

Prince Edward Island

THE MAJOR ASSIST FROM DIVERSIFICATION

- Prince Edward Island in 2017 outperformed most other provinces across multiple economic indicators, from population gains to full-time job creation. In line with the national economy, the Island's real GDP growth is expected to slow from an estimated 1.9% in 2017 to 1.2% by 2019, but the widening breadth of the Island's current expansion bodes well for its continuing momentum.

The traditional pillars of the PEI economy—agriculture, the fishery and tourism—are expected to remain solid performers in 2018–19 (table, p.2). A number of other industries such as aerospace continue to grow their competitive niches. With PEI's recent economic strength and population surge, the government's strategic goal of raising the number of residents from 152,000 in 2017 to 160,000 by 2022 now appears feasible. Further broadening this small economy to provide employment opportunities for newcomers is integral to the success of the government's overall growth objectives.

PEI has led provincial population growth since mid-2016, and the rise (y/y) in residents has averaged 1¾% over the last four quarters. In absolute terms, the annual population increase has escalated from a depressed average of 570 between 2013 and 2015 to a new high of over 2,500 in each of the last two years. Unlike the other Atlantic provinces, PEI's births outpace deaths, though by a diminishing margin. The net outflow of PEI residents to other provinces has receded since the 2014 commodity price correction weakened Alberta's attraction. With Alberta's gradual recovery, PEI's most recent four-quarter net outflow of 300 residents is expected to expand again, but modestly, remaining significantly below the annual average of 850 during 2012–14.

Moreover, PEI punches well above its weight in international immigration. Since the first quarter of 2016, the Island's share of newcomers to Canada has been double its portion of the national population. *Census 2016* also reports that the number of economic immigrants to the province reached an all-time high during 2011–16. This year and next, supported by the *Provincial Nominee Program*, PEI aims to exceed the annual average of 2,300 immigrants over the prior two years. After population repatriation and recruitment, the third prong in PEI's strategy is raising the retention of both immigrants and non-permanent residents. This should be aided by the *Atlantic Immigration Pilot*, recognizing that PEI's retention rate for immigrants has improved but is still below the other provinces'.

The resumption of employment growth is encouraging for population retention. After a 3.4% employment decline over 2015–16 due to workers returning to PEI from Western Canada as its oil & gas sector contracted, total jobs witnessed a healthy 3.1% gain last year. PEI's robust 4.4% rise in full-time positions in 2017, concentrated among the younger prime working ages of 25 to 44, testifies to the Island's capacity to absorb newcomers. Bolstered by rising household incomes, PEI's retail sales in 2017 soared 7.2% y/y (chart 1). Over the next two years, job creation on the Island is forecast to ease to a more sustainable pace, and retail sales will continue to advance, albeit at a more moderate clip.

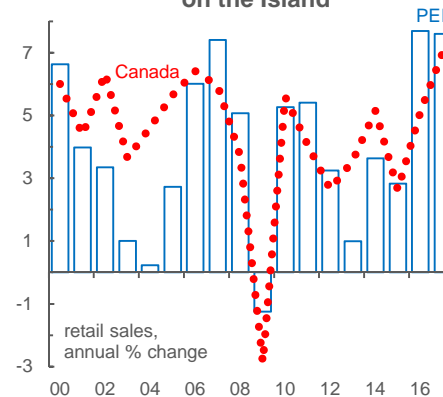
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Chart 1

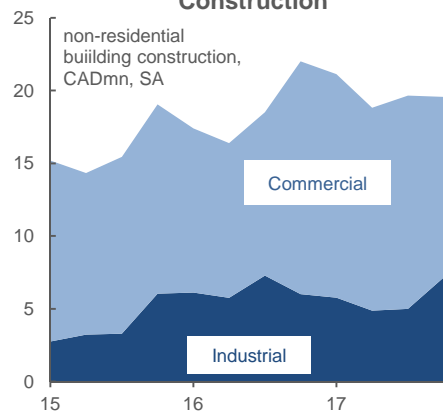
Buoyant Consumer Spending on the Island



Sources: Scotiabank Economics, Statistics Canada.

Chart 2

Moderating Non-Residential Construction



Sources: Scotiabank Economics, Statistics Canada.

Consumer spending and housing activity through the forecast are the main drivers of the Island's real GDP growth, reflecting the recent population and employment upswing plus factors such as tourism. Starts in and around Charlottetown jumped 70% last year and MLS unit sales climbed 3.8% in 2017 as average prices surged 12.4%, the strongest rise since 1996. In the past two years, Charlottetown received almost 90% of the Island's newcomers, pushing down the city's rental vacancy rate to a record low of 0.9% in October 2017. The tightening housing market and household formation trending higher suggest upside risk exists on our forecast of a gradual slowing in housing starts this year and next. In other provinces, a greater correction is anticipated in residential construction given the recent tightening in national mortgage regulations and the forecast rise in interest rates.

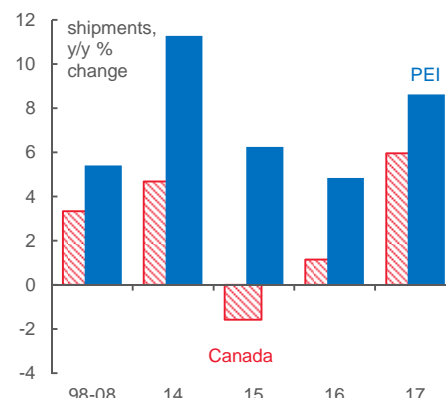
Tourism spending is another positive for the Island. The Province reports that overnight stays last year topped the 2016 record and surpassed the one-million mark for the first time. The multiple goals of the Province's tourism strategy include raising visitations by 3% annually, boosting tourism revenues to over \$0.5bn by 2021 and expanding the June/September shoulder seasons. The Canadian dollar is expected to trade in the 80¢(US) range through 2019, continuing to persuade Canadians to vacation within Canada as well as attract international visitors.

Non-residential construction is one source of slower growth over the forecast period. With work on the PEI-New Brunswick power transmission Interconnection Upgrade winding down last year, there are presently no major private-sector projects in the wings, with the exception of a potential addition to the Island's wind power capacity starting late in the decade. Instead, we look for PEI's business investment profile to be dominated by smaller projects over the next two years, as indicated by the late 2017 strength in industrial building construction (chart 2, p.1). Retail and commercial investment should benefit from the stepped-up residential construction as well.

An upswing in infrastructure investment is expected to provide a major offset to the fallback in nonresidential construction. For the current fiscal year, planned capital outlays are expected to be \$14mn (+14.8%) ahead of *Budget* with a further 20½% increase forecast for fiscal 2018–19. This investment reflects projects proceeding under Phase 1 of the federal infrastructure plan, the greater capital required to meet the education and other needs of an expanding population and some strategic investments, such as Tourism PEI's plans.

Buoyant merchandise export receipts are expected this year and next, building on a solid 4.6% gain in 2017. This largely reflects anticipated strength in the Island's manufacturing industry, which has held up during economic downturns and generally outperformed that of Canada as a whole (chart 3). Expanded aerospace production capacity in Charlottetown is expected to boost output. We therefore anticipate that external shipments of aerospace products, engines, turbine and power transmission equipment and other industrial machinery will easily surpass last year's 22.5% share of Island exports during 2018–19.

Chart 3

PEI's Manufacturing Advantage


Sources: Scotiabank Economics, Statistics Canada.

Prince Edward Island Profile, 2017

Population, 000s, July 1	151 (0.4% of Cda)
annual % change	1.7
Real GDP, C\$ 2007 bn	5.3 (0.3% of Cda)
Per-capita nom. GDP, \$000	43.2 (74% of nat'l avg.)

Sources: Scotiabank Economics, Statistics Canada, PEI Legislature, Rating agencies.

Economic Outlook

2010-16 **16** **17f** **18f** **19f**
annual % change except where noted

Prince Edward Island					
Real GDP	1.7	2.3	1.9	1.6	1.2
Nominal GDP	4.2	4.0	3.8	3.3	3.06
Employment	1.0	-2.3	3.1	0.9	0.67
Unemployment Rate	11.2	10.7	9.8	10.1	10.0
Housing Starts, 000s	0.7	0.6	0.9	0.9	0.8
Canada					
Real GDP	2.1	1.4	2.9	2.3	1.7
Employment	1.3	0.7	1.9	1.5	0.8

Governance

Premier	Wade MacLauchlan, Liberal (as of Feb. 2015)
Seats in legislature	16 of 27
Next Election	October 2019
Credit ratings:	
Moody's	Aa2
S&P	A
DBRS	A(low)

PEI's bioscience cluster will continue to be supported by the \$24mn in funding slated through 2021 for the Charlottetown commercialization centre focusing on neutraceuticals, cosmetics, food, agriculture and veterinarian care. For pharmaceuticals, warehouse activity is increasing alongside further investment in process development suites and an Island bioscience firm has reached an export joint venture agreement with a firm from Bangladesh.

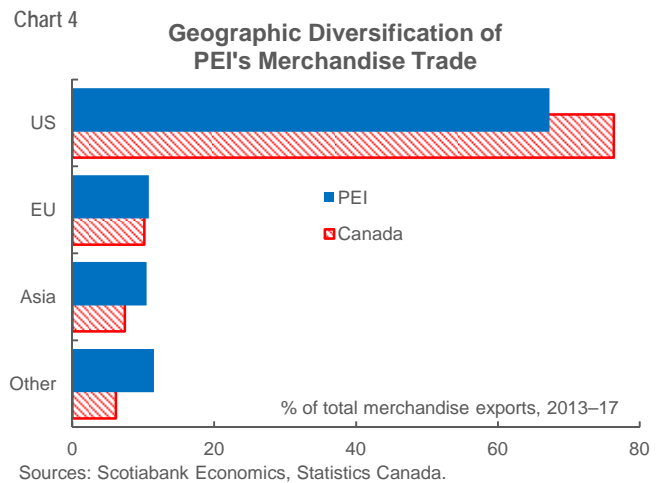
Seafood exports are an area reflecting both opportunity and some challenges. Last year's spring lobster fishery reported record landings, but the increased minimum legal size for the lobster catch scheduled for 2018 presents some near-term risk for harvest volumes. However, US and Asian demand for lobster is expected to remain robust. As well, the *Atlantic Fisheries Fund*, with seven-year financing of \$400mn in partnership with the federal government, aims to expand the region's export markets, including attention to signature shellfish other than lobster, such as mussels and snow crab.

The agricultural sector is expected to provide more support to real output growth during 2018–19 than it did last year. Some recovery is anticipated in potato yields, a key crop, after dry conditions in 2017 in the western part of the province contributed to a 6.2% fall in average yields. Flat y/y potato farm cash receipts through 2017Q3, however, suggest minimal impact on farmers' incomes. PEI's farm price product index reached an all-time high in August 2017, and additional potato processing capacity in New Brunswick is expected to support field potato prices this year. Cattle prices in 2017 slipped 1.8% from a year earlier, but potential upside developments may encompass an expansion of the Island's beef plant.

OUTLOOK

As NAFTA negotiations proceed, Prince Edward Island, like other provinces, faces elevated uncertainty. The breadth of the Island's industrial base and its share of merchandise export receipts to the US below the national average (chart 4) offer a partial cushion. Further geographic diversification of the Island's exports markets is important and the Comprehensive Economic and Trade Agreement (CETA) offers one opportunity to further build market share for key products such as seafood.

The synergy between PEI's economic and population gains is anchoring the Island's stepped-up expansion. To accommodate the increased activity, the Province is following up with a carefully managed commitment to raise its infrastructure investment, underpinning further growth.



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