



PRINCE EDWARD ISLAND - Eager to welcome visitors again soon

Prince Edward Island continued to largely seclude itself from the pandemic so far in 2021, and Islanders have therefore enjoyed comparatively less stringent restrictions than in other provinces. With significant progress being made on curbing the third wave across the continent, there's a glimmer of hope for a stronger travel season. It also bodes well for a recovery in demand for PEI's food products as restaurants re-open gradually.

After contracting the least of all Canadian provinces in 2020, we expect PEI will fully recover in 2021 (+4.8%), with output surpassing pre-pandemic levels. In 2021, we expect to see continued strength in the housing sector, as well as a partial recovery in the manufacturing sector.

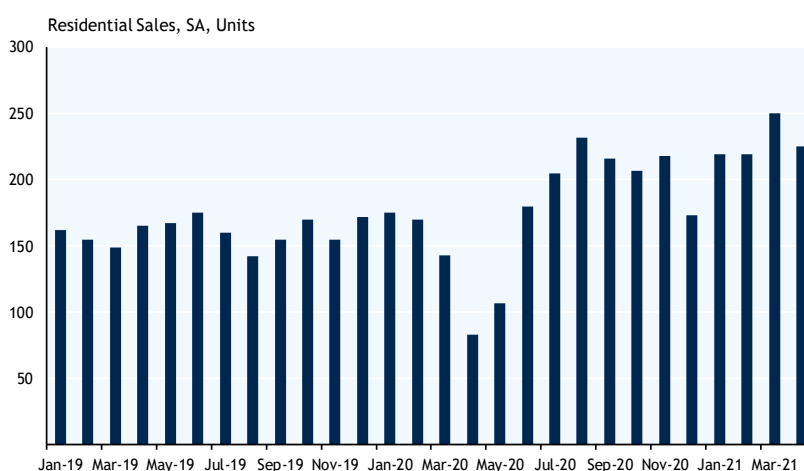
To date, manufacturing sales are still 6% below pre-pandemic levels. The good news is sales of food products, which account for half of the province's manufacturing output, have picked up in recent months. With the United States rapidly easing restrictions for restaurants and Canada likely not far behind, the outlook is promising for PEI potatoes and seafood in the period ahead. Lobster prices in fact are trending higher this year, reflecting recovering demand (including from China). The near-term outlook for PEI's aerospace industry is more challenging, however, given the global airline industry's current woes.

While the prospects look better for the tourism industry this year, the outcome hinges heavily on the timing and pace of travel restrictions (including quarantine requirements) easing within Canada and internationally. Under the province's current 5-stage reopening plan, PEI is expected to begin to welcome Canadians from outside of the Atlantic provinces at the beginning of August. As a province with a net interprovincial tourism deficit (other Canadians more in PEI than Islanders do in other provinces), PEI stands to benefit significantly from a freer travel.

Like elsewhere in the country, PEI's housing market is on a tear, setting new record highs in the initial months of 2021. Low inventories will sustain strong residential construction activity. A pick-up in building permits this spring signals housing starts will stay close to record levels in 2021.

In March, the PEI government delivered its second pandemic budget with a deficit of \$112 million. Pandemic-related response and recovery contingencies will total \$130 million over FY 2020-21 and FY 2021-22. This level of spending represents just under 2% of 2020 GDP cumulatively. This is much below the national average of 3.9% but reflects a more muted impact of the pandemic on the provincial economy and government finances. The government projects its deficit to shrink to \$28 million by FY 2023-24.

New record highs in PEI housing market in 2021



Source: CREA, RBC Economics

Prince Edward Island forecast at a glance

% change unless otherwise specified

| | 2018 | 2019 | 2020F | 2021F | 2022F |
|-------------------------------------|------|------|-------|-------|-------|
| Real GDP | 2.5 | 5.1 | -3.0 | 4.8 | 3.0 |
| Nominal GDP | 3.6 | 7.0 | -1.8 | 8.7 | 5.3 |
| Employment | 4.2 | 3.3 | -3.2 | 4.7 | 2.3 |
| Unemployment Rate (%) | 9.5 | 8.7 | 10.4 | 9.0 | 9.0 |
| Retail Sales | 2.7 | 3.9 | 1.1 | 11.1 | 1.3 |
| Housing Starts (Thousands of Units) | 1.1 | 1.5 | 1.2 | 1.2 | 1.1 |
| Consumer Price Index | 2.3 | 1.2 | 0.0 | 3.4 | 2.4 |