

Riding the immigration wave

PEI's economic performance easily stands out in Atlantic Canada. It beat our 2016 growth forecast of 1.1% handily with Statistics Canada's preliminary estimate implying a rate of 2.4%. We expect the provincial economy to expand further by 1.5% in 2017, which would be the strongest pace in the region for a second-straight year. A wave of immigration generated much of the thrust in the economy of late. A near-record 2,300 new immigrants came to PEI last year. The benefits of this wave have spread across many sectors, including housing construction and household spending, creating broadly based positive spinoffs. We expect those benefits to taper off somewhat over the remainder of this year, however, because we anticipate the immigration wave to crest. The prospect of slower business investment in the province also points to economic momentum moderating this year. Our outlook for 2018 maintains PEI in the region's lead in terms of growth, although we expect the pace to ease further to 1.2%.

Population spurt drives up demand for homes and consumer goods

The many newcomers settling in PEI have rejuvenated the population trend in the province, which was stagnant as recently as 2013. The turnaround has been quite striking in fact: population growth recently raced at one of its faster rates since the early 1970s. This has been a boon for home builders who have started more than twice as many new homes so far this year compared to a year ago. Retailers aren't complaining either. Their sales climbed by almost 9% this year with strong gains recorded by merchants of furniture, appliances and building materials. Business is also brisk for motor vehicle dealers though sales have been on a record streak in the past four years.

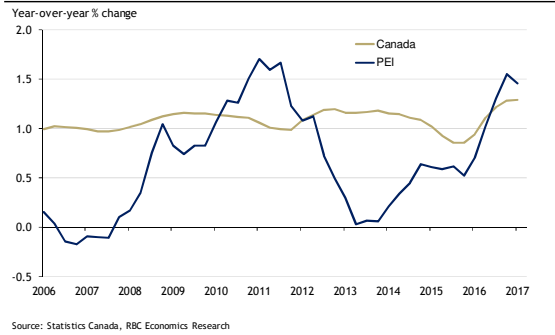
Non-residential construction is off to a decent start but it's unlikely to last

Builders have been quite busy working on non-residential structures as well in the opening months of 2017. Spending on commercial structures, in particular, was significantly above year-ago levels. Still, prospects for total business investment in the province are not very promising. Statistics Canada's survey of capital spending intentions released earlier this year showed that businesses plan to slash their capital expenditures by 20% in 2017. The winding down of construction on two multi-million dollar power cables linking PEI's power grid to New Brunswick accounts for much of this decline.

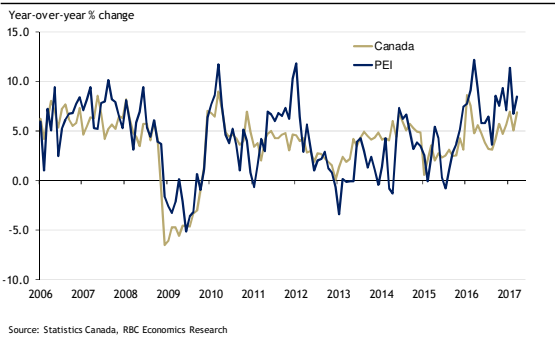
Provincial government projects a balanced budget

The 2017 PEI budget presented in April balances the books for the first time in 10 years. Revenues are projected to grow solidly this year thanks to steady economic growth and tax increases announced in last year's budget. Much of that revenue increase is being allocated to a host of new spending measures in health care, education and family services, transportation and infrastructure.

PEI: Population



PEI: Retail sales



Prince Edward Island forecast at a glance

% change unless otherwise indicated	2013	2014	2015	2016F	2017F	2018F
Real GDP	2.0	1.5	1.3	2.4	1.5	1.2
Nominal GDP	3.2	3.5	3.9	3.7	3.1	3.2
Employment	1.4	-0.1	-1.2	-2.2	2.8	0.5
Unemployment rate (%)	11.5	10.6	10.5	10.8	10.3	10.3
Retail sales	1.0	3.6	2.8	7.7	5.5	2.4
Housing starts (units)	636	511	558	556	830	800
Consumer price index	2.0	1.6	-0.6	1.2	2.0	2.4

Robert Hogue
Senior Economist

