Prince Edward Island 2015
Fall Economic Update

Highlights of the Prince Edward Island Economy

- Gross domestic product (GDP) grew by 1.5 per cent in 2014. Growth is expected in the range of 1.5 per cent in 2015 and 2016 according to the average of private sector forecasts.

- Employment has averaged 73,300 people year-to-date through October of 2015, a decrease of 0.9 per cent from the same period in 2014.

- Average weekly wages have grown 3.4 per cent on a year-to-date basis through August.

- Seasonally adjusted retail sales have increased 1.3 per cent on a year-to-date basis through August.

- The all-items consumer price index has decreased 0.8 per cent on a year-to-date basis through September due to lower energy prices.

- Non-residential investment is down 36 per cent through the first three quarters of 2015.

- Housing starts are up 13.9 per cent through the first three quarters of 2015.

- The value of seasonally adjusted manufacturing shipments is up 5.9 per cent through August, while the value of international exports is up 18.7 per cent through September, the fastest growth amongst provinces for both indicators.

- 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 through August are down 0.5 per cent compared to last year.

- 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 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, including the labour force, exports, consumer prices, primary industries, population and construction. All information in this document is current to November 6, 2015.

PEI Overview

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 gross domestic product (GDP) expanding by 1.5 per cent on an industry basis in 2014. Increases were seen in both the goods and service sectors, growing by 3.0 and 1.0 per cent respectively. Private sector GDP forecasts for the Island in 2015 range from a low of 1.1 per cent to a high of 2.4 per cent with an average of 1.5 per cent.

International Economic Context

The world economy is continuing its recovery, though the pace remains uneven. Growth is continuing to accelerate in advanced economies due to a combination of lower energy prices, accommodative monetary policy and a general improvement in labour markets and business confidence. The American economy is continuing to expand, despite weak first quarter growth caused by poor weather and a labour dispute at some of its west-coast ports. The recovery in the euro area is now more sustained. However, growth in emerging and developing economies continues to slow. Commodity prices are low, especially for oil and minerals. This is negatively impacting balance sheets in some emerging economies, as well as in resource dependent advanced economies such as Canada, Norway and Australia. The Chinese economy is in the process of rebalancing, having recently gone through a housing market correction, seen turmoil in its stock market, and witnessed lower exports. Tighter external financing conditions, the appreciation of the American dollar, and increased geopolitical risk are all contributing factors to slower growth in emerging economies.

According to the International Monetary Fund (IMF), world growth for 2015 is projected to be 3.1 per cent. This is a slightly slower expansion than the 3.4 per cent observed in 2014, and is lower than was being projected in July by 0.2 percentage points. The revision from July was driven by numerous factors including a weaker rebound in the United States than expected and low oil and commodity prices. Long term factors such as weak output and low productivity, which have been hampering global growth since the end of the recession and do not appear to be abating, are also factors. Advanced economies are projected to continue to grow at a moderate pace of 2.0 per cent in 2015. Emerging economies, though still growing faster than advanced economies, at 4.0 per cent, will see their fifth straight deceleration in growth in 2015.

Growth will continue to be fastest in Emerging and developing Asia growing by 6.5 per cent. Within this group, India will overtake China as the fastest growing economy, with projected growth of 7.3 per cent in 2015 increasing to 7.5 per cent in 2016. According to the IMF, the pace of growth in the Chinese economy will continue to slow, with growth forecast at 6.8 per cent in 2015 falling to 6.3 per cent in 2016.

World Economic Growth Projections 2013-2016

percent

	2013	2014	2015	2016
World	3.3	3.4	3.1	3.6
Advanced Economies	1.1	1.8	2.0	2.2
Emerging Market and Developing Economies	5.0	4.6	4.0	4.5
Developing Asia	7.0	6.8	6.5	6.4
China	7.7	7.3	6.8	6.3
ASEAN-5 (Indonesia, Malasya, Philippines, Thailand, Vietnam)	5.1	4.6	4.6	4.9
India	6.9	7.3	7.3	7.5

Source: International Monetary Fund World Economic Outlook October 2015

Europe

After emerging from recession in the second quarter of 2013, the economic situation in Europe is continuing to strengthen, though at a moderate pace. According to the IMF, real GDP in the euro area is expected to expand by 1.5 per cent in 2015, and by 1.6 per cent in 2016. All major economies in the euro area (Germany, France, Italy and Spain) as well as the United Kingdom are projected to grow in both 2015 and 2016. Employment has grown modestly in 2015, expanding by 0.9 per cent compared to the second quarter of 2014, while the unemployment rate fell to 10.8 per cent in September, though both indicators remain well off their pre-crisis levels. Fiscal consolidation is continuing in the euro area due both to the economic recovery and low interest rates, however additional measures will need to be undertaken to lower the high debt-to-GDP ratios in many euro area countries.

Inflation has remained below the two per cent target of the European Central Bank (ECB) over the past year as consumer price inflation expanded by 0.4 per cent between September and October, but was flat compared to October of 2014. This has kept interest rates low with the ECB, at its last meeting, keeping its benchmark lending rate at the historically low level of 0.05 percentage points, and its deposit rate at – 0.2 percentage points, effectively charging to hold deposits at the central bank. The ECB is also continuing its private sector asset purchase program, which is expected to last until September of 2016, but could continue if judged necessary.

Risks remain in the European economy. Political instability in the middle-east has increased with the flood of migrants from war affected areas, mainly Syria, into Europe as well as the ongoing Ukrainian situation. Slower growth in emerging economies and other European trading partners will dampen export prospects through the near term.

United States

According to the Bureau of Economic Analysis, gross domestic product in the United States advanced by 1.5 per cent (at annualized rates) in the third quarter. The increase in real GDP in the third quarter reflect contributions from personal consumption expenditures, state and local government spending, non-residential fixed investment, exports, and residential fixed investment that were partially offset by a negative contribution from private inventory investments. Imports, which detract from GDP increased during this period.

GDP growth in the second quarter in the United States was 3.9 per cent at annualized rates. The deceleration in growth between the second quarter and the third quarter was caused by a downturn in private inventory investment, while there was a deceleration in exports, non-residential fixed investment, personal consumption expenditures, state and local government spending and non-residential fixed investment that were partially offset by a decelerations in imports. In their October 2015 Outlook, the IMF projects that GDP growth in the United States will be 2.6 per cent in 2015, growing to 2.8 per cent in 2016.

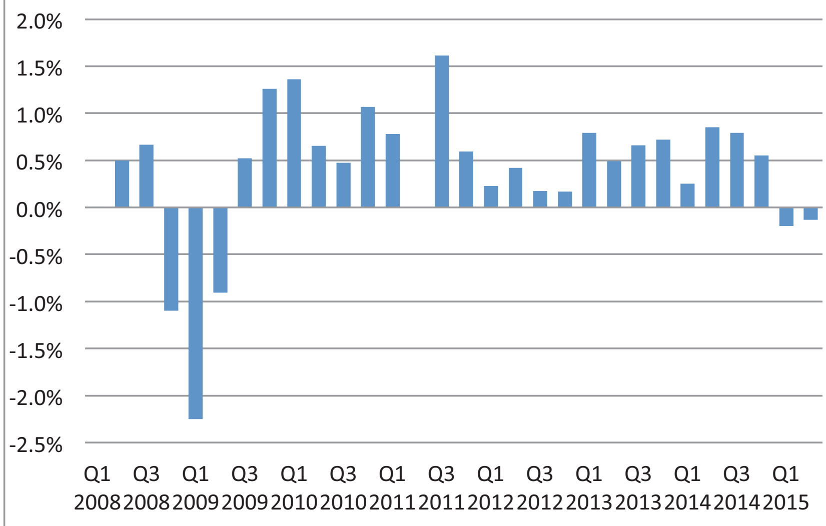
The employment situation in the United States continues to improve. Non-farm payroll employment increased by 271,000 in October, while the unemployment rate declined by 0.1 percentage points from September to 5.1 per cent. Over the course of the year, the unemployment rate has declined by 0.7 percentage points, while the number of unemployed people has fallen by 1.1 million. The participation rate in October was 62.4 per cent, a decline of 0.2 percentage points from September, and still below pre-recession levels. The number of unemployed persons was 7.9 million in October, while the long term unemployed - those who have been out of work for more than 27 weeks - was 2.1 million, or 26.8 per cent of the unemployed. Notable gains in employment in October were in professional and business services, health care, retail trade, food services and drinking places, and construction.

According to the Federal Open Markets Committee (FOMC), the American economy is expanding at a moderate pace. Most sectors of the economy have been expanding, though exports remain soft, and inflation is lower than projected due largely to the decline in energy prices. The FOMC views recent global economic and financial developments as putting downward pressure on economic growth and inflation, and sees keeping the current range for the federal funds rate between 0 and 0.25 per cent as best for achieving its dual mandate of full employment and price stability.

Canadian Economic Context

The Canadian economy was in a technical recession during the first half of 2015 as GDP contracted by 0.2 per cent in the first quarter followed by a contraction of 0.1 per cent in the second quarter. As can be seen in Figure 1 below, these two quarters mark the first time the Canadian economy has contracted since the end of 2009. After declining by 0.5 per cent in the first quarter, final domestic demand was flat in the second quarter. The pace of household final consumption expenditures accelerated in the second quarter to 0.6 per cent from 0.1 per cent in the first quarter, while general government final consumption expenditures increased 0.3 per cent after declining 0.1 per cent in the first quarter. Gross fixed capital formation declined for the second consecutive quarter down 1.6 per cent. Business gross fixed capital formation saw a second quarterly decline, down 2.0 per cent from the first quarter while general government gross fixed capital formation expanded for the third quarter in a row, though at a slower pace. Exports of goods and services increased 0.1 per cent in the second quarter after two quarters of declines, while imports of goods and services fell 0.4 per cent, a decline similar to what was seen in the first quarter, while inventory accumulation slowed in the second quarter as businesses added less to their inventories than in the first quarter.

Figure 1: Quarterly GDP Growth Canada



Source: Statistics Canada

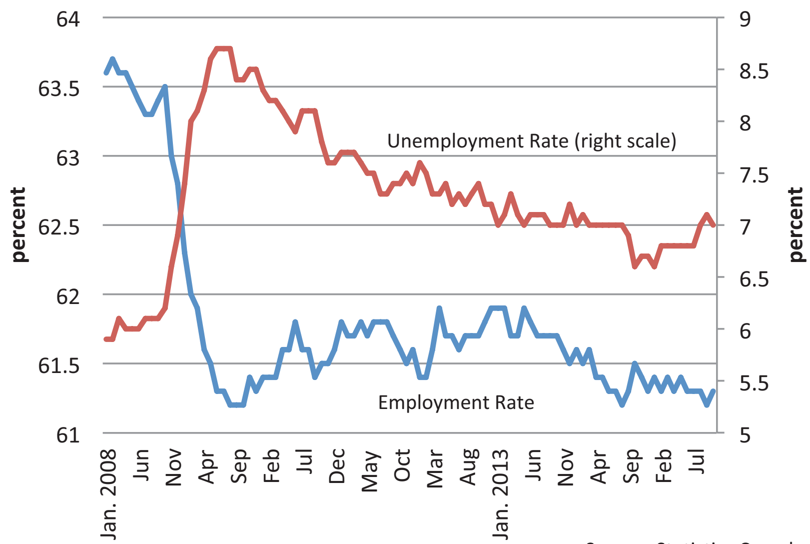
The Canadian economy is showing signs of improvement. After five months of contraction, GDP by industry has been growing since June, and is up 1.2 per cent on a year to date basis through August. Notable gains over this period occurred in finance and insurance, up 6.5 per cent, real estate rental and leasing, up 3.1 per cent and wholesale trade, up 2.7 per cent. Notable losses occurred in mining, construction, and primary industries, down 2.7, 1.7 and 4.5 per cent respectively.

The labour market in Canada is improving, though weakness persists in some indicators. The number of people employed in October surpassed 18 million, a new all-time high, and while the unemployment rate continues to trend downward, it remains above pre-recession lows. However, the employment and participation rates are all still lower than before the recession. Through October, employment in Canada has increased 0.9 per cent to average 17.9 million people. The employment rate – the number of persons working as a percentage of the labour force aged 15 and older - has averaged 61.3 per cent year-to-date in 2015, a decline of 0.1 percentage points from the same period in 2014.

The number of unemployed persons has averaged 1.32 million through September, a decline of 13,000 people compared to the same period in 2014, but still above pre-recession levels.

The unemployment rate has averaged 6.9 per cent through October, a decrease of 0.1 percentage points from the same period in 2014. As can be seen in Figure 2, the unemployment rate has declined substantially since the 2008/09 recession; however, a similar improvement has not been seen in the employment rate, which was trending upward after the 2008/09 recession, but has been trending down since 2013.

Figure 2: Employment Rate and the Unemployment Rate Canada



Source: Statistics Canada

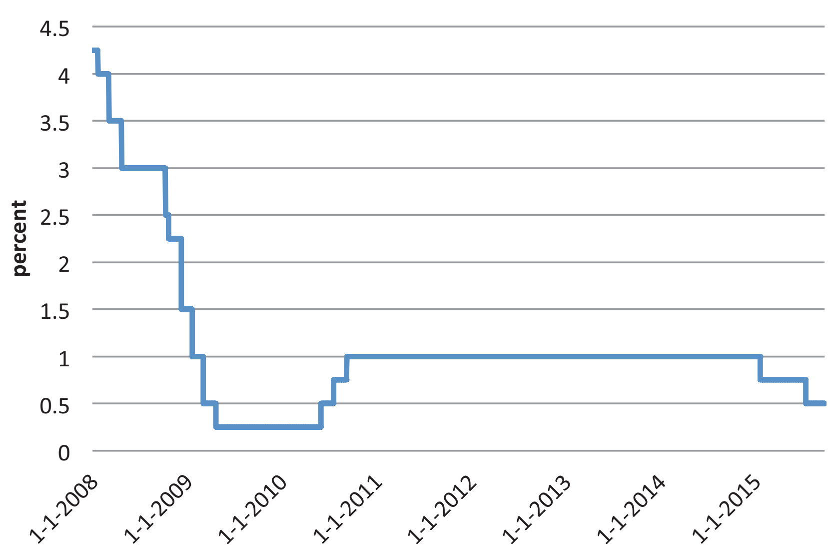
Employment gains through October have occurred in the service producing industries, growing by 1.3 per cent, while employment in the goods producing industries has fallen 0.5 per cent. Notable employment gains have occurred in health care and social assistance, up 3.2 per cent, educational services, up 3.5 per cent and scientific and technical services, up 2.1 per cent. Notable employment declines have occurred in other services, down 4.8 per cent, other primary industries, down 3.8 per cent, and agriculture, down 4.0 per cent.

The consumer price index has increased 1.1 per cent on a year-to-date basis through September. Increases have occurred across most categories, with the notable exceptions of transportation and energy, down 3.6 per cent and 10.4 per cent respectively. Core inflation is 1.9 per cent year-to-date, very close to the Bank of Canada's target rate of 2.0 per cent.

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. Lower oil prices in Canada pull down Canada's inflation profile. They also weaken Canada's terms of trade, lower domestic incomes and wealth, reducing domestic demand and decreasing business investment especially in the oil and gas sector. The Bank of Canada further lowered the target for the overnight 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 adjustments taking place in the Canadian economy the Bank judged that additional monetary stimulus was necessary for the economy to return to full capacity and the two per cent inflation target, which it projects will happen in mid- 2017.

The Canadian dollar has been trading between 0.83 and 0.75USD, averaging 0.79USD so far in 2015. This is a decline of 7.3 per cent from January 2015, and a decline of 16.3 per cent from January of 2014. The Canadian dollar has not traded at or above parity with the US dollar since early 2013. As can be seen in Figure 4, the Canadian dollar recovered slightly between February and May of 2015, before beginning another downward trend. Weakness in the

Figure 3: Target for the Overnight Rate Canada



Source: Bank of Canada

dollar is a result of the decline in the price of oil, weak economic data, accommodative monetary policy, and improvements in the American economy.

The Bank of Canada, has revised down its projections for the Canadian economy over the past year. In the fall of 2014, growth for 2015 was projected to be 2.5 per cent nationally and over the course of the year has been revised down to be just over 1 per cent as of the October Monetary Policy Report. The reasons for the continued downward forecast revisions to GDP growth in Canada stem largely from the effects of the lower price of oil and its impact reducing business investment, and energy exports, however, the Bank does not expect a strong contribution from non-energy exports to growth this year. GDP growth is expected to be in the range of 2.0 per cent in 2016 expanding to 2.5 per cent in 2017, with the economy returning to full potential in mid-2017.

Provincial Economic Context

Real gross domestic product grew by 1.5 per cent in 2014, following a gain of 2.0 per cent in 2013. Island GDP growth was the strongest in the region in 2014, but still below the national growth rate of 2.5 per cent. Household demand continues to be strong on the Island with household final construction expenditures increasing by 1.6 per cent. Business gross fixed capital formation declined 6.0 per cent in 2014, largely as a result of the decline in new housing construction.

On an industry basis, GDP grew by 1.5 per cent in 2014. Goods producing industries advanced 3.0 per cent in 2014. Manufacturing led growth in the goods sector, up 10.6 per cent in 2014. This is the third consecutive year for growth in manufacturing. Agriculture, forestry fishing and hunting grew 3.7 per cent, while mining and oil and gas extraction was flat. Declines occurred in construction, down 7.8 per cent and utilities, down 2.0 per cent. Goods production accounts for 23.5 per cent of the Island economy.

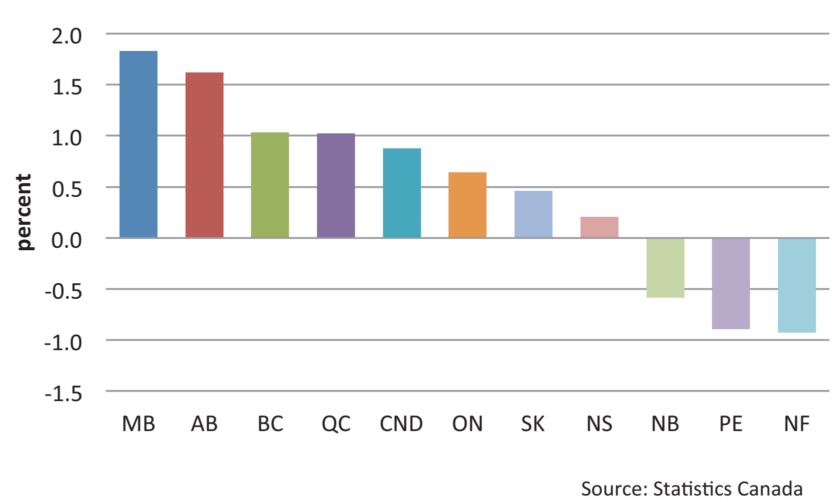
Service producing industries advanced 1.0 per cent. Notable gains occurred in retail trade, up 3.2 per cent, real estate rental and leasing, up 1.5 per cent and health care and social assistance, up 1.1 per cent. Notable declines occurred in professional, scientific and technical services, down 5.9 per cent, arts, entertainment and recreation, down 2.8 per cent, and information and cultural industries, down 1.0 per cent. Service production accounts for 76.5 per cent of the Island economy.

Employment

According to the Labour Force Survey (LFS), employment has averaged 73,300 people through October of 2015, a decrease of 0.9 per cent from the same period in 2014. Full-time employment on the Island contracted 1.7 per cent through October, while part-time employment grew by 3.3 per cent over the same time period. As can be seen in Figure 5 below, employment growth has been strongest in Manitoba and Alberta, and to a lesser extent British Columbia and Quebec, while the majority of Atlantic Canada has seen declines in employment so far in 2015.

The labour force on the Island contracted 0.8 per cent year-to-date through October to average 82,000 people. The participation rate has averaged 67.8 per cent, down

Figure 5: YTD Employment Growth Canada and the Provinces



0.7 percentage points from the same period in 2014. Even with this decline in the participation rate, Prince Edward Island continues to have the fourth highest participation rate amongst provinces behind Alberta, Saskatchewan and Manitoba over this period. The unemployment rate has averaged 10.6 per cent over this time frame, up 0.2 percentage points from one year ago.

On an industry basis on the Island, employment in the goods sector is down 3.6 per cent year-to-date through October. 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 5,900 so far in 2015.

Employment in the service sector is flat through October. Gains in public administration, accommodation and food services, other services, professional, scientific and technical services, management, administrative and other support services, and finance insurance and real estate offset declines in trade, health services, educational services, transportation and warehousing, and information, culture and recreation. The largest employer in the services sector is wholesale/retail trade accounting for 11,000 people in 2015 to date. See Table 2 below for more details.

Average weekly earnings have expanded 3.4 per cent on a year-to-date basis through August. Average weekly earnings have grown 3.0 per cent in the service sector, and by 5.7 per cent in the goods sector. Overall growth in total salaries, wages and labour income through the first two quarters of 2015 was 1.9 per cent on the Island. For Canada as a whole, average weekly earnings have increased 2.0 per cent over this time period, with earnings in the goods sector growing by 0.8 per cent and earnings in the service sector growing by 2.4 per cent.

Table 2:

Employment by Industry Prince Edward Island				
	2014 YTD	2015 YTD	percentage change	total change
	persons unless specified			
Goods Producing Sectors	**18.0**	**17.32**	**-3.6%**	**-0.6**
Agriculture	*3.8*	*3.2*	*-14.6%*	*-0.6*
Other Primary Industries	*2.6*	*2.5*	*-5.4%*	*-0.1*
Utilities	*0.4*	*0.4*	*0.0%*	*0.0*
Manufacturing	*5.4*	*5.9*	*9.4%*	*0.5*
Construction	*5.8*	*5.3*	*-8.6%*	*-0.5*
Service Producing Sector	**56.0**	**56.0**	**0.0%**	**0.0**
Trade	*11.1*	*11.0*	*-0.6%*	*-0.1*
Transportation and Warehousing	*2.9*	*2.6*	*-9.9%*	*-0.3*
Finance, Insurance and Real Estate	*2.3*	*2.5*	*9.7%*	*0.2*
Professional, Scientific and Technical Services	*2.9*	*3.0*	*4.5%*	*0.1*
Management, Administrative and Other Support Services	*2.2*	*2.5*	*9.9%*	*0.2*
Educational Services	*5.6*	*5.3*	*-6.1%*	*-0.3*
Health Care and Social Assistance	*10.6*	*9.9*	*-7.0%*	*-0.7*
Public Administration	*7.0*	*7.5*	*7.3%*	*0.5*
Information, Culture and Recreation	*2.7*	*2.5*	*-7.8%*	*-0.2*
Accommodation and Food Services	*5.5*	*5.9*	*7.3%*	*0.4*
Other Services	*3.3*	*3.5*	*4.8%*	*0.2*

Retail Sales and Motor Vehicle Sales

The total value of seasonally adjusted retail sales increased 1.3 per cent on a year-to-date basis through August. Retail sales on Prince Edward Island are lower than those in New Brunswick, up 2.4 per cent, but stronger than in Newfoundland and Labrador, up 0.2 per cent, and Nova Scotia, down 0.9 per cent. Nationally, retail sales are up 2.2 per cent over this time period.

On an unadjusted basis, Prince Edward Island has seen increased sales at motor vehicle and parts dealers, building and garden centers, and furniture stores. Sales have declined at gas stations, food and beverage stores, health and personal care stores, home furnishing stores, and electronic and appliance stores. Absent the strength in motor vehicle and parts sales, retail sales are down 1.8 per cent on an unadjusted basis through August.

The number of new motor vehicles sold increased 3.3 per cent on a year-to-date basis through August. During the same time, the value of new motor vehicles sold increased 8.3 per cent, the strongest eight months on record. The increase in motor vehicle sales is attributed to sales of commercial vehicles, as sales of passenger vehicles have declined 8.4 per cent through August, while their value declined 7.5 per cent. Nationally, the number of new motor vehicles sold increased 2.5 per cent, while the value of those vehicles increased 5.7 per cent.

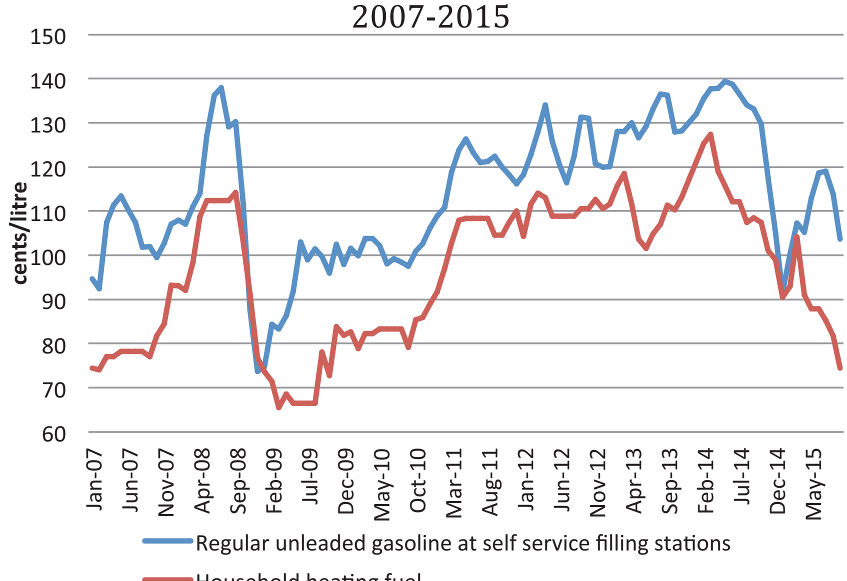
Consumer Prices

The all-items consumer price index has decreased 0.8 per cent year-to-date through September. Prince Edward Island is the only province to record a decline in consumer prices so far this year. This decline is attributable to a decline in energy prices, as energy inflation has decreased 16.7 per cent through September. As can be seen in Figure 6, the prices of both gasoline and home heating fuel declined markedly from all-time highs in 2014. Due to the ubiquity of heating with oil in the province, energy commodities have a larger share in the province's CPI basket, thus the large impact on inflation so far in 2015. Food inflation has increased 3.7 per cent year-to-date, while shelter costs have decreased 3.1 per cent over this period. Core inflation (the measure of inflation excluding volatile components such as food and energy) on the Island is 1.3 per cent year-to-date.

Construction and Housing

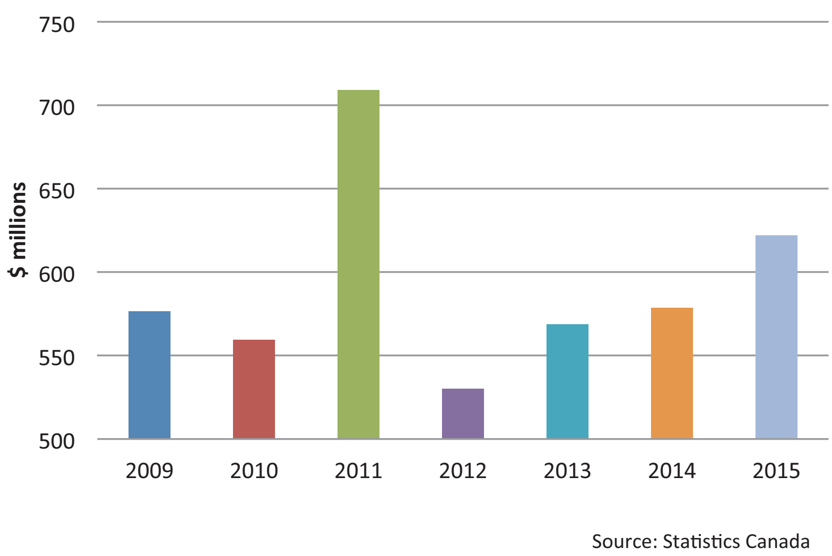
Capital investment intentions are projected to advance 7.6 per cent in 2015. The increase in capital spending intentions is due to a 20.6 per cent increase in construction. Spending on machinery and equipment is expected to decrease 7.6 per cent. Both the private sector and the public sector intend to have increased spending on capital in 2015, with both seeing increases in construction, up 20.9 and 20.5 per cent respectively, and both seeing decreases in the purchase of machinery and equipment, down 8.2 and 1.8 per cent respectively. As can be seen below in Figure 7, 2015 would be the third consecutive increase in capital investment, after a decline in 2012 as stimulus programs began to wind down.

Figure 6: Gasoline and Oil Prices PEI 2007-2015



Source: Statistics Canada

Figure 7: Total Capital Expenditures PEI, 2009 - 2015



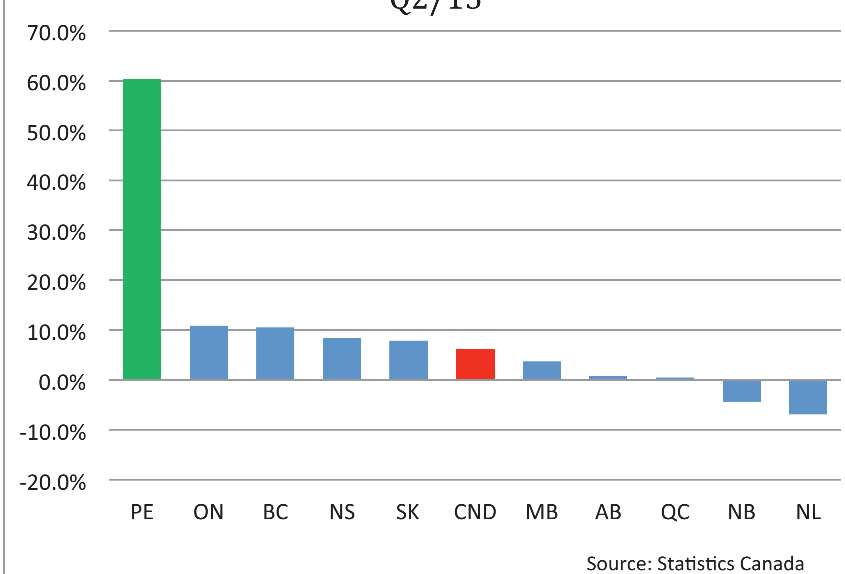
Though the outlook for capital investment is strong, actual spending shows weakness as the value of non-residential investment is down 36 per cent through three quarters of 2015 compared to the same period in 2014. There are declines across all components of non-residential investment, with industrial spending down 49.9 per cent, government and institutional spending down 42.5 per cent, and commercial spending down 26.1 per cent. Nationally, the value of non-residential investment decreased 0.1 per cent over this time period.

Non-residential building permits are down 12.5 per cent on a seasonally adjusted basis through September, though results for the components are mixed. Industrial permits are up 16.2 per cent, commercial permits are down 28.9 per cent while government and institutional permits are up 25.8 per cent.

Housing and residential construction activity has been positive so far in 2015. The value of residential investment increased 60.3 per cent over the first half of 2015 as compared to 2014. As can be seen in Figure 8 above, growth in residential investment on the Island is proceeding at a faster pace than elsewhere in the country. The main driver for the increase was a 98.9 per cent increase in the value of renovations. At just over $124 million, renovations account for 70 per cent of residential investment to date. The value of new dwellings increased 15.9 per cent over this time period. All categories of new housing showed increases, except row housing, which was down by 49.1 per cent. Nationally, the value of residential investment increased 6.2 per cent over this time period.

The value of seasonally adjusted residential building permits are up 8.6 per cent on a year-to-date basis through September. The number of dwellings for which permits have been issued is up 5.7 per cent. A 25.3 per cent increase in permits for multi-unit dwellings was enough to offset by a decline of 5.7 per cent in permits for single dwellings. Housing starts are up 13.9 per cent through three quarters of 2015 compared to the same period in 2014. Stars are up for both single and multiple starts, with single starts up 14.6 per cent and multiple starts up 13.0 per cent. Housing starts increased sharply in the third quar-

Figure 8: Residential Investement YTD through Q2/15



ter, with 201 starts, 131 of which were single detached homes. Though housing starts are improving, they are still well below the 10-year average for housing starts on the Island, which between 2004 and 2014 was 786 units. Nationally, housing starts increased 0.3 per cent over this time period. The Canada Housing and Mortgage Corporation (CMHC) forecasts 475 housing starts for Prince Edward Island in 2015, down from the 511 starts seen in 2014, with a further contraction in 2016 to 460 starts.

According to CMHC, existing home sales are projected to increase by 8.7 per cent in 2015 from 1,380 units to 1,500 units, while the average price of resale homes is projected to increase by 0.7 per cent to $165,000. The rental vacancy rate for Charlottetown is projected to decline to 5.2 per cent through the end of 2016, down from the 9 per cent observed in 2014 as the newly built rental stock continues to be absorbed into the market.

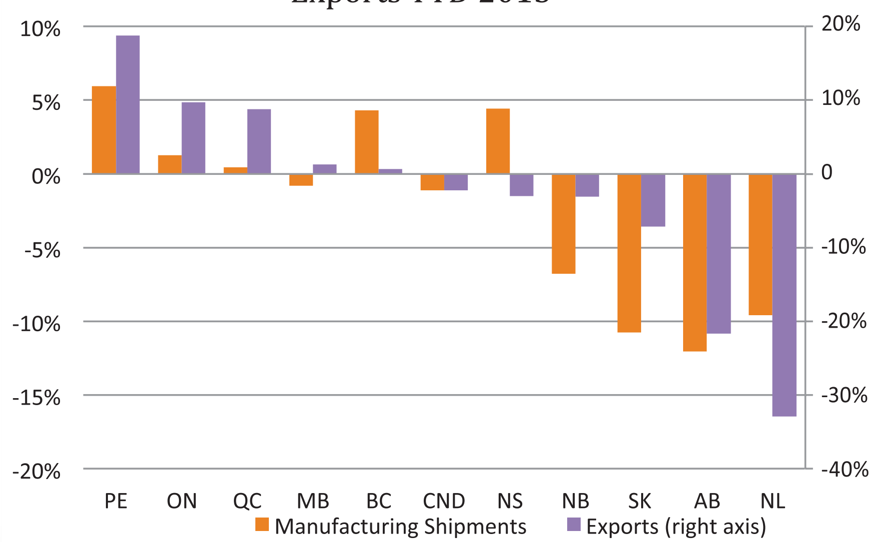
Manufacturing Shipments and Exports

On a year-to-date basis through August, the value of seasonally adjusted manufacturing shipments has increased 5.9 per cent, continuing a recovery in manufacturing shipments that began in 2011. Shipments have increased in both the non-durable and durable goods categories, up 2.6 and 15.1 per cent respectively. To date, approximately 70 per cent of the Island's exports are non-durable goods, while the remaining 30 per cent are durable goods. As can be seen in Figure 9, through August, Prince Edward Island has had the strongest performance in manufacturing shipments and export growth amongst provinces.

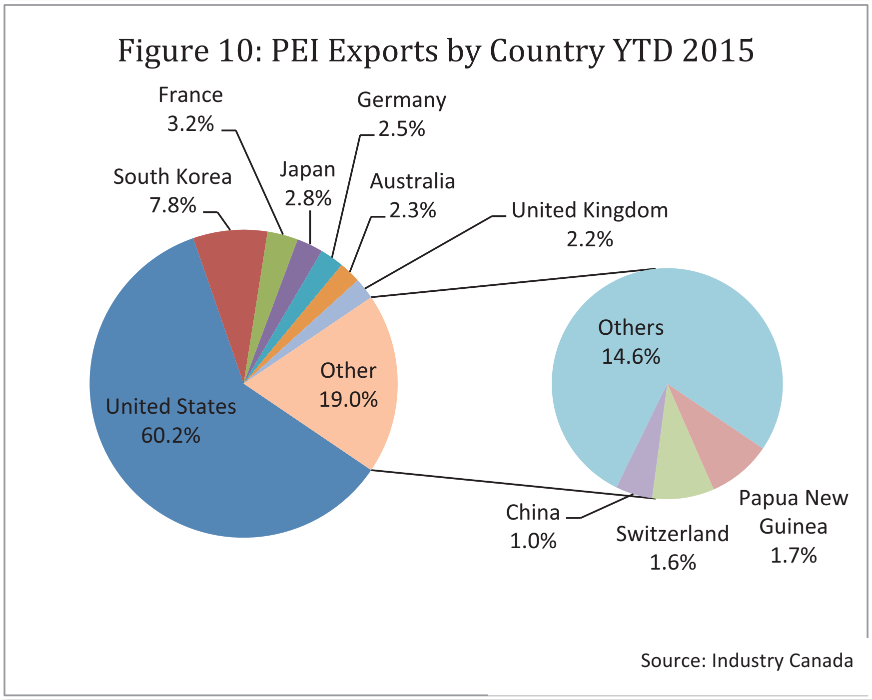
The value of international exports from Prince Edward Island has increased 18.7 per cent on a year-to-date basis through September. On an industry basis, the increase in exports is broadly based with the Island's traditional export sectors of frozen food manufacturing and seafood product preparation and packaging growing by 29 per cent and 10.6 per cent respectively. These are the two largest export industries on the Island. Vegetable and melon farming also grew 5.3 per cent over this time period. The bioscience industry continues to see export gains, with pharmaceutical and medicine manufacturing growing 8.3 per cent. Exports from the aerospace sector have seen mixed results year-to-date through September with engine, turbine and power transmission equipment manufacturing down 4.8 per cent, while aerospace products and parts manufacturing is up 5.3 per cent.

Export diversification has proceeded at a rapid pace on Prince Edward Island since 2000. As seen in Figure 10, on a year-to-date basis through September, 60.2 per cent of the Island's exports went to the United States, followed by South Korea, France, Japan, Germany, and Australia. What is also evident from the chart above is the number of pacific nations present in the top ten export destinations for Island products. Trade with South Korea has increased 77.1 per cent year-to-date, while trade with Japan has increased 29.2 per cent, trade with Australia has increased 3.9 per cent, while trade with Papua New Guinea and China have increased 280.9 per cent and 6.2 per cent respectively. Increased access to markets in Europe and among the Trans Pacific countries could allow future growth in trade.

Figure 9: Manufacturing Shipments and Exports YTD 2015



Source: Statistics Canada



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 to $32.9 million, up 28 per cent compared to 2014. Lobster accounts for approximately sixty per cent of the landed value of the fishery on Prince Edward Island. The shellfishery continues to be important to the Island economy. The oyster harvest is underway, while the mussel industry continues to be a leader in the North American market, and accounts for the majority of our aquaculture exports, one of the Island's top ten export industries.

Farming

Prince Edward Island's farm cash receipts totaled $122.6 million, through the first quarter of 2015, down 4.2 per cent compared to the first quarter of 2014. A 2.5 per cent increase in total livestock receipts was more than offset by a 6.9 per cent decrease in total crop receipts and a 5.8 per cent decrease in direct payments.

Farm product prices have been mixed year-to-date through September. Prices for wheat, oats and barley are up 0.7, 1.2 and 17.0 per cent respectively, while the price of soybeans is down 2.1 per cent. There were 89,500 acres of potatoes planted in 2015, a decrease of 1,000 acres from 2014. The size of the crop is expected to be slightly smaller than last year. Harvesting for major crops is completed, and with no reported cases of disease, prospects for crops are positive.

Higher meat prices at the retail level have translated into higher prices for animals. Prices for slaughter cattle, calves and lambs are up 27.4 per cent, 45.4 per cent and 52.5 per cent respectively. The price for feeder cattle and calves are up 36.1 and 45.9 per cent through September, while the price of hogs is down 22.6 per cent. In the supply-managed industries, the price of chickens is down 2.7 per cent, the price of milk is down 6.1 per cent while the price of eggs is down 2.1 per cent.

Tourism

In 2014, the Island saw the successful celebrations of the 150th 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 hampered by bad weather, but has made up ground on a year-to-date basis through August. Information from the department of Economic Development and Tourism shows that total overnight stays are down 0.5 per cent, through August, though they have been showing positive gains for the last three months. At fixed roof accommodations, room nights sold are down 1.5 per cent, while the occupancy rate has increased 0.5 percentage points. At campgrounds, the number of site nights sold has increased 1.3 per cent, while the occupancy rate has increased 0.3 per cent.

Traffic to the Island via the Confederation Bridge is up 4.8 per cent year to date, while ferry traffic is up 5.9 per cent. Motorcoach traffic is up 13.2 per cent through August, while air traffic is down 3.2 per cent. Numerous cruise ships continue to visit the Island, with 73 ships scheduled to visit the Island this year, though some have had to cancel due to bad weather. 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.

On a seasonally adjusted basis, sales at food services and drinking places increased 5.4 per cent on a year-to-date basis through August. Nationally, sales at food services and drinking places advanced 4.3 per cent over this time period.

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.

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 2015-16

The global economy is forecast to grow in 2016 by 3.6 per cent. Growth in both advanced economies and emerging economies is expected to accelerate, as is growth in the Canadian economy. Due to the mix of sectors found on the Island, Prince Edward Island's economy has been more stable than in other parts of the country, and has been able to take advantage of the lowering of the Canadian dollar and the fall in the price of oil. Economic growth for the Island will remain positive, but moderate over the near term, with GDP growth for both 2015 and 2016 in the range of 1.5 per cent. As can be seen in Table 3 below, this is consistent with the average of recent private sector forecasts.

Table 3:

Summary of Private Sector Forecasts

Forecaster	Real GDP Forecast (%)		Date issued
	2015	2016	
Conference Board of Canada	2.4	1.9	Summer 2015
TD Bank	1.4	1.5	8-Oct-15
Bank of Montreal	1.5	1.5	30-Oct-15
Royal Bank of Canada	1.7	1.5	Sep-15
CIBC	1.1	1.2	Sep-15
Scotiabank	1.2	1.5	5-Oct-15
National Bank	1.3	1.5	Sep-15
Atlantic Provinces Economic Council	1.1	1.3	Fall 2015
Average	**1.5**	**1.5**	

Immigration is expected to continue to contribute positively to the Island's population through the near term. Presently PEI expects to receive approximately 1,250 immigrants this year, with that number growing to approximately 1,500 people by 2017. Higher retention rates should continue to help support domestic demand. Immigration will enable the Island's population to continue to grow through the medium term.

Demographic factors will be a persistent challenge to the labour market going forward as the core working age population continues to shrink. Even with increased participation at older age groups, and immigration at current levels, this will be not enough to offset the decline in the core working age population. Growth 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. Due to the ongoing fiscal restraint seen at both the provincial and federal levels, growth in industries connected to the public sector will be limited.

The primary sectors of the economy should continue to contribute positively to economic growth, as they benefit from a low Canadian dollar and the low price of oil. Due to the reduction in the number of temporary foreign workers allowed in the fish processing sector, anticipated processing capacity may be constrained. This may lead to a situation where there is an increase in the amount of shipments and exports of raw product, but a decline in the amount of prepared product shipped from the Island.

Manufacturing shipments and exports are likely to be positive contributors to the Island economy in 2016. Both the traditional sectors such as frozen food manufacturing and emerging sectors such as bioscience, engineering technology and aerospace should continue to drive Island exports. Growth in exports is likely to slow in 2016 as effects from the falling Canadian dollar negate some of the exchange gains witnessed in 2015.

Several international trade agreements have been signed by Canada in recent years which may provide increased opportunities to Island exporters, including the Comprehensive Economic and Trade Agreement (CETA) with the European Union and the Canada South Korea free trade agreement. Seven of the Island's top ten export destinations are now covered by free trade agreements. The agreement in principle of the Trans-Pacific Partnership (TPP) may provide increased export opportunity to the Island. Five of the top ten export destinations for the Island to date in 2015 are Asia-Pacific nations, though only Japan and Australia form part of the TPP. Consequently there should be scope to improve export links through these new arrangements in a part of the world where the Island has had trading success.

Capital spending in 2016/17 is expected to total approximately $68 million, a decline of approximately $5.8 million for 2015/16. 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 due to the prospect of the installation of a new cable under the Northumerland straight to bring electricity to the Island, as well as the potential for an additional diesel turbine to produce power on the Island. Residential investment in forecast to be soft again in 2016, with CMHC forecasting a further decline in housing starts, however, with the continuing decline in the rental vacancy rate, housing activity should begin to trend up toward the long-run average later in 2016 and into 2017.

Risks to the outlook stem from factors largely outside of the province's control. Increased volatility in emerging markets could lower GDP growth, and detract from global growth. Ongoing tensions between the Ukraine and Russia, continued volatility in the Middle East, and the subsequent migrant crisis could further disrupt growth. Domestically, the volatility of the Canadian dollar, and the price of oil, as well as the high levels of Canadian household debt continue to provide risk to the outlook.