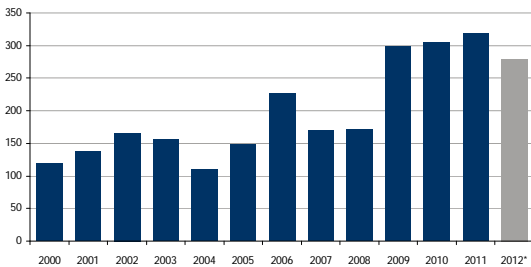
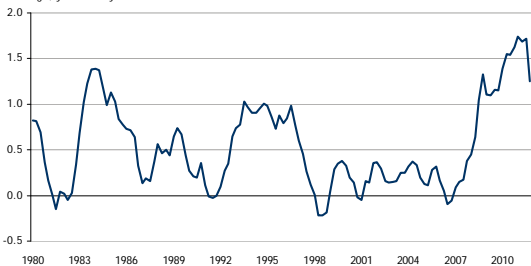


PEI public investment
\$ millions



Source: Statistics Canada, RBC Economics Research
*Intentions.

PEI population growth
% change, year-over-year



Source: Statistics Canada, RBC Economics Research

Prince Edward Island forecast at a glance

% change unless otherwise indicated

	2010	2011F	2012F	2013F
Real GDP	2.6	2.2	1.8	1.9
Employment	3.0	1.9	1.7	1.2
Unemployment rate (%)	11.1	11.4	11.1	10.4
Retail sales	5.2	6.4	4.1	3.9
Housing starts (units)	756	1,000	1,000	800
Consumer price index	1.8	2.9	1.9	2.1

Steady as she goes...

PEI’s agriculture, fishing, and tourism sectors struggled last year due to cool wet weather in the spring and summer; however, consumers and businesses remained upbeat and helped the economy maintain a moderate real GDP growth rate, which we estimate at 2.2%. This year, we expect some rebound on the supply side on the assumption that normal weather conditions return, while strengthening in the U.S. economy will allow for further growth in exports. We expect to see some moderation in domestic demand due to lower government capital spending and a return to more sustainable levels of population growth. On net, we expect the P.E.I. economy to post real GDP growth of 1.8% in 2012 and 1.9% in 2013.

Better weather and U.S. demand will help sustain growth

Cool wet weather contributed to weakness in the agriculture and tourism sectors in PEI last year. Assuming normal temperatures and average precipitation levels during the spring and summer, tourism and agriculture should see some improvement in 2012. Strengthening U.S. growth should also allow for continued growth in exports. Nominal exports increased by a healthy 5.8% in 2011, led by a 46.8% increase in machinery and equipment related to the aerospace sector.

Steep decline in government investment

Statistics Canada’s latest P&PI intentions survey showed a 2.0% decrease in planned investment in 2012, due entirely to a 12.5% drop in public-sector investment. In contrast, the private sector intends to boost investment by 2.5%. In its capital budget late last year, the provincial government had indicated that its plans to reduce its capital expenditures significantly from the high levels seen since the recession, with large declines planned for both 2012 and 2013. The governments’ current expenditures will also come under increased pressure as both the federal and provincial governments work to balance their budgets in the next few years. Given that government current and capital expenditures make up around 41.0% of nominal GDP in the province (considerably higher than 26.0% for Canada as a whole), we expect this austerity to have a significant dampening effect on provincial economic activity.

Moderation in domestic demand

Population growth in PEI has been quite strong for the past four years, driven mainly by increasing levels of immigration through the Provincial Nominee Program. Last year’s 1.7% population growth rate was the fastest pace of growth among the provinces and also the fastest pace of growth ever seen in the province. This population growth has helped support solid growth in domestic demand. Excluding sales at gasoline stations (which can distort the picture due to pronounced gas price fluctuations), retail sales were up 3.6% in 2011, and were the fastest pace of growth among the Atlantic provinces. Employment growth was a respectable 1.9%, with only Alberta and Newfoundland posting faster growth rates. Housing starts have also been strong, with last year’s new units at the highest level in 23 years in PEI. While we expect domestic demand to remain reasonably healthy, we think it is unlikely that the recent pace of growth will be sustained. We call for retail sales and employment growth to moderate in each of the next two years, while housing starts will see one more year of strength before falling slightly in 2013.

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