



2022

Fiscal and Economic Update

Department of Finance

The following is a reflection of what Government expects its financial results to be by the end of the fiscal year based on information known since the release of the Budget in February 2022, with a particular focus on fiscal and economic indicators for 2022, as well as the economic outlook for 2023 and beyond. All data in this document is current to December 2, 2022.

In comparison to the 2022-2023 Operating Budget, the Province is now forecasting a deficit position of \$94.8M, an increase of \$1.9M from February 2022.

This report outlines the strong signs of economic recovery for PEI during 2021 and the first half of 2022, and showcases Government's commitment to supporting Islanders and the plan outlined in Budget 2022-2023. The increased forecast deficit is reflective of Government's response effort through times of record inflation and historic weather events.

2022 Fiscal and Economic Highlights

Provincial revenues have increased by \$238.6 million primarily due to increases in tax revenues of \$138.0 million thanks to a stronger than anticipated economic recovery and a growing population, as well as increased federal revenues.

After growing by 32.4 per cent in 2021, investment in building construction is down 12.8 per cent through September. Though down from its record high in 2021, this is the second-best result on record for this time of year.

Provincial expenditures are expected to increase by \$240.5 million. This reflects additional spending totaling more than \$170 million provided to fund supports paid to Islanders for inflationary response initiatives and reimbursement of costs from Hurricane Fiona.

Prince Edward Island set another population growth milestone in 2022, with 5,930 people coming to the Island for a growth rate of 3.6 per cent. This is the highest growth rate for the province on record, and the highest amongst jurisdictions for this time period.

Average weekly earnings increased 2.6 per cent on a year-to-date basis through September.

Through the first three quarters of 2022, farm cash receipts increased 26.5 per cent to total \$539.2 million.

Consumer prices have continued to increase dramatically in 2022, up 8.9 per cent on a year-to-date basis through October, the fastest growth amongst the provinces. Inflation slowed through the third quarter before picking up in October.

Tourism indicators have bounced back in a stronger fashion than was anticipated, with overnight stays up 64.1 per cent compared to 2021, and just slightly below 2019 levels on a year-to-date basis through August.

Manufacturing shipments have grown 17.9 per cent through September, while exports have increased 21.5 per cent over this time period.

Sales at food services and drinking establishments are continuing to recover in 2022, up 16.7 per cent on a year-to-date basis through September.

On a year-to-date basis through November, employment has increased 6.8 per cent to average 84,500 people, the fastest increase amongst the provinces.

The average of private sector forecasters places growth for the Island economy at 2.4 per cent in 2022 and 1.2 per cent in 2023.

2021-2022 Fiscal Update

The purpose of the fiscal update is to provide information on the government's projected revenues and expenses as factors change throughout the year. The forecast has been compiled from information provided by departments and is based on updated information and assumptions available since the budget was tabled.

The current forecast for 2022-2023 indicates a deficit of \$94.8 million. This represents an increase of \$1.9 million compared to the deficit plan of \$92.9 million outlined in the spring 2022-23 Operating Budget. The effects of inflation, as well as recovery efforts following Hurricane Fiona, have had a significant impact on the lives of Islanders. The Province is committed to providing continued support during these uncertain times and the forecast reflects \$89.2 million for inflation support programs and \$81.5 million in costs related to Fiona response and recovery. The forecasted increase to the 2022-2023 deficit also reflects continued transitional support for COVID-19 as well as programming for the agricultural sector, which continues to be affected by export barriers for seed potatoes due to Potato Wart.

While the increased forecast deficit is reflective of Government's commitment to supporting the needs of Islanders, the Province's economy has shown strong signs of recovery during 2021 and the first half of 2022, despite continuing to experience impacts of the COVID-19 pandemic, inflationary pressures, and rising interest rates.

SUMMARY

| (Millions) | 2022-23 Budget Estimate | 2022-23 Forecast | 2022-23 Variance |
|--|--|-----------------------------|-----------------------------|
| | \$ | \$ | \$ |
| Total Revenue | 2,569.2 | 2,807.8 | 238.6 |
| Total Program and Consolidated Agency Expenditures | 2,428.5 | 2,651.2 | 222.7 |
| Total Interest and Amortization | 233.6 | 251.4 | 17.8 |
| Total Expenditures | 2,662.1 | 2,902.6 | 240.5 |
| CONSOLIDATED DEFICIT | (92.9) | (94.8) | (1.9) |
| NET DEBT - End of Year | 2,664.5 | 2,548.8 | (115.6) |

Revenue Forecast Highlights:

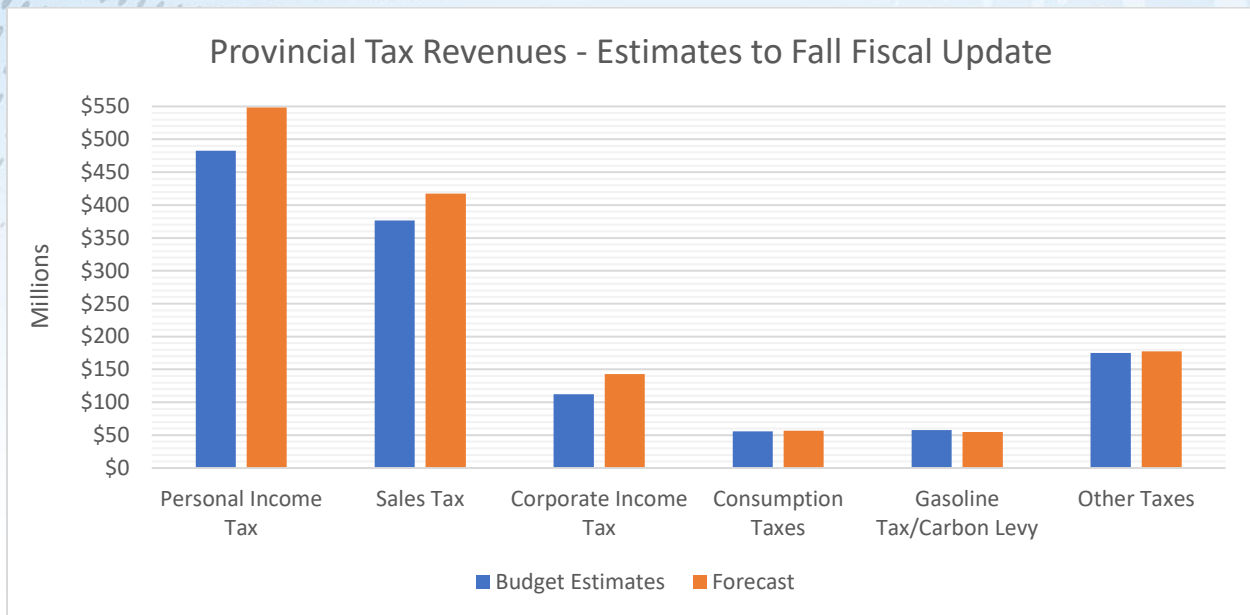
Total revenues are forecast to increase by \$238.6 million from the Fiscal 2022-2023 Budget Estimates prepared in the Spring of 2022. Tax receipts are currently anticipated to increase by \$138.0 million. Increased federal revenues have also contributed to the additional total revenue reflected in the 2022 forecast.

REVENUE SUMMARY BY SOURCE

| | 2022-23 Budget Estimate | 2022-23 Forecast | 2022-23 Variance |
|---|--|-----------------------------|-----------------------------|
| | \$ | \$ | \$ |
| PROVINCIAL OWN SOURCES | | | |
| Taxes | 1,259,674,900 | 1,397,653,700 | 137,978,800 |
| Licenses and Permits | 39,512,700 | 39,441,400 | (71,300) |
| Fees and Services | 96,166,400 | 99,863,300 | 3,696,900 |
| Investments/Sinking Fund | 19,019,200 | 34,496,000 | 15,476,800 |
| Other Revenue | 10,587,500 | 13,076,300 | 2,488,800 |
| TOTAL PROVINCIAL OWN SOURCES | 1,424,960,700 | 1,584,530,700 | 159,570,000 |
| GOVERNMENT OF CANADA | 1,013,310,800 | 1,096,032,700 | 82,721,900 |
| TOTAL CURRENT REVENUE | 2,438,271,500 | 2,680,563,400 | 242,291,900 |
| Consolidated Agencies | 66,039,500 | 63,739,500 | (2,300,000) |
| Net Consolidated Surplus of Government Business Enterprises | 64,847,300 | 63,517,300 | (1,330,000) |
| TOTAL REVENUE | 2,569,158,300 | 2,807,820,200 | 238,661,900 |

The following section gives further explanation to the figures presented in the Revenue Summary by Source chart:

The forecasted \$238.6 million total revenue increase is primarily related to stronger forecasted tax revenue than anticipated in the Budget Estimates. Taxes are currently anticipated to increase by \$138.0 million. This increase is driven primarily from an increase in forecasted sales tax as well as personal and corporate income taxes due to a stronger than anticipated economic recovery as the Province continues to transition out of the COVID-19 pandemic public health measures, high inflation's continued persistence, as well as a larger than expected increase in the population and more residents earning more than \$60,000 annually. Increases relate to personal income tax \$65.8 million, sales tax \$40.9 million and corporate income tax of \$30.5 million.



Federal Government transfers are expected to be \$82.7 million greater than budgeted. Federal funding from the Disaster Financial Assistance Arrangement (DFAA) to rebuild, clean up, and support Islanders experiencing the effects of Hurricane Fiona is forecast to be \$61.5 million based on preliminary estimates of recovery efforts. Additional new federal funding of \$10 million is forecast for the Improving Affordable Access to Prescription Drugs initiative and an additional \$6 million in federal revenue to continue response efforts related to COVID-19 has been identified.

Interest on investments, Treasury Notes, and accounts held for operations across Government are also forecasted to increase by \$15.5 million, as a result of rising interest rates.

Expenditure Forecast Highlights:

Total program expenditures are forecast to increase by \$222.7 million which includes approximately \$89.2 million relating to inflationary support measures and an estimated \$81.5 million in recovery and response supports to Islanders impacted by Hurricane Fiona.

EXPENDITURE SUMMARY BY DEPARTMENT

| | 2022-23 Budget Estimate | 2022-23 Forecast | 2022-23 Variance |
|---|-------------------------------|----------------------|---------------------|
| | \$ | \$ | \$ |
| CURRENT | | | |
| Agriculture and Land..... | 22,057,000 | 30,554,500 | 8,497,500 |
| PEI Agricultural Insurance Corporation..... | 47,302,000 | 47,302,000 | - |
| Economic Growth, Tourism and Culture..... | 41,324,500 | 43,729,800 | 2,405,300 |
| Innovation PEI..... | 58,382,000 | 59,882,000 | 1,500,000 |
| Tourism PEI..... | 23,717,300 | 33,565,000 | 9,847,700 |
| Education and Lifelong Learning | 176,312,900 | 172,655,900 | (3,657,000) |
| La Commission scolaire de langue française..... | 20,727,400 | 21,167,400 | 440,000 |
| PEI Student Financial Assistance Corporation..... | 12,075,000 | 12,325,000 | 250,000 |
| Public Schools Branch..... | 255,972,800 | 260,628,800 | 4,656,000 |
| Environment, Energy & Climate Action..... | 86,270,400 | 120,652,500 | 34,382,100 |
| Executive Council..... | 11,268,200 | 10,884,900 | (383,300) |
| Finance..... | 71,623,000 | 70,395,800 | (1,227,200) |
| Employee Benefits..... | 64,496,600 | 48,808,600 | (15,688,000) |
| General Government..... | 41,770,000 | 106,526,100 | 64,756,100 |
| P.E.I. Public Service Commission..... | 9,107,000 | 9,239,000 | 132,000 |
| Fisheries and Communities..... | 44,094,000 | 45,358,000 | 1,264,000 |
| Employment Development Agency..... | 6,213,000 | 7,153,300 | 940,300 |
| Health and Wellness..... | 72,147,000 | 89,443,000 | 17,296,000 |
| Health PEI..... | 838,738,800 | 844,020,900 | 5,282,100 |
| Justice and Public Safety..... | 72,708,100 | 101,553,800 | 28,845,700 |
| Social Development and Housing | 146,116,700 | 185,223,000 | 39,106,300 |
| PEI Housing Corporation..... | 35,525,500 | 44,647,400 | 9,121,900 |
| Transportation and Infrastructure..... | 198,241,200 | 215,461,800 | 17,220,600 |
| Legislative Assembly..... | 9,831,500 | 9,831,500 | - |
| Auditor General..... | 3,131,500 | 2,891,200 | (240,300) |
| Consolidated Agencies..... | 59,322,900 | 57,308,500 | (2,014,400) |
| PROGRAM EXPENDITURE..... | 2,428,476,300 | 2,651,209,700 | 222,733,400 |
| Interest Charges on Debt..... | 130,981,600 | 148,758,500 | 17,776,900 |
| Amortization of Tangible Capital Assets..... | 102,608,800 | 102,608,800 | - |
| TOTAL EXPENDITURE | 2,662,066,700 | 2,902,577,000 | 240,510,300 |

The following section gives further explanation to the figures presented in the Expenditure Summary by Department chart:

The Department of Agriculture and Land is forecasting an increase in expenditures of \$8.5 million, of which \$8.21 million relates to support for the agricultural sector experiencing the impacts of Hurricane Fiona.

The Department of Economic Growth, Tourism and Culture are forecasting \$2.3 million more in spending primarily due to Labour Market Development Agreement programs, which will be offset by federal revenue programs.

Tourism PEI has identified approximately \$5.3 million in Fiona cleanup costs for Provincial parks, golf courses and other owned properties, with an additional \$2.2 million in operational costs as a result of an increased number of visitors.

The Department of Education and Lifelong Learning is projecting a decrease in expenditures of \$3.6 million, of which \$3.4 million relates to updated Canada-Wide Early Learning and Child Care projections, with offsetting reduction to federal revenues.

The Public Schools Branch estimates it will spend an additional \$3 million between both heating and fuel for busses due to the rise in fuel prices. An additional \$1.5 million is forecast to be spent on K-12 resources as extra educational support resulting from changes to both in-person and virtual learning due to COVID-19.

The Department of Environment, Energy and Climate Action is projecting an increase of \$34.3 million from Budget 2022. \$16.4 million has been identified as inflationary support measures through the Free Heat Pump, Free Insulation and Free Domestic Hot Water Electrification Programs. Additionally, the Department is forecasting an increase of \$10.7 million to the Energy Efficiency Rebate Programs (heat pumps & solar), a \$4.0M increase to Active Transportation Fund expenditures in the fiscal year, and an additional \$1.6 million to deliver the PEI Clean Energy Rebate Program (10% rebate on residential electricity), due to additional residential electricity consumption and rising electricity rates.

The Department of Finance is anticipating a reduction to Employee Benefit costs for FY2022-2023 of \$15.7 million primarily due to changes to interest/discount rates. In addition, the Department is projecting an increase of \$64.8 million through General Government, which represents inflationary support payments for Islanders as well as continuing support for both Potato Wart and COVID-19 programs.

Health and Wellness is forecasting to spend an additional \$17.3 million compared to budget. Increases relate primarily to the implementation of activities covered under Federally funded programs such as Improving Affordable Access to Prescription Drugs \$10 million, Safe Long-Term Care funding \$1.9 million, and immunization programming \$1 million. The Department is also forecasting an increase of \$1.2 million for EMR operating costs and additional funding to support organizations such as Island EMS.

Health PEI anticipates additional expenditures of \$5.3 million with offsetting additional revenue of \$6.9 million for a net overall decrease of \$1.6 million to their operational net budget. Operational issues affecting Health PEI include the additional services provided through labs, and diagnostic services, increasing costs associated with medical and surgical supplies in various locations of \$2.1 million.

The Department of Justice and Public Safety is anticipating \$28.8 million in additional expenditures compared to Budget. \$29.7 million has been forecast as Hurricane Fiona response and recovery expenditures, which will be offset by federal funding from the Disaster Financial Assistance Arrangement. Approximately \$1.8 million in departmental savings are anticipated to offset the anticipated expenditure increase.

Social Development and Housing is anticipating an increase in expenditures of \$39.1 million representing \$21.7 million in social programming in response to Hurricane Fiona, including support payments to islanders, seniors' grocery cards, emergency payments to Social Assistance, Assured Income & Seniors Independence clients and funding to local Non-Governmental Organizations. Additionally, Social Assistance and Core Social Programming is forecast to increase by \$16 million above budgeted expenditures. These increases include, in part, \$6.2 million from increased AccessAbility caseloads, \$2.1 million for the PEI School Food program, \$1.7 million for specialized residential client needs, \$1.6 million for an increase in Seniors' Independence clients, \$1.4 million forecast for rate increases to social programs and \$1 million for an increase in Social Assistance clients.

The PEI Housing Corporation is projecting an increase of \$9.1 million to expenditures to support cleanup/repairs due to Fiona and support for the Park Street Modular Housing pilot project. The Corporation also provided a significant increase in funding to support the home heating program. An additional \$6.0 million will be provided to the Salvation Army to provide enhanced supports to Islanders during the 2022-23 heating season.

Transportation and Infrastructure has forecast an increase in expenditures of \$17.2 million compared to Budget, primarily representing \$18.9 million in identified Hurricane Fiona cleanup and repairs to infrastructure and highway maintenance cost increases due to rising prices of fuel and supplies, totaling \$5.5 million. Offsetting these additional expenditures is lower than anticipated spending on Infrastructure grants of \$18 million.

In addition to the variances noted for Program Expenditures, interest charges are anticipated to cost an additional \$17.8 million due to the rise in interest rates. This additional cost is partially offset by the forecast of additional revenue from Government held investments and accounts of \$15.5 million.

Government Business Enterprises:

The Net Consolidated Surplus from Government Business Entities is forecast to be reduced by \$1.3 million from Budget Estimates. This is primarily a result of a decreased wind energy forecast at the PEI Energy Corporation, offset by stronger than originally planned from the PEI Lotteries Commission.

NET CONSOLIDATED SURPLUS OF GOVERNMENT BUSINESS ENTERPRISES

| | 2022-23 Budget Estimate | 2022-23 Forecast | 2022-23 Variance |
|--|-------------------------------|---------------------|---------------------|
| | \$ | \$ | \$ |
| Government Business Enterprises | | | |
| Charlottetown Area Development Corporation (Note)..... | 459,200 | 459,200 | - |
| Island Investment Development Inc..... | 15,925,200 | 14,925,200 | (1,000,000) |
| Island Waste Management Corporation..... | (668,200) | (502,000) | 166,200 |
| Prince Edward Island Cannabis Management Corporation..... | 1,267,600 | 1,057,000 | (210,600) |
| Prince Edward Island Energy Corporation..... | 7,606,400 | 4,031,400 | (3,575,000) |
| Prince Edward Island Liquor Control Commission..... | 22,157,100 | 22,650,900 | 493,800 |
| Prince Edward Island Lotteries Commission..... | 18,100,000 | 20,895,600 | 2,795,600 |
| Total Government Business Enterprises..... | 64,847,300 | 63,517,300 | (1,330,000) |
| NET CONSOLIDATED SURPLUS OF GOVERNMENT BUSINESS ENTERPRISES | 64,847,300 | 63,517,300 | (1,330,000) |

Note: Budget Estimate and Forecast include 83% of the total surplus of the Charlottetown Area Development Corporation.

Net Debt:

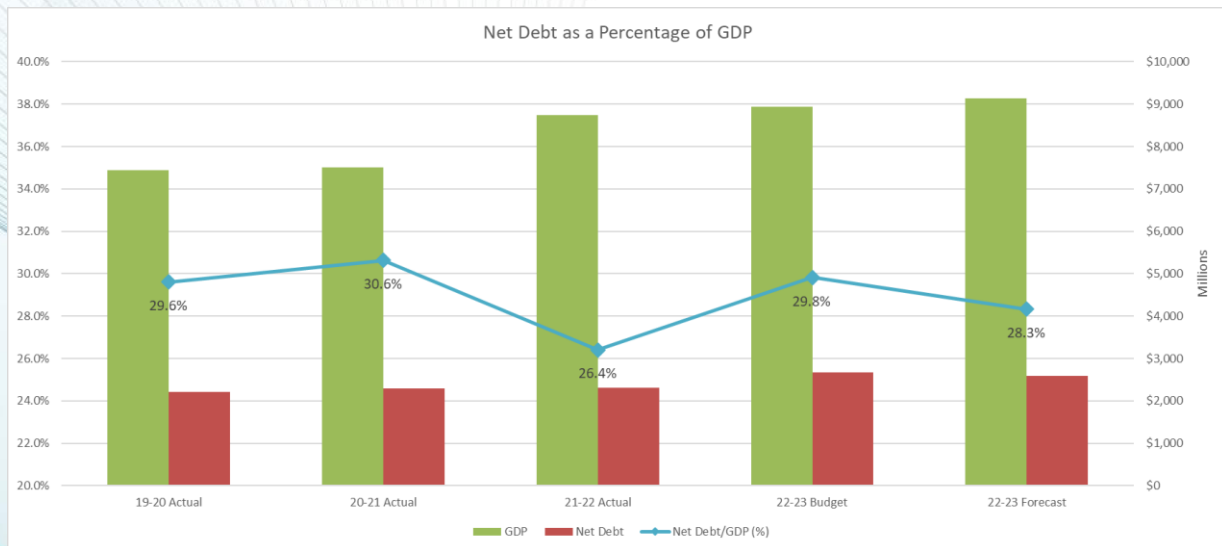
Net debt is one of the key indicators used to measure the relative financial position of the Province. It represents the amount of future cash flow required to pay for past transactions.

SCHEDULE OF NET DEBT

| | 2022-23 Budget Estimate | 2022-23 Forecast | 2022-23 Variance |
|---|--|-----------------------------|-----------------------------|
| | \$ millions | \$ millions | \$ millions |
| NET DEBT - BEGINNING OF YEAR..... | 2,462.1 | 2,308.8 | (153.3) |
| Deficit | 92.9 | 94.8 | 1.9 |
| Acquisition of Tangible Capital Assets..... | 212.1 | 247.9 | 35.8 |
| Amortization..... | (102.6) | (102.6) | - |
| Increase in Net Debt..... | 202.4 | 240.1 | 37.8 |
| NET DEBT - END OF YEAR..... | 2,664.5 | 2,548.8 | (115.6) |

Note: Net Debt for the beginning of the year was revised to reflect the closing net debt recorded in the 2021-22 audited financial statements. The following section gives further explanation to the figures presented in the Schedule of Net Debt chart:

A previous determination of anticipated net debt was included in the 2022 Budget Estimates and was based on financial information at that time. The significant factors that lead to changes in net debt are deficits or surpluses incurred and net investments in capital assets. The forecast for net debt at the end of the current fiscal year is expected to decrease (improve) by \$115.6 million. The improvements are related to the better than expected audited results for 2021-22, offset by an increase to forecast acquisition of tangible assets and the increased deficit forecast for the current fiscal year.



Economic Update 2022

International/National Context

The early months of 2022 saw a sustained improvement in economic conditions as health measures that were put in place to combat COVID-19 were significantly reduced allowing for a more widespread economic recovery. As the year progressed, factors other than the pandemic have come to dominate the economic landscape, including the war in Ukraine, ongoing supply chain issues, and inflation at its highest level in the last 40 years. These new forces have resulted in interest rates escalating in many countries – particularly advanced economies - putting pressure on investments and debt which are leaving their mark, both here on the Island and elsewhere, with the real risk that by fighting inflation through interest rate increases there is the significant possibility of a recession. This has led to downward revisions in growth, both globally and nationally, with the International Monetary Fund (IMF) projecting global output to grow by 3.2 per cent in 2022, while Canadian output is projected to grow by 3.3 per cent, both lower than their July projection.

Provincial Context

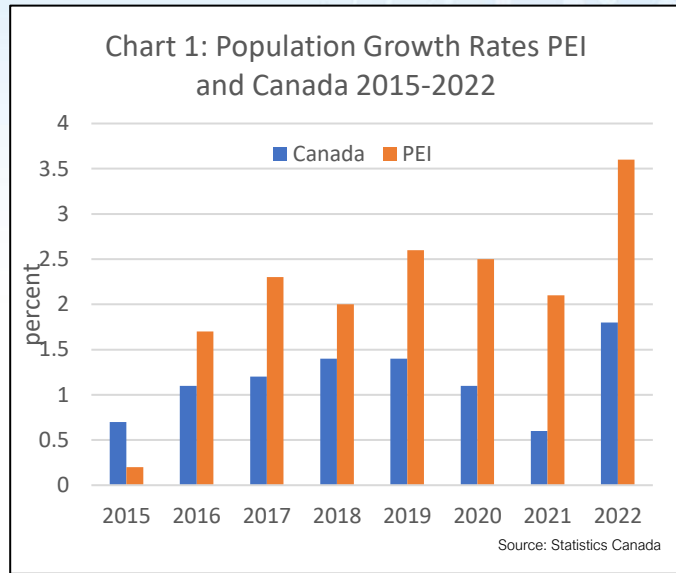
With the smallest contraction amongst provinces in 2020, and the strongest rebound in growth in 2021, the Prince Edward Island economy performed well throughout the COVID-19 pandemic. As the worst effects of the COVID-19 pandemic dissipated through the middle of 2022, and PEI was transitioning away from border restrictions for managing the virus, the Island became faced with economic issues caused by forces over which it has much less control. High prices, higher interest rates, labour scarcity and housing shortages have become the new challenges facing governments, businesses and individuals. Then came Hurricane Fiona, causing widespread damage and hardship across the Island with coastal landscapes and harbours destroyed, trees down and widespread power and telecommunication outages. A more fulsome cleanup and repairs will take time, especially considering existing material and labour shortages, and a demand for physical goods that had already exceeded supply. Both broad and targeted supports to individuals and businesses as a result of the increased cost of living and the storm have been forthcoming from the provincial and federal government.

Despite these challenges, the economic fundamentals of the province remain solid. Population growth has more than made up for the pandemic-induced slowdown and has been a steady supply of additional labour to the province. Demand for the goods and services produced on the Island remains as robust as ever.

Population

Prince Edward Island set another population growth milestone in 2022, with 5,930 people coming to the Island for a growth rate of 3.6 per cent. This is the highest growth rate for the province on record, and the highest amongst jurisdictions for this time period.

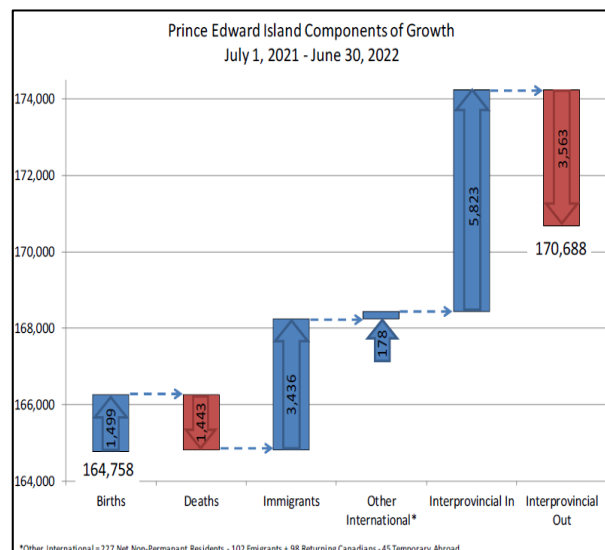
Growth on the Island has exceeded the national growth rate for the seventh consecutive year. This was a significant year for growth in the Maritime region, with Nova Scotia and New Brunswick having the second and third highest growth rates respectively at 2.9 and 2.8 per cent in 2022, while for the second consecutive year, the Atlantic region saw higher population growth rates than either Western or Central Canada.



Population growth was again driven by international migration. After a decline in international immigration caused by the pandemic, the backlog of applicants began to arrive in late 2021 and into 2022. There were 3,436 international immigrants who came to the province in 2022, an increase of 184.2 per cent compared to 2021. PEI continues to have the highest immigration rate in the country at 20.5 per thousand, ahead of British Columbia at 15.8 per cent. Nationally, the immigration rate was 12.8 per thousand.

Though growth has been driven by international immigration, the Island has continued to be successful in attracting migrants from elsewhere in Canada. Between July 1, 2021 and June 30, 2022, Prince Edward Island had an estimated net inter-provincial in-migration of 2,260 people (5,823 in-migrants less 3,563 out-migrants) and the largest population gain due to inter-provincial migration on record. This was the seventh consecutive year of positive net inter-provincial migration, beginning in 2015-16. The strong growth in the Island economy prior to the pandemic, coupled with an increase in remote work throughout the pandemic have contributed to this influx.

After four years of deaths outnumbering births on the Island, there were 1,499 births and 1,443 deaths between July 1, 2021 and June 30, 2022, resulting in a natural increase of 56.

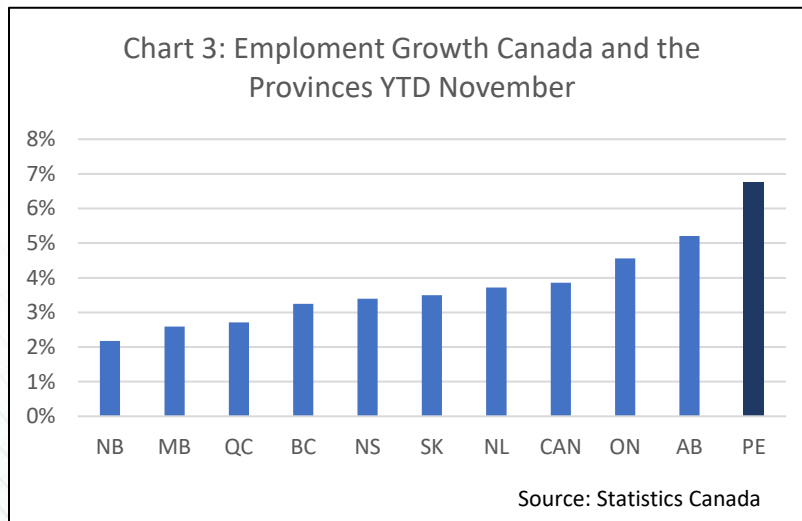


Labour Force

After expanding by 3.5 per cent in 2021, the Island has continued to make employment gains so far through 2022. On a year-to-date basis through November, employment has increased 6.8 per cent to average 84,500 people, the fastest increase amongst the provinces. Nationally, employment has grown 3.9 per cent over this time period, with employment growth recorded in every province.

The unemployment rate on the Island has averaged 7.4 per cent through November, a decrease of 2.1 percentage points from 2021, and below the 8.8 per cent unemployment rate observed over the same period in 2019.

The participation rate has averaged 65.7 per cent through November, an increase of 0.5 percentage points from the same period in 2021 but is still below pre-pandemic levels. Though employment is continuing to



grow, retirements due to the ageing of the workforce on the Island are beginning to be more widely felt.

The COVID-19 pandemic had a disproportionate impact on the services producing sector. With the easing of COVID restrictions employment in the services sector has increased 5.6 per cent on a year-to-date basis through November. Notable increases were

seen in public administration (+1,790), healthcare and social assistance (+1,027) and information, culture and recreation (+654). Accommodation and food services saw an increase of 390 people through November; however it still remains 1,046 persons below its average employment level from 2019 for this time of year. Notable employment declines in the service producing sector were in transportation and warehousing (-863), retail/wholesale trade (-236) and finance, real estate and leasing (-182). All of these industries have yet to recover their pandemic related losses. Employment in the goods producing industries increased 10.4 per cent through November, with notable increases in both construction (+1,581) and manufacturing (+1,100).

Average weekly earnings increased 2.6 per cent on a year-to-date basis through September. Wages have been increasing across the country ranging from growth of 2.4 per cent in Ontario to 8.3 per cent in New

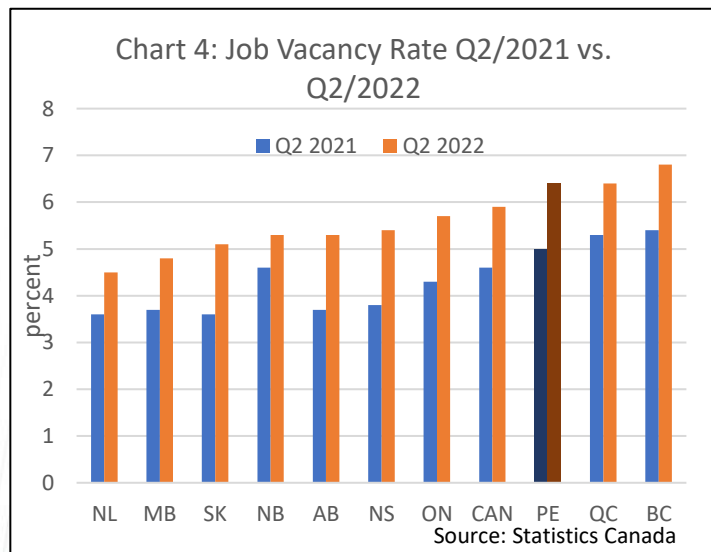
Brunswick. Despite growing, Prince Edward Island continues to have the lowest average weekly wage, averaging \$970.65 through September. This is 83 per cent of the national average wage over this period, and 95 per cent of the wage of the next lowest province, Nova Scotia. Nationally average weekly wages increased 3.0 per cent through August.

The strong labour market in 2022 has been accompanied by a significant increase in the number of job postings. According to the Job Vacancy and Wage Survey (JVWS), there were 4,520 job vacancies in the second quarter of 2022, compared to 3,240 vacancies in the second quarter of 2021. The job vacancy rate increased from 5 per cent to 6.4 per cent between these time periods, while the average offered hourly wage increased \$0.45 to \$19.00. All provinces saw a higher job vacancy rate in the second quarter of 2022 compared to same period in 2021.

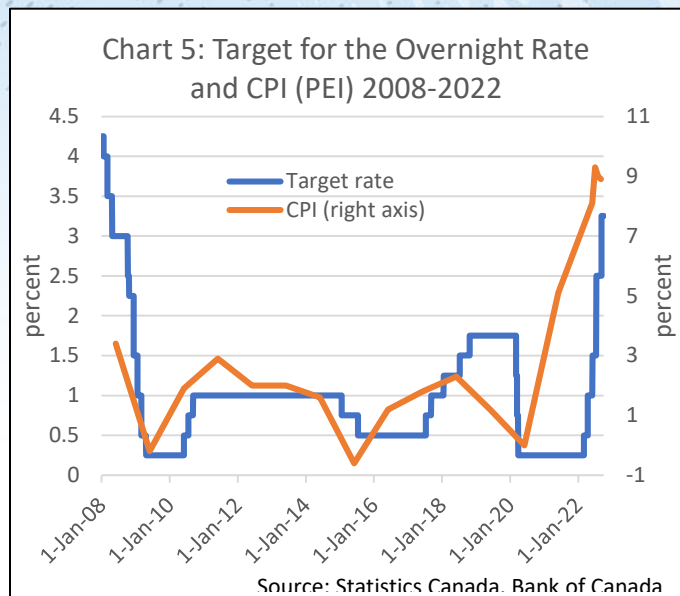
Consumer Prices and the Bank Rate

After increasing by 5.2 per cent in 2021, consumer prices have continued to increase dramatically in 2022, up 8.9 per cent on a year-to-date basis through October, the fastest growth amongst the provinces. The increase in inflation has been broad based, with energy increasing 39.5 per cent (with notable increases in fuel oil and other fuels, up 67.9 per cent and gasoline, up 37.4 per cent), food increasing 9.5 per cent and shelter increasing 12.6 per cent. All major CPI components have recorded increases to-date so far in 2022.

Though consumer prices increased rapidly over the first half of the year inflation began to moderate on the Island over the third quarter, before increasing again in October. Core inflation (all items excluding energy and food) on the Island has increase 4.8 per cent through October. Nationally, inflation has increased 6.9 per cent through October.

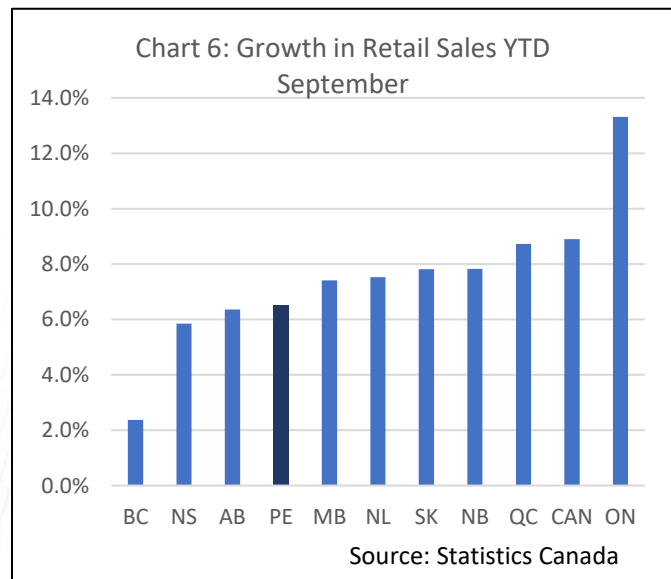


The increase in inflation has resulted in the Bank of Canada increasing the target for the overnight rate by 350 basis points in the past seven months, with the rate going from 0.25 per cent in March 2022 to 3.75 per cent by October 2022. Indications are that the bank rate will continue to increase until inflation is under better control. The last time interest rates were this high was April 2008, prior to the financial crisis.



Retail Trade

After growing by 19 per cent in 2021, retail sales have increased by 6.5 per cent on a year-to-date basis through September, despite ongoing supply-chain disruptions and inflation that continue to affect the retail trade industry. As can be seen in *Chart 6* growth in seasonally adjusted retail trade ranged from 2.4 per cent in British Columbia to 13.3 per cent in Ontario. Nationally retail trade increased 8.9 per cent through September.

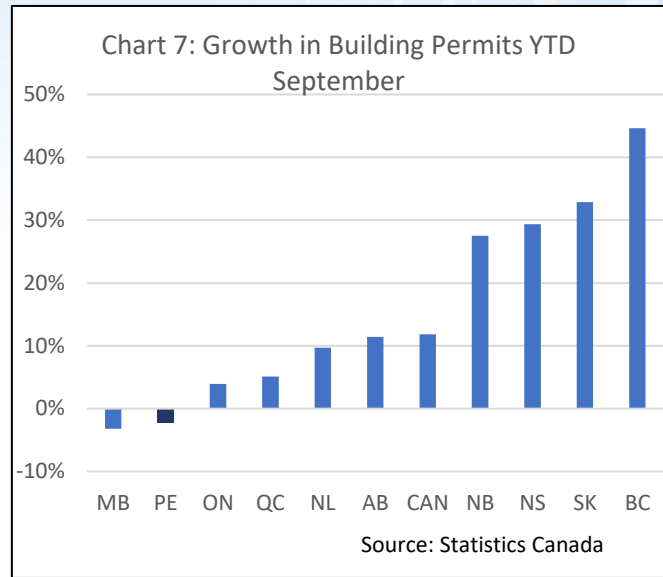


On an unadjusted basis, growth was recorded in all sub-components of retail trade except motor vehicle and parts dealers and electronics and appliance stores reflecting ongoing supply chain disruptions. The largest increases were in gasoline stations (up 32.4 per cent), building material, equipment and supplies dealers (up 12 per cent) and food and beverage stores (up 7.0 per cent) reflecting the impact of high inflation on these goods.

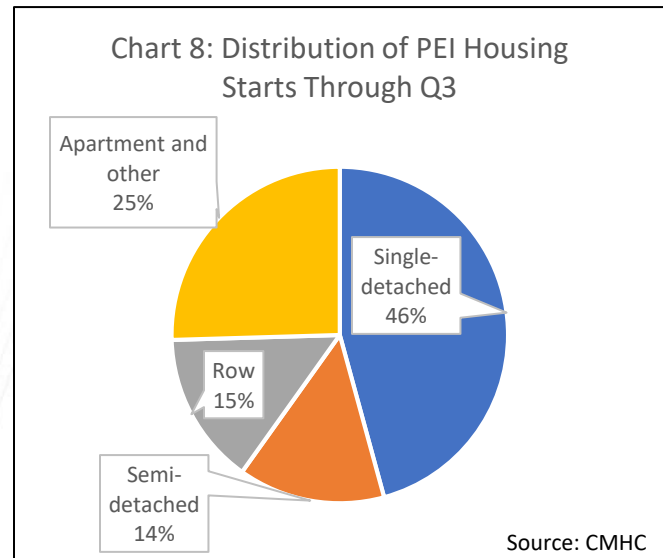
Construction and Housing

There are several forces that are impacting the housing sector in 2022. As a result of high inflation, the Bank of Canada has increased its target for the overnight rate to 3.75 per cent impacting mortgages and the cost

of borrowing generally. This is having an impact on housing affordability as mortgage rates increase, cooling price appreciation in the housing sector. As the worst impacts of the COVID pandemic appear to be behind us, there has been a transition away from the construction of single-family homes back toward multi-unit building. The construction sector also continues to face pressures resulting from shortages of labour and materials, as well as dealing with the rising cost of inputs. However, despite some softening from a record 2021, activity in the construction sector continues to be elevated in an effort to satisfy the very real demand in the economy.



Building permits have declined 2.2 per cent on a year-to-date basis through September. Growth in residential permits is down 3.4 per cent, with a 24.1 per cent increase in multi-unit permitting not enough to offset a 13.3 per cent decline in single-family permitting. Non-residential permits are up 0.5 per cent to-date. Growth in building permits ranged from a high of 44.6 per cent in British Columbia, to a decline of 3.2 per cent in Manitoba. Nationally, building permits increased 11.8 per cent over this time period.



After growing by 32.4 per cent in 2021, investment in building construction is down 12.8 per cent through September. Though down from its record high in 2021, this is the second-best result on record for this time of year. Both the residential and non-residential sectors saw declines, down 11 per cent and 17.3 per cent respectively. A large part of this decline is due to lower levels of investment in single family homes (down 22 percent). Conversely, investment in multi-unit construction increased 30.1 per cent over this period, but was not enough to offset the declines in the single-family segment. Nationally, investment in building construction has increased 12.2 per cent through September.

After a prolonged period of increased price growth coupled with decreased inventory, the changes being made to interest rates in light of inflation look to finally be having an impact on PEI's resale housing market.

According to the Prince Edward Island Real Estate Association, there were 1,725 home sales through October, a decrease of 15.8 per cent from the same period last year. The price of homes sold in October 2022 declined by 3.2 per cent compared to October 2021, though on a year-to-date basis, housing prices continued to increase, up 14.6 per cent to average \$390,765. New listing declined 18 per cent in October to hit its lowest level in five years. However, the number of active residential listings was up 22.7 per cent between October 2021 and October 2022, while the months of inventory at the end of October increased from 3.5 months in 2021 to 5.6 months in October 2022.

Housing starts are flat through the first three quarters of 2022 compared to the same period in 2021. Through this period, multi-unit building has increased 30.2 per cent with apartment starts up 216.4 per cent and row houses up 1.5 per cent, while semi-detached houses declined 26.4. Single-detached starts decreased 22 per cent over this time period.

Housing completions decreased 21.2 per cent through September to total 837 completions. Multi-unit completions decreased 33.1 per cent, while single-detached completions decreased 2.4 per cent through September. Nationally, housing starts declined 4.0 per cent, and completions declined 1.9 per cent over this time period.

Manufacturing Shipments and Exports

The rebound seen in manufacturing shipments in 2021 has continued to gain momentum in 2022, with the value of seasonally adjusted shipments up 17.9 per cent through September. Gains have been recorded in both non-durable goods manufacturing, up 10.8 per cent, and durable goods manufacturing, up 33.8 per cent as industries such as aerospace rebound in line with the easing of COVID-19 restrictions. Growth over this period ranged from a decline of 20.5 per cent in Newfoundland and Labrador, to a high of 34.4 per cent in New Brunswick.

Export growth has continued to advance so far through 2022, with the value of domestic exports up 21.5 per cent through September to total \$1.47 billion. Nationally, exports increased 28.2 per cent over this time period, largely on improved exports of oil and gas,



automobile manufacturing and petroleum refining.

On the Island, growth in exports has been driven by the strong performance of the Island's frozen food manufacturing sector (up 37.2 per cent), improved exports of pharmaceuticals (up 63.9 per cent) and a rebound in the aerospace industry (up 31.9 per cent).

PEI's potato industry is recovering from the effects of the ban on fresh potatoes that was in place from late November 2021 until early April 2022. Generally, the late spring and early summer represent a low point for potato exports, but so far through 2022, these exports are up close to 80 per cent over 2021 levels, making up for lack of access to product earlier in the year. Through September, the value of potato exports is now only 3.2 per cent below last year.

Primary Industries

Agriculture

Through the first three quarters of 2022, farm cash receipts increased 26.5 per cent to total \$539.2 million, a new all-time high for this part of the year. Crop receipts increased 22.8 per cent, due almost entirely to strength in potato receipts up 31.4 per cent, while soybean receipts increased by 22.5 per cent. Livestock receipts increased 12.1 per cent due to stronger cattle receipts, up 22.7 per cent, and an 11.2 per cent increase in dairy receipts. Direct payments to farmers increased 136.9 per cent over this time period to value \$60.7 million. This increase was largely due to the Surplus Potato Management Response Program from which farmers received \$20.2 million in early 2022, while crop insurance payments also increased by 116.1 per cent to \$30.2 million. Absent direct payments, farm cash receipts increased by 19.4 per cent through three quarters.

Prices for agricultural commodities continued to increase through the first nine months of 2022, largely as a result of increased input prices. Prices for wheat, oats and barley are up 15.0 per cent, 31.7 per cent and 20.9 per cent respectively, though prices have come down over the last couple of months due to increased yield in Western provinces and the re-opening of Ukrainian markets. Soybean prices have remained elevated, increasing by 13.6 per cent to date.

Prices for cattle and hogs have been positive so far in 2022, while the price of lambs have declined 5.8 per cent through September. Supply managed commodities continued to record price increases with prices for chicken, milk and eggs up 9.6 per cent, 12.5 per cent and 9.8 per cent respectively through September.

Fishing

After a record-setting 2021, the lobster fishery had to contend with many of the same factors affecting other parts of the economy in 2022, including high energy and input costs, and cautious consumers due to inflation. Prices from the spring lobster fishery are down compared to 2021 - which saw record values - with prices for the fall season lower still, though catches appear to be good. Unlike in 2021, there was inventory remaining from the spring season when the fall season began.

The arrival of Hurricane Fiona has impacted a number of Island fisheries including the harvesting activities for mussels and oyster producers. Infrastructure in the fishing and processing sector has sustained significant damage. Fishing and harvesting activities have resumed in a limited capacity, with some fishing seasons seeing extensions, however, the impact of the storm will have a negative impact on the fishery and aquaculture sector this year.

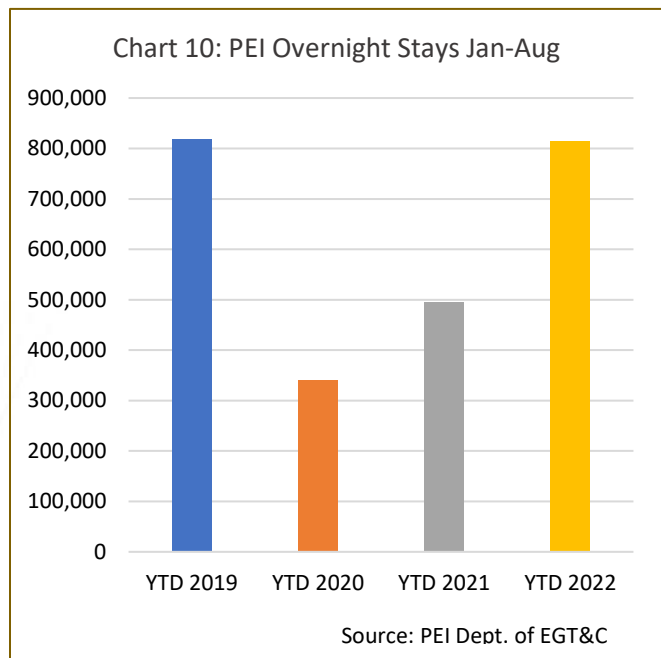
Tourism

After two summers with COVID-19 restrictions in place, the tourism sector experienced its first post-pandemic season in 2022. Prince Edward Island removed the last of its entry and testing restrictions in the Spring of 2022. As a result, tourism indicators have bounced back in a stronger fashion than was anticipated, with overnight stays up 64.1 per cent compared to 2021, and just slightly below (-0.5 per cent) 2019 levels.

Through August, traffic to the Island has increased, with bridge and air traffic up 124 per cent and 369 per cent respectively. Ferry traffic saw a 71 per cent

increase over this time period despite a significant fire on the MV Holiday Island which resulted in a temporary reduction in crossings before a replacement vessel could be acquired.

Cruise ships returned to the Port of Charlottetown for the first time since 2019. Prior to the arrival of Hurricane Fiona, the port had anticipated 74 ships and close to 169,000 passengers and crew to visit the Island. As a result of the hurricane there were no calls between September 25th and October 5th, resulting in 19 cancellations, however the cruise season resumed after that date salvaging the remainder of the season. After a season with very little motorcoach activity, so far through August 2022 there have been just over 6,400 tour passengers visiting the Island.



Sales at food services and drinking places are continuing to recover in 2022, up 16.7 per cent on a year-to-date basis through September. This industry had continued to be impacted by capacity limitations and physical distancing requirements, but these restrictions were lifted in the Spring of 2022, allowing for greater capacity, and hence receipts. Not all has gone smoothly in this industry, as many workers left food services during the pandemic for other employment resulting in a lack of workers. This has forced some establishments to reduce hours, or close certain days, limiting the strength of the rebound in this sector. As of September, growth in receipts at food services and drinking places ranged from a low of 13.6 per cent in Newfoundland and Labrador to a high of 35 per cent in Ontario. Nationally, sales at food services and drinking establishments are up 29.8 per cent through September.

Outlook 2022-2023

There are considerable economic headwinds for the province at the end of 2022 and into 2023, many of which are related to events beyond its control. Increased prices, increased interest rates, ongoing supply chain bottlenecks, labour market shortages and the threat of a recession, both nationally and globally all weigh on the outlook. Despite this, there is real demand that needs to be satisfied in the real economy, largely as a result of the increasing population over the last decade. On balance, we expect the needs of the real economy to continue to propel the Island economy forward, though there will be challenges.

The Bank of Canada has indicated that with inflation remaining high and permeating into broader sectors of the Canadian economy that the target for the overnight will likely have to increase further in the hopes of re-anchoring inflation expectations around the 2 per cent target. The actions of the central bank will further cool the economy, especially in those sectors most sensitive to interest rates – like housing - and further decrease demand.

Despite these actions, inflation is projected to remain elevated throughout the rest of 2022 and into 2023 as a result of supply chain bottlenecks and elevated prices for energy commodities. It is expected that these pressures will begin to dissipate towards the middle of 2023 as a result of base-year effects, and the impact of interest rate hikes. Despite the projected lessening of inflation, price levels on the Island are likely to remain elevated in 2023.

With the arrival of the inflationary environment, interest rate increases and ongoing geopolitical issues, coupled with ongoing supply chain disruptions, forecasted growth has been tempered both for PEI and across the country. However, the underlying fundamentals driving growth in the economy, such as

population growth and employment, as well as the successful re-opening of the more tourism focused parts of the Island economy continue, should support the Island economy over this time period.

Table 1: Private Sector Real GDP Growth Forecasts as of November 1, 2022

| Organization | 2022 | 2023 | Date Issued |
|----------------------|-------------|-------------|--------------------|
| CBoC | 3.4 | 2.0 | December 1, 2022 |
| BMO | 1.7 | 1.3 | December 2, 2022 |
| CIBC | 1.5 | 1.1 | October 20, 2022 |
| Scotiabank | 1.6 | 0.8 | October 17, 2022 |
| TD | 2.8 | 0.8 | September 21, 2022 |
| RBC | 2.3 | 1.1 | September 12, 2022 |
| National Bank | 2.1 | 0.8 | November, 2022 |
| APEC | 4.0 | 2.0 | November 1, 2022 |
| Average | 2.4% | 1.2% | |

The average of private sector forecasters places growth for the Island economy at 2.4 per cent in 2022 and 1.2 per cent in 2023. Private sector forecasts have for the most part, over the last number of years, consistently undershot PEI's economic performance by underestimating the significant and enduring effect population growth is having on the Island.

Population growth is expected to continue to positively impact growth going forward. Immigrants who had their plans delayed as a result of the pandemic began arriving on the Island in earnest in late 2021 and into 2022. As was the case prior to the pandemic, the province anticipates welcoming approximately 2,500 international immigrants to the province each year, though this could be higher in the short-term as the pandemic backlog is cleared. This continued high level of migration into the province will continue to support the Island's labour market needs and domestic demand.

The Island is on pace for record employment growth in 2022. With COVID-19 restrictions now a thing of the past, and with the majority of immigrants to the provinces arriving through a labour stream, employment on the Island will continue to grow into 2023, though the pace of that growth is expected to moderate.

Comparatively low wage levels combined with an increase in the price level will continue to put pressure on wages as employers compete for labour. This will be especially true for positions which are becoming more difficult to fill. An improved tourism outlook, and high energy prices should create additional demand in the

transportation and warehousing sector, allowing it to fully recover from the COVID-19 pandemic.

After a return to a more normal season in 2022, tourism is well positioned to contribute positively to the economy again in 2023. Planning for the next tourism season will likely be easier as almost all COVID-19 restrictions have been lifted both provincially and nationally, which should help facilitate attracting and retaining labour. The Canada Winter Games are scheduled to happen in February-March 2023, which should provide a boost to the winter tourism season after several winters of almost no visitation.

Construction will again play an important role in the Island economy, as the needs are great on both the residential and non-residential sides of the industry due to the continued growth in the population. Though financing costs, labour shortages and high prices will cause project prices to rise, demand remains robust. The Provincial Government, through its Fall Capital Budget announced \$308.1 million in spending for the 2023-24 fiscal year with a focus on climate resiliency, health, education and affordable housing.

Consequently, housing starts and completions are projected to increase in 2022 and into 2023 as the need for housing continues to be an issue on the Island.

The transition away from single-family homes towards more affordable multi-unit building that was happening prior to the pandemic will continue in 2023, due both to cost pressures and less need for additional space as COVID restrictions have expired. Private sector expansion is also keeping pace, with several ongoing expansions to bioscience facilities, and an increase in commercial investment. The resulting cleanup from Hurricane Fiona will also increase spending in residential and non-residential construction as repairs stretch into 2023.

Primary industries have been significantly impacted by Hurricane Fiona, and their ability to positively contribute to the economy in 2023 will be determined by the extent of the damage both this year and next, and their capacity to rebuild. For agriculture, damage to crops still in the ground and their ability to harvest, and the damage storage facilities will play a key roll in how they do. The potato industry is still dealing with the fallout of the potato wart issue with seed potatoes still not able to be exported of the Island. For livestock operations, damage to animals and facilities may negatively affect production in 2023. The fishery was severely impacted by the hurricane with numerous wharves and harbours destroyed and processing plants sustaining damage. So far, the Federal Government has indicated that there is at least \$100 million available to the Island for repairs to this sector. The ability to rebuild between now and the beginning of the next fishing season will determine production in 2023.

Manufacturing shipments and exports should continue to contribute positively to the economy as the demand for Island products remains strong both domestically and internationally. Exports and shipments of

durable goods, such as aerospace products are recovering from their pandemic losses and are well placed to continue to grow as the rebound in global air travel continues. The recovery of PEI's table stock potato industry is ongoing, and should be well placed to continue into 2023, especially if damage from the hurricane proves negligible.

Risks to the outlook continue to be focused on inflation and interest rates. Further supply chain disruptions, an escalation of the war in Ukraine, national and global economic recessions and strained international financial markets, coupled with a renewed increase in COVID-19 provide the downside risk, while an easing of global tensions and a swifter taming of inflation could provide a boost to the outlook.

This document provides fiscal estimates and forecasts for information known at the present moment in time. The next update will be available in Spring 2023, and will incorporate any impacts on the expected results due to changes in the economic outlook as well as adjustments that may occur in departmental spending to respond to the needs of the Province over the coming months.

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