

PRINCE EDWARD ISLAND ECONOMY 2013 FALL ECONOMIC UPDATE



Highlights of the Prince Edward Island Economy

- Provincial GDP advanced 1.5 per cent in 2012. Private sector forecasts place 2013 real GDP growth in a range between 1.2 and 1.5 per cent.
- Prince Edward Island's population is estimated to be 145,273 as of July 1, 2013. This represents a yearly increase of 72 persons, or 0.05 per cent growth since July 1, 2012. Prince Edward Island was the only province in the Atlantic region to see an increase.
- Employment has averaged 74,300 people through October 2013, an increase of 2.5 per cent from the same period in 2012. This is the third fastest expansion in the country behind Saskatchewan and Alberta.
- The total value of seasonally adjusted retail sales is up 1.2 per cent on a year-to-date basis through August.
- The value of residential investment on the Island increased 19.4 per cent through the first half of 2013, as compared to the same time period in 2012.
- Lobster landings increased 5.6 per cent to 28.8 million pounds, a new all-time high.
- Favourable growing conditions have resulted in an excellent harvest and a good quality potato crop.
- Overnight stays on the Island increased 1.9 per cent on a year-to-date basis through September, due largely to a 5.9 per cent increase in campground stays.
- The 2013 cruise ship season was the largest the Island has ever seen with 69 ships and 93,000 passengers visiting the Island.
- Manufacturing shipments from PEI have increased 7.6 per cent on a year-to-date basis through September, while international exports have increased 0.4 per cent year-to-date through September.

Introduction

The following document is an update to the economic situation of the Province of Prince Edward Island since the release of the 2013 provincial budget. 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, such as the labour force, exports, consumer prices, primary industries, population and construction. All information in this document is current to November 19, 2013.

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, with the economy expanding by 1.5 per cent in real terms in 2012 compared to national GDP growth in 2012 of 1.7 per cent. Growth on Prince Edward Island in 2012 was driven by a 3.7 per cent increase in exports. Private sector GDP forecasts for the Island in 2013 range from a low of 1.2 per cent to a high of 1.5 per cent.

International Economy

World economies are continuing to recover from the economic downturn and fiscal crisis. For the first time since the economic recession of 2008, economic growth in advanced economies is beginning to accelerate. Europe has emerged from recession, however growth prospects remain modest. The American economy is also continuing to expand, and though growth will be softer in 2013 than previously thought, it is expected to accelerate in 2014 and 2015. Developing economies continue to account for the majority of global growth, but growth prospects going forward are weaker than previously forecast.

According to the IMF, the world economy grew by 3.2 per cent in 2012. Growth in the world economy is projected to weaken slightly in 2013 to 2.9 per cent before growing by 3.6 per cent in 2014. Global growth will continue to be uneven with advanced economies forecast to grow at 1.2 per cent in 2013, and 2.0 per cent in 2014, and emerging economies forecast to grow at 4.5 per cent in 2013, and 5.1 per cent in 2014. Growth will be strongest going forward in Developing Asia growing at 6.3 per cent in 2013, and 6.5 per cent in 2014 supported largely by renewed momentum in the Chinese economy.

World Economic Growth Projections 2011-2014				
percent				
	2011	2012	2013	2014
World	3.9	3.2	2.9	3.6
Advanced Economics	1.7	1.5	1.2	2.0
Emerging Market and Developing Economies	6.2	4.9	4.5	5.1
Developing Asia	7.8	6.4	6.3	6.5
China	9.3	7.7	7.6	7.3
ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand, Vietnam)	4.5	6.2	4.5	5.4
India	6.3	3.2	3.8	5.1

Source: International Monetary Fund World Economic Outlook October 2013

Europe

The Euro Area economy returned to growth in the second quarter of 2013, after six quarters of economic contraction. According to the IMF, real GDP in the Euro Area is expected to contract 0.4 per cent in 2013, and expand by 1.0 per cent in 2014. Economic activity is recovering in Europe's core economies, and is beginning to stabilize in its peripheral economies. Germany and France will see their economies expand by 0.5 per cent and 0.2 per cent respectively in 2013 and by 1.4 per cent and 1.0 per cent respectively in 2014. Italy and Spain will see another year of economic contraction in 2013, before returning to growth in 2014 at 0.7 and 0.2 per cent respectively.

On November 7, 2013 the European Central Bank (ECB) cut its benchmark rate to 0.25 per cent from 0.5 per cent, a new record low. Inflation in Europe in October was 0.7 per cent, well away from its 2 per cent target. Inflation is expected to be low for the foreseeable future, and is expected to return gradually to the 2 per cent target by the middle of 2015.

The risks observed last fall and through the beginning of 2013 regarding political instability, and worry around the resolution of the sovereign debt crisis have been subdued for the time being. Regardless, public sector deleveraging and fiscal consolidation, high unemployment, tight credit conditions for businesses and households, and low inflation are expected to limit growth in Europe going forward.

United States

Growth in real GDP in the United States advanced 2.8 per cent in the third quarter of 2013. The increase in real GDP is a result of positive contributions from personal consumption expenditures, private inventory investment, exports, residential and non-residential fixed investment, and increased state and local government spending. Reduced federal government spending and an increase in imports were a drag on growth in the third quarter. Growth in real GDP in the second quarter was 2.5 per cent.

The acceleration in GDP between the second and third quarter is largely a result of a deceleration in imports, and accelerations in private inventory investment, and in state and local government spending. In their October outlook, the IMF projects real GDP in the United States to expand by 1.6 per cent in 2013, and by 2.6 per cent in 2014.

The employment situation in the United States continues to improve as non-farm payroll employment increased by 204,000 in October. The unemployment rate in October was 7.3 per cent, up 0.1 percentage points from September. The unemployment rate in the United States has been below 8.0 per cent through all of 2013; this is still significantly higher than prior to the recession. The number of unemployed Americans in October was 11.3 million. The long-term unemployed, those who have been without work for more than 27 weeks, was little changed at 4.1 million, or approximately 36.1 per cent of the total unemployed. Notable employment gains in October were in leisure and hospitality, retail trade, professional and technical services, manufacturing and healthcare.

Bond yields have been increasing since May on the expectation that the Federal Reserve would begin to taper its asset purchase program at its September meeting. This did not come to pass, and at its October meeting the Federal Open Markets Committee (FOMC) indicated that it intended to continue its accommodative policy of purchasing \$40 billion of additional mortgage backed securities per month. The FOMC also indicated that it will continue with its accommodative policy until there is a measurable improvement in the employment situation

in the United States. The Federal Reserve indicated that it will continue to monitor economic and financial conditions to determine whether or not the continuation of this program is warranted. The target for the federal funds rate is unchanged from 0-0.25 per cent, and it is anticipated that this will continue to be the case until at least the middle of 2015. However, yields on longer-term bonds are forecast to continue to increase.

Canadian Economy

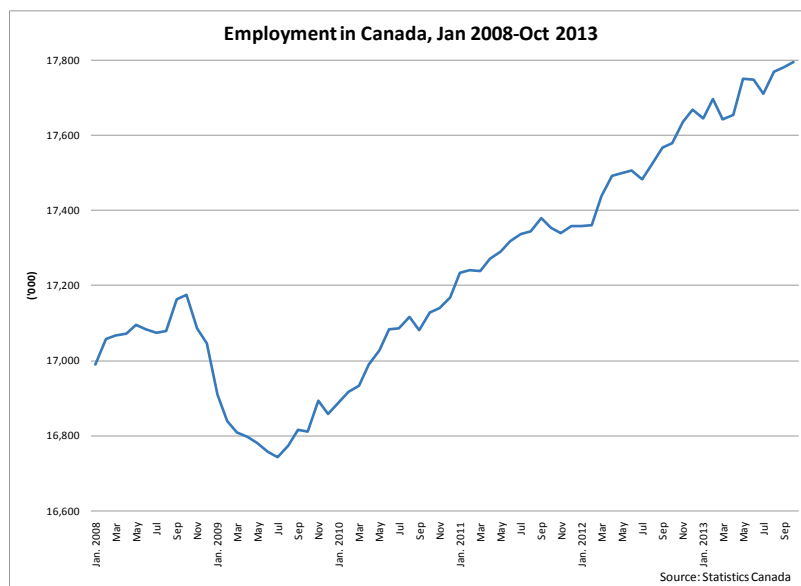
The Canadian economy expanded by 0.5 per cent in the first quarter and 0.4 per cent in the second quarter of 2013. Since emerging from recession in the third quarter of 2009, the Canadian economy has expanded in every quarter, with the exception of the second quarter



of 2011. In the first half of 2013, final consumption expenditures, and exports contributed to growth, while gross fixed capital formation and imports detracted from growth. Investment in inventories was positive in the first quarter of 2013, and negative in the second quarter.

As can be seen in the following chart, employment in Canada continues to rise above pre-recession levels. Employment in Canada through October increased 1.4 per cent over the same period in 2012. The

employment rate – the number of persons working as a percentage of the labour force 15 years and older – has averaged 61.9 per cent in 2013. This is an increase of 0.1 percentage points from the same period in 2012, but is still well below the year-to-date high of 63.5 per cent in 2008.



The unemployment rate has averaged 7.1 per cent through October, a decrease of 0.2 percentage points from the same time last year. The number of unemployed persons has averaged 1.35 million in 2013 year-to-date, a decline of 30,000 persons from the same time period in 2012, but still above pre-recession levels. Employment gains occurred in the goods and service producing sectors, growing 0.2 and 1.7 per cent respectively. Notable job gains throughout this period include

trade, up 2.7 per cent, construction, up 4.6 per cent, health care and social assistance, up 2.5 per cent, and scientific and technical services, up 3.3 per cent. Notable job losses occurred in manufacturing, down 3.1 per cent, other services, down 3.3 per cent, culture and recreation down 1.1 per cent, and other primary industries down 1.8 per cent.

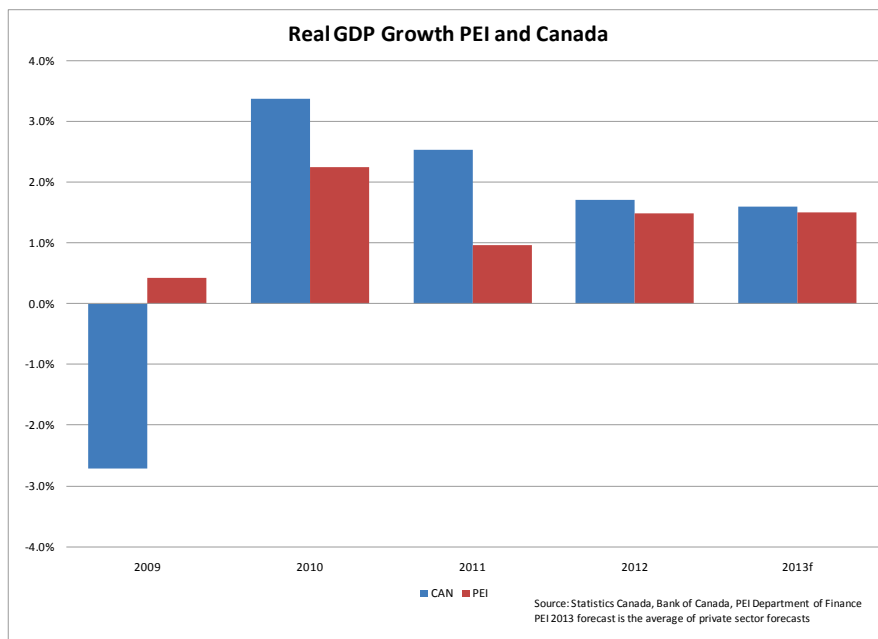
The consumer price index has increased 0.9 per cent year-to-date through September. Increases occurred across all categories, with the exception of health care and personal care, down 0.3 per cent. Notable increases were in alcohol and tobacco, up 2.1 per cent, and energy, up 1.4 per cent. Core inflation stands at 0.8 per cent year-to-date, well below the Bank of Canada's target rate of 2.0 per cent.

The Bank of Canada, in its October Monetary Policy Report expects the Canadian economy to continue on its path toward full potential, and return to full capacity by the end of 2015. Real GDP growth is projected at 1.6 per cent in 2013, 2.3 per cent in 2014 and 2.6 per cent in 2015. According to the Bank of Canada, growth over the forecast period is expected to be driven largely by a rebound in exports and larger contributions from business fixed investment, while consumer expenditures are expected to be moderate over this time period to produce a more balanced growth profile. Residential investment and government spending will contribute only very marginally to GDP growth over the forecast horizon. In 2013, the Canadian dollar has been trading in a range between 0.95 and 1.02USD, averaging 0.97USD. This narrow trading range for the Canadian dollar has been the norm over the last number of years. The Canadian dollar has not traded at or above parity with the US dollar since early February 2013. This has been the result of price decreases in most major export commodities.

The Bank of Canada, in its latest rate announcement on October 23, 2013 kept the target for the overnight rate at one per cent. The Bank of Canada has not changed its overnight target since September 2010. The rationale for keeping the overnight rate at one per cent is that for some time the Bank has been anticipating a shift away from households towards business investment and exports to lead growth. This expectation is being delayed as slower growth in the American economy is translating into lower growth for Canada. Inflation also remains well below the Bank's two per cent target. The Bank of Canada expects the Canadian economy to return to potential, and for inflation to return to the two per cent target by the end of 2015.

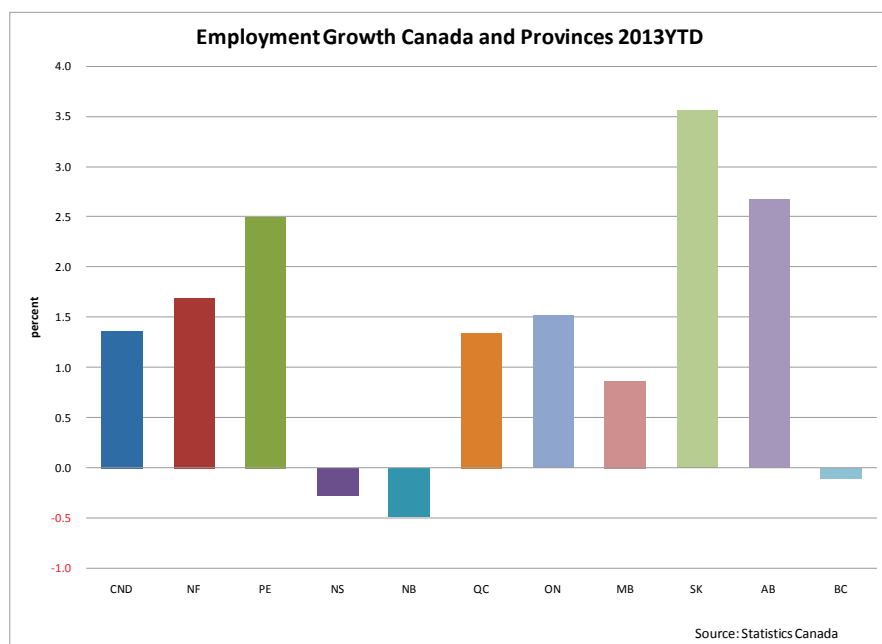
Provincial Economy

Prince Edward Island's economy expanded by 1.5 per cent in 2012. Prince Edward Island was the only province in the Atlantic region to post economic growth, and along with Quebec, posted the fastest economic growth east of Manitoba. Growth was driven primarily by a 3.7 per cent increase in exports, a notable exception to most other provinces. Final domestic demand decreased 0.6 per cent after two years of growth, while household consumption expenditures increased 1.0 per cent. Government gross fixed capital formation declined 15 per cent as several major projects were completed, while business investment increased 1.9 per cent. Imports increased 2.7 per cent. Private sector forecasts place 2013 real GDP growth in a range between 1.2 and 1.5 per cent.



Employment

Employment has averaged 74,300 people through October of 2013, an increase of 2.5 per cent from the same period in 2012. Employment growth on the Island has been the third fastest in the country behind Saskatchewan, at 3.6 per cent, and Alberta at 2.7 per cent.



Employment has increase in both full-time, up 1.6 per cent and part-time, up 6.7 per cent year-to-date. The unemployment rate has averaged 11.3 per cent over this time frame, down 0.1 percentage points from one year ago. Employment gains have occurred in the service producing industries, while there have been employment losses in the goods producing industries. Notable employment gains have been in trade,

construction, educational services, and information, culture and recreation. Notable employment losses have occurred in other primary industries, professional, scientific and technical services, management, administration and other support services and transportation and warehousing.

According to the Labour Force Survey (LFS), the labour force on the Island also continues to expand, up 2.5 per cent on a year-to-date basis through October, to average 83,800 persons. The participation rate has averaged 69.4 per cent, up 1.5 percentage points from the same period in 2012, where it averaged 67.9 per cent. Prince Edward Island had the third highest participation rate amongst provinces behind Alberta and Saskatchewan.

Wage growth has not grown as fast as employment growth on the Island, as average weekly wages have expanded 1.6 per cent on a year-to-date basis through August. Average weekly wages have grown 2.6 per cent in the service sector, while wages have fallen 2.7 per cent in the goods sector. For Canada, as a whole, average weekly wages have increased 2.0 per cent over this time period, with wages in the goods sector growing at 2.3 per cent and wages in the service sector growing at 1.9 per cent.

Retail Sales and Motor Vehicle Sales

The total value of seasonally adjusted retail sales increased 1.2 per cent on a year-to-date basis through August. On an unadjusted basis, Prince Edward Island has seen increased sales at gasoline stations, furniture stores, home furnishing stores, and health and personal care stores, while sales have declined at building centre and garden stores, supermarkets and electronic and appliance stores. Within the region, retail sales in Newfoundland and Labrador have grown 4.6 per cent, while sales in Nova Scotia have grown 1.6 per cent. Sales have declined 0.4 per cent in New Brunswick. Nationally retail sales have increased 2.1 per cent.

The sale of new motor vehicles increased 13.3 per cent on a year-to-date basis through September. During the same time, the value of new motor vehicles sold increased 16.1 per cent. Nationally, the sale of new motor vehicles increased 3.0 per cent, while the value of those vehicles increased 6.1 per cent.

Consumer Prices

The all-items consumer price index has increased 1.8 per cent year-to-date through September. Food costs have increased 0.9 per cent, while energy costs have increased 4.2 per cent. Shelter costs have increased 2.0 per cent over this period. Core inflation (the measure of inflation excluding volatile components such as food and energy) on the Island is 1.7 per cent year-to-date.

Construction and Housing

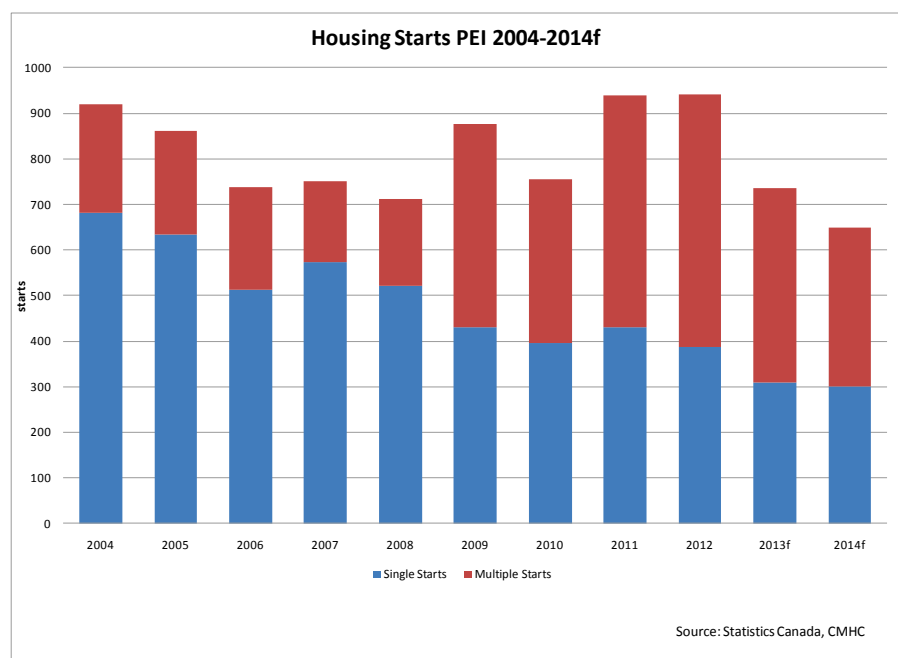
Capital expenditure intentions in 2013 are forecast to increase by 7.1 per cent over 2012 levels to reach \$1.06 billion. Increases in capital expenditure intentions are a result of increases in both construction, up 5 per cent, and machinery and equipment, up 11.7 per cent. The increase in capital expenditure intentions are largely the result of increased public spending, notably on the 30MW Hermanville-Clear Springs wind farm.

On a seasonally adjusted basis, the value of non-residential investment has decreased 14.5 per cent through the first three quarters of 2013 as compared to the same period in 2012. All components of non-residential construction recorded declines, with commercial investment down 3.7 per cent, industrial investment down 52 per cent and government and institutional investment down 7.3 per cent. National growth in non-residential construction has increased 2.0 per cent over the same period.

The value of residential investment on the Island increased 19.4 per cent through the first half of 2013, as compared to the same time period in 2012. In Canada as a whole, residential investment has increased 2.1 per cent over the same time period.

Residential housing starts are down 24.9 per cent through three quarters of 2013, as compared to the same period in 2012. Starts are down across all categories of housing with single starts down 19.2 per cent, semi-detached homes down 8.3 per cent, apartments down 19.8 per cent, and row houses down 73.2 per cent.

The recent strong performance in housing starts was due to multiple unit construction primarily destined for the rental market. With the new supply of rental accommodations now entering the market, the October 2013 vacancy rate for the Charlottetown area as forecast by Canada Housing and Mortgage Corporation (CMHC) was 9.0 per cent. As can be seen in the chart above, multiple starts are forecast to decline from the elevated levels seen in



2011 and 2012, but will continue to account for more than half of all new starts on the Island in 2013 and 2014. Canada Mortgage and Housing's forecast for 2013 starts is 735 units.

According to CMHC, existing home sales are projected to decline 11.7 per cent in 2013 from 1,614 units to 1,425 units, while the average price of resale homes is projected to increase by 1.8 per cent to \$155,000. New housing prices continue to increase on Prince Edward Island, up 0.3 per cent year to date through August.

Manufacturing Shipments and Exports

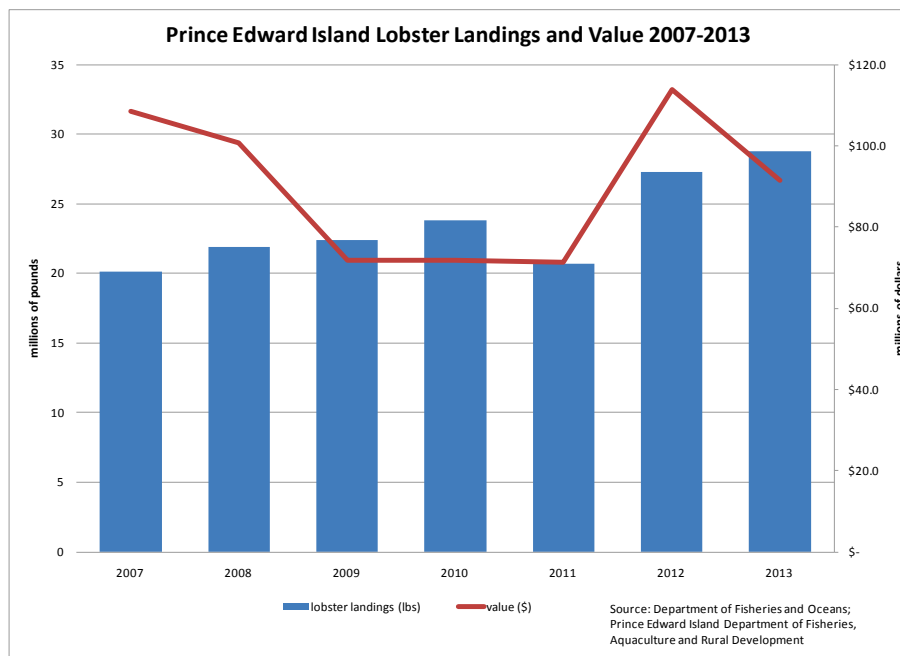
The value of manufacturing shipments from Prince Edward Island has increase 7.6 per cent on a year to date basis through September, continuing the recovery in shipments that began in 2011. The value of international exports from Prince Edward Island has increased 0.4 per cent on a year-to-date basis through September. The increase in exports is being largely driven by a 5.4 per cent increase in frozen food manufacturing, the Island's largest export industry. After a boat tie-up at the beginning of the lobster season resulted in a decrease in production of fish

products, exports of seafood product preparation and packaging have begun to recover, expanding by 0.4 per cent year-to-date. Declines in exports were primarily in the aerospace sector, with aerospace products and parts manufacturing down 10 per cent, and engine, turbine and power transmission equipment manufacturing down 16.8 per cent year-to-date.

Primary Industries

Fishing

The lobster fishery landed 28.8 million pounds of lobster in 2013, an increase of 5.6 per cent from 2012 levels, and a new all-time high. The value of the lobster catch decreased by \$22 million from \$113.8 million in 2012 to \$91.4 million in 2013 due to low prices. Lobster accounts for approximately sixty per cent of the landed value of the fishery on Prince Edward Island.



Farming

Overall, farming saw a successful season on Prince Edward Island in 2013. Good harvest conditions benefitted the potato and soybean industries, while the apple and blueberry industries have seen strong sales this year. Strawberry growers suffered from virus problems with their crop, resulting in smaller yields, while yields for raspberry producers were also smaller this year.

There were 89,000 acres of potatoes planted on Prince Edward Island in 2013, a decrease of 500 acres from 2012. Excellent harvesting conditions meant that the majority of the potato crop was harvested and in storage before the end of October. The quality of this year's potato crop is very good, and the size of the crop is estimated to be close to the ten-year average.

The price of average commercial potatoes declined 7.7 per cent on a year-to-date basis through September, while the price of seed potatoes has increased 1.9 per cent over the same time period. The price of soybeans, the second largest crop by seeded area and value on the Island, increased by 5.6 per cent year-to-date through September. There are now approximately 60,000 acres of soybeans planted on Prince Edward Island. The price of slaughter cattle has increased 1.1 per cent over this time period, while the price of feeder cattle has declined 9.3 per cent. The prices for chicken and eggs have increased 5.4 and 5.5 per cent respectively, while the price of hogs has increased 6.1 per cent over this time period.

Tourism

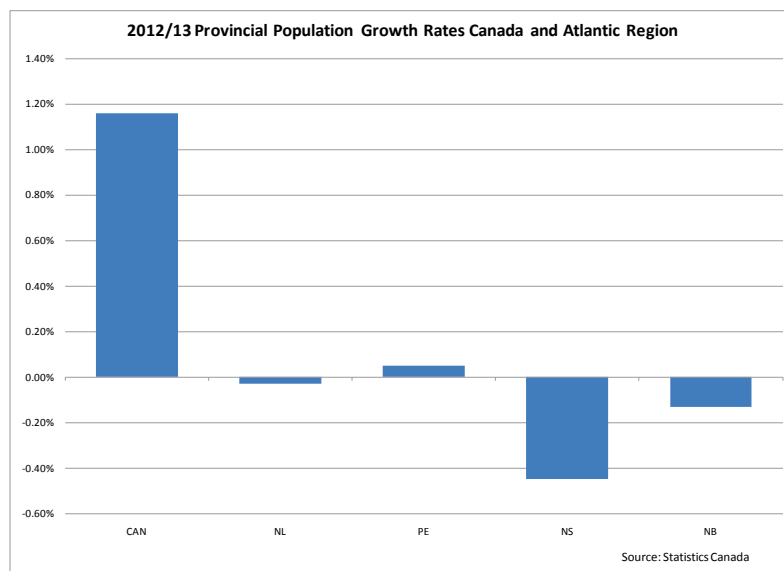
The 2013 cruise ship season was the largest the Island has ever seen. There were 69 ships and 93,000 passengers who visited the Island this cruise season, a 35 per cent increase in the number of ships, and a 38 per cent increase in the number of passengers. Motor coach traffic also saw a large increase in 2013, and has increased 30.7 per cent year-to-date through September. Other forms of traffic to the Island all recorded declines year-to-date through September, with bridge traffic down 3.0 per cent, air traffic down 0.9 per cent, while ferry traffic to the Island has decreased 1.7 per cent.

Accommodation data supplied by the Department of Tourism and Culture show that total overnight stays are up 1.9 per cent year-to-date through September. Camping has fared well this year, likely due to the long stretches of clear weather experienced throughout the main tourism season. Site night's sold have increased 5.9 per cent. Stays at fixed roof accommodations were flat year-to-date through September.

On a seasonally adjusted basis, sales at food services and drinking places increased 2.7 per cent on a year-to-date basis through August. Nationally, sales at food services and drinking places advanced 4.7 per cent over this time period.

Population

As of July 1, 2013, Prince Edward Island's population is estimated to be 145,273. This represents a yearly increase of 72 persons and a 0.05 per cent annual growth rate. The declining growth rate is due largely to a decline in the number of international immigrants and an increase in the number of inter-provincial out migrants. The latest population estimates are now based on the 2011 Census counts adjusted for census net undercoverage and incompletely enumerated Indian reserves.



International migration continues to be an important, but declining, factor in population growth for PEI. From July 2012 to June 2013, 863 international immigrants came to the province, a decline of 37.4 per cent from the previous year. At a rate of 5.9 per thousand, the province has gone from having the third highest immigration rate in the country to the seventh. The immigration rate for Canada

remained at 7.5 per thousand. A total of 3,146 inter-provincial in migrants came to PEI in 2012/13, while 4,220 people left the province for other areas of Canada for a net interprovincial loss of 1,074 persons.

There were 1,440 births and 1,287 deaths on Prince Edward Island from July 1, 2012 to June 30, 2013, resulting in natural growth (births minus deaths) of 153.

Outlook 2014

Due to the industrial mix found on Prince Edward Island, the economic situation has been more stable compared to other parts of the country. Though many of the downside risks identified in previous reports have materialized, the global economic situation is more stable than at this time last year. It is not expected that the world economy will return to recession, and though advanced economies are beginning to see stronger economic growth, public sector deleveraging and fiscal consolidation will continue to slow growth in advanced economies throughout the near term.

Prince Edward Island is not immune from these external factors, and will be indirectly affected. Consequently, the economic outlook for 2013 and 2014 is that growth will be moderate. Private sector forecasts for Prince Edward Island for 2013 range from 1.2 to 1.5 per cent, while forecasts for 2014 range from a low of 1.0 per cent to a high of 1.7 per cent.

Employment growth has been strong through 2013 year to date, and is expected to moderate into 2014. Federal and provincial job reductions in the near term are projected to limit growth in overall employment, though recent events in the aerospace, bioscience and food manufacturing sectors are expected to increase employment in those industries. Housing starts and resale activity are expected to moderate further in 2014. According to CMHC, starts are projected to decline to 650 units, or by 11.6 per cent in 2014, while resale activity will decline by 5.2 per cent to 1,350 units.

Immigration levels experienced a falling back from recent heights in 2012 as changes to the provincial nominee program begin to take effect. Due to these changes, immigration levels going forward are projected to be approximately 1,100 persons – higher than the historical average – but lower than recent years.

The province's primary industries and manufacturing sectors are expected to contribute positively to growth through the end of 2013 and into 2014. Capital spending will return to historic levels in 2013 due to the conclusion of the provincial stimulus program, though several private and public sector projects are expected to provide support to the Island construction industry through 2013 and into 2014. These projects include, but are not limited to, the ongoing provincial manor replacement project, the expansion of a blueberry processing plant in Morell, and ongoing retail expansion in the Charlottetown area.

The tourism sector is projected to contribute positively to economic growth through 2014. The 150th anniversary of the Charlottetown conference is likely to boost tourism activity next year, while the Charlottetown convention centre, which opened this August, will see an increase in the number of conventions hosted on the Island. According to Meetings and Conventions PEI, convention bookings for 2014 are up 75 per cent compared to 2013. It is expected that this increase will result in an additional 4,000 delegates visiting the Island next year.

Steps toward the resolution of the fiscal issues in the United States and Europe could provide upside risk to the forecast by improving market conditions and restoring confidence in the economy. A sustained lower value for the Canadian dollar could provide some relief to exporters currently struggling with high export costs. However, a further deterioration in either Europe or the United States could substantially weaken growth prospects going forward on a global basis.