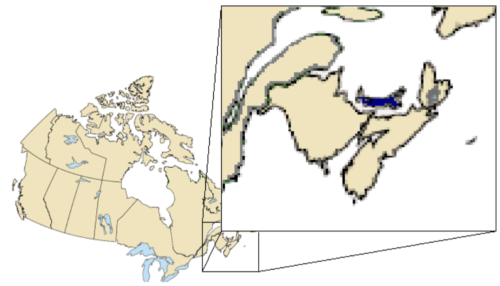
Environmental Scan



Prince Edward Island

2019

KEY HIGHLIGHTS

- Global growth strengthened in 2017 and 2018, but is expected to slow somewhat in 2019, owing partly to trade uncertainties, tighter financial conditions, and softening economic conditions at the end of 2018. Further trade actions are a risk to the global outlook, as is the possibility that U.K.'s exit from the European Union (Brexit) is not orderly, and a greater than expected slowdown in the U.S. or China.

- Economic growth in the United States (U.S.) is currently assumed to be above trend, while the U.S. unemployment rate is running below its long run average. Growth in the United States is projected to pull back in 2019 and 2020, but tight labour markets could persist. The trade-dispute with China has been hurting growth in both countries with some businesses concerned about higher costs and weakening demand.

- Following strong growth in 2018, Canada's economy is expected to slow in 2019, although growth should pick up in the second half of the year and improve slightly in 2020. The slowdown is mainly due to weakness in the energy sector. Tighter monetary policy and high levels of debt could restrict growth in consumer spending despite some recent employment and wage gains. On a more positive note, non-energy exporters should benefit from the lower dollar and from new trade agreements coming into effect.

- The Prince Edward Island economy expanded by 2.1 per cent in 2018 driven by construction and manufacturing activity as well as consumer spending – reflecting growth in employment and labour incomes. Economic prospects remain favorable for 2019 supported by continued momentum of these key drivers.

- Residential construction flourished in 2018 supported by continued growth in international migration, reduced net provincial outflow of residents, and rural-urban migration, which, collectively, bolstered housing demand. This in turn supported a strong upswing in real estate, rental and leasing activity in the province.

- The Island labour force continues to grow, driven by increased participation of workers aged 55 years and over. A record 76,000 persons were employed in 2018 and the unemployment rate in PEI fell to a forty year low.

- The PEI labour market remains favorable over the medium term, however challenges persist, particularly around population ageing, housing market pressures, and developing rural communities.

GENERAL OVERVIEW / ECONOMIC CONTEXT

Global growth to moderate in 2019

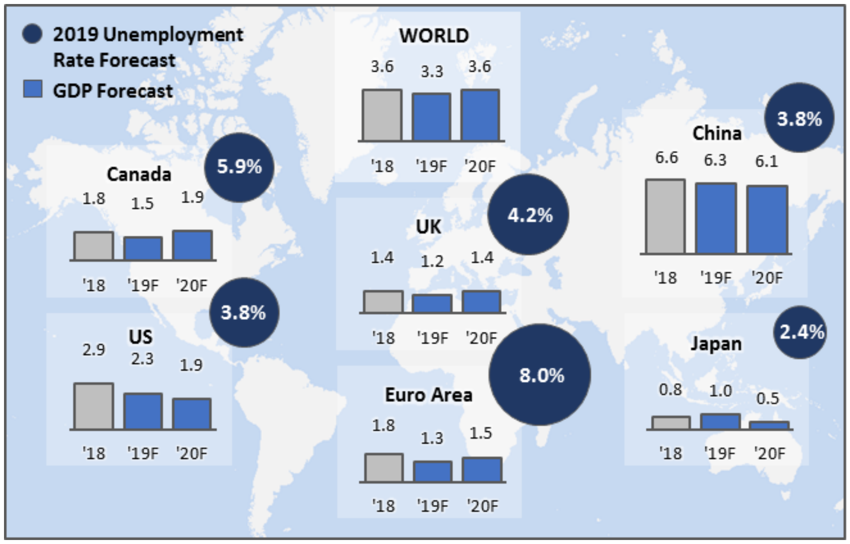
Though global growth accelerated in 2017 and 2018, a number of headwinds are ahead. The International Monetary Fund (IMF) is predicting global output will slow from a rate of 3.6% in 2018 to 3.3% in 2019 (Figure 1).

Trade uncertainties are the most notable headwinds. This includes the potential for further U.S.-China trade actions and uncertainties related to the ratification of the Canada-United States-Mexico Agreement (CUSMA). Other notable risks include the delayed impacts of fiscal and monetary policy tightening in 2018, slowing growth in major economies like the U.S. and China, high levels of public and private debt, and the potential for disorder in the U.K.'s exit from the European Union (Brexit).

In 2018, U.S.-China trade disputes escalated in a tit-for-tat hurting growth in both countries. Both the U.S. and Canada have become increasingly dependent on trade with China. According to World Bank data[1], the share of U.S. exports to China have grown from less than 2% in 1997 to more than 8% ($130 billion USD) in 2017 (Figure 2). Additionally, nearly 22% of U.S. imports came from China in 2017 ($526 billion USD). Increased trade barriers could lead to higher costs of imported intermediate goods and higher prices for consumers. They also have the potential of lowering business confidence and investment, disrupting supply chains and slowing productivity growth.[2]

Figure 1: Economic Growth Outlook

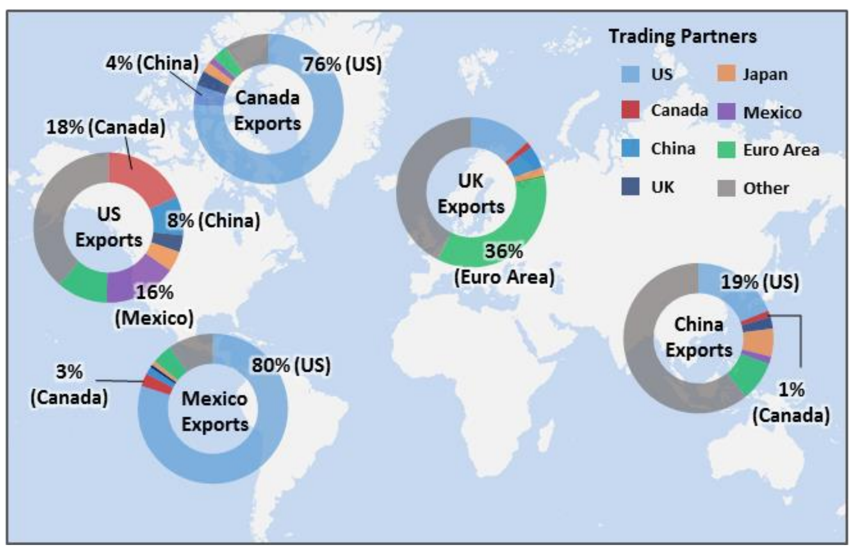
Real GDP Growth (annual % change, constant dollars) / Unemployment Rates (%)



Source: International Monetary Fund (IMF) World Economic Outlook, April 2019

Figure 2: Global Export Partner Share, 2017

International merchandise and commercial services trade ($USD)



Source: World Bank, World Integrated Trade Solution – United Nations Comtrade Database

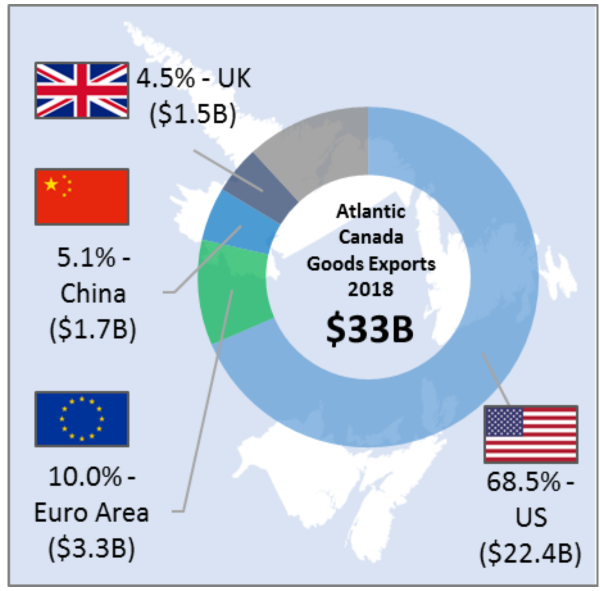
[1] World Integrated Trade Solution (WITS) Dataset– United Nations Comtrade Database
[2] IMF, World Economic Outlook January 2019

Canada experienced strained relations with China in 2018 as well, and trade talks between the two countries ended in 2018. Canada too has become increasingly dependent on trade with China. The share of Canada's total exports to China rose from less than 1% to over 4% between 1997 and 2017 (see figure 2). About 12% of Canada's imports were from China in 2017 ($54 billion USD). Merchandise export data for 2018 show China as the number two destination among countries for Atlantic Canada's goods exports, behind the United States (Figure 3). In 2018, just over 5% of Atlantic Canada's international merchandise exports went to China ($1.3 billion USD or $1.7 billion CAD).

For Canada in 2019, all eyes will be on the CUSMA, which was signed on November 30th, 2018 and is expected to be ratified this year. More than three quarters of Canada's goods exports went to the United States in 2018 ($308 billion USD or 399 billion CAD). The same year, the share of goods exports from Atlantic Canada to the U.S. was slightly lower, at 68.5% ($22.4 billion CAD or $17.3 billion USD).[3]

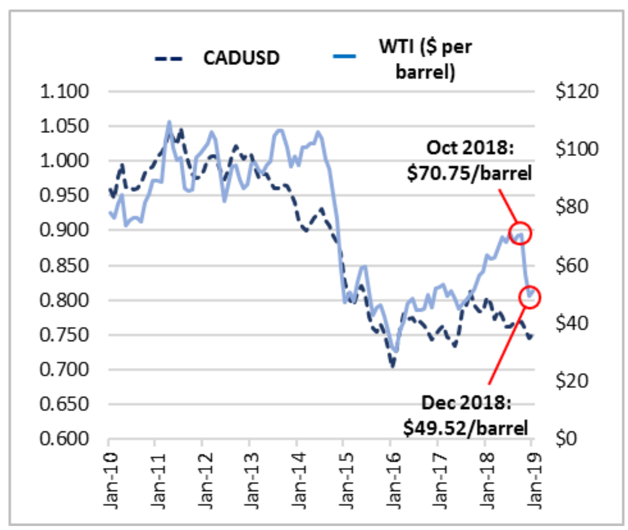
Despite trade and other uncertainties, other economic indicators suggest growth in advanced economies may be on a slower trajectory. Many central banks, including the Bank of Canada, U.S. Federal Reserve and European Central Bank, have taken notice of cooling economic growth and inflation and have put further interest rate hikes on hold this year.[4] Growth in the World's two largest economies, the U.S. and China, is expected to decelerate. China's economy started to slow in 2018 because of tighter financial regulations and impacts related to U.S.-China trade actions. Likewise, the U.S. economy, currently assumed to be running above trend, is expected to pull back from the growth it experienced in 2018 (2.9%) to just under 2.0% by 2020.[5] In 2018, U.S. government stimulus in the form of tax cuts and higher spending fueled growth as unemployment rates fell to their lowest rates since the 1960s. Current government spending levels may be unsustainable. Rising interest rates have also eroded room for consumer spending to continue to grow, despite signs of moderate wage gains. Some U.S. housing

Figure 3: Atlantic Canada Domestic Exports
Billions of Canadian Dollars / Export Partner Shares (%)



Source: Industry Canada Trade Data Online

Figure 4: The Canadian Dollar and the Price of Oil
Canadian Dollar / US Dollar (left axis) and Crude Oil Price (right axis)



Source: Bank of Canada, US Energy Information Administration (Cushing OK Spot Price)
WTI = West Texas Intermediate price per barrel (USD)

[3] Trade Data Online, Accessed: 2019-03-22
[4] https://www.federalreserve.gov/newsevents/pressreleases/monetary20190320a.htm
https://www.bankofcanada.ca/2019/03/fad-press-release-2019-03-06/
https://www.ecb.europa.eu/pub/economic-bulletin/html/eb201902~a070c3a338.en.html
[5] IMF, World Economic Outlook Update, April 2019

market indicators have softened in recent months and some U.S. manufacturers have raised concerns about weakening global demand and higher costs due to tariffs and trade uncertainty. [6]

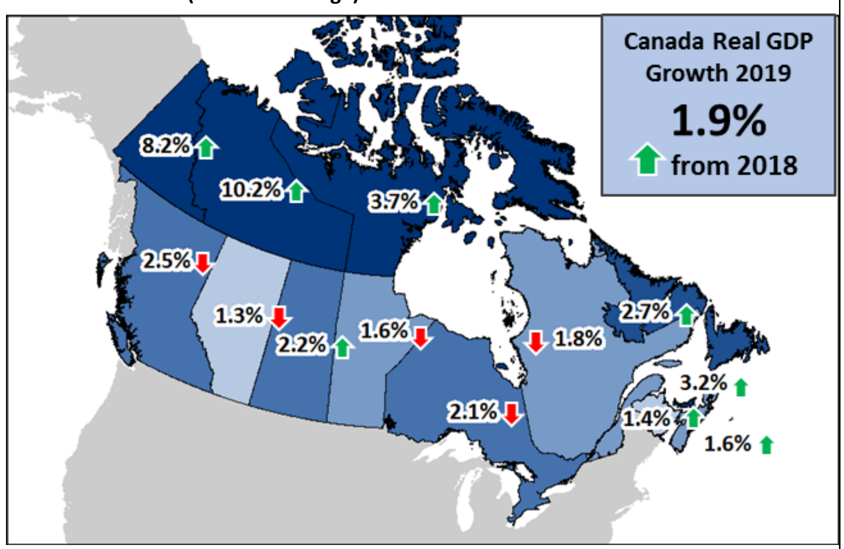
Weak oil prices to negatively impact Canada's growth in 2019

The IMF expects Canada's economy will slow from a rate of 1.8% in 2018 to 1.5% in 2019. This follows an exceptional year in 2017, when growth was 3.0%. The Bank of Canada has noted that the Canadian economy has been operating near its capacity for over a year. Unemployment rates have fallen to forty-year lows and inflation is close to the 2% target.[7] The main changes to the outlook in recent months are mostly related to price fluctuations in oil markets. Oil prices dove in the latter part of 2018 prompting production cuts by both OPEC and non-OPEC producers. In January 2019, the government of Alberta imposed their own production limits when the discount for Canada's oil peaked because of transportation constraints.

The Canadian economy, and in particular, the Canadian dollar has been closely tied to the price of oil (Figure 3). When oil prices fell at the end of 2018, Canada's GDP growth nearly came to a halt, and the Canadian dollar fell to its lowest level since 2017 ($0.74 USD in December 2018). The Bank of Canada expects this economic weakness to persist through the first half of 2019 but then ease.[8] Despite production cutbacks, global oil supply is expected to continue to outpace demand due to rising U.S. shale production and slower global demand. The IMF projects oil prices will remain around their current levels, averaging below $60 USD per barrel, for the next several years. Though lower oil prices have been a challenge for some, there are buffers for the Canadian economy. Consumers may benefit from lower energy prices while non-energy exporters may benefit from the lower exchange rate and input prices.

Still, there are some other factors at play for Canadian consumers and businesses. Higher interest rates, high levels of private debt, low real wage growth, and cooling housing prices could offset these impacts and result in a pull-back of consumer spending in 2019. Businesses too, may benefit from accelerated tax write offs for investment recently introduced but this may be offset by capacity constraints (which have eased in recent months[9]) or further trade actions. In the near-term, infrastructure spending is expected to keep the economy in balance with new funding for health and technology infrastructure. As well, some provinces will benefit from large capital projects such as those ramping up in Ontario, Quebec and British Columbia.

Figure 5: Provincial Economic Outlook 2019
Real GDP Growth (annual % change)



Source: Conference Board of Canada, Provincial Outlook Winter 2019, Territorial Outlook Autumn 2018

[6] U.S. Federal Reserve, March 2019 Beige Book
[7] Bank of Canada, January 2019 Monetary Policy Report
[8] Bank of Canada, January 2019 Monetary Policy Report
[9] Bank of Canada, Business Outlook Survey Spring 2019

Alberta led the provinces in growth in 2017, though most provinces, with the exception of Newfoundland and Labrador, saw stronger growth that year. British Columbia, Alberta, Quebec, Ontario and Prince Edward Island are expected to see the highest growth in 2018. In 2019, Alberta is expected to lag the other provinces because of oil production cuts; a slowdown in business investment and a contraction in housing starts (Figure 5). The Conference Board of Canada projects Newfoundland and Labrador will lead provinces in growth in 2019, but notes that growth will be uneven due to volatility in the oil industry and construction schedules of various projects.

PRINCE EDWARD ISLAND: Construction, manufacturing and export activity driving economic prosperity in the province

The Prince Edward Island economy expanded at a respectable pace in 2018 following a robust performance in 2017. According to private-sector estimates, real GDP is estimated to have expanded by 2.1 per cent in 2018, a softer pace compared to its 3.4% gain in 2017 (a fifteen-year high in terms of growth). Key economic drivers in 2017 were Construction; Manufacturing; Real Estate, Rental and Leasing; and Retail Trade industries. The economic momentum generated by these industries carried into 2018, albeit at a softer pace.

The Island's residential construction sector continued to flourish in 2018: the total number of urban and rural housing starts reached a thirty-year high for the province; construction of multiple-dwelling projects surged, by 40%; and the value of residential building permits in the province (an indicator of construction intentions) rose by nearly 25% year-over-year. Residential building was supported by increased international migration to the Island as well as reduced net provincial outflow of residents, which collectively elevated the demand for housing. This in turn supported a strong upswing in real estate, rental and leasing activity in the province.

P.E.I's manufacturing industry benefited from strong demand for Island exports, particularly from the United States where economic conditions remained solid. The industry continues to thrive thanks in part to a favorable currency position making Island exports more competitive in international markets. Island-based exports reached a record $1.38 billion in 2018, a 5% increase over the record set in 2017. Key export products driving this growth include aerospace-related goods and food products.

The Island's retail industry experienced respectable gains in 2018, at 3.6%. This follows robust growth of 7.3% and 6.3% in 2016 and 2017, respectively. For 2018, most retail categories experienced growth – lead by spending on food and beverages, building materials, and motor vehicle and auto parts.

Factors contributing to increased spending in the province include employment growth and labour income gains; population growth; and a favorable tourist season. There were more people working in 2018 (mostly full-time) which resulted in higher labour income and subsequently, more household spending in the province. Further to this, tourism benefited from increased visitation from cruise ship passengers, which saw growth of 8.2% compared to 2017 - a record year for PEI driven by Canada 150 celebrations.

With respect to PEI's economic prospects over the next couple of years, private sector forecasters project that the local economy in 2019 will grow by a pace consistent with 2018, before easing in 2020. According to the Conference Board of Canada, the Island economy will benefit from continued population growth, which in turn will support a busy construction industry over the medium term. A low Canadian currency will continue to support manufacturing and export activity. There is some uncertainty relating to the 2019 Prince Edward Island general election, dated for April 23. Significant campaign promises have been announced and given an existing fiscal surplus position, Budget 2019 could lead to ambitious spending increases and/or tax reductions, which could further stimulate the Island's economy in the medium term.

LABOUR MARKETS

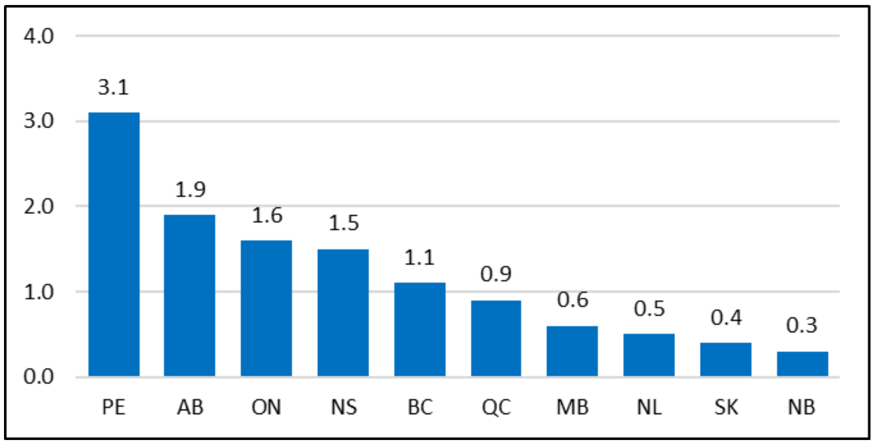
CANADA: Labour markets tighten across the country but real wages have yet to rise

Canada's labour market has been improving since the 2009 recession and labour market conditions have tightened considerably. Since 2009, the pace of employment growth has exceeded the growth in the labour force driving down unemployment rates. In 2018, the unemployment rate was its lowest level in 40 years, at 5.8%. Labour market conditions improved in all provinces (Figure 6) and among both sexes and broad age groups.

Labour shortages are a growing concern in many sectors and regions of the country. A recent report from BDC found 39% of small and medium-sized businesses in Canada had difficulty finding new workers.[10] Job vacancy rates increased in all provinces in 2018. British Columbia and Prince Edward Island had the highest job vacancy rates.[11] In BC, for example, BuildForce Canada has noted that labour shortage in the construction sector contributed to project delays and cost concerns.[12]

Figure 6: Employment Growth (% change), 2017 to 2018

Canadian Provinces



Source: Statistics Canada, Statistics Canada. Table 14-10-0327-01 Labour force characteristics by sex and detailed age group, annual

The share of Canada's labour force aged 55 years and over has grown considerably in the past two decades. Twenty years ago, 1 in 10 persons in the labour force was 55 years and over compared to 1 in 5 persons today. Although Canada's labour market participation rate was unchanged in 2018 at 61.6%, the participation rate for older workers (aged 55 years and over) has been on an upward trend. It reached a peak in 2017. The higher participation of older workers has helped to mitigate some of the impact of population ageing on the labour force.

Despite reports of labour market shortages, there has been little evidence that real wages have risen significantly in response. Average wages advanced 2.0% in 2017 and by 2.6% in 2018. Over the same period, average consumer prices rose 1.6% and 2.3%, respectively.[13] The Bank of Canada has looked at several possible causes. One of these is a short-run adjustment in the energy-intensive regions to lower oil prices. However, other structural forces could also be a factor such as worker's weaker bargaining power in non-standard jobs related to the gig economy. In spite of these influences, the Bank is expecting wages to pickup in the second quarter of 2019.[14]

[10] BDC (2018). "Labour Shortages: Here to Stay"

[11] Statistics Canada. Table 14-10-0325-01 Job vacancies, payroll employees, job vacancy rate, and average offered hourly wage by provinces and territories, quarterly, unadjusted for seasonality

[12] BuildForce Canada (2019). "Construction and Maintenance Looking Forward"

[13] Statistics Canada. Table 36-10-0205-01 Wages, salaries and employers' social contributions (x 1,000)
Statistics Canada. Table 18-10-0004-01 Consumer Price Index, monthly, not seasonally adjusted

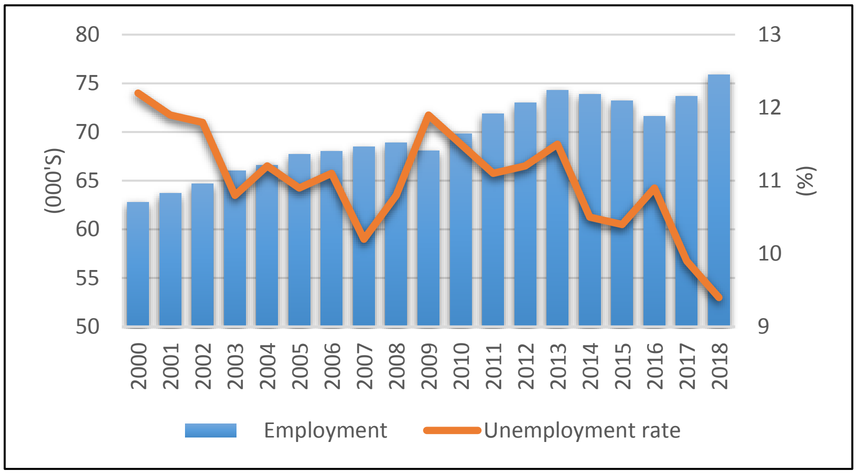
[14] Wilkins, Carolyn A. (2019). "A Look Under the Hood of Canada's Job Market". Bank of Canada Speeches.

PRINCE EDWARD ISLAND: The labour market poised to maintain solid momentum into 2019

The labour force averaged 83,900 people in 2018, which is up by 2.7% from 2017, driven predominantly by a growing incidence of older workers (persons aged 55 years and over) either working or actively seeking employment. This is a growing trend spanning back to the turn of the century: Since 2000, older worker participation in the PEI labour force increased by an average annual rate of 6% per year and compares to 1% throughout the preceding 1987 to 2000 period. Of the contribution older workers made to labour force growth in 2018, females accounted for nearly 7 in 10 of these gains.

Figure 7: Employment and Unemployment Rate, 2000 - 2018

Prince Edward Island



Source: Statistics Canada, Statistics Canada. Table 14-10-0287-01 Labour force characteristics by sex and detailed age group, annual

There was a record 76,000 people employed in PEI in 2018 (as can be observed in Figure 7), driven by full-time employment gains. The number of persons working full-time increased by 3.4% year-over-year, with three out of every four positions filled by men. The year-over-year employment gain in 2018 was attributed to increases in all major employment classes, though not equally. Half of this growth was attributed to self-employment, followed by private sector gains (which comprised close to a third of overall growth). The remainder was concentrated in the public sector. The number of those self-employed in Prince Edward Island increased by 11.5% compared to 2017, the highest rate of growth in the country (dwarfing the national rate of 2%).

The Island labour market has one of the highest dependency rates on public sector employment in the country, with just over 1 in every 4 persons employed in the sector (which includes educational services; health care and social assistance; and public administration), which is six percentage points above the national average. However, its dependency has been diminishing over time offset by a growing share of private sector employment.

With employment growth having outpaced labour force gains in 2018, the level of unemployment in the province edged down from the previous year to a ten year low. This brought down the Island's unemployment rate below historical norms, at 9.4% for the year (as illustrated by Figure 7). Among the major age categories in PEI, youths exhibited the highest unemployment rate in 2018, at 13%. The unemployment rate for male youths was 15.6% and compares to 10.2% for females.

Year-over-year growth in the Island's labour force exceeded that of the working-age population, which lifted the participation rate in 2018 to 66.8%. Though higher, the participation rate in PEI remains low by historical measures (which would typically hover around the 68% level). Regardless, PEI's participation rate remains amongst the highest in the country (and highest in Atlantic Canada) and exceeds the national average by 1.3 percentage points. The participation rate for youth females was 69.4% in 2018, the highest in the country.

The annual increase in PEI's employment base in 2018 was largely concentrated in the goods-producing sector, particularly in agriculture, construction and manufacturing. For the services-sector, job gains were most pronounced in accommodation and food services on a year-over-year basis.

Prince Edward Island's agriculture industry in 2018 benefitted from increased funding and investment in its aquaculture sub-sector. Local shellfish companies experienced some growth in 2018, attributed in part to Federal-Provincial funding programs. This helped to mitigate a reduced potato crop in 2018 attributed to poor harvesting conditions. Construction employment increased 10% in 2018, matching its record level set in 2014. The Island construction industry experienced a banner year in 2018 (driven in large part by residential construction activity) notwithstanding some challenges associated with labour shortages among various occupations within the industry. Manufacturing employment rose 5% in 2018, which was also a record high for the province. The industry continues to thrive thanks in part to a favorable currency position making Island exports (notably aerospace-related goods and food products) more competitive in international markets.

One highlight relating to service-sector employment was a near 13% increase in the accommodation and food services industry. According to provincial tourism estimates, visitation by Confederation Bridge, ferry and air was about on par with the strong 2017 tourism season, however cruise ship visitation continued to grow, having expanded by 8.2% in 2018. Not much changed in PEI's largest employing industry, retail and wholesale trade, however the level of employment in 2018 matched its all-time high achieved a year earlier. Approximately 85% of trade employment is concentrated in its retail sub-sector, with the remainder allocated to wholesale operations.

KEY CHALLENGES AFFECTING PRINCE EDWARD ISLAND'S LABOUR MARKET

Demographic Challenge

The Atlantic Region is aging more rapidly than the rest of Canada. Coupled with out-migration, population aging is expected to put pressure on the labour market, public finances and health care. As all members of the baby-boom cohort reach age 65, the aging phenomenon will accelerate in Atlantic Canada in the coming decades. Managing pensions and overall public finances will become more challenging, as will meeting the growing demand for health care services.

According to the PEI Statistics Bureau, growth in the senior population continues to outpace that of the working-age group, raising the average age of the population. The baby boom generation started reaching the age of 65 in 2011, which will continue for the next couple of decades. The Island's median age, however, experienced its second consecutive decline in 2018, to 43.6 years, thanks to historically high immigration and to a lessor degree, natural increase. Prince Edward Island is the only province in the region to experience a declining median age, although both Nova Scotia and New Brunswick's median age growth has either stalled or slowed. For Newfoundland and Labrador, its median age continues to grow at a consistent pace.

Trade Uncertainty

International exports represent an important source of revenue for Island businesses. A number of industries in the province have managed to benefit in recent years from favourable export conditions, namely a lower Canadian dollar and growing demand from key trading partners. Island exports of manufactured food products and aerospace-related products in particular, have grown considerably in recent years.

In addition to uncertainty surrounding currency movements and economic conditions of the province's trading partners, there are unknown implications associated with lingering trade agreements: the pending ratification and implementation of the Canada-United States-Mexico Agreement, which is identified as a short-term risk factor; and the Comprehensive Economic and Trade Agreement between Canada, the European Union and its member states. These types of factors inevitably affect business investment and hiring decisions. The uncertainty could pose a higher risk to smaller communities in Prince Edward Island considering a greater portion of workers in these areas are employed in export-oriented industries (e.g., agriculture, manufacturing) compared to larger urban centres.

Rural-Urban Divide and Housing Challenges

Prince Edward Island is the only province in Canada whose rural share (53%) of the population exceeds its urban share (however, the rural proportion has been shrinking consistently over the years). Challenges that affect rural communities include the high incidence of seasonal employment (associated with farming, fishing and tourism), high unemployment, and out-migration of young workers (affecting the composition of the labour force in rural areas and exerting further pressures on the pool of available labour).

Prince Edward Island has enjoyed significant population growth in recent years (driven by international immigration), outpacing the national average each year since 2016. However, the majority of new residents settle in the larger municipalities, which, in addition to other factors (i.e. rural-to-urban migration by seniors and youths, increased enrolment of international students for post-secondary studies), has impacted the housing market in the province. "Approximately 90% of new immigrants first settle in the Charlottetown area; there are indications that their preference is to rent for at least a year before buying." This is supported by rapidly declining vacancy rates for apartment rentals in the province, from a high of 7.1% in 2013 to 0.3% in 2018.

In addition to launching its 2018-2023 Housing Action Plan to address the Island's housing challenges (particularly relating to affordability and availability), another government priority aims to better balance the population and workforce among rural and urban areas – with particular effort toward settling residents in rural regions. Investments in community infrastructure and facilities (i.e. accessibility of high-speed internet services for residents and businesses), as well as supports for newcomers settling in rural areas, have been identified as key focus areas to promote economic development in rural Prince Edward Island.

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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