

## *2010 Fall Economic Update*

### **Introduction**

The following document is an update to the economic situation of the Province of Prince Edward Island since the release of the last 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 10, 2010.

Prince Edward Island has not been immune from the economic downturn. After seven consecutive years of economic gain, the province posted a real GDP contraction of 0.1 per cent in 2009. With no real growth in 2009, only Manitoba fared better. Through 2010, Prince Edward Island's economy has been supported by employment gains, improvements in retail sales, continuing government stimulus spending, and continued strong international immigration.

### **International Economy**

The global economic recovery remains fragile and uneven with large downside risks, though it is proceeding largely as expected. In most economies, fiscal stimuli are giving way to fiscal consolidation as governments try to grapple with the large public-sector debts that have resulted from stimulus spending, and major monetary interventions into private business. The continuation of the recovery depends on the successful hand-off of investment and spending to the private sector, and the successful realigning of global trade and current account balances. Tensions in currency markets remain a risk, as underlying confidence surrounding sovereign debt, banking vulnerabilities, and exchange rates linger.

According to the International Monetary Fund (IMF), global economic activity increased by 5.25 percent at an annualized rate for the first half of 2010. This growth has not been even, with advanced economies growing 3.5 per cent, and emerging economies growing 8.0 per cent. Global economic activity is expected to expand 4.8 per cent in 2010, before slowing slightly in 2011, to 4.2 per cent. Growth will be led by emerging economies, which are expected to grow by 7.1 per cent in 2010 and 6.4 per cent in 2011, as compared to advanced economies which are expected to grow 2.7 and 2.2 per cent respectively.

High unemployment rates, especially in advanced economies will moderate the pace of the recovery, especially as increased business investment has not yet translated into more employment. Persistently high unemployment is not expected to correct itself in the near future, as substantial slack remains in advanced economies. Consequently, inflation is projected to be low over the medium term.

## American Economy

The American economy emerged from recession in the third quarter of 2009. Since then economic activity has been slower than anticipated. Growth in the first quarter of 2010 was 3.8 per cent at an annualized basis. From the first quarter to the second quarter growth was 1.7 per cent, and from the second quarter to the third quarter growth was 2.0 per cent. Positive contributors to GDP growth were increased residential investment, increased business fixed investment, and increases in government spending at all levels. Detractors from GDP include an increase in imports, and slowdowns in inventory investment.

The employment situation in the United States continues to be lacklustre, with an unemployment rate of 9.6 per cent through October. The total number of unemployed people is 14.8 million, while the number of people who have been unemployed for more than 27 weeks sits at 6.2 million, just over 40 per cent of the total unemployed. Job gains have occurred primarily in ambulatory care, employment services, food services and mining. Job losses have occurred in construction and government employment (due both to the end of temporary census hiring and layoffs at local and regional governments). Other sectors of the economy remained essentially unchanged.

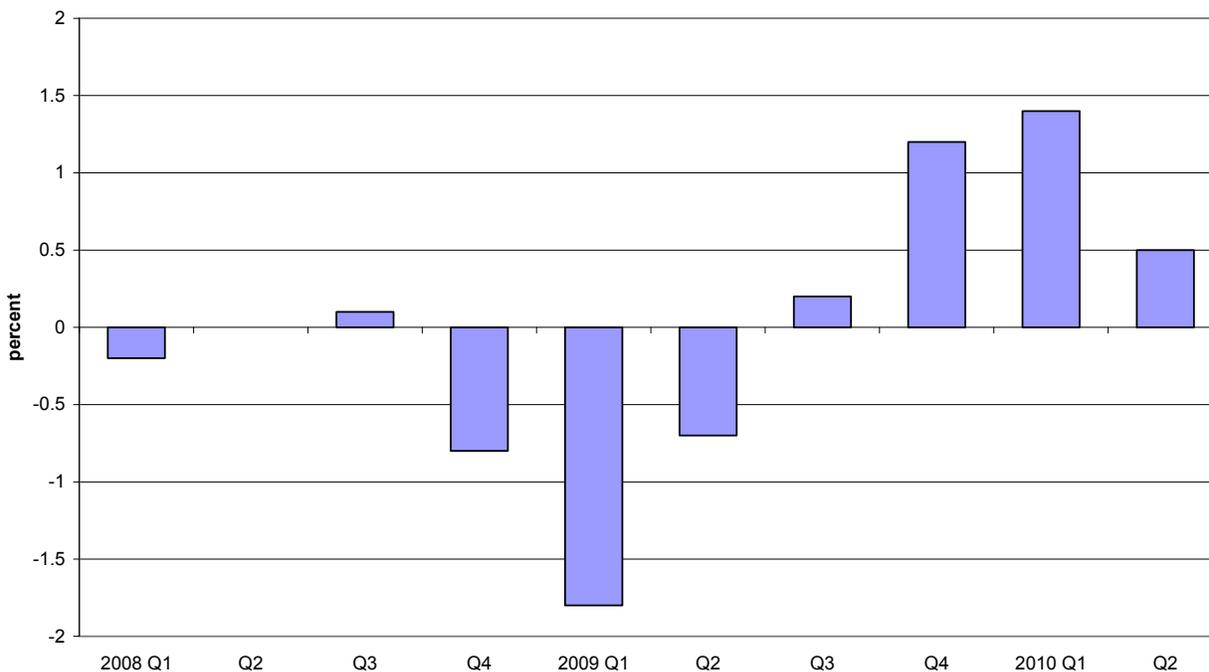
The housing market in the United States remains depressed. With the expiry of the tax-credit for first-time home buyers, home sales have fallen dramatically. High inventories of unsold housing, coupled with continuing waves of foreclosures resulting in low housing prices have put downward pressure on new construction.

Due to the slowing pace of the recovery in both output and employment in the United States, the Federal Open Markets Committee announced at the conclusion of its November meeting that it intends to expand its holdings of securities through the purchase of approximately \$600 billion in longer-term treasury securities by the end of the second quarter of 2011; a pace of \$75 billion per month. It has also indicated that it intends to keep its target range for the federal funds rate to between 0 and 25 basis points, and that this low level will continue for an extended period.

## Canadian Economy

The Canadian economy emerged from recession in the third quarter of 2009. Since then, there have been four quarters of positive economic growth, with growth in 2010 of 1.4 per cent in the first quarter and 0.5 per cent in the second quarter. GDP growth has been supported by government and household spending, and in the second quarter, by contributions from business investments in machinery and equipment, and inventory restocking. Lower export volumes and higher imports continue to exact downward pressure on GDP. The Bank of Canada, in its latest Monetary Policy Report, has revised down its GDP outlook and forecasts that GDP will grow by 3.0 per cent in 2010, and by 2.3 per cent in 2011. This outlook reflects the more gradual global recovery that is taking place and lower contributions to GDP from households going forward.

Quarterly GDP Growth at Market Prices Canada 2008-2010



Source: Statistics Canada

Employment in Canada through October increased 1.6 per cent over the same period in 2009. Due to this growth in employment, Canada has managed to regain all of the jobs lost during the recession, though the composition of the workforce has changed. More Canadians are employed in the service sector, and more are working part-time. The unemployment rate has averaged 8.1 per cent through October, a decrease of 0.2 percentage points from the same time last year.

Employment gains occurred in the goods and service producing sectors, growing 0.4, and 1.9 per cent respectively. Notable job gains throughout this period include scientific and technical services, up 6.2 per cent, and education and healthcare, up 3.2 and 4.3 per cent respectively. Job losses occurred in agriculture, down 5.6 per cent, manufacturing, down 2.3 per cent, and transportation and warehousing, down 2.7 per cent.

Employment in Canada: Jan 2008 - Oct 2010



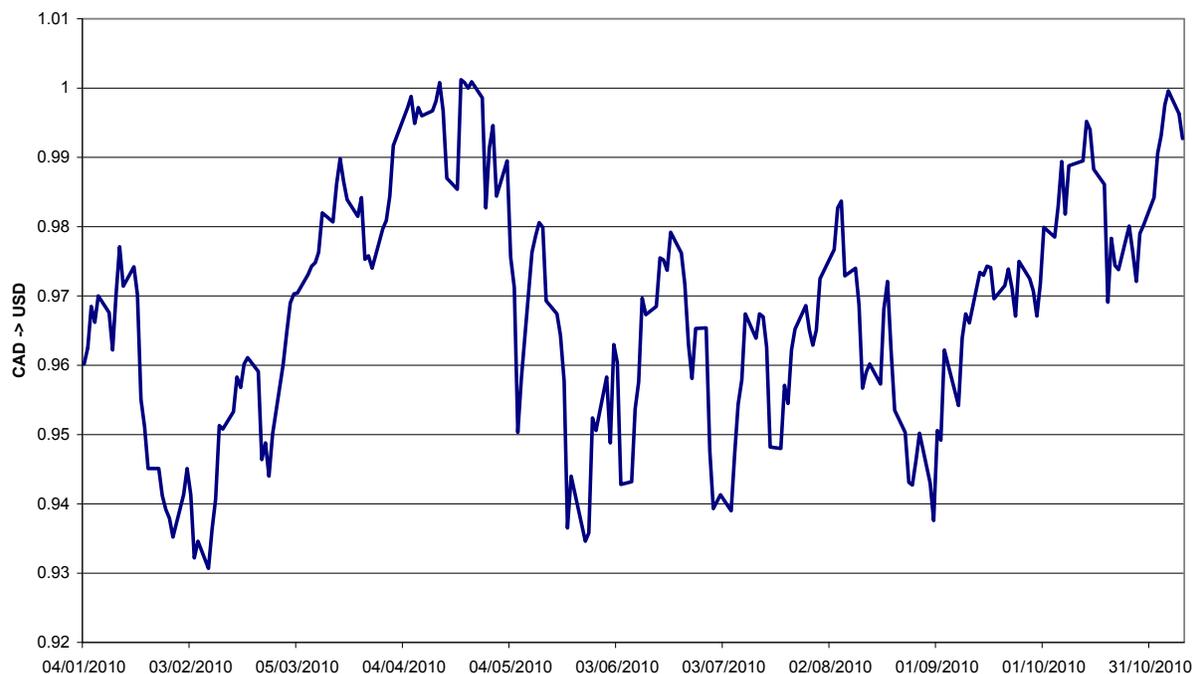
Source: Statistics Canada

Consumer spending increased 0.7 per cent between the first quarter and second quarter of 2010, and is up 3.7 per cent from the same time period one year ago. Personal disposable income has increased 3.6 per cent between the first and second quarter, and 5.6 per cent from the same timeframe one year ago. The personal savings rate continues to increase in Canada; it currently sits at 5.9 per cent. This is an increase of 2.9 per cent from the previous quarter, and an increase of 0.8 per cent from the second quarter of 2009.

The consumer price index has increased 1.6 per cent year-to-date through September. Gains occurred across most categories, notably in energy, up 5.9 per cent, and transportation, up 4.3 per cent. The only decline, year-to-date has occurred in clothing and footwear, down 2.0 per cent. Core inflation stands at 1.2 per cent year-to-date, well below the Bank of Canada's target rate of 2.0 per cent.

For the majority of 2010, the Canadian dollar has been trading in a range of between 93 cents and parity with the US dollar, a considerably smaller range than one year ago. The continued strength of the Canadian dollar has put pressure on export-oriented sectors of the Canadian economy by making Canadian exports more expensive.

Canada/US Exchange Rate Closes 2010

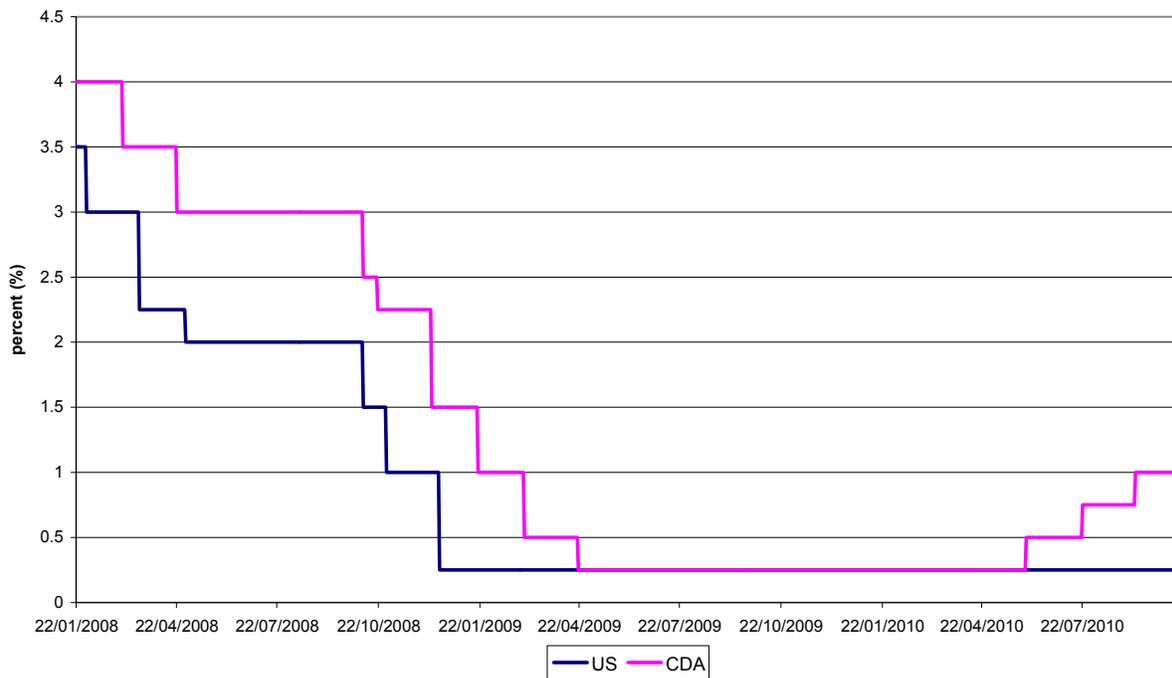


Source: Bank of Canada

After holding the target for the overnight rate steady for one year, the Bank of Canada began increasing the target on June 1, 2010, by 25 basis points. This was followed by two further interest rate hikes of 25 basis points each in July and September, so that currently the target for the overnight rate is one per cent. The rationale for the increase in the overnight rate was that global economic recovery was proceeding and that, in Canada, GDP and employment growth, coupled with investment and household spending were evolving largely as the Bank expected. As the global recovery has moderated, especially in advanced economies, the Bank of Canada decided not to increase rates further at its meeting on October 19<sup>th</sup>.

Below is a graph outlining the targets for the overnight rate for both the United States and Canada. Where Canada has begun to tighten interest rates, the United States has maintained an extremely accommodative monetary policy, and has indicated that it is prepared to further ease policy at the lower bound to maintain its dual mandate of stable prices and full employment.

Target for the Overnight Rate: Canada and the United States



Source: Bank of Canada/ US Federal Reserve

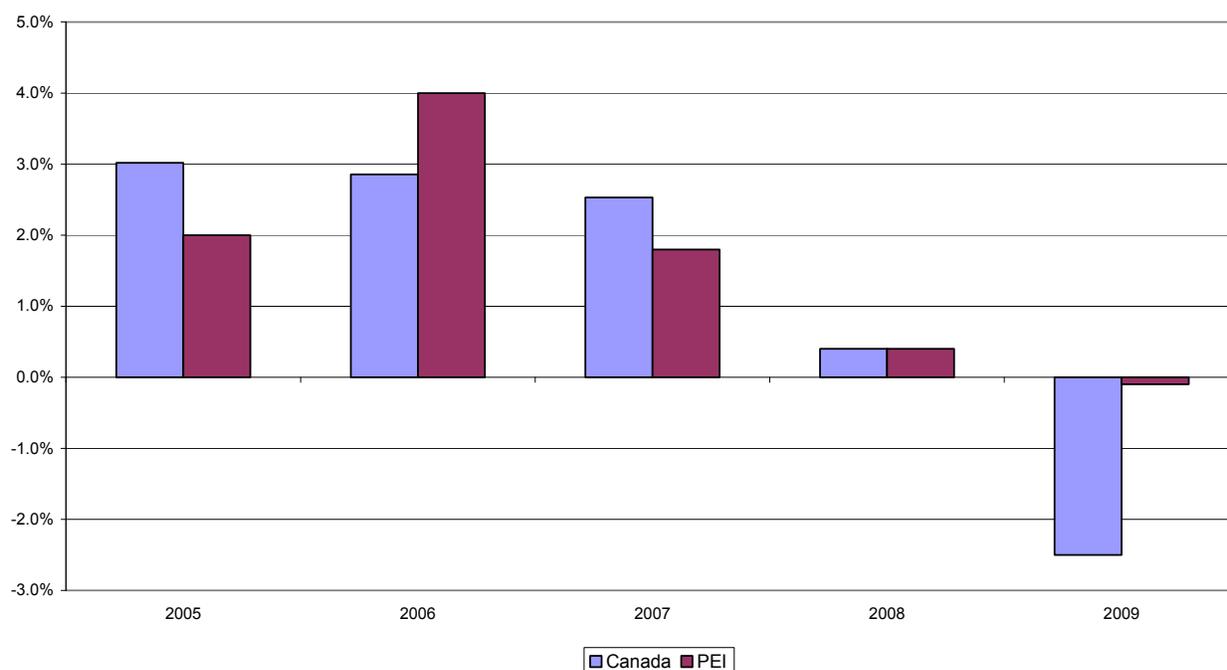
## Highlights of the Prince Edward Island Economy

- Provincial GDP declined 0.1 per cent in 2009. Growth is projected at 1.9 per cent for 2010
- Employment has averaged 71,500 people through September 2010, an increase of 3.5 per cent from the same period in 2009
- The number of jobs in the wage economy continue to rise on Prince Edward Island, up 2.5 per cent year to date
- Total wages and salaries have grown 1.9 per cent year-to-date through June
- The value of non-residential investment on Prince Edward Island has decreased 32.8 per cent through the first three quarters of 2010 as compared to the same period in 2009
- After a strong 2009, housing starts are down 5.0 per cent through September due to weaker growth in multiple starts
- Farm cash receipts for the first quarter of 2010 totalled 101.8 million, a decrease of 17.5 per cent over the first quarter of 2009, caused largely by a decrease in potato prices
- The outlook for potato prices for the 2010 crop year is positive
- Manufacturing shipments from PEI have declined 7.8 per cent on a year-to-date basis through September, while international exports have declined 10.0 per cent year-to-date through September
- Consumer prices have increased 2.0 per cent on a year-to-date basis through September, led by an increase in energy prices
- 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

The Prince Edward Island has not been immune from the downturn in the global economy. Statistics Canada estimates that provincial GDP grew by 0.4 per cent in 2008, identical to the growth in the Canadian economy. Growth in all areas of Canada was weak in 2009, and Prince Edward Island was no exception, as the economy contracted by 0.1 per cent. This decline was due to a stronger than expected deterioration in net exports at the end of the year, largely as a result of decreased output in potato processing, and weaker than expected construction activity in the private sector.

Real GDP Growth Canada and PEI 2005-2009



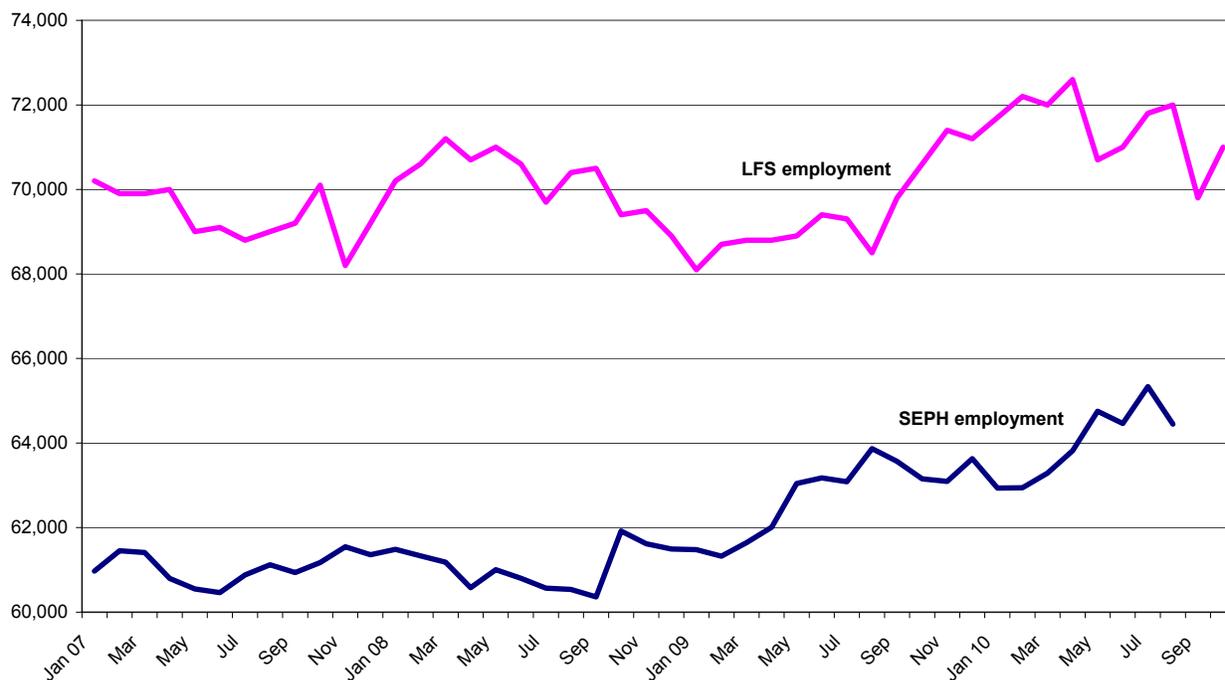
Source: Statistics Canada

## Employment and Jobs

According to the Labour Force Survey (LFS), employment has averaged 71,500 people through October of 2010, an increase of 3.5 per cent from the same period in 2009. The unemployment rate has averaged 11.2 per cent over this time frame, a decrease of 1.1 percentage points from 2009. Notable employment gains can be found in utilities, professional, scientific and technical services, and educational services. Employment losses have occurred in both the goods and service producing industries, with notable declines in manufacturing, transportation and warehousing, information, culture and recreation, and accommodation and food services.

The number of jobs in the wage sector continues to expand on PEI. According to the Survey of Employment, Payrolls and Hours (SEPH), the number of jobs on the Island increased 2.5 per cent year-to-date through August. Gains have been recorded in the services producing sectors, averaging 3.2 per cent, while losses have occurred in the goods producing sector, averaging 6.3 per cent. Average weekly earnings have grown 2.4 per cent year-to-date through August.

SEPH and LFS Employment PEI: 2007-2010



Source: Statistics Canada

Growth in the number of jobs, and increases to wages helped push total wages and salaries up by 1.9 per cent year-to-date through June. Nationally, total wages and salaries have advanced 3.2 per cent year-to-date through June.

### Consumer Prices

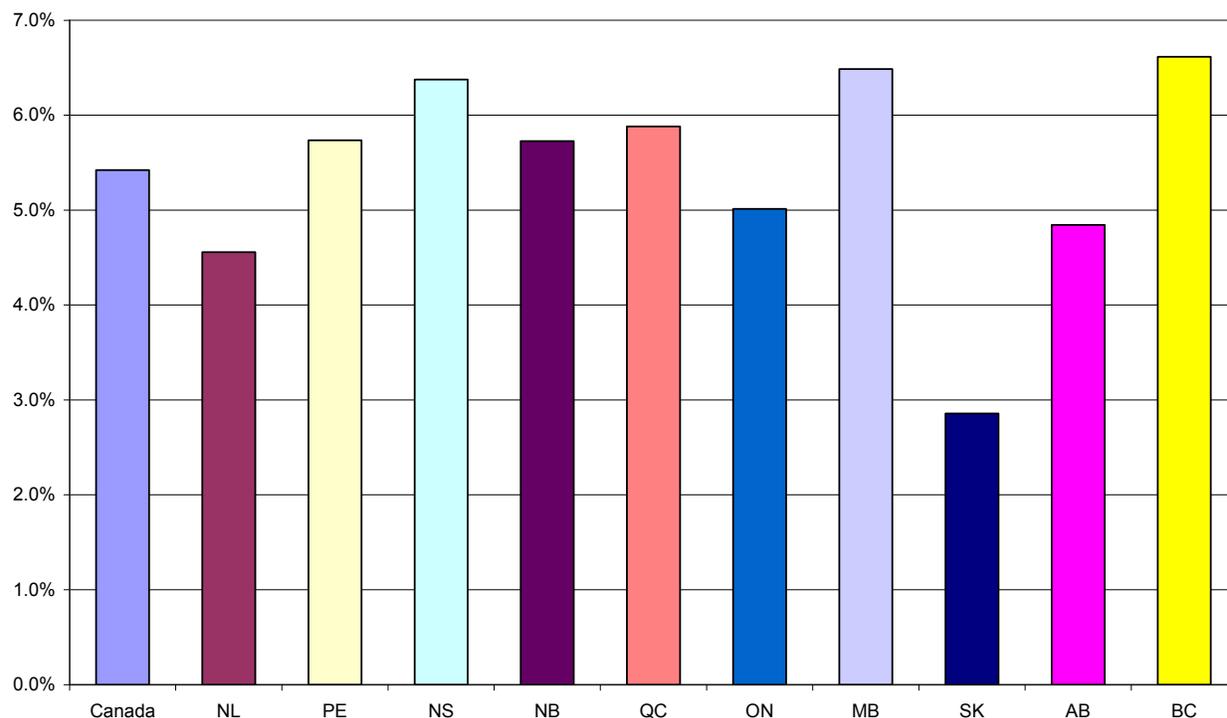
The all-items consumer price index has increased 2.0 per cent year-to-date through September. Food and shelter costs have increased 1.3 and 1.5 per cent respectively, while energy prices have increased 9.3 per cent. Core inflation (the measure of inflation excluding volatile components such as energy and food) on the Island is 0.8 per cent year-to-date.

### Retail Sales and Motor Vehicle Sales

The total value of seasonally adjusted retail sales is up 5.7 per cent on a year-to-date basis through August. This increase has been experienced through all components of retail sales. Nationally, retail sales have increased 5.4 per cent. Retail sales have shown growth in all provinces and territories in 2010. The growth in Prince Edward Island’s retail sales is very comparable to the rest of the region, with sales growing 4.6 per cent in Newfoundland and Labrador, 6.4 per cent in Nova Scotia, and 5.7 per cent in New Brunswick.

The sale of new motor vehicles has increased 10.8 per cent on a year-to-date basis through August. During the same time, the value of new motor vehicles sold has increased 15.6 per cent. Nationally, the sale of new motor vehicles increased 7.6 per cent, while the value of those vehicles increased 12.6 per cent.

Growth in Seasonally Adjusted Retail Sales for Canada and Provinces YTD 2010



Source: Statistics Canada

## Construction and Housing

The value of non-residential building permits is up 52.3 per cent year-to-date through September. Government and institutional permits are up 464 per cent, while industrial and commercial permits are down 17.6 per cent, and 7.7 per cent respectively. The value of residential building permits has increased 15.6 per cent, for a 29.6 per cent increase in the value of all building permits. Nationally, building permits are up 30.5 per cent. This is due largely to a 45.7 per cent increase in residential permits. Non-residential permits are up 12.3 per cent, with industrial and commercial permits up 41.0 and 11.3 per cent respectively, and institutional permits up 2.0 per cent.

After a very strong year in 2009, the value of non-residential investment has decreased 32.8 per cent through the first three quarters of 2010 as compared to the same period in 2009. Declines exist across all components of non-residential construction, with industrial down 52.2 per cent, commercial down 31.9 per cent and government and institutional down 22.4 per cent. National growth in non-residential construction has decreased 2.9 per cent over the same time period.

The value of residential investment continues to grow on the Island, up 54.3 per cent through the first half of 2010, as compared to the same time period in 2009. Strong gains can be seen in the single-detached market, up 9.9 per cent year-to-date, and in renovations, up 66.2 per cent year-to-date. In Canada as a whole, residential investment has increased 16.1 per cent over the same time period.

The real estate market on the Island has been mixed through the recession. Housing prices continue to post year-over-year gains, with prices up 1.6 per cent through September. Housing starts on the Island are down 5.0 per cent year-to-date through September. Strong growth in single, and semi detached homes has not been enough to offset the decline in multiple starts. The Canadian Mortgage and Housing Corporation (CMHC) forecasts that housing starts are to decline 17.9 per cent in 2010, due largely to a projected 32.9 per cent decline multiple starts.

### **Manufacturing Shipments and Exports**

Manufacturing shipments from PEI have declined 7.8 per cent on a year-to-date basis through September. Declines occurred across all components, with only printing and publishing showing a gain, up 11.2 per cent year-to-date. Food shipments, which have accounted for approximately 60 per cent of the Island's total shipments over the last ten years, declined 6.9 per cent due largely to the low prices facing the potato processing sector. Excluding food shipments, manufacturing shipments are down 8.9 per cent year-to-date.

The decline in shipments also shows up as a decline in international exports from PEI, which have decreased 10.0 per cent on a year-to-date basis through September. This decrease can be attributed to the weak performance of frozen potato products, which has declined 18.2 per cent year-to date. Industries related to the aerospace sector have also shown declines, notably a 17.5 per cent decline in engine, turbine and power transmission equipment manufacturing, and a 14.1 per cent decline in aerospace product and parts manufacturing.

The aerospace industry is continuing to expand on the Island, with TFL Technologies of Cornwall, and sister company Tube-Fab Limited of Toronto, Ontario, consolidating their operations in a new and expanded facility in Summerside. This move will result in 100 new jobs in the Summerside area, 80 of which will be new to the Island.

Gains in the export sector include the 19.3 per cent increase in exports of seafood product preparation and packaging. This industry had been negatively affected by the economic conditions of the last year, but has now found a firmer footing due to increased demand and stronger prices. Pharmaceutical and medicine manufacturing also has recorded large gains year-to-date, up 29.6 per cent due largely to exports of pharmaceutical ingredients, vaccines for veterinary medicine and diagnostic chemicals by the three large bioscience companies located on the Island. Nationally, exports have increased 9.9 per cent year-to-date through September.

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 as the global economic recovery takes a stronger footing, particularly in the United States.

### **Primary Industries**

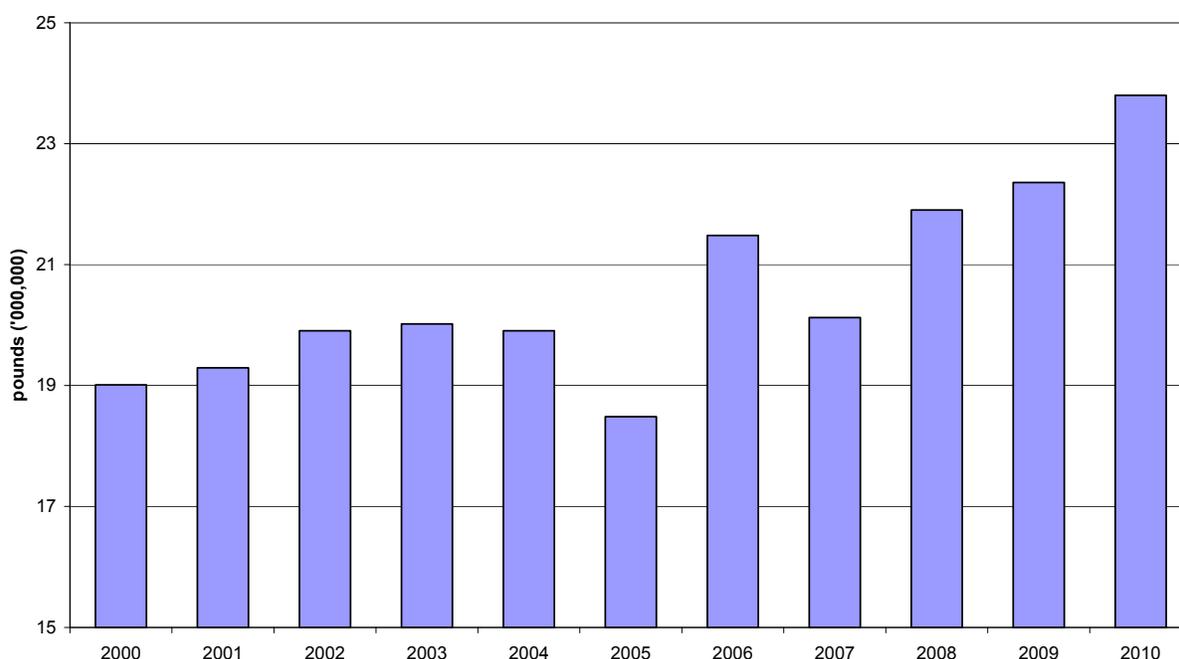
Prince Edward Island's farm cash receipts for the first quarter of 2010 totalled \$101.8 million, a decrease of 17.5 per cent from the first quarter of 2009. This compares to a 12.3 per cent decline in farm cash receipts for Canada as a whole.

Low farm cash receipts during the first quarter of 2010 were largely a result of a decrease in potato prices. Potato receipts decreased from \$70.4 million in the first quarter of 2009 to \$52.7 million during the same period in 2010, a decrease of 25.1 per cent. Receipts for all crops totalled \$58.5 million, a decrease of 23.2 per cent from 2009. Adverse conditions in other potato-growing regions coupled with good harvest conditions on the Island, should result in better prices going forward.

Livestock receipts during the first quarter of 2010 totalled \$30.8 million, a 0.6 per cent decrease compared to the same period in 2009. Cattle receipts declined by 33.2 per cent to \$3.6 million, however hog receipts increased by 20.2 per cent to total \$3.1 million. Dairy product receipts for the first quarter of 2010, totalling \$18.3 million, have increased by 4.7 per cent over the same period in 2009.

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 is 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.

Lobster Landings PEI 2000-2010



Source: Department of Fisheries and Oceans/ PEI Fisheries, Aquaculture and Rural Development

### Tourism

Prince Edward Island saw a successful tourism season in 2010. The Island played host to several major events this year, including the Charlottetown Summer Festival with Cirque du Soleil, the Cavendish Beach Music Festival, Live! with Regis and Kelly, as well as numerous small festivals and events. Cruise ship traffic to the Island has increased substantially in 2010, up 21.3 per cent year-to-date. There are 46 ships with 72,966 passengers scheduled to visit the Island this season. Motorcoach traffic has also done well, up 14.9 per cent year-to-date, while bridge and traffic is up 0.7 per, and both ferry and air traffic are up 5.9 and 3.5 per cent respectively.

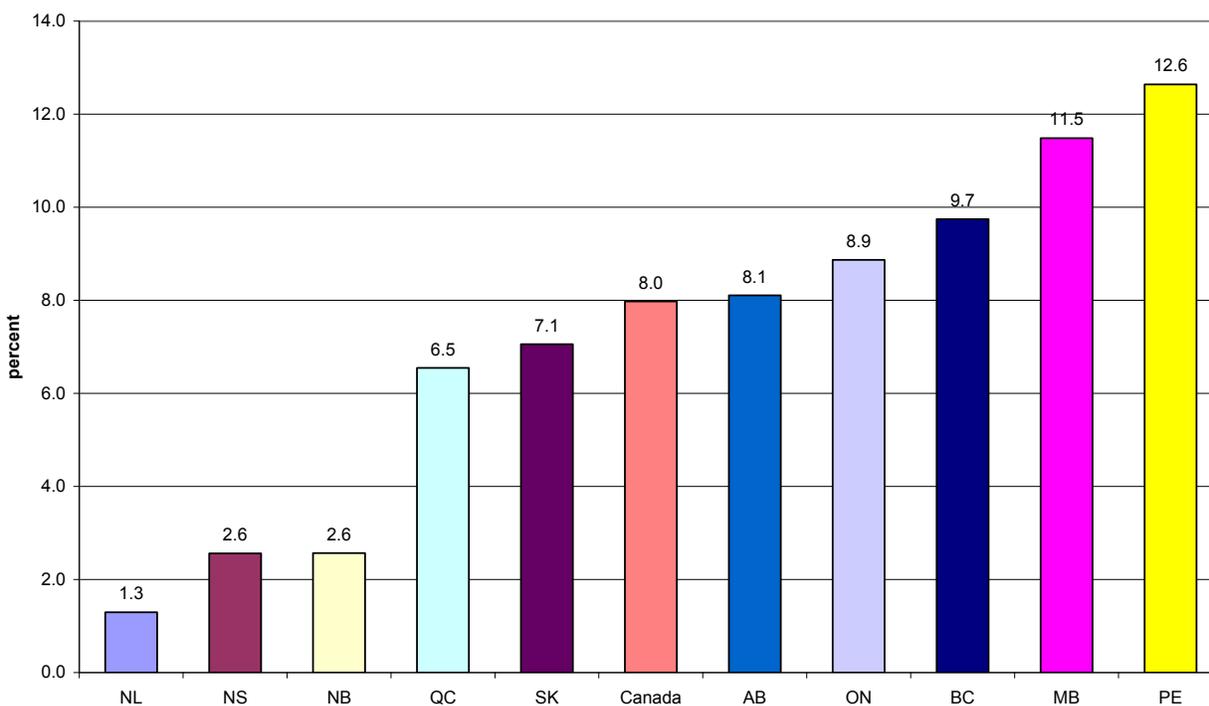
Accommodations data supplied by the Department of Tourism show across-the-board increases. On a year-to-date basis through August, occupancy rates have increased 1.3 percentage points, while stays at fixed-room accommodations have increased 0.1 per cent year-to-date. After a successful season in 2009, camping has seen another successful season with occupancy rates increasing 3.1 percentage points year-to-date, while site nights sold have increased 3.6 per cent over the same time period. These gains have been spread throughout the entire Island.

### 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 immigrants 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. As recently as 2003, PEI was receiving less than 200 international in-migrants per year.

Immigrants as a Percentage of Total Population 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 2010

Due to the industrial mix found on Prince Edward Island, the economic situation on the Island has been more stable compared to other parts of the country. Though uncertainty remains regarding speed of the current recovery, it is not expected that the world economy will return to recession. However the economic outlook for 2011 is that growth will be moderate, especially in advanced economies, and PEI is no exception.

The upside risk is that the American economy will rebound quicker than expected, and that, due to adverse growing, and environmental conditions in several of the Island's competitor food-manufacturing areas, exporters may be able to avail themselves of increased opportunity. The downside risk to this outlook for the Island is that in the near term, a further deterioration in the export market for frozen food manufacturing, notably due to a weaker-than-expected recovery in the United States could put downward pressure on growth. Further out, a weakening national and international economic climate and increases in input costs arising from further increases in the Canadian dollar could affect growth going forward.

GDP growth is expected to be slow but positive in 2010, estimated at 1.9 per cent, and is projected to grow at 1.7 per cent in 2011. Employment is expected to continue to grow through the end of 2010, and into 2011 and immigration levels are projected to remain elevated. The ongoing impacts of current stimulus spending should begin to wane in 2011, though the ongoing Provincial Capital spending plan, and several private-sector projects should continue to provide support to the Island economy through 2011.