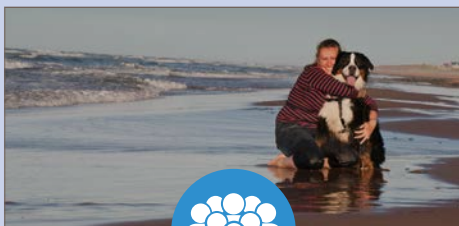




Prince Edward Island
Budget Paper on the Economy
2021

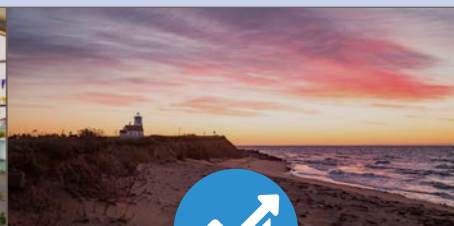
Highlights of the Prince Edward Island Economy



- The Island's population as of July 1 2020 was 159,625, an increase of 1.5 per cent from 2019, and the fastest growth amongst provinces for the fifth year in a row.
- Employment declined by 3.2 per cent in 2020 to average 76,700 people, the first decline since 2016.
- Consumer prices were flat in 2020.
- Retail sales on the Island grew 1.5 per cent in 2020, while wholesale trade has increased 3.2 per cent, the fastest growth amongst provinces.
- Building permits ended the year up 12.8 per cent compared to 2019.



- Investment in building construction increased 10.7 per cent in 2020 to total just over \$851 million.
- PEI recorded 1,162 starts in 2020, the second most starts seen in any year since 1978, but a 23 per cent decline from 2019.
- Housing completions increased substantially in 2020, up 77 per cent to 1,359 units, the most completed in a single year since 1974, and the third best year on record.
- Manufacturing shipments declined 2.9 per cent in 2020, the smallest decline amongst provinces.



- Island exports increased 0.9 per cent in 2020 to reach just over \$1.5 billion, the second fastest growth amongst provinces.
- Farm cash receipts increased 7.0 per cent in 2020 to total \$605 million, an all-time high.
- Through November, overnight stays totaled 449,844, or approximately 44 per cent of the stays recorded in 2019.
- Economic growth is projected to have contracted by 3.5 per cent in 2020, before growing by 4.0 per cent in 2021.

Introduction

The PEI economy began 2020 with momentum from the nation leading performance in 2019. However, the event that would dominate the economic fortunes of the global economy was the beginning of the COVID-19 pandemic. This virus has touched every corner of the globe, and the subsequent restriction of the movement of goods and people has had serious negative impacts on the economy that are likely to persist for some time. The following is an update of the economic situation of the province since the release of the September Economic Update, with a particular focus on economic indicators for 2020, and the outlook for 2021 and beyond. All data in this document is current to March 10, 2021.

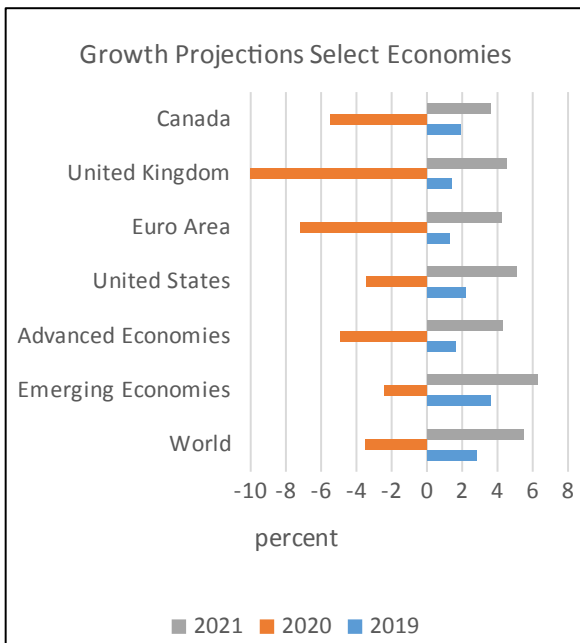


International and National Economic Context

According to the International Monetary Fund (IMF), after having grown by 2.8 per cent in 2019, global economic growth is projected to have contracted by 3.5 per cent in 2020. As can be seen in Chart 1, no part of the globe has been spared the negative effects of COVID-19.

The response to the COVID pandemic from various orders of government has been significant. The federal government has provided a significant amount of support to businesses and individuals, and continues to do so, as the effects of the pandemic continue. The provinces and territories have also received support for the safe restart of their school systems/economies.

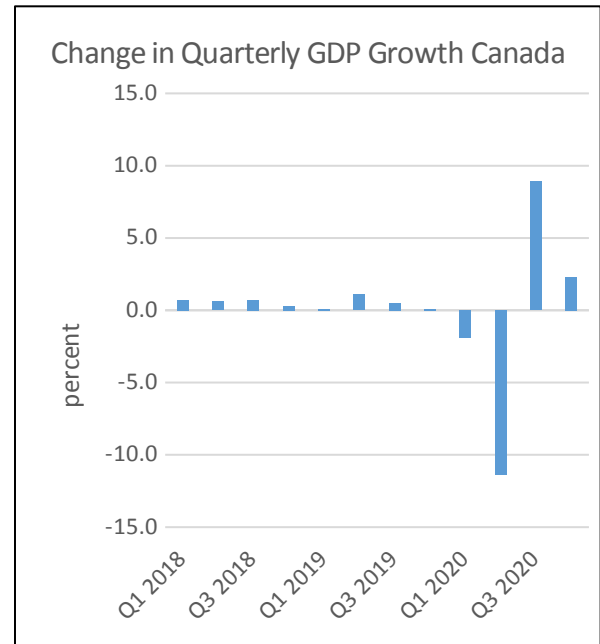
Chart 1:



Source: International Monetary Fund

Nationally, economic growth is projected to have contracted by 5.4 per cent in 2020, with strong variations between the quarters. Economic growth contracted the most in the second quarter, down 11.4 per cent, as a result of the shut-downs put in place to control the spread of the virus last spring. GDP rebounded by 8.9 per cent in the third quarter as more businesses started to re-open, and economic activity began to increase as restrictions lessened, while growth in the fourth quarter increased by 2.3 per cent.

Chart 2:



Source: Statistics Canada

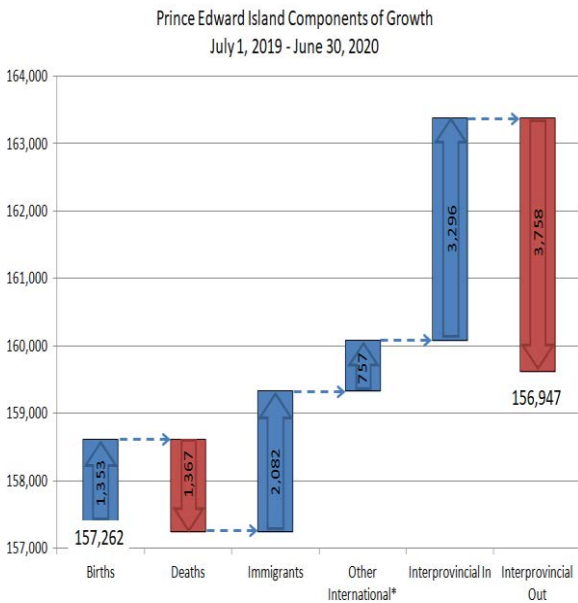
The Bank of Canada has also provided a significant amount of liquidity to the Canadian economy through the buying of Canadian and provincial securities. The Bank of Canada has also signaled its intention to keep the target for the overnight rate at its current rate of 0.25 per cent until inflation returns to its two per cent target, likely sometime in 2023.

Provincial Context

Prior to the beginning of the COVID-19 pandemic in mid-March, economic growth was robust and broad-based, propelled by a growing population, a growing labour force, increased domestic demand, strong demand for the products and services produced on the Island from abroad, and increased investment.

The onset of the pandemic curtailed economic activity on the Island. As it progressed, some activity was able to restart or continue, and in some cases, even see a boost in their business, whereas in other cases the curtailment has been more severe. This has led to a situation where, depending on where in the economy you look, the impact of the pandemic varied significantly from sector to sector, business to business and person to person.

Chart 3:



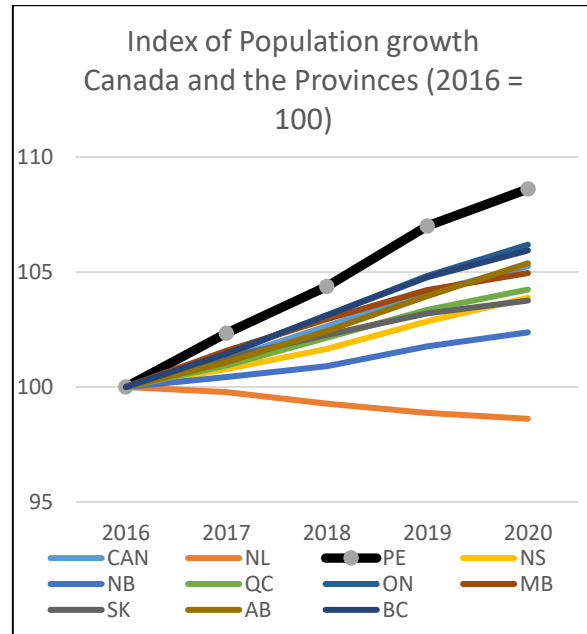
*Other International = 781 Net Non-Permanent Residents - 40 Emigrants + 44 Returning Canadians - 28 Temporary Abroad
Source: PEI Statistics Bureau, Statistics Canada

Population

Despite the effects of the COVID-19 pandemic, and the border restrictions put in place to contain it, the Island's population continued to grow. The Island's population as of July 1 2020 was 159,625, an increase of 1.5 per cent from 2019, and the fastest growth amongst provinces for the fifth year in a row. As in past years, international immigration continues to be the driving force behind the Island's population increases.

As can be seen in the following chart, the Island's population began accelerating in 2016, and over the last 5 years been the fastest growing province over this time period by a significant margin.

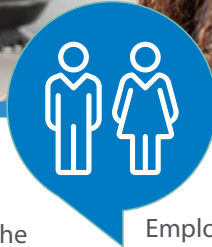
Chart 4:



Source: Statistics Canada

Growth continued through the latter part of 2020, with the population growing to 159,713 in the third quarter, an increase of 0.9 per cent from the same period in 2019, and a small increase compared to the second quarter.

The effects of the COVID-19 pandemic on international migration were evident during the second and third quarters of 2020. International immigration decreased by 10.8 per cent in the third quarter of 2020 compared to the second quarter of 2020, following a decline of 42.1 per cent in the second quarter. Immigration during the third quarter was down 70.2 per cent compared to the same period in 2019.



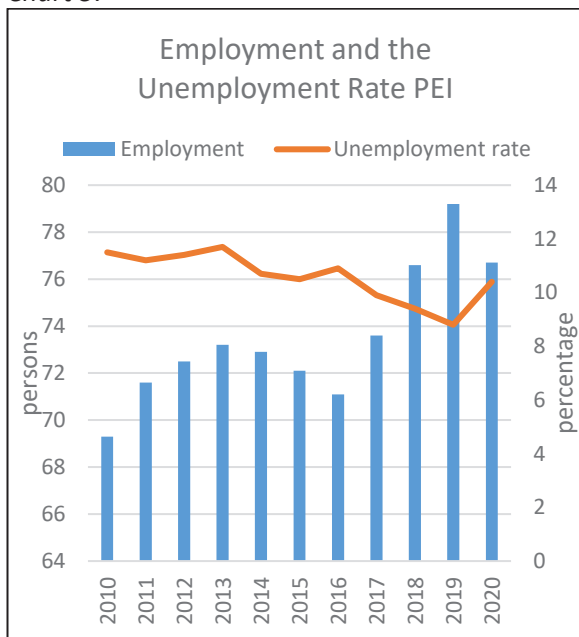
Labour Force

As a result of the restrictions put in place to control the spread of COVID-19, employment on Prince Edward Island contracted for the first time since 2016. After growing by 3.4 per cent in 2019, employment declined by 3.2 per cent in 2020 to average 76,700 people, a level of employment almost identical to that seen in 2018 (76,600). Employment declines amongst the provinces ranged from 2.6 per cent in New Brunswick to 6.6 per cent in both Alberta and British Columbia. Nationally, employment declined 5.1 per cent.

Employment, by the end of December was approximately 95 per cent of its pre-COVID level (February 2020). This ranged from a low of 94 per cent in Manitoba to just over 100 per cent in Newfoundland and Labrador.

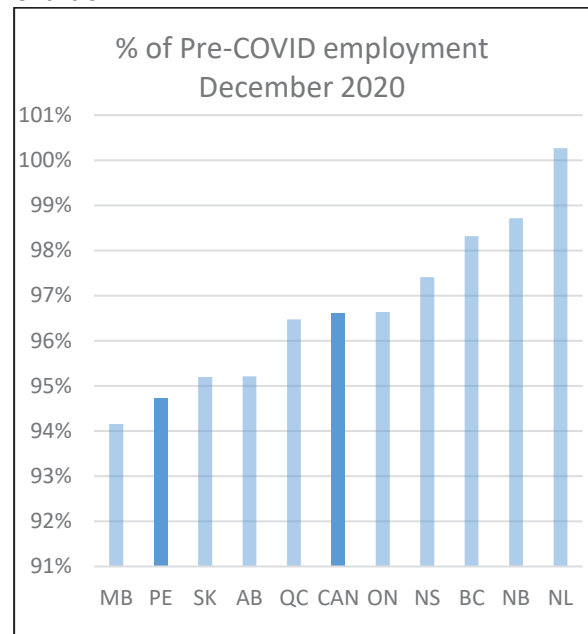
The unemployment rate also increased by 1.6 percentage points to 10.4 per cent, the first time the unemployment rate has exceeded 10 per cent since 2016. The unemployment rate ranged from 8 per cent in Manitoba, to 14.1 per cent in Newfoundland and Labrador. Nationally, the unemployment rate averaged 9.5 per cent in 2020.

Chart 5:



Source: Statistics Canada

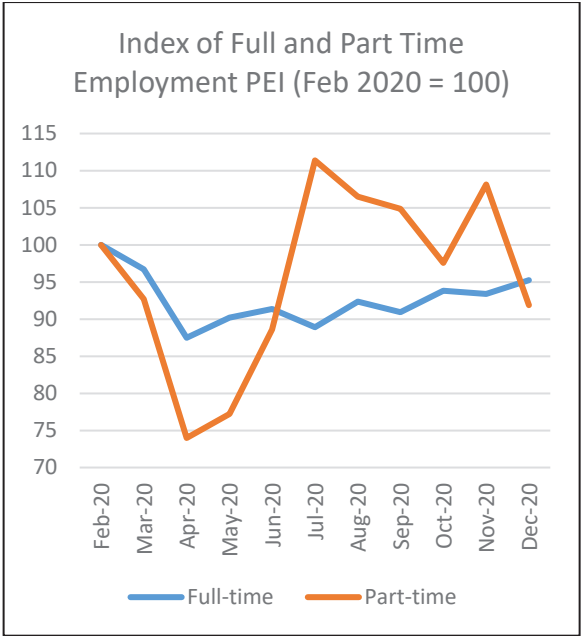
Chart 6:



Source: Statistics Canada

Full and part-time employment also had very different trajectories throughout the course of the pandemic. Initially, part-time employment decreased significantly more than full-time employment, and then rebounded much more strongly, as pandemic restrictions began easing in the late spring. Part-time employment has also had a more erratic pattern than full-time employment, which, after an initial decline has largely trended upward, but has yet to reach its pre-pandemic high.

Chart 7:

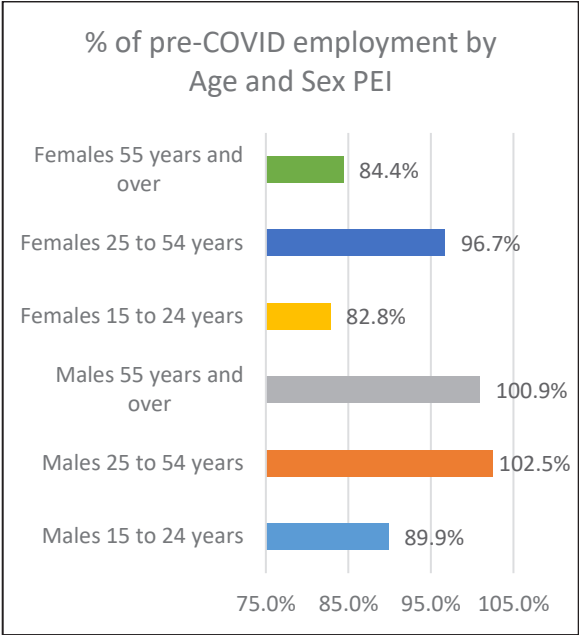


Source: Statistics Canada

The impact of COVID-19 also had a disproportionate impact on industries. Employment increased notably in professional, scientific and technical services (+700), public administration (+300), educational services (+200), and construction (+200). Industries that were heavily impacted by the restrictions put in place to control the spread of COVID-19 saw significant losses, with accommodation and food services seeing the largest decline (-1,900), followed by wholesale and retail trade (-600), building, business and other support services (-400), and agriculture (-400).

The pandemic did not have an equal impact on all workers, with women and young people disproportionately affected by the restrictions. Whereas men aged 55 years and over actually exceeded their pre-pandemic employment by December 2020, and where men and women aged 25-54 were just shy of that mark, men and women aged 15-24 and women aged 55 years and older remained well below their pre-pandemic employment levels.

Chart 8:



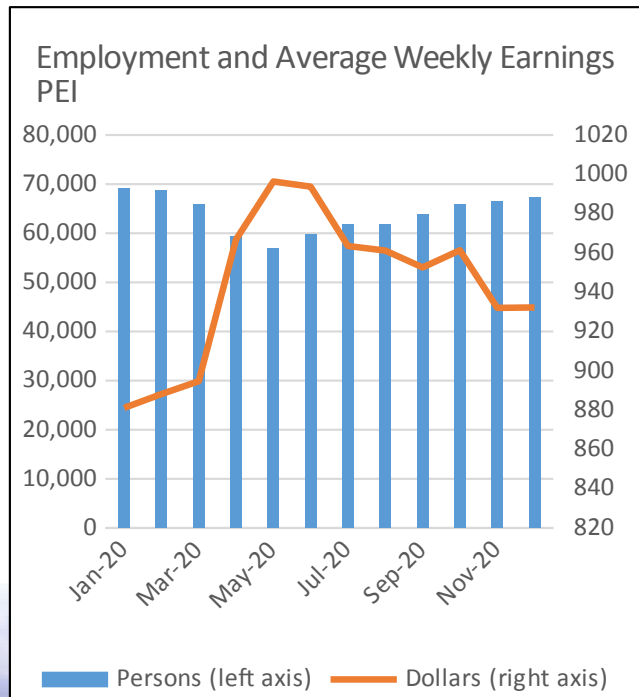
Source: Statistics Canada

Average weekly wages on the Island grew 8.8 per cent in 2020. Though part of the reason for growth in wages is due to factors such as the continuing increase in the minimum wage, in this instance, the job losses of hourly workers as a result of the COVID-19 pandemic meant that those who were left in the labour force were people who had higher wages, or were salaried workers, who tend to earn more on average. Chart 9 shows how earnings climbed at the same time jobs were being lost during the onset of the pandemic, and that average earnings have started to decline as lower wage workers have re-entered the labour force.

The compensation of employees increased 1.9 per cent in 2020, the fastest growth amongst provinces. Nationally, the compensation of employees declined 1.6 per cent in 2020.

Even with restrictions in place, job openings continue to return to more normal levels as evidenced by the Job Vacancy and Wage Survey (JVWS), and Job Board statistics. According to the JVWS, at the end of December, there were 1,330 job vacancies on the Island, for a job vacancy rate of 2.2 per cent.

Chart 9:



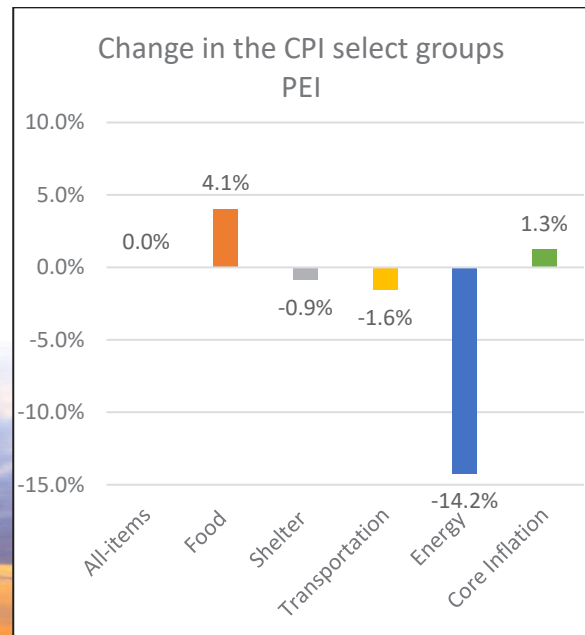
Source: Statistics Canada

Consumer Prices

Consumer prices were flat in 2020, though the end result does conceal some variations between sectors. Energy prices on P.E.I. decreased by 14.2 per cent over 2019, with prices for fuel oil and other fuels dropping by 25.0 per cent and gasoline prices falling 15.7 per cent. Food prices increased 4.1 per cent, led by an 8.5 per cent increase in prices for meat products.

Core inflation (all items excluding energy and food) increased 1.3 per cent. All other jurisdictions in Canada saw an increase in consumer prices in 2020.

Chart 10:



Source: Statistics Canada

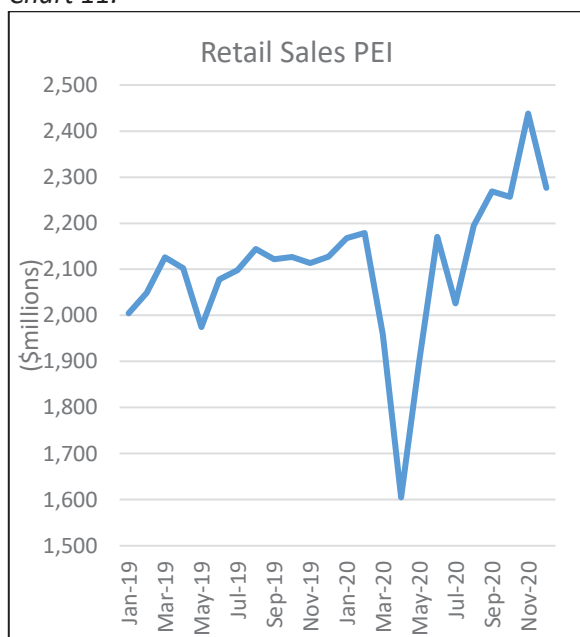


Retail/Wholesale Trade

Retail

After declining through the early part of the pandemic, retail sales advanced through the latter part of the year.

Chart 11:



Source: Statistics Canada

Retail sales on the Island advanced 1.5 per cent in 2020 to total \$2.8 billion. Growth in retail sales ranged from a high of 2.3 per cent in British Columbia to a decline of 3.4 per cent in Ontario. Nationally, retail sales declined 1.4 per cent in 2020.

So far through 2020, there have been notable sales increases in building and garden supply centers, food and beverage stores and general merchandise stores, while there have been sales declines in gasoline stations, motor vehicle and parts dealers, and clothing stores.

Sales of new motor vehicles were affected throughout the pandemic due to plant shutdowns on the production side, and dealership restrictions on the consumption side. For 2020 as a whole, the volume of new motor vehicle sales

declined 14.3 per cent, and the value of those sales fell 12.9 per cent. Consumers who continued to purchase vehicles continued to opt for larger vehicles, with 80 per cent of vehicles sold in 2020 being trucks (includes vans, SUVs), while the remaining 20 per cent opted for passenger cars. Nationally, the value of new motor vehicles declined 18 per cent, while the number of vehicles sold declined 20.8 per cent.

Wholesale

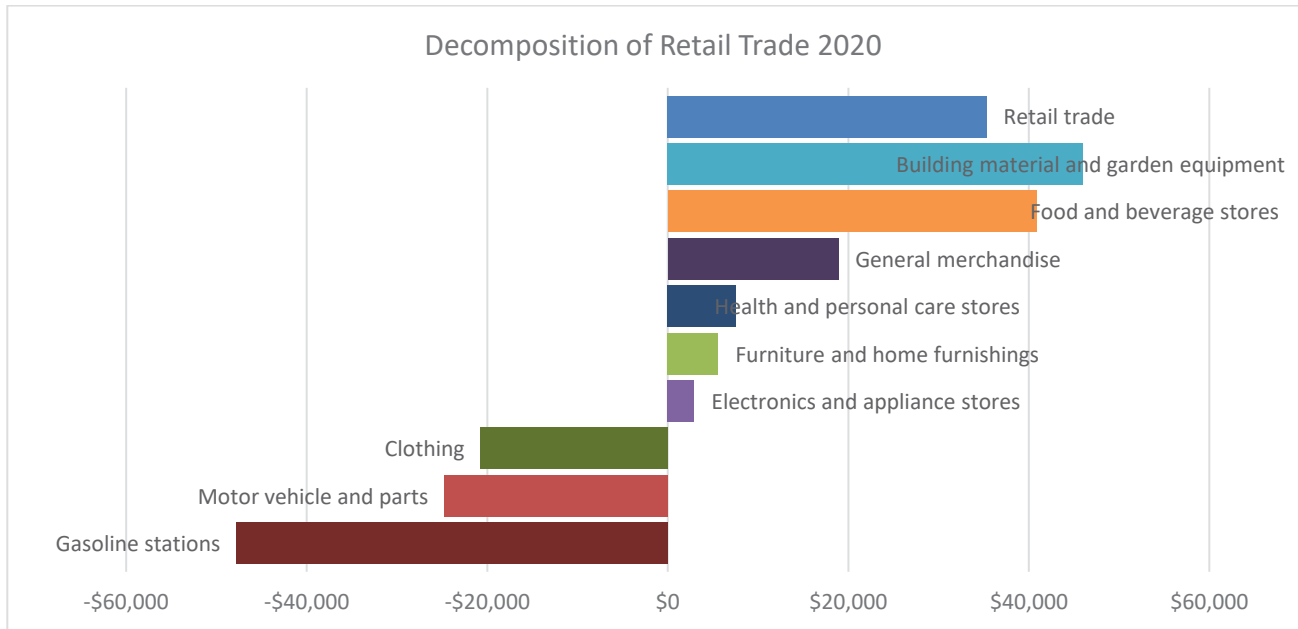
The value of wholesale trade totalled \$1.07 billion in 2020, an increase of 3.2 per cent from 2019, and tied with Saskatchewan for the fastest growth amongst provinces. Wholesale trade on the Island is largely concentrated in two sectors: food and beverage wholesaling, and machinery and equipment wholesaling. Nationally, wholesale sales fell 1 per cent in 2020.

Construction and Housing

In spite of the pandemic, the construction and housing sector had another successful year in 2020. Unlike in past recessions, where construction activity and housing demand fall, the opposite has been true so far through the pandemic. As a result of stay-at-home orders, interest in renovations went up in 2020, while sawmill closures early in the pandemic, and other production and supply chain disruptions increased the demand for building materials - notably lumber - driving prices up.

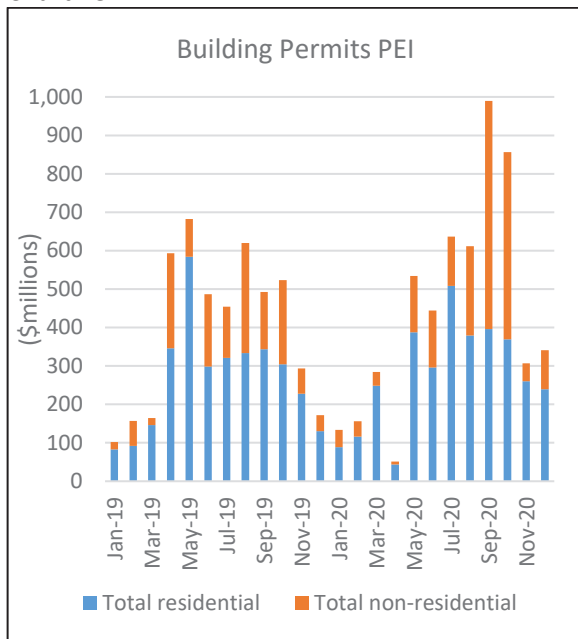
Though permitting was suspended in April as a result of measures put in place to combat the pandemic, building permits ended the year up 12.8 per cent compared to 2019. Growth was recorded in both residential and non-residential permitting, with residential permits up 3.8 per cent and non-residential permits up 31.6 per cent. A growing population and ambitious government infrastructure projects helped to support this growth.

Chart 12:



Source: Statistics Canada

Chart 13:



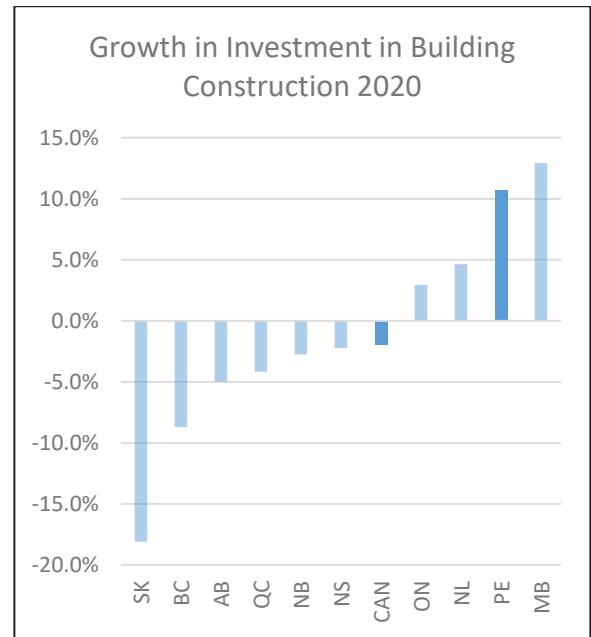
Source: Statistics Canada

Growth in building permits ranged from a high of 40.3 per cent in Newfoundland and Labrador, to a decline of 16 per cent in Manitoba. Nationally, building permits declined 2.3 per cent in 2020.

Investment in building construction increased 10.7 per cent in 2020 to total just over \$851 million. Increases were recorded in both the residential investment sector, up 8.0 per cent, and non-residential investment, up 19.5 per cent. Growth in investment in building construction ranged

from a high of 12.9 per cent in Manitoba, to a decline of 18.1 per cent in Saskatchewan. Nationally investment in building construction declined 2.0 per cent in 2020.

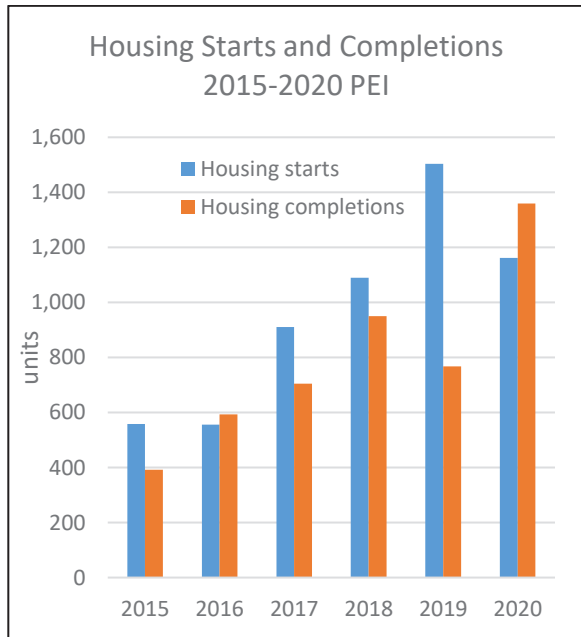
Chart 14:



Source: Statistics Canada

Housing starts declined by 23 per cent in 2020, from 2019 levels. However, PEI still recorded 1,162 starts, the second most starts seen in any year since 1978.

Chart 15:



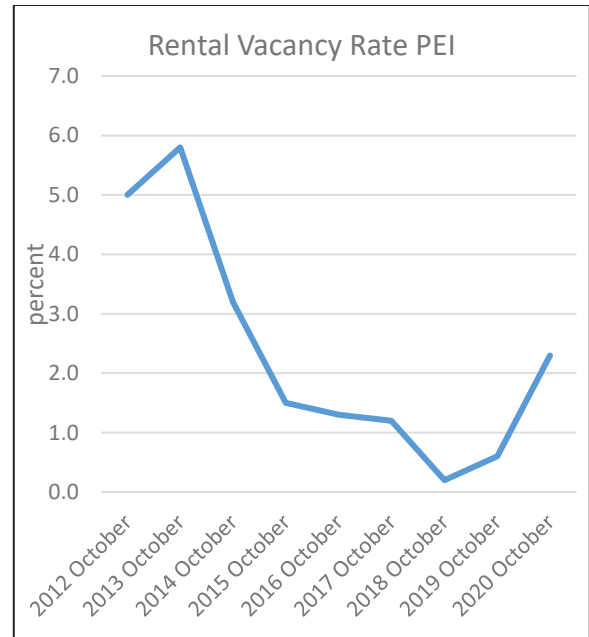
Source: Canada Mortgage and Housing Company

Housing completions increased substantially in 2020, up 77 per cent to 1,359 units, the most completed in a single year since 1974, and the third best year on record. The PEI Department of Finance estimates that approximately 1,300 completions are required in order to accommodate the projected growth in the population.

After a brief pause in the spring, housing sales and prices both increased in 2020. According to the PEI Real Estate Association, 2,103 homes were sold in 2020, up 9.2 per cent from the same period in 2019. The average price over this time period continued to increase to \$282,893 with the average price in the latter months of 2020 averaging over \$300,000. Low inventory continues to be a challenge. From a recent high of 16.6 months of inventory in 2014, this has fallen every year since to average 3.8 months in 2020.

After hitting a low of 0.2 per cent in 2018, the rental vacancy rate continued to improve on the Island in 2020. The rental vacancy increased from 1.2 per cent in 2019 to 2.6 per cent in 2020, relieving some pressure on the housing market. The vacancy rate for a single bedroom was slightly higher at 3.6 per cent, while for 2-bedrooms it was 2.2 per cent. The average price of rental accommodation also continued to increase, up 3.8 per cent to \$916.

Chart 16:



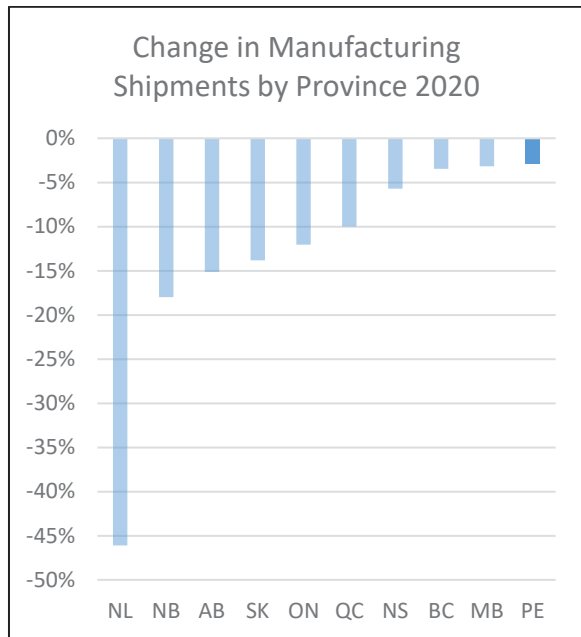
Source: Canada Housing and Mortgage Corporation



Manufacturing Shipments and Exports

Manufacturing shipments declined 2.9 per cent in 2020, the smallest decline amongst provinces. This decline in Island manufacturing is largely due to the weakness of durable goods manufacturing, which has declined 10.4 per cent over this time period. Non-durable goods manufacturing increased 1.2 per cent in 2020. Nationally, manufacturing shipments declined 11.4 per cent in 2020, largely due to weakness in transportation equipment manufacturing and petroleum and coal products manufacturing.

Chart 17:

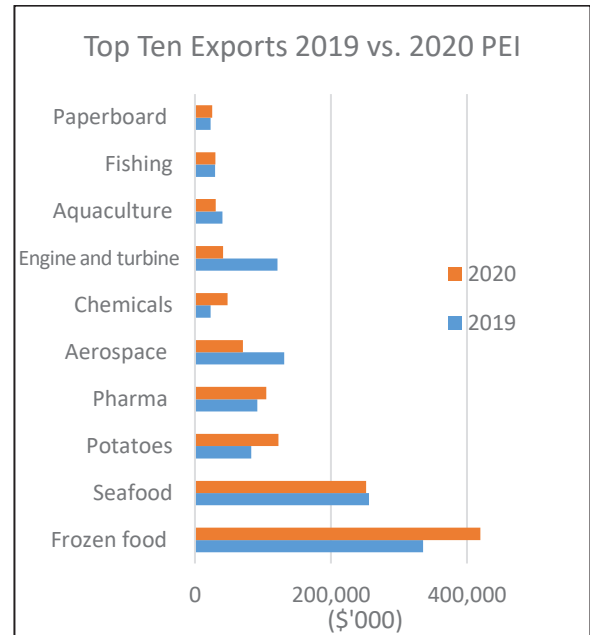


Source: Statistics Canada

Island exports increased 0.9 per cent in 2020 to reach just over \$1.5 billion, a new record. Prince Edward Island was one of only two provinces to record growth in exports in 2020, the other being Saskatchewan (up 2.5 per cent). Nationally, exports declined 12.2 per cent in 2020.

Growth in the Island's exports is due largely to the strong performance of frozen food manufacturing, up 25.2 per cent in 2020. Potatoes also had a strong year, up 48.7 per cent, while pharmaceuticals and chemicals also posted strong performances. This was enough to offset declines in seafood preparation and packaging, down 1.5 per cent, aquaculture, as well as weakness in the aerospace sector stemming from reduced demand as air services continues to be affected by the pandemic.

Chart 18:



Source: Industry Canada



Primary Industries

Primary industries had a challenging time adapting to COVID-19. Both the agriculture and the fish processing sectors needed to abide by new quarantine and social distancing rules, as well as with bringing in temporary foreign workers (TFWs) while respecting these new restrictions. The tourism sector had to adapt to a season that was to see, at first, no quarantine-free inter-provincial travel, followed by approximately five months of quarantine-free travel within the Atlantic region.

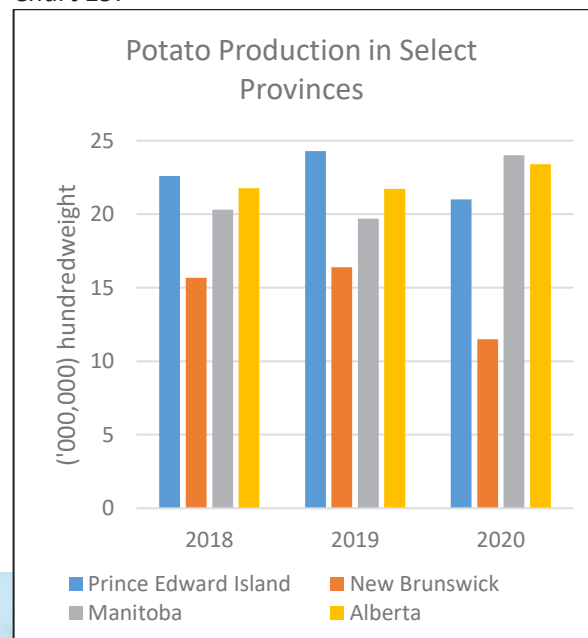
Agriculture

Farm cash receipts increased 7.0 per cent to total \$604.7 million, an all-time high. Crop receipts increased 16.6 per cent, with potato receipts increasing 2.0 per cent, while livestock receipts declined 3.1 per cent. Direct payments, and other supports to farmers also fell considerably over this time period, down 20.5 per cent. Absent these support payments, farm cash receipts increased by 10.6 per cent. Nationally, farm cash receipts increased 8.1 per cent in 2020.

Farm product prices for crops and livestock saw almost universal price increases in 2020. For crops, wheat saw the largest increase, at 14.4 per cent due to growing conditions producing a high quality crop, while soybeans – the province's second largest crop by acreage – saw prices increase 5.9 per cent. Livestock prices also saw increases, except for hog prices which declined 7.9 per cent, while the supply managed commodities also recorded price increases in 2020.

Prince Edward Island planted 83,600 acres of potatoes in 2020, the fewest acres planted since 2013. Due to drought conditions on the Island, the potato harvest yielded 21 million hundredweight of potatoes, the lightest yield since 2001. As a result, PEI did not produce the most potatoes amongst provinces for the first time since 1975.

Chart 19:

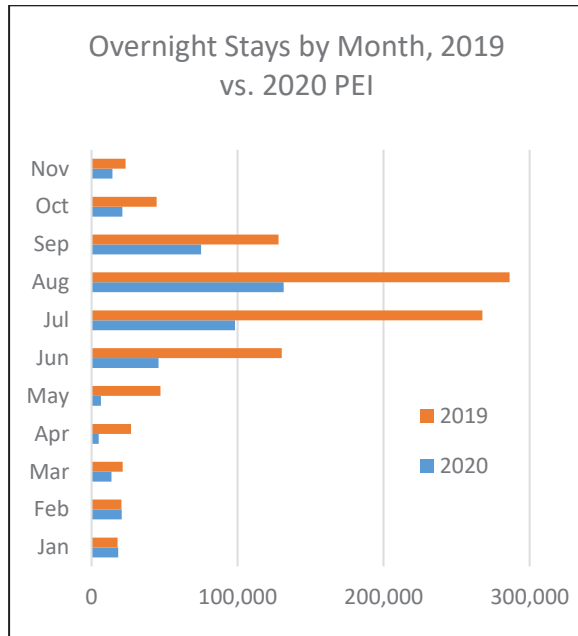


Source: Statistics Canada

Tourism

Tourism was the industry that was most severely impacted by COVID-19, as it bore the brunt of travel restrictions, capacity limits and cancellations. Through November, overnight stays totaled 449,844, or approximately 44 per cent of the stays recorded in 2019.

Chart 20:

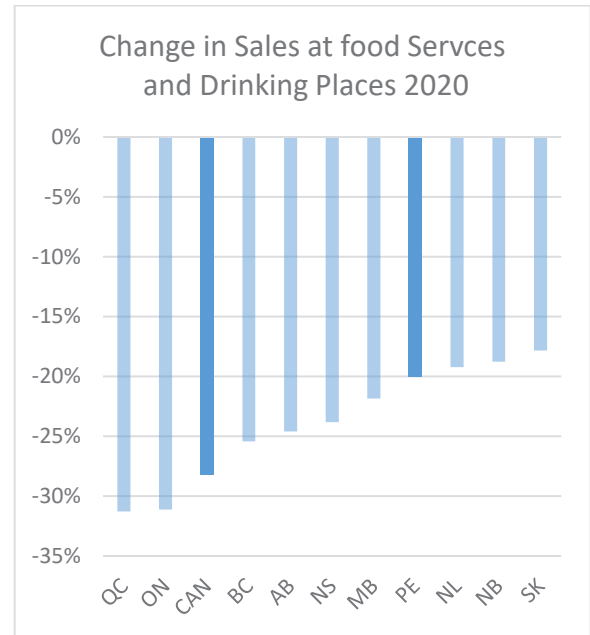


Source: Dept. of Economic Growth, Tourism and Culture

Traffic to the Island has been curtailed due to border restrictions, with the result being that bridge and ferry traffic were down 51.7 per cent and 61.4 per cent respectively through November. Air traffic is down 80.9 per cent through November. No cruise ships visited the port of Charlottetown in 2020 due to the cancellation of the cruise ship season, while motorcoach tours, which generally cater to visitors from outside of the Atlantic region, were down by 99.5 per cent.

As a result of fewer tourists and containment efforts to slow the progression of COVID-19, all provinces recorded declines at food services and drinking places, as curtailing access to places where people congregate has been one of the key measures to attempt to limit spread. Sales at food services and drinking places on the Island declined 20.0 per cent in 2020. Declines ranged from 31.3 per cent in Quebec, to 17.8 per cent in Saskatchewan. Nationally, sales declined 28.2 per cent in 2020.

Chart 21:



Source: Statistics Canada

Fishing

Though there was significant consternation at the beginning of the season, the processes and procedures put in place to combat COVID-19 were largely successful. The fishing season on the Island concluded with no COVID-19 outbreaks on boats, wharves or in processing facilities. The main fishing season was delayed by two weeks due to the pandemic, which led to lower yields, and prices were not as firm due to questions around demand as pandemic restrictions persisted in other places. The fall fishery was successful, with higher landings and stronger prices, but this was not enough to offset declines seen in the spring. In all, the weight of lobster landings in 2020 was 38.9 million pounds, 8 per cent below 2019 levels, while the value of the catch was \$166.1 million down 30.3 per cent from 2019.

Seafood processors and exporters pivoted towards stronger sales opportunities in the retail sector, and this proved very beneficial overall. Consequently, lobster, snow crab and soft-shell clams fared better than industry initially expected

Other shellfisheries, as well as the aquaculture industry were also disrupted by COVID-19, with the oyster fishery delayed by one month and soft prices, while the sales of farmed shellfish was disrupted by restaurant closures in the spring. The situation has improved since, though shipments and exports remain below 2019 levels.



Private sector outlook

PEI entered the COVID-19 pandemic in likely the best possible economic situation to weather these difficulties. Much of what is driving growth on the Island is related to longer term economic prospects, and consequently these activities did not diminish during the pandemic. The province also made the decision to implement border measures, the effect of which was a major curtailment of the tourism sector, a sector that has a larger importance on the Island than in other parts of the country. However, as a result of these decisions, PEI has been able to avoid extended, severe lockdowns, which has allowed the majority of the economy to function fairly close to normal. The result of this is an economy that is projected to have one of the smallest contractions as a result of the pandemic.

Table 2: Private Sector Real GDP Growth Forecasts as of 10 March 2021

Organization	2020	2021	Date Issued
CBoC	-4.3%	4.9%	24-Feb-21
APEC	-4.0%	3.7%	Nov-20
BMO	-2.5%	3.8%	5-Mar-21
CIBC	-4.5%	3.5%	25-Jan-21
Scotiabank	-3.6%	4.5%	4-Feb-21
TD	-3.1%	3.1%	15-Dec-20
RBC	-2.3%	4.5%	10-Mar-21
National Bank	-3.5%	4.0%	Feb-21
Average	-3.5%	4.0%	

The table above shows the average of private sector forecasts for the Island from the major banks and two think tanks. Economic growth is projected to have contracted by 3.5 per cent in 2020, before growing by 4.0 per cent in 2021. The contraction is slightly less than projected at the time of the Economic Update in September, while the rebound in 2021 is expected to be larger.

Outlook



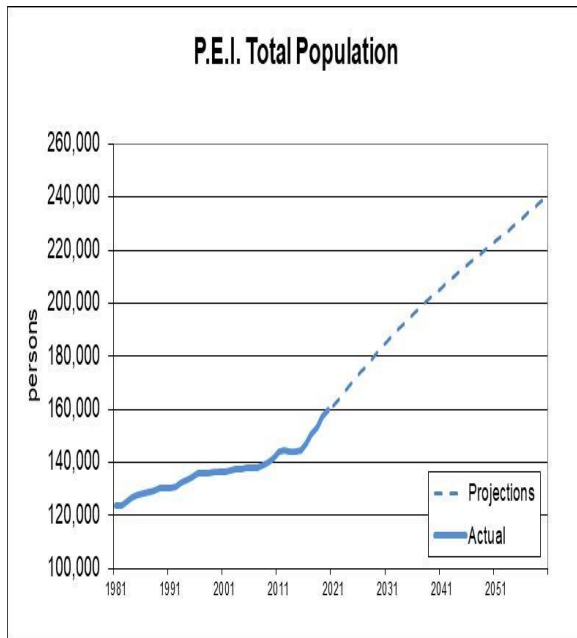
The trajectory of the COVID-19 pandemic will continue to constitute the major influence on the near-term outlook for the province. The Island has been fortunate to date, only recording 143 cases of the virus, with no hospitalizations and no deaths. Despite the short-term impacts of the COVID-19 pandemic, the underlying fundamentals of the Island economy remain strong, and Island businesses continue to learn and adapt to the health restrictions as they evolve. How quickly the economy will return to trend depends on how quickly vaccination proceeds, and until a sufficiently high rate of vaccination is achieved, the ability to limit the spread of the circulating strains of the virus in our midst.

The Prince Edward Island population is projected to continue to grow despite the pandemic. As a result of the pandemic, the forecast for population growth is lower than it otherwise would have been –at just over 1 per cent – due to the lower levels of international migration taking place over this time period. The Island continues to nominate candidates for the Provincial Nominee Program, and with

immigration levels returning to their long run average in late 2021, population growth will return to trend after that. An upside to the population growth forecast is that the Federal Government continues to increase the number of immigrants that it proposes to settle in future years. This could potentially increase the number of new immigrants coming to the Island through the medium term.

The ongoing growth of the population will continue to support the labour force, which will regain momentum in 2021 as the constraints of the pandemic ease. Average wages are projected to fall as more hourly wage workers are added back into the labour market.

Chart 22:



Source: PEI Statistics Bureau, Statistics Canada

The economy will continue to be supported by increased domestic demand, which will continue to bolster the wholesale and retail trade industries. The Federal Government has committed to do whatever it takes for as long as it takes to continue to protect and support Canadians during this challenging time. Consequently, wage subsidies, and other financial supports to individuals and businesses should continue until the economic situation normalizes.

Construction is projected to have another strong year in 2021, as many major projects are slated to begin or continue in 2021. Infrastructure upgrades, both major and minor in preparation for the Canada Winter Games in 2023 are slated to begin, or continue to be built in 2021. The Provincial Government released an ambitious capital plan in the fall of 2020, while the Federal government, as part of its COVID recovery initiative is also proposing to spend between \$70 and \$100 billion over the next three years, all of which will further support the construction sector on the Island.

The residential market should continue to grow, as the long-term outlook for the Island is for the population to grow, but at the same time there is still an increased demand for affordable housing. The slowdown in immigration as a result of the pandemic should allow the building sector to make up some ground, so as to be better placed once the pace of immigration resumes, likely in the latter

half of 2021. Housing starts in 2021 should trend up above 1,500 units, as several large projects that were delayed due to the pandemic begin in 2021. The addition of these projects to the housing stock should allow the vacancy rate to continue to normalize in 2021.

Manufacturing shipments and exports are likely to be mixed in 2021. Demand for products from the Island continues to be strong, but smaller agricultural yields due to drought conditions means volumes were down from the 2020 crop, though an increase in price may make up for it. Durable goods, such as those from the aerospace sector will likely continue to struggle until there is a better indication of how much longer the pandemic is projected to last.

Agriculture and fishing were two of the sectors that had to adapt early to the realities of COVID-19. Both are projected to contribute positively to the Island economy in 2021, though added restrictions and quarantine measures for bringing in temporary foreign workers could potentially disrupt some operations, especially those looking to bring in workers in time for the spring fishery and the beginning of the planting season. A continued transition toward increased automation and technology, as well as creating more of a local work force through the increased nomination of immigrants are trends that will continue in 2021.

The tourism sector will likely be more prepared this season in adapting to pandemic restrictions, but it remains the industry that is most susceptible to the ongoing impacts of COVID 19. The recent announcement that there will not be a 2021 cruise ship season will require operators to pivot once again to attempt to last until better days in 2022. The resumption of the Atlantic Bubble would be a positive development for the tourism sector, however this may be more difficult if more of the transmissible variants of COVID-19 gain a hold in the region before enough of the population is vaccinated. Until the vaccination process is more advanced, border controls remain the Island's most effective means of preventing COVID-19 outbreaks, as well as the major impediment to the resumption of a normal tourism sector.

Risks to the outlook are largely to the downside. A slower roll out of vaccines, and supply chain disruptions, coupled with an increase in the number of more transmissible variants provide the downside risk, while an increase in the number of approved vaccines, and improvements in distribution resulting in more of the population being vaccinated earlier could lead to a relaxation of border measure sooner than currently anticipated. Until that time, continuing to learn to live with COVID-19 will be necessary for the continued functioning of the Island economy in 2021.



Prince Edward Island

Budget Paper on the Economy