

Economic Update

2017



As of July 1, 2017, Prince Edward Island's population is estimated to be 152,021, an increase of 1.7 per cent over 2016, the fastest growth amongst provinces.

Total labour income on the Island, through the second quarter of 2017, grew by 4.5 per cent on a year-to-date basis, the second-fastest growth in the country.

Employment on Prince Edward Island averaged 73,400 on a year-to-date basis through October, an increase of 2.8 per cent from the same period in 2016, and the second strongest performance amongst provinces.

On a year-to-date basis through September, consumer prices have increased by 1.8 per cent.

On a seasonally adjusted basis through August, retail sales have advanced 8.4 per cent, the fastest growth in the region, and second amongst provinces.

Highlights of the Prince Edward Island Economy

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“Prince Edward Island has benefitted over the last number of years from modest, stable growth in real GDP.”

The volume of new motor vehicle sales has decreased 1.2 per cent on a year-to-date basis through August, while the value of new motor vehicles sold has increased by 4.6 per cent.

Through the first three quarters of 2017, housing starts have increased 43.7 per cent, compared to the same period last year.

On a year-to-date basis through August, the value of manufacturing shipments has increased 9.2 per cent.

On a year-to-date basis through September, international exports are up 5.3 per cent.

Tourism has been positive on the Island on a year-to-date basis through September. Information from the department of Economic Development and Tourism indicates that total overnight stays on the Island have increased by 6.5 per cent.

The average of private sector forecasts for real GDP for the Island in 2017 is 2.0 per cent.

Introduction



Trout River Industries to expand in West Prince

Trout River Industries is now Canada's leading manufacturer of live-bottom trailers for the heavy construction industry.

The following document is an update to the economic situation of the Province of Prince Edward Island since the release of the 2017 Budget.

This release begins with a discussion of the international and national economic context, and follows with a detailed discussion of the Island's economic indicators, including the labour

force, exports, consumer prices, primary industries, population and construction. All information in this document is current to November 10, 2017.

International and National Economic Context

Accelerated growth is being driven by improved economic performance in the euro area, Japan, emerging Europe, emerging Asia and Russia.



The seafood sector looks to have had another strong year in 2017, a trend that is likely to continue.

Non-durable goods, largely composed of food and seafood shipments, represent approximately 70 per cent of the Island's manufacturing shipments, while durable goods are responsible for the remaining 30 per cent.

The international economy is beginning to grow at a faster pace.

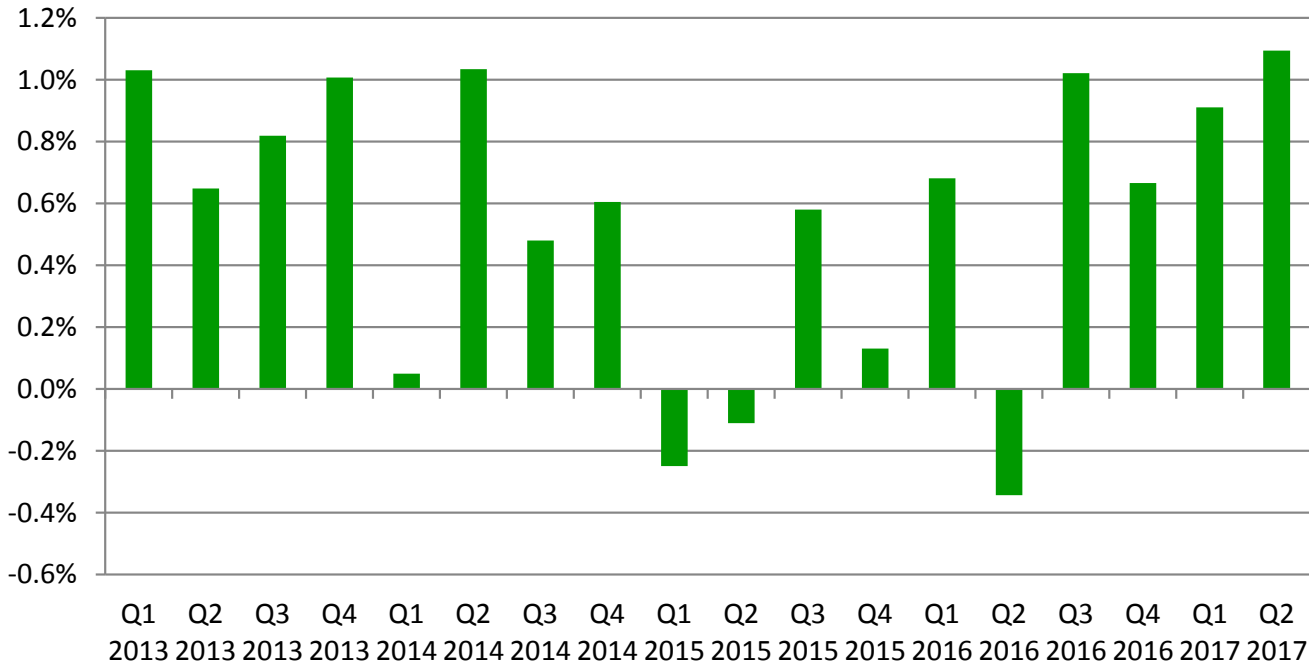
According to the International Monetary Fund (IMF), global real gross domestic product (GDP) is projected to expand by 3.6 per cent in 2017, with growth in advanced economies expanding by 2.2 per cent and growth in emerging market economies expanding by 4.6 per cent. Accelerated growth is being driven by improved economic performance in the euro area, Japan, emerging Europe, emerging Asia and Russia. This growth has more than offset downward revisions to the growth outlook in the United States and United Kingdom. However, the global economy still faces headwinds with lower oil and commodity prices still weighing on some countries, persistent low inflation in advanced economies, and the continued fallout from numerous economic and geopolitical events which will continue to impact the global economy going forward.

The economic situation in the United States continues to improve. Real GDP expanded at an annualized rate of 1.2 per cent in the first quarter, accelerating to an an-

nualized rate of growth of 3.1 per cent in the second quarter, and 3.0 per cent in the third quarter. Economic growth is being driven by personal consumption expenditures, private inventory investment, non-residential fixed investment, exports and federal government spending. Imports also declined over this period. The number of employed people has increased by 1.5 per cent on a year-to-date basis through October, while the unemployment rate averaged 4.4 per cent over this time period, a decline of 0.5 percentage points from the same period in 2016, and below pre-crisis levels.

In December of 2015, the United States Federal Reserve began increasing the federal funds rate, which previously had not been changed since December 2008. Since that time, the Federal Reserve has increased the federal funds rate on three occasions so that it presently sits between 1 and 1.25 per cent. It is expected that the evolution of the economic environment will warrant additional increases in the federal funds rate,

Figure 1: Quarterly Real GDP Growth Canada



Source: Statistics Canada

though this is projected to be a gradual process, with the rate projected to be below the long run rate for some time. Further the Federal Open Markets Committee began its balance sheet normalization program in October, beginning a process of unwinding the \$4.5 trillion in stimulus it acquired as a result of the 2008 recession. The Federal Reserve plans to shed \$10 billion in assets a month, gradually increasing the amount to \$50 billion a month by October 2018.

As can be seen in Figure 1, Canadian quarterly real GDP growth has been strong so far in 2017. Real GDP increased by 0.9 per cent in the first quarter, before strengthening by 1.1 per cent in the second quarter, the strongest quarterly GDP performance since the third quarter of 2011.


Cumulatively, growth in the first two quarters of the year was the strongest it has been since 2002. Household final consumption expenditures, and exports contributed the most to growth in the second quarter. The pace of imports decelerated from the first quarter to the second quarter, lessening its negative effect on GDP.

On an industry basis, the Canadian economy is showing signs of strength. On a year-to-date basis GDP by industry is up 3.5 per cent through August. GDP by industry has grown every month since November 2016, before declining in August 2017. Notable gains over this period occurred in mining, up 13.0 per cent, wholesale trade, up 6.8 per cent, manufacturing, up 3.2 per cent, real estate, rental and leasing, up 2.5 per cent, retail trade, up 5.6 per cent, and finance and insurance, up 4.4 per cent.

Declines occurred in agriculture, down 2.7 per cent, and management of companies and enterprises, down 2.4 per cent.

For the first time in seven years, the Bank of Canada began raising its target for the overnight rate in July 2017 due to strong economic growth in the Canadian economy, led by household spending. It further increased the target for the overnight rate to 1 per cent in September, due to stronger than expected economic data, and a view that the recovery of the Canadian economy is becoming more broad-based. Inflation, however, remains below the 2 per cent target, and is not projected to reach the 2 per cent target until the middle of 2018. At its last rate announcement on October 25, 2017, the Bank of Canada decided to keep the target for the overnight rate at 1 per cent.

In its 2017 Fall Economic Statement, the Government of Canada revised its real GDP forecast up to 3.1 per cent for 2017, a 0.9 percentage point increase from Budget 2017, while GDP growth is projected to be 2.1 per cent in 2018, 0.1 percentage points higher than at budget. The upward revisions stem largely from widespread improvements in economic performance both domestically and internationally. The recovery in oil prices has improved employment and output in energy-producing provinces, while non-energy producing provinces have also seen solid GDP and employment growth.



Provincial Economic Context

The Prince Edward Island economy has shown resiliency in light of the national and international context of the last number of years.



Tourism should continue to be a positive through 2018.

New hotel stock being constructed in the capital region will refresh the tourism offering in the province going forward.

The province has posted solid economic growth over the past decade, with GDP expanding by 2.3 per cent in 2016, a faster pace than the 1.4 per cent expansion nationally and the largest increase in 10 years. Amongst the provinces and territories, GDP growth ranged from a high of 8.0 per cent in the Yukon, to a decline of 3.7 per cent in Alberta. Prince Edward Island was the fourth fastest growing jurisdiction in the country.

Economic strength was widespread on the Island, with most components showing growth. Final consumption expenditures grew by 2.8 per cent in 2016, while household final consumption expenditures grew by 3.1 per cent. Household disposable income grew by 6.1 per cent, the strongest gain in the country. Busi-

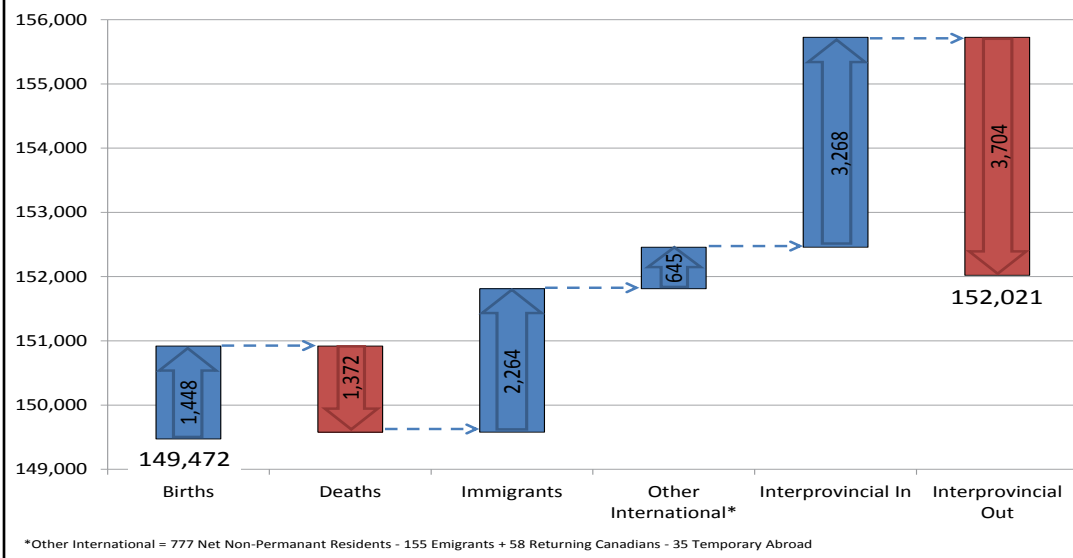
ness gross fixed capital formation grew by 5.4 per cent, with investment in non-residential structures growing by 34.4 per cent due largely to the work on the under-sea cable between the Island and New Brunswick. After contracting for five years, government final consumption expenditures contributed positively to GDP in 2016, growing by 2.1 per cent.

Exports of goods and services increased by 2.3 per cent in 2016, with exports to other countries growing by 2.8 per cent, and exports to other provinces growing by 1.8 per cent. Imports also increased over this time period, growing by 4.0 per cent. Imports from other countries grew by 0.9 per cent, while imports from other provinces grew by 5.6 per cent. Net exports declined 7.5 per

cent over this period. Private sector GDP forecasts for the Island in 2017 range from a low of 1.4 per cent to a high of 2.5 per cent.

The fiscal situation of the province has also been improving. With the release of its 2016/17 public accounts, the province posted a deficit of \$1.3 million, a decrease of \$11.8 million from 2015/16 and a significant decline from the \$17.9 million deficit forecast at Budget 2017.

Figure 3: Prince Edward Island Components of Growth
July 1, 2016 - June 30, 2017



land from July 1, 2016 to June 30, 2017, resulting in natural growth (births minus deaths) of 76. Figure 3 shows the population flows that contributed to PEI's population.

Though the Island's population is ageing, the pace of that ageing is beginning to slow. The median age on Prince Edward Island on July 1, 2017 was 43.5, a decline of 0.2 over 2016, the first time the median age for PEI has declined since 1967. The median age in 2007 was 40.9 and 35.2 in 1997. Since a low of 23.9 in 1967, the median age has risen by 19.6 years. The population of the Island over age 45 has increased by 21.9 per cent since 2007, while the population under age 45 has increased by 1.5 per cent over the same time period. This slowdown in ageing is largely a result of the large number of immigrants to the Island who have arrived recently, and are younger than the general population. This is having a positive effect on the broader economy, especially in terms of consumption, housing and the labour market. It is worth noting, that though small in the Canadian context, the population inflows to the province are quite large in a relative sense, but that this is the scale at which migration needs to happen to achieve small, albeit positive impacts on population ageing.

Provincial Economic Context

On September 27, 2017 Statistics Canada published its preliminary provincial population estimates for July 1, 2017, as well as revisions to the 2013 to 2016 population estimates. As of July 1, 2017, Prince Edward Island's population is estimated to be 152,021. This represents a yearly increase of 2,549 persons or a 1.7 per cent annual growth rate. This compares to a national growth rate of 1.2 per cent, and the second consecutive year the province has exceeded the national population growth rate. Prince Edward Island once again recorded the fastest population growth in the Atlantic region, with Nova Scotia's population growing at 0.6 per cent, and New Brunswick growing at 0.3 per cent. Newfoundland and Labrador's population declined by 0.3 per cent in 2017. Indeed, Prince Edward Island had the fastest rate of population growth amongst provinces and the second highest

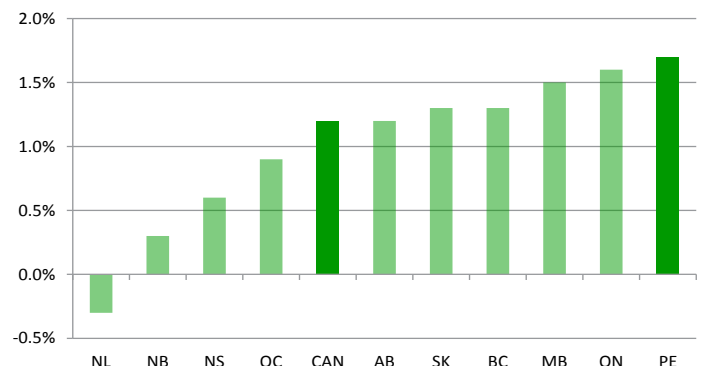
growth rate in the country, behind Nunavut, at 2.2 per cent. Figure 2 shows the population growth rates of Canada and the provinces for 2016-17.

International migration remains an important factor in population growth for PEI. International immigration increased for the second consecutive year, rising by 12.4 per cent in 2016-17 following a 50.5 per cent increase in 2015-16. From July 2016 to June 2017, 2,264 international immigrants came to the province, as compared to 2,015 the previous year. At a rate of 15.0 per thousand, the province had the highest immigration rate in the country, ahead of Saskatchewan at 12.4 per thousand. The immigration rate for Canada was 7.5 per thousand. In addition, other international migration components resulted in a net increase of 645 persons. This resulted in a total increase of 2,909 due

to international migration, which is a new all time high for Prince Edward Island since modern record keeping began.

A total of 3,268 inter-provincial migrants came to PEI in 2016-17, while 3,704 people left the province for other areas of Canada for a net interprovincial loss of 436 persons. There were 1,448 births and 1,372 deaths on Prince Edward Is-

Figure 2: Population Growth Rates, Canada and the Provinces 2016-17



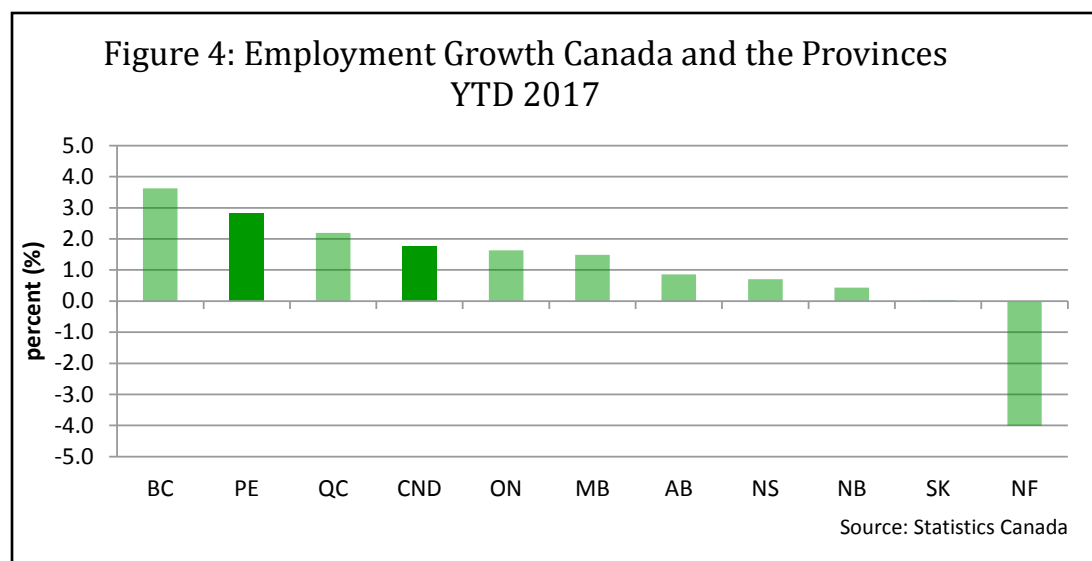
Source: Statistics Canada

Employment

Employment on Prince Edward Island averaged 73,400 on a year-to-date basis through October, an increase of 2.8 per cent from the same period in 2016, and the second strongest growth amongst provinces.

Through October, employment indicators on the Island have been positive. According to the Labour Force Survey (LFS), employment on Prince Edward Island averaged 73,400 on a year-to-date basis through October, an increase of 2.8 per cent from the same period in 2016, and the second strongest growth amongst provinces. Through October, there has been an expansion in full-time employment, up 3.8 per cent, while part-time employment has declined by 2.2 per cent. As can be seen in Figure 4, employment growth to date has been strongest in British Columbia, Prince Edward Island and Quebec. Only Newfoundland and Labrador has recorded a decline in employment over this time period. Nationally, employment has grown by 1.8 per cent through October.

The labour force on the Island has expanded by 1.7 per cent to average 81,500 people, reversing a trend of declines seen in recent years. The participation rate has averaged 66 per cent, up 0.2 percentage points from the same pe-



riod in 2016. Prince Edward Island continued to have the fourth highest participation rate amongst provinces behind Alberta, Saskatchewan and Manitoba over this period. The unemployment rate has averaged 9.9 per cent year-to-date, down 0.9 percentage points from the same period one year ago. Nationally, the unemployment rate averaged 6.5 per cent over this time period

On an industry basis on the Island, employment in the goods sector increased 4.2 per cent through October. Gains in manufacturing, construction – boosted by a revival in housing demand – and other primary industries more than offset losses in agriculture and utilities. Through October, manufacturing has been the largest employer in the goods producing sector, with employment averaging 6,400 to date. Nationally, the goods sector has expanded 0.6 per cent over this time period.

Employment in the service sector has increased 2.4 per cent through October. Notable gains to date have occurred in trade, transportation and warehousing, and health care and social assistance, while notable declines occurred in professional, scientific and technical services, and management administrative and other support services. On a year-to-date basis through October, retail/wholesale trade continues to be the largest employer on the Island, averaging 11,100, followed by health and social assistance, averaging 10,500

Employment by Industry Prince Edward Island YTD October			
	2016 YTD	2017 YTD	percentage change
	persons unless specified		
Goods Producing Sectors	16.6	17.3	4.2%
<i>Agriculture</i>	3.2	3.0	-4.4%
<i>Other Primary Industries</i>	2.4	2.4	3.0%
<i>Utilities</i>	0.4	0.2	-37.1%
<i>Manufacturing</i>	6.0	6.4	6.8%
<i>Construction</i>	4.7	5.2	10.9%
Service Producing Sector	54.8	56.2	2.4%
<i>Trade</i>	10.2	11.1	8.0%
<i>Transportation and Warehousing</i>	2.4	2.8	16.2%
<i>Finance, Insurance and Real Estate</i>	2.7	2.6	-1.5%
<i>Professional, Scientific and Technical Services</i>	3.7	3.5	-7.0%
<i>Management, Administrative and Other Support Services</i>	2.3	2.0	-12.7%
<i>Educational Services</i>	5.1	5.2	3.2%
<i>Health Care and Social Assistance</i>	10.1	10.5	3.7%
<i>Public Administration</i>	6.8	6.9	1.5%
<i>Information, Culture and Recreation</i>	2.5	2.8	9.5%
<i>Accommodation and Food Services</i>	5.9	5.6	-4.4%
<i>Other Services</i>	3.1	3.3	5.8%
Total	71.4	73.4	2.8%

Source: Stati

people. Nationally, the service sector has grown by 2.1 per cent over this time period. See Table above for more details concerning employment by industry on the Island.

According to the Survey of Employment, Payroll and Hours (SEPH), the number of jobs on the Island has increased 3.6 per cent on a year-to-date basis through August. The number of jobs has increased in both the goods producing industries, up 6.8 per cent, and in service producing industries, up 3.1 per cent. Employment measures from the two major workforce surveys (SEPH and the LFS) have been following a similar trend over the last number of months.

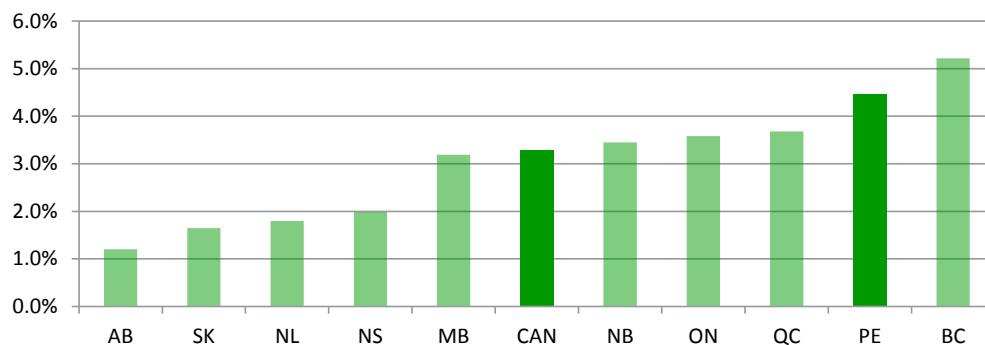
Average weekly earnings have increased 0.5 per cent on a year-to-date basis through August. Average weekly earnings have grown in all provinces through August, with growth ranging from a high of 2.2 per cent in Manitoba, to a low of 0.2 per cent in Alberta. Average weekly earnings on the Island have grown by 0.6 per cent in the service sector, led by gains in healthcare and social assistance, administration and support waste

management and remediation services and public administration. Average weekly earnings in the goods producing sector have declined by 1.0 per cent through August. A 6.7 per cent increase in wages in the construction sector was not enough to offset a 4.9 per cent decline in the manufacturing sector.

Though Prince Edward Island has recorded growth in average weekly earnings so far in 2017, the Island, at an average weekly wage rate of \$819.70, still had the lowest average weekly earnings in the country through August, an average of \$37.91 lower than the next lowest province. For Canada as a whole, average weekly earnings have increased 1.5 per cent on a year-to-date basis through August.

As can be seen in Figure 6, total labour income on the Island, through the second quarter of 2017, grew by 4.5 per cent on a year-to-date basis, the second fastest rate of growth in the country behind British Columbia, at 5.2 per cent. Nationally, the compensation of employees grew by 3.3 per cent over this time period.

Figure 5: Growth in Compensation of Employees Canada and Provinces YTD 2017



Source: Statistics Canada

Consumer Prices

On a year-to-date basis through September, consumer prices have increased by 1.8 per cent. Food inflation has decreased by 2.9 per cent on a year-to-date basis, while shelter inflation and energy inflation have increased 1.9 per cent and 8.2 per cent respectively. Prices for gasoline and household heating fuel continue to increase, and are 11.4 per cent and 9.3 per cent higher on a year-to-date basis through September as compared to the same period in 2016. As Prince Edward Island is relatively more dependent on oil for heating than other parts of the country, energy commodities have a larger weight in the province's CPI basket, with the result being the large impact on inflation seen so far this year. Absent energy, consumer prices have increased 1.0 per cent over this time period.

Core inflation on the Island (the measure of inflation excluding volatile components such as food and energy) has increased 2.0 per cent through September. Nationally, inflation has increased 1.5 per cent over this time period.

Construction and Housing

After facing challenges over the last number of years, construction on the Island is seeing an improvement. This improvement stems from several sources. On the residential side, the increase in the number of persons coming to the Island is having an impact on housing demand, both for new construction and resale. On the non-residential and engineering construction side, increased spending for infrastructure projects by all levels of government, as well as increased commercial building are driving growth.



Retail Trade, and Motor Vehicle Sales

Continued strong population growth, income growth and an impressive tourism season are contributing to another strong year for retail sales in 2017. On a seasonally adjusted basis through August, retail sales have advanced a healthy 8.4 per cent, the second-fastest growth amongst provinces. Retail sales growth ranged from a high of 9.2 per cent in British Columbia, to a low of 2.2 per cent in Newfoundland and Labrador over this period. Through August, retail sales in the other Maritime provinces grew by 6.7 per cent in Nova Scotia and by 5.7 per cent in New Brunswick. Nationally, retail sales increased 6.9 per cent over this time period.

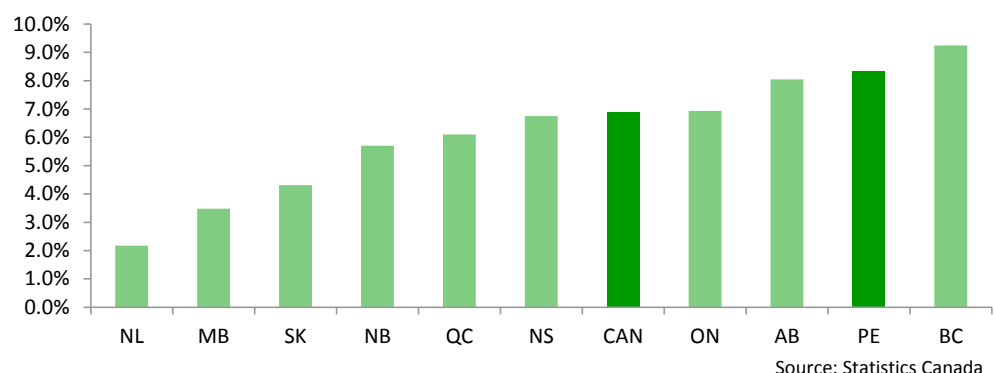
On an unadjusted basis through August, retail sales on the Island have been strong growth across all components. Notable contributions to growth have come from gasoline stations, up 17.8 per cent, motor vehicle and parts dealers, up 9.6 per cent, and building ma-

terial and garden equipment and supplies dealers, up 18.8 per cent.

The value of new motor vehicle sales has increased 4.6 per cent on a year-to-date basis through August, while the volume of new motor vehicles sold has decreased

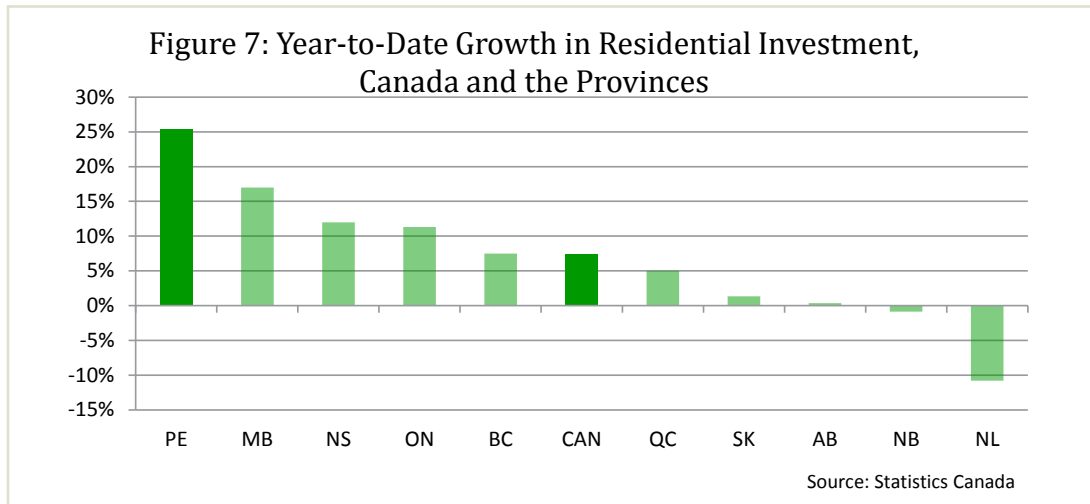
by 1.2 per cent. Truck sales continue to increase up, 4.3 per cent on volume, and 10.7 per cent on value. Nationally, the volume of new motor vehicles sold has increased 5.3 per cent, while their value has increased 10.5 per cent over this time period.

Figure 6: Retail Sales Canada and Provinces YTD August



Residential Investment

The total value of residential investment has increased 25.3 per cent through the second quarter of 2017, as compared to the same period in 2016, the fastest growth amongst provinces. Investment is up across most components, notably in single-family housing where investment has grown 112.4 per cent year-to-date. However renovations, the largest component of residential investment, is down 0.3 per cent through the second quarter. Nationally, residential investment increased 7.5 per cent over this time period. Figure 7 shows year-to-date growth in residential investment. Growth ranged from an increase of 25.3 per cent in Prince Edward Island to a decrease of 10.8 per cent in Newfoundland



and Labrador. It is expected that the value of residential investment should continue to grow through the latter part of 2017, following the rising trend in building permits and housing starts.

Non-residential Investment

Through the first three quarters of 2017, non-residential investment has increased by 20.4 per cent compared to the same period in 2016. Both commercial and government and institutional investment have increased by 36.2 per cent and 29.4 per cent respectively, while industrial investment has declined by 16.3 per cent. Nationally, non-residential investment has increased 0.8 per cent over this time period. Growth ranged from a high of 32.2 per cent in New Brunswick, to a decline of 27.9 per cent in Newfoundland and Labrador.

Resale Housing

According to the PEI Real Estate Association, on a year-to-date basis through September home sales totaled 1,643 units, an increase of 2.2 per cent from 2016. The year-to-date average price was \$197,728, an increase of 9.9 per cent from 2016.

Building Permits

On a year-to-date basis through September, total building permits have increased by 23.8 per cent. Non-residential permits have increased 17.0 per cent due to increases across all permit categories. Industrial permits are up 13.5 per cent, commercial permits are up 7.2 per cent and government and institutional permits are up 50.3 per cent. Residential permits have increased 28.2 per cent over this timeframe. Nationally, building permits through September have increased 9.1 per cent, with growth occurring in both residential and non-residential components.

Housing Starts

Through the first three quarters of 2017, housing starts have increased 43.7 per cent, compared to the same period last year. At 674 starts, the Island has already exceeded the total number of starts in 2016 by 21.2 per cent. Gains were recorded in both the single-detached and multi-unit segments, up 70.3 and 16.1 per cent respectively. The Canada Mortgage and Housing Corporation (CMHC) projects housing starts in the province to be in a range between 725 and 875 starts in 2017. Nationally, housing starts advanced 8.7 per cent over this time period. Growth ranged from a high of 47.3 per cent in Manitoba to a decline of 13.2 per cent in Newfoundland and Labrador.

Through October, in centres on the Island with more than 10,000 people, housing starts have increased 54.2 per cent, with single-detached starts up 105.4 per cent, and multi-unit starts up 23.9 per cent.

PRIMARY INDUSTRIES

Fishing

The fishery continues to be an important sector on Prince Edward Island. According to the department of Agriculture and Fisheries, while 2017 indicators are not readily available, it is expected that lobster landings will show improvements over 2016 in both pounds and value. The top four seafood species fished and harvested on the Island are lobster, mussels, snow crab and oysters.

2017 to 88,000 acres. Harvesting of the potato crop is projected to finish in early November, with harvesting conditions being favourable.

Livestock prices for most commodities have also been weak, particularly for cattle. Prices for slaughter cattle and calves are down 3.1 per cent and 11.7 per cent respectively, while the prices for feeder cattle and calves are down 12.9 and 11.9 per cent respectively. The price for chickens has increased 0.7 per cent while the price for eggs is down 0.7 per cent through September. Over this time period, hog prices increased 6.3, while the price of slaughter lambs increased 12.6 per cent. Milk prices are also up 1.8 per cent through September.

Traffic to the Island via the Confederation Bridge has increased 2.4 per cent year-to-date, while air traffic has increased by 5.7 per cent. Ferry traffic has increased by 24.6 per cent year-to-date, the large increase being a result of having both Island ferries returning to normal operations this year after mechanical difficulties in 2016. The number of cruise ship visits through September is up 18.2 per cent. The cruise ship season was successful in 2017, with a 31 per cent increase in passengers and crew visiting the Island compared to 2016 despite several cancellations resulting from bad weather and speed restrictions put in place to help protect right whales. The number of motorcoach visits has decreased by 0.3 per cent over this time period.

Farming

Farm cash receipts through the first quarter of 2017 totaled \$131.9 million, an increase of 0.8 per cent compared to the first quarter of 2016. Crop receipts are up 0.3 per cent due to a 6.9 per cent gain in other crops more than offsetting a 0.7 per cent decline in potato receipts. Livestock receipts are down 3.2 per cent, while direct payments to farmers are up 25.2 per cent.

Farm product prices, through September, have largely been lower than those recorded in 2016, with prices for wheat, oats and barley down 12.1 per cent, 6.3 per cent, and 5.8 per cent respectively. Prices for soybeans, the Island's second-largest crop by value have increased 8.0 per cent through September. Planted potato acreage was down by 1,000 acres in

Tourism

Tourism has been positive on the Island on a year-to-date basis through September. Information from the department of Economic Development and Tourism indicates that total overnight stays on the Island have increased by 6.5 per cent on a year-to-date basis through September. At fixed roof accommodations, the number of room nights sold has increased by 4.1 per cent, while at campgrounds the number of site nights sold has increased by 10.8 per cent.

As part of the 150th anniversary of Confederation, entry into Canada's national parks is free in 2017. Visits to the Prince Edward Island National Park and Green Gables have increased by 35.3 per cent and 32.7 per cent respectively. Provincial heritage sites have also seen increased visitation, with total visitors up 9.5 per cent to-date.

On a seasonally adjusted basis through August, sales at food services and drinking places have advanced 2.5 per cent. Nationally, sales at food services and drinking places have grown by 5.0 per cent over this time period.



Private Sector Forecasts

Forecasts have been revised up since the 2017 Budget, where growth was forecast at 1.3 per cent for 2017 and 1.2 per cent for 2018.

Private Sector Forecasts

Organization	Real GDP (% growth)			Date Issued
	2016	2017f	2018f	
Conference Board of Canada		2.0%	1.7%	Summer 2017
TD Bank		2.5%	2.1%	28-Sept
RBC		2.3%	1.6%	September
CIBC		1.4%	1.1%	13-Sept
BMO		1.7%	1.3%	27-Oct
Scotiabank		1.6%	1.4%	5-Oct
National Bank		2.0%	1.5%	November 2017
Atlantic Provinces Economic Council		2.4%	1.9%	6- Nov
Average	2.3%	2.0%	1.6%	

In the table, are the forecasts for real GDP growth for the Island from Canada's major banks and two think tanks. Forecasts for 2017 fall in a range of 1.4 per cent growth to 2.5 per cent growth, averaging 2.0 per cent, while forecasts for 2018 range from 1.1 per cent growth to 2.1 per cent growth, averaging 1.6 per cent. Forecasts have been revised up since the 2017 Budget, where growth was forecast at 1.3 per cent for 2017 and 1.2 per cent for 2018. Driving the upward revisions in the forecast for the Island is the strong performance seen across a wide variety of economic indicators. However, most forecasts may not have fully incorporated the

planned increase in immigration as the principle driver behind the growth in domestic demand seen on the Island beginning in 2016. Beginning at the end of 2016 and into 2017, this increased immigration began to have a positive impact on the Island's labour market indicators. Increased retail sales and increased housing starts are likely to be persistent factors throughout the medium term in light of the projected increases in the Island's population. Consequently, there is likely upside to the average of the private sector forecasts.

Manufacturing Shipments and Exports

On a year-to-date basis through August, the value of seasonally adjusted manufacturing shipments has increased 9.2 per cent.

On a year-to-date basis through August, the value of seasonally adjusted manufacturing shipments has increased 9.2 per cent. Growth was recorded in both the durable and non-durable goods sectors at 5.1 and 11 per cent respectively. Non-durable goods, largely composed of food and seafood shipments, represent approximately 70 per cent of the Island's manufacturing shipments, while durable goods are responsible for the remaining 30 per cent. As can be seen in Figure 8, through August, all provinces have recorded positive growth ranging from 2.5 per cent in Nova Scotia, to 25.1 per cent in Newfoundland and Labrador. Higher resource prices have improved the manufacturing shipments of the more resource dependent provinces. Nationally, manufacturing shipments grew 6.4 per cent over this time period.

On a year-to-date basis through September, international exports are up 5.3 per cent. Through September, Alberta has seen the fastest growth in international exports amongst provinces, up 32.2 per cent, followed by Newfoundland and Labrador at 30.5 per cent, and then British Columbia. This performance reflects the rebound in energy prices observed so far in



2017. Only Ontario has recorded a decline in international trade over this time period. Nationally, international exports have increased 7.2 per cent through September. Frozen food manufacturing – the Island's largest export industry

– has seen exports grow by 13.4 per cent year-to-date. Other food manufacturing industries have not fared as well with seafood product preparation and packaging down 1.5 per cent, vegetable and melon farming down 3.5 per cent,

aquaculture down 0.3 per cent and fishing down 17.9 per cent on a year-to-date basis through September.

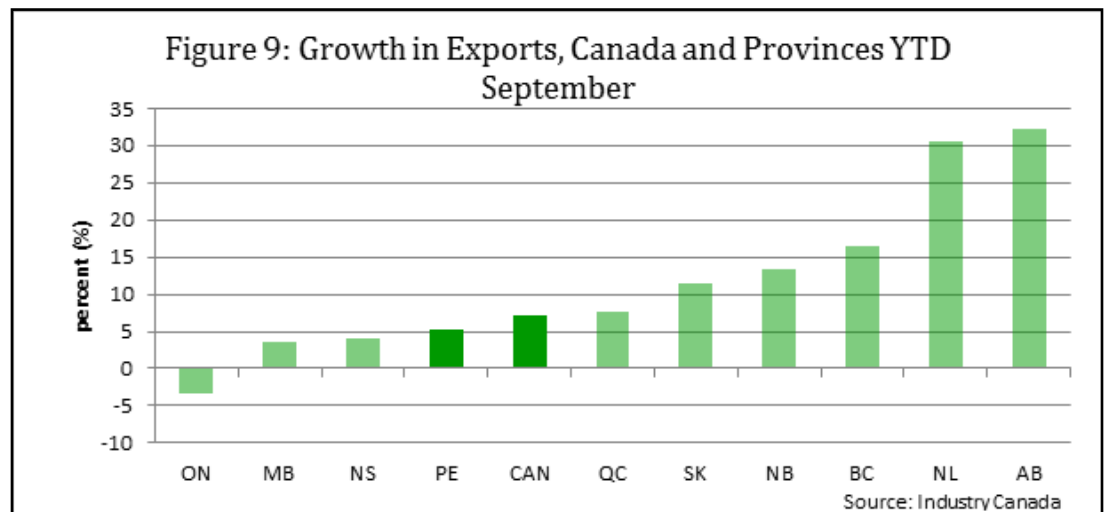
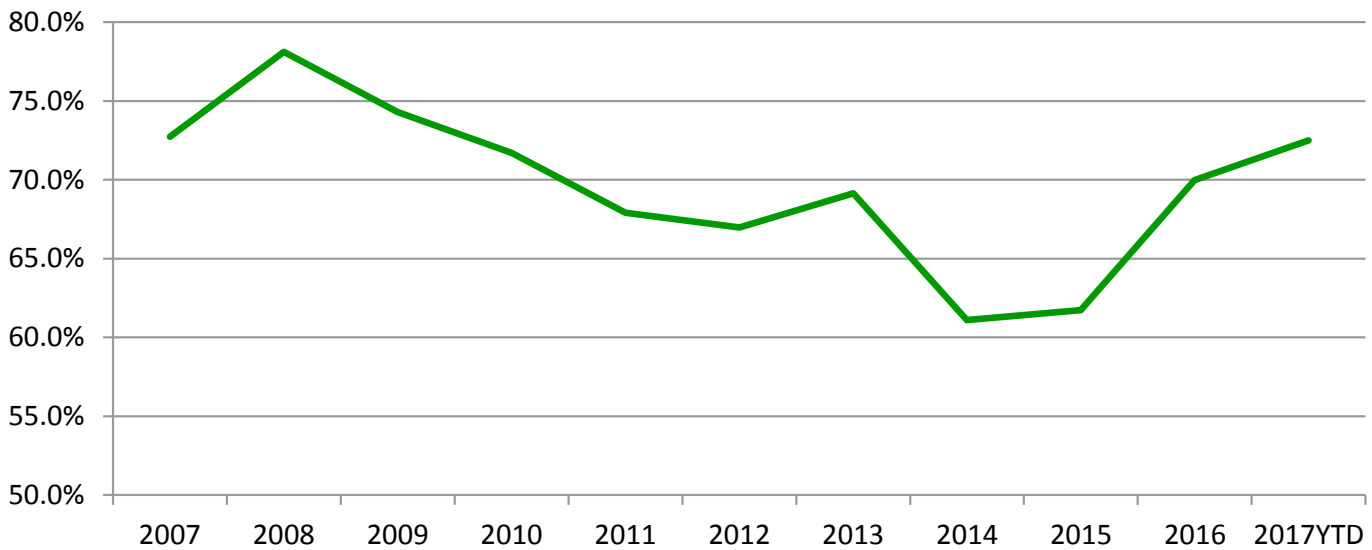


Figure 10: Percentage of Island Exports to the United States



Aerospace exports have been strong on a year-to-date basis through September, with aerospace product and parts manufacturing up 52.4 per cent and engine, turbine and power transmission equipment manufacturing up 114.1 per cent. Bioscience exports are mixed with pharmaceutical and medicine manufacturing up 17.5 per cent, while other basic organic chemical manufacturing has

declined 47.1 per cent on a year-to-date basis through September. Paperboard and container manufacturing continues to expand on the Island, and is now the Island's 10th largest export industry, and has grown 8.6 per cent year-to-date.

The United States continues to be the destination of the majority of the Island's exports, with 72.5 per

cent of the Islands exports heading there through September. This is an increase of 10.8 per cent over the same period in 2016. As can be seen in Figure 10, since 2008 there had been a general decline in the share of the Island's exports going to the United States, a trend which has since reversed with the decline of the Canadian dollar against the US dollar. Germany, France, Singapore and

South Korea round out the rest of the top five destinations for Island goods in 2017, though together they only account for 8.7 per cent of the Island's trade.



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Outlook 2018

Prince Edward Island has benefitted over the last number of years from modest, stable growth in real GDP



According to the Survey of Employment, Payroll and Hours (SEPH), the number of jobs on the Island has increased 3.6 per cent on a year-to-date basis through August.

According to the IMF, the outlook for the global economy in 2018 is for growth to accelerate to 3.7 per cent from the 3.6 per cent recorded in 2017. This is an upward revision of 0.1 per cent from the July update. The Bank of Canada also revised up its forecast for the Canadian economy in 2018 from 2.0 per cent in July to 2.1 per cent in October with the composition of GDP growth being more balanced, as households and residential investment respond to higher interest rates. In the federal 2017 Fall Economic Statement, growth for 2018 was revised up to 2.1 per cent from 2.0 per cent at Budget 2017.

Prince Edward Island has benefited over the last number of years from modest, stable growth in real GDP. Due to the mix of industries found on the Island, the Island economy has been more stable than other parts of the country, and the province has been able to benefit both from the depreciation in the Canadian dollar and the lower price of oil that have become the new normal for the last number of years. Though the economic fundamentals of the Island economy remain in place, Prince Edward Island has of late been benefitting from the increase in population that has largely been driven by immigration, increasing demand for goods and services on the Island. The economic improvements experienced in the national and international economy also have benefitted the Island through improved trade and tourism. These trends we expect to continue through the medium term.

Prince Edward Island should continue to benefit from strong international in-migration in 2018. The provincial Population Action Plan released in the spring of 2017 has plans to grow the population to 160,000 by 2022 through a com-

bination of immigration, positive inter-provincial migration and increased retention of international students. Continued strong immigration through the provincial nominee streams should result in an additional 2,600 immigrants coming to the Island in 2018. This will continue to help boost domestic demand through 2018 and beyond, and higher retention rates should help the Island's population to continue to grow through the medium term.

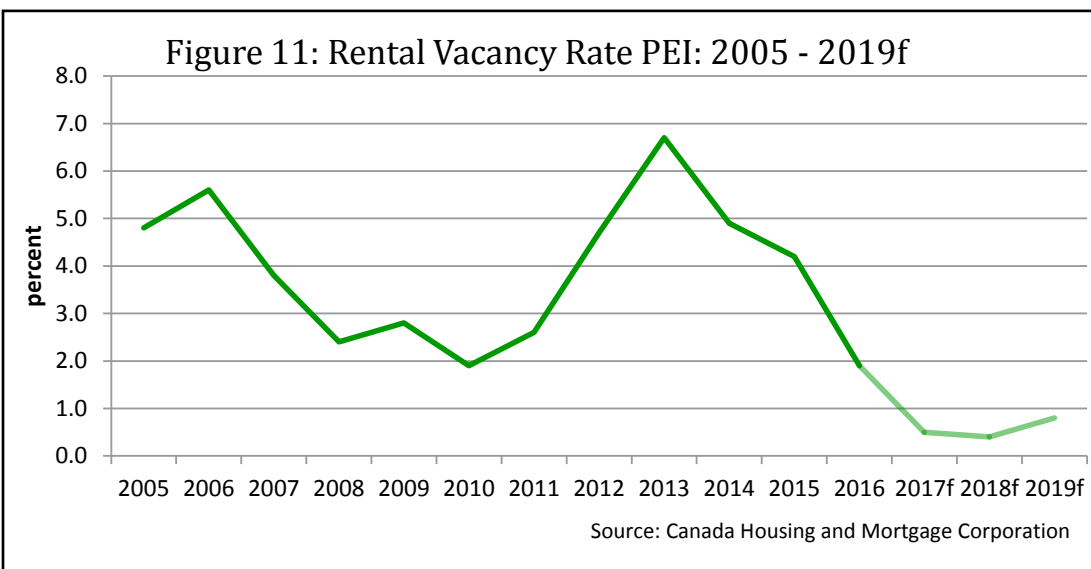
Demographic factors will continue to impact the Island's labour force as the population continues

2018 due to strong demand on both the residential and non residential front. This should continue to drive increased employment in the sector, and continue to have a positive impact on wages.

Due to both immigration and demographic factors, new housing construction will continue to accelerate, especially in the Charlottetown CA, through the medium term. More people are looking to downsize, and there has been an increase in the number of single-person households, which will necessitate more apartment-style accommodations. Downsizing on

increasing slightly to 0.8 per cent in 2019. As can be seen in Figure 11, rental vacancies reached a high of 6.7 per cent in 2013, when immigration to Prince Edward Island temporarily slowed by 2/3rds just as new stock was entering the market. The rise in immigration beginning in 2015 has helped reduce the vacancy rate to less than 2 per cent by 2016.

Non-residential construction will continue to benefit from capital investments from all levels of government, as well as from increased private sector building.



to age. The high levels of immigration that the province has been recently witnessing have forestalled this trend, with the median age falling, and the core-aged working population growing again in 2017. So long as immigration rates remain elevated, pressure on the Island's median age and core-aged working population will be muted through the medium term, but the overwhelming demographic trend continues to be the aging of the population and its associated effects.

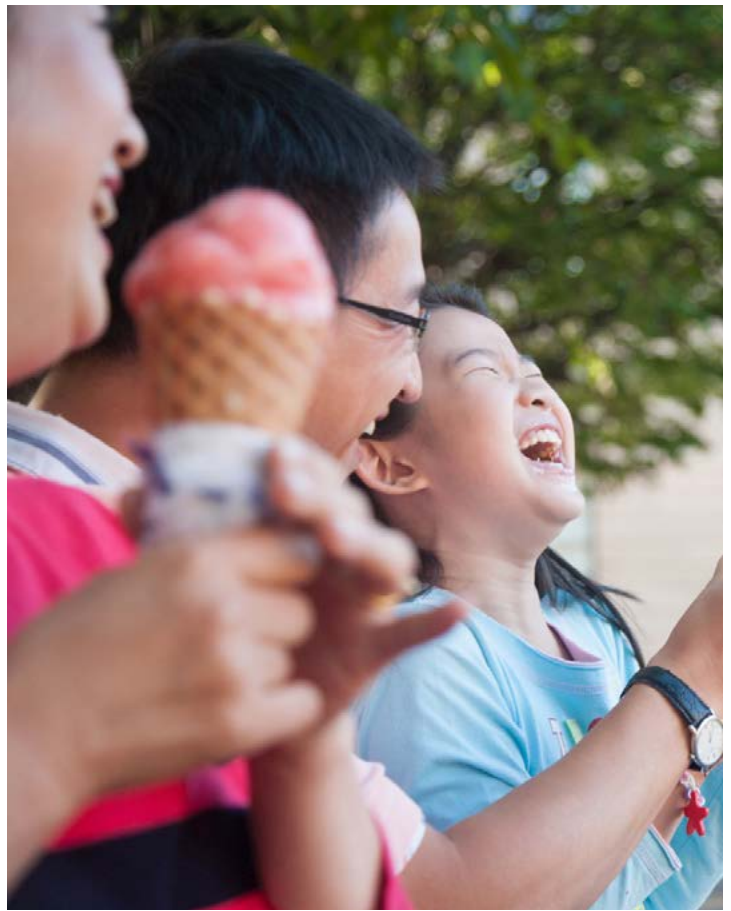
The construction sector should continue to see gains through

its own will not produce enough housing to accommodate new arrivals and new household formation, with resale housing availability at its lowest point since 2001. According to CMHC, average housing prices are projected to rise close to 25 per cent between 2016 and 2019. CMHC forecasts for 2018 project between 825 and 1,075 new units constructed, while 2019 is forecast to have between 800 and 1,000 new units built. Even this increased level of building may not be enough to ease pressure in the housing market as rental vacancies are projected to fall to 0.4 per cent in 2018 before

As the fiscal situation of the province improves, government spending is projected to contribute positively to GDP in 2018, as the province is on track to achieve a balanced budget in 2017/18. Capital spending is projected to remain elevated, largely offsetting any decline that was expected after the completion of the under-sea transmission cable. Carbon pricing is projected to begin in 2018, yielding increased revenue for the province, while the establishment of a regulatory regime for cannabis will also result in additional government resources.

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“Prince Edward Island should continue to benefit from strong international in-migration in 2018.”



The primary sectors of the economy should continue to positively contribute to economic growth in 2018. The seafood sector looks to have had another strong year in 2017, a trend that is likely to continue. Additional increases to the carapace size for lobsters, and potential restrictions due to right whales in the Gulf of St. Lawrence, could negatively impact the industry going forward, though increased investment in the seafood sector through the Atlantic Fisheries Fund could provide some upside. The potato crop suffered from dry weather causing smaller yields in the areas where the least rain was received. However, decreased planting and lower crop yields were features of other potato growing regions as well in 2017, which will likely put upward pressure on prices. However, real GDP will still be negatively impacted even though prices are likely to improve in nominal terms.

Expansions in productive capacity in some of the Island's emerging sectors, such as steel fabrication, coupled with new contracts and clients should aid in sustaining and growing manufacturing shipments and exports in 2018. The increased value of the Canadian dollar could put pressure on exporters going forward.

Tourism should continue to be a positive through 2018. New hotel stock being constructed in the capital region will refresh the tourism offering in the province going forward. Potential risks to the tourism market include the higher value of the Canadian dollar and the impact of speed restrictions in the Gulf of St. Lawrence on the cruise ship industry going forward.

Risks to the outlook stem largely from events beyond the province's control. The uptick in global demand and improved economic situation internationally bodes well for the Island in 2018, though potential fallout from NAFTA renegotiations could prove detrimental to exports going forward, as more than 70 per cent of the Island's exports are to the United States. More positively on the export front is the coming into force of the Canada-Europe Comprehensive Economic and Trade Agreement (CETA), especially as economic growth prospects in Europe are improving.

Domestically, the strengthening of the Canadian dollar, increases in interest rates, high levels of Canadian household debt, and the impact of reforms to the housing sector provide risk to the outlook. Closer to home, slow wage growth in an environment of rising prices

could constrain spending going forward. Due to the rapid pace of building, concern has been expressed that demand for both labour and capital are tight. This is likely to make it difficult to increase the pace of building, and may result in increased cost inflation and longer timelines for project completion in 2018. Lack of suitable accommodations may complicate retention and repatriation efforts in 2018. Increasing the productive capacity of Island industries so that the volume of goods and services produced continues to expand quickly enough to take advantage of new opportunities will be essential for continued growth in labour, shipments and exports in the near to medium term.



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The Mighty Island

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