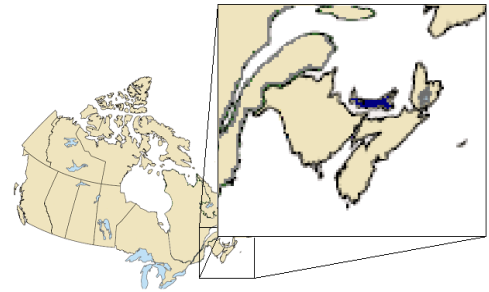




Environmental Scan

Prince Edward Island

2016



KEY HIGHLIGHTS

The impact of lower energy prices on the world economy has been deep, and continues to be a significant source of global economic uncertainty.

The Canadian labour market has been resilient since the 2009 economic recession, but its overall performance has been slower in the last two years, as economic activity softened.

The Prince Edward Island (PEI) economy is expected to continue to advance at a slow and steady pace in the next couple of years. A weaker Canadian dollar and strong economic activity south of the boarder should continue to make the Island's exports more attractive, and to also boost tourism activity in the coming months.

A turnaround is anticipated in PEI's labour market in the years ahead, but employment gains are expected to be modest, helped largely by better performances in the food products manufacturing and packaging sector.

Client groups in PEI face more challenges in the labour market relative to the rest of the population.

GENERAL OVERVIEW / ECONOMIC CONTEXT

The Global Economy: *Global economic activity remain subdued, and recovery is expected to be uneven and modest in advanced economies*

The world economy struggled in 2015, as prices of both energy and non-energy commodities declined to their lowest levels in a decade. Three key transitions continue to influence the global economic outlook: (1) the gradual slowdown and rebalancing of economic activity in China away from investment and manufacturing toward consumption and services, (2) lower prices for energy and other commodities, and (3) a gradual tightening in monetary policy in the United States in the context of a resilient U.S. recovery as several other major advanced economy central banks continue to ease monetary policy¹.

The pickup in global economic activity is expected to be modest in 2016, especially in emerging markets and developing economies, while a faster pace of growth that is more in line with its long-term average is projected

¹ International Monetary Fund, *World Economic Outlook (WEO) Update, January 19, 2016*

for 2017. According to the January 2016 World Economic Outlook (WEO) Update, the International Monetary Fund (IMF) expects global economic growth will come in at 3.1% for 2015, and expected to gradually strengthen to 3.4% in 2016 and 3.6% in 2017.

Table 1: Projection for global economic growth

	Projected growth (%)		
	2015	2016	2017
United States	2.4 (2.5)	2.4 (2.6)	2.4 (2.5)
Rest of the World	1.4 (1.3)	2.0 (2.7)	3.2 (3.2)
China	6.9 (6.8)	6.4 (6.3)	6.2 (6.2)
Oil-importing (Emerging Markets Economies)	3.3 (3.2)	3.8 (3.8)	4.4 (4.2)
Euro Area	1.5 (1.5)	1.6 (1.5)	1.6 (1.5)
World	3.1 (3.0)	3.4 (3.4)	3.6 (3.6)

Sources: Bank of Canada, *Monetary policy Report, January 2016* / International Monetary Fund, *World Economic Outlook (WEO) Update, January 19, 2016*

Numbers in parenthesis are projections used for the Bank of Canada's October 2015 Monetary Policy Report

Sustained weakness in global business investment and slow progress in implementing structural reforms in a number of economies will continue to limit growth in world potential output². Some of the other downside risks which could derail global economic growth include, the potential for further declines in commodity prices, a sharper than expected slowdown in China's economic performance, further appreciation of the US dollar and an escalation of geopolitical tensions in a number of regions.

Against this backdrop, economic growth prospect in the United States, Canada's largest trading partner, is now expected to hold steady rather than gather further steam, as shown in Table 1. The U.S. economy is being challenged by the rapid rise in its dollar which is making its exports less competitive, and a slowdown in its manufacturing sector. Nevertheless, the U.S. economy remains one of the mainstays of global economic growth. Strong domestic demand driven largely by robust consumer spending activity and solid residential construction south of the boarder could help lift Canada's cross-border trade going forward.

Canada: Economic activity shifts towards the non-resource sector in response to lower commodity prices

According to the Bank of Canada's January 2016 Monetary Policy Report, economic activity in Canada has recently been weaker than was anticipated in its October Report, largely due to lower commodity prices. Real GDP growth is expected to strengthen only gradually over the 2016-17 period, with fourth-quarter-over-fourth-quarter growth of about 2% in 2016 and about 2.5% in 2017.

As a global-scale producer and exporter of many commodities, changes in global commodity prices have significant impacts on Canada's economy. Commodity prices affect the income of firms and their domestic investment and employment decisions. Canada's declining terms of trade has resulted in shifts in economic activity, and the reallocation of labour and capital resources. Since the beginning of the oil price decline, the Canadian economy has been evolving along two tracks. In the resource sector, investment is being scaled back in response to lower commodity prices, resulting in curtailed production and significant job losses. On the

² Government of Canada, Federal Department of Finance, *Update of Economic and Fiscal Projections, November 2015*

other hand, activity in the non-resource sector has been relatively strong and is expected to be the main source of growth going forward³.

The diverging economic conditions between oil-producing and non-oil producing provinces are expected to persist in 2016, but regional differences in economic performances are expected to narrow leading up to 2017, as crude oil prices show some semblance of stability. The fiscal positions of oil-producing provinces, such as Alberta, Saskatchewan and Newfoundland and Labrador, are expected to remain strained this year, and real GDP in these provinces is expected to contract for a second consecutive year with unemployment rates remaining elevated in the coming months. In the non-oil producing provinces, the prospects of continued strong gains in U.S. domestic demand and a further depreciation of the loonie could help accelerate export activity, with additional spin-off effects on non-resource investment and related service industries.

One of the key risks to economic growth and job creation in the country is the fiscal situation of both federal and provincial governments, which has been deteriorating in recent times, largely due to the impact of lower commodity prices on royalties and tax revenues. The weaker outlook for the Canadian economy, along with federal government commitments to boost infrastructure spending increases the likelihood that the federal deficit will be larger than earlier anticipated, and that the government may not return to fiscal balance in 2019/2020 as previously indicated⁴. Fiscal tightening in the face of rising net debt and modest economic prospects could further dampen an already soft economic outlook in the Atlantic Region.

Prince Edward Island: *The Island's economy continues to advance at a steady pace*

The Island's economic performance was again modest in 2015, as a strong export sector compensated for the softness in the domestic economy. According to Industry Canada, exports of merchandise products from PEI to the U.S. were valued at \$792.3 million in 2015, an increase of 16.4% from 2014 (the only Atlantic province with positive growth during this period). The increase in the value of exports was mostly based in the Island's traditional export sectors of frozen food manufacturing and seafood product preparation and packaging which grew by 29% and 10.6% respectively, on a year-to-date basis through September 2015⁵.

Looking forward, a weaker Canadian dollar and strong U.S. economy are expected to continue to make the Island's exports more attractive, and may also boost tourism activity in the coming months. However, most independent forecasters expect the Island's economy will only advance at a steady and modest pace over the next couple of years, due largely to tight spending by the provincial government, as it attempts to reach the goal of a balanced budget by 2016–17. According to the Atlantic Provinces Economic Council, in the Atlantic Region, only Prince Edward Island and Nova Scotia are projecting a return to fiscal balance in 2016/2017, but large increases in their projected deficits for 2015/2016 put this at risk. Fiscal tightening in the face of slow economic growth could further stifle the pace of job creation in the province.

According to the Conference Board of Canada, PEI's economy is expected to advance at a slow rate of 1.6% in 2016. However, government spending is expected to pick up in 2017, leading the province to stronger real GDP growth of 1.9%.

³ Bank of Canada, *Monetary Policy Report, January 2016*

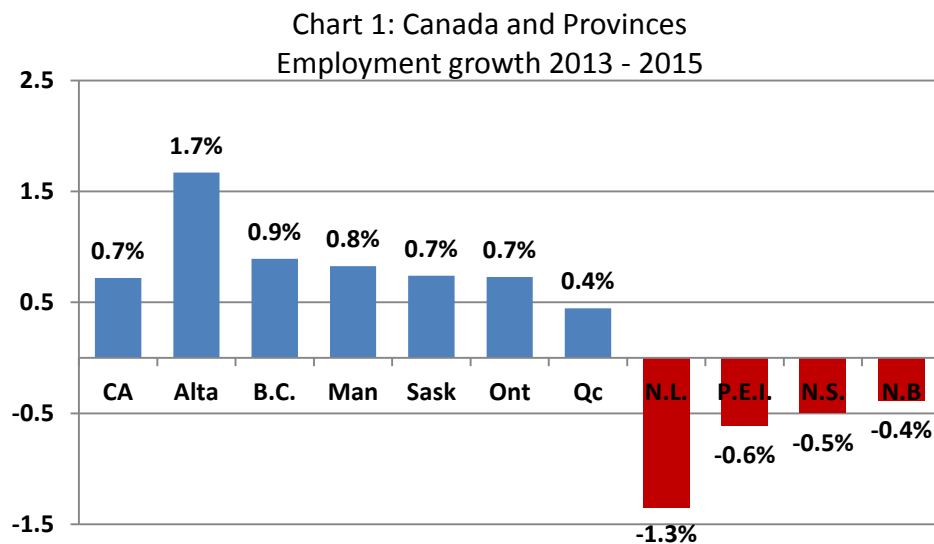
⁴ Atlantic Provinces Economic Council (APEC), *Pre-Budget Fiscal Update and Tax Policy Overview, Winter 2016*

⁵ Government of Prince Edward Island, Department of Finance, *Fall Economic Update, 2015*

LABOUR MARKET CONDITIONS

Canada: *The labour market has been resilient despite weakness in the economy*

The Canadian labour market has been resilient despite the weakness in its economic performance in recent times. The economy has generated about 1.2 million jobs since the 2009 economic downturn, but the pace of job creation has been slower in the last two years, averaging 128,000 jobs per year, compared to an annual average of 241,000 jobs created between 2010 and 2013. As shown in chart 1, even in the face of falling oil prices, Western provinces have led the country in job creation since 2013, while all of the provinces in Atlantic Canada experienced declines during this period.



Source: Calculated from Statistics Canada, Labour Force Survey Estimates

In the last two years, the majority (96%) of the jobs created in the country have been in full-time work, and have been more pronounced among older workers (aged 55 years plus) who have seen a seven percent increase (or 234,000 more jobs) since 2013. In comparison, employment among the core working-age (25-54 years) group was up only slightly by 0.2% or 26,700 jobs, while younger workers (15-24 years) experienced a slight decline (-0.2% or - 5,100 jobs). Compared to the previous year, the Services-producing sector generated more than 295,000 jobs in 2015, while the Goods-producing sector experienced job losses largely due to a 5.7% (or 17,700 jobs) decline in the Mining, quarrying, and oil and gas extraction industry.

The Canadian unemployment rate held steady over the last two years at 6.9%. The national unemployment rate has been trending downward and drawing slowly closer to what it was prior to the 2009 economic downturn. However, resource-based provinces such as Newfoundland and Labrador, Saskatchewan and Alberta have experienced increases in their unemployment rates, ranging from 1 to 1.3 percentage points, since 2014.

Looking ahead, there is room for improvement in the Canadian labour market as the number of those not participating in labour force increased by more than 390,000, and the rate of employment has been at a standstill in the last two years. At 13.2%, the youth unemployment rate remains elevated compared to what it was before the 2009 economic recession. As well, finding employment remains a challenge for under-represented groups, such as Indigenous peoples, recent immigrants, and persons with disabilities who also

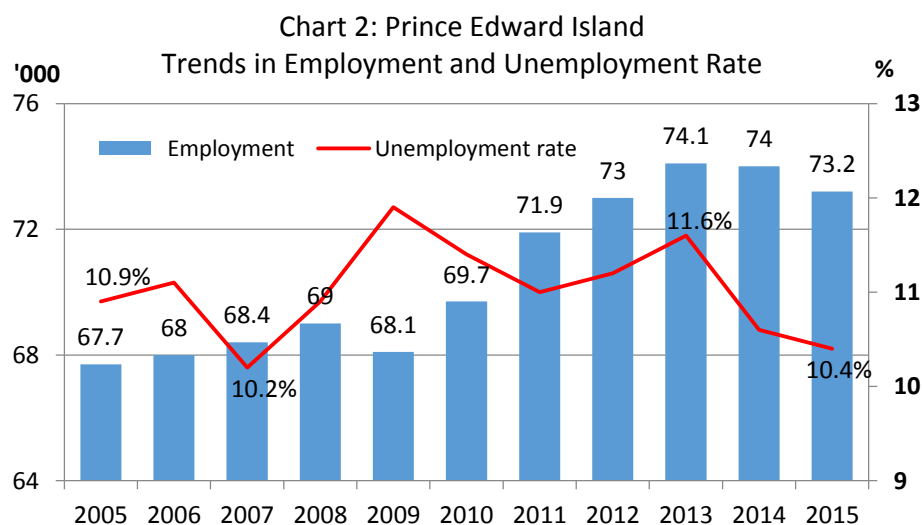
have unemployment rates above those of other Canadians aged 15 years and over. Furthermore, the labour market will continue to face a number of challenges going forward. Canada, along with other advanced economies, will be affected by the aging of its population, continued globalization and increased skill requirements resulting from continued technological advancements⁶.

Prince Edward Island: *The Island's unemployment rate has dropped in recent years but overall labour market conditions have been soft.*

Labour market conditions in Prince Edward Island have been showing signs of weakness over the last two years. In 2015, the unemployment rate dropped for the second year in a row to reach its lowest level since 2006. However, the decrease was due to a relatively larger number of people who exited the labour force altogether, thereby putting downward pressure on the unemployment rate.

After reaching an all-time high of 83,800 in 2013, the size of the Island's labour force declined by about 2,100 people in the last two years. The labour force decline has been fairly evenly distributed among the major age groups in the province. As shown in Chart 2, employment levels have also been declining in recent times, down 900 jobs or 1.2% since 2013, and the bulk of the job losses have been in part-time work. At 10.4%, the unemployment rate was at a seven year low, and 1.2 percentage points lower than it was in 2013 mainly because the number of people who exited the labour force was more than double the number of job losses recorded during this period.

The Island's participation rate expanded to reach an all-time high of 69.7% in 2013 but labour market optimism appears to have dwindled in the province in the last two years, as evident in the declining size of the labour force. However, at 67.6%, the Island still had the highest participation rate in the Atlantic Region and the fourth highest rate in the country in 2015. Among the core working-age group (25-54 years), the participation rate on PEI was the highest in the country, at 90.1% in 2015.



Source: Statistics Canada, Labour Force Survey Estimates

⁶ Government of Canada, Department of Finance, *Jobs Report: The State of The Canadian Labour Market*, 2014

Employment remains concentrated in the Services-producing industries on the Island, but the sector accounted for about 80% (or 800) of the job losses on the Island since 2013. As a result, its share of total employment in the province has edged down by a percentage point to 76% during this period. In the Goods-producing sector, Manufacturing employment expanded by 20% (or 1,000 jobs) and this helped to reduce the impact of the job losses experienced in other Services-producing industries since 2013. The Regional Occupational Outlooks in Canada (ROOC) forecast, produced by Service Canada, anticipates a modest turnaround in job creation on the Island over the 2015-2017 forecast period. The bulk of the new jobs over this period are expected to be generated in Construction, Manufacturing and Health Care.

LABOUR MARKET OUTCOMES – CLIENT SEGMENTS

Immigrants/Newcomers

The population of Prince Edward Island has been expanding but the growth seen in recent times has been largely due to immigration. Population growth related to natural increase has been weak, while net interprovincial migration has been negative in recent times, especially the outmigration of the younger segments of the population. According to Statistics Canada annual demographic estimates, approximately 1,335 new immigrants took up residence in PEI in the year ending June 30th, 2015. Although this was about 60 people fewer than the previous year, it helped to reduce the net outmigration of 1,240 people from the province to other regions of Canada during this period.

There were 3,600 landed immigrants in the Island's labour force in 2015, representing about 4% of the total labour force in the province. There are some noticeable gaps in the labour market outcomes for immigrants compared to their Canadian born counterparts, as well as significant differences in the labour market performances between recent immigrants (those who landed 5 years or less) and established immigrants (those who landed more than 5 years). The participation rates for all landed immigrants was 58.1% in 2015, and was 10.2 percentage points lower than the rate for those born in Canada (68.3%). Also, at 51.6%, the employment rate for all landed immigrants was 9.5 percentage points lower than the rate for those born in Canada.

Indigenous Peoples

Indigenous peoples accounted for only 1.6% of the total population of the Island at the time of the 2011 National Household Survey (NHS), the lowest share of Indigenous peoples in the country⁷. There were 2,230 people who identified themselves as belonging to one of the Indigenous groups (First Nations {North American Indian}, Métis or Inuk {Inuit}) in PEI in 2011, and this represented an increase of about 500 Indigenous peoples compared to the 2006 census. About 20% of the Indigenous peoples on the Island lived on reserves.

The Indigenous peoples in PEI face more labour market challenges than the non-Indigenous population. According to the 2011 NHS, at 17.9%, their unemployment rate was about 5.9 percentage points higher than the rate for their non-Indigenous counterparts. At 66%, the Indigenous participation rate was 2.4 percentage points lower than the rate for the non- Indigenous on the Island. Also, there are gaps in the educational

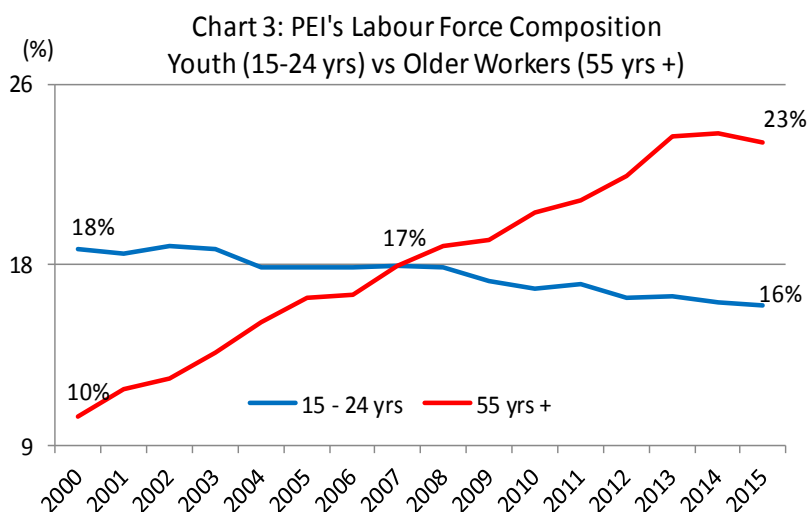
⁷ The NHS asked a respondent if they identify as an 'Aboriginal person'. This would include those identifying as either First Nations (North American Indian), Métis or Inuk (Inuit) and/or those who reported Registered or Treaty Indian status that is registered under the Indian Act of Canada and/or those who reported membership in a First Nation or Indian band.

attainment levels of the Indigenous labour force, compared to their non-Indigenous counterparts. In 2011, about 45% of the Indigenous labour force had a post-secondary certificate, diploma or degree, compared to 57% for the non-Indigenous labour force in PEI.

Older Workforce

The population of P.E.I. is continuing to grow, but it is only the older segment of the population that is contributing to that growth. The aging of the Island's population is also reflected in the size of the older workforce (aged 55 years and older). As of July 1st 2015, there were 48,640 people aged 55 years and older on PEI, representing approximately one-third of the provincial population. The aging of the population is expected to increase further over the next two decades due to the baby boom phenomenon, as the last of the baby boomers turn 65 years in 2031.

The aging of the labour force has important implications for the labour market. Reducing the labour market barriers for older workers will be crucial in maximizing their relevance to the provincial labour market moving forward. As shown in Chart 3, the share of older workers in the PEI labour force has more than doubled since 2000, and there have been more older workers in the labour force than new entrants (15-24 years) since 2007. According to APEC, developing flexible work practices, valuing the strengths of older workers, and ensuring that older workers can transition into retirement by accessing pension income while still working part-time will be important considerations if the participation of older workers is to be maximized.



Youth

In PEI, the youth (15-24 years) population, the age when people typically enter the labour force, has been falling steadily for more than three decades. Despite some recent improvements in their labour market outcomes, younger workers in the province still face challenges participating in the labour market. As shown in Chart 3, since 2007, the share of youth in the labour market has been lower than those of older workers (aged 55 years +) in the province. The participation rate for youth on PEI has been the highest in the country in the last three years, but fewer younger workers have participated in the provincial labour force during this period. Although their unemployment rate dropped by 3 percentage points to 15.7% between 2013 and 2015, it still remains well above the provincial average of 10.4% in 2015.

Persons with Disabilities

According to the Canadian Survey on Disability (CSD), an estimated 18,840 persons reported being limited in their daily activities due to a disability in PEI in 2012, representing 16.0% of the adult population in the province. The labour market outcomes for persons with disabilities (PWDs) are significantly weaker than the

outcomes for the population without a disability. In 2012, the labour force participation rate for PWDs was 59% and this was almost 25 percentage points lower than the rate for those without a disability. Also, the unemployment rate for PWDs was more than two percentage points higher than the rate for those without an activity limitation (13.2% versus 10.4%).

Official Language Minority Communities

French is the first official language spoken by the official language minority in the country overall and in every province and territory outside Quebec, and this consists of all individuals with French as a first official language spoken and half of those with both English and French. According to the 2011 census, about 4,810 persons identified French as their first official language spoken in Prince Edward Island, representing 3.5% of the provincial population. The majority of these individuals (63%) reside in the western part of the Island, in Prince County. Their labour market outcomes compare fairly well with the average for the province. At 64.7%, their labour force participation rate was 3.7 percentage points lower than the provincial average, and their unemployment rate was significantly lower (9.0% versus 12.1%).

Note: In preparing this document, the authors have taken care to provide clients with labour market information that is timely and accurate at the time of publication. Since labour market conditions are dynamic, some of the information presented here may have changed since this document was published. Users are encouraged to also refer to other sources for additional information on the local economy and labour market. Information contained in this document does not necessarily reflect official policies of Employment and Social Development Canada.

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