Prince Edward Island Economy

Prince Edward Island
CANADA

Progress Report 2009

Introduction

This report summarizes the progress of the Prince Edward Island economy in 2009 using available statistical information up to November 13, 2009. The report also references the national and international economic perspectives. Emerging trends in economic indicators such as labour, population, prices, consumer spending, manufacturing, construction and the primary industries are identified and discussed.

International Economy

The world economy is beginning to emerge from the most pronounced and synchronized recession since the end of the Second World War. Brought on by the near collapse of financial markets worldwide, unprecedented public intervention from governments around the world was enough to avert a catastrophe. As a result, global economic growth has turned positive again according to projections from the International Monetary Fund (IMF). Though growth is projected for the latter part of 2009 and into 2010, recovery is expected to be slow due to the still fragile nature of the financial system, as well as the need to eventually undo some of the interventionist measures used to prop-up economies worldwide. This must be accomplished while still allowing households and businesses to repair the damage they have sustained to their balance sheets as a result of pricing and asset bubbles.

The International Monetary Fund, in their October *World Economic Outlook*, predict that global economic activity will contract approximately 1.0 per cent in 2009, before expanding approximately 3 per cent in 2010, levels far below the growth projected before the commencement of the current downturn. However, these projections are slightly more positive than their previous releases. As before, the majority of growth in the current year and through 2010 will be found in the emerging economies, led by India and China. These economies are expected to grow by 1.75 per cent in 2009, and by 5.0 per cent in 2010. Advanced economies are expected to have a more lacklustre performance, contracting by 3.5 per cent in 2009 before rebounding to grow at 1.25 per cent in 2010.

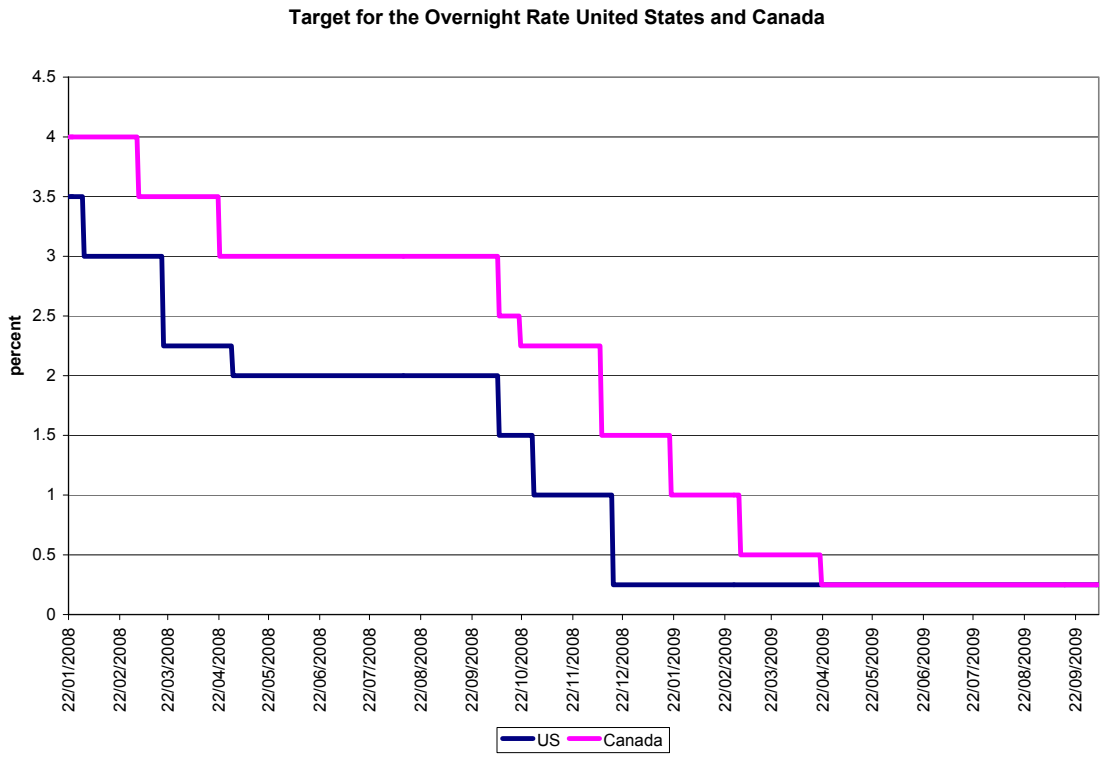
There is substantial downside risk to this forecast, as a number of factors could derail a return to economic growth in the near term, including volatile oil prices, large currency fluctuations, a resurgence of the H1N1 flu virus, renewed protectionism, or an ill-timed unwinding by governments of their fiscal and monetary stimulus.

American Economy

According to the preliminary results from the Bureau of Economic Analysis, the American economy expanded 3.5 per cent in Q3 at an annualized basis. This compares to contractions of 6.4 per cent and 0.7 per cent at an annualized rate in Q1 and Q2 respectively. Strong growth in Q3 can be attributed to ongoing stimulus spending by the government. Home and auto sales in particular were improved due to the Cash for Clunkers program, and the $8,000 credit to first-time home buyers. Due to the expiation of some of these stimulus measures, economic growth is expected to slow in the final quarter of the year, growing at an annualized 2.4 per cent according to the National Bureau of Economic Research. According to forecasts from the Congressional Budget Office, real GDP is expected to contract by 2.5 per cent in 2009, and is then expected to expand by 1.7 per cent in 2010.

The employment situation continues to deteriorate in the United States, with another 190,000 jobs lost in October. Since the beginning of the recession in December 2007, the number of unemployed persons has risen by 8.2 million to rest at 15.7 million. This has pushed the unemployment rate up to 10.2 per cent, an increase of 5.3 percentage points since the beginning of the recession, and its highest level since 1983. It is expected that unemployment will continue to climb in the near future before beginning to recede in 2010.

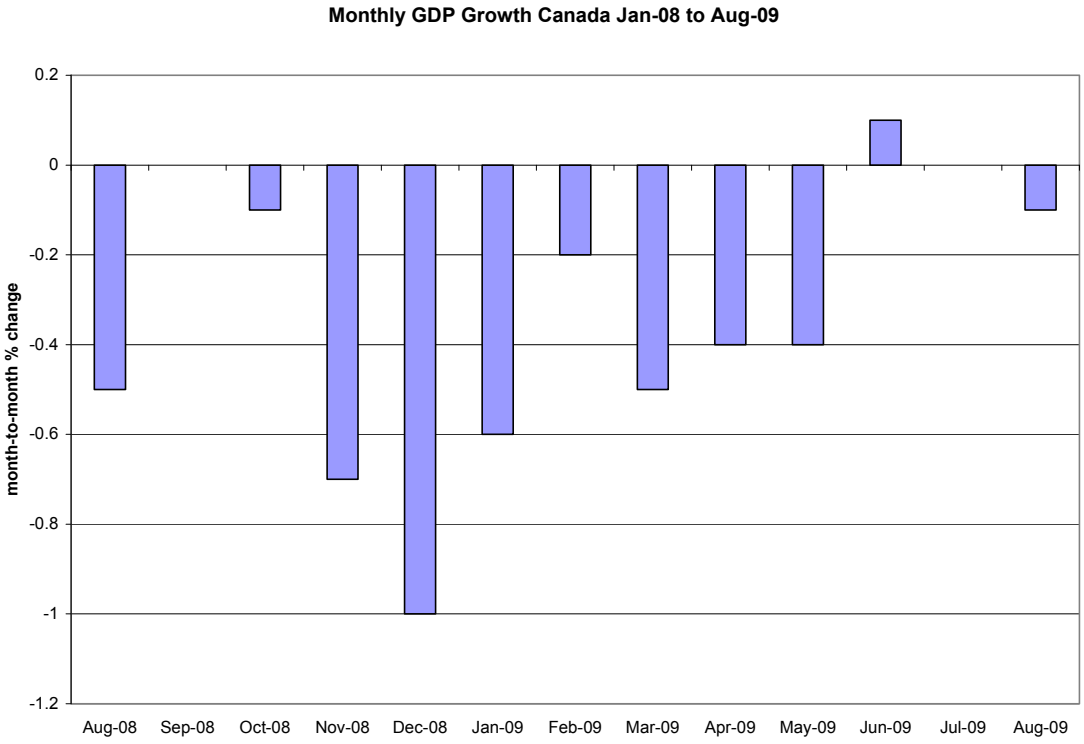
Though there are some signs that the American economy is beginning to improve, weakness in the real economy would suggest that the Federal Reserve will maintain its interest rate policy stance into 2010. Below is a graph detailing the interest rate path of the Federal Reserve from the period January 2008 to present. After rapidly cutting interest rates, rates have stabilized at 0.25 per cent for the past ten months. Interest rates in Canada have taken a similar track.



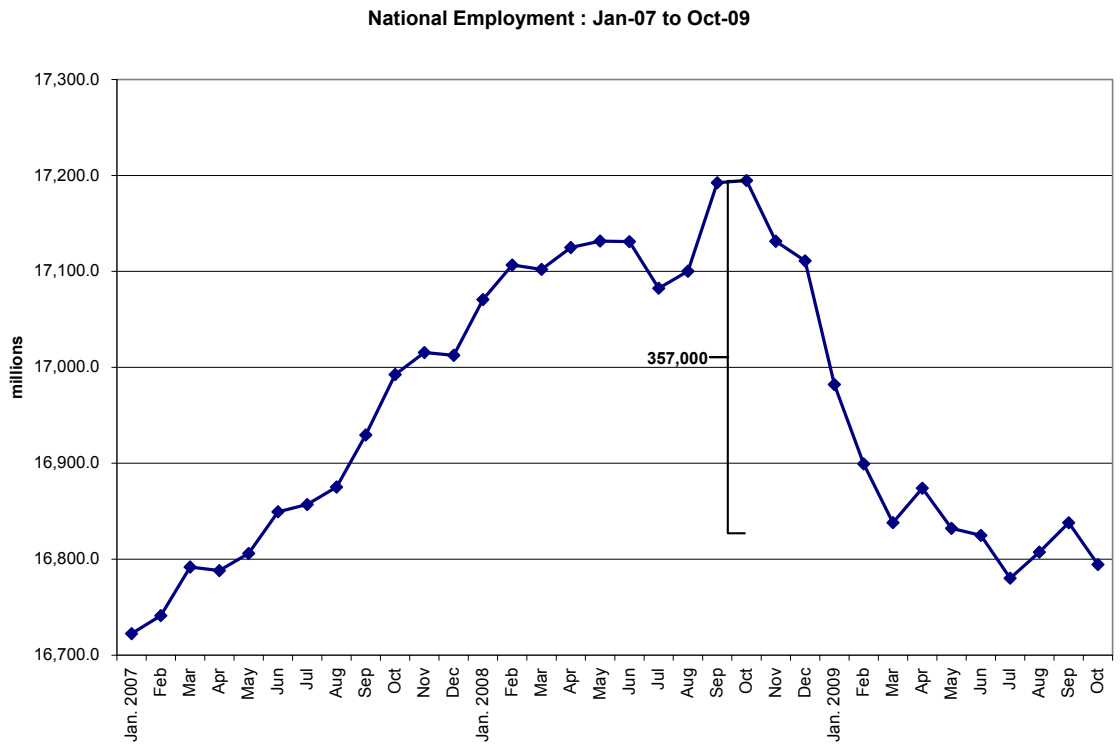
Canadian Economy

After ten months of decline, positive GDP growth was recorded in June, with no GDP growth recorded in July, and a 0.1 per cent contraction recorded in August. The main sources of decline were in the manufacturing industry, and in oil and gas extraction, whereas gains were found in retail, construction and the public sector.

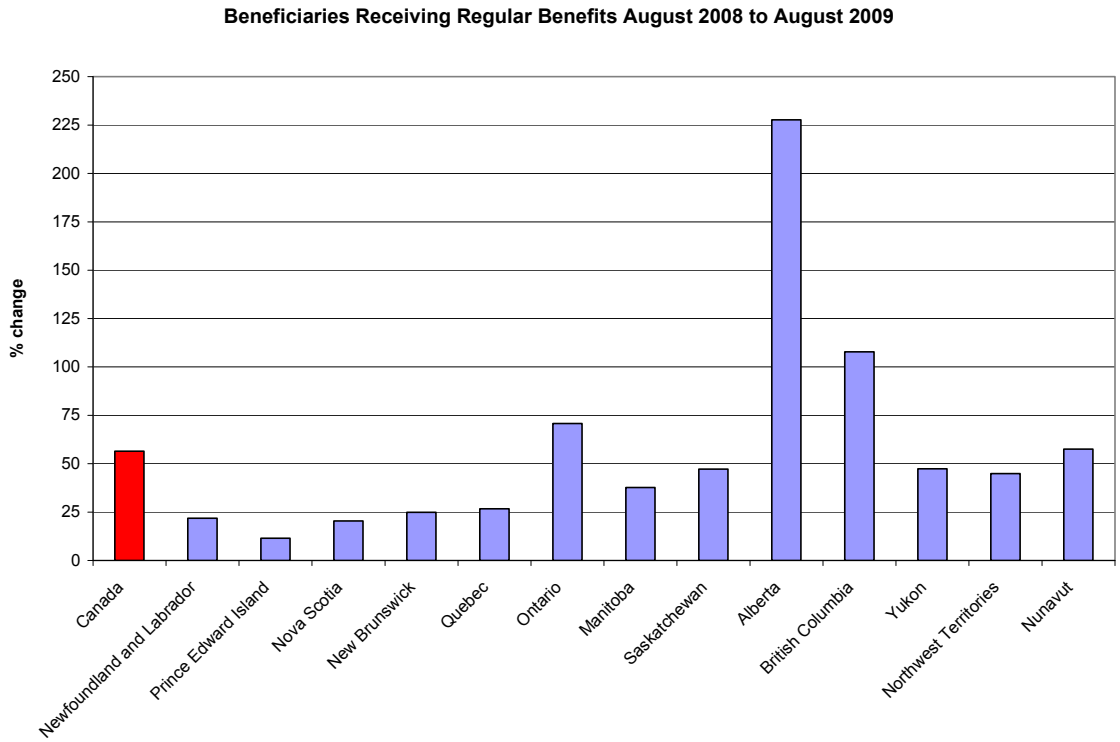
The Bank of Canada projects that the Canadian economy is poised to show signs of recovery beginning in the third quarter of 2009. According to the Bank's October *Monetary Policy Report*, the Canadian economy is expected to contract by 2.4 per cent in 2009 before rebounding to grow at 3.0 per cent in 2010.



Employment in Canada peaked in October 2008. Since that point, total employment has fallen by 400,000 jobs, or 2.3 per cent, with the unemployment rate currently at 8.6 per cent. During this time period full-time employment has fallen by 378,000, or 2.3 per cent. The majority of these losses were felt during the first five months of the financial crisis, where 357,000 jobs were lost, as illustrated in the graph below. Though moderate job growth was observed in August and September, employment fell by 43,000 in October. All of the losses were recorded in part-time employment, down 60,000 in October. However, a small gain in full-time employment was recorded, up 16,500 in October, continuing a trend seen in previous months.

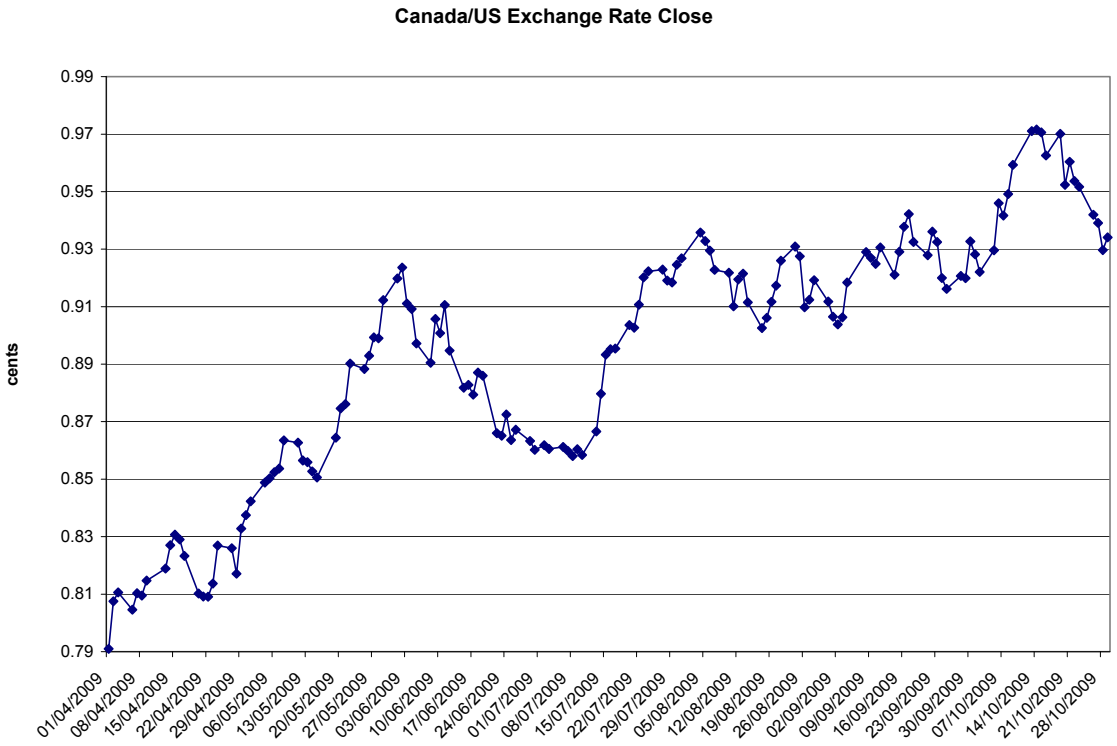


Rising unemployment has increased the use of employment insurance benefits throughout Canada. In August 2009 there were 56.5 per cent more people receiving employment insurance benefits compared to August 2008. Alberta, British Columbia and Ontario have seen more rapid rises in the number of employment insurance claimants for a variety of reasons including substantial job losses in the oil and gas, forestry and automobile sectors.



The Canadian dollar has appreciated rapidly against the American dollar. Whereas in April the Canadian dollar was trading around 80 cents US, by early October in was trading in the 97 cent US range. This has caused concern amongst exporters, and has been raised by the Governor of the Bank of Canada as a potential downside to the nascent recovery in Canada. To date no action has been taken to intervene in the global currency market to dampen the dollar's rise.

Recent comments from the Bank of Canada outlined in their October *Monetary Policy Report* have had a dampening effect on the Canadian dollar. The news of a further contraction in GDP has also tempered the dollar's rise, and it is presently trading in the 93 cent range.



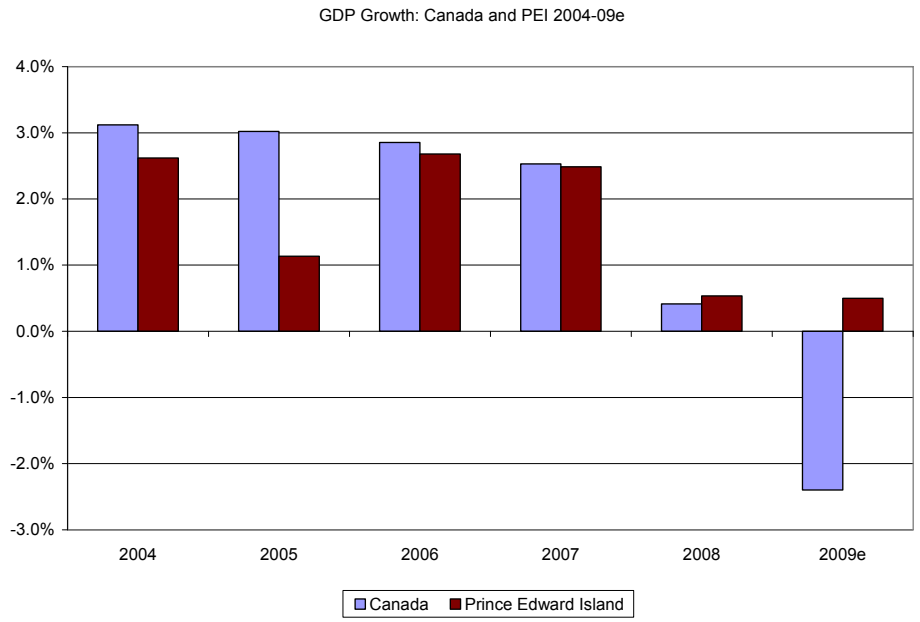
The consumer price index continues to be negative for Canada and most provinces. This is not due to overall deflationary pressure in the economy, but instead is largely caused by lower prices for petroleum products as compared to the same time last year. Positive inflation has been recorded for food, shelter, household operations, alcoholic beverages, education, recreation and reading, as well as household and personal care products. Core inflation remains at 1.6 per cent, well within the Bank of Canada's policy target of 1-3 per cent.

Highlights of the Prince Edward Island Economy

- Provincial GDP grew 0.5 per cent in 2008. Growth is projected at 0.5 per cent for 2009
- Employment has averaged 69,000 people through September 2009, a decrease of 2.0 per cent from the same period in 2008
- The number of jobs in the wage economy continue to rise on Prince Edward Island, up 2.3 per cent year to date
- Total wages and salaries have grown 4.7 per cent year-to-date through June
- Prince Edward Island is leading in the growth of non-residential construction so far this year, with a 46.1 per cent increase through the first three quarters of 2009 year-to-date.
- Housing starts are up 9.5 per cent through September, led by strong growth in multiples
- Farm cash receipts for the first half of 2009 totalled $219.4 million, an increase of 16.3 per cent over the first half of 2008, led by an increase in potato prices
- Manufacturing shipments from PEI have declined 5.1 per cent on a year-to-date basis through July, while international exports have grown 1.0 per cent over the same time period
- Consumer prices have decreased 0.5 per cent on a year-to-date basis through August, led by a decrease in the price of petroleum products
- As of July 1, 2009, Prince Edward Island's population is estimated to be 140,985. This represents a yearly increase of 1,534 persons, or 1.1 per cent growth since July 1, 2008.

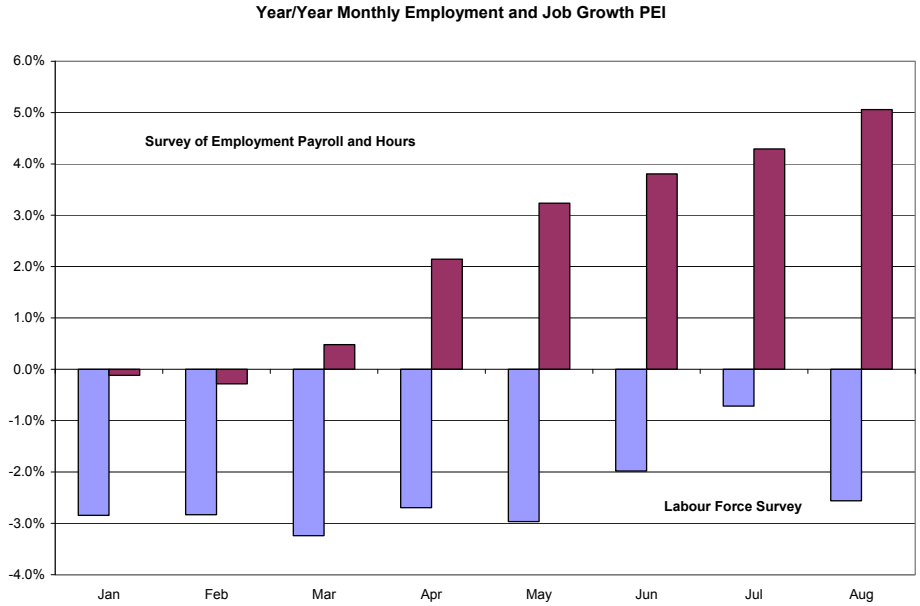
Provincial Economy

Despite the pressures brought about by the global economic crisis, the Prince Edward Island economy has continued to perform relatively well. Statistics Canada estimates that provincial GDP grew by 0.5 per cent in 2008, while the Canadian economy expanded 0.4 per cent. Though growth in all areas of Canada is expected to be weak in 2009, Prince Edward Island is in a good position to avoid negative growth, as the economy is expected to expand in the order of 0.5 per cent.



Employment and Jobs

The labour market on Prince Edward Island has been seeing trends in opposite directions for the past six months. As illustrated in the graph below, the year-over-year change in monthly employment as recorded in the labour force survey has been deteriorating throughout the economic slowdown, while the year-over-year change in monthly wage employment has shown increases for the six months through to August.



According to the Labour Force Survey (LFS), employment has averaged 69,000 people through October of 2009, a decrease of 2.0 per cent from the same period in 2008. The unemployment rate has averaged 12.3 per cent over this time frame, an increase of 1.7 percentage points over 2008. Employment losses have occurred in both the goods and service producing industries, with notable declines in manufacturing and other primary industries, transportation and warehousing, public administration and health and social services. Notable employment gains can be found in agriculture, construction and utilities, and educational 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 has averaged 62,347 through August, an increase of 2.3 per cent year-to-date, and an all-time high. According to this survey, gains have been recorded in both the goods and services producing sectors, averaging 6.7 and 0.9 per cent respectively.

One explanation for the simultaneous decline in the level of employment, and an increase in the number of wage jobs on the Island can be related to the reversal of labour market conditions in other parts of Canada, as well as to the stimulus action taken by government locally. In recent years, it has become increasingly common for Islanders to travel to work in other provinces, notably to western Canada, yet maintain their permanent residence on PEI. If such a person happened to lose their job due to the economic slowdown, they would be recorded as being unemployed on the Island, though this would not result in any perceived job loss in the domestic labour market. The number of jobs created through government action to stimulate the local economy appears to be significant, and is likely one of the driving forces behind the gains in wage employment in the goods producing sector.

Year-to-date the Island has been the leader in payroll employment expansion and, along with Saskatchewan and Newfoundland and Labrador are the only three provinces to post gains for the year. Payroll employment in Canada declined 1.6 per cent year-to date through July.

Growth in the number of jobs, and increases to wages helped push total wages and salaries up by 4.7 per cent year-to-date through June. This is the fastest rate of growth in the country. Nationally, total wages and salaries have advanced 0.6 per cent year-to-date through June.

Consumer Prices

A 20.1 per cent decline in energy prices on the Island has resulted in overall consumer prices declining by 0.5 per cent on a year-to-date basis through to August. Shelter costs have also decreased 4.3 per cent, while the cost of food has increased 7.1 per cent. Core inflation (the measure of inflation excluding volatile components such as energy and food) on the Island is 2.2 per cent year-to-date.

Retail Sales and Motor Vehicle Sales

The total value of retail sales is down 1.9 per cent on a year-to-date basis through August. This can be attributed to the lower price of gasoline and other energy products that has been experienced through the first seven months of 2009. Retail sales in Atlantic Canada have fallen less than in other regions of the country, with Prince Edward Island, New Brunswick and Nova Scotia all showing declines of 1.9 per cent and Newfoundland and Labrador posting stronger retail sales with a 1.5 per cent gain year-to-date. Nationally, retail sales have declined 5.0 per cent.

The sale of new motor vehicles has declined 7.2 per cent on a year-to-date basis through September. During the same time the value of new motor vehicles has increased 2.6 per cent. Nationally, the sale of new motor vehicles has declined 14.8 per cent, while the value of those vehicles has decreased 12.7 per cent.

Construction and Housing

According to the survey of *Public and Private Investment Intentions* capital spending is estimated to decrease 3.9 per cent in 2009, as of May 2009. Previously, capital spending intentions were estimated to decline 8.5 per cent in 2009. Positive revisions to these estimates can be attributed to an increase in non-residential building led by public sector construction. Intentions to purchase capital and machinery have decreased through this period.

The value of non-residential investment has increased 46.1 per cent through the first three quarters of 2009 as compared to the same period in 2008. Prince Edward Island is leading in the growth of non-residential construction so far this year. National growth in non-residential construction has increased 1.64 per cent over the same time period.

The value of non-residential building permits is down 32.0 per cent year-to-date through September. Increases in industrial and commercial permits of 79.2 per cent and 13.9 per cent respectively, were not enough to make up for the large decline in institutional permits of 83.0 per cent. The value of residential building permits has increased 0.1 per cent, for a 15.2 per cent decline in the value of all building permits.

Residential investment continues to grow on the Island, up 3.4 per cent through the first half of 2009, as compared to the same time period in 2008. In Canada as a whole, residential investment has declined 12.8 per cent over the same time period.

The real estate market on the Island has fared relatively well through the recession. Housing prices continue to post year-over-year gains, while construction has not abated. Housing starts on the Island are up 9.5 per cent year-to-date through September 2009. This increase has been led by strong growth in multi-family homes. The Canadian Mortgage and Housing Corporation (CMHC) has revised their housing outlook for PEI. Presently new housing starts are projected to grow 3.9 per cent in 2009; previously, a decline of 5.0 per cent was expected.

Manufacturing Shipments and Exports

Manufacturing shipments from PEI have declined 5.1 per cent on a year-to-date basis through August. This is a result of a 19.3 per cent decline in the value of food shipments, largely attributed to the low prices facing the seafood processing sector. Excluding food shipments, manufacturing shipments are up 19.5 per cent year-to-date. This is a result of strong shipments of chemicals, and transportation equipment (largely composed of aerospace products), which have increased 20.3 per cent and 31.7 per cent respectively.

International exports from PEI have increased 1.2 per cent on a year-to-date basis through August. Prince Edward Island is the only province in Canada to post an increase in exports so far this year. This growth can be attributed to the strong performance of frozen potato products, which has increased 18.6 per cent year-to date. Gains in the aerospace sector have also added to PEI's increase in international exports. Offsetting almost all of these gains is the 36.2 per cent decline in exports of seafood. This industry has been negatively

affected by the economic conditions of the last year, and has struggled due to low prices and lack of demand for its product, especially lobster. Nationally, exports have fallen 28.5 per cent year-to-date through August.

Primary Industries

Prince Edward Island's farm cash receipts for the first half of 2009 totalled $219.4 million, an increase of 16.3 per cent over the first half of 2008, the strongest growth in the country. This compares to the 1.36 per cent decline in farm cash receipts for Canada as a whole.

Higher farm cash receipts during the first half of 2009 were mainly a result of an increase in potato prices. Potato receipts increased from $97.3 million in the first half of 2008 to $122 million during the same period in 2009, an increase of 25.4 per cent. Receipts for all crops totalled $134.2 million, an increase of 22.8 per cent over 2008. Cold, wet conditions have slowed the 2009 potato harvest, which may have an impact on receipts going forward.

Livestock receipts during the first half of 2009 totalled $62.9 million, a 5.5 per cent increase compared to the same period in 2008. Cattle receipts improved by 49.0 per cent to value $13.2 million, however hog receipts continued to decline by 34.8 per cent to total $5.1 million. Dairy product receipts for the first half of 2009, totalling $35.7 million, have increased by 6.8 per cent over the same period in 2008.

PEI Farm Cash Receipts

in '000s Year:	Total Crops	Potatoes	Total Livestock	Cattle	Hogs	Dairy	Direct Payments	Total Farm Receipts
2008:2	$57,013	$40,475	$29,826	$4,602	$4,567	$16,560	$2,409	$89,248
2008:3	$75,676	$63,074	$29,544	$4,679	$3,507	$17,238	$7,176	$112,396
2008:4	$74,386	$67,841	$31,481	$6,279	$2,741	$17,526	$16,205	$122,072
2009:1	$59,816	$54,164	$31,453	$6,895	$2,409	$18,197	$6,017	$97,286
2009:2	$48,613	$34,851	$29,738	$4,536	$6,712	$15,259	$4,091	$82,442
2008 YTD	$109,311	$97,325	$59,641	$8,844	$7,899	$33,435	$19,707	$188,659
2009 YTD	$134,202	$122,005	$62,934	$13,174	$5,150	$35,723	$22,222	$219,358
YTD 09 / YTD 08	22.8%	25.4%	5.5%	49.0%	-34.8%	6.8%	12.8%	16.3%

Source: Statistics Canada

Spring and fall lobster landings were up 4.7 per cent in 2009 to total 22.9 million pounds, an all-time high. Increased catches were recorded in all fishing areas. However the fishing sector continues to face challenges in the current economic environment, with prices down substantially from 2008. Though larger, the 2009 catch is valued at approximately $75 million, whereas the 2008 catch was values at approximately $100 million, a decline of 25 per cent.

The tuna season on the Island started off with price size and quality issues in early July and August. With prices averaging approximately 8$/lb, the fishermen voluntarily decided to postpone the season and reopen in October. This move saw an increase in prices to average 14$/lb, and an improvement in the size and quality of the catch.

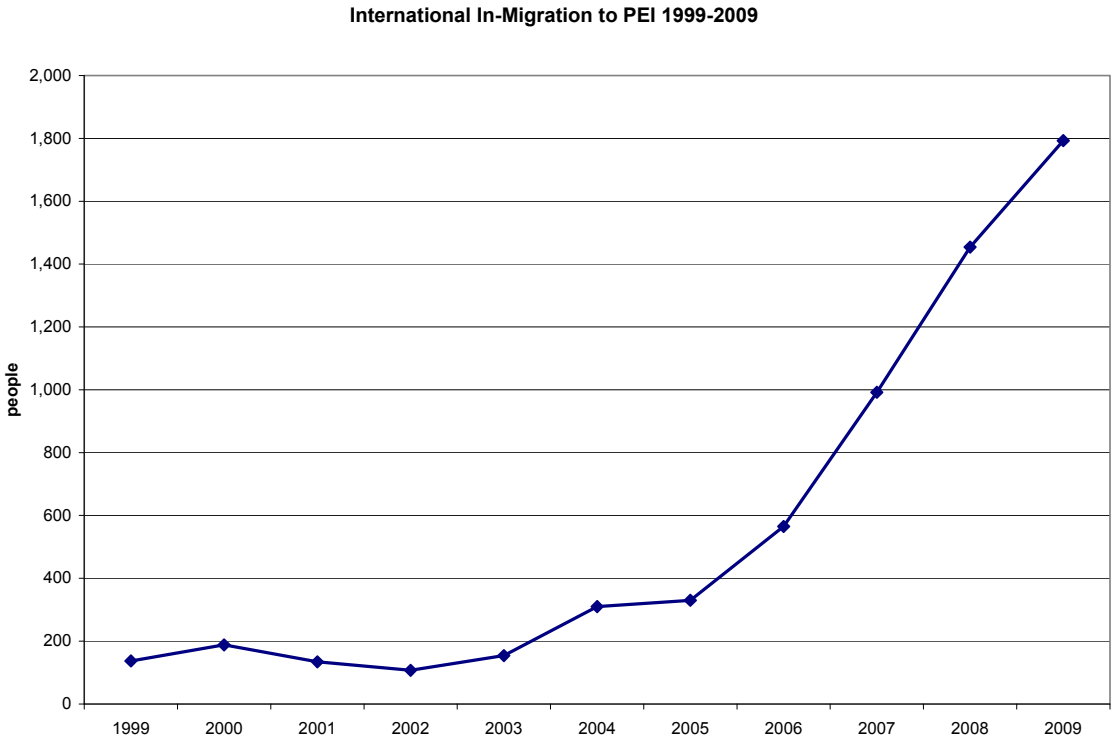
Tourism

Like most jurisdictions, tourism on the Island, tourism faced difficulties due to the challenging economic environment. On a year-to-date basis through September, occupancy rates have decreased 0.3 per cent, while stays at fixed-room accommodations have declined 3.6 per cent year-to-date. Camping has seen a successful season with occupancy rates increasing 3.9 per cent year-to-date, while site nights sold have increased 21.9 per cent over the same time period. These gains have been spread throughout the entire Island. Bridge and traffic is up 9.4 per cent year-to-date, while both ferry and air traffic are down 1.8 and 0.9 per cent respectively.

Prince Edward Island played host to several major events this year, including the Canada Summer Games, the Cavendish Beach Music Festival, as well as numerous other small festivals and events. Cruise ship traffic to the Island has increased substantially this year with 41 ships and 63,073 passengers expected to visit Charlottetown and the surrounding area between May and November of this year. Between 2008 and 2009, the number of ships coming to PEI has increased 14 per cent, while the number of passengers has increased 10 per cent.

Population

As of July 1, 2009, Prince Edward Island's population is estimated to be 140,985. This represents a yearly increase of 1,534 persons, or 1.1 per cent growth, since July 1, 2008. Prince Edward Island's rate of growth during this period was the highest in Atlantic Canada and just slightly below the national rate of 1.24 per cent. This was the highest rate of growth for Prince Edward Island since 1984. The majority of this growth can be attributed to record gains in international migration. During this period, 1,793 international immigrants came to the province, the highest level on the current record keeping system (since 1971). As recently as 2003, PEI was receiving less than 200 international in-migrants per year. There were 1,402 births and 1,250 deaths on Prince Edward Island from July 1, 2008 to June 30, 2009, resulting in natural growth (births minus deaths) of 152.



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 the economic outlook for 2010, the consensus is that recovery will be underway by that point. However, there is some downside risk to this outlook for the Island. In the nearer term, a deterioration in the export market for frozen food manufacturing could put downward pressure on growth. Further out, a worsening national economy, a virulent resurgence of the H1N1 flu on the Island, sustained difficulties harvesting this year's potato crop, and increases in input costs arising from the increase in the Canadian dollar could affect growth going forward.

Provincial Treasury estimates GDP growth to be slow but positive in 2009, estimated at 0.5 per cent, and is expected to rebound to 2.0 per cent in 2010, as recovery in the national and international economy take hold. Recently the Conference Board of Canada released its outlook for the PEI economy, projecting growth of 0.9 per cent for 2009, and 1.8 per cent growth for 2010. Employment is expected to pick up again in 2010, and immigration is projected to remain strong. The ongoing impacts of current stimulus spending should continue to provide much needed economic activity through 2010.