



# Prince Edward Island **Budget Paper on the Economy** 2023

# Highlights of the Prince Edward Island Economy



- As of January 1, 2023, PEI's population was 173,954, a new all-time high. At a rate of 3.6 per cent, Prince Edward Island had the fastest annual rate of growth in the province's history and fastest growth amongst provinces for the year.
- Employment on Prince Edward Island increased by 5.4 per cent (4,300 persons) and continues to grow through the first four months of 2023, up 3.7 per cent.
- Average weekly earnings increased 3.1 per cent to average \$974.65 in 2022.
- Housing starts increased 4.6 per cent in 2022 to total 1,381 starts for a second consecutive year of increase.



- The value of international exports from Prince Edward Island increased 17.2 per cent in 2022 to total \$1.99 billion, an all-time high.
- Through the first quarter, the value of international exports from PEI have increased by 35.5 per cent, building on an increase of 17.2 per cent in 2022 to total \$1.99 billion, an all-time high.
- Strong prices for agricultural products in 2022 helped propel a 30.4 per cent increase in farm cash receipts on the Island to \$740.7 million.
- The number of overnight stays on the Island exceeded pre-pandemic levels for both campgrounds and fixed-roof accommodation, though non-resident visitor volumes are still recovering.



- The lobster fishery, after coming off record catches and landings in 2021, saw the value of the catch decline by 15.6 per cent to \$312.9 million, while the volume of the catch declined by 5.9 per cent to 44.4 million pounds.
- The change in the All-Items Consumer Price Index annual average for P.E.I. in 2022 was 8.8 per cent as compared to 2021. This was the highest annual increase since 1981.
- GDP growth on the Island in 2022 was estimated at 2.9 per cent.
- The value of manufacturing shipments increased 17 per cent in 2022, to just over \$3 billion, a new all-time high.



# Introduction

In 2022, the Prince Edward Island economy continued the post-pandemic rebound that began in 2021. Though there were supply chain issues and inflation was higher than it had been prior to the pandemic, and several sectors of the economy were still restricted due to COVID-19, economic activity elsewhere more than made up the difference. Like many other jurisdictions, the economic story for Prince Edward Island in 2022 is related to the easing, and subsequent removal, of COVID-19 restrictions, followed by the knock-on effects of high inflation. The transition away from COVID-related containment measures finally allowed the entire economy to re-open, with the positive effects that entailed, such as the rebound in tourism, continuing the momentum from 2021 into 2022. However, the Island also experienced the effects of geopolitical events beyond its control, such as the war in Ukraine, continued supply chain disruptions as well as the impacts of rising interest rates and inflation on the economy. Finally, at the end of 2022, the Island had to contend with Hurricane Fiona, which brought significant hardship and destruction across the Island.

Despite the noted challenges, the economic fundamentals of the Island economy remain strong with the increasing population underpinning domestic demand and employment growth. Demand remains strong for the goods and services produced on the Island, while there is record breaking investment in the industries and sectors that will continue to grow the Island economy in the future, with capital expenditures up 20.4 per cent in 2022. As we move into 2023, a further normalization of the economic situation is expected, including a return to larger tourism offerings, which started with the Island hosting the Canada Winter Games this past February and early March.

This is an update to the economic situation of the province since the publication of the Fiscal and Economic Statement in December 2022. All information in this document is current to May 10, 2023.

# Economic Indicators



## GDP:

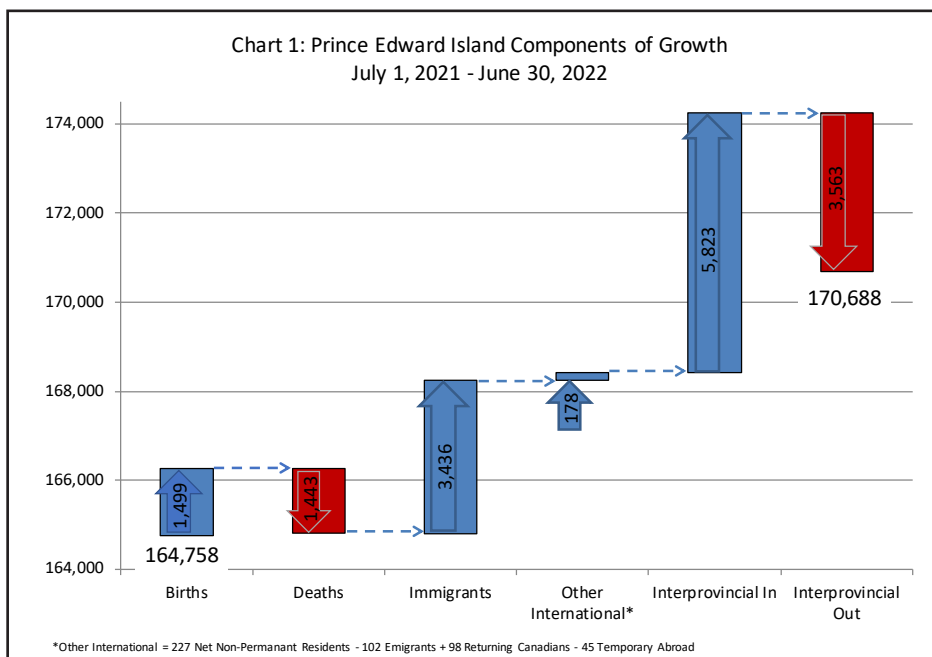
GDP by industry on the Island grew by 2.9 per cent in 2022, with growth in 13 of 20 industries. Goods producing industries expanded by 1 per cent, due to the strong growth in the manufacturing sector, up 6.6 per cent. All other goods producing industries saw contractions, notably construction, down 3.1 per cent, and agriculture, forestry, fishing and hunting, down 2.7 per cent, due in part to the aftermath of Hurricane Fiona.

The service-producing industries continued their COVID-19 rebound in 2022, up 3.6 per cent, with notable gains in accommodation and food services, up 22 per cent, public administration, up 4.6 per cent and real estate, rental and leasing, up 3.6 per cent. Accommodation and food services surpassed its 2019 level in 2022 by 3.4 per cent, fully recovering from the pandemic. Amongst provinces, real growth in GDP by industry ranged from a high of 5.7 per cent in Saskatchewan, to a 1.7 per cent contraction in Newfoundland and Labrador. Prince Edward Island saw the strongest economic growth east of Ontario at sixth amongst provinces. Nationally, GDP by industry grew by 3.6 per cent in 2022.

## Population:

Prince Edward Island set another population growth milestone in 2022, with 5,930 people coming to the Island. This brought the July 1<sup>st</sup> population for the Island to 170,688 for a growth rate of 3.6 per cent. This is the highest growth rate for the province on record, and the highest amongst jurisdictions for this time period.

Growth on the Island has exceeded the national growth rate for the seventh consecutive year and has had the fastest growth rate amongst provinces for six years in a row. This was a significant year for growth in the Maritime region, with Nova Scotia and New Brunswick having the second and third highest growth rates respectively at 2.9 and 2.8 per cent in 2022, while for the second consecutive year, the Atlantic region saw higher population growth rates than either Western or Central Canada.





Population growth was driven by international migration. After a decline in international immigration caused by the pandemic, the backlog of applicants began to arrive in late 2021 and into 2022. There were 3,436 international immigrants who came to the province in 2022, an increase of 184.2 per cent compared to 2021. PEI continues to have the highest immigration rate in the country at 20.5 per thousand, ahead of British Columbia at 15.8 per cent. Nationally, the immigration rate was 12.8 per thousand.

In addition, the Island attracted migrants from elsewhere in Canada. Between July 1, 2021 and June 30, 2022, Prince Edward Island had an estimated net inter-provincial in-migration of 2,260 people (5,823 in-migrants less 3,563 out-migrants) and the largest population gain due to inter-provincial migration on record. This was the seventh consecutive year of positive net inter-provincial migration, beginning in 2015-16. The strong growth in the Island economy prior to the pandemic, coupled with an increase in remote work throughout the pandemic have contributed to this influx.

After four years of deaths outnumbering births on the Island, there were 1,499 births and 1,443 deaths between July 1, 2021 and June 30, 2022, resulting in a natural increase of 56.

A younger demographic is moving to PEI for opportunity, both internationally, and from other parts of Canada. This can be seen in the increase in the number of people aged 18-64 on the Island. Between 2016 and 2022, their number increased by 14,634, largely as a result of an increase of just over 14,000 people aged 18-44. This compares to growth of 2,265 for those under 18 and 6,820 for those 65 and over. As a result, the median age on Prince Edward Island continued to decline in 2022, reaching 41.8 years, down 0.6 years from 2021, and down 2.1 years from the high of 43.9 years recorded in 2015 and 2016. This is the sixth consecutive yearly decline in the median age, something that has not happened on the Island since 1963-1967. Prince Edward Island is the only jurisdiction that has seen a recent and steady decline in the median age. The median age of the overall Canadian population increased from 40.7 years to 41.0 years in 2022.

The population has continued to grow through the latter half of 2022. As of January 1, 2023, the Island's population is estimated to be 173,954, an increase of 3,266 people from July 1, 2022.



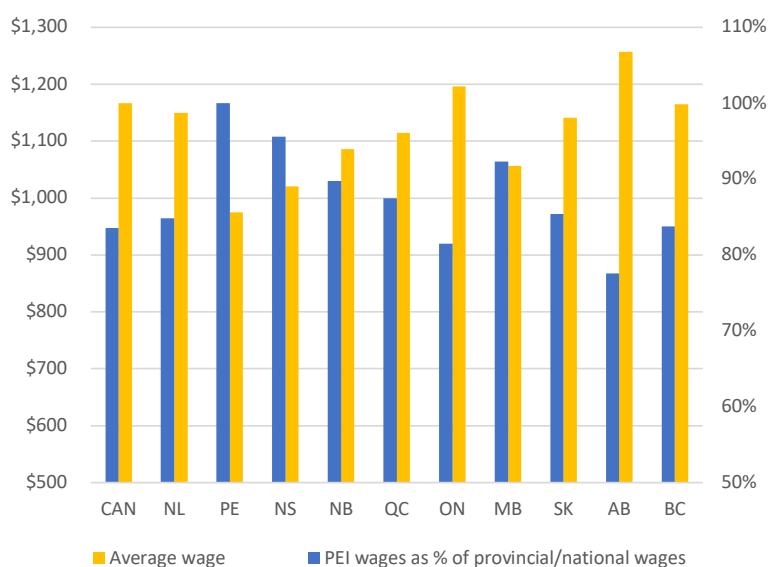


## Labour Force:

The strengthening of the economy can be seen in the employment data. Employment grew in all provinces in 2022, with employment on Prince Edward Island increasing by 5.4 per cent (4,300 persons) to a new all-time high of 84,200 people, the fastest growth amongst provinces. This growth was broad-based by gender and age groups, with the only age cohort to see a decline in employment being males aged 65 and over, down 8.6 per cent or 300 people, though this still remains higher than employment levels for this group pre-pandemic. Full-time employment grew by 6.1 per cent in 2022, while part-time employment grew 2.3 per cent. Most employment on the Island continues to be full-time, at 84.3 per cent of total employment. Prince Edward Island ranks third amongst provinces in the percentage of full-time employment, behind New Brunswick and Newfoundland and Labrador.

Employment in the goods producing sector increased from 19,400 in 2021 to 21,400 in 2022. Employment rose in *agriculture, construction and manufacturing*. Employment in the service providing sector also increased in 2022, rising by 2,400 to total 62,800. Notable gains in the services industries occurred in *public administration, health care and social assistance* and *professional services*. Losses were seen in *wholesale and retail trade, transportation and warehousing, finance, insurance, real estate, rental and leasing, and education*. Health care and social assistance, employing 12,000 people, was the largest employment industry in PEI

Chart 2: Average Wages and PEI Wages as a % of Provincial and National Wages 2022



Source: Statistics Canada

in 2022 surpassing retail trade. The unemployment rate continued to decline in 2022, down 2.1 percentage points to 7.6 per cent, the lowest rate on record (since 1976).

The participation rate on the Island declined 0.4 percentage points in 2022 to reach 65.5 per cent, and remains below pre-pandemic levels, a trend observed across the country. Despite this, PEI continues to have the fourth highest participation rate amongst provinces, behind only Alberta, Saskatchewan and Manitoba, and has a participation rate higher than the national average of 65.4 per cent.

Through the first four months of 2023, the labour force on the Island has continued to strengthen, with employment growing by 3.7 per cent to average 86,600. Employment has grown in each of the last three months on the Island (February to April). The unemployment rate has declined by 1.8 percentage points to 7.2 per cent on a year-to-date basis, while the participation rate has averaged 65.5 per cent. Average weekly earnings increased 3.1 per cent to average \$974.65 in 2022. Growth was stronger in the goods-producing sector, up 4.5 per cent, while growth in the services producing industries was 2.8 per cent. Despite this, average weekly wages remain the lowest in the country, averaging 83.6 per cent of the average national wage

over this time period, and 95.6 per cent of the next lowest province, Nova Scotia. Growth in average weekly wages ranged from a high of 5.7 per cent in New Brunswick to a low of 2.3 per cent in Ontario. Nationally average weekly wages increased 3.1 per cent in 2022. So far through 2023, average weekly wages have increased 4.9 per cent on a seasonally adjusted basis, with average weekly wages surpassing the \$1,000/week level for the first time in both January and February 2023.

There were 3,370 job vacancies on the Island in the fourth quarter of 2022, a decrease of 100 vacancies compared to the fourth quarter of 2021. This decreased the job vacancy rate 0.3 percentage points to 4.6 percent in the fourth quarter, though both the number of job vacancies and the job vacancy rate are much higher than they were pre-pandemic. Nationally, the job vacancy rate was 4.8 per cent, 0.5 percentage points lower than in the fourth quarter of 2021.





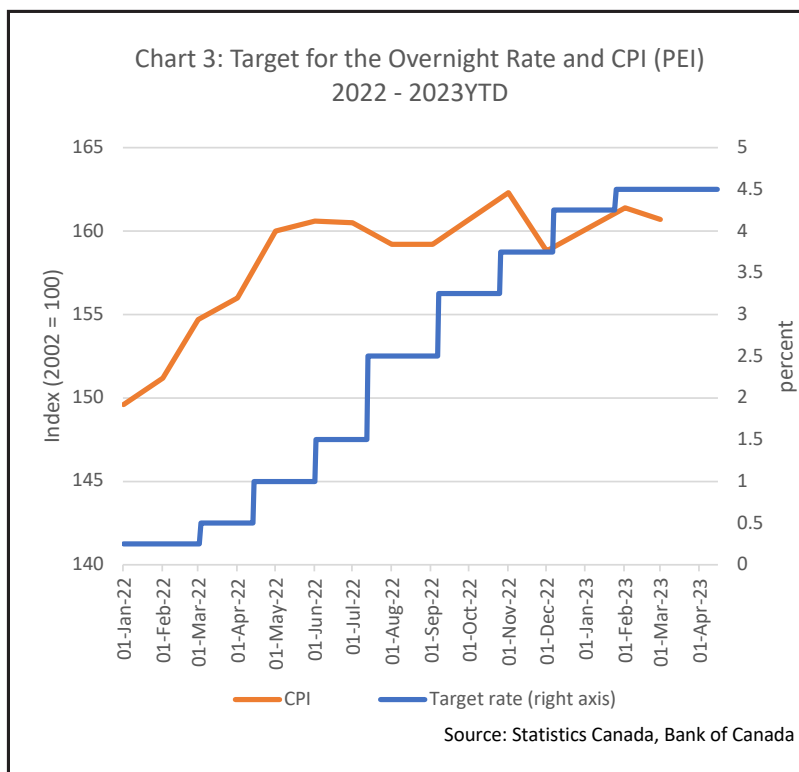
# Consumer Prices and the Bank Rate:

The change in the all-items consumer price index annual average for PEI in 2022 was 8.8 per cent as compared to 2021. This was the highest annual increase amongst provinces. Increases occurred in all eight major components, with *transportation* (13.6 per cent), *shelter* (12.8 per cent), and *food* (9.7 per cent) seeing the largest increases. *Energy* prices on PEI increased by 37.5 per cent over 2021, with prices for *fuel oil and other fuels* rising by 68.1 per cent, *gasoline* prices rising 34.0 per cent, and *electricity* by 1.6 per cent.

Due to the higher reliance on heating fuel and personal vehicles on the Island, these increases had a larger impact on inflation on the Island than in other provinces. Core inflation (all items excluding energy and food) increased 5.0 per cent in 2022.

Nationally, all provinces saw consumer prices increase in 2022 - and at a faster pace - as compared to 2021. The annual average increase for Canada was 6.8 per cent, following an increase of 3.4 per cent in 2021. This was the fastest growth since 1991. Increases occurred in all eight major components, with *transportation* (10.6 per cent) and *food* (8.9 per cent) increasing the most. *Energy* increased by 22.5 per cent compared to 2021, while core inflation for Canada was 5.0 per cent in 2022.

Through the first quarter of 2023 inflation on the Island was 5.9 per cent, with food inflation up 9.7 per cent, shelter inflation up 7.6 per cent and energy inflation up 6.3 per cent compared to the same period in 2022. After having increased in January and February, inflation declined in March, largely due to energy prices being lower than the same period in 2022. Price levels on the Island however remain elevated.



Due to the persistent high inflation seen in Canada, the Bank of Canada began raising interest rates in March of 2022 from 0.25 per cent to 4.5 per cent as of January 23, 2023, one of the fastest rate rises in its history, pushing the overnight rate to the highest it has been since 2007. As a result of a tempering in inflation towards the end of 2022 and the beginning of 2023, the Bank of Canada has been holding the target for the overnight rate steady, as recently re-confirmed in its April 12, 2023 rate decision. The Bank again re-iterated its intention of holding the rate constant barring any significant change in the Canadian macroeconomic situation.



# Retail Trade and Motor Vehicle Sales:

Retail sales on the Island increased 8.3 per cent in 2022 to total \$3.4 billion. Across the country, the growth in retail sales has ranged from a high of 10.9 per cent in Ontario to a low of 3.1 per cent in British Columbia. Nationally, retail sales increased by 8.3 per cent.

On an unadjusted basis on the Island, growth in retail sales has been recorded across most store types. Exceptions include motor vehicle and parts dealers and furniture, home furnishing, electronics and appliance stores. Notable increases were in gasoline stations up 27.7 per cent, food and beverage stores, up 7.7 per cent, and building and garden material supply stores, up 12.0 per cent, reflecting the higher prices seen in these areas as a result of inflation and supply chain disruptions.

So far through 2023 seasonally adjusted retail sales have increased 11.7 per cent, the fastest growth amongst provinces. Sales have increased across most components, except food and beverage retailers and furniture and home furnishing retailers.

After seeing a positive rebound in 2021, the value and volume of new car sales declined 7.2 per cent and 14.5 per cent respectively in 2022 as supply chain issues, higher prices and financing for consumers continued to impact the industry. Sales were down for both passenger cars and trucks, down 19.2 per cent and 13.3 per cent respectively. Nationally, the volume of new cars sold decreased 7.9 per cent in 2022, while the value of those vehicles increased by 1.7 per cent.

New car sales have been growing through the beginning of 2023, with sales volumes up 2.1 per cent through February, and the value of those sales up 20.8 per cent as consumers continue to purchase more trucks and fewer passenger cars. Nationally, new motor vehicle sales have increased 5.3 per cent through February, while the value of those vehicles has increased 18.6 per cent.

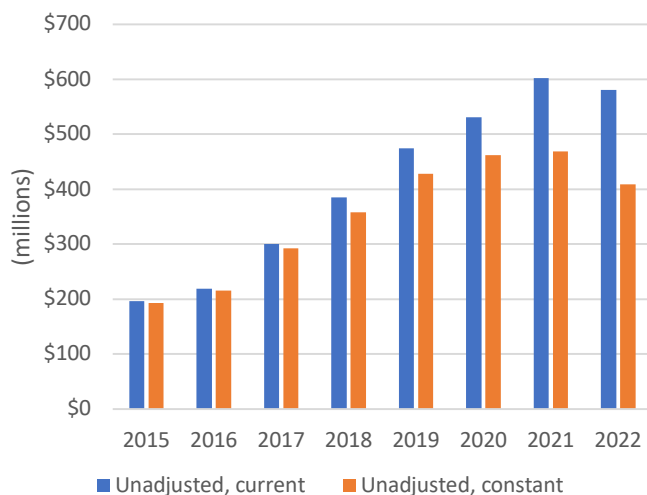
# Construction and Housing:

The construction sector continued to be an important economic sector in 2022 as additional infrastructure is required to support a growing population – from houses and roads to schools and commercial space. This industry was hit by many of the major forces at play in 2022. It had to contend with supply chain issues and increased costs, increased pressures as a result of population growth as well as the impact of rising interest rates on the financial side of the building and buying equation. The rising interest rates are intended, amongst other things, to slow the construction sector are having an effect. These forces resulted in a mixed year for the construction sector. Many of these same challenges are persisting into the beginning of 2023.

Overall, the construction industry contracted by 3.1 per cent in 2022, the first time the industry has contracted since 2015. Residential construction, the largest construction sub-industry, contracted by 5.1 per cent in 2022 after growing by 14.6 per cent in 2021. Non-residential construction followed a similar path contracting by 12.4 per cent in 2022 after growing by 7.4 per cent in 2021. Engineering construction, the smallest sub-industry, expanded in 2022 by 14.0 per cent after contracting by 9.7 per cent in 2021, likely reflecting some trade-off between sub-sectors in attempting to complete projects.

Building permits declined 3.5 per cent in 2022. A 6.1 per cent increase in non-residential building was not enough to offset a 7.3 per cent decline in residential construction. On a constant dollar basis – taking out the impact of inflation and other price movements – building permits declined 12.9 per cent. As can be seen in Chart 4, on a constant dollar basis, the value of building permits was below 2019 levels in 2022. This trend was apparent nationally and across provinces with national building permits increasing by 6.8 per cent on a current dollar basis but declining by 6.7 per cent on a constant dollar basis.

Chart 4: Value of Building Permits PEI, Current and Constant Dollars 2015-2022



Source: Statistics Canada

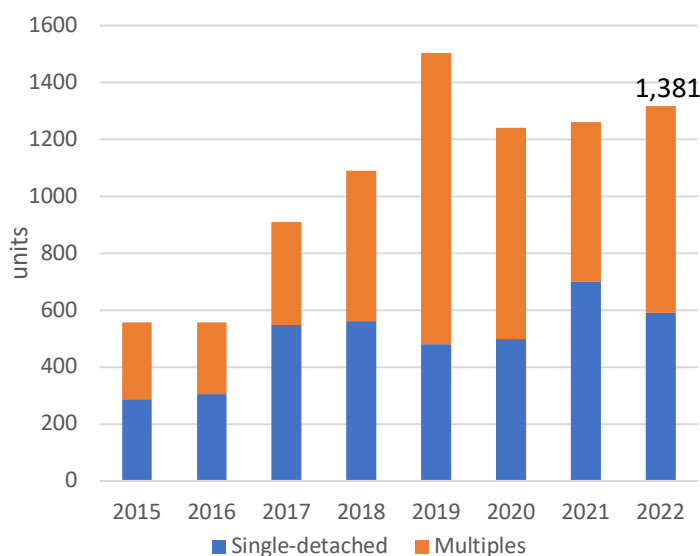
So far, on a year-to-date basis through the first quarter of 2023, unadjusted building permits on the Island have decreased 3.8 per cent on a current dollar basis. A 74.6 per cent increase in non-residential building permits (led by increases in commercial and industrial permits), was not enough to offset a 25.6 per cent decline in residential permits.

Housing starts increased 4.6 per cent in 2022 to total 1,381 starts. After two years of starts being dominated by single family homes, 2022 saw a return to building more multi-unit housing, up 30.1 per cent from 2021, and was mostly dominated by apartment starts. Single-detached starts declined by 15.7 per cent in 2022 to 591 units, close to the amounts constructed in 2017-18. Housing completions declined by 6.3 per cent in 2022 to 1,266 units, the second consecutive yearly decline. Completions fell for both single-detached homes and multi-unit builds, by 6.3 per cent and 11.7 per cent respectively. Housing completions can differ from prior year starts for numerous reasons including, but not limited to, timing, material shortages, shortages of particular trades and weather delays. Through the first quarter of 2023, housing starts have declined on the Island by 33.2 per cent. A 9.2 per cent increase in single-detached starts was not enough to offset a 56.3 per cent decline in multi-unit starts. Starts were down for semi-detached, row houses and apartments over this time period.

As can be seen in Chart 5, housing starts are more than double the levels seen in 2015 and 2016. The PEI Department of Finance estimates that between 1,900 and 2,200 new residential units per year are required, on a sustained basis, to accommodate a growing population and return balance and flexibility to the housing market. This is an opportunity to grow and diversify the construction industry on PEI.

Like other housing markets across the country, the PEI housing market has seen prices for existing homes increase rapidly over the course of the pandemic. As can be seen in Charts 6 and 7, housing prices increased until August of 2022, with the Canadian Real Estate Association seasonally adjusted composite price peaking at \$364,400 before beginning to fall over the rest of the year - and through the first quarter of 2023 - as the impact of interest rates and financing began to impact the market. In March of 2023, the composite benchmark price was \$346,800, very close to the price recorded in April of 2022. Despite prices easing in other parts of the country, as PEI has housing prices which are still relatively affordable compared to those markets, it is likely that PEI could remain a destination for in-migrants from other parts of Canada for some time.

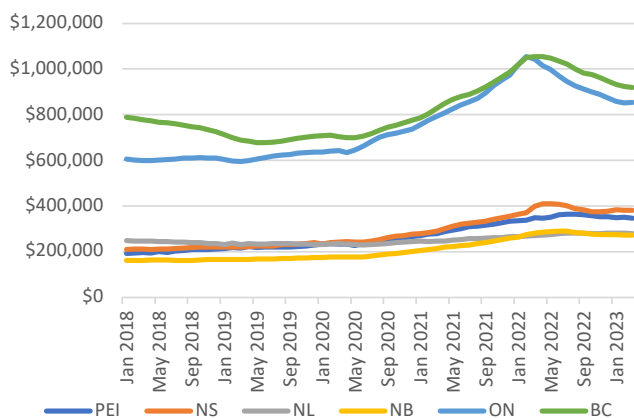
Chart 5: Housing Starts PEI



Source: CMHC

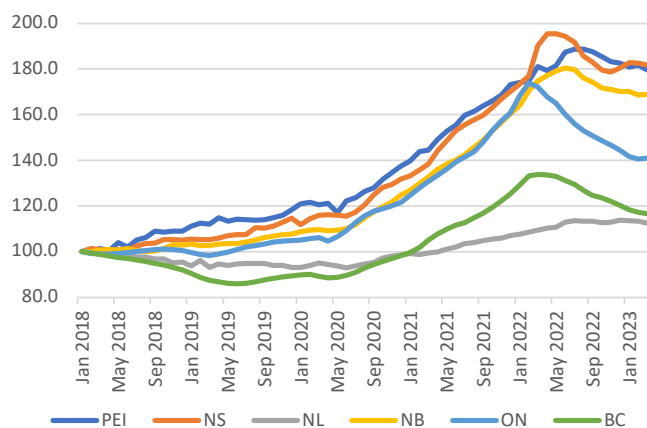


Chart 6: CREA Composite Housing Price (SA)



Source: Canadian Real Estate Association

Chart 7: Index of Housing Price Growth (Jan 2018 = 100)

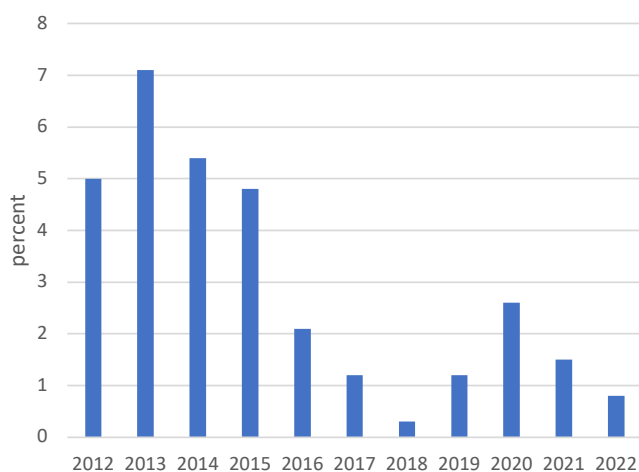


Source: Canadian Real Estate Association

After showing some improvement between 2018 and 2020, the vacancy rate for apartments on the Island continued to decline to 0.8 per cent in 2022, down from 1.5 per cent from 2021. Over the past decade vacancy rates in

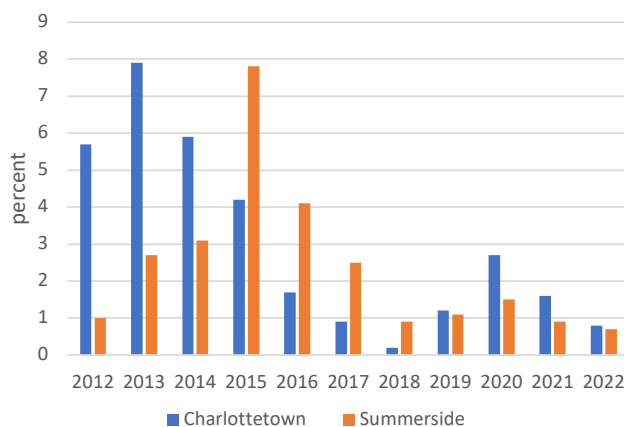
Charlottetown began to decline more quickly than in Summerside, but over the past five years, both cities have seen very low rates. In 2022, vacancy rates in Charlottetown and Summerside declined to 0.8 and 0.7 per cent respectively.

Chart 8: Vacancy Rates PEI



Source: CMHC

Chart 9: Vacancy Rates Charlottetown and Summerside



Source: CMHC



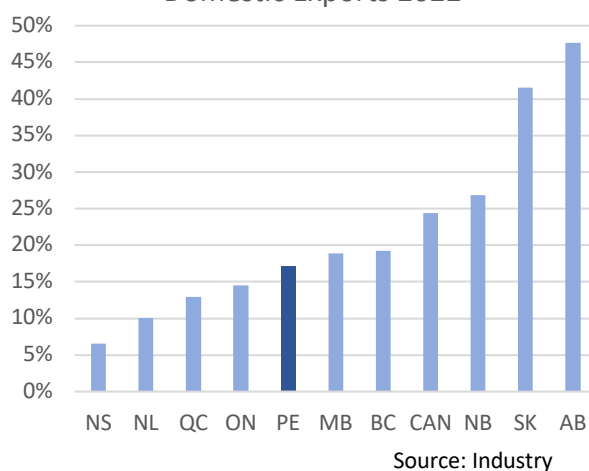
## Shipments and Exports:

The value of seasonally adjusted manufacturing shipments increased 17 per cent in 2022, to total just over \$3 billion, a new all-time high. Gains have been recorded in both durable and non-durable manufacturing up 29.6 per cent and 11.3 per cent respectively. Across the country growth in manufacturing shipments have ranged from a high of 29 per cent in New Brunswick, to a decline of 12.9 per cent in Newfoundland and Labrador. Nationally manufacturing shipments grew by 17.9 per cent in 2022.

Manufacturing shipments have continued to grow through the beginning of 2023, with the value of seasonally adjusted shipments up 22.6 per cent through February. Growth has been recorded in both durable and non-durable manufacturing, up 14.5 and 26.5 per cent respectively.

The value of international exports from Prince Edward Island increased 17.2 per cent in 2022 to total \$1.99 billion, an all-time high. Frozen food manufacturing was once again the province's top export industry, growing by 37.1 per cent to value \$552.6 million, a new all-time high. After facing restrictions on the export of raw potatoes from PEI in late 2021 to April 2022, the value of raw potato exports rebounded 24.5 per cent in 2022 year to total \$140.1 million, a new all-time high. This is 14.8 per cent higher than the value of potato exports in 2020, the previous record. Pharmaceutical and chemical manufacturing had another

Chart 10: Growth in the Value of Domestic Exports 2022



strong year in 2022, with growth of 57.1 per cent and 57.6 per cent respectively, both new all-time highs.

Aerospace and engine and turbine manufacturing, both industries that were significantly impacted by the decrease in air travel as a result of the pandemic continued to recover in 2022, up 17.1 and 6.5 per cent respectively. Both industries have yet to recover their pre-pandemic levels, with aerospace at just over three-quarters of its pre-pandemic levels<sup>1</sup>, and engine and turbine manufacturing approaching half of its pre-pandemic levels. After having its best year on record in 2021 processed seafood products saw a 17 per cent decline in exports in 2022 to total \$377.9 million, the second highest total on record.

1 For this purpose, the pre-pandemic level is the average of the export value of the five years preceding the pandemic (2015-2019).



Growth in exports in 2022 ranged from a low of 6.5 per cent in Nova Scotia to a high of 48.5 per cent in Alberta, largely as a result of higher prices for petroleum products. Nationally, the value of international exports increased 24.9 per cent.

Through the first quarter of 2023, Island exports have increased 35.5 per cent, due in large part to fresh potato exports, which were banned from the United States during this period in 2022.

## Agriculture:

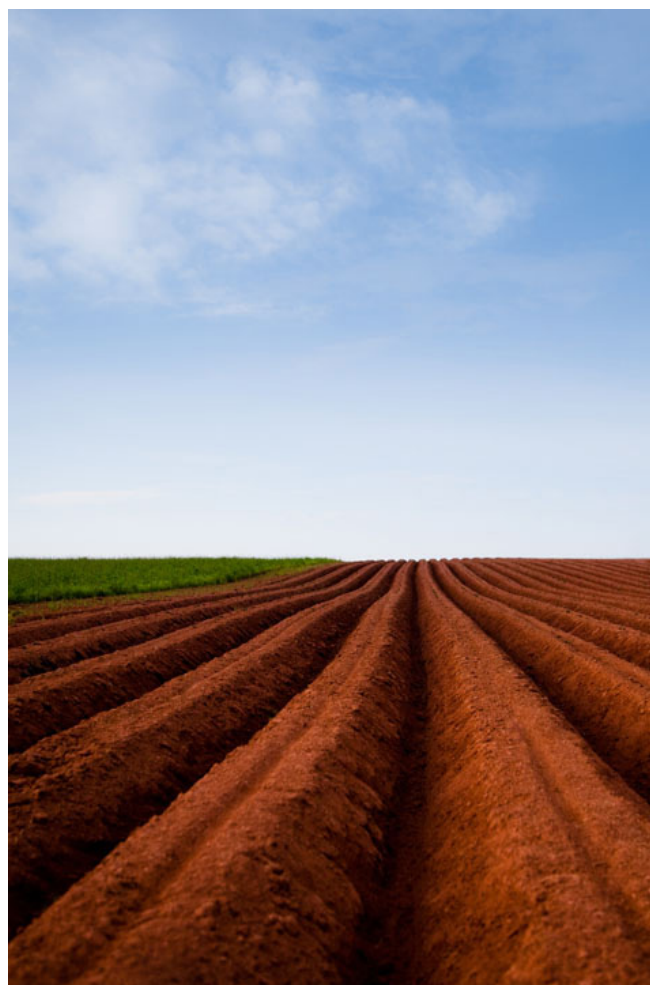
Favourable growing conditions and higher prices have contributed to a strong performance in agriculture. Lingering uncertainty regarding the ability to export raw potatoes from PEI resulted in farmers planting 2.7 per cent fewer potatoes in 2022. Consequently, harvested area was down by 3.1 per cent, while production was down by 2.2 per cent, resulting in the Island producing the second-most potatoes of all jurisdictions, 0.8 per cent behind Alberta. Despite this, PEI's average yield per acre increased by 0.9 per cent to 324.8 hundredweight per harvested acre, the highest on record (back to 1908).

Most agricultural commodities saw significant price increases in 2022 due to good growing seasons and events resulting in supply disruptions and shortages in other parts of the world. Wheat, oats, barley and soybeans all saw double digit price growth. Livestock also saw price gains, with cattle, calves and hogs all seeing increases. Of note, cattle for slaughter saw a 20.5 per cent increase in price in 2022. Supply-managed industries also saw double digit price growth, with chickens up 10.7 per cent, unprocessed milk up 13 per cent, and eggs up 11.5 per cent.

These higher prices resulted in farm cash receipts on the Island increasing by 30.4 per cent to total \$740.7 million in 2022. Increases in receipts have been broad based, with

crop receipts up 29.2 per cent, largely as a result of an increase in fresh potato receipts. Livestock receipts were up 12.8 per cent, for a second consecutive year of growth. Direct payments to farmers also increased in 2022, as a result of increased crop insurance payments and payments through the Surplus Potato Management Program and Dairy Direct Payment Program. Absent direct payments, farm cash receipts would have increased by 21.4 per cent in 2022.

So far through the beginning of 2023, prices for grains have come off the highs seen at the end of 2022, but still remain higher than the same period in 2022 (except for barley). Cattle and calf prices - and prices for supply managed commodities - have seen prices continue to climb, while lamb and hog prices are down.



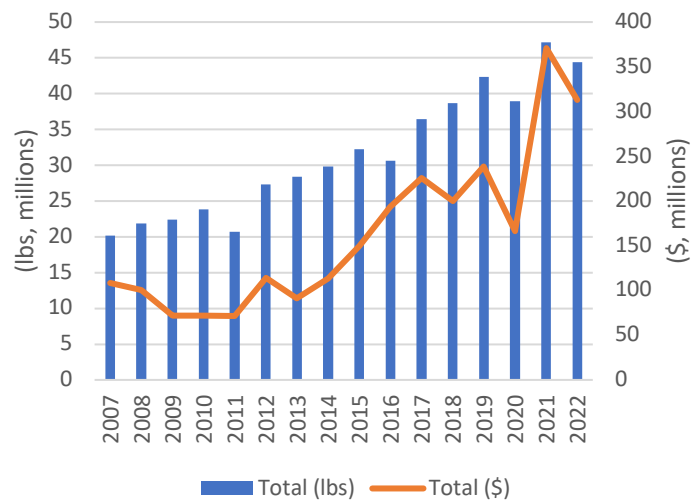


## Fishing and Aquaculture:

Fishing and aquaculture on the Island saw mixed results in 2022. The lobster fishery, after coming off record catches and landings in 2021, saw the value of the catch decline by 15.6 per cent to \$312.9 million, while the volume of the catch declined by 5.9 per cent to 44.4 million pounds. Despite these declines, this was the second-highest catch and value on record, as can be seen in Chart 11. The majority of the weakness came in the fall lobster fishery, as a result of lower prices and catches, partially as a result of the introduction of carapace size increase to 79mm, and the impacts of higher inflation on purchasing decisions, especially for luxury goods. The snow crab season was successful, with catches on par with other years.

The aquaculture industry continued to enjoy solid demand for its products, particularly cultured oysters and mussels, with demand for these products far outstripping available supply. This led to a very successful season, up until the arrival of Hurricane Fiona, which resulted in substantial damage to both the product and to the gear and processing facilities for these products. It is estimated that losses in this sector amounted to \$74 million in 2022 as a result of the hurricane.

Chart 11: PEI Lobster Landings 2007-2022



Source: Dept. of Fisheries and Oceans, PEI Dept. of Fisheries and Communities

So far in 2023, the lobster industry is reporting that the landed value of the catch is between \$6.50 and \$7.00, less than half of the price that they were receiving in 2022, while higher input costs remain a factor. The recently completed snow crab season also saw disappointing prices, though this was partially made up by being able to catch the allocated quota in an efficient manner, minimizing input costs.



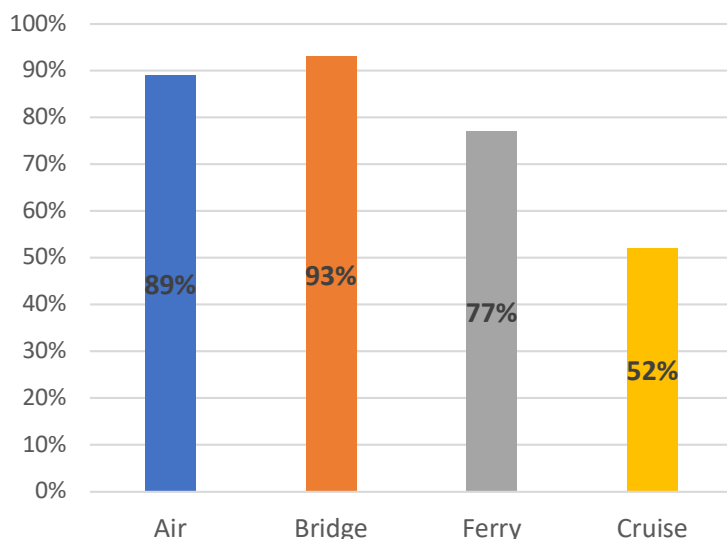
# Tourism:

After two years of the COVID-19 pandemic having a negative impact on the Island tourism industry, the 2022 tourism season, faced with significantly fewer restrictions to visitors and capacity, rebounded in a big way. Bridge traffic to the Island recovered to 93 per cent of pre-pandemic levels, while air traffic rebounded to 89 per cent of 2019 levels. Ferry traffic, which was impacted both by a fire early in the season, and subsequently by Hurricane Fiona, saw a smaller rebound, recovering to 77 per cent of pre-pandemic levels. The number of overnight stays on the Island exceeded pre-pandemic levels for both campgrounds and fixed-roof accommodation, though non-resident visitor volumes are still recovering. Cruise ships,

which had been absent from the port of Charlottetown for the past two summers returned with 55 ships and just over 96,000 people visiting. Several ships had to cancel their planned arrivals in Charlottetown in the fall as a result of the aftermath of Hurricane Fiona.

Sales at food services and drinking places increased by 18 per cent in 2022. Growth in sales ranged from a low of 13.0 per cent in Newfoundland and Labrador to a high of 30.8 per cent in Ontario. Due to difficulty staffing, and inflation, many food service establishments were not able to return to pre-pandemic levels of operation despite all restrictions being lifted. Nationally, sales increased by 26.8 per cent in 2022. Through the first two months of 2023, sales at food services and drinking places are up 38.7 per cent year- to-date on a seasonally adjusted basis, the large increase due in part to renewed COVID-19 restrictions at the beginning of 2022.

Chart 12: Traffic Recovery by Type (2022 compared to 2019)



Source: PEI Department of Fisheries, Tourism, Sport and Culture





# Outlook 2023

## Private Sector Forecast

The economic outlook deteriorated over the course of 2022 as the impact of inflation, higher interest rates and the fallout from the war in Ukraine impacted economies all over the world. These global impacts were partially offset by provincial decisions made to decrease and then remove restrictions to travel and gathering as a result of COVID-19. This resulted in GDP growth of 2.9 per cent in 2022, lower than the very high 7.9 per cent recorded in 2021, but the strongest GDP growth east of Ontario.

As many of the same factors that were present in 2022 continue into 2023 - in addition to the ongoing risk of a recession nationally - estimates for growth for the current year are lower with private sector forecasts ranging from 0.8 to 2 per cent for 2023, averaging 1.3 per cent. This is relatively unchanged from the *2022 Fall Economic and Fiscal Update*, before improving slightly to average 1.4 per cent in 2024, where the range of forecasts is from 0.3 to 2.5 per cent.

## Provincial View

The Department of Finance is of the view that the private sector forecasts is too pessimistic. Strong population growth continues are projected for both 2023 and 2024, which will underpin employment and domestic demand. Construction demand is also set to rebound this year, due in part to very strong demand, stimulative policy and fewer supply chain issues. These – and other – factors are expanded upon in the Outlook below. Private sector forecasts have also consistently underestimated the magnitude and duration of the economic growth seen on the Island, especially over the period from 2016 onward that has coincided with elevated levels of population growth. Consequently, internal forecasting pointing to 6.5 per cent growth in nominal GDP, with a commensurate increase of 3.5 per cent in real GDP for 2023.

Though there are significant challenges to economic growth heading into 2023, PEI has some advantages that should allow the economy to continue to expand.



The population is projected to continue to grow – at a pace of approximately 3.5 per cent - largely as a result of international immigration and positive inter-provincial migration. Current provincial population projections show that the population of the Island is expected to reach 200,000 people by the early 2030's. As the province emerges from the pandemic, it is projecting the arrival of approximately 3,300 international immigrants per year, higher than what was previously projected. This immigration – largely tied to the labour stream – will continue to support the labour market needs of many sectors on the Island, though certain pressures will remain. Immigration will also continue to support domestic demand, which will help to grow retail sales by 6 per cent in 2023. As this continued increased population growth is the underpinning to the general economic growth on the Island, the province is in the process of creating a population growth strategy to outline how to manage this growth in a sustainable way into the future.

Employment is expected to grow by approximately 3 per cent 2023, a more subdued pace than the 5.4 per cent seen in 2022. There is still significant labour demand in the economy, especially in industries such as health care and social assistance and construction, and the number and rate of job vacancies remains high overall, especially compared to pre-pandemic. Difficulty attracting and retaining labour, especially with renewed competition from sectors that were shuttered during the pandemic, combined with past high inflation and continued higher prices will create additional pressure on wages.

The minimum wage on the Island increased by 80 cents on January 1<sup>st</sup> to \$14.50 per hour and is slated to increase by an additional 50 cents on October 1<sup>st</sup> to \$15.00. This increase will help increase purchasing power amongst the Island's lowest paid workers. This will also generate upward pressure throughout the wage grid as workers and employers attempt to maintain the differentiation by position - not just having more workers work minimum wage - or risk losing higher skilled employees to other sectors/jurisdictions. The settling of several large collective agreements, both federally and provincially, will also increase wages in 2023. The increase in employment and wages will contribute to total labour income growing by approximately 6 per cent in 2023.

After maintaining the target for the overnight rate at 4.5 per cent in April, the Bank of Canada has re-confirmed that it will pause interest rate hikes for the moment as inflation has shown some signs of easing through last quarter of 2022 and the first quarter of 2023. It is projected that inflation will likely continue to moderate on the Island through 2023, as supply chain pressures ease and fuel prices moderate. Though inflation may begin to subside, the price level in the economy will likely remain elevated.

The construction industry will continue to contribute positively to the Island in 2023, with its impact constrained only by its ability to attract the requisite amount of capital and labour. Budget 2023 includes several measures to increase the supply and affordability of housing. There is significant need for construction on both the residential and non-residential side of the industry as the population continues to expand. Housing starts will continue to increase in 2023, with a return to more multi-unit construction that began in 2022 and was evident prior to the pandemic. The number of starts is projected to continue to expand over the medium term as the industry continues to expand, with PEI needing between 1900 and 2,200 units per year to return the market to a more balanced position.

Higher interest rates, as a result of high inflation, will place additional pressure on the rental market as people are discouraged from purchasing homes in the current environment. The addition of more modular housing units to the housing stock mix should allow for units to be completed at a quicker pace taking less time to enter the market. PEI, due to its still relatively affordable housing market compared to other parts of the country, will likely continue to attract people, especially as the possibility of remote work for some professions becomes more established, putting further pressure on the housing market.



The non-residential sector should also see growth this year with capital expenditure intentions projected to increase by 2.75 per cent in 2023. Several major projects are commencing or moving into heavier phases of construction in 2023 such as the construction of the new medical school at UPEI, the commencement of the construction phase of the Clean Tech Park in Georgetown, and the recent announcement of a new \$50 million biomanufacturing facility in Charlottetown. The Provincial Government, through its Fall Capital Budget announced \$308.1 million in spending for the 2023-24 fiscal year with a focus on climate resiliency, health, education and affordable housing. Rebuilding from Hurricane Fiona will create additional demand for construction and repair trades.

Manufacturing shipments and exports should continue to support the Island economy, and demand for the Island's goods and services remains robust. With the lifting of all COVID restrictions, and a rebound in air travel, the aerospace sector will continue its recovery. The bio-science sector is aiming to grow to over \$1 billion in revenues by 2030. This growth is being supported by recently announced production expansions in the vaccine manufacturing sector, as well as through the activities of the new biomanufacturing facility through the middle part of the decade.

Primary industries have been significantly impacted by Hurricane Fiona, and their ability to positively contribute to the economy in 2023 will be determined by the extent of the damage both this year and next, and their capacity to rebuild. The resolution of the table stock trade dispute should encourage additional potato planting in 2023. A resolution to the seed potato dispute could also provide additional upside to the industry.

Numerous wharves were destroyed and harbours and processing plants sustained damage as a result of Hurricane Fiona, with the aquaculture sector in particular severely impacted. Aquaculture production is likely to be lower in

2023 due to the damage suffered and the need to rebuild product, though this lack of supply should help keep prices elevated for those able to produce. The spring lobster fishery opened at the end of April, and is anticipating a season of fewer restrictions, COVID or otherwise, though they will have to contend with increased input prices, and potential suspensions resulting from the necessity to preserve the right whale population. The fall lobster fishery will experience another carapace size increase to 81mm, eliminating canner-sized lobsters from that fishery, with potential impacts for both prices and quantities caught.

The tourism sector will continue to recover in 2023. The year started off with a boost from the hosting of the Canada Winter Games in late February and early March, a part of the year that normally sees less tourism activity. This event is projected to have brought 10,000 visitors to the Island and generated over \$100 million in economic activity. The cruise ship season, running from April to November 2023, is slated to bring a record 91 ships and over 150,000 passengers to the Island, an increase of over 40 per cent from the 2022 season. Increased air connections for the summer season through the Charlottetown Airport will facilitate visitor arrivals to the Island. The possibility of additional festivals during the summer season also have the potential to increase economic activity in this area. Changes to the short-term rental market in Charlottetown, slated to begin in March – but delayed until October – could potentially decrease the number of tourist accommodations in the capital region in 2023 and increase demand for purpose-built tourism accommodations.

Risks to the outlook continue to be focused on inflation and interest rates. Further supply chain disruptions, an escalation of the war in Ukraine, national and global economic recessions and strained international financial markets provide the downside risk, while an easing of global tensions and a swifter taming of inflation could provide a boost to the outlook.





# Prince Edward Island

Budget Paper on the Economy