



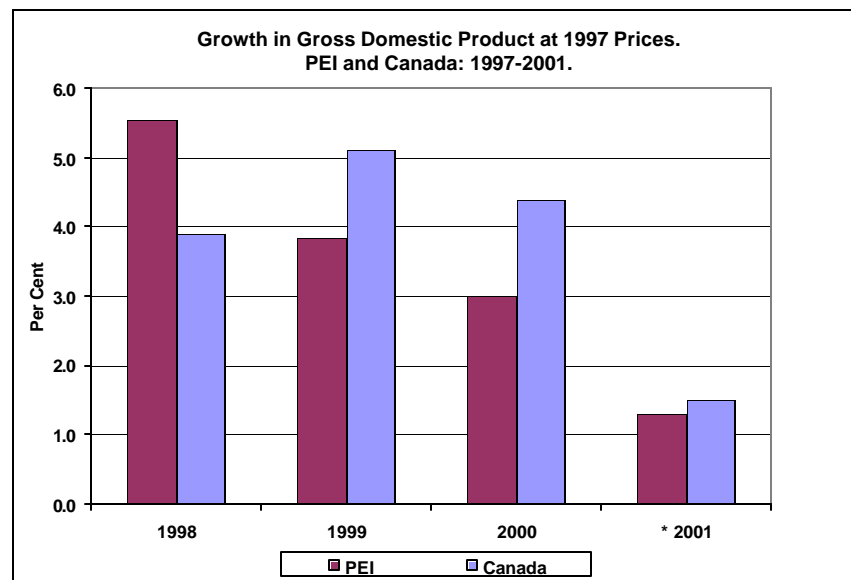
BUDGET PAPER A:
BACKGROUND NOTES ON THE ECONOMY

BUDGET PAPER A: BACKGROUND NOTES ON THE ECONOMY

Provincial Highlights 2001

- Based on available statistics for Prince Edward Island in 2001, the Provincial Treasury estimates that the economy grew by 1.3 per cent, as measured by constant dollar Gross Domestic Product. This compares with a national growth rate of 1.5 per cent. Economic growth in 2001 was highlighted by increased employment, a buoyant construction sector and rising personal income. As seen in Figure A.1, this is the fourth year of continued economic expansion on Prince Edward Island, albeit at a slower rate than during the previous three years.

Figure A.1



Source: Statistics Canada, *Canadian Economic Observer*.

* PEI 2001 Provincial Treasury forecast.

- Employment on Prince Edward Island expanded by 2.2 per cent in 2001 to average 65,900. This follows exceptional employment growth in 2000, when Prince Edward Island led the nation with employment growth of 5.2 per cent.
- Total labour income grew by 4.5 per cent to value \$1,809 million in 2001, compared with national growth of 4.2 per cent.

- The value of manufacturing shipments on Prince Edward Island in 2001 showed a modest increase of 1.6 per cent to value \$1,202 million, after growing at an average annual rate of 15 per cent since 1996.
- The value of international exports of goods declined by 3.7 per cent to value \$657.8 million. While the value of international exports of frozen food products increased by 15.2 per cent, the increase was more than offset by declines in the value of processed fish products and raw potatoes.
- Total farm cash receipts improved by 4.3 per cent in 2001, to value \$335.6 million.
- Trade disputes with the United States over potatoes and mussels were resolved.
- Dry weather conditions during the summer of 2001 resulted in a 39 per cent decline in the harvested potato volume estimated at 17,820,000 cwt.
- Preliminary estimates indicate that the value of all fish landings rose by 6 per cent to \$145 million in 2001. Higher lobster prices increased the value of the lobster catch to an all-time high of \$100 million.
- Tourism expenditures for 2001 were estimated at \$310 million, an increase of 10.7 per cent over the previous year.

National and International Review

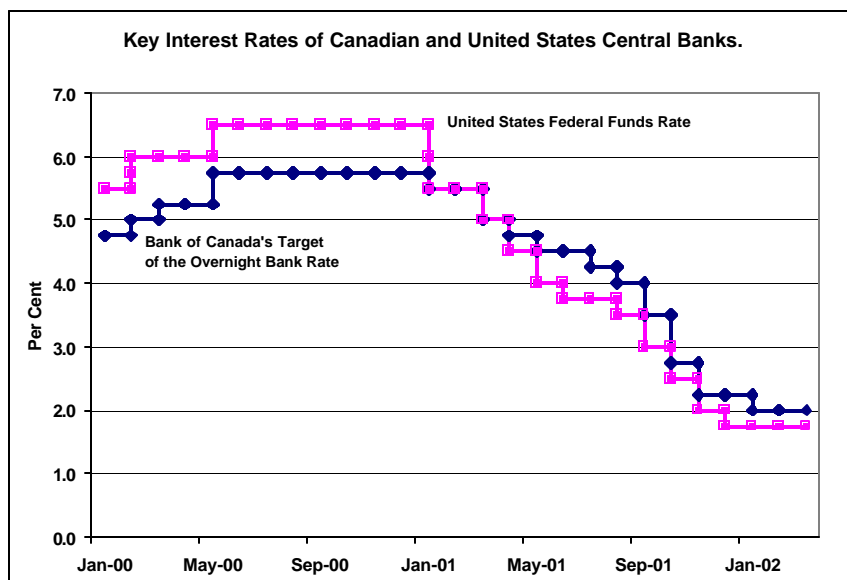
The Canadian economy posted strong growth in 2000, though slowing in the final months in line with the apparent slowdown in the United States. Canada's economy weakened through the first half of 2001 and contracted during the third quarter, marking an end to 37 consecutive quarters of growth in the Canadian economy. The worsening economic situations in Canada and the United States were further shaken by the events that occurred on September 11.

The economic slowdown that began in the United States quickly spilled over into Canada and to other countries, resulting in a global downturn. The main factors affecting the economic slowdown were the correction in the high-technology sector and the lagged impact of high energy prices. These factors were compounded by negative impacts of the September 11 terrorist attacks and associated disturbances. The OECD estimates that these combined factors caused total output from OECD member countries to contract during the second half of 2001 for the first time in 20 years.

GDP growth in the European Union also weakened considerably during 2001, reflecting sluggish trade and

business investment, reduced demand for capital goods and a decline in exports.

Figure A.2



Source: Bank of Canada and United States Federal Reserve.

In response to the worsening economic situation the monetary authorities in Canada and in the United States began to take action early in 2001. Figure A.2 shows the rapid reductions made by the Bank of Canada and the US Federal Reserve to their key lending rates. Beginning in January of 2001 the Bank of Canada began lowering the target for the overnight bank rate from 5.75 per cent on January 22, 2001 to 2.00 per cent on January 15, 2002. This is the lowest rate since September of 1960.

The low Bank Rate has reduced mortgage rates and the cost of consumer credit, which has spurred new home construction. New automobile sales were also stimulated by attractive rebates and other incentives.

Motor vehicle sales in Canada improved by 11.9 per cent in the fourth quarter to cap a record year for car sales in Canada. Residential investment in Canada increased by 15.4 per cent in the fourth quarter and 11.2 per cent for the year. Additional government spending on national security to combat terrorism provided a measure of fiscal stimulus in the fourth quarter of 2001.

Overall government and business investment growth slowed to 1.4 per cent in 2001 compared to 8.7 per cent the previous year.

The improvement in the Canadian economy during the final quarter of 2001, raised growth for the year to 1.5 per cent. But overall economic growth for Canada in 2001 was the weakest since 1992. The Canadian exchange rate with the US dollar hit a record low of 62.02 cents on January 18, 2002.

Employment in Canada expanded by an average of 1.1 per cent during 2001.

The US economy rebounded by 1.4 per cent in the fourth quarter to achieve annual growth in 2001 of 1.2 per cent. This compares to growth of 4.1 per cent in 2000.

The Bank of Canada estimates that the Canadian economy will grow by 1.5 per cent in 2002. The Gross Domestic Product for Canada is forecast to grow by between 1 to 2 per cent during the first half of this year and between 3 to 4 per cent during the second half, with further strengthening in 2003.

“Recent economic indicators for Canada show that the worst of the downturn is over. A recovery is underway.”

*Governor of the Bank of Canada
David Dodge, March 12, 2002.*

“The recent evidence increasingly suggests that an economic expansion is already underway, although an array of influences unique to this business cycle seems likely to moderate its speed.”

*United States Federal Reserve Chairman
Allan Greenspan, March 7, 2002.*

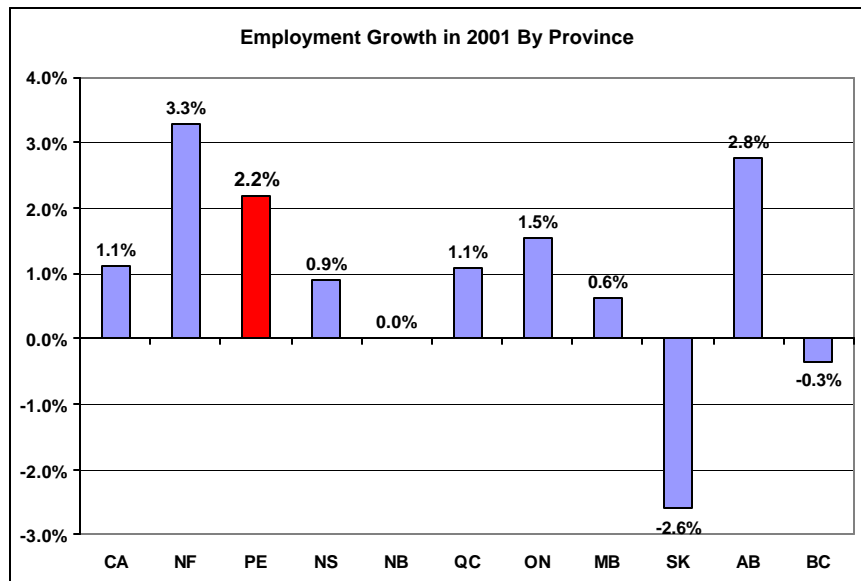
The Prince Edward Island Economy

The value of Prince Edward Island’s Gross Domestic Product at market prices for 2001 is estimated to be \$3,479 million. This represents growth in constant dollar GDP of 1.3 per cent. Growth in the Prince Edward Island economy in 2001 was highlighted by continued expansion in employment, a buoyant construction sector and a rise in personal income.

Employment

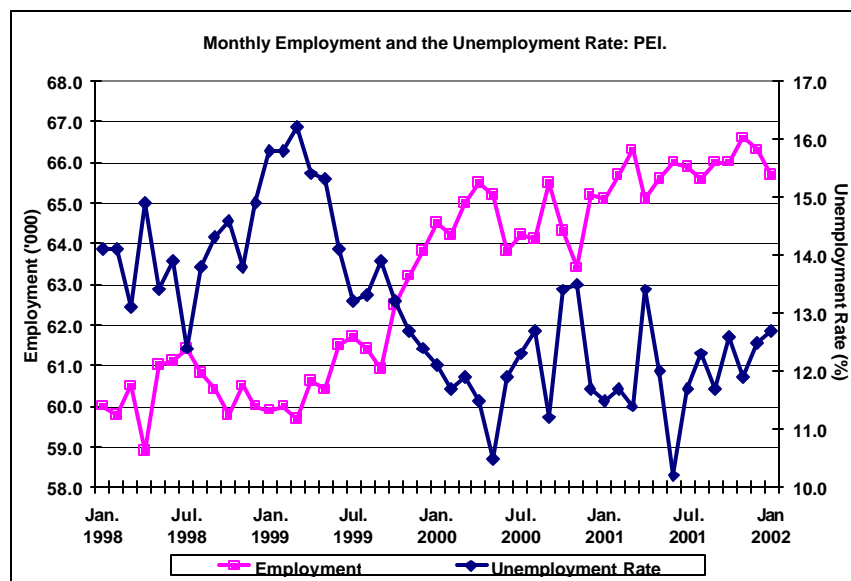
The number of employed people on Prince Edward Island continued to expand in 2001 by 2.2 per cent to average 65,900 for the year. This represents an increase of 1,400 employed people to the Island labour force. As can be seen in Figure A.3 Prince Edward Island was a leader in provincial employment growth in 2001. This follows the extraordinary increase in employment of 5.2 per cent recorded in 2000.

Figure A.3



Source: Statistics Canada, Labour Force Survey.

Figure A.4



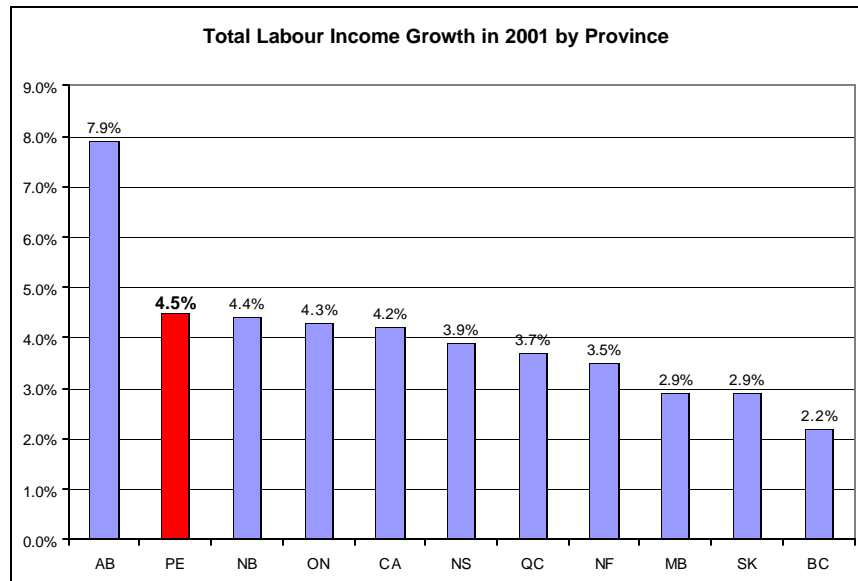
Source: Statistics Canada, Labour Force Survey.

Employment growth reduced the unemployment rate to an average rate of 11.9 per cent in 2001. As Figure A.4 shows, the trend in the unemployment rate on PEI has been rising in the latter part of 2001. The increased employment in 2001 was centred in the services sector, accounting for 79 per cent of the increase for an increase. The *professional, scientific, technical and education service* sectors registered the largest gains. Employment in the goods producing sector increased by 300, of which the highlight was an increase of 800 in *construction*. Employment in *agriculture and manufacturing* showed declines in 2001.

Personal Income

Increased employment on **Figure A.5**

Prince Edward Island resulted in total labour income improving by 4.5 per cent to value \$1,809 million in 2001. As can be seen in Figure A.5, Prince Edward Island was a national leader in total labour income growth in 2001. The total value of wages and salaries in the construction sector expanded by 16.4 per cent and the professional and personal service industry grew by 11.8 per cent. Large capital projects, including the construction of the hospital in



Summerside and the Atlantic *Source: Statistics Canada, Estimates of Labour Income.*

Technology Centre in Charlottetown, have bolstered employment and income in the construction sector.

In the fall of 2000 the Federal Government announced improvements to the Employment Insurance program, removing elements of the program that limited benefits to people working in seasonal industries and providing some expanded coverage for maternity leave from six months to one year. The value of Employment Insurance benefits on Prince Edward Island in 2001 totalled \$188.8 million, an increase of 14.1 per cent over 2000. The increase in EI benefits is mainly attributed to a 36.1 per cent increase in the value of fishing benefits with smaller increases in sickness and maternity leave. The value of regular Employment Insurance benefits show a modest increase of 1.2 per cent.

Population

Statistics Canada estimates that the population on Prince Edward Island was 138,514 on July 1, 2001. This compares to 138,065 people in 2000, for growth of 0.3 per cent year over year.

The first release from the 2001 census was made on March 12, 2002 . Results from the Census population count are presented in Table A.1. The May 15, 2001 population count for Prince Edward Island indicates that 135,294 people resided on Prince Edward Island, an increase of 0.5 per cent since the 1996 census. This compares to national population growth of 4 per cent over the same period. The population increase on Prince Edward Island contrasts with the other three Atlantic provinces where population declines ranged from 0.1 per cent in Nova Scotia to 7.0 per cent in Newfoundland.

Table A. 1. Census Population Counts: 1996-2001.

Province / Territory	Census		% growth
	1996	2001	
Newfoundland	551,792	512,930	-7.0
Prince Edward Island	134,557	135,294	0.5
Nova Scotia	909,282	908,007	-0.1
New Brunswick	738,133	729,498	-1.2
Quebec	7,138,795	7,237,479	1.4
Ontario	10,753,573	11,410,046	6.1
Manitoba	1,113,898	1,119,583	0.5
Saskatchewan	990,237	978,933	-1.1
Alberta	2,696,826	2,974,807	10.3
British Columbia	3,724,500	3,907,738	4.9
Yukon	30,766	28,674	-6.8
Northwest Territories*	64,402	64,105	-0.5
Canada	28,846,761	30,007,094	4.0

* Northwest Territories including Nunavut

Source Statistics Canada.

The official population, estimated by Statistics Canada, includes adjustments to the Census counts for net under-coverage errors. Revised annual population estimates for provinces and territories, incorporating the 2001 counts, will be available in the fall of 2003.

Consumer Prices.

Declining prices for gasoline and home heating oil during 2001 helped to dampen inflation on Prince Edward Island. Inflation on Prince Edward Island, as measured by the change in the Consumer Price Index for all items, was 2.6 per cent in 2001 compared with 4.1 per cent in 2000 when prices for home heating oil and gasoline were rapidly rising. The underlying rate of inflation, known as the core inflation rate, excludes the more volatile items including food and energy products was 2.1 per cent in 2001.

Detailed Industry Analysis

Agriculture

In the Spring of 2001, the outlook for the potato farming industry on Prince Edward Island was uncertain due to trade restrictions on potatoes destined to the United States and to other Canadian markets. The restrictions on potato exports were relaxed in April, prior to spring planting and were eliminated in August of 2001. Farmers planted 108,000 acres of potatoes on Prince Edward Island in 2001, an estimated 1,000 acres less than in 2000. The lack of precipitation during the latter months of the growing season contributed to a 39 per cent reduction in the volume of the potato harvest. Statistics Canada estimates that 17,820,000 cwt. of potatoes were harvested in 2001. A shortage of processing potatoes has reduced the production schedules at Island processing plants.

Potato prices improved in light of the reduced supply. According to the Provincial Department of Agriculture and Forestry's Farm Market Report, 10 lb bags of potatoes delivered to Toronto are now \$1.80 compared to \$0.68 one year ago.

Table A.2.
Annual Farm Cash Receipts, (\$ Millions)

Year	Total Crop	Potato	Total Livestock	Cattle	Hog	Dairy	Direct Payments	Total Receipts
1997	155.7	128.8	116.9	29.8	29.2	47.1	8.0	280.6
1998	201.7	173.3	109.5	28.8	20.6	49.5	11.1	322.3
1999	222.2	192.2	106.1	24.8	21.9	49.0	18.7	347.0
2000	186.3	154.9	118.6	26.8	29.6	51.0	17.0	321.9
2001	154.5	126.0	122.6	25.0	33.5	52.5	58.5	335.6
Per Cent Change								
2001/2000	-17.1%	-18.7%	3.3%	-6.8%	13.2%	2.9%	245.3%	4.3%

Source: Statistics Canada, Farm Cash Receipts. Cat no. 21-603-XPB

Table A.2 shows the recent trends in farm cash receipts by major commodity from 1997 to 2001. Notwithstanding the difficulties in the farm sector in 2001, total farm cash receipts on Prince Edward Island rose by 4.3 per cent to value \$335.6 million. The difficulties with marketing the potato crop caused by trade restrictions early in the year, and the reduced yields this past fall, reduced potato receipts by 18.7 per cent in 2001 compared to the previous year. Total livestock receipts improved by 3.3 per cent mainly on the strength of hog receipts. Compensation payments relating to the potato diversion program and increased crop insurance payouts due to the reduced yields in 2001 have resulted in direct payments totalling \$58.5 million in 2001.

Fishing and Forestry

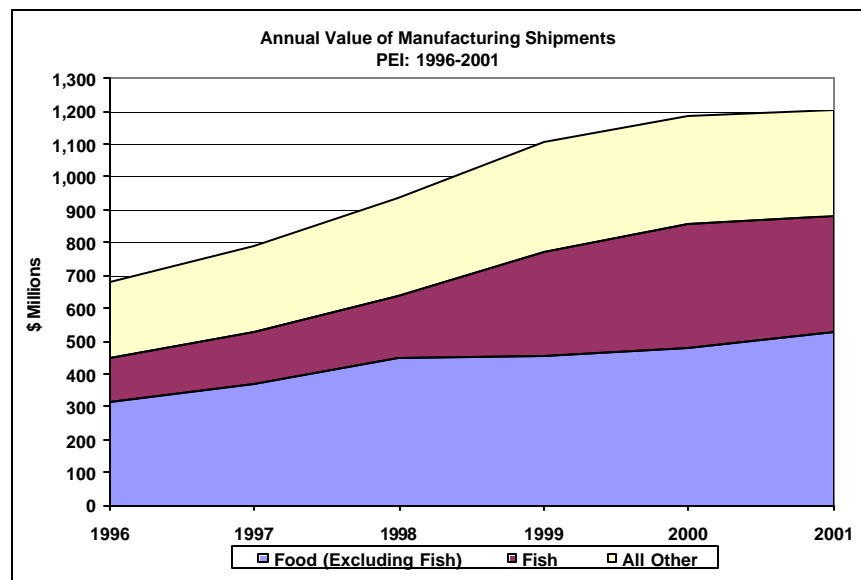
Preliminary estimates show that the total value of all fish landings on Prince Edward Island increased by 6 per cent to value \$145 million in 2001. Buoyant lobster prices during the spring and fall seasons helped the value of lobster landings on Prince Edward Island to reach an all-time high of \$100 million as estimated by the Provincial Department of Fisheries, Aquaculture and Environment. A decline of 40 per cent in the amount of herring quota allocated to Prince Edward Island and a trade dispute with the United States over cultured mussels dampened the overall increase in the fishing sector in 2001.

The ongoing dispute between Canada and the United States over softwood lumber has resulted in mill closures across Canada. Low lumber prices and uncertainty over the softwood lumber dispute caused Prince Edward Island's largest lumber mill to temporarily close in 2001. The total volume of wood harvested on Prince Edward Island was 703.6 cubic metres in 2001, down 11.5 per cent from 2000.

Manufacturing

The value of manufacturing shipments on Prince Edward Island posted growth of 1.6 per cent to value \$1,202 million in 2001. Figure A.6. shows rapid growth in the value of manufacturing shipments in previous years with annual increases of 15 per cent since 1996. The value of food shipments, excluding fish products, rose by 9.3 per cent to value \$526 million. Processed fish products, totalling \$356 million, declined by 4.4 per cent in value. The value of all other manufacturing on Prince Edward Island declined by 2.8 per cent to value \$320 million.

Figure A.6

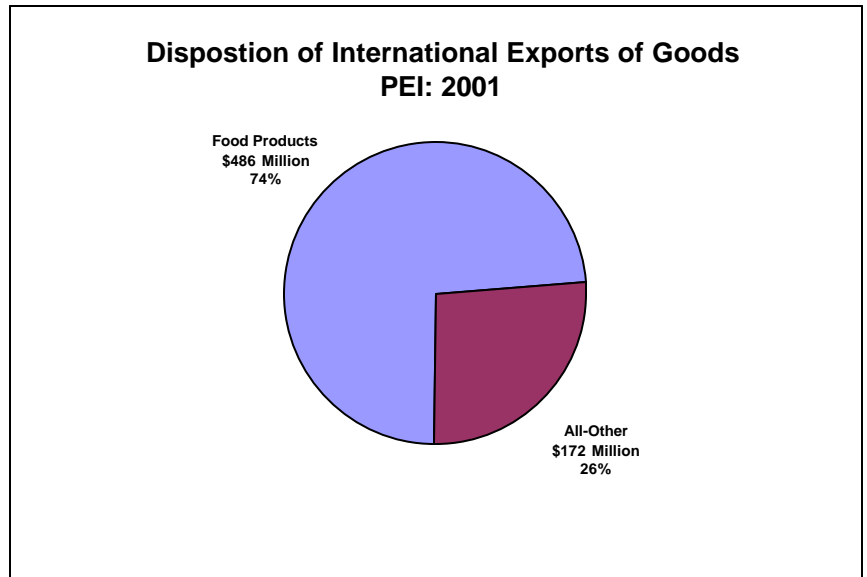


Source: Statistics Canada, Monthly Survey of Manufacturers.

International Export Performance

A slowing North American economy and trade restrictions had an impact on Prince Edward Island's export performance of goods in 2001, which declined by 3.7 per cent and valued \$657.8 million. While the value of internationally exported frozen food products expanded by 15.2 per cent, this gain was more than offset by declines in the value of fish and raw potato exports. Fresh and processed food products represent approximately three quarters of Prince Edward Island's value of international exports in 2001, as illustrated in Figure A.7.

Figure A.7



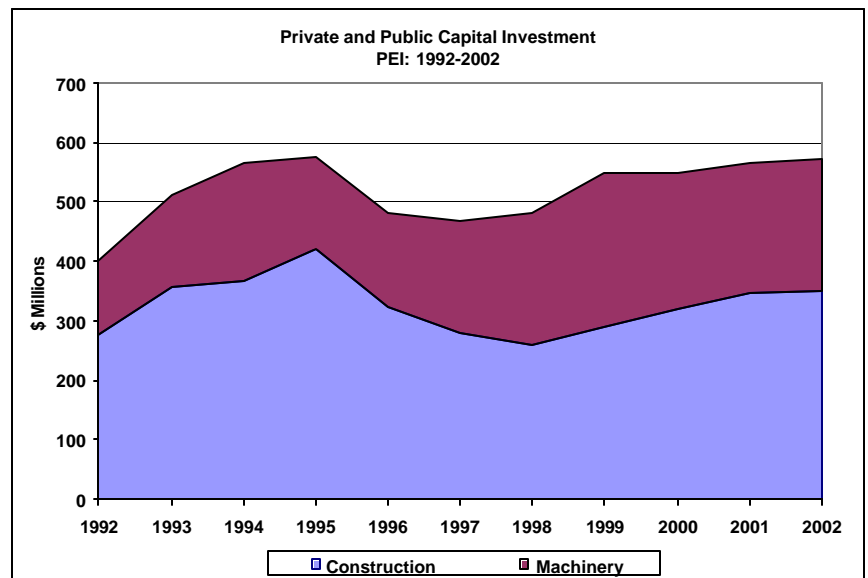
Source: Statistics Canada, International Exports.

The reduction in the total value of international exports was a limiting factor for growth in the manufacturing sector for Prince Edward Island in 2001.

Construction and Investment

The construction sector on Prince Edward Island grew vigorously in 2001. The total value of building permits, bolstered by a rapid increase in non-residential construction, saw an increase of 112 per cent over the previous year totalling \$209.2 million in 2001. While the value of residential construction permits rose by 9.9 per cent in 2001, the number of housing starts totalled 675 in 2001 compared to 710 in 2000.

Figure A.8

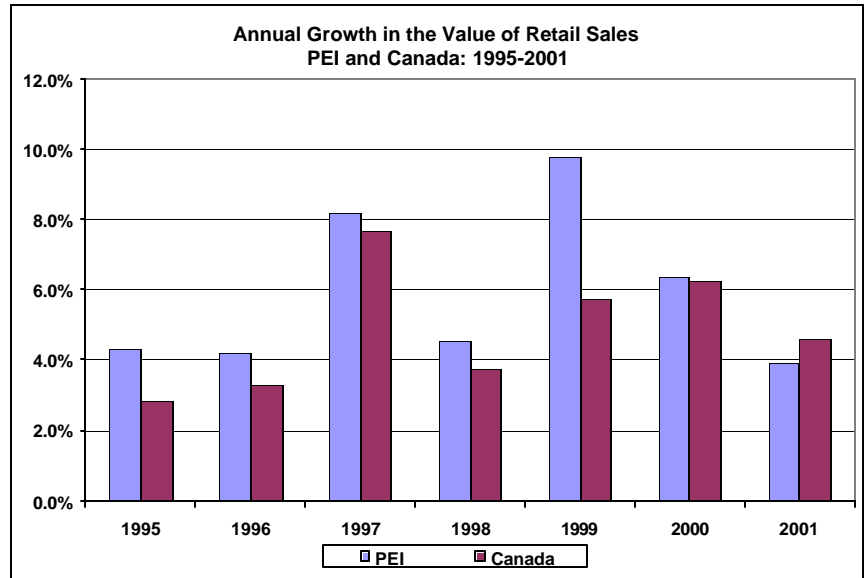


The construction sector is expected to remain buoyant in 2002. Figure A.8 shows the rising trend in construction since 1998. Statistics Canada's survey

Source: Statistics Canada, Private and Public Investment Intentions.

of the value of investment intentions for Prince Edward Island in 2002 is \$571.1 million, an increase of 0.9 per cent compared to 2001. The value of construction is expected to rise by 1.8 per cent, while the value of investment in machinery and equipment is expected to decline by 0.5 per cent.

Figure A.9



Retail Trade

After surpassing the national growth rate for retail sales for the previous six years, the pace of retail expansion on Prince Edward Island slowed to 3.9 per cent in 2001, as shown in Figure A.9. This compares to the national growth rate for retail sales of 4.6 per cent in 2001. The total value of retail sales on Prince Edward Island in 2001 was valued at \$1,278 million.

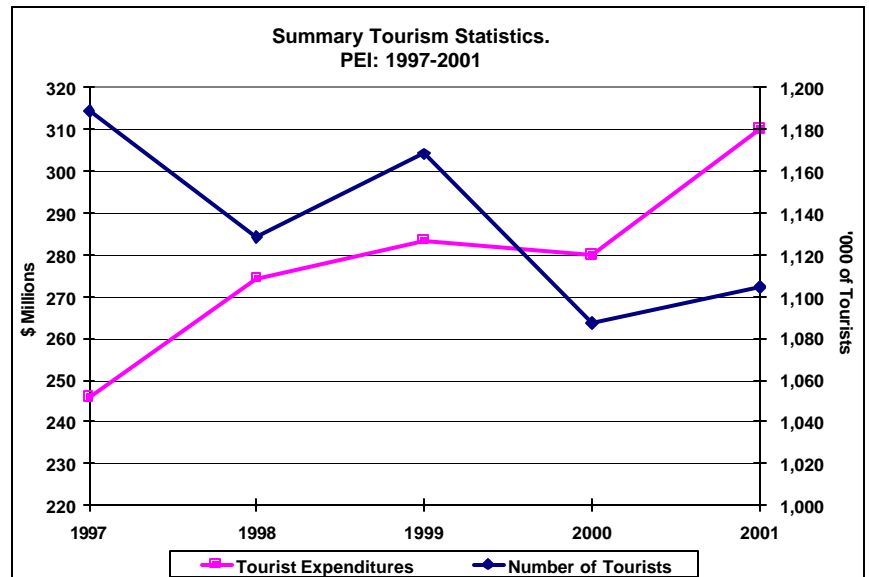
The value of new motor vehicle sales on Prince Edward Island during 2001 totalled \$120.6 million, a decline of 5.1 per cent compared to the figure for 2000. This contrasts with the record performance for car sales nationally.

Source: Statistics Canada, Retail Sales.

Tourism Services

The extraordinary hot and dry summer along with several major events that were hosted on Prince Edward Island supported growth in the tourism sector in 2001. Figure A.10 shows the trend in the number of visitors and the amount of total spending by pleasure visitors. The Provincial Department of Tourism estimates that 1.104 million pleasure visitors came to Prince Edward Island in 2001. Tourism spending is estimated to have increased by 10.7 per cent in 2001 to value \$310 million. Major events hosted on Prince Edward Island in 2001 included the East Coast Music Awards and the International Boy Scout

Figure A.10



Source: PEI Department of Tourism.

Jamboree.

Government

In 2001-02 there were major wage settlements for provincial government workers. The largest unionized group, the Prince Edward Island Union of Public Service Employees, signed a three-year labour contract with a cumulative pay increase of 10.1 per cent over the three-year period. Doctors, teachers, and other groups, covered by collective agreements, signed contracts for varying amounts. The negotiated settlements in the 2001-02 fiscal year contributed to salary increases of \$3.7 million in the general government sector, \$1.8 million in the education sector and \$8.6 million in the health sector compared to the 2000-01 fiscal year.

Summary and Outlook for 2002

The Department of Provincial Treasury estimates that the value of Gross Domestic Product on Prince Edward Island was \$3,479 million in 2001. In constant dollars it is estimated to have increased by 1.3 per cent. The pace of economic expansion slowed in 2001 compared to average annual growth of 4.1 per cent since 1997. Economic growth in 2001 was led by rising employment, a buoyant construction sector and a rise in personal income.

Based on the current trends in the North American and local economy, the Provincial Treasury estimates that the Prince Edward Island economy will expand in the order of 1.2 per cent in 2002. This forecast is based on the expectation that the agricultural sector will improve due to more normal conditions for potato production. The goods producing sector is expected to expand by 3.2 per cent. The service producing sector is forecast to increase by a modest 0.7 per cent. Employment on Prince Edward Island is expected to grow by a more moderate pace of 0.7 per cent.

The Bank of Canada estimates that the Canadian economy will improve in 2002, that the worst of the economic downturn is behind us and that an economic recovery is currently underway. A moderate rate of growth is expected in the first half of the year then accelerating to something like 3 to 4 per cent during the last half of 2002. Provided that energy prices remain near their current levels, inflation in Canada is expected to be below 2 per cent for the next two years.

**SUMMARY STATISTICS
PRINCE EDWARD ISLAND ECONOMY**

	1995	1996	1997	1998	1999	2000	2001
Population on 1 July (in '000s) *	134.8	136.2	136.9	136.9	137.6	138.1	138.5
Personal Income per capita (\$) *	18,822	18,926	19,197	19,861	20,688	21,746	22,388 ¹
<i>As % of Canadian Personal Income</i>	82.2	81.7	80.4	80.4	80.5	80.5	80.7 ¹
Employment (in '000s)	57.3	58.9	59.2	60.4	61.3	64.5	65.9
Unemployment Rate (%)	15.0	14.7	15.4	13.8	14.4	12.0	11.9
<i>Unemployment Rate - Canada</i>	9.4	9.6	9.1	8.3	7.6	6.8	7.2
CPI - Annual Change P.E.I. (%)	1.6	1.8	1.2	-0.5	1.2	4.1	2.6
<i>CPI - annual change (%) Canada</i>	2.2	1.6	1.6	0.9	1.7	2.7	2.6
Retail Trade (\$ millions) *	894.0	931.7	1,007.9	1,053.7	1,156.6	1,230.1	1,278.1
New Motor Vehicle Sales (units) *	4,223	4,120	4,717	4,556	4,802	4,902	4,635
Farm Cash Receipts (\$ millions) *	311.6	291.3	280.6	322.3	347.0	321.9	335.6
Potato Receipts (\$millions) *	149.7	137.5	128.8	173.3	192.2	154.9	126.0
Lobster Landings (\$ millions) *	79.2	61.7	73.4	82.6	88.9	85.8	100.0
<i>Lobster Landings (lbs - millions)</i>	18.9	18.0	17.9*	19.2	18.5	19.0	18.9
Housing Starts (units)	422	554	470	524	616	710	675
Investment (\$ millions) *	574.9	482.0	467.8	481.3	547.5	549.3	566.0
Manufact. Shipments (\$ millions) *	686.9	678.8	788.8	937.6	1,109.0	1,183.1	1,202.1
Tourist Expenditures (\$ millions) * ²	146.6	160.1	245.9	274.4	283.4	280.0	310.0
International Exports (\$ millions) *	340.0	353.7	435.2	466.0	566.5	682.9	657.8
GDP at Market Prices (\$ millions) *	2,676	2,829	2,808	2,979	3,115	3,344	3,479 ¹

* revised data

Note 1: Provincial Treasury estimate

Note 2: Expenditures do not include business travel

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