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The Employment Journey on PEI

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The 2021 economic overview for PEI

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COVID-19 measures have affected industries unevenly across the economy, and new variants, labour shortages, higher costs and prices, and supply chain shortages may constrain the recovery.

In November, APEC's annual Business Outlook Conference explored where we are, where the pressure points remain, what the recovery will look like in 2022, and the longer-term prospects, opportunities and challenges.

The presentation was led by APEC's senior researcher **Patrick Brannon**, who provided the PEI outlook.

Patrick says most PEI businesses are open but are still operating at below capacity in terms of staff. Revenues are at about 50 percent from pre-pandemic levels, and shutdowns have not as been as severe as in other provinces.

The fundamentals of PEI's economy are very strong. The population is growing rapidly, consumers are spending, capital investments are strong, air travel is slowly picking up, and most industries are recovering from the pandemic.

COVID-19 had a very different effect on the stock market than other economic downturns in the past. Other recessions took two to six years to recover Toronto Stock Exchange values. But the effect of the pandemic was not as deep. The TSX recovered its value within about a year, and by November 2021 the stock market was 25 percent above pre-pandemic levels.

The Canadian economy is nearing its pre-pandemic peak and should surpass that level by the end of 2021. The rebound is expected to continue in 2022 as pandemic fears ease and spending and business investment grow.

Most economists expect the economy to recover its pre-COVID-19 trend line upwards by late 2023. However, there are risk factors that could delay or accelerate the recovery.

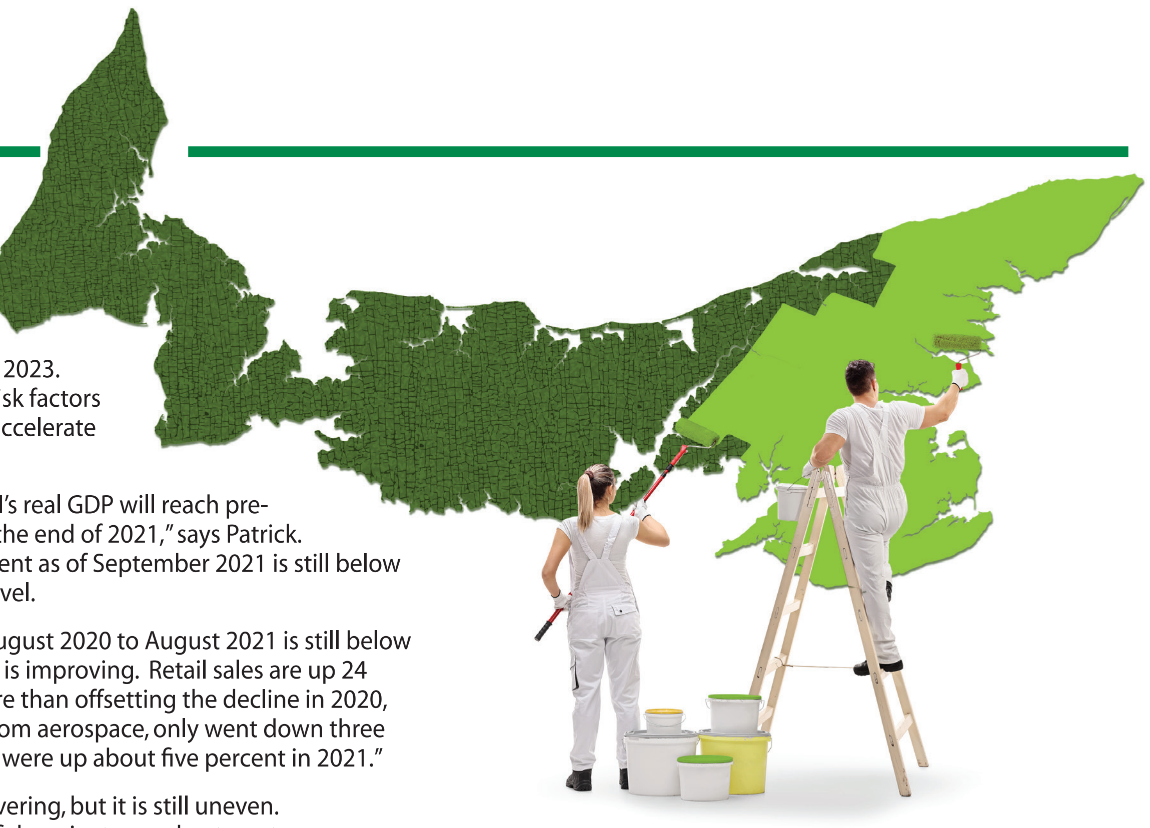
"We forecast that PEI's real GDP will reach pre-pandemic levels by the end of 2021," says Patrick. "However, employment as of September 2021 is still below the pre-pandemic level.

Immigration from August 2020 to August 2021 is still below the 2019 level, but it is improving. Retail sales are up 24 percent in 2021, more than offsetting the decline in 2020, and exports, aside from aerospace, only went down three percent in 2020 and were up about five percent in 2021."

Employment is recovering, but it is still uneven. Employment in the fishery is strong, due to a strong season with high prices in 2021. Professional services (eg. Bioscience and IT) were up 15 percent and continued to grow during the pandemic.

On the other end of the scale, **agriculture** and **construction** employment are still 25 to 30 percent lower than at the start of the pandemic. These two industries are struggling with labour shortages and an aging workforce.

The **accommodation and food service** sectors were the hardest hit initially. They have made some gains, but there is still a way to go towards recovery.



PEI's economy fell by only 1.7 percent in 2020, which is much better than the national downturn of 5.2 percent. APEC expects PEI's real GDP to grow by about 3.9 percent in 2021 due to a rebound in global trade and continued population growth. Consumer spending is also recovering. Labour income was up 12 percent in the first half of 2021 and retail sales were strong.

PEI saw real GDP growth of about 3 percent in 2021 which is similar to growth before the pandemic. Employment is predicted to rise about 3.4 percent in 2021 and another 2.5 percent in 2022 as lagging sectors recover.

Global trends that affect PEI

Many of PEI's export markets grew in 2021 but will probably slow in 2022. The World Trade Organization predicts that world trade volume will grow 11 percent in 2021 and five percent in 2022.

In the US, strong growth continues, and if stimulus funding is finalized, infrastructure and green energy projects and improved social safety nets will support growth. In 2022, there will be trade opportunities between the US and the Atlantic provinces. China's economy is expected to slow in 2022 as its recovery is impacted by supply chain bottlenecks and the real estate market. The Canada-US exchange rate is expected to be about 80 cents due to higher oil prices.

Most of PEI's exports continued to do well during the pandemic. **Agricultural products** led by French fries and other potato products were strong in 2020 and maintained that growth in 2021. Grocery stores saw strong sales of potato products. The 2021 potato growing season was good, with yields better than in 2020. However, the recent ban on exports of PEI potatoes into the US is a concern for the provincial economy.

Another concern is **labour shortages** in agriculture production, trucking, and in fast food across North America could result in reduced sales, which could trickle back to reduced demand for potato products.

Fish and seafood sales were up 74 percent in 2021 compared to 2019 due to strong prices and demand in the US market. Lobster landings were up in 2021, and APEC expects strong markets in 2022 as the US economy continues to expand. Exports of fish products could also be affected by labour shortages in production and transportation.

Machinery and equipment exports saw a drop, mainly in the aerospace sector, which is still down about 50 percent from 2019 levels. The Island's aerospace sector was hard hit by the pandemic. Steady growth will continue as tourism increases and transportation picks up, but recovery will take some time, as there is still travel hesitancy due to border restrictions and the high price of air travel.

The **PEI bioscience** sector has continued to grow during the pandemic. Bioscience exports were up 23 percent in 2021 and is well on its way to earning revenues of $500 million by 2025.

The PEI BioAlliance estimates that revenues increased from $263 million in 2018 to $364 million in 2020. Capital spending and external investment also increased. BioVectra, Elanco, and the Centre for Aquaculture Technologies all invested in new equipment and facilities in 2021, and the PEI BioAlliance is opening a $7 million biomanufacturing incubator.

Employment in bioscience grew by over 200 between March 2020 and March 2021 and is expected to increase further. Island Abbey Foods is building a 30,000 square foot expansion which will result in 40 to 50 new jobs. BioVectra is expanding and is adding 40 to 50 new employees on PEI and Nova Scotia.

Tourism is a highly seasonal industry and was one of the hardest hit during the pandemic. On PEI, tourism accounts for six percent of GDP, which is the largest share in the country. Room nights sold remain well below pre-pandemic levels. There was some improvement in July and August 2021, when room nights sold were nearly double the numbers in 2020.

As borders reopen in the rest of the country and in the US, a further rebound should happen in 2022. Increased cruise ship and motor coach visits will make a difference. In August 2021, air passenger traffic was about 50 percent of 2019 levels. In 2022, we anticipate air traffic will be about 65 percent of 2019 levels. It is expected to take several years for tourism to fully get back to pre-pandemic levels.

Restaurants were also hit hard by the pandemic. Fast food and take-out fared better than full- service restaurants, which were not allowed to open to full capacity. Higher tourism numbers should help restaurant business in 2022. Restaurants Canada expects a full recovery by the second quarter of 2022. While demand is expected to recover, labour supply is an on-going concern.

Immigration - PEI has seen the strongest population growth of any Canadian province in the last two years, well above the rest of Atlantic Canada. Growth has been driven by strong immigration flows. Immigration dropped during the pandemic, but it is expected that immigration will bounce back to about 87 percent of 2019 levels in 2021.

Net interprovincial migration has ramped up considerably over the last few years. Net migration to PEI in the second quarter of 2021 was the strongest on record going back to the 1960s. There was a net gain of 900 people from other provinces in the second quarter alone. PEI's population is expected to grow by about 3,500 in 2021, which is also a record. 74 percent of the interprovincial migration this past year was people aged 20 to 29, which is very positive.

Population growth is having a serious effect on housing availability and higher housing prices. In August, year-to-date home sales increased by 24 percent and prices were up 23 percent, according to the PEI Real Estate Association.

Construction slowed in 2021. The skilled trades shortage and rising building material prices have slowed housing starts, which were down 15 percent in urban areas from 2020 levels. Many renovation companies have had to turn down work because of the labour shortage as well.

Resale prices of houses seem to be leveling off, but demand will continue to be strong. Price increases are likely to be lower in 2022, in part due to rising mortgage interest rates. Affordable housing is becoming an increasing issue, which may be helped with the provincial plan to add 1,200 units by 2023.

Consumer spending – Government supports have been very important during the pandemic, which has more than offset lower labour income. With individuals unable to travel or dine out, savings have increased. Households have switched their spending patterns, and are spending more on retail goods, which were up 24 percent in 2021, the fastest growth in the country.

Also up are new home purchases on PEI, and mortgage values have increased. Many people are paying down debt, and credit card debt has gone down by about $46 million since the fourth quarter of 2019. They will begin to spend some of that accumulated savings on travel outside the region and on goods and services, which will be a key driver to recovery over the next few years.

After several steady years of construction growth in infrastructure and home construction, investment will start to slow in 2022. While housing activity should remain elevated, there are concerns about how quickly this can be completed in the midst of labour shortages.

The effects of Government supports coming to an end and high inflation

PEI's fiscal situation is improving faster than originally predicted. Public accounts for 2021 show a marked improvement over what was estimated in the spring budget. There are higher revenues from provincial taxes and federal government transfers, and fewer costs arising from COVID-19. If the deficit is lowered more quickly, it will add stability to tackle issues such as housing and long-term care.

Inflation in Canada reached 4.4 percent in September, which is the fastest pace in almost two decades. The Bank of Canada expects inflation to peak in the fourth quarter of 2021 and then begin tracking down to two percent by the end of 2022. Some disagree with this forecast, citing supply chain issues.

On PEI, inflation was up 6.3 percent in September compared to a year ago, which is the largest increase in the country. Energy prices were up 34 percent, gas prices were up 40 percent, and prices have risen steadily since then.

Other factors contributing to higher prices include supply chain issues and a faster than expected rise in demand for many goods. Motor vehicle costs are up 10 percent and inventories are low because of the shortage of semiconductors.

According to the Bank of Canada, interest rates may start to rise by the middle of 2022 but there is uncertainty around that. Higher interest rates will cool the demand on housing but will but a burden on businesses and individuals.

Key risk factors holding back the recovery

Supply chain issues – The efficient movement of goods has been affected by wild fluctuations in demand, manufacturing issues, transportation capacity problems, and trucking and labour shortages, which is driving up the cost of shipping goods. Those costs and delays may get worse before improving in 2022. Higher prices are likely, and shortages will continue. On PEI, supply chain issues are affecting aerospace, fisheries, and construction.

Labour shortages – The highest rates of job vacancies are currently in professional services, IT, science and research, transportation, healthcare, agriculture, fisheries, construction, accommodations, and food service.

We see intensifying job vacancy rates (5 percent in the second quarter of 2021) caused by the pandemic, an aging population, rural depopulation, a strong competition for labour, and income support pandemic measures that are acting as a disincentive especially for low-wage work. Travel restrictions and slower immigration rates also have had an effect.