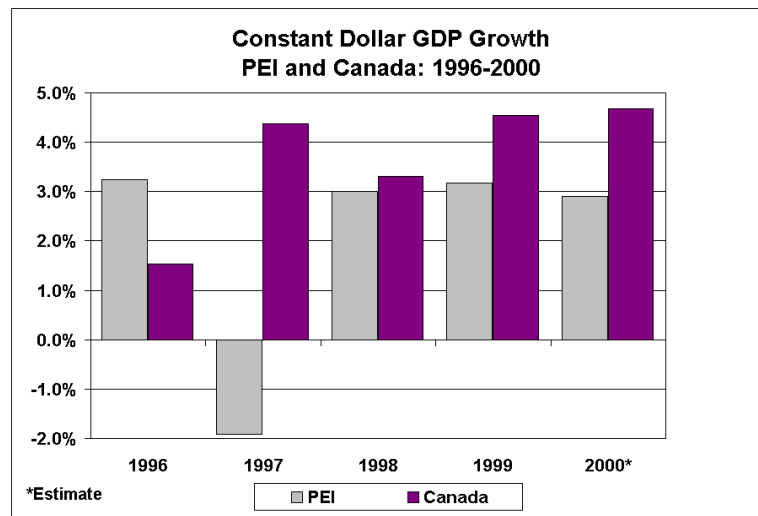


BUDGET PAPER A: BACKGROUND NOTES ON THE ECONOMY

Highlights

- c Statistics on the economy in 2000 indicate that economic growth for Prince Edward Island, as measured by constant dollar Gross Domestic Product, was 2.9 per cent in 2000 which compares to a national rate of growth of 4.7 per cent. Economic expansion in 2000 reflects increased employment, rising personal incomes and an improved export performance. As seen in **Figure A.1**, this is the third year of economic growth in the order of 3.0 per cent on Prince Edward Island.

Figure A.1



Source: Statistics Canada, Canadian Economic Observer.

- c Employment grew by 5.2 per cent on Prince Edward Island during 2000, easily the fastest rate in the country. Total employment averaged 64,500 people and the unemployment rate was 12.0 per cent, a drop of 2.4 percentage points from 1999.
- c Vigorous employment gains translated into equally strong total labour income growth of 8.4 per cent during 2000.
- Consumer prices were on the rise in 2000 as the price of international crude oil increased steadily. The average annual increase in the national Consumer Price Index in 2000 was 2.7 per cent. This compares with an average consumer price index increase for Prince Edward Island of 4.1 per cent. The difference is the result of the larger dependency on oil in Prince Edward Island.

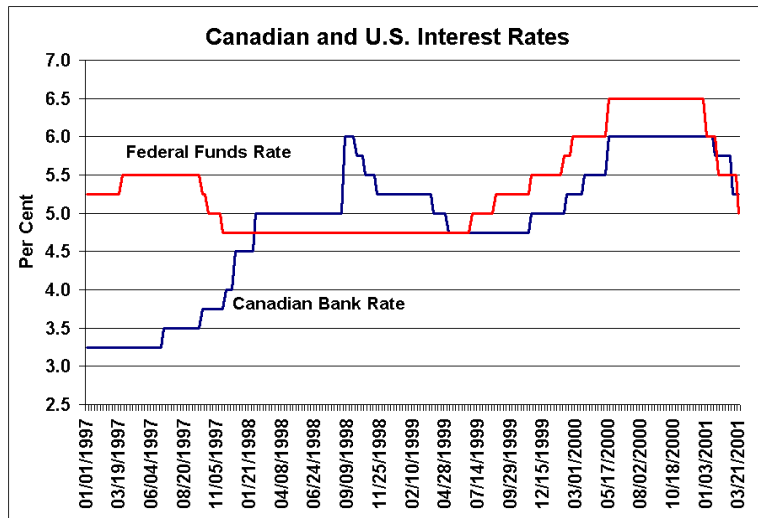
- C The value of manufacturing shipments expanded by 6.6 per cent in 2000, totaling \$1,182.6 million. Food manufacturing shipments expanded by 10.7 per cent. Shipments of transportation and equipment were off by 24.2 per cent or \$49.6 million in 2000.
- C Low potato prices and the U.S. ban on P.E.I. potatoes resulted in a decline in farm cash receipts in 2000.
- C Lobster landings in 2000 totaled 19 million lbs for an estimated value of \$85.7 million. The volume of wood harvested on P.E.I. totaled 794.1 thousand cubic meters, a 7.1 per cent decline compared to 1999.
- C Looking forward to 2001 the economic consensus suggests that the rapid growth in North America of the past four years is coming to an end.
- C The U.S. slow-down and lay-offs in the auto sector and the high tech sector, coupled with sinking stock prices are causing concern for consumers.
- C Private sector forecasters have lowered their estimates of Canadian GDP growth for 2001. The general consensus is that the Canadian GDP growth will remain muted during the first half of 2001 then gain momentum during the remaining months. Some commentators suggest this scenario is optimistic given the rate of the economic slowdown.
- C The outlook for economic growth on Prince Edward Island in 2001 is in the range of 1.5 to 2.0 per cent.

National Review

- C The Canadian economy expanded by 4.7 per cent in real terms in 2000, surpassing its stellar performance of 1999. Economic growth in 2000 was the highest rate since 1994.
- C National employment gains of 379,000 people in 2000 pushed the unemployment figure down to an average of 6.8 per cent, its lowest rate in more than 25 years.
- C Labour income advanced 7.2 per cent, due to healthy employment gains and higher average annual earnings. The federal pay equity settlement added 0.5 per cent to the growth in labour income.
- C Rising incomes and increased confidence boosted consumption of durable goods, particularly new motor vehicle purchases, as well as housing construction.

- C Corporate profits were up by 23.4 per cent in 2000. Aided by rising prices, oil and natural gas profits increased by more than 100 per cent in 2000. Profits in the manufacturing sector grew at a healthy pace, particularly in the computer and telecommunications industries.
- C Profits of crown corporations in Canada surged by 46.0 per cent in 2000 on the strength of rising prices and demand for electricity in the Pacific Northwest states.
- C Business investment increased by 14.0 per cent during 2000, led by a surge of 20.0 per cent in machinery and equipment purchases. Computer and business equipment grew by 43.4 per cent on top of similar gains in 1999. Investment in telecommunications equipment posted double digit growth for the second year in a row.
- C Canada's export performance in goods and services increased by 9.6 per cent in current dollars in 2000. Growth was led by a 25.0 per cent increase in machinery and equipment exports. Notwithstanding the trade embargo on P.E.I. potatoes, national agricultural trade expanded at 5.3 per cent. Automobile exports were down compared to 1999 as demand for new automobiles declined in the United States. The volume of energy exports rose 7.2 per cent on rising demand for natural gas and electricity, particularly in California. The value of energy exports surged by 76.8 per cent in 2000 as the price of crude oil rose by 60 per cent and natural gas prices were about double their 1999 levels.
- C Stock markets declined during the last three quarters of 2000 and there have been further sharp falls in 2001. As of mid March of 2001, the Toronto Stock Exchange 300 index has lost approximately 30 per cent of its value since October, while the Dow Jones industrial average is down 15 per cent. However, the high-tech market, NASDAQ, has suffered most as its value has plunged by more than 60 per cent in the past 12 months.
- C Monetary authorities in both Canada and the U.S. raised their key interest rate during 2000 in efforts to slow the economy to a sustainable rate. Apparent economic weakness in the fourth quarter of 2000 indicated a more rapid slowdown in the North American economy than had been expected.
- C Aggressive interest rate cuts in early 2001 by monetary authorities mark attempts to head off a more pronounced economic slowdown. **Figure A.2** shows that the U.S. Federal Reserve cut their key interest rate from 6.5 per cent to 5.0 per cent during the first three months of 2001 and during the same period the Bank of Canada cut its key interest rate by 75 basis points, from 6.0 per cent to 5.25 per cent in two steps.

Figure A.2



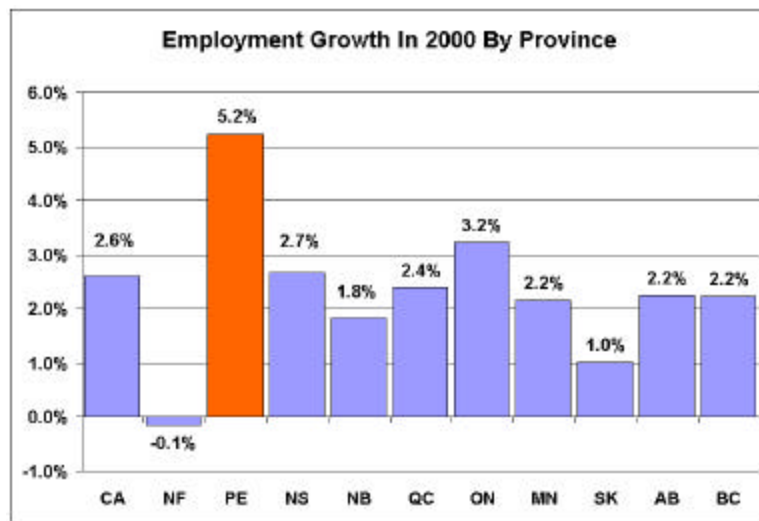
The Canadian dollar has fallen against the U.S. dollar, amid the current economic uncertainty, to levels unseen since the height of the Asian financial crisis in August of 1998.

Source: Bank of Canada, U.S. Federal Reserve.

The Prince Edward Island Economy

The estimated value of Prince Edward Island’s Gross Domestic Product at market prices for 2000 is \$3,207 million. In constant dollars this represents real growth of 2.9 per cent in the Island economy from 1999. The Prince Edward Island economy continued to have a consistent economic growth performance in the order of 3.0 per cent per year over the past three years.

Figure A.3



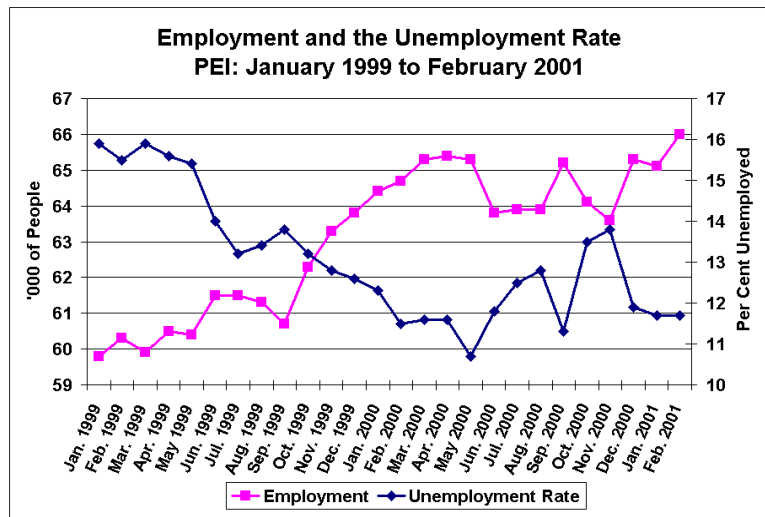
Source: Statistics Canada, Labour Force Survey.

Economic growth was highlighted by an extraordinary increase in employment on the Island. Figure A.3 shows the rates of employment growth for provinces in 2000 and P.E.I.’s rate of 5.2 per cent is easily the

highest rate in the country.

Total employment on Prince Edward Island **Figure A.4**

grew by 3,200 people for an annual average of 64,500 people. Historical records dating back to 1911 indicate that the growth in employment during 2000 was unparalleled in the Island's history. The trends in employment levels and the unemployment rate on P.E.I. since the beginning of 1999 are shown in **Figure A.4**. The rapid increase in employment pushed the unemployment rate down to 12.0 per cent, its lowest level since 1981. Employment gains were even across various sectors with growth of 6.0 per cent in the goods producing sector and 5.2 per cent in the service producing sectors.



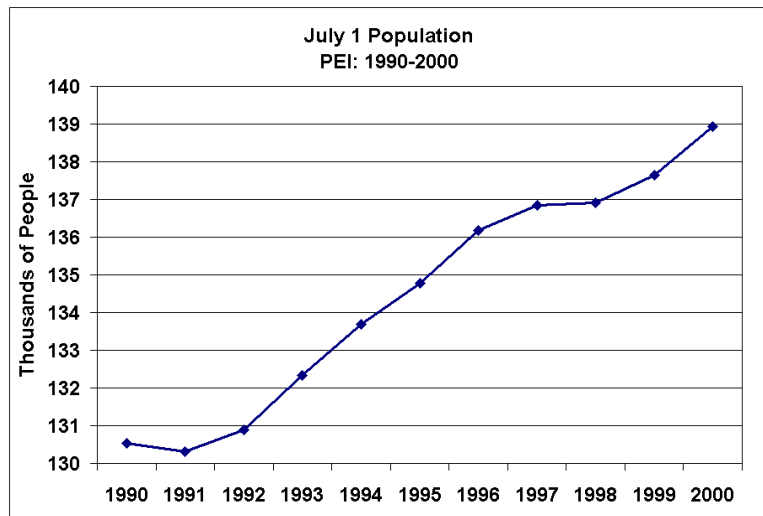
Source: Statistics Canada, Labour Force Survey.

The largest increase in employment occurred in the accommodation and food service industry, expanding by 21.7 per cent to reach 5,000 employees, followed by a 16.5 per cent increase in agricultural employment. Employment in the manufacturing industries grew by a healthy 4.7 per cent. Employment data for the first two months of 2001 show continued strength, as the level of employment reached another all time high of 66,000 people in February. Employment gains in 2001 are expected to slow to more modest rates of expansion.

The provincial population, as estimated by **Figure A.5**

Statistics Canada on July 1st, 2000, expanded by 0.9 per cent for a total of 138,928 people. As can be seen in **Figure A.5** the population on Prince Edward Island continued to grow steadily during the late 1990's as a result of robust economic growth.

Following the rapid growth in employment, total labour income increased by 8.4 per cent in 2000, on top of strong growth recorded the previous year. Federal pay equity settlements account for approximately 2 percentage



Source: Statistics Canada, Demography Division

points of the growth in total labour income. The rate of growth of investment income slowed in 2000 resulting from softer investment markets as compared to 1999.

The cool damp weather during the peak summer months of 2000, coupled with major events in neighbouring provinces resulted in a modest drop in total tourism spending. Tourism spending declined by 1.2 per cent to value \$280 million. Higher per tourist spending helped to offset the 6.2 per cent decline in the number of visitors during 2000.

Excellent growing and harvesting conditions in North America resulted in bountiful crops in 2000. Higher potato yields resulted in higher total production even though harvested acreage declined by 1.8 per cent. The United States banned importation of unprocessed potatoes from P.E.I. on October 31, of 2000. Provincial and federal aid packages have been announced to address declining revenues for potato producers.

Detailed Sector Review

Manufacturing

The value of manufactured products shipped from Prince Edward Island in 2000 was \$1,182.6 million, an increase of 6.6 per cent over 1999. The value of food processing expanded by 10.7 per cent in 2000, largely a result of growth in the value of processed fish products. Food processing accounted for 72.1 per cent of the total value of Prince Edward Island's manufacturing shipments in 2000. Shipments of transportation and equipment in 2000 were valued at \$155 million; this is a decline of 24.2 per cent compared to the previous year.

Exports

Prince Edward Island's extraordinary international export performance during the past decade continued in 2000 with a 20 per cent increase in value. Exports of frozen fruit and vegetables, consisting mainly of french fries, jumped 25.6 per cent to a value of \$200.6 million in 2000. The value of exported fish products showed healthy expansion with an increase of 14.7 per cent to a total value of \$183.2 million in 2000.

The decision by the United States to ban imports of raw potatoes from Prince Edward Island due to an isolated incident of potato wart severely affected exports in 2000. The value of unprocessed potato exports to the U.S. was down by 28.1 per cent, to \$25.5 million in 2000 as estimated by Statistics Canada. Exports of raw potatoes represented 10.8 per cent of the value of all exports in 1999.

Figure A.6

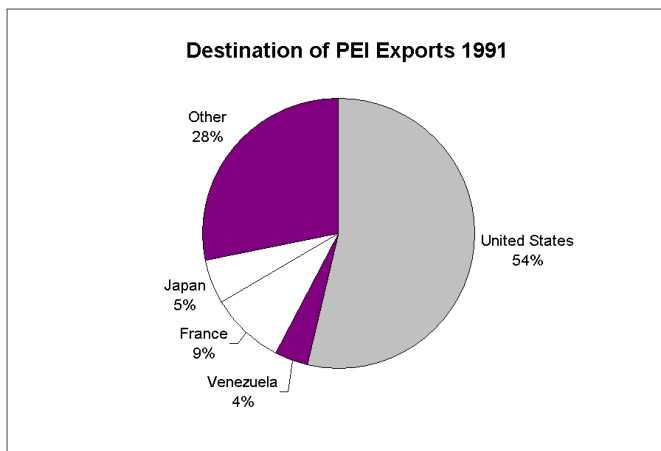
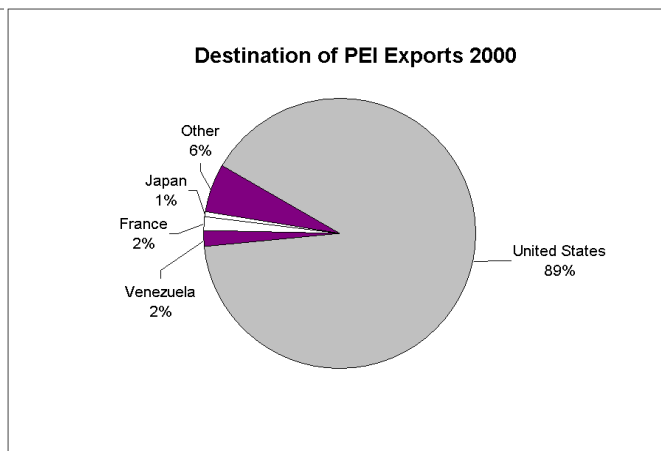


Figure A.7



Source: Statistics Canada, Industry Canada.

A decade of expansion in P.E.I.’s manufacturing industries has resulted in increased international exports, in particular to the United States. Figures A.6 and A.7 show the distribution of P.E.I.’s top export destinations in 1991 compared with 2000. In 1991, exports to the United States represented 54 per cent of P.E.I.’s total export value. In 2000, the value of P.E.I. exports to the United States represented 89 per cent of the total. The impact of a slowdown in the U.S. economy could have a larger impact on P.E.I. exports than during previous economic slowdowns.

Agriculture

The constant dollar GDP for agriculture is estimated to have expanded by 2.8 per cent in 2000. Favourable growing conditions resulting in higher potato production accounted for much of the expansion. Prices for fall harvested potatoes were lower than the previous year. Lower prices combined with the decision by the United States to ban imports of Prince Edward Island potatoes has reduced potato farm cash receipts by 20.5 per cent in 2000 compared to 1999¹.

Table A.1 shows P.E.I.’s farm cash receipts by major commodity group from 1996 to 2000. Farm cash receipts declined 7.5 per cent in 2000 for a value of \$325.9 million. The main cause for this overall decline

¹On October 31st the United States closed the border to Prince Edward Island potatoes due to a fungus found in one corner of one field. Extensive scientific testing was undertaken which determined the isolated nature of the fungus. In December of 2000 the province established a \$15 million aid package for potato producers allowing for approximately 10 per cent of the crop to be diverted from the market. Federal aid up to \$14.6 million for potato producers was announced on March 13th 2001. The federal government is currently in discussions with US trade officials to open the border to Island potatoes.

was a reduction in potato prices.

Table A.1. Farm Cash Receipts, P.E.I. \$ Thousands

Year	Crop	Potato	Livestock	Cattle	Hog	Dairy	Direct payments	Total Receipts
1996	163.2	137.5	115.5	27.6	30.6	45.8	12.7	291.3
1997	155.7	128.8	116.9	29.8	29.2	47.1	8.0	280.6
1998	201.6	173.3	109.4	28.7	20.6	49.5	11.1	322.1
1999	227.4	194.8	106.2	24.8	21.9	49.0	18.7	352.3
2000	191.7	154.9	117.3	25.5	29.7	51.0	17.0	325.9
Percent	-15.7	-20.5	10.5	2.8	35.6	4.1	-9.1	-7.5

Improved prices aided the 35.6 per cent increase in hog receipts. Dairy receipts increased by 4.1 per cent and reached an all-time high of \$51 million. Coupled with modest improvements in cattle receipts the livestock sector receipts improved by 10.5 per cent for an all-time high of \$117.3 million in 2000.

Fishing and Forestry

Preliminary estimates show that total fish landings on P.E.I. increased by 6.6 per cent in 2000 totaling 145 million lbs. Lobster landings increased 3.0 per cent to 19 million lbs. Lower lobster prices in 2000 have reduced the total value of the catch by 3.5 per cent to value \$85.7 million compared to 1999. Increased herring landings and new shrimp quotas provided a boost in 2000.

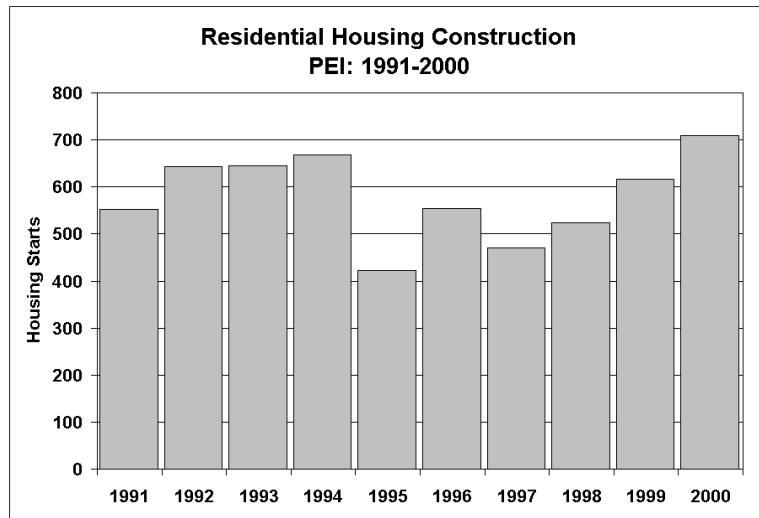
Increased housing construction in North America put upward pressure on prices for forestry products in 2000. However, a slowdown in wood harvested on P.E.I. in 2000 was a result of major upgrades to the Island's largest wood mill. Total harvested volume in 2000 declined by 7.1 per cent compared to 1999 at 794.1 thousand cubic meters

Construction and Equipment Investment

Statistics Canada estimates that construction and equipment investment increased by 3.2 per cent in 2000 to value \$534.2 million. The total value of construction that occurred on P.E.I. in 2000 was \$319.3 million, an increase of 9.8 per cent. The rise in construction value on P.E.I. is evident in a 15.3 per cent increase in residential housing starts, totalling 710 in 2000.

Figure A.8 shows that residential housing starts in 2000 were the highest in a decade. Growth in housing construction resulted from starts in rural areas jumping up by 45 per cent. Statistics Canada estimates that

Figure A.8



Source: Canada Mortgage and Housing Corporation.

Investment in new machinery and equipment on P.E.I. was an all-time high in 1999.

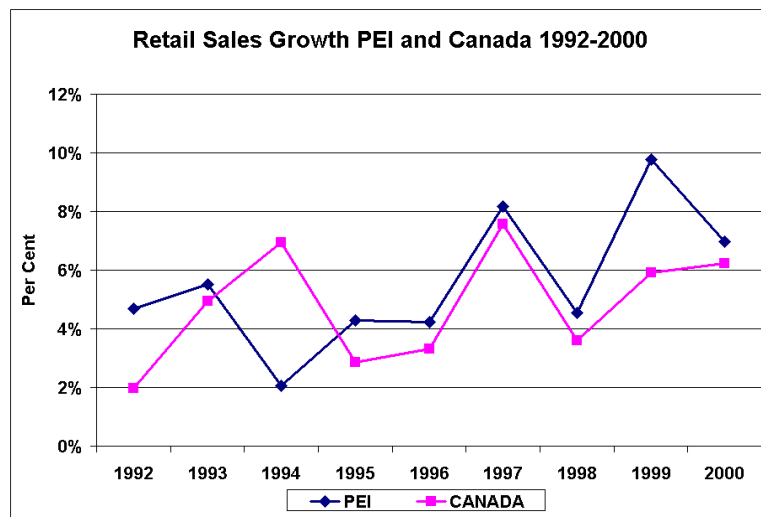
the value of residential construction in 2000 totaled \$161 million for an increase of 15.7 per cent compared to 1999. The value of non-residential construction, as estimated by Statistics Canada, rose by 4.4 per cent to a value of \$158.3 million. Growth in non-residential construction was highlighted by expansions in retail trade, manufacturing, accommodation and food service structures.

Investment in new machinery and equipment on P.E.I. declined by 5.1 per cent to valued \$215 million in 2000. The value of investment in

Retail Trade

Buoyed by strong employment gains and rising personal incomes, retail sales rose by 7.2 per cent to measure \$1,239.8 million in 2000. Figure A.9 illustrates that the annual rate of growth retail sales on P.E.I. has outpaced the national average for the past six years. Significant growth of retail store capacity in 2000 has aided the sector. Department store sales increased by 4.6 per cent. The retail industry continued to expand in 2000 with new outlets opened in several centres around P.E.I., and further development is planned in Summerside and Charlottetown.

Figure A.9



Source: Statistics Canada, Retail Trade.

The number of new vehicles sold on P.E.I. in 2000 was the highest in a decade. The number of vehicle units increased by 4.1 per cent in 2000, totaling just under 5,000 units. Sales of new vehicles rose by 3.9 per cent to value \$128.2 million.

Tourism Services

Statistics for the 2000 tourism season, released in December, indicate that numbers were down from 1999 levels. However average spending per tourist increased such that total for pleasure tourism spending remained roughly on-par with the previous year at \$280.0 million. The number of pleasure visitors declined by 6.2 per cent to a total of 1.13 million people. Details show the number of visitors touring by motorcoach was up by 13.1 per cent.

Government

Provincial government current plus capital spending for the fiscal year 2000-2001 is forecast to increase by 7.1 per cent compared to the previous year. Increased spending in the areas of health, education and financial support to agriculture accounted for 70 per cent of the total increase.

“The Province’s balanced approach to fiscal planning has not only strengthened its financial profile, but has contributed to the improvement in Prince Edward Island’s economic fundamentals.”

DBRS July 25, 2000

Prince Edward Island received a positive credit rating review and outlook by the Dominion Bond Rating Service. In the report Prince Edward Island’s long term debt was upgraded to “A (low)”.

Summary

The Department of Provincial Treasury estimates that constant dollar GDP expanded by 2.9 per cent to value \$3,207 million in 2000. Over the last three years the provincial economy has grown in the order of 3.0 per cent per year. Growth in 2000 was led by vigorous employment gains and rising consumer spending.

The growth in the Island economy during the last three years occurred during a time of very buoyant economic conditions in North America. Current data indicates that the North American economy has slowed this winter. Manufacturing production, primarily in the auto sector, fell during the fourth quarter of 2000 and continued into the early months of 2001. Layoffs in the auto and retailing sectors and falling stock markets have shaken consumer confidence. Private sector forecasters have consequently reduced their estimate of GDP growth for Canada in 2001. Their estimates indicate that the slowdown will persist during the first half of the year and they predict the second half of 2001 will improve.

In light of the current economic conditions the Provincial Treasury predicts that economic expansion on

P.E.I. will be in the order of 1.5 to 2 per cent in real terms in 2001.

**SUMMARY STATISTICS
PRINCE EDWARD ISLAND ECONOMY**

	1994	1995	1996	1997	1998	1999	2000
Population on 1 July (in '000s) *	133.7	134.8	136.2	136.9	136.9	137.6	138.9
Personal Income per capita (\$) *	18,194	18,822	18,926	19,022	19,628	20,283	20,864 ¹
<i>As % of Canadian Personal Income</i>	81.7	82.2	81.7	79.8	79.6	79.7	82.0
Employment (in '000s)	55.4	57.3	58.9	59.2	60.4	61.3	64.5
Unemployment rate (%)	17.2	15.0	14.7	15.4	13.8	14.4	12.0
<i>Unemployment Rate - Canada</i>	10.4	9.4	9.6	9.1	8.3	7.6	6.8
CPI - annual change P.E.I. (%)	-0.2	1.6	1.8	1.2	-0.5	1.2	4.1
<i>CPI - annual change (%) Canada</i>	0.2	2.2	1.6	1.6	1.0	1.7	2.7
Retail trade (\$ millions) *	857.2	894.0	931.7	1,007.9	1,053.7	1,156.6	1,239.8
New Motor Vehicle Sales (units)	4,764	4,223	4,120	4,717	4,556	4,802	4,997
Farm Cash Receipts (\$ millions) *	307.5	311.6	291.3	280.6	322.1	352.3	326.0
Potato Receipts (\$millions)	163.7	149.7	137.5	128.8	173.3	194.8	154.9
Lobster Landings (\$ millions)	64.2	78.4	61.7	73.2	80.6	88.8	85.8
<i>Lobster Landings (lbs - millions)</i>	18.6	19.3	18.0	17.8	18.9	18.4	19.1
Housing Starts (units)	669	422	554	470	524	616	710
Investment (\$ millions)	547.3	557.9	463.6	444.5	462.3	454.5	534.3
Manufact. Shipments (\$ millions) *	527.1	686.9	678.8	788.8	937.6	1,109.0	1,182.6
Tourist expenditures (\$ millions) * ²	141.1	156.3	174.5	261.6	274.4	283.3	280.0
International exports (\$ millions) *	289.9	326.2	353.1	434.7	470.2	565.6	679.6
GDP at market prices (\$ millions) *	2,515	2,663	2,814	2,763	2,851	2,994	3,207 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.