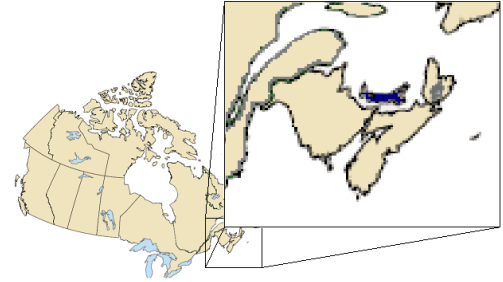




Environmental Scan

Prince Edward Island



2021

KEY HIGHLIGHTS

- ✿ The global economic outlook has improved considerably since the fall of last year, reflecting stronger growth in several advanced economies and an earlier start to vaccination programs than initially expected. Both the International Monetary Fund (IMF) and the Bank of Canada have upgraded their projections for 2021 and 2022.
- ✿ In its most recent Global Economic Outlook from January, the IMF estimates that the global economy contracted by 3.5% in 2020, which represents an upward revision of nearly a full percentage point from its October estimate of a 4.4% decline. The stronger trajectory, along with the additional policy support in Japan and in the U.S., has prompted the IMF to upgrade its growth projection for 2021 to 5.5%, up from the 5.2% in October. Thereafter, global economic growth is expected to moderate to 4.2% in 2022. A number of recent developments, including the resolution to the Brexit negotiations and the change in the U.S. Presidency, are expected to support a recovery in global trade volumes.
- ✿ Real GDP in Canada fell by 5.5% in 2020 as a result of the response to the COVID-19 pandemic. The economy is expected to recover a substantial amount of lost ground in 2021 and 2022, with growth of 4% or more anticipated in both years before slowing somewhat in 2023. This trajectory assumes that vaccines will be available to all Canadians by the end of 2021 and that containment measures will be less severe than those put in place during the first and second waves in 2020.
- ✿ Early predictions by private sector forecasters slated growth for the P.E.I. economy to be near 3% in 2020, however revised estimates now show the Island economy contracting in the order of 3.5%. The province's important tourism sector was severely impacted by COVID-19, as were related industries involving public-facing activities.
- ✿ Continued population growth will support the Island's labour force over the next couple of years, which is expected to gain momentum as public health restrictions ease and the Atlantic Bubble potentially re-opens to our Atlantic counterparts – providing a much-needed economic injection in the province's battered tourism sector.

GENERAL OVERVIEW / ECONOMIC CONTEXT

The Global Economy: *Containing the virus and successful vaccine distribution key to outlook*

The global economic outlook has improved considerably since the fall of last year, reflecting stronger growth in several advanced economies and an earlier start to vaccination programs than initially expected. In its most recent Global Economic Outlook from January, the IMF estimates that the global economy contracted by 3.5% in 2020, an improvement from the 4.4% estimated decline in October. The stronger trajectory, along with additional policy support in Japan and in the U.S., has led the IMF to upgrade its growth projection for 2021 to 5.5%, up from 5.2% in October. Thereafter, global economic growth is expected to moderate to 4.2% in 2022.

Despite the stronger growth trajectory, the global economic recovery will nevertheless remain volatile and uneven until the virus becomes more fully contained and restrictions are lifted, which is unlikely to happen until late 2021 in advanced economies and mid-2022 in Emerging Market Economies (EMEs).

The U.S. economy has been especially resilient during the pandemic, in part because there were fewer restrictions compared to other advanced economies. Real GDP projected to grow by 5.0%, easily offsetting an estimated 3.4% decline in 2020. The Chinese economy is expected to be the growth leader among EMEs, growth of 8.5% in 2021 before slowing gradually in 2022 and 2023 according to the IMF.

The Canada/U.S. exchange rate, which has appreciated by around 4% since October, is expected to strengthen gradually (albeit modestly) against a backdrop of stronger commodity prices. Global financial markets and commodity prices have reacted favourably to the vaccines' arrival and to improving prospects for global growth. Oil prices, in particular Brent and WTI, have grown by \$10 per barrel since the fall and are expected to increase gradually for the remainder of the year, driven by the global recovery.

Both the IMF and Bank of Canada acknowledge that there remains an unusually high amount of uncertainty surrounding their outlook projections. Setbacks in the distribution or effectiveness of vaccines could contribute to another surge in the virus, which could lead to stricter restrictions or further lockdowns. The spread of new, more contagious variants of the virus could also have similar undesirable consequences.

Canada: *Consumption to drive post-pandemic recovery but uncertainty remains*

Real GDP in Canada fell by 5.5% in 2020 as a result of the response to the COVID-19 pandemic. The economy is expected to recover a substantial amount of lost ground in 2021 and 2022 before slowing somewhat in 2023, assuming that vaccines will be available to all Canadians by the end of 2021 and another lockdown is not required.

The effects of the pandemic have differed across provinces and industries. The Bank of Canada has also noted choppy quarterly GDP growth rates as provinces have implemented, lifted, and then reinstated containment measures. These restrictions have typically had the largest impact on service sector industries that are characterized by a high degree of in-person contact. The country's large energy sector also struggled with historically low oil prices—particularly during Q2 2020—which has caused the deferral or cancellation of several oil sands and offshore extraction projects.

In comparison with GDP growth and employment, income and savings have fared better thanks to government stimulus packages. Consequently, consumption is expected to play a major role in the post-pandemic recovery. The Bank of Canada has assumed that households will hold on to these savings, however the possibility that they will be spent—and to what degree—represents a major upside risk to expectations for consumption. To date, retail sales have been quick to rebound during periods with looser restrictions as consumers cleared pent-up demand.

The Bank of Canada has indicated that it does not expect to raise the overnight interest rate until 2023.

However, early signs of economic recovery prompted bond markets to price in a rate hike as early as 2022. In its March announcement, the central bank maintained its original position; a transient rise in inflation is expected during 2021 as the depressed prices of some goods return to normal, but will not be indicative of the strong underlying conditions that could cause sustained inflation above target.

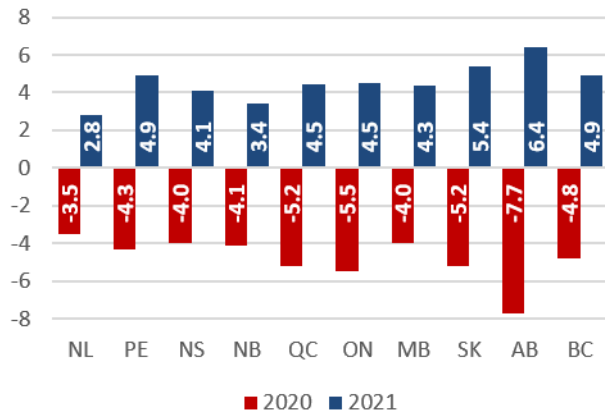
Looking forward, reasonably strong growth is expected during the recovery period. Low interest rates should facilitate business investment, though business confidence and capacity utilization rates will take time to recover fully. Vaccination among Canada’s trade partners is expected to drive the recovery of exports. There remains a high degree of uncertainty around potential output, however. The effects of long-term unemployment, bankruptcies, and postponed or cancelled investment may reduce the level of full employment and worker productivity well beyond the initial recovery period.

PRINCE EDWARD ISLAND: Easing restrictions and construction activity poised to drive economic growth

Prior to the onset of the Covid-19 pandemic, Prince Edward Island was expected to lead the country in economic growth in 2020 which incidentally, would have been the third consecutive year Canada’s smallest province outperformed its provincial counterparts. Robust population growth in recent years – specifically, international immigration – has been a key economic driver for the province: “...economic growth was robust and broad-based, propelled by a growing population, a growing labour force, increased domestic demand, strong demand for the products and services produced on the Island from abroad, and increased investment.”¹

The Island’s economic momentum came to an abrupt halt due to the pandemic-led economic shutdown that spanned the globe. Early predictions by private sector forecasters slated growth for the P.E.I. economy to be near 3% in 2020, however revised estimates now show the Island economy contracting in the order of 3.5%.² Industrial production in the province was severely impeded by the pandemic at its onset, with “...a sequence of

Figure 1: Real GDP Growth (annual % change)



Source: Conference Board of Canada, Provincial Outlook: March 2021

¹ Government of Prince Edward Island, *Prince Edward Island Budget Paper on the Economy*, March 2021.

² Ibid.

unprecedented government interventions related to COVID-19—including the closure of non-essential businesses, travel restrictions, and public health measures directing Canadians to limit public interactions.”³

Indeed, the province’s important tourism sector was severely impacted by COVID-19, as were related industries involving public-facing activities, such as accommodation and food services; arts, entertainment and recreation; information and culture; and retail. However, the gradual easing of COVID-19 restrictions and the re-opening of the economy provided some buoyancy to the P.E.I. economy, as businesses and workplaces re-opened. For example, the Island’s accommodation and food services industry – which was hardest hit by the pandemic - benefited briefly from the Atlantic Canada Travel Bubble during the later part of 2020 before being shut down in November in response to a second wave of COVID-19 cases moving across the region and country. Reduced disposable incomes, temporary store closures, depressed tourism, and soft labour market conditions limited retail trade activity. Although, some categories of retail fared better than others, including electronics and appliances, building supplies, health and personal care, and grocery stores. This served to offset lower retail volumes at clothing stores, gas stations, and motor vehicle sales and parts stores.

Air transportation worldwide has been severely constrained due to COVID-19 resulting in plunging export values for P.E.I.’s aerospace-related manufactured products. However, the industry’s reliance on food processing, as well as pharmaceutical manufacturing, proved key to supporting the provincial economy throughout the crisis – evidenced by strong growth in export values across these particular categories in 2020. Following a period of reduced activity at the onset of the pandemic, the Island’s construction industry proved to be a welcome bright spot for the Island economy, supported by strong residential and non-residential construction activity. The provincial economy also benefitted from some population growth during the pandemic. Although restrictions limiting entry into the country slowed the pace of population growth in P.E.I., to 1.5% in 2020 compared to 2.5% in 2019, the province managed to record the fastest rate of growth in the country.⁴

With respect to PEI’s economic prospects, private sector forecasters project that the local economy will rebound in 2021, by 4% on average.⁵ Key growth factors include continued, but moderate population growth due to international migration; increased domestic demand; continued federal and provincial supports to businesses and households; and another strong construction performance.⁶ The rollout of vaccines will further support economic recovery “...due to the gradual lifting of provincial restrictions on economic activity and travel.”⁷ This will be especially important to reviving the airline industry, and in turn, stimulating the Island’s battered aerospace sector moving forward.

³ Statistics Canada: *Labour Force Survey, March 2020*, April 9, 2020.

⁴ Government of Prince Edward Island, *Fall Economic Update 2020*, September 29, 2020.

⁵ Government of Prince Edward Island, *Prince Edward Island Budget Paper on the Economy*, March 2021.

⁶ Ibid.

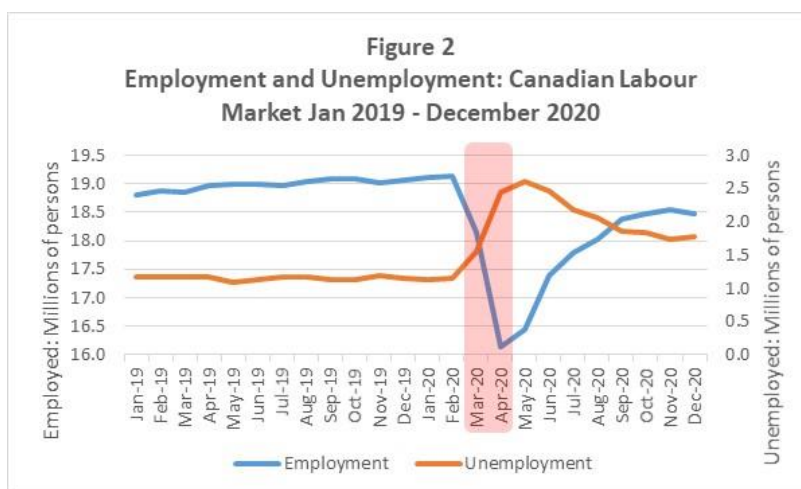
⁷ Conference Board of Canada, *Vaccines and a Recovery in Energy, Tourism, and Exports Boost Provincial Economic Activity: Provincial Outlook*, March 2021.

LABOUR MARKETS

CANADA: Youths, females and low-wage earners disproportionately impacted by Covid-19

Prior to the onset of the Coronavirus pandemic, Canada’s strong labour markets were poised to support growth in view of a challenging economic environment, consisting of dismal business investment and weakened global demand due to geo-political tensions between China and the U.S.⁸ Indeed, since the 2008-09 recession, employment growth in Canada has consistently outpaced that of its labour force to 2019, eroding the country’s unemployment base over this period. Continued tightening of the Canadian labour market put upward pressure on wages and this in turn, provided some optimism about consumer spending adding further momentum to the country’s growth prospects in 2020 and 2021.⁹

The Canadian economy entered 2020 at a modest, but steady pace, before being blindsided by one of the worst pandemics in recent history. “A sequence of unprecedented government interventions related to COVID-19—including the closure of non-essential businesses, travel restrictions, and public health measures directing Canadians to limit public interactions—had been put in place...resulting in a sudden shock to the Canadian labour market.”¹⁰ Between



February and April 2020, employment in the country plummeted by over 15% and the number of people unemployed more than doubled. By May, the unemployment rate in Canada reached a record high of 13.7%, attributed to mass layoffs. This increase reflects just under half the workers who were laid off – the remainder had left the labour force altogether. Youths (persons 15-24 years of age), females, and low-wage workers have been disproportionately impacted by job loss throughout the pandemic. This is largely because of their overrepresentation in industries involving public-facing activities or limited ability to telework, such as retail trade, accommodation and food services, information, culture and recreation, and some subsets of other services.

The gradual easing of restrictions and the re-opening of the economy since the spring helped pave the road to recovery for the most impacted industries in the Canadian labour market – albeit a few bumps along the way due to a resurgence of viral cases and new restrictions implemented in December. However, by December 2020, overall employment in the country had climbed within 97% of its February, pre-pandemic level. Labour market conditions improved in February 2021 after easing of public health restrictions in a number of provinces put in place two months prior. This produced a respectable rebound in both part-time and full-time jobs, with

⁸ Conference Board of Canada, *Canadian Outlook Summary*, Winter 2020.

⁹ Ibid.

¹⁰ Statistics Canada, *Labour Force Survey*, March 2020.

employment gains in the harder-hit industries like accommodation and food services and retail trade. The country's unemployment rate fell to 8.2%, the lowest rate since the onset of the pandemic last March.

Further easing of health restrictions across provinces in the coming months, coupled with continued employment growth in the hardest-hit industries, have been identified as essential drivers behind the country's labour market recovery over the next two years.¹¹ Although rising cases of variants of concern remain a considerable risk to the country's recovery efforts, the ramping up of vaccination programs across provinces offers welcome optimism for a full labour market recovery.

Prince Edward Island: Tourism-related industries slowest to recover pre-pandemic employment levels

Prior to the onset of the Coronavirus pandemic, labour market conditions were strong in Prince Edward Island, and on route to another prosperous year. Both labour force and employment levels reached record highs in February 2020, and the Island's unemployment rate hovered well below historical norms for the province. A month later, in March, the initial impacts of the global pandemic sent tremors through the Island economy, and by April, the full force of Covid-19 was felt in the Island's labour market, with the province having suffered record declines in both labour force and employment levels.

Labour market conditions showed early signs of recovery in May, with those laid off transitioning back into the labour force, looking for work. By June, gradual lifting of public health measures and the re-opening of the economy provided a welcome boost to Island's labour market – especially for the distressed tourism sector, thanks to the Atlantic Canada Travel Bubble (allowing Atlantic Canada to travel within the region without the need to self-isolate). By December, the Island's labour market progress hit a snag following reports of new positive cases in the province with the source of the outbreak unknown. This resulted in a temporary “circuit breaker” lockdown to limit the spread of COVID-19 – and this, coupled with the closing of the Atlantic Bubble in late November due to rising cases across the region – caused both labour force and employment levels to contract.

For the year, both labour force and employment levels declined in 2020, by 1.1% and 3% respectively from their record high levels in 2019. The number of persons unemployed surged, by almost 19%. The Island's unemployment rate climbed to an average 10.5% in 2020, which compares to 8.8% in 2019. Women experienced the largest unemployment rate increases across all major age categories – the youths cohort especially, which increased by 8.5 percentage points to 15.9% in 2020. Employment losses were more rapid in jobs offering less security, including temporary and non-unionized jobs - particularly in industries involving public-facing activities or limited ability to work from home, such as retail trade; accommodation and food services; information, culture and recreation, and some subsets of other services. Of the 2,300 fewer people employed in 2020 relative to 2019, three-quarters are explained by the 30% plunge in accommodations and food services employment. A 6.2% drop in the retail trade employment further compounded the year-over-year employment losses in the province.

Looking ahead, continued population growth will support the Island's labour force in 2021, which is expected to gain momentum as public health restrictions ease and the Atlantic Bubble potentially re-opens to our Atlantic counterparts – providing a much-needed economic injection in the province's battered tourism sector. Similar

¹¹ Conference Board of Canada, *Hope at Last: Canada's Two-Year Outlook*, March 2021

to the national perspective, the province's recovery will be driven by employment gains in the hardest-hit industries – particularly, retail trade; accommodation and food services; information, culture and recreation, as well as some subsets of other services. Certainly, rising cases of variants of concern remain a considerable downward risk, a faster rollout of vaccinations in the province will be critical to not only mitigating this risk, but to inducing more relaxed border measures beyond the Atlantic Bubble moving forward.

KEY CHALLENGES AFFECTING PRINCE EDWARD ISLAND'S LABOUR MARKET

Demographic trends

The Atlantic Region is aging more rapidly than the rest of Canada. As all members of the baby-boom cohort reach age 65, the aging phenomenon will accelerate in Atlantic Canada in the coming decades. For P.E.I., the total dependency ratio¹² continues to increase in the province, due solely to an increasing senior dependency ratio.¹³ Further to this, preliminary population estimates for P.E.I. on July 1, 2020 indicate that this is the third year that deaths have outnumbered births in the province (due to declining fertility rates) – a trend consistent with the other Atlantic Provinces.¹⁴ All other jurisdictions in Canada continue to have positive natural increase. With respect to inter-provincial migration, population projections produced by the P.E.I. Statistics Bureau predicts a net loss over its forecast horizon.

Indeed, these demographic trends have far-reaching implications with respect to managing pensions and health care demands, and of particular concern is the impact of accelerating retirement trends on labour gaps in the province. It goes without saying, efforts to grow the province's working-age population – and in turn, alleviate its senior dependency burden in the future, will continue to be dependent on international immigration.¹⁵ With respect to the pandemic and related border restrictions, the Island's population base rose in 2020, by 1.5% from 2019. Despite the slower pace of growth in 2020, relative to 2.3% growth in the preceding three years, on average, it was the fastest growth amongst provinces.

Rural dynamics

Challenges affecting rural communities include the high incidence of seasonal employment in primary industries, manufacturing (i.e. seafood processing), and tourism-related industries. Higher unemployment and Employment Insurance use, lower wages and lower educational attainment, relative to urban centres, are typical challenges in rural labour markets. "Rural areas are typically more vulnerable to the economic impacts of the pandemic than urban areas due to their greater dependence on the industries most adversely affected by COVID 19."¹⁶

Out-migration of young workers from rural regions seeking better economic opportunities in urban areas, coupled with a rapidly ageing rural population, means rural communities must contend with a shrinking working-age population. These trends have affected the composition of the labour force and availability of labour in rural communities. Potential strategies rural communities can undertake to address these challenging dynamics include developing a plan aimed at recruiting, retaining and integrating (immigrant) workers to meet local labour

¹² The ratio of persons under the age of 15 plus those 65 years of age and older to the 15-64 working age population.

¹³ P.E.I. Statistics Bureau, *Prince Edward Island Population Report 2020*, January 2021.

¹⁴ Ibid.

¹⁵ P.E.I. Statistics Bureau, *Prince Edward Island Population Projections 2021-2060*, March 2021.

¹⁶ Atlantic Provinces Economic Council, *Atlantic Canada Regional COVID-19 Vulnerability Report*, February 2021.

force needs; target under-represented groups, such as working with indigenous communities to fill vacancies; identify and promote economic development opportunities; and increase business investment and automation to sustain operations.¹⁷

Youth recovery lagging

The pandemic had a disproportionate impact on youths because a greater share of youths were employed in the hardest hit, tourism-related industries, being accommodation and food services, retail trade, and information, culture and recreation. More than half of the overall employment loss in 2020 was attributed to youths – especially in part-time jobs. By December 2020, core-aged workers recouped nearly all of their pre-COVID employment; and older workers, achieved 93% of its February 2020 level. Youths, on the other hand, continued to lag by comparison, having recovered just 83% of this group’s pre-COVID employment.

Many youths struggled to find employment during the summer months, resulting in an average unemployment rate of 22% from May to August 2020, which compares to an 8.9% jobless rate during the same period a year ago. For 2020 overall, the youth unemployment rate averaged 16.8%, up by nearly six percentage points, year-over-year. “The high level of youth unemployment suggests the long-term negative impact on future earnings could be significant...this well established ‘scarring effect’ can also have short-term impacts including access housing and the ability to pay back student loans.”¹⁸ Looking ahead, as public health restrictions ease and the Atlantic Bubble potentially re-opens to our Atlantic counterparts – providing a boost to the province’s tourism sector, labour market outcomes for youths may stand to improve driven by expected employment gains in the hardest-hit, tourism industries.

Labour shortages

Population ageing continues to accelerate and with it, retirements. These factors, coupled with low fertility rates, serve to limit labour force growth in P.E.I. Even with the recent success in attracting international immigrants to the province, the Island’s labour force grew by just 0.9% per year on average over the past decade - driven in large part by continued growth in older worker participation. As the pace of retirements exceed that of the labour force, it makes it more difficult for employers to fill job vacancies. Labour shortages exist across a broad spectrum of skilled and unskilled occupations – the latter being a chronic issue for employers in the province. However, Island employers continue to rely on the Temporary Foreign Worker (TFW) Program to fill temporary jobs when local workers are not available. Occupations most dependent on the TFW program in P.E.I. include fish and seafood plant workers, general farm workers, and transport truck drivers. At the outset of the pandemic, the closure of the Canadian border created uncertainty for employers, and resulted in some delays and complications in international hiring.

The province is experiencing ongoing shortages of skilled labour, particularly in various health-related fields and construction trades. For resident care workers, for example, staff turnover increased during the pandemic as some workers left their place of employment to care for household members who were immunocompromised, and some opted for early retirement to avoid the risk of exposure to COVID-19. The construction industry has reported an ongoing shortage of skilled labour in various trades - which is problematic considering the province’s

¹⁷ Atlantic Provinces Economic Council, *Atlantic Canada’s Urban and Rural Dynamics*, February 2021.

¹⁸ Atlantic Provinces Economic Council, *Demographic & Diversity Impacts of COVID-19 in Atlantic Canada*, November 2020.

economic prospects are supported in large part by continued growth in construction activity. Potential strategies aimed at addressing both skilled and unskilled labour shortages in the province include continuing to attract, integrate and retain international workers; aligning training programs to provide the skills employers are seeking; and improve labour market information so that job seekers are aware of available opportunities and the skills employers are looking for.¹⁹

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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¹⁹ The Employment Journey, *Atlantic Canada's Labour Challenge and Economic Forecast*, December 2019.