



Prince Edward Island **Budget Paper on the Economy**

2025



BUDGET PAPER ON THE ECONOMY

The Prince Edward Island economy performed well in 2024, with continued strong growth in employment and wages, strength in the manufacturing and exports sectors, continued growth in tourism, and a very strong and significant resumption in activity in construction and housing. Inflation continued to return to the Bank of Canada's target of two percent, interest rates continued to decline, and population growth began to trend toward a level where both the benefits and responsibilities of population growth began to become more manageable. The following is a review of the major economic indicators for 2024, followed by a discussion of exports and trade in a PEI context, and concludes with the outlook for the province over the next several years. All information is current to March 19, 2025.

01

2024 in review

The Island's population continued to expand, though at a slower pace than recent years, with the province's official July 1 population of 178,550, or growth of 2.8 per cent.

Since that time, the Island's population has continued to grow, but at a slower rate, with its population as of January 1, 2025 reaching 179,280 an increase of 1.7 per cent compared to January 1, 2024. Over this time period, the national population grew by 1.8 per cent.

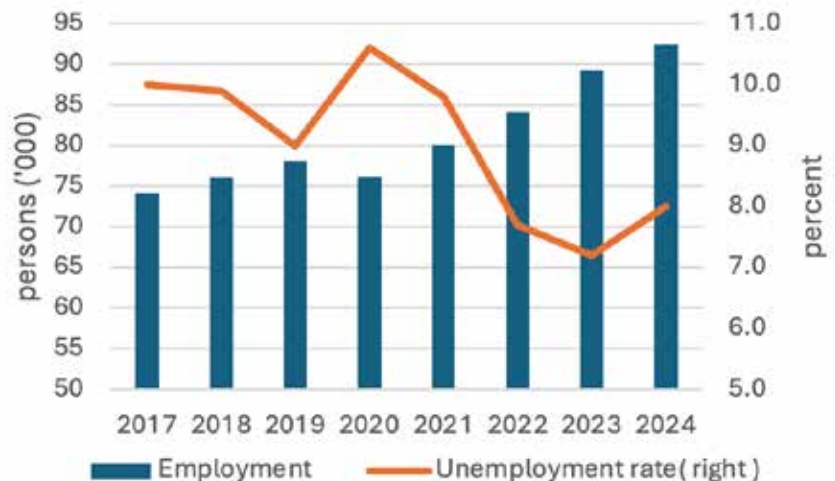
Employment continued to grow in 2024, up 3.6 per cent to reach 92,500 people. This was the fastest growth amongst provinces. The labour force also continued to grow, up 4.4 per cent, averaging 100,400 people in 2024, a new all-time high. Nationally, employment grew by 1.9 per cent.

The **unemployment rate** increased from 7.2 per cent in 2023 to 8.0 per cent in 2024 as more people joined the labour force to look for work. Though the unemployment rate has increased from 2023, the unemployment rate remains low by historical standards and remains below levels seen pre-pandemic. Nationally the unemployment rate increased 0.9 percentage points to 6.3 per cent.

Average weekly wages increased 5.7 per cent in 2024 to total \$1,075, the fastest growth amongst provinces. Nationally, over the same time period, average weekly wages grew by 4.6 per cent to reach \$1,260. **Total labour income** increased by 9.2 per cent in 2024, the fastest growth amongst provinces. Nationally, total labour income grew by 5.9 per cent in 2024.

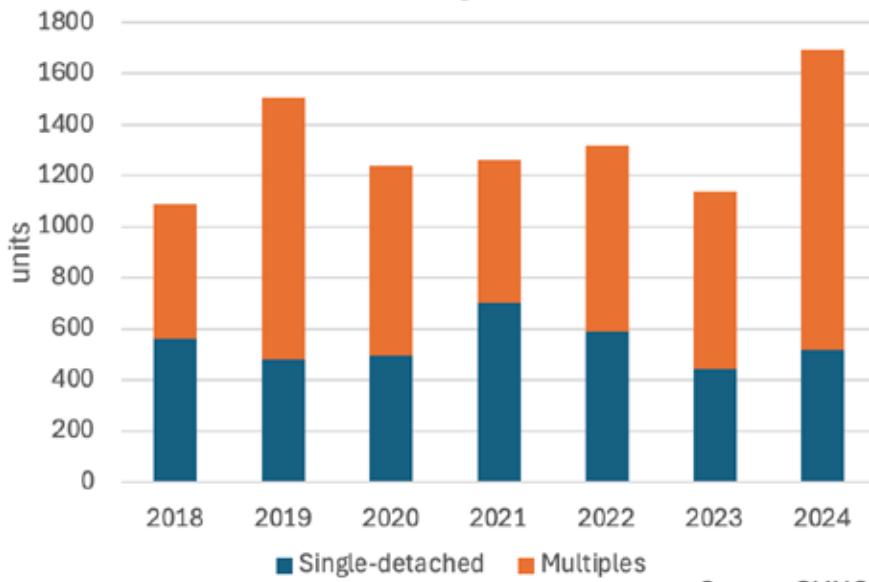
The **inflation** rate continued to decrease through 2024, with the all-items consumer price index growing by 1.8 per cent. Though growth in prices overall did begin to slow, prices for food and shelter continued to increase faster than overall inflation, increasing by 3.5 and 3.0 per cent respectively. Energy prices continued to decline in 2024, down 1.6 per cent. Nationally, consumer prices increased 2.4 per cent in 2024.

Chart 1: Employment and the Unemployment Rate PEI 2017-2024



Source: Statistics Canada

Chart 2: PEI Housing Starts 2018-2024



Housing rebounded, both on the new construction side where starts exceeded their pre-pandemic levels, and sales side, where units sold increased and prices continued to stabilize. Housing starts totaled 1,694 units in 2024, an increase of 48.7 per cent, and the second highest number of housing starts on record. Starts were driven by multi-unit starts, up 69 per cent to 1,176 units. Single-detached

homes also saw an increase in starts, up 16 per cent to 518 starts. Nationally, housing starts grew by 1.8 per cent. According to the Canadian Real Estate Association, housing sales totaled 2,208 units in 2024, an increase of 8.7 per cent compared to 2023, while the annual average price was \$389,428 an increase of 2 per cent from 2023.

Investment in building construction

increased by 32.2 per cent in 2024, the fastest growth amongst provinces. Nationally, investment in building construction increased by 5.8 per cent. On a constant dollar basis, investment in building construction on the Island increased 26.8 per cent between 2023 and 2024, though remains 5.3 per cent below the high reached in 2021. The value of seasonally adjusted building permits increased 47.2 per cent in 2024 to total \$789 million. This was the fastest growth amongst provinces. Growth was recorded in both residential and non-residential permits, up 44.4 per cent and 53.4 per cent respectively. Both single dwelling permits and multiple dwelling permits grew in 2024, up 40.5 per cent and 47.4 per cent respectively. On the non-residential side, a 57.1 per cent increase in commercial permits and a 217 per cent increase in government and institutional permits were more than enough to offset an 80.3 per cent decline in industrial permits. Nationally, the value of building permits increased by 6.6 per cent.

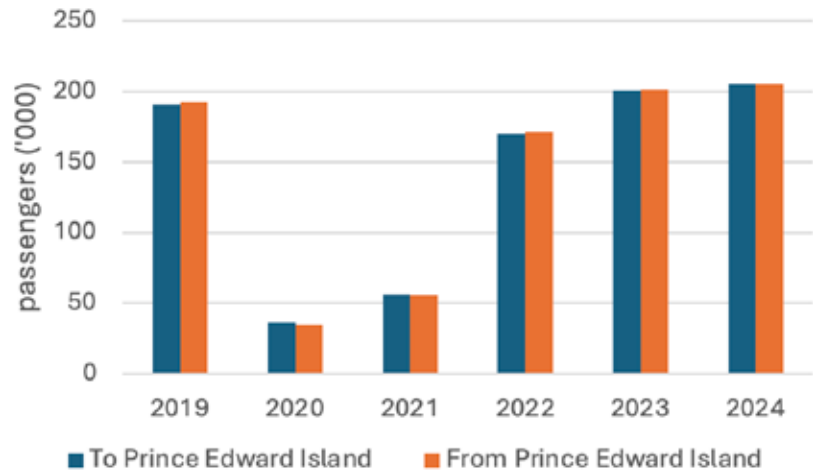


Tourism Tourism had a positive year with 1.7 million visitors coming to the Island in 2024. This was an increase of 6 per cent from 2023 and surpassed the previous record set in 2019. Traffic to the Island was up for all modes (bridge, air, ferry, cruise ship), while total overnight stays increased 3 per cent compared to 2023, and were up 2 per cent compared to 2019. Sales at restaurants and bars totalled just over \$436 million in 2024, an increase of 1.5 per cent from 2023. Nationally, receipts at food services and drinking places increased 4 per cent.

Farm cash receipts increased by 1.8 per cent in 2024 to total \$828 million, an all-time high. Nationally, farm cash receipts decreased 2.1 per cent in 2024, due in large part to a 6.2 per cent decrease in receipts in Saskatchewan.

Farm prices for livestock and for supply managed commodities recorded gains in 2024, while the price of most grains – after seeing a significant increase in prices throughout the pandemic – are returning closer to pre-pandemic levels. Of note, prices for slaughter and feeder calves increased 25.9 and 26.5 per cent respectively, while the price of soybeans fell 19.9 per cent in 2024. Preliminary **lobster landings** totalled 47 million pounds in 2024, while the value of the catch is estimated to be \$358.4 million. This is a 7 per cent increase in landings and a 20 per cent increase in value compared to 2023.

Chart 3: Air Passengers to and From PEI
2019-2024



Source: Charlottetown Airport Authority

Retail sales on the Island increased by 1.7 per cent in 2024. Growth ranged from a high of 6.2 per cent in Newfoundland and Labrador to a low of 0.2 per cent in British Columbia. National retail sales grew by 1.3 per cent in 2024. Powered by sales of trucks, the number of new motor vehicle sales on the Island increased by 10.8 per cent in 2024 to total 8,495 units, while the value of those sales increased by 6.6 per cent. Nationally, new motor vehicle sales increased 9.1 per cent by volume and 10 per cent by value.

Manufacturing shipments grew by 6.9 per cent on the Island in 2024 to total just under \$3.5 billion. This was the second fastest growth amongst provinces behind Newfoundland and Labrador. Growth was recorded in both durable goods manufacturing and non-durable goods manufacturing, up 12.4 per cent and 4.1 per cent respectively. Nationally, manufacturing shipments decreased by 2.1 per cent in 2024.



02

Focus on Exports

Exports are an important component of the PEI economy.

Prince Edward Island's economy is diverse, driven by a mix of goods production and service industries, with exports playing a key role in overall economic activity.

Structure of our Economy

The PEI economy is composed of 20 high-level industries that can be grouped into goods, private services and public services.

Most of the Island's GDP (73 per cent) comes from services, and is split between private service provision and public service provision at 44 per cent and 29 per cent respectively. Goods production makes up the remaining 27 per cent of the economy. PEI's international exports of goods come from the goods production sector of the economy.

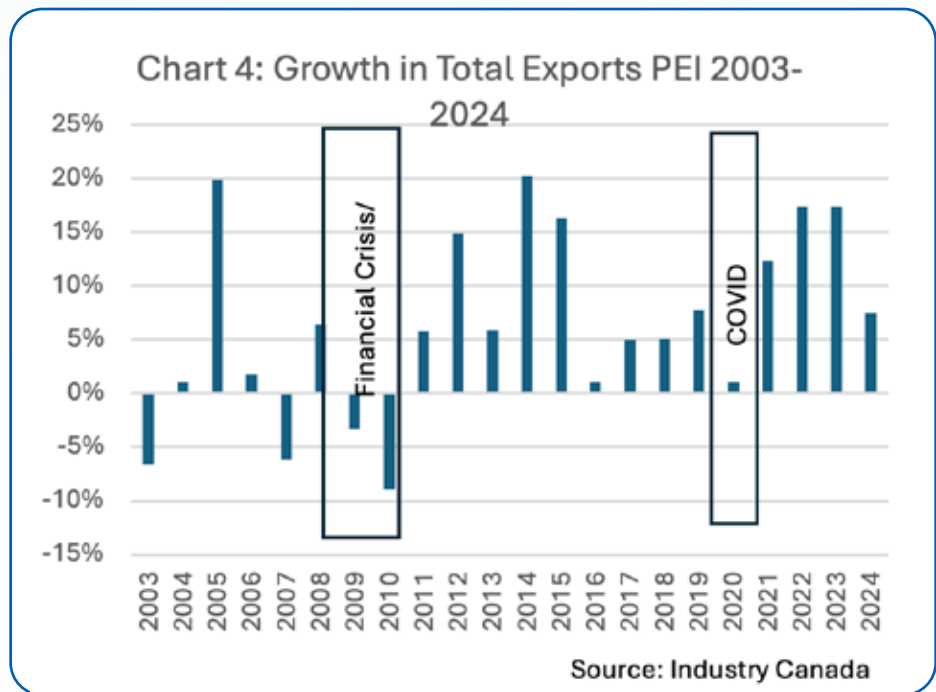
Exports are an important component of the PEI economy. For purposes of determining GDP, PEI exported \$4.7 billion worth of goods and services outside the province in 2023. Of this, PEI exported \$1.5 billion worth of goods to other countries or 15.4 per cent of GDP in 2023. For PEI, those goods exported were primarily products of two industries: the agriculture, forestry, fishing and hunting industry; and the manufacturing industry. In 2023, these two industries together accounted for 18.4 per cent of the Island economy.



PEI-US Trade

In 2023, PEI exports of goods to the US were worth approximately \$1.1 billion of Island GDP and accounted for approximately 11 per cent of PEI's total GDP in that year. Exports to the US supported approximately 7,138 jobs on the Island in 2023 when the direct, indirect and household spending associated with this activity is considered.

A tariff on Canadian exports to the US will likely make Canadian exports less competitively priced relative to other (particularly US) producers. This will likely reduce the value of exports to the US but will not eliminate it entirely as for some purchasers, even with tariffs applied, the price of Canadian goods will still be less expensive than the alternatives. US producers may also not be able to scale up production in the short term, forcing them to purchase goods irrespective of the tariff. PEI producers will also be able to find alternative markets for some of their products, though this process can take time. Retaliatory Canadian tariffs will make PEI (and other Canadian) goods more competitively priced compared to US alternatives for some Canadian purchasers, allowing for the substitution of US inputs for Canadian inputs. Behavioural impacts, such as reactions to buy local campaigns on the part of Canadians may also increase domestic purchases of Canadian goods.



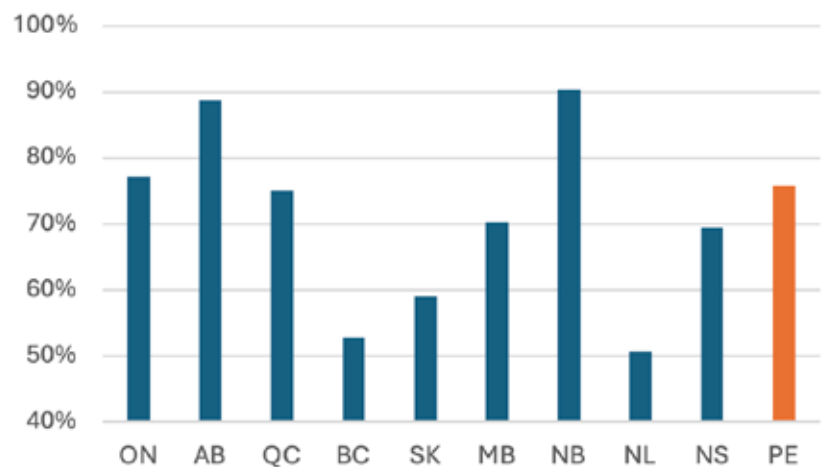
Estimated impacts of the proposed tariffs on the PEI economy range from 2 per cent to 3.5 per cent of GDP after one year depending on the measures and counter-measures announced. The actual impacts on the economy will also depend on other factors, such as changes in relative exchange rates, changes in interest rates, and the length, breadth and level of the tariffs.

The value of trade is also measured when goods cross international borders, and is referred to as the customs basis. This measure is available on a more timely basis though not directly comparable to economic measures of GDP or employment. By this measure, PEI exported just over \$2.5 billion worth of products to countries around the world, an increase of 7.5 per cent from 2023. PEI has seen growth in exports every year since 2011 – including during the COVID pandemic as shown in Chart 4. PEI's major exports include frozen food manufacturing (mostly frozen French fries), seafood product preparation and packaging (mostly lobster), vegetable and melon farming (fresh potatoes), pharmaceutical and medicine manufacturing and aerospace product and parts manufacturing.



In 2024, PEI sent 75.7 per cent of its exports to the United States, the fourth highest proportion amongst provinces behind Ontario, Alberta and New Brunswick. Prince Edward Island's largest export to the United States is frozen food manufacturing.

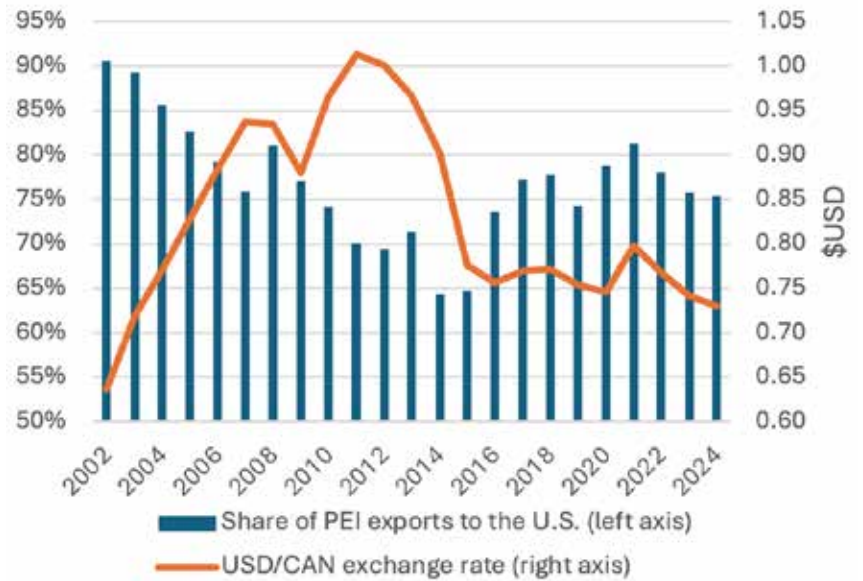
Chart 5: Proportion of Exports to the US by Province 2024



Source: Industry Canada

The proportion of PEI exports to the United States has fluctuated over time, from over 90 per cent in 2002 to a low of 64.4 per cent in 2014 (as shown in Chart 6). Between 2014 and 2021, the proportion of Island exports going to the United States once again began to climb before declining over the 2021-2024 period. Many factors influence exporter's decisions, though the relative value of the Canadian dollar to the US dollar, and the strength of economic growth in the United States are two important factors. PEI's other top trading partners include Belgium, Germany, France, China and Spain, where these countries represent just under seven per cent of PEI's exports.

Chart 6: Share of PEI Exports to the US and the CAN/US Exchange Rate 2002-2025



Source: Bank of Canada, Industry Canada



Chart 7: Top 5 non-US FTA Countries

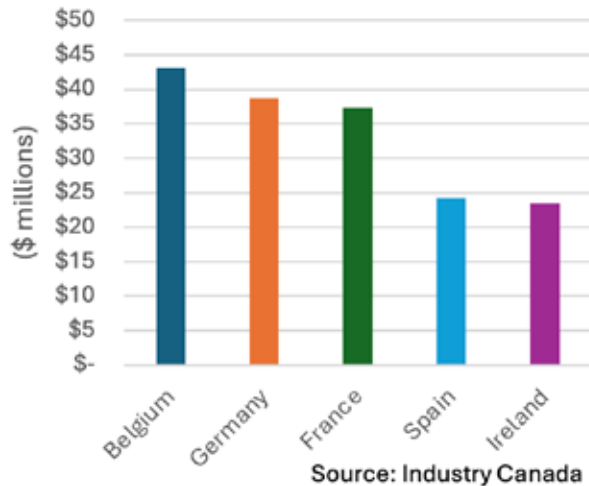
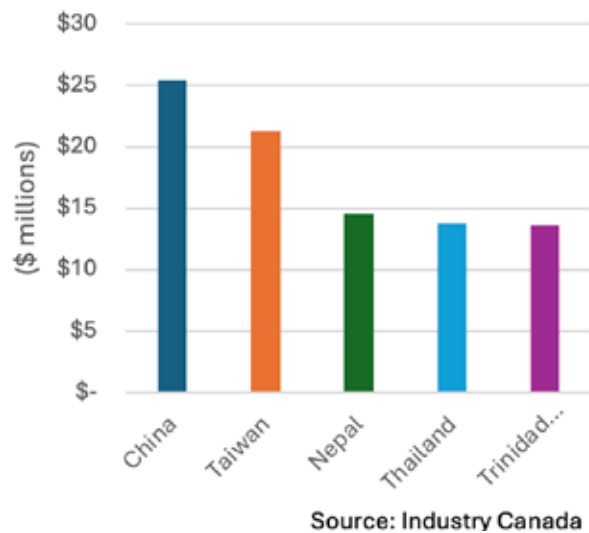


Chart 8: Top 5 non-FTA Countries



Canada is part of numerous free trade agreements (FTA), both with individual countries, such as Chile, Korea, and Ukraine, as well as with other economic areas such as the Comprehensive Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Canada-European Free Trade Association (EFTS) Free Trade Agreement, the Canada-European Union: Comprehensive Economic and Trade Agreement (CETA), and the Canada-United States-Mexico Agreement (CUSMA).

The proportion of trade from PEI that goes to countries with an FTA with Canada is 91.7 per cent, while the proportion that goes to non-FTA countries is 8.3 per cent. The proportion of exports to FTA countries, absent the United States, was 16 per cent in 2024. The top 5 non-FTA countries to which PEI exported in 2024 were China (\$25 million), Taiwan (\$21 million), Nepal (\$15 million), Thailand (\$14 million) and Trinidad and Tobago (\$14 million) while the top non-US FTA countries were Belgium (\$43 million), Germany (\$39 million), France (\$37 million), Spain (\$24 million) and Ireland (\$23 million). In 2024, PEI exported goods to 106 different countries on six continents.

03

Outlook 2025

PEI's economy remains strong heading into 2025, but external factors pose potential risks to the province's economic forecast.



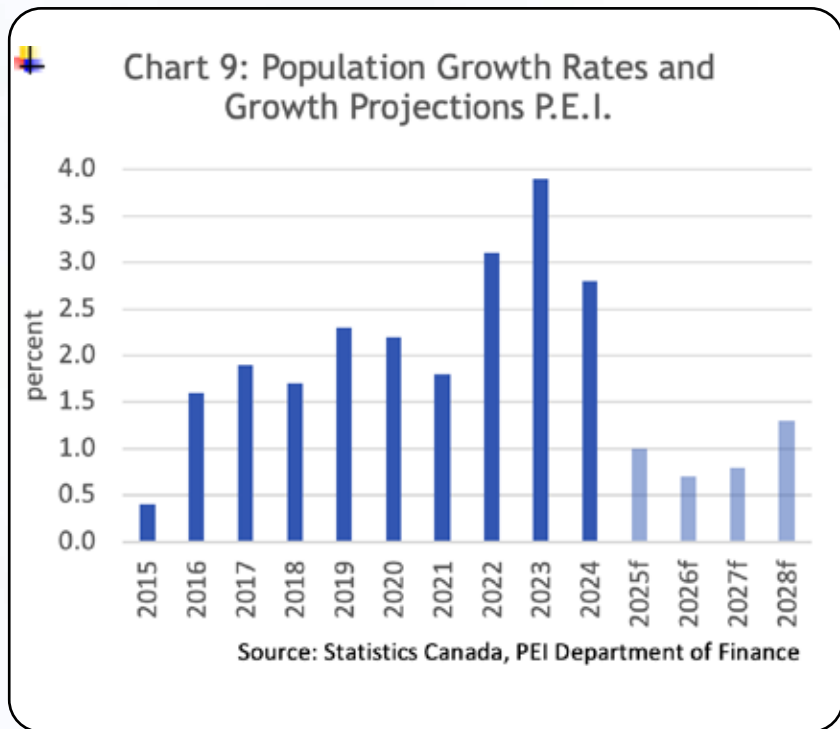
The provincial domestic economy remains robust leading into 2025, though changes outside the control of the Province have the potential to materially impact the economic forecast for 2025 and beyond. The impacts of potential tariffs are not directly factored into the economic outlook, as at the time of the preparation of this report proposed tariffs were paused until early April. In addition, estimating the impact of tariffs is very challenging due to the number of factors that can influence the ultimate impact. Those factors include: the size of tariffs, how long they are in place, the number of goods they target and the capacity of the US to increase their domestic production. However, the threat of tariffs and global political and economic instability in general provide significant downside risk to the outlook.

Population and Immigration

In early 2024, the Province announced a series of measures with the intention of decreasing the number of applicants it would nominate through its immigration streams, as well as a refocusing of its immigration efforts toward strategic occupations, particularly those in health care and the construction trades. In the winter of 2024, the Federal government cut the number of provincial nominees by fifty per cent for the period 2025-2027. This will further lower the number of nominees below the province's revised targets. Population growth, already forecast to slow, is now projected to slow even more over this period as a result of these changes before returning to growth of 1.3 per cent in 2028. The population is projected to reach 185,493 in 2028. Despite the slowdown in immigration and population growth, the province projects achieving a population of approximately 200,000 people sometime in 2035.

Employment

This slowdown in population growth will in turn slow employment growth as in-migration to the province has been the primary driver of increases in the prime working-age cohort over the last number of years.



Employment growth is now forecast to be constrained to slightly above the growth in the working age population, similar to the situation seen in the recent past. The Federal changes in immigration, above and beyond the measures put in place by the Province to change the mix of immigrants to the province, may make it more difficult to fill vacancies in critical sectors such as health care and construction, where bringing in a certain proportion of international labour has been deemed necessary.

Slower employment growth will cause slower growth in total wages and salaries earned in the province, though the impact will be partially muted as the Island continues to see more people engaged in higher wage work. Government programs, both for immigration and for re-training/acquiring new skills will help keep this trend going. Wage settlements are also expected to be above inflation through the medium term as workers continue to recover purchasing power lost to past years of higher inflation.

Consumer Spending and Inflation

Retail trade is projected to grow over the forecast horizon, as consumers continue to see relief from inflation that is now within the Bank of Canada's target range as well as interest rates that are continuing to trend down and stabilize. However, growth is projected to be slower than initially projected due to lower population growth.

Inflation may remain subdued in 2025. The impact of the GST/HST holiday will cause inflation in the early part of the year to be lower than usual. The decision of the Government of Canada to remove the application of the consumer carbon tax effective April 1, 2025 will cause the price of fuel to decline by about 20 cents per litre through the final three quarters of the year. Over the course of the forecast horizon, inflation is expected to return to the two per cent target.

Construction

Construction will continue to contribute positively as there is significant pent-up demand for housing and other types of infrastructure. A robust capital plan for 2025-26 was approved by the Legislature in the fall of 2024 will keep construction activity elevated. Housing starts in 2025 will continue at a level similar to 2024, and are projected to have stronger growth in 2026 and 2027. Utilities will also contribute positively to growth over the forecast period with the completion of the Eastern Kings wind farm and production beginning in 2025, with further investments in this industry planned over the forecast horizon.

Primary Sectors and Tourism

Tourism should continue to contribute positively to the economy over the forecast horizon. Increased air linkages announced for the summer of 2025 in combination with a new ferry to service the Wood Island to Caribou route will make coming to the Island both easier and more reliable. The 2025 cruise ship season is slated to begin on April 19 and finish on November 3. A lower Canadian dollar could also entice more travelers from within Canada to the Island, as well as more international tourists.

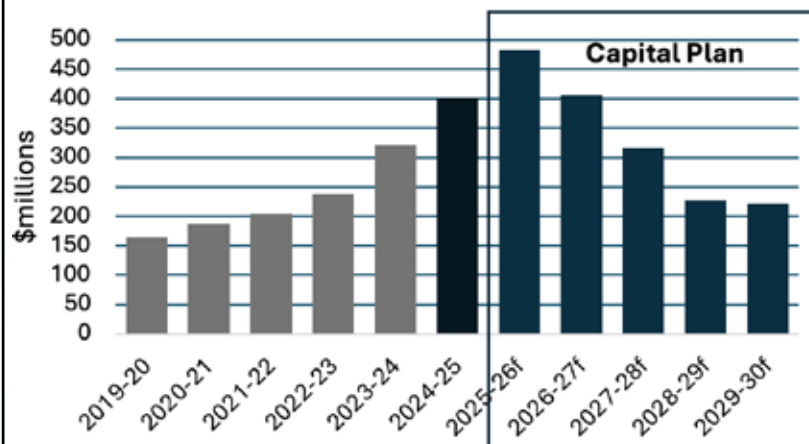
Manufacturing and Trade

Manufacturing shipments and exports, and the fishing, farming and aquaculture industries are expected to contribute positively to the economy in 2025 and over the entire forecast horizon, due to the continued normalization of the economy post-pandemic

and past and present investments in productive capacity and innovative products. However, these are also the industries that have the potential to be most affected by tariffs if they are imposed. A renewed interest in market diversification and positive improvements to inter-provincial trade should continue to provide upside to these industries, irrespective of tariff threats.

To this end, the Province has announced support programs to help companies diversify trade and support businesses affected by trade. The Export Enhancement and Diversification Assistance Program is designed to help cover some of the costs of promotion, marketing and exploration of new markets, while the Tariff Working Capital Assistance Program will provide capital financing to Island businesses affected by tariffs to ensure that operations and jobs can be maintained.

Chart 10: Total Capital Expenditures 2019-20 to 2029-30



Source: PEI Department of Finance



Provincial Budget Impacts

The provincial 2025-26 operating budget is broadly stimulative, with program expenditures growing by 8.4 per cent budget to budget. The Province is continuing to make investments, both in capital and operations, in areas that have recently seen pressures from population growth, such as healthcare, education and infrastructure. Personal and corporate income tax relief will be further supportive of economic growth, and help improve the competitiveness of the Island economy.

Outlook 2025-2028

Overall, growth on the Island is projected to remain positive over the forecast horizon, growing by 2.5 per cent in 2025 before slowing to approximately 2 per cent in 2026 and 2027 as the slowdown in population growth is more acutely felt. The imposition of tariffs, their size, duration and the goods they target have the potential to materially negatively alter the forecast, while a lessening of overall geopolitical instability could provide some upside.

Table 1 below provides the budget assumption of the PEI Department of Finance. The first two columns (2024 Budget and 2025 Budget) are estimates of those years from the 2024 Budget. The column 2024 Actuals/Fall update provides the estimates (shaded cells) from the fall update and actual results from 2024 where published. The latter

columns of the table provide the current assumptions for the 2025 budget. Differences from previous assumptions are largely related to population growth forecasts, and their cascading effects through numerous indicators.

Table 1:

	2024	2025	2024	2025	2026	2027	2028
Budget Assumptions	Budget	Budget	Actuals/ Fall Update	Forecast	Forecast	Forecast	Forecast
Nominal GDP (\$ Millions)	10,644	11,283	10,479	10,930	11,367	11,822	12,354
Nominal GDP (%)	6.6%	6.0%	5.6%	4.3%	4.0%	4.0%	4.5%
Real GDP (\$millions)	8,174	8,502	8,368	8,578	8,750	8,925	9,148
Real GDP (%)	4.1%	4.0%	3.8%	2.5%	2.0%	2.0%	2.5%
Employment (%)	4.3%	5.2%	3.6%	1.5%	1.1%	1.2%	1.8%
Total Labour Income (%)	7.0%	7.5%	9.2%	4.5%	4.0%	4.0%	5.5%
Retail Sales (%)	5.5%	6.0%	1.7%	2.5%	3.0%	3.0%	3.5%
Housing Starts	1,600	1,800	1,694	1,700	1,800	1,900	2,000
Inflation (%)	2.5%	2.0%	1.8%	1.8%	2.0%	2.0%	2.0%
Population *	178,305	182,763	178,550	180,493	181,804	183,181	185,493
Population (%)	2.6%	2.5%	2.8%	1.1%	0.7%	0.8%	1.3%

* Population estimates as of July 1.





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