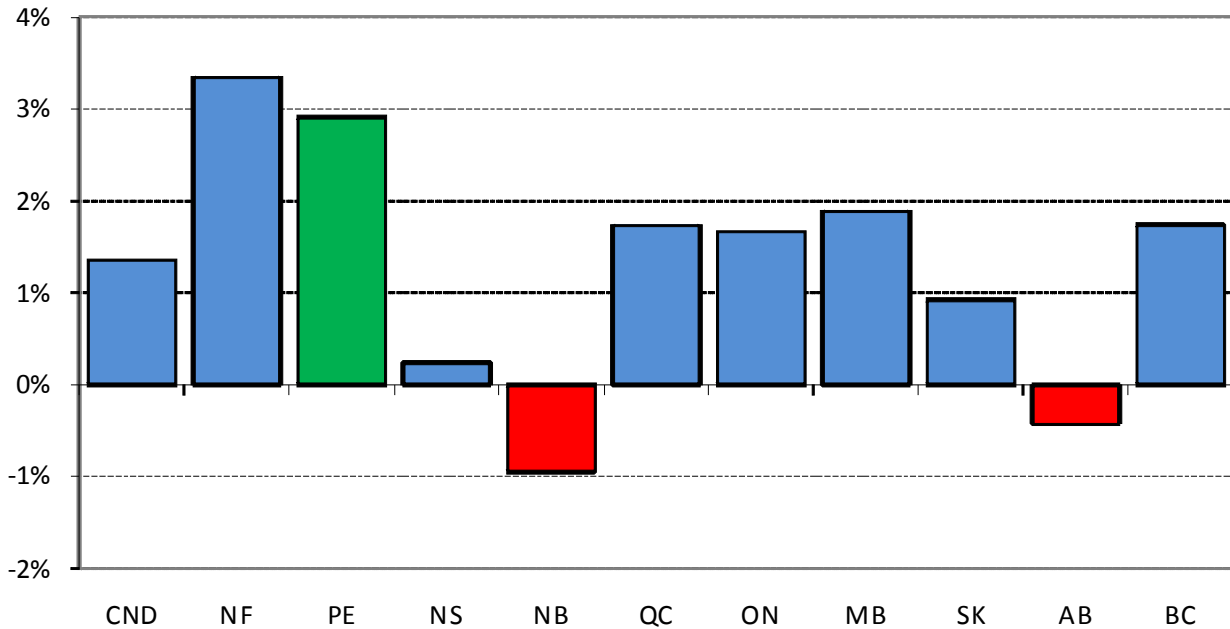


### Employment and Jobs

According to the Labour Force Survey (LFS), employment averaged 71,300 people in 2010, an increase of 2.6 per cent over 2009. The unemployment rate decreased 0.7 percentage points from 2009, and has averaged 11.3 per cent over this time frame. Notable employment gains can be found in professional, scientific and technical services, up 29.5 per cent, other primary industries, up 18.6 per cent, utilities, up 13.9 per cent, and education services, up 9.4 per cent. Declines in employment were recorded in agriculture, down 9.8 per cent, construction 9.5 per cent, finance, insurance and real estate -4.8 per cent, and accommodation and food services -4.0 per cent.

Employment increased in all provinces in 2010, except Alberta and New Brunswick, with declines of 0.4 and 0.9 per cent respectively. Newfoundland and Labrador posted the strongest growth in employment in the country, up 3.3 per cent, followed by Prince Edward Island at 2.9 per cent, and Manitoba at 1.9 per cent.

## Employment Growth: Canada and the Provinces 2010



Source: Statistics Canada

The number of jobs in the wage sector in Prince Edward Island continues to expand. According to the Survey of Employment Payroll and Hours (SEPH), the number of jobs on the Island has increased to 64,059, an increase of 2.1 per cent. Contrary to 2009, throughout 2010, trends in the LFS and SEPH surveys have been largely similar. Gains have not been even across sectors of the economy, with the service sector recording a gain of 3.2 per cent, and the goods sector experiencing a loss of 7.9 per cent. Notable gains can be found in public administration, up 16.8 per cent, professional services, up 13.3 per cent, and management services, up 8.5 per cent. Notable losses can be found in arts, entertainment, and recreation, down 35.1 per cent, construction, down 14.7 per cent and information and culture, down 9.6 per cent. Average weekly earnings grew by 2.9 per cent in 2010.

Growth in the number of jobs and increases to wages have helped push up total wages and salaries by 2.7 per cent in 2010. Nationally, total wages and salaries advanced 4.0 per cent in 2010.

### Retail Sales and Motor Vehicle Sales

The value of retail sales increased 5.0 per cent in 2010. The growth in sales on Prince Edward Island was very comparable to the rest of the Atlantic region, with sales growing 3.7 per cent in Newfoundland and Labrador, 5.2 per cent in Nova Scotia, and 4.2 per cent in New Brunswick. Nationally, the growth in retail sales was 5.1 per cent.

The sale of new motor vehicles increased 9.4 per cent on Prince Edward Island in 2010. During the same period, the value of new motor vehicles sold increased 16.5 per cent. Nationally, the sale of new motor vehicles increased 6.7 per cent, while the value of new motor vehicles sold increased 11.8 per cent.

### **Consumer Prices**

The all-items consumer price index increased 1.9 per cent in 2010. Increases occurred across all major components with food increasing 1.4 per cent, shelter increasing 1.7 per cent, and energy increasing 8.1 per cent. Core inflation (the measure of inflation excluding volatile components such as energy and food) increased 0.7 per cent.

### **Construction and Housing**

After a decline in 2009, capital expenditures on the Island increased by 4.9 per cent to \$958 million. Public capital expenditures increased 5.2 per cent to \$314.1 million. The majority of the increase came in construction, up 7.0 per cent, while spending on machinery and equipment increased 0.2 per cent. Private sector capital investment increased by 4.7 per cent in 2010 to \$643.7 million. A 12.9 per cent increase in construction was enough to offset a 9.0 per cent decline in purchases of machinery and equipment.

After a strong year in 2009, construction activity was weaker on the Island in 2010. Non-residential investment declined 24.8 per cent in 2010. Declines existed across all components of this sector, with industrial down 40.3 per cent, commercial down 29.2 per cent, and government and institutional down 8.3 per cent.

Following a very strong number of starts in 2009, Prince Edward Island posted a 13.8 per cent decline in housing starts in 2010. Declines occurred in both the single and multiple market, down 7.9 and 19.5 per cent respectively. Over the last ten years there has been an average of 791 starts per year on Prince Edward Island.

Though the number of residential starts has decline on the Island, the value of those starts continues to increase. Residential investment continued to see gains in 2010, up 16.8 per cent from one year earlier. Across housing types, gains were recorded in semi-detached homes, up 50.0 per cent, and apartments, up 24.9 per cent, while single starts and row-houses saw declines of 3.1 and 10.2 per cent respectively. According to the Canadian Mortgage and Housing Corporation (CMHC), the average price for a new semi-detached home in the Charlottetown area was over \$200,000 in 2010, while the average price of a single start was over \$235,000. Renovation activity continued to be strong on the Island in 2010, up 27.9 per cent. The conversions, mobile homes and cottage components or residential housing saw declines in 2010.

The point forecast from CMHC predicts that there will be 680 housing starts on the Island in 2011, a 10.1 per cent decline from 2010. Starts are projected to fall further in 2012, to 655. This decline is a result of planned decreases in both the number of multiple and single starts, which are expected to be down 13.9 per cent and 6.6 per cent respectively.



Source: CMHC

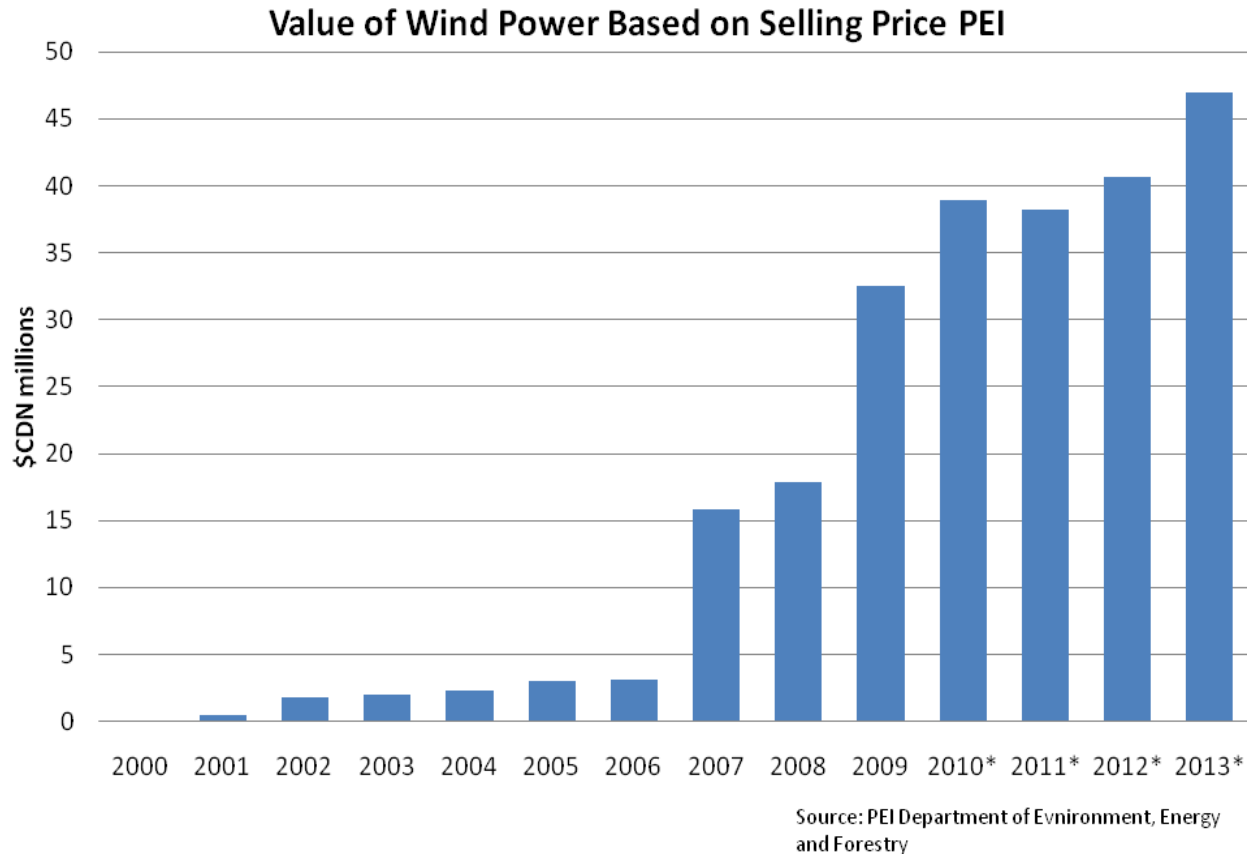
### Manufacturing Shipment and Exports

Manufacturing shipments declined 8.1 per cent in 2010. Declines were recorded across all components, except printing and publishing, which recorded an 11.5 per cent gain. Food manufacturing, which accounts for approximately 60 per cent of the Island's shipments, declined 6.8 per cent in 2010. Excluding food, shipments declined 9.5 per cent in 2010. Nationally, manufacturing shipments advanced 8.9 per cent.

Exports from Prince Edward Island declined 8.9 per cent in 2010, after contracting 2.0 per cent in 2009. This decline was largely a result of an 18.1 per cent decline in the value of frozen food manufacturing. Notable declines also occurred in the aerospace sector, particularly in aerospace products and parts manufacturing, down 26.1 per cent, and engine, turbine and power transmission equipment manufacturing, down 38.8 per cent.

After having struggled for the past two years, exports of seafood product preparation and packaging advanced 25.7 per cent due to improved economic conditions and firmer prices. Exports from the pharmaceutical and medical manufacturing industry also grew in 2010 by 10.4 per cent making them the largest non-food export industry on the Island, and the fourth-largest component of exports overall. This is due largely to the growth in exports of vaccines for veterinary medicine. Nationally, exports advanced 10.7 per cent in 2010.

With 167 MW of installed capacity, the value of the output from the Island’s wind turbines has increased markedly. In 2001, the value of wind power was only \$500,000, but by 2010, the value has increased to \$38.9 million dollars. The value of this output is expected to increase in the near future with the addition of new wind projects.



Export Development Canada forecasts that the Island’s exports will rebound in 2011, growing by five per cent, as prices in the agri-food sector strengthen and the global economic recovery becomes more entrenched, particularly in the United States.

**Primary Industries**

Lower potato prices resulted in Prince Edward Island’s farm cash receipts totalling \$395 million in 2010, a decline of 2.9 per cent from 2009. This compares to a decline in receipts of 1.7 per cent for Canada as a whole.

The decline in farm cash receipts on the Island can largely be attributed to a 9.5 per cent decline in potato receipts. Due to adverse conditions in other potato-growing regions, coupled with a strong potato harvest, farm cash receipts for potatoes should strengthen through the beginning of 2011. Other crops totalled 41.5 million in 2010, an increase of 14.2 per cent. Receipts for all crops totalled \$236.8 million, a decline of 6.1 per cent from 2009. Nationally, crop receipts declined 6.3 per cent.

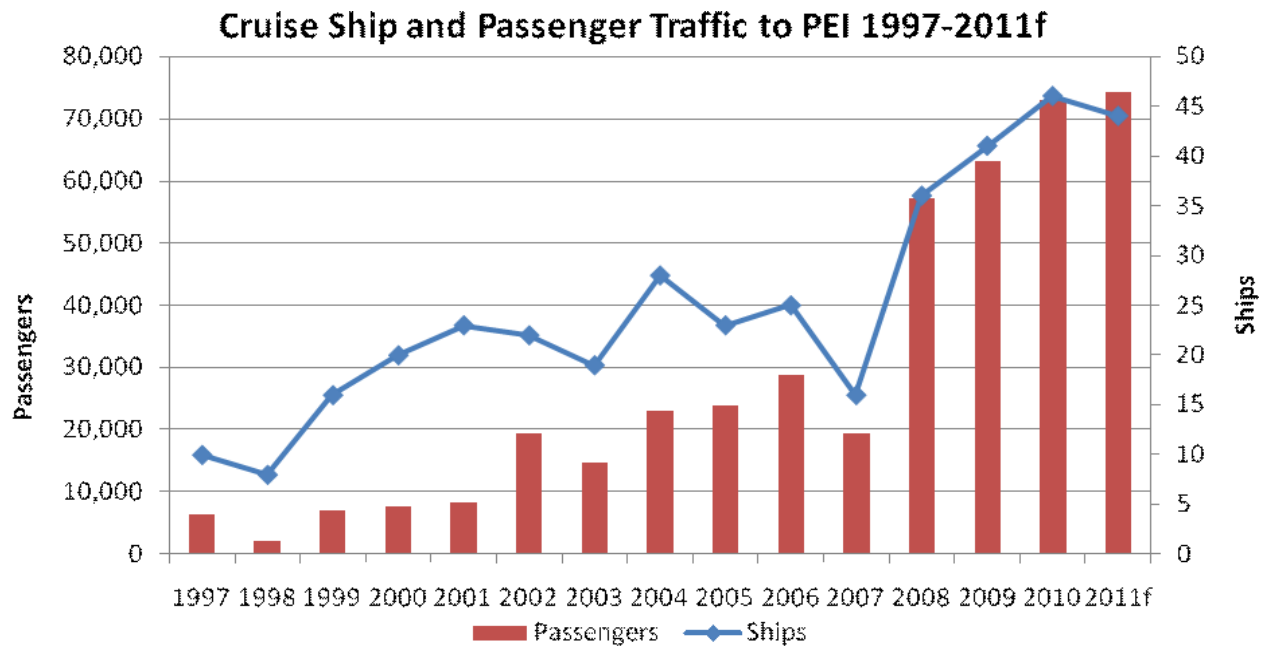
Livestock receipts increased 5.4 per cent in 2010, due to increases in both the cattle and hog industries. Cattle receipts increased 16.4 per cent in 2010, while hog receipts increased 36.3 per cent. This is the first increase in hog receipts since 2004, though receipts remain at less than half of that level. Dairy receipts remained unchanged in 2010, while other livestock reported a decline of 4.1 per cent. Livestock receipts increased 4.7 per cent in Canada as a whole.

Lobster landings were up 3.8 per cent in 2010 to total 23.8 million pounds, the highest landing ever recorded on the Island. The landed value in 2010 was approximately \$84 million, a 12 per cent increase over the values recorded in 2009, but still short of the \$100 million range observed in previous years. The lobster fishery accounts for approximately 60 per cent of the total landed value of fish on the Island.

### **Tourism**

Tourism saw a successful year in 2010 due to the diverse offerings presented, including a repeat of the Cavendish Beach Music festival and the television program Live! With Regis and Kelly coming to the Island. Occupancy rates at Island accommodations increased by 1.1 percentage points, while the number of room-night's sold increased by 1.0 per cent. After a strong 2009, camping, continued to do well in 2010, with sight night's sold up 2.7 per cent, and the occupancy rate up 1.5 percentage points.

Cruise ship traffic to the Island continued to increase, with 46 ships bringing 72,966 passengers to the Island. Harbour improvements in Charlottetown led to a major expansion in this sector beginning in 2008. Cruise ship traffic is expected to decrease slightly in 2011, with 44 ships bringing 74,214 passengers. This represents a 4.3 per cent decline in boat traffic, but a 1.7 per cent increase in the number of passengers. Air and ferry traffic grew 4.3 and 2.9 per cent respectively in 2010, while bridge traffic declined 0.4 per cent.

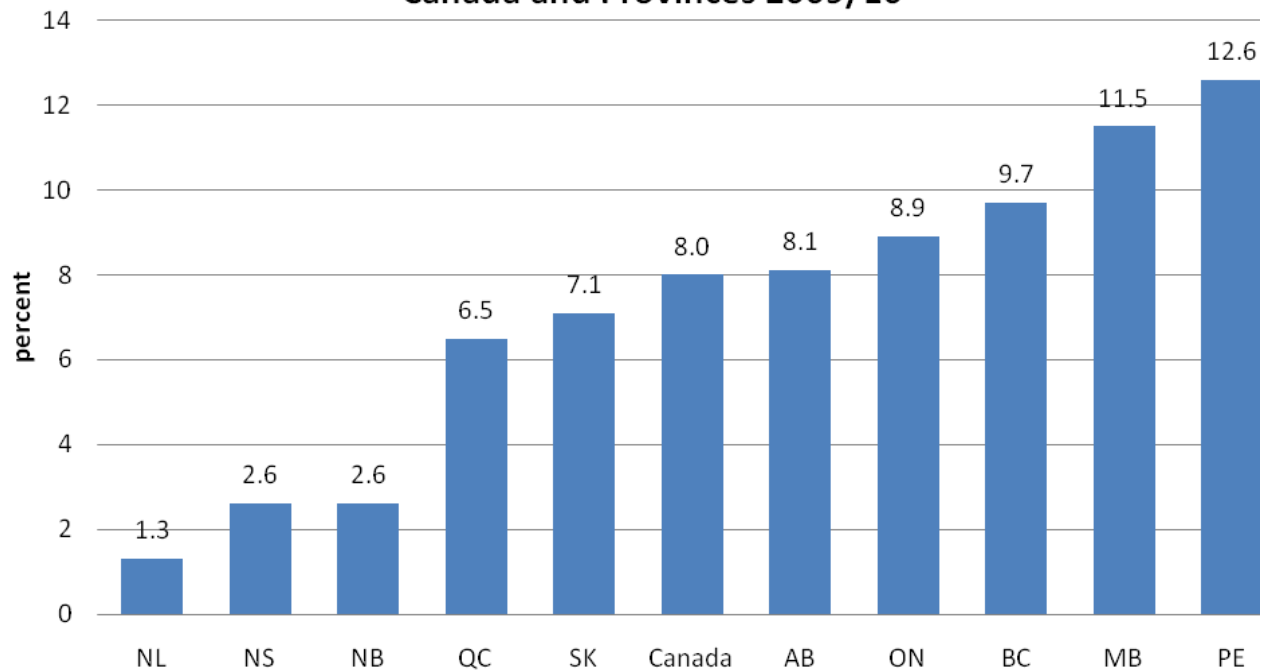


### Population

As of July 1, 2010, Prince Edward Island's population is estimated to be 142,266. This represents a yearly increase of 1,169 persons, or 0.83 per cent growth, since July 1, 2009. Prince Edward Island's rate of growth during this period was the highest in Atlantic Canada and just slightly below the national rate of 1.15 per cent.

The majority of this growth can be attributed to record gains in international migration. During this period, 1,791 international in-migrants came to the province, the highest level on the current record keeping system (since 1971). At a rate of 12.6 per thousand, the province posted the highest immigration rate in the country. The National immigration rate was 8.0 per thousand. Projections by the Department of Finance and Municipal Affairs show international immigration will rise into 2011 with approximately 2,500 new immigrants to the Province. As recently as 2003, PEI was receiving less than 200 international in-migrants per year.

### Immigration Rate per 1,000 People : Canada and Provinces 2009/10



Source: Statistics Canada

There were 1,397 births and 1,217 deaths on Prince Edward Island from July 1, 2009 to June 30, 2010, resulting in natural growth (births minus deaths) of 180.

#### Outlook 2011

The economic situation on Prince Edward Island is improving. The economic outlook for 2011 is that growth will be moderate, at approximately 1.7 per cent. Employment growth is expected to continue on the Island in 2011, while immigration levels are forecast to remain elevated. The manufacturing industry on the Island is expected to contribute positively to GDP in 2011. Expansion in both the aerospace sector through new operations on the Island, and expansion in oilseed production are expected to add both jobs and productive capacity. Output from the wind farms on the Island will contribute positively to economic growth through the medium term.

The survey of public and private investment intentions indicates that capital expenditures are expected to decline 3.4 per cent in 2011. This decline is due to both declines in construction, down 4.1 per cent, and machinery and equipment, down 1.8 per cent. Provincial and Federal stimulus monies are being wound down in 2011, though some new building projects, both public and private are slated to begin in 2011 providing some support to the construction industry. Housing starts are projected to decline in 2010 due to lower single and multiple starts.

There are several risks to the 2011 outlook, most to the downside. A further deterioration in the Island's export markets is possible if the American recovery is not self-sustaining, and if the Canadian dollar continues to strengthen. The strengthening of the Canadian dollar and the simultaneous rising in the price of oil could negatively affect producers due to an increase in the price of inputs. As an upside, higher energy prices could generate new interest in wind production on the Island. A further weakening international context, due to both the risk of sovereign debt in the euro area, and the new tensions arising in the middle-east and North Africa could put further pressure on credit and commodity prices, negatively affecting the Island economy going forward.

## SUMMARY STATISTICS PRINCE EDWARD ISLAND ECONOMY

	2003	2004	2005	2006	2007	2008	2009	2010
Population on 1 July (thousands) * . . . . .	137.2	137.7	138.1	137.9	138.2	139.5	141.0	142.3
Personal Income per capita (\$) * . . . . .	24,292	25,125	26,140	27,375	28,537	29,443	30,539	n.a.
<i>As % of Canadian Personal Income</i> . . . . .	82.5	82.8	79.9	78.3	77.1	75.9	78.7	n.a.
Employment (thousands) * . . . . .	66.1	66.9	68.2	68.6	69.3	70.2	69.5	71.3
Unemployment rate - P.E.I. (%) * . . . . .	11.0	11.3	10.8	11.0	10.3	10.8	12.0	11.3
<i>Unemployment Rate - Canada (%)</i> * . . . . .	7.6	7.2	6.8	6.3	6.0	6.1	8.3	8.0
CPI - annual change P.E.I. (%) . . . . .	3.5	2.2	3.1	2.3	1.8	3.4	-0.2	1.9
<i>CPI - annual change Canada (%)</i> . . . . .	2.8	1.8	2.2	2.0	2.2	2.3	0.3	1.8
Retail Trade (\$ millions) * . . . . .	1,382.6	1,385.8	1,423.5	1,509.0	1,620.8	1,702.9	1,681.4	1,763.2
New Motor Vehicle Sales (units)* . . . . .	4,731	4,696	4,847	4,933	5,303	5,504	5,286	5,783
Farm Cash Receipts (\$ millions) * . . . . .	355.3	349.6	370.2	377.1	382.3	393.1	406.7	395.0
Potato Receipts (\$ millions) * . . . . .	185.3	151.3	165.3	202.9	198.0	202.4	215.8	195.3
Lobster Landings (\$ millions) * . . . . .	108.3	100.1	103.2	113.4	108.6	100.7	71.9	84.0
<i>Lobster Landings (lbs - millions)</i> . . . . .	20.0	19.9	18.5	21.5	20.1	21.9	22.4	23.8
Housing Starts (units) . . . . .	814	919	862	738	750	712	877	756
Investment (\$ millions) . . . . .	677.0	723.6	758.8	827.3	949.8	944.5	913.2	957.8
Manufact. Shipments (\$ millions)* . . . . .	1,287.4	1,246.5	1,275.8	1,332.6	1,437.8	1,352.2	1,328.0	1,214.6
International Export of Goods (\$ millions)* . . . . .	647.7	666.8	810.0	838.0	774.0	815.2	787.1	716.9
GDP at basic prices (\$ millions) * . . . . .	3,798	3,983	4,096	4,315	4,543	4,650	4,750	4,859 <sup>f</sup>
<i>GDP - (%)</i> . . . . .	2.6	4.9	2.8	5.3	5.3	2.4	2.2	2.3

n.a.: data not available

Notes:

\* : revised data

<sup>f</sup>: forecast, PEI Department of Finance and Municipal Affairs

Sources: Statistics Canada; Industry Canada; and PEI Departments of Finance & Municipal Affairs and Fisheries, Aquaculture & Rural Development