

**To remain on top in the East**

Prince Edward Island continues to stand out in the Atlantic region. The economy is firing on most cylinders with strong employment growth, surging retail sales, and a jump in residential building. Even demographic factors, a perennial problem for the Atlantic Provinces, show encouraging signs thanks to a rise in immigration and slower outmigration to other provinces. As high-value exports continue to flow and residential building offsets declines in non-residential investment, the island is expected to remain a top performer in the region for the next two years. After growing by a projected 2.2% in 2017, we expect real GDP to grow by 1.5% in 2018 and 1.0% in 2019.

**Immigration has a beneficial impact**

The province is still riding high on the surge in immigration which began in 2016. While numbers are likely to come in lower in 2017 and future inflows remain uncertain, the impacts of prior inflows are being felt through the economy. The working-age population is rebounding and overall population growth (+1.7%) is on track to surpass the national average. Having a growing number of people of working age alleviates constraints on firms wanting to hire in the province. We expect this to help sustain positive job growth in PEI over the next two years—in contrast to declines in the other Atlantic Provinces. Yet the steady stream of new potential workers joining the labour will limit the scope for PEI’s unemployment rate to fall. In 2017, strong job creation boosted employee compensation significantly (up by 4.4% to date). In turn, this supported a record increase in retail sales. Going forward, we expect growth in employment to ease from an unsustainable rate of 2.8% in 2017. Our view is that it will put a damper on consumer spending in the province—although this, too, would come from an unsustainably strong pace in 2017.

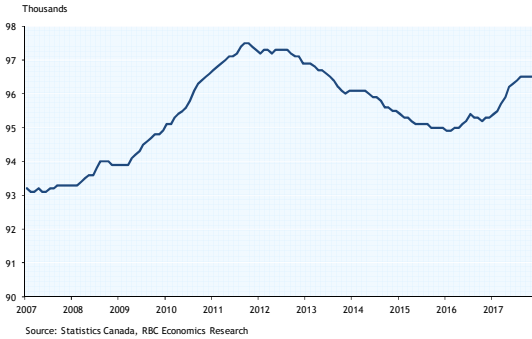
**PEI homebuilders to stay busy**

Another consequence of the recent wave of immigration and slower out-migration to other province is a surge in housing construction. Increased demand for housing caused vacancy rates to decline in the province and tightened the home resale market considerably. With sellers firmly in command and prices accelerating, conditions are ripe for new building. Residential investment is up 25% so far in 2017 and we expect the level of activity to remain elevated in 2018 as homebuilders continue work on units started in 2017. Housing starts nearly doubled in 2017 relative to 2016. A busy homebuilding sector will help to compensate for lower expected non-residential investment. Work installing two large undersea transmission cables to New Brunswick will end in 2017, leading to a drop in non-residential investment spending in 2018.

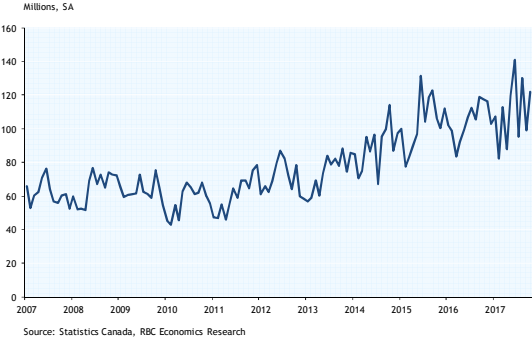
**Exports to continue to play a key part of PEI’s growth story**

Exports have been the jewel in Prince Edward Island’s crown in recent years and we expect that to continue in 2018. Exports of aerospace products surged in 2017 and strong demand coupled with a weak Canadian dollar should keep them elevated through our forecast horizon. Food products too are on track for a banner year and strong international demand should support food exporters into next year. 2017 also saw steady gains for tourism and the outlook for the industry remains favorable.

Prince Edward Island: Working-age population



Prince Edward Island: Merchandise exports



**Prince Edward Island forecast at a glance**

% change unless otherwise indicated

	2014	2015	2016	2017F	2018F	2019F
Real GDP	0.3	1.3	2.3	2.2	1.5	1.0
Nominal GDP	1.7	3.9	4.0	4.0	3.6	3.1
Employment	-0.1	-1.2	-2.2	2.8	0.8	0.5
Unemployment rate (%)	10.6	10.5	10.8	9.8	9.6	9.5
Retail sales	3.6	2.8	7.7	7.4	4.1	3.9
Housing starts (units)	511	558	556	1,010	700	600
Consumer price index	1.6	-0.6	1.2	1.8	1.8	1.8

**Gerard Walsh**  
Economist

