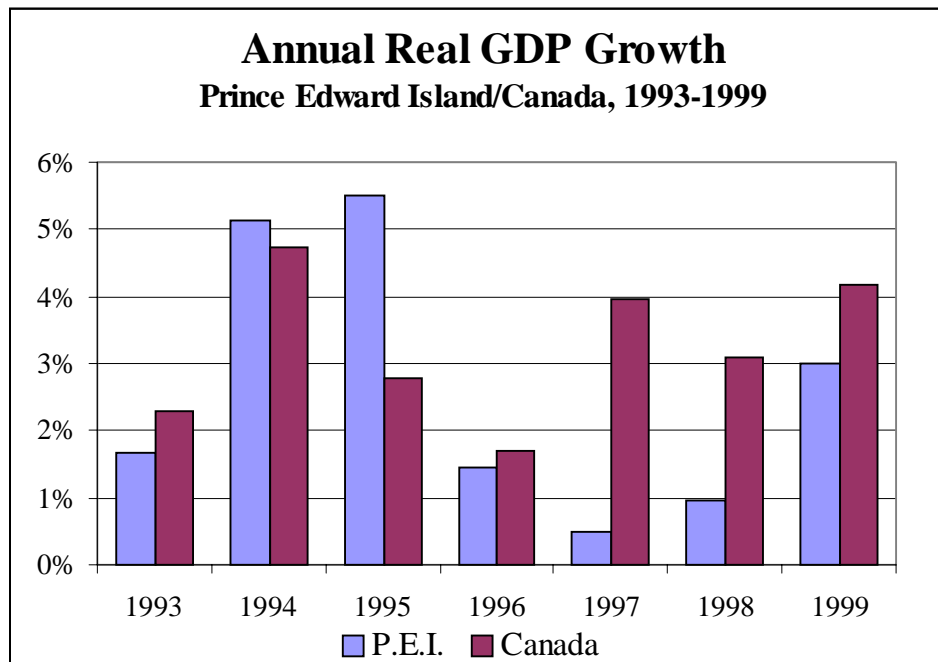


BUDGET PAPER A: BACKGROUND NOTES ON THE ECONOMY

Highlights

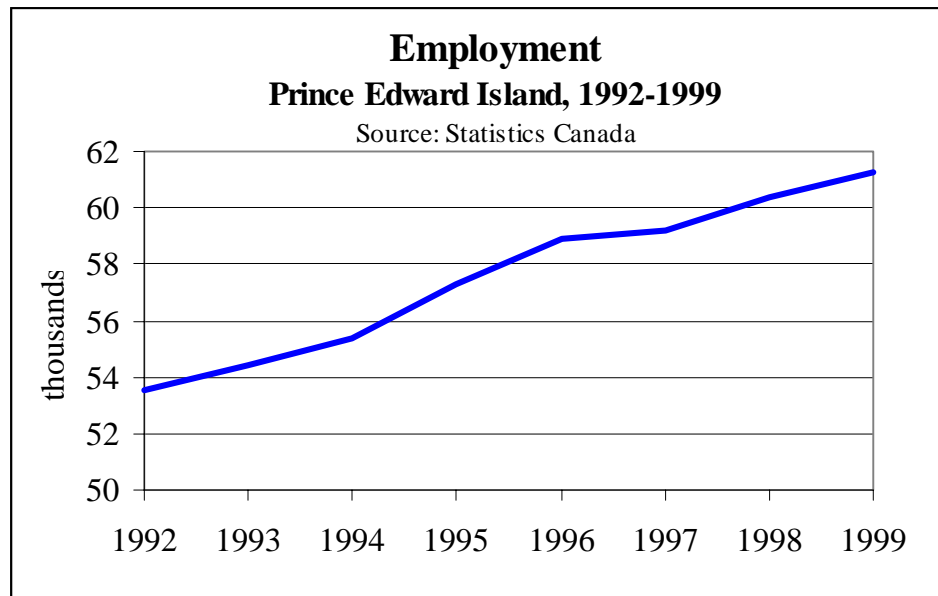
- Latest statistics on the performance of the Prince Edward Island economy suggest growth in the order of 3 per cent in 1999, as measured by constant dollar Gross Domestic Product. This was significantly higher than the 1.8 per cent forecast last year and the 1.0 per cent real growth of 1998. The Canadian economy expanded 4.2 per cent in 1999, a continuation of the strong performance of the past three years. Prince Edward Island has completed over a decade of continuous economic growth, and Canada more than eight years of continuous expansion, outperforming many forecasters' expectations for growth and employment.



Source: Statistics Canada, PEI Treasury

- The retail sales and manufacturing sectors led the PEI economy in 1999. In fact, PEI had the highest growth of any province in retailing, with annual growth of 10.1 per cent, valuing some \$1.15 billion last year. This compares with an increase for Canada of 5.8 per cent.

- PEI's manufacturing shipments increased by 11.6 percent in 1999, a very favourable showing compared to Canada's rate of 9.3 per cent.
- Total farm cash receipts on PEI were \$346 million in 1999, up 10.5 per cent from the previous year, including a 13.2 per cent increase in potato receipts. The hog industry made a partial recovery from the low prices of 1998. The forestry sector expanded production by 51 per cent in 1999, in large part to supply the market for saw logs to produce lumber for the domestic and export market. The fishery sustained the value of its output in 1999.
- Prince Edward Island experienced substantial growth in employment during 1999, averaging 61,300, about 900 more people employed than in 1998. Unemployment was 14.4 per cent in 1999, though it rapidly declined at year end. PEI's February 2000 unemployment rate was 11.5 per cent, when 64,800 people were employed, 4,300 people more than February 1999.



- In 1999 personal income on Prince Edward Island increased by an estimated 3.8 per cent. Income per capita of Islanders is estimated at \$19,706 in 1999, compared to \$19,124 in 1998.
- Tourism had a solid year with estimated revenues increasing to \$302.6 million for 1999 (comprised of purchases by pleasure and business visitors).

Detailed Review

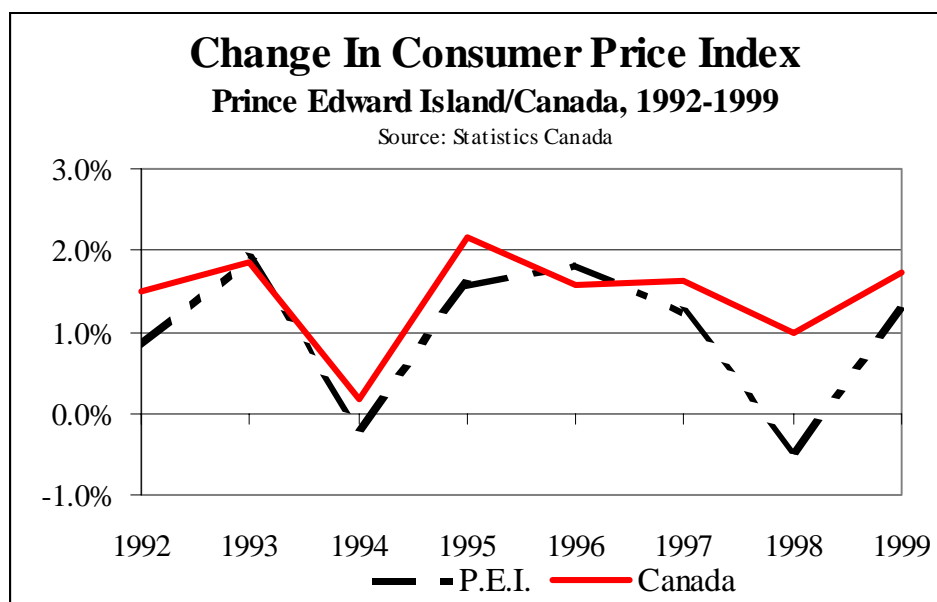
National Economy

- The Canadian economy experienced a year of exceptional growth, with employment increasing and unemployment decreasing. The levels and trends in investment, output, trade, balance of payments, and government surpluses suggest a good deal of momentum in Canada's economy
- GDP increased by an estimated 4.2 per cent in 1999, fuelled by domestic and export demand. This compares well with the estimated 4.1 per cent growth of the US economy during 1999.
- The Canadian dollar gained strength in the latter months of 1999, recovering from a low of US\$0.648 in December 1998 to trade in the range US\$0.67 to US\$0.69. Canada's balance of merchandise trade was \$34 billion in 1999, an increase of 80 per cent over 1998, and the best year since 1995.
- Canada's inflation performance in 1999 was once again well within the Bank of Canada's target range of 1 per cent to 3 percent, with the Consumer Price Index (CPI) increasing 1.7 per cent for the year. Most forecasters indicate that the year 2000 will also be a period of subdued inflation, although rising energy costs, commodity prices, and pressures for higher wages and salaries for skilled and knowledge workers may filter through by the second half to push up the CPI.
- On the strength of higher employment, Canada's unemployment rate in 1999 was 7.6 per cent, falling to 6.8 per cent in early 2000, the lowest since April 1976.
- Manufacturing had a stellar year in Canada, with shipments increasing 9.3 per cent, easily outpacing the healthy growth in manufacturing in 1997 and 1998. Domestic demand was reinforced by foreign orders for Canadian products. Canada's exports in 1999 were up 11.9 per cent over 1998.
- Commodity prices strengthened in 1999, providing relief to Canada's resource industries. Petroleum prices firmed up substantially as the Organization of Petroleum Exporting Countries (OPEC) enforced production discipline. Canada's oil and gas sectors experienced an upturn in recent years, with increased activity in exploration and development, and with the coming-on-stream of energy infrastructure projects like the Sable Offshore Energy Project and the Maritimes and Northeast Pipeline.
- Interest rates crept up during 1999, with bond yields rising and central bankers adopting a tightening bias. Borrowing was strong in 1999 as the confidence of consumers and investors was high, feeding purchases of small and big-ticket items. Homebuyers and builders took advantage of 1999 mortgage rates to fuel that sector. Canadian 3 month T-bill rates averaged 4.69 per cent during 1999, compared to 4.72 in 1998.

- Canada's economic outlook for 2000 and beyond is described by most analysts and commentators as good, with increasing employment, low inflation, strong exports, rising federal and provincial surpluses and favourable investment intentions. The Federal 2000 Budget is based on real GDP growth for Canada of 3.5 per cent during 2000. Rising interests rates may be a factor, dampening economic performance in the year 2000, with central bankers taking pre-emptive anti-inflationary measures. The unemployment rate is expected to average about 6.8 per cent during 2000, continuing to trend lower. Continuing consumer confidence and the move toward lower tax rates will also help the economy in 2000.

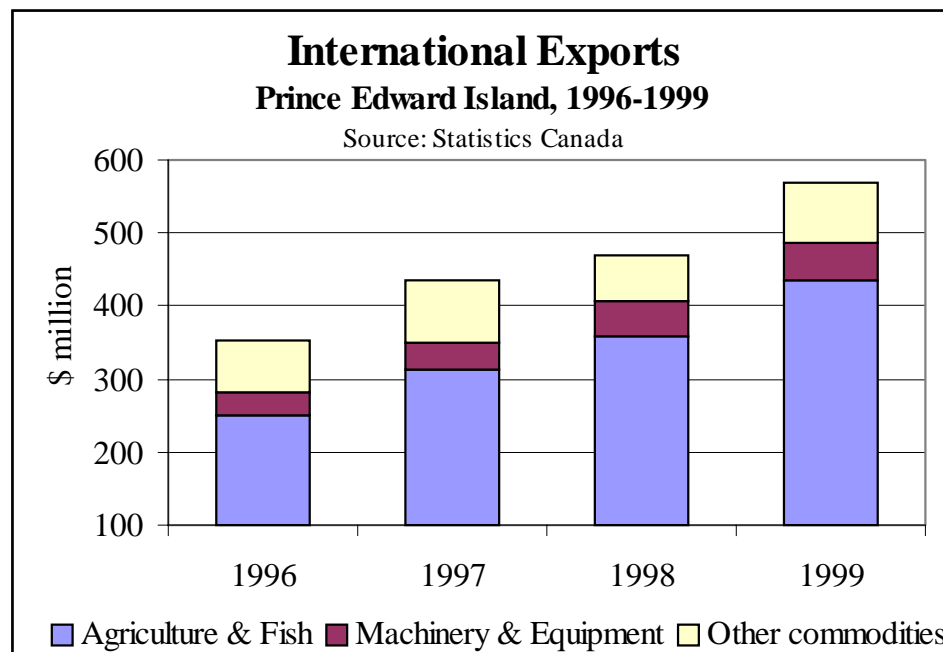
PEI Provincial Economy

- The Prince Edward Island economy expanded at a strong pace in 1999. It is estimated that real GDP growth was in the order of 3.0 per cent in 1999. This compares with the 1.8 per cent forecast estimate of a year ago, and the 1.0 per cent growth of 1998. Nominal GDP for 1999 is estimated to be \$2.990 billion at current market prices.
- Newfoundland, with its rising oil sector, will likely have led the nation in terms of GDP growth at 5.5 per cent in 1999. Alberta is expected to have shown growth of about 3 per cent and Ontario about 5 per cent in 1999. Final figures are not available until later in the year.
- Following 1998, when the Consumer Price Index on PEI declined by 0.5 per cent, the CPI for PEI rose 1.2 per cent in 1999. For 2000, it is expected to rise slightly, to about 1.6 per cent on average for the year.



- Prince Edward Island's population increased from 137,028 on July 1, 1998 to 137,980 on July 1, 1999, a 0.7 per cent increase.

- The employed work force in 1999 averaged 61,300 people, an increase of about 900 people during the year. Employment, at 64,800 in February of 2000, was the highest ever recorded. The PEI unemployment rate averaged 14.4 per cent in 1999, little changed from the year before, and with an increased participation rate. Employment growth was centered in the trade, health care, manufacturing, and tourism industries. Indications are that there will be further gains in employment during 2000, with the unemployment rate falling from the 1999 level. PEI's February 2000 unemployment rate of 11.5 per cent is the lowest since December 1988.
- Per capita income growth of Prince Edward Islanders has been muted in recent years, in part because of reductions in Employment Insurance (EI) benefits. EI benefits totalled \$163 million in 1999, compared to \$170 million in 1998, about 4.4 per cent fewer dollars coming through the system for PEI workers in 1999 compared to 1998. This arises from changes to the employment insurance program, coupled with increasing job opportunities on PEI.
- Prince Edward Island experienced rapid growth of international exports in 1999, totalling \$569.4 million, up from 1998 by 21.1 per cent. Exports were led by food products at \$435.2 million, machinery and equipment at \$51.7 million, and forestry products at \$21.8 million. Increases occurred in all categories.



Sector Detail

Manufacturing

- Manufacturing shipments on PEI were valued at \$989 million in 1999, up 11.6 per cent from 1998. About 12 per cent of GDP is now in this industry category. Food industries account for \$562 million of all shipments, or 57 per cent of the total, followed by transportation equipment at \$205 million or 21 per cent. The latter category has been growing with the advent of the aerospace industry near Summerside. Chemicals and other machinery and metals products are also significant contributors. Growth in manufacturing is expected to continue through 2000, with continuing strong demand for processed foods, and aerospace products.

Agriculture

- PEI's farm cash receipts were up 10.5 per cent overall in 1999 compared to 1998, although primary agriculture production decreased slightly in terms of real GDP.
- While the volume of potato production was down nearly 1.9 per cent from 1998, the value of the potato crop increased by 13 per cent from the previous year to \$195 million.
- The hog industry had another year of less than favourable prices following two very low price years, and hog production decreased by 2.3 per cent; however, its value rose, with hog slaughter up from 195,900 in 1998 to 204,500 in 1999. Farm cash receipts for hogs are down by 30 per cent from their peak in 1997.

	Potatoes	Beef	Hogs	Dairy	Other	Total
1993	96.8	33.2	21.6	38.9	47.3	237.8
1994	163.7	27.3	22.3	41.0	53.2	307.5
1995	149.7	28.6	24.8	43.3	65.1	311.6
1996	137.5	27.6	30.6	45.8	47.6	289.1
1997	128.8	29.8	29.2	47.1	39.2	274.1
1998	172.2	28.7	20.6	49.5	42.0	312.9
1999	194.8	23.0	21.6	49.0	57.5	345.9

- Cattle and calf production was reduced in 1999, but prices were firmer during the year. The supply managed sectors, led by dairy farming, were stable in output and value.
- Farm production increased significantly in a host of other crops including blueberry production and vegetable crops.
- Farm support payments in PEI were up 67.9 per cent from the previous year, totalling \$18.7 million in 1999, including assistance from the AIDA program.

Fishing

- The lobster fishery had landings of 18.5 million pounds in 1999, down from 18.9 million pounds in 1998, but the value of the 1999 lobster catch was up at \$88.8 million, compared to \$80.6 million the previous year.
- Catches of other fish species were down in some categories but significantly up in others. The overall value of the fishing sector in 1999 is estimated to be about the same as the previous year.
- Aquaculture is expanding with increasing investment in research and development for shellfish culture, including mussels, and for salmonids and char raising.

Forestry

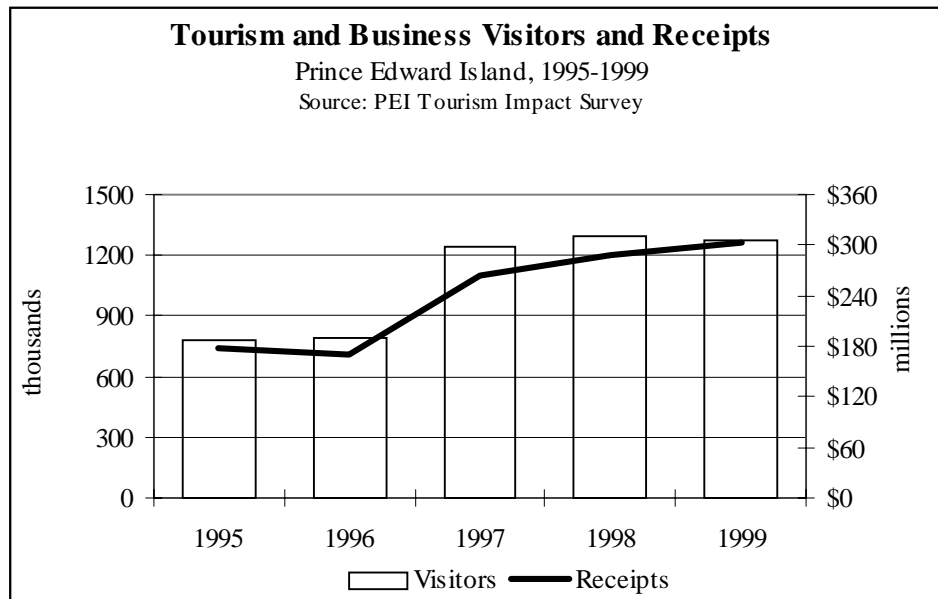
- Forestry increased rapidly in the past year, with 1999 round wood harvest up about 50 percent compared to 1998. This is partly the result of dramatic increases in demand for lumber for construction, especially for house building in the US. Wood industries shipments from PEI were close to \$49 million in 1999, up 49 per cent from 1998.

Construction

- Housing starts, at 616 units, were up significantly from 1998. At \$143 million, the value of building permits increased 23 per cent, split evenly between residential and non-residential building for 1999.
- The Statistics Canada survey of public and private investment intentions for 2000 suggests that construction activity will increase modestly this year, and could be valued at about \$304 million.

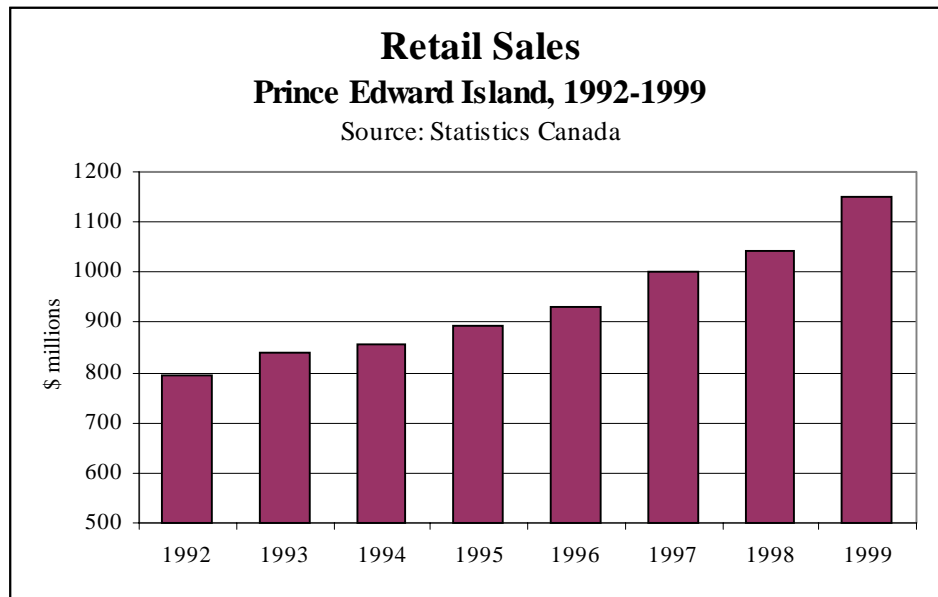
Tourism

- Following the opening of the Confederation Bridge in 1997, the tourism industry has experienced a 50 per cent increase in tourism activity. It also benefited from the general economic upturn in the Canadian and US economies. While tourist visits levelled off in 1999, the number of parties continued to increase, and total revenue from tourism and business travellers increased. In 1999, this was \$302.6 million, up 4.9 per cent from 1998.



Services Sector

- \$1.15 billion of goods were sold at the retail level in 1999, up 10.1 per cent from 1998. Retailing is a major employer, with 9,600 workers in 1999.



- New automobile sales were up 9.1 per cent, at \$56.4 million, and commercial vehicles sales were up over 11.4 per cent, at a value of \$66.8 million.

- In addition to higher consumer confidence and the buoyant economy, another important factor helping retailing is the PEI Government's decision to eliminate the provincial sales tax on footwear and clothing. This measure is now extended to December 31, 2001.
- The service-producing sector in PEI accounts for 73 per cent of total employment or 44,500 in 1999, up 2.3 per cent from 1998. Following the trade (including retailing) category, with nearly ten thousand people (22 per cent of service employment), are: the Health Care and Social Services category employing 7,200 in 1999 (16 per cent of service employment), public administration 6,100 (14 per cent), and education 4,100 (9 per cent). 1999 was the first year since 1996 that employment in public administration increased.

Summary

- During 1999, Prince Edward Island had solid economic growth, led by manufacturing and retailing. Exports continue to be important for growth, and tourism and the fishery had a solid year. Employment increased sharply at the end of the year, and unemployment declined.
- The PEI economy continues to diversify with expansion into information technologies and biotechnology. The possibility of a natural gas lateral to PEI from the Maritimes and Northeast Pipeline provides the prospect for new economic activity. The success of the primary sectors, tourism, and the export of food products will continue to be the backbone of the Island economy.
- The development of golf as a tourism attraction will be furthered with the Lorie Kane Island Challenge this year, as well as the opening of new courses.
- Planned retail, industrial, and business expansion, and the development of tourism attractions such as the Founders' Hall Canadian heritage exhibit on the Charlottetown waterfront, will support further growth.
- Prince Edward Island's economy is forecast to expand in the range of 1.5 to 2.0 per cent in 2000.

SUMMARY STATISTICS
PRINCE EDWARD ISLAND ECONOMY

	1993	1994	1995	1996	1997	1998	1999
Population on 1 July (in '000s) *	132.3	133.7	134.8	136.2	136.9	137.0	138.0
Personal income per capita (\$) *	18,152	17,866	18,481	18,603	18,606	19,124	19,706 ¹
<i>As % of Canadian personal income</i>	<i>82.9</i>	<i>80.9</i>	<i>81.4</i>	<i>81.0</i>	<i>79.0</i>	<i>78.7</i>	<i>78.9¹</i>
Employment (in '000s) *	54.4	55.4	57.3	58.9	59.2	60.4	61.3
Unemployment rate - P.E.I. (%) *	17.6	17.2	15.0	14.7	15.4	13.8	14.4
<i>Unemployment Rate - Canada (%)</i>	<i>11.4</i>	<i>10.4</i>	<i>9.4</i>	<i>9.6</i>	<i>9.1</i>	<i>8.3</i>	<i>7.6</i>
CPI - annual change - P.E.I. (%)	1.9	-0.2	1.6	1.8	1.2	-0.5	1.2
<i>CPI - annual change - Canada (%)</i>	<i>1.9</i>	<i>0.2</i>	<i>2.2</i>	<i>1.6</i>	<i>1.6</i>	<i>1.0</i>	<i>1.7</i>
Retail trade (\$ millions) *	839.8	857.0	894.0	931.6	1,002.8	1,043.7	1,149.4
New motor vehicle sales (units)	4,449	4,764	4,223	4,120	4,717	4,556	4,802
Farm cash receipts (\$ millions) *	237.8	307.5	311.6	289.1	274.1	312.9	345.9
Potato receipts (\$millions) *	96.8	163.7	149.7	137.5	128.8	172.2	194.8
Lobster landings (\$ millions)	50.7	64.2	78.4	61.7	73.2	80.6	88.8
<i>Lobster landings (lbs - millions)</i>	<i>19.4</i>	<i>18.6</i>	<i>19.3</i>	<i>18.0</i>	<i>17.8</i>	<i>18.9</i>	<i>18.4</i>
Housing starts (units)	645	669	422	554	470	524	616
Investment (\$ millions) *	497.8	547.3	557.9	463.6	444.5	462.3	455.9
Manufact. shipments (\$ millions) *	510.8	540.0	704.2	694.1	809.6	885.6	988.7
Tourist expenditures (\$ millions) ²	110.0	127.8	141.4	150.8	245.9	274.4	283.5
International exports (\$ millions)	208.8	289.9	326.2	353.1	434.7	470.2	569.4
GDP at market prices (\$ millions) *	2,460	2,515	2,663	2,770	2,833	2,872	2,990 ¹

* revised data

Note 1: Provincial Treasury estimate

Note 2: Expenditures do not include business travel

Sources: Statistics Canada, CMHC, Provincial Department of Fisheries and Tourism, Enterprise P.E.I.