

# PRINCE EDWARD ISLAND

## BUDGET PAPER

### BACKGROUND NOTES ON THE ECONOMY



2014-2015

## Introduction

The following document is an update of the economic situation of the Province since the release of the Fall Economic Update. Primarily, this document is a retrospective on the economic performance of the preceding year. This release begins with a discussion of the international and national economic context of the past year, and then moves on to a detailed discussion of the Island's economic indicators. All information in this document is current to March 10, 2014.

## International Economy

World economies are continuing to recover from the economic downturn and fiscal crisis, though growth in 2013 remained subdued. Emerging economies saw a deceleration in growth due to tighter financial conditions, though they continued to account for the majority of global growth. Advanced economies began to stabilize. Europe emerged from recession in the third quarter of 2013, though growth prospects remain modest. The American economy also continued to expand, though growth in 2013 was weaker than expected due to unresolved fiscal policy issues at the National level. Growth is expected to accelerate in 2014, and 2015.

According to the International Monetary Fund (IMF), the world economy expanded by 3.0 per cent in 2013, slightly slower than the 3.1 per cent expansion in 2012. Advanced economies grew by 1.3 per cent in 2013, while emerging market and developing economies expanded by 4.7 per cent. Growth in the world economy is expected to improve through 2014, with the IMF predicting economic output to expand in the order of 3.7 per cent. Advanced economies are expected to see momentum for growth continue to build, while the pace of growth in emerging economies will be slower than in years past. Advanced economies are projected to grow by 2.2 per cent in 2014, while emerging economies are expected to grow by 5.1 per cent, with China, growing by 7.5 per cent, and India, growing by 5.4 per cent.

**Table 1**

World Economic Growth Projections 2012-2015				
percent				
	2012	2013	2014	2015
World	3.1	3.0	3.7	3.9
Advanced Economies	1.4	1.3	2.2	2.3
Emerging Market and Developing Economies	4.9	4.7	5.1	5.4
India	3.2	4.4	5.4	6.4
China	7.7	7.7	7.5	7.3

Source: International Monetary Fund World Economic Update January 2014

### Europe

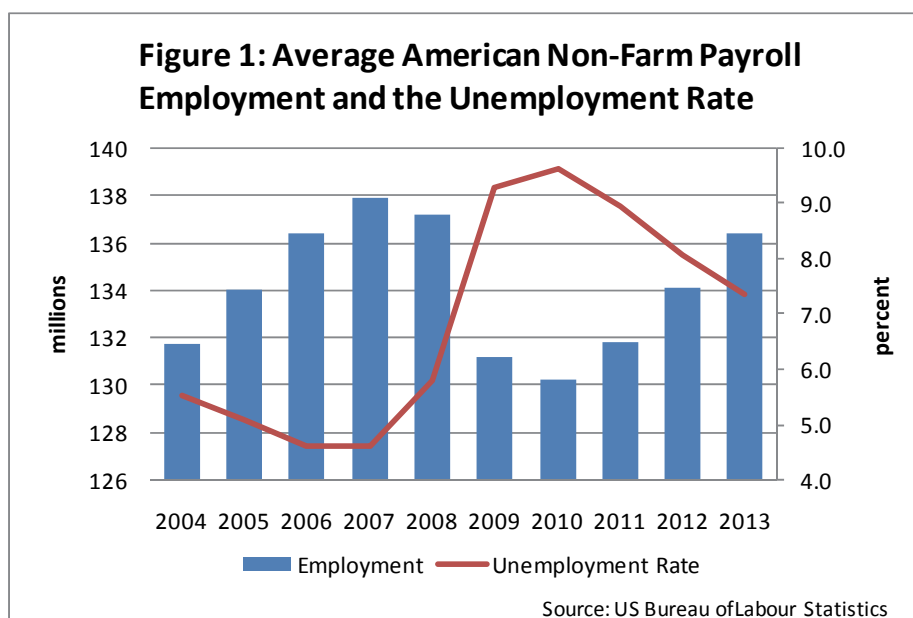
The Euro Area emerged from an 18 month recession in the second half of 2013, though for the year as a whole, the economy contracted by 0.4 per cent. Both Germany and France recorded growth in 2013, growing 0.5 and 0.2 per cent respectively, while the economies of both Italy and Spain contracted 1.8 and 1.2 per cent respectively.

The European economy is expected to return to growth in 2014, expanding by 1.0 per cent, but the recovery will be uneven. Economic growth in the Euro Area is still being constrained by record high unemployment, continued restrictive lending practices in the private sector, and subdued inflation. Once again Germany and France are expected to see growth in 2014, by 1.6 and 0.9 per cent respectively. Italy and Spain are also forecast to see economic growth with both economies expanding at 0.6 per cent. Growth is projected to accelerate in the Euro Area in 2015, expanding by 1.4 per cent.

### United States

After growing by 2.8 per cent in 2012, real GDP increased 1.9 per cent in 2013. The deceleration in growth was largely caused by the fiscal drag that occurred as a result of the spending sequesters introduced 1 March 2013. Imports also increased over this period. Growth in GDP was widespread with positive contributions coming from personal consumption expenditures, exports, non-residential and residential fixed investment, and private inventory investment.

The employment situation in the United States continues to improve. After expanding by 1.7 per cent in 2012, average non-farm payroll employment grew by 1.7 per cent in 2013, or 2.3 million jobs. Job gains, though modest, have been sustained month to month, with employment growing every month since October 2010. Though the situation is improving, employment remains approximately 1.6 million below its pre-recession peak recorded in 2007.



After peaking in 2010 at 9.6 per cent, the average annual unemployment rate continues to trend downward in the United States, finishing 2013 at 7.4 per cent, as shown in Figure 1. The unemployment rate dropped below seven per cent in December of 2013 for the first time since November 2008. This is still higher than in the years prior to the recession. The number of unemployed persons as of December 2013 was 12.2 million. Of those people, the long term unemployed, those who have been out of work for more than 27 weeks, account for 4.8 million or nearly 40 per cent of the total unemployed.

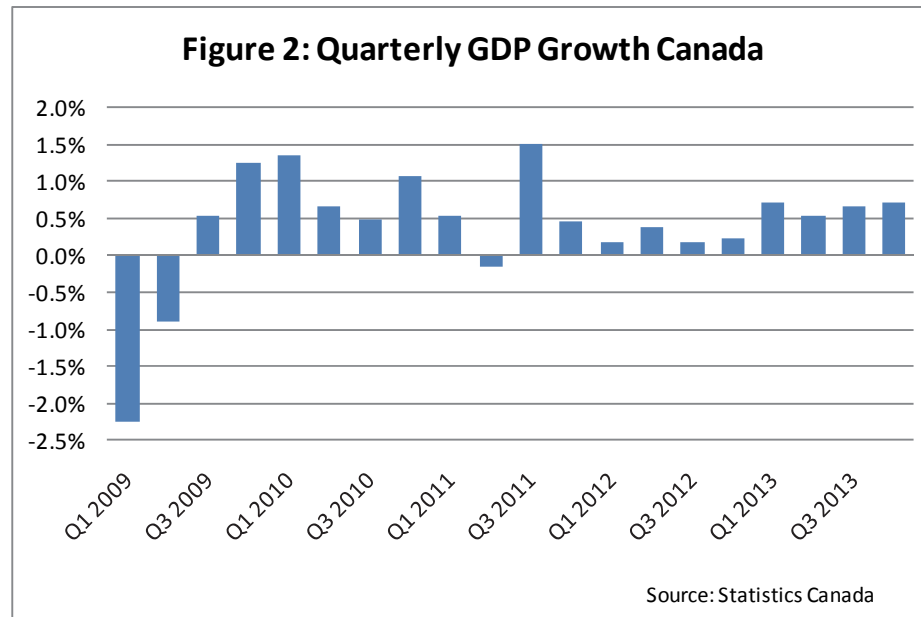
Though the economic situation in the United States is still improving, monetary authorities continued to intervene in financial markets. The mandate of the Federal Open Markets Committee (FOMC) is to foster an environment of maximum employment and price stability. At its January meeting, due to improving economic activity and labour market conditions, the FOMC indicated that it intended to make a further measured reduction by purchasing \$30 billion of additional mortgage backed securities per month instead of \$35 billion, and purchasing longer-term treasury securities at a pace of \$35 billion per month, instead of \$40 billion. The FOMC also indicated that it will continue with its accommodative policy until there is a measurable improvement in the employment situation in the United States, which it identified as an unemployment rate below 6.5 per cent, contingent upon expected inflation one and two years ahead does not exceed 2.5 per cent, and long-term inflation expectations remaining well-anchored. The target for the federal funds rate has been at its lower bound since December 2010 and remains unchanged at 0-0.25 per cent.

### **Canadian Economy**

The Canadian economy continued to expand in 2013 by 2.0 per cent in real terms following growth of 1.7 per cent in 2012. The Canadian economy has grown every quarter since the third quarter of 2011.

Growth in 2013 has been supported by all major industries except manufacturing. Goods production grew 1.7 per cent in 2013 led by mining and oil and gas extraction, and agriculture. The service sector grew 2.1 per cent in 2013, led by finance and insurance, the public sector, accommodation and food services and wholesale and retail trade.

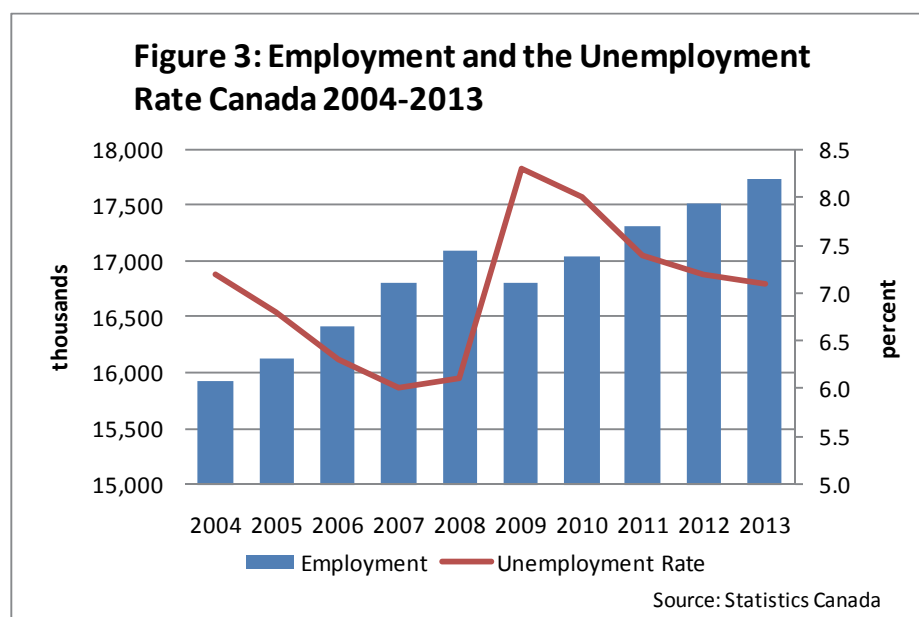
Household consumption spending increased 2.2 per cent in 2013, faster than the 1.9 per cent pace recorded in 2012. This increase was the result of increased purchases of durable goods, semi-durable goods, non-durable goods and services. Business investments in residential structures declined 0.2 per cent in 2013 after three years of growth. New home construction declined 2.6 per cent. Business investment in plant and equipment continues to decelerate advancing 1.4 per cent in 2013. The pace of government final consumption expenditures declined, expanding by 0.8 per cent in 2013, compared to 1.1 per cent in 2012. Trade volumes increased in 2013, with exports growing 2.1 per cent in 2013, compared to 1.5 per cent in 2012, while imports grew 1.1 per cent in 2013, compared to 3.1 per cent in 2012, reflecting a stronger international environment.



### Employment in Canada

Employment in Canada increased by 223,500 jobs, or 1.3 per cent in 2013. This is the fourth year in a row employment has grown in Canada, and employment now sits 643,800 above its pre-recession peak. Employment gains in 2013 were found in both full-time and part-time work, which expanded by 1.2 and 1.7 per cent respectively. The unemployment rate averaged 7.1 per cent in 2013, a decline of 0.1 percentage points from 2012 (see Figure 3).

Employment gains were recorded in both the goods and service sectors, expanding 0.3 and 1.6 per cent respectively. Notable employment gains include, trade, up 2.3 per cent, construction, up 4.4 per cent, health care and social services, up 2.3 per cent, and professional, scientific and technical services, up 3.7 per cent. Declines occurred in manufacturing, down 2.9 per cent, other services, down 3.2 per cent and public administration, down 1.1 per cent.



### Consumer prices

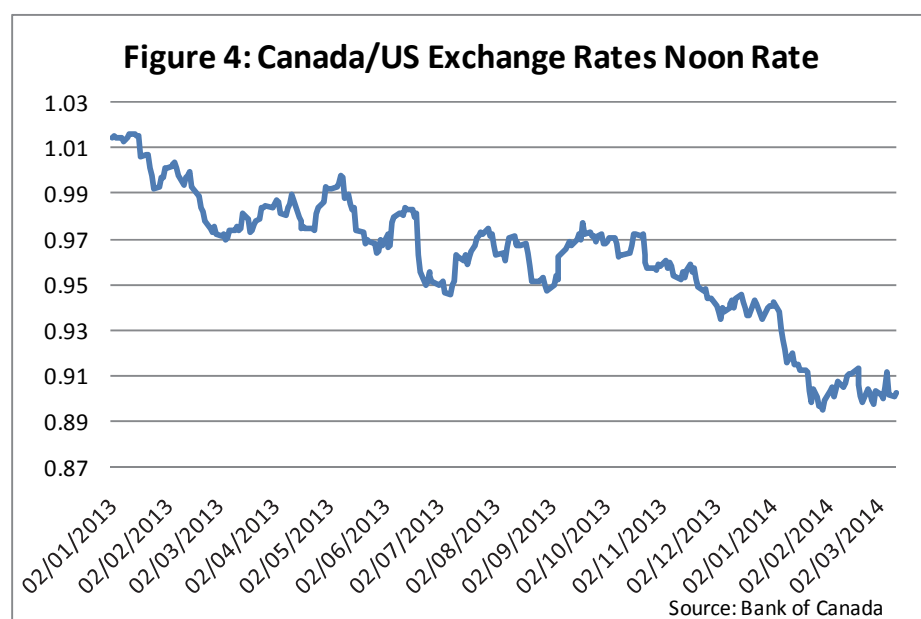
Inflation remains low, with the consumer price index increasing 0.9 per cent in 2013. Increases were seen across all components, except health and personal care. Notable gains were in tobacco and alcohol, up 2.0 per cent and energy, up 1.5 per cent. Core inflation was 0.9 per cent in 2013, well below the Bank of Canada's two per cent target.

### Interest Rates

The Bank of Canada, in its latest rate setting announcement on 5 March 2014, decided to keep the target for the overnight rate at one per cent, a level at which it has been since September 2010. Conditions are unfolding roughly in line with the January *Monetary Policy Report*, though recent Canadian GDP data was stronger than expected in January. Global economic growth is expected to strengthen through 2014 and 2015, with the United States leading the acceleration in advanced economies. Financial market volatility has increased due to strong market conditions in advanced economies and increased differentiation of risk in emerging markets. Canadian exports continue to improve but are still not performing as expected, while business investment continues to lag. Overall, drivers of inflation and growth are strengthening slowly, but inflation is projected to be below the Bank's target rate for some time, with the downside risks to inflation remaining important.

### Foreign exchange

The Canadian/US dollar exchange rate has been on a downward trend throughout 2013, and into 2014. The dollar began the year trading at just over 101 cents US, and closed the year at just over 94 cents. As shown in Figure 4, the dollar continued to decline further throughout the beginning of 2014, and is presently trading in the 90 cents US range. Interest rate expectations, improvements in the American economy, lower commodity prices, and weak economic data have all contributed to place downward pressure on the Canadian dollar.



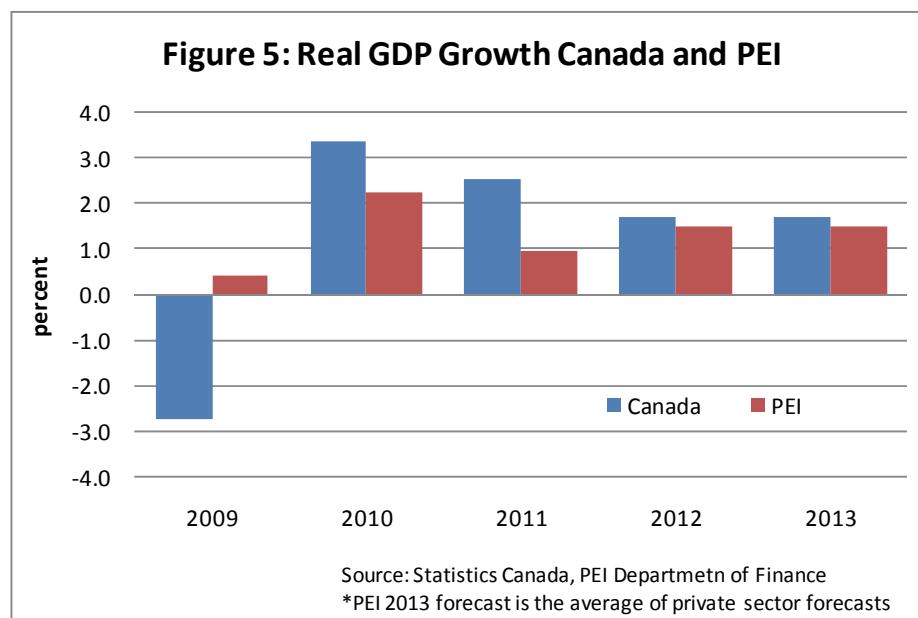
## Highlights of the Prince Edward Island Economy

- Provincial GDP advanced 1.5 per cent in 2012. The average of private sector forecasts place real GDP growth for both 2013, and 2014 at 1.5 per cent.
- Prince Edward Island's population is estimated to be 145,237 as of July 1, 2013. This represents a yearly increase of 72 persons, or 0.05 per cent growth since July 1, 2012. Prince Edward Island was the only province in the Atlantic region to see an increase.
- The total value of retail sales increased 1.3 per cent in 2013.
- Employment averaged 74,100 people in 2013, an increase of 1.8 per cent from 2012, a new all-time high.
- Total capital spending totalled \$1.06 billion in 2013, an increase of 7.1 per cent, due to increases in both construction and machinery.
- The value of non-residential investment on Prince Edward Island declined 13.4 per cent in 2013.
- Investment intentions are projected to decrease by 11.5 per cent in 2014
- There were 636 housing starts on Prince Edward Island in 2013, a decrease of 32.4 per cent from 2012. There were 200 fewer multiple starts and 105 fewer single starts on the Island in 2013.
- Island potato producers produced 25 million hundredweight of potatoes in 2013, an increase of 3.0 per cent from 2012.
- Lobster landings increased 5.6 per cent to 28.8 million pounds, a new all-time high.
- Night's sold at fixed roof accommodations increased 0.1 per cent in 2013, while stays at campgrounds increased 6.1 per cent.
- Manufacturing shipments from PEI increased 9.8 per cent in 2013, while international exports have increased 6.3 per cent.

### Provincial Economy

Prince Edward Island's economic performance has been steady. Prince Edward Island has recorded positive GDP growth every year since 2002, the only province to have done so. Economic growth is expected to continue into 2013, with the average of private sector forecasts placing 2013 real GDP growth at 1.5 per cent. This is slightly below the national average, as can be seen in Figure 5.

Statistics Canada estimates that the Island economy expanded by 1.5 per cent in 2012. This was the fastest growth in the Atlantic region. Growth was driven primarily by a 3.7 per cent increase in exports, a notable exception to most other provinces. Final domestic demand decreased 0.6 per cent after two years of growth, while household consumption expenditures increased 1.0 per cent. Government gross fixed capital formation declined 15 per cent as several major projects were completed, while business investment increased 1.9 per cent. Imports increased 2.7 per cent. National growth for GDP in 2012 was 1.7 per cent.



### Employment and Jobs

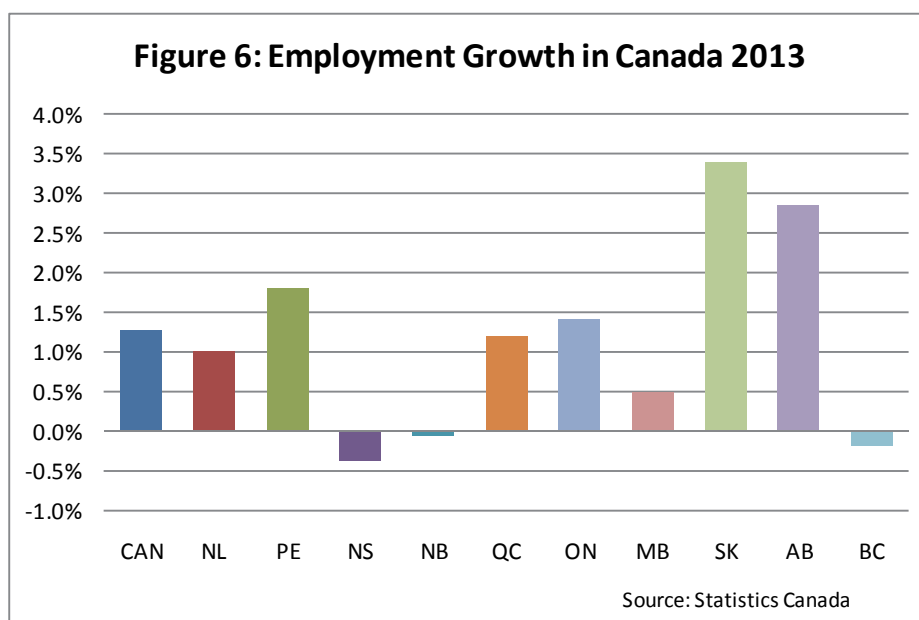
According to the Labour Force Survey (LFS), employment averaged 74,100 people in 2013, an increase of 1.8 per cent over 2012, and a new all-time high. The unemployment rate averaged 11.5 per cent in 2013, up 0.2 percentage points from 2012. Employment in 2013 increased in the service producing industries by 3.1 per cent, and declined in the goods-producing industries by 1.2 per cent. Notable employment gains can be found in trade, up 12.5 per cent, construction, up 12.2 per cent, and educational services up 8.1 per cent. Notable declines in employment were recorded in other primary industries, down 20.4 per cent, professional, scientific and technical services, down 13.6 per cent, and management, administration, and other support services, down 16.1 per cent.



Prince Edward Island's labour force continued to expand in 2013, up 2.1 per cent to average 83,700 persons. The participation rate averaged 69.3 per cent, up 1.3 percentage points from 2012, where it averaged 68.0 per cent. Prince Edward Island had the third highest participation rate amongst provinces in 2013, behind only Alberta and Saskatchewan.

Employment increased in seven provinces in 2013. Saskatchewan posted the strongest growth in employment, at 3.4 per cent, followed by Alberta at 2.9 per cent and Prince Edward Island at 1.8 per cent. Employment growth on the Island exceeded the national average of 1.3 per cent. Nova Scotia, British Columbia and New Brunswick, all saw employment declines of 0.4, 0.2 and 0.1 per cent respectively. New Brunswick recorded its fourth straight year of employment decline in 2013.

Growth in employee compensation kept pace with growth in employment on the Island, advancing 1.8 per cent in 2013. Nationally, employee compensation advanced 3.6 per cent in 2013.



### Retail Sales and Motor Vehicle Sales

Retail sales on Prince Edward Island totalled \$1.96 billion in 2013, an increase of 1.3 per cent from 2012. Increases occurred in motor vehicles and parts, up 5.9 per cent, gasoline stations, up 9.8 per cent, health and personal care stores, up 2.0 per cent, and clothing and clothing accessories stores, up 1.0 per cent. Declines occurred at food and beverage stores, down 1.7 per cent, building materials and garden equipment and supplies dealers, down 3.0 per cent, electronics and appliance stores, down 7.6 per cent, and furniture and home furnishing stores, down 0.1 per cent. Nationally, the growth in retail sales was 2.5 per cent in 2013.

New motor vehicle sale reached an all-time high in 2013, with 7,336 units sold. Sales increased by 736 units, or 11.2 per cent over 2012. The value of new motor vehicles sold increased 15.8 per cent to reach \$206.5 million. This increase was driven by increases in the value and volume of both passenger cars and commercial vehicles. Nationally, the sale of new motor vehicles increased 3.5 per cent, while the value of new motor vehicles sold increased 6.9 per cent.

### **Consumer Prices**

The all-items consumer price index increased 2.0 per cent in 2013. Increases occurred across all major components with food increasing 1.0 per cent, shelter increasing 2.4 per cent, and energy increasing 4.4 per cent. Core inflation (the measure of inflation excluding volatile components such as energy and food) increased 1.8 per cent.

### **Construction and Housing**

Total capital expenditures on the Island increased by 7.1 per cent in 2013 to \$1.06 billion. Increases were recorded in both construction, up 5.0 per cent, and machinery and equipment, up 11.7 per cent. Public capital expenditures increased 25.6 per cent to \$362 million due to increases in both construction, up 16.8 per cent, and machinery and equipment, up 57.9 per cent. This large increase in machinery and equipment purchasing was as a result of the installation of turbines for the Hermanville-Clearsprings wind farm, which was completed at the end of 2013. Private sector capital investment decreased by 0.5 per cent in 2013 to \$694.8 million. A 0.1 per cent increase in machinery and equipment was not enough to offset a 0.9 per cent decline in construction.

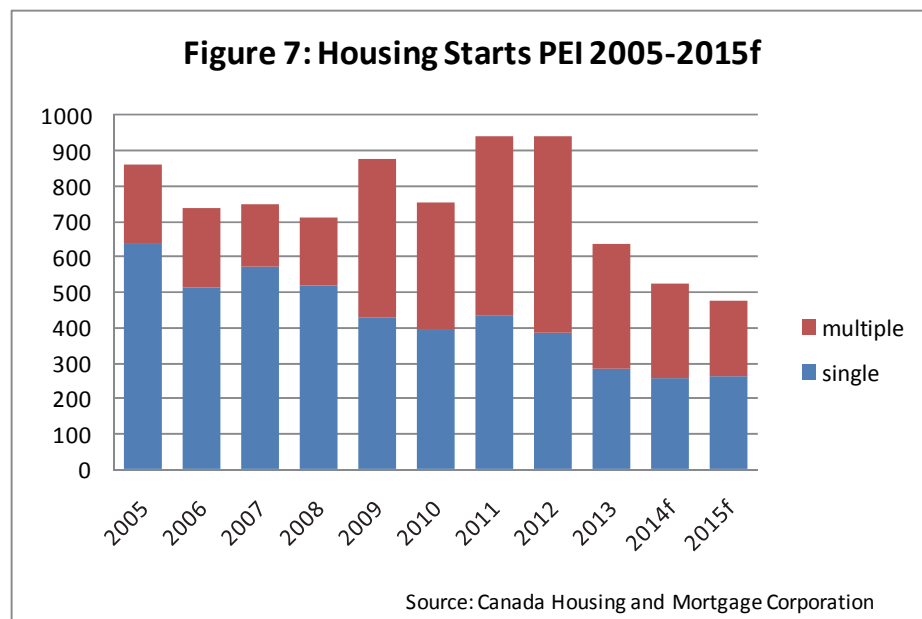
There was a 13.4 per cent decline in non-residential investment on the Island in 2013. A 4.0 per cent increase in government and institutional investment was not enough to offset declines in commercial investment, down 10.6 per cent, and industrial investment, down 46.4 per cent. Nationally, non-residential investment in 2013 advanced 1.9 per cent from a year earlier.

Housing starts on Prince Edward Island declined by 32.4 per cent in 2013 to 636 starts. Declines occurred across all components of housing, with single starts down 27.1 per cent, semi-detached houses down 24.5 per cent, row housing down 71.7 per cent, and apartments down 25.8 per cent.

The value of residential investment declined on the Island in 2013. Residential investment, totalled \$309.6 million in 2013, a decrease of 2.1 per cent from the same period in 2012. Increases were seen in renovations, up 2.6 per cent, apartments, up 9.3 per cent, semi-detached homes, up 32.4 per cent, and total acquisition costs, up 28.3 per cent. All other segments recorded declines, notably single-detached starts, down 17.6 per cent and row housing, down 20.2 per cent. Nationally, the value of residential construction increased 0.3 per cent in 2013.

Canada Housing and Mortgage Corporation (CMHC) forecasts a 17.5 per cent decline in starts on Prince Edward Island for 2014. This decline is in following both regional and national trends.

The new construction in multiple starts that took place largely between 2011 and 2013, resulted in a rise in the vacancy rate that is projected to approach 9 per cent in the Charlottetown area in 2014. These new starts, especially in the apartment segment need to be absorbed into the housing market. Consequently, the pace of building for multi-unit properties will slow in 2014 as existing vacant stock is absorbed into the market. CMHC predicts that there will be 525 housing starts on the Island in 2014. Starts are projected to fall further in 2015, to 475 units. This decline is a result of decreases in both the number of multiple and single starts.



## Manufacturing Shipment and Exports

Increasing for the fourth year in a row, manufacturing shipments from Prince Edward Island overtook their pre-recession high in 2013. Manufacturing shipment totalled \$1.44 billion, a 9.8 per cent increase from 2012. Nationally, manufacturing shipments declined 0.5 per cent.

The value of international exports from Prince Edward Island increased 6.3 per cent in 2013. This increase was broadly based across sectors. Traditional sectors such as food manufacturing increased 5.8 per cent, with notable increases in frozen food manufacturing, up 6.4 per cent and seafood product preparation, up 14.0 per cent. Newer sectors of the Island economy such as transportation equipment manufacturing, increased 3.3 per cent in 2013. Notable increases in this sector include aerospace products and parts manufacturing, up 2.8 per cent, and railroad rolling stock manufacturing up 6.5 per cent. Machinery manufacturing advanced 11.1 per cent in 2013, while chemical production increased 23.5 per cent. Exports of crop products increased 10.3 per cent in 2013, though they still remain below the high they achieved in 2011.

### **Primary Industries**

#### ***Farming***

There were 89,000 acres of potatoes planted on Prince Edward Island in 2013, a decrease of 500 acres from 2012. Due to good harvest conditions the entire planted crop was harvested, and excellent harvest condition resulted in a very good quality potato crop. Farmers produced 25 million hundredweight of potatoes in 2013, up 3.0 per cent from 2012.

Farm cash receipts for the first three quarters of 2013 totalled \$349.1 million, a decline of 2.5 per cent compared to the same time period last year. Total crop receipts declined 8.5 per cent due largely to a 10.2 per cent decline in potato receipts, as a result of declining prices and marketings. Absent potatoes, crop receipts for the Island totalled \$38.3 million through the first three quarters of 2013, an increase of 0.6 per cent over the same period in 2012. There were 60,000 seeded acres of soybeans planted in 2013, an increase of 16.5 per cent over 2012. All acres planted were harvested, with the crop being average, to slightly above average. Soybean receipts continue to rise on the Island, from \$2.9 million through the first three quarters of 2012 to \$4 million through the same period in 2013, an increase of 38.5 per cent.

Livestock receipts saw little change through the first three quarters of the year with receipts remaining at \$108.6 million. Cattle and hog receipts declined over this period, while dairy, egg and other livestock, and livestock products recorded increases in receipts. Direct payments to farmers totalled \$26.4 million, a 68.5 per cent increase over the same period in 2012. Total farm cash receipts excluding government support payments declined 5.8 per cent over this time period.

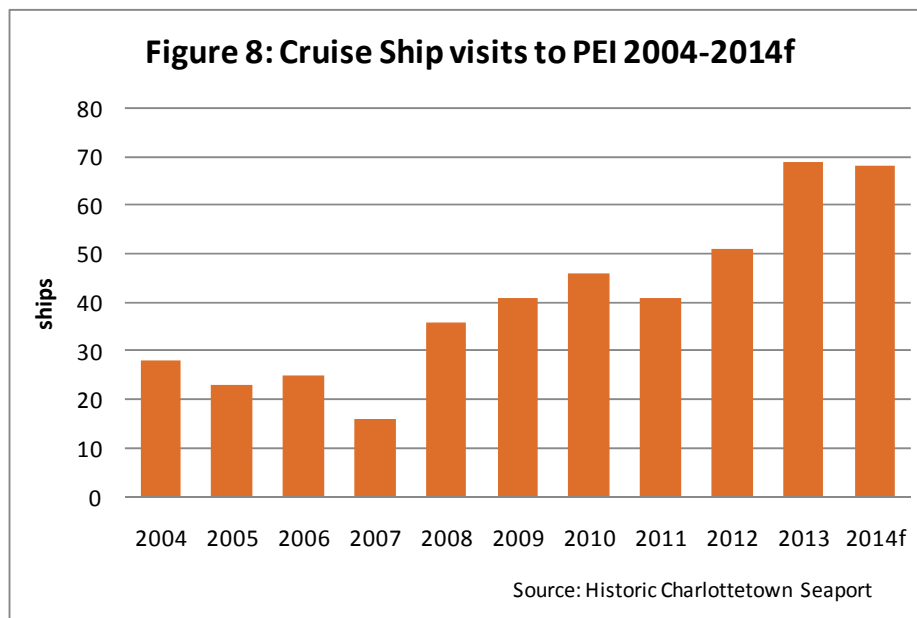
#### ***Fishing***

The lobster fishery landed 28.8 million pounds of lobster in 2013, an increase of 5.6 per cent from 2012 levels, and a new all-time high. The value of the lobster catch decreased by \$22 million from \$113.8 million in 2012 to \$91.4 million in 2013 due to low prices. As a result of low wharf prices in 2013, supply disruptions ensued during the spring lobster season in the form of boat tie-ups. In response to this, and ongoing low prices in the industry, a panel was convened to address this issue. Recommendations have been released, and they are presently being discussed to determine the best course forward for the industry. Lobster accounts for approximately sixty per cent of the landed value of the fishery on Prince Edward Island.

#### ***Tourism***

Cruise ship traffic to the Island continued to increase in 2013. A total of 69 ships with just over 93,000 passengers visited Prince Edward Island in 2013, a 35.7 per cent increase in the number of ships visiting the Island and a 38 per cent increase in the number of passengers compared to 2012. Cruise ship traffic in 2014 is expected to be very similar to 2013, with 68 ships scheduled to visit the Island with 93,450 passengers and 41,020 crewmembers. Motorcoach traffic increased 29.6 per cent in 2013, while bridge traffic declined 3.0 per cent, air traffic declined 0.3 per cent and ferry traffic declined 2.9 per cent.

Accommodations data supplied by the Department of Tourism and Culture show that occupancy rates at Island accommodations increase by 1.8 percentage points, while the number of room-nights sold increased 0.1 per cent. Camping continued to do well in 2013, likely due to the long stretches of clear weather experienced through the main part of the tourist season and into the fall. Sight nights sold were up 6.1 per cent, and the occupancy rate was up 2.7 percentage points in 2013.



Major event celebrations are planned to commemorate the 1864 Charlottetown Conference. Bookings at hotels and for convention space are up over last year, and the festivities are expected to increase tourist traffic to the Island throughout 2014.

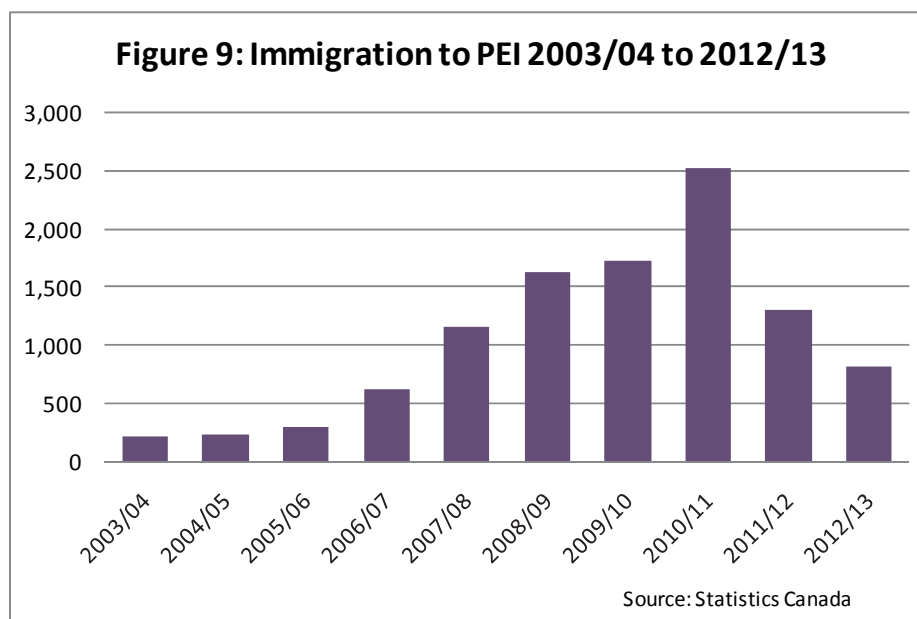
Sales at food service and drinking places on Prince Edward Island increased 4.5 per cent in 2013. Nationally, sales at food service and drinking places increased 4.6 per cent over the same time period.

### Population

As of 1 July 2013, Prince Edward Island's population is estimated to be 145,273. This represents a yearly increase of 72 persons and a 0.05 per cent annual growth rate. Population growth has slowed due largely to a decline in the number of international immigrants and an increase in the number of inter-provincial out migrants. The latest population estimates are now based on the 2011 Census counts adjusted for census net undercoverage and incompletely enumerated Indian reserves.

International migration continues to be an important, but declining, factor in population growth for PEI. As can be seen in Figure 9, from July 2012 to June 2013, 863 international immigrants

came to the province, a decline of 37.4 per cent from the previous year. At a rate of 5.9 per thousand, the province has gone from having the third highest immigration rate in the country to the seventh. The immigration rate for Canada remained at 7.5 per thousand. A total of 3,146 inter-provincial in migrants came to PEI in 2012/13, while 4,220 people left the province for other areas of Canada for a net interprovincial loss of 1,074 persons.



There were 1,440 births and 1,287 deaths on Prince Edward Island from July 1, 2012 to June 30, 2013, resulting in natural growth (births minus deaths) of 153.

### Outlook 2014

Momentum is building in advanced economies, and emerging economies are still growing, which should propel global growth forward in 2014. Due to the industrial mix found on Prince Edward Island, and strong domestic demand, the economic situation on the Island has been more stable compared to other parts of the country.

The economic outlook for Prince Edward Island is that growth will continue at the modest pace of approximately 1.5 per cent in 2014. The domestic economy, which has supported economic expansion over the last number of years, will face more pressure in the coming year. Employment growth is expected to be positive, but will slow on the Island in 2014. Job growth will be driven primarily by the private sector, as firms in the ICT, bioscience, aerospace and engineering, and financial services sectors expand their payrolls. However, federal and provincial job reductions will limit employment growth in the near term.

Immigration levels are forecast to be at similar levels to 2013, well below recent record levels as the effects from the changes to the provincial nominee program continue to be felt. Immigration is projected to be approximately 1,100 persons per year going forward – higher than the historical average – but lower than recent years.

The tourism sector is projected to contribute positively to economic growth through 2014. The 150<sup>th</sup> anniversary of the Charlottetown conference is likely to boost tourism activity next year, while the low value of the Canadian dollar should give a further boost to the tourism industry. The Charlottetown convention centre, which opened in August 2013, will see an increase in the number of conventions hosted on the Island. According to Meetings and Conventions PEI, convention bookings for 2014 are up 75 per cent compared to 2013. It is expected that this increase will result in an additional 4,000 delegates visiting the Island next year.

Both the manufacturing and export industries on the Island are expected to contribute positively to GDP in 2014. A rebound in the American economy and the lower value of the Canadian dollar should help further propel exports. The extension of the aerospace tax credit for a further ten years will help that sector remain internationally competitive, while the outlook for sales suggests that 2014 will be one of the stronger years on record. Several new firms relocated to the Island in 2013, and are expected to begin production in 2014. The sector has been quite successful in bringing new companies and opportunities to the Island, and this is a trend that is likely to continue in 2014. An increase in the number of firms now generating revenue should help the bioscience sector continue to contribute positively to the Island economy in 2014 while other firms in the sector are undergoing expansions. The completion of the Hermanville-Clearsprings wind farm at the end of 2013 will result in increased generating capacity on the Island in 2014.

The outlook for some of the traditional industries on the Island is mixed in 2014. Contracts with Island potato growers are presently being negotiated for the 2014 planting season. The production of soybeans on the Island has continued to expand, a trend that is likely to continue into 2014. Investments are being made in the blueberry and dairy industries will result in increased production and competitiveness for those industries.

The survey of public and private investment intentions indicates that capital expenditures are expected to decrease by 11.5 per cent in 2014. This decrease is due to declines in both construction, down 8.5 per cent, and machinery and equipment, down 16.2 per cent. Public investment intentions are expected to decline 25.3 per cent in 2014, with declines in both construction, down 8.3 per cent, and machinery and equipment, down 47.8 per cent, as the province continues to wind down its capital plan. Private sector investment intentions are projected to decline 4.9 per cent in 2014. A 1.8 per cent increase in machinery and equipment intentions is not enough to offset an 8.6 per cent decline in construction intentions. Housing starts are projected to decline further in 2014 due to lower single and multiple starts.

Risks to the outlook come generally from outside Canada. Increased volatility in emerging markets could lower GDP growth, and detract from global growth. However, the renewed momentum in the American economy and the steps taken to put their fiscal situation on a more sustained footing present some upside. Ongoing tensions in the Ukraine have the potential to disrupt global growth. Domestically, sustained low inflation, and the high levels of Canadian household debt continue to provide downside risk to the outlook.