NAVIGATING THE SLOWDOWN

B.C. ECONOMIC REVIEW AND OUTLOOK

February 2024

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WHERE LEADERS MEET TO UNLOCK BC'S FULL POTENTIAL

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HIGHLIGHTS

- Global GDP growth is expected to be 3.0% in 2023, 2.5% in 2024 and 2.7% in 2025, well below the 2000-19 average of 3.8% per annum. The slowdown principally reflects the lagged effects of tighter monetary policy. Near-term momentum in the U.S. economy and highly favourable trade prices are two bright spots for Canada and B.C.
- Canada's GDP growth is expected to be weak at only 1.0% in 2023, 0.8% in 2024 and 2.4% in 2025. Population growth keeps Canada out of recession but masks serious weakness as the country faces a sustained step-down in living standards.
- Looking through the veneer of population growth, the economy is shrinking. GDP per capita is expected to fall sharply by 1.8% in 2023 and another 1.0% in 2024. It will barely begin to recover in 2025. We estimate Canada will not recover its pre-pandemic (2019) level of real GDP per capita – unlike almost all other advanced countries – until at least 2027. Risks are to the downside as the spectacular $450 billion mortgage boom of 2020-23 unwinds amid higher interest rates.
- B.C.'s economy is forecast to grow just 0.7% in 2024 and by a stronger but still below average 1.6% in 2025. B.C. avoids slipping into a technical recession, but real per capita income (GDP) declines significantly in both years.
- B.C. job growth slowed to 1.5% in 2023, the slowest of any province. The number of employees in the private sector declined 0.2%. B.C. is unique in this regard with all other provinces registering strong gains in private sector employment last year.
- Soft hiring conditions in the private sector have been evident for some time. Since 2019 the number of employees in B.C.'s private sector has barely edged higher. The only reason overall employment has grown since 2019 is because of the sharp increase in public sector employment.
- As several large multi-billion capital projects move into the final building stages, related construction activity winds down and is a drag on provincial growth over the two-year forecast horizon. Non-residential private sector capital investment in other areas remains weak. Non-residential building construction in the public sector rises through 2025 and contributes to B.C.'s modest expansion.
- The outlook for B.C.'s export sector is mixed. Forestry production volumes have trended lower since 2016/17 and recent provincial policy changes curtailing fibre supply will result in further reductions and more job losses. Education exports (students coming to B.C.) will ease as the federal government recalibrates its non-permanent resident immigration policies. Several mining projects are set to proceed and global demand for copper and other B.C. minerals is strong. Mining and tourism and film and television are bright spots.
- The shift to a net outflow of interprovincial migrants is significant in that it reflects British Columbians moving to Alberta for better opportunities and lower cost housing. The outflow however is not sufficient to dampen overall population growth with more than 180,000 international migrants settling in the province.

GLOBAL SLOWDOWN UNDERWAY

Global GDP growth is expected to cool from 3.0% in 2023 to 2.5% in 2024 and 2.7% in 2025 (**Table 1**), well below the 2000-19 average of 3.8% per annum. The world economy has retained slightly more momentum than previously anticipated, as American consumers have showed ebullience in spending pandemic-era savings (unlike Canadians worried about excessive debt). As those savings peter out, **U.S. GDP growth** is expected to ebb from 2.5% in 2023 to 1.7% in 2024 and 1.2% in 2025. The **Euro area** outlook remains weak under the burdens of high energy prices, high interest rates and lacklustre foreign demand. **China** also faces headwinds from slower global trade, a shrinking population and an unravelling property sector.[1]

Pandemic-era supply chain pressures were resolved by early 2023 allowing inflation in most countries to ease from 2022 peaks. However, core (underlying) inflation is still well above central banks' targets. For the U.S., U.K., Euro area and Canada, around 50-80% of products in their

[1] In January, China's largest developer, Evergrande, was ordered into involuntary liquidation owing about USD 300 billion (i.e., debts one-third the size of B.C.'s economy). Another 50 developers have also defaulted on loans in the past three years. China's government likely has sufficient policy room to prevent contagion to other sectors, but risks to the outlook are weighted to downside.

CPI baskets are still seeing price growth above 3% per annum. After the mistakes of 2021-22 (Williams 2021a and Williams 2021b), when central banks dismissed runaway inflation as "transitory" and kept too much demand-side stimulus in place for too long, central banks will be reticent to ease policy rates until they are certain core inflation and inflation expectations are anchored back at inflation targets.

TABLE 1: **GLOBAL AND CANADA ECONOMIC FORECASTS (ANNUAL GROWTH, %)**

Region	2022	2023e	2024f	2025f
International GDP				
World	3.4	3.0	2.5	2.7
United States	1.9	2.5	1.7	1.2
Euro area	3.4	0.4	0.5	1.6
Japan	0.9	2.0	0.7	1.1
China	3.0	5.2	4.5	4.5
Canada				
GDP	3.8	1.0	0.8	2.4
Population	1.7	2.8	1.8	1.8
GDP per capita	2.1	-1.8	-1.0	0.6

f - forecast e = estimate

Source: Bank of Canada; BCBC (Canada population growth forecast).

CANADIAN LIVING STANDARDS ARE FALLING

Canada's GDP growth is expected to be around 1.0% in 2023 and 2024, and 2.4% in 2025. Canada's GDP growth is supported by near-term momentum from the U.S. economy and a near-record terms of trade (i.e., ratio of export prices to import prices). Risks are weighted to the downside. Notably, Canadian mortgage debt surged by a spectacular $450 billion (27%) over 2020-23 due to pandemic-era stimulus, especially *negative* real mortgage rates (Williams, 2024). The credit boom is now unwinding. There is a risk of a disorderly unwinding of imbalances as borrowers refinance loans at higher interest rates over 2024-26.

Nonetheless, focusing on topline GDP masks serious weaknesses. GDP per capita – a key metric of living standards – is expected to *fall sharply* over 2023-24 and barely begin to recover in 2025 (**Figure 1**). **Figure 2** shows a demand-side view of Canada's economy. On a per capita basis, expenditures on consumption, business capital investment, residential structures investment and exports are falling. Adjusted for population, the economy has not grown in 7 years.

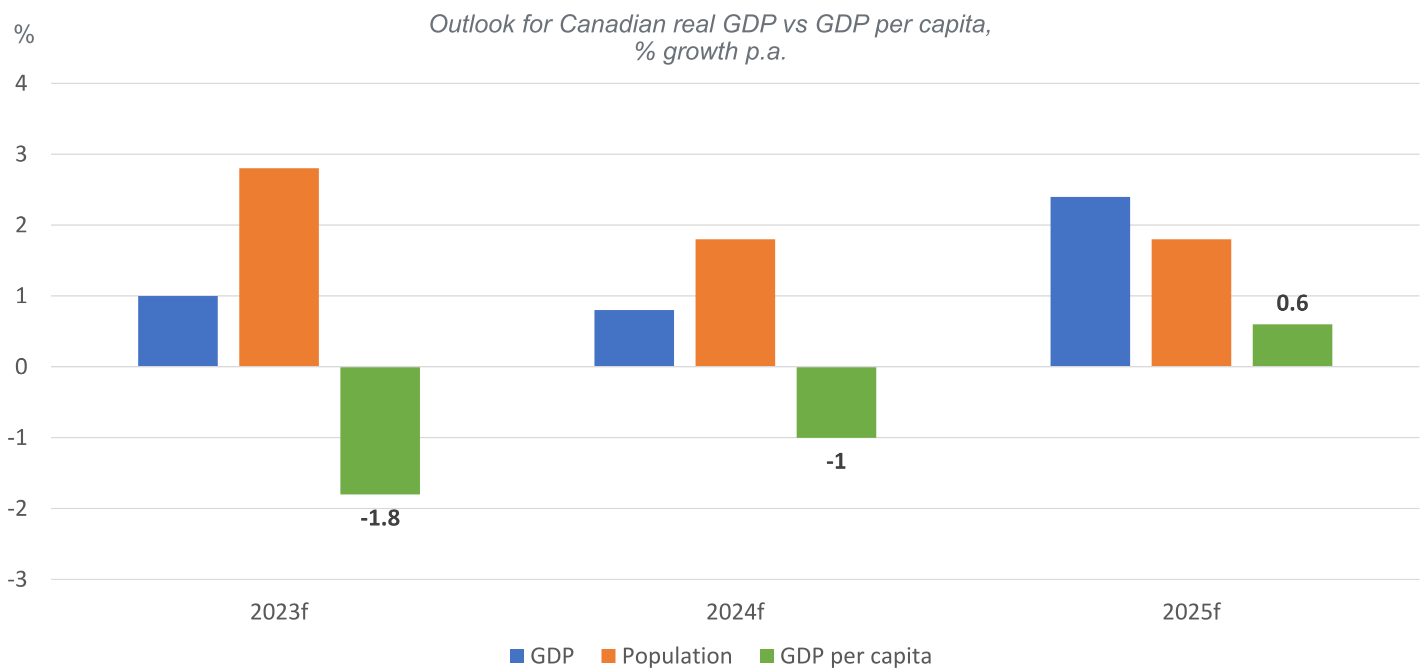
Figure 3 shows the economy from the supply side. In the left-hand panel, GDP growth is made up of growth in labour inputs (hours worked) and labour productivity (output *per hour worked*). Red-hot population growth is lifting labour inputs, and thereby GDP. But labour productivity is *falling outright*. Adjusted for total hours worked, the economy has not grown in 7 years either.[2,3]

Dividing by population gives the right-hand panel in **Figure 3**. GDP *per capita* growth is made up of growth in hours worked *per capita* and labour productivity. GDP per capita is falling because: (a) labour productivity is falling; and (b) hours worked *per capita* is below pre-pandemic levels. **Academic studies overwhelmingly find that the level of immigration has a *neutral or negligible long-run impact* on GDP per capita, labour productivity, the employment rate, and the population's age structure.** In Canada it appears spectacular immigration levels are having at best a small impact on hours worked per capita, and at best a neutral impact (but likely negative given the abrupt shift in the composition of immigration toward mostly low-wage guest workers and students) on labour productivity.

[2] Workers generate more value-added or output *per hour worked* when they have more capital, tools, skills, technology, innovation and scale to work with. A key reason for Canada's declining labour productivity is that business non-residential investment is less than depreciation, and far below the investment rate of other advanced countries (Robson and Wu, 2021; Williams, 2022). Consequently, Canada's non-residential capital stock per worker has been *shrinking* since about 2015.

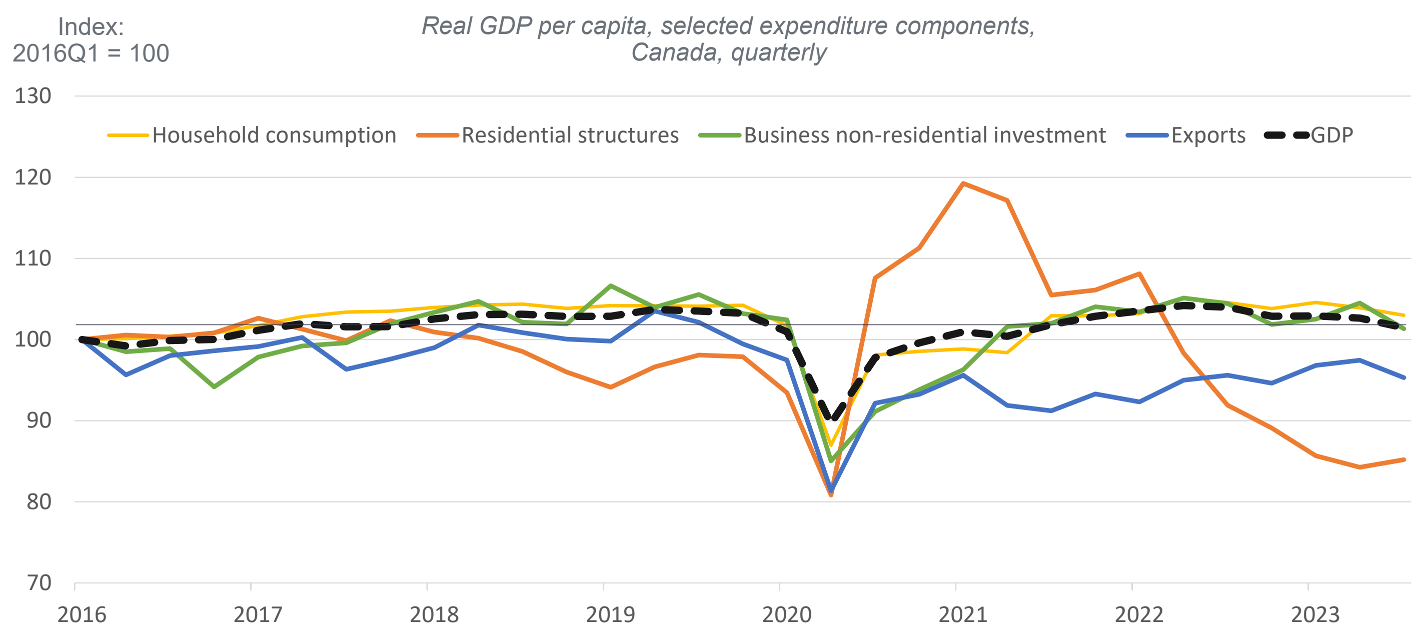
[3] Canada's labour productivity decline is broad-based, indicating structural problems. Out of 15 business industries over 2016-2023, only 4 sectors had rising labour productivity, in 5 sectors labour productivity was essentially unchanged, and 6 sectors had falling labour productivity.

FIGURE 1: **POPULATION GROWTH MASKS ECONOMIC DECLINE**



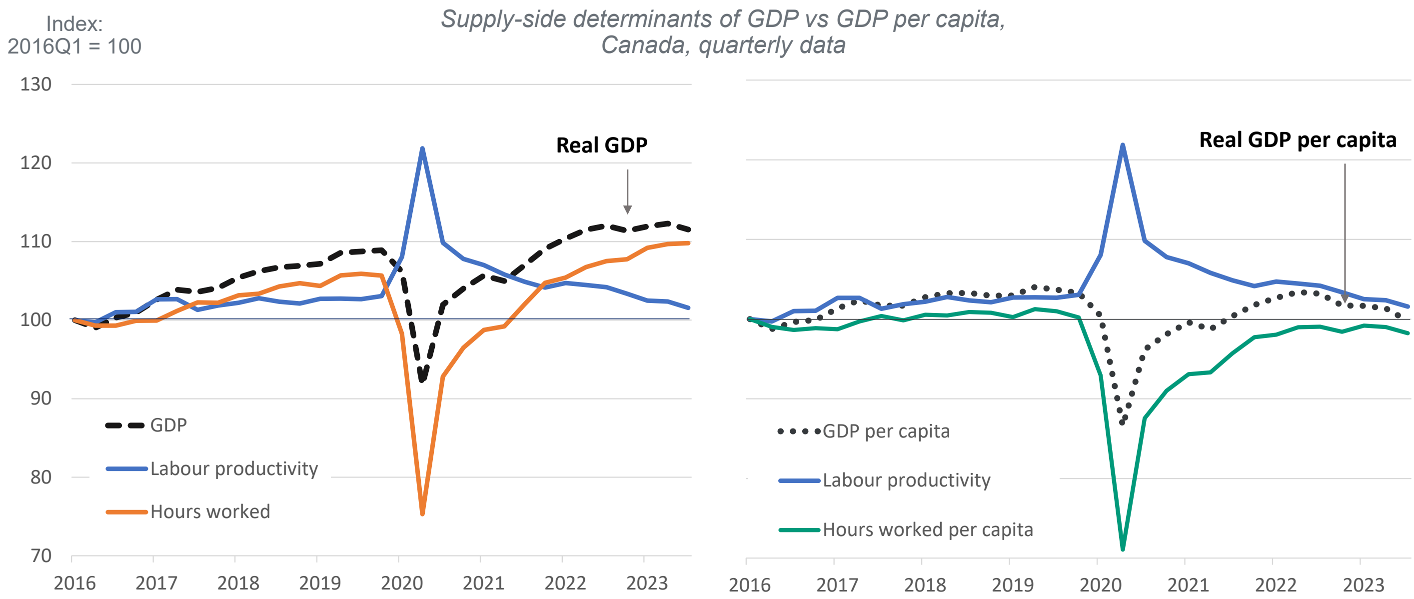
Source: Bank of Canada (GDP); BCBC (population, GDP per capita).

FIGURE 2: **DEMAND-SIDE VIEW: GDP PER CAPITA STALLED FOR 7 YEARS**



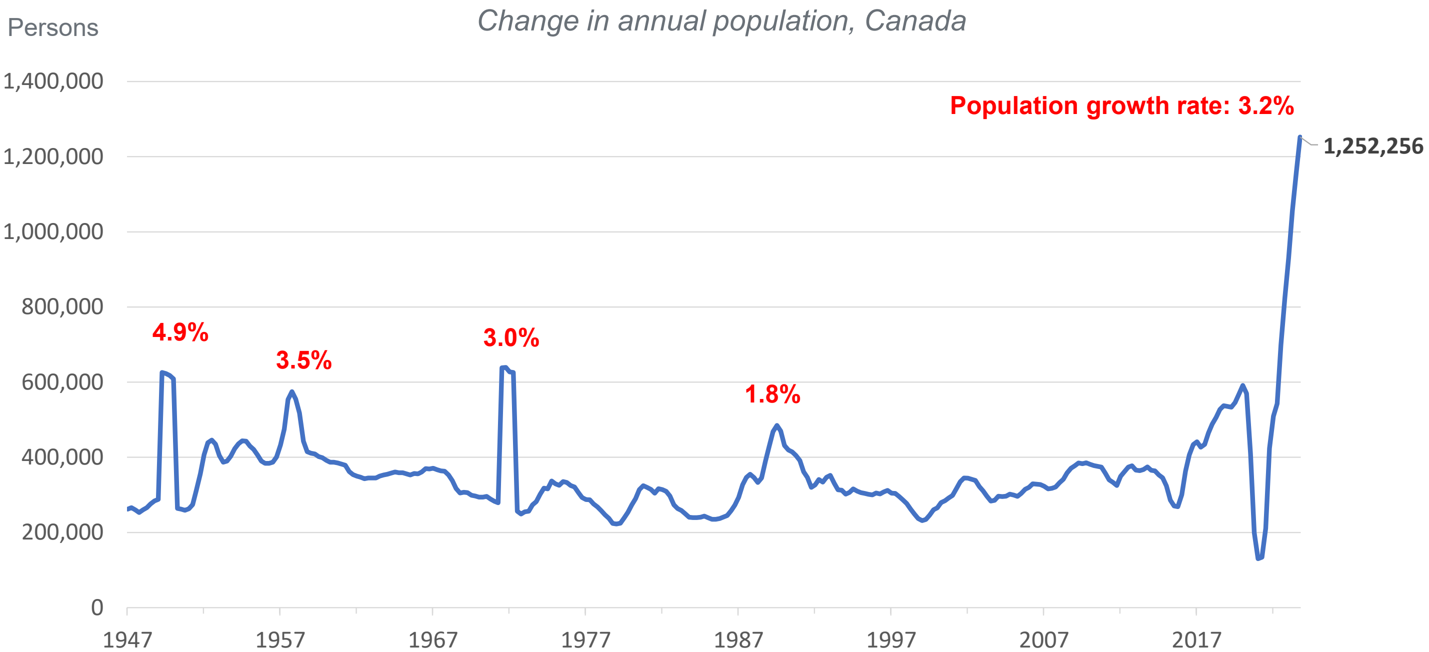
Source: Bank of Canada, BCBC.

FIGURE 3: **SUPPLY-SIDE VIEW: GDP VS GDP PER CAPITA**



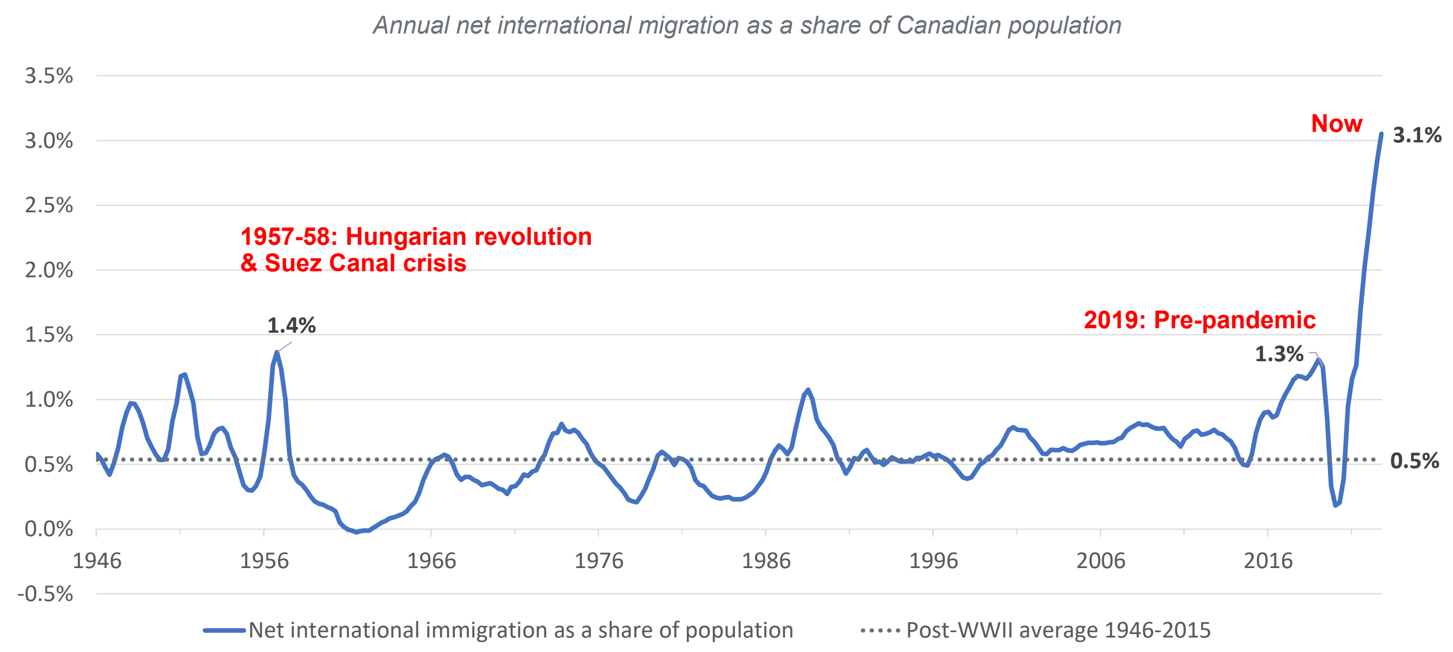
Source: Statistics Canada, BCBC.

FIGURE 4: **EXTRAORDINARY POPULATION GROWTH**



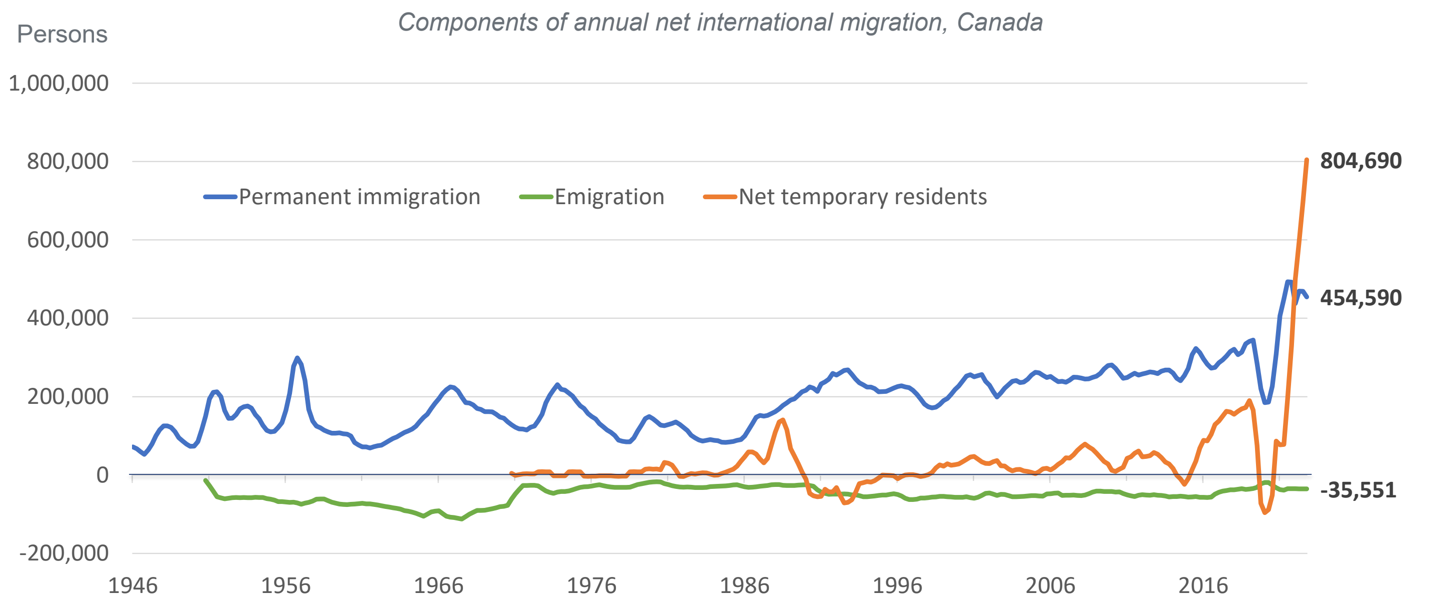
Source: Statistics Canada, BCBC.

FIGURE 5: **NET INTERNATIONAL MIGRATION AS A SHARE OF POPULATION IS 6X POST-WW2 AVERAGE**



Source: Statistics Canada, BCBC.

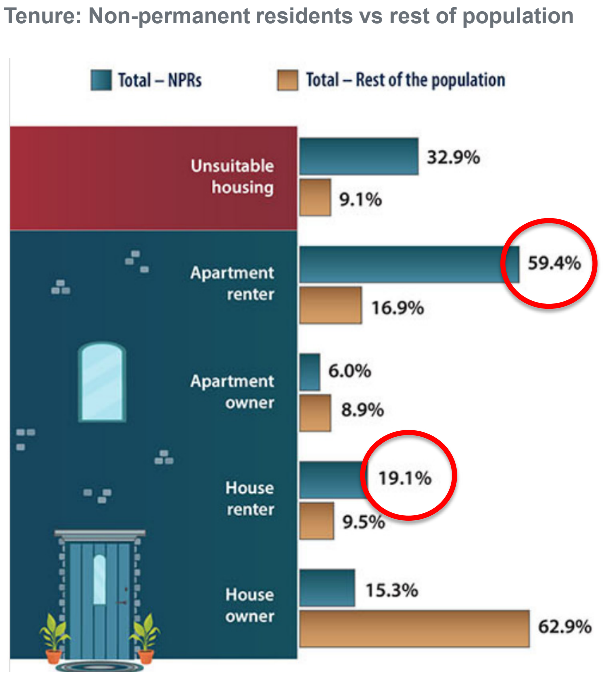
FIGURE 6: **UNPRECEDENTED TEMPORARY IMMIGRATION**

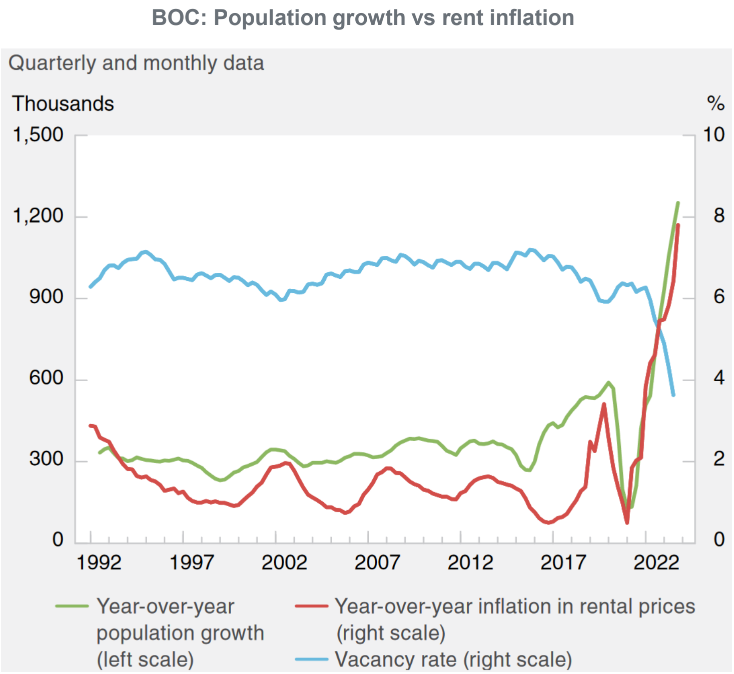


Source: Statistics Canada, BCBC.

* Temporary residents include temporary workers and study permits.

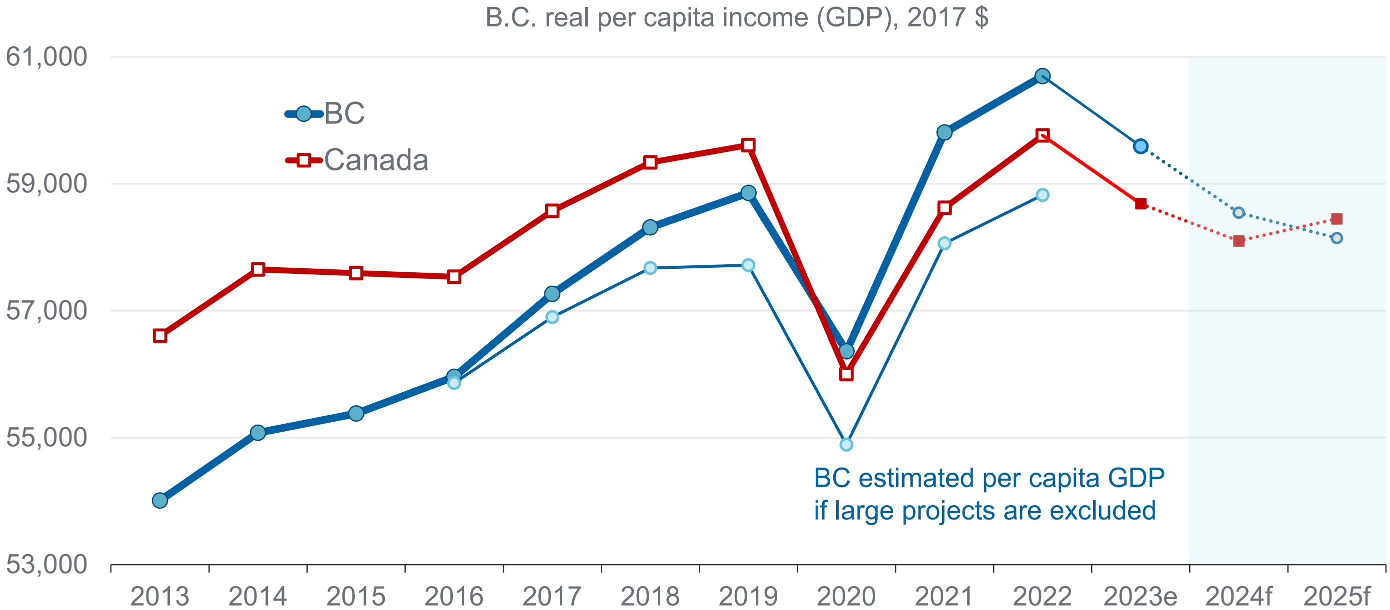
FIGURE 7: **IMMIGRATION CONTRIBUTING TO RENT INFLATION**





Source: Statistics Canada (LHS); Bank of Canada MPR January Chart 3A (RHS).

FIGURE 8: **B.C.'S PER CAPITA INCOME RISES ABOVE CANADA'S (THANKS TO LARGE CAPITAL PROJECTS)**



Source: Statistics Canada, Tables 36-10-0222-01 and 17-10-0005-01. 2023 BCBC estimate and 2024 and 2025 BCBC forecasts.

Immigration (labour inputs), not labour productivity (output *per hour worked*), is the centrepiece of the federal government's economic growth strategy. The government has radically changed the level and composition of immigration and departed from long-established and evidence-based principles (Doyle et al. 2023). In 2023, the population increased by 1.25 million (3.2% y/y), double any previous increase since World War II (**Figure 4**). **That is like adding another B.C. to Canada every 4½ years**.

Net international migration as a share of the population averaged 0.5% per annum from 1946 to 2015. In 2023, that ratio hit 3.1% or 6 times the post-WWII average (**Figure 5**). Even before the pandemic, the share was 1.3% in 2019 – twice the post-war average and on par with 1957-58 following the Hungarian Revolution and Suez Canal Crisis. Thus, the *level* of immigration being pursued by the federal government has no comparison in the post-WWII era.

The federal government has also altered the *composition* of immigration. **Temporary immigration (mainly guest workers and students) now makes up about 60% of the total annual intake at 805,000**, while permanent immigration is around 455,000 and emigration is -36,500 (**Figure 6**). Given around 80% of temporary residents are renters, and given the rental housing stock is fixed in the short-medium run (because it takes time to build), the unprecedented jump in temporary immigration has contributed to soaring rental inflation of around 8% per annum and a sharp drop in the vacancy rate for the total housing stock (**Figure 7**).

In its budget and financial statements, the federal government has trumpeted Canada's GDP performance, while quietly scrubbing mentions of Canada's dreadful performance on GDP *per capita*. Over 2014-19, Canada's real GDP per capita growth was the 3rd lowest in the OECD at 0.5% per annum (Williams, 2023a). Canada is one of only eight advanced countries that has failed to recover its pre-pandemic (2019) level of GDP per capita. It was the 5th weakest OECD economy over 2019-22. As at 2023Q3 (latest), GDP growth is 0.5% y/y, population growth is 3.0% y/y, so GDP per capita is *falling* by 2.4% y/y. **Canada's GDP per person is 2.2% lower than in 2019, meaning the economy is generating about $1,300 less income per person than it did 4 years ago**.

We estimate Canada's economy will not recover its 2019 level of real GDP per capita until at least 2027 (Williams, 2023b). Further ahead, the OECD projects Canada will be the worst-performing advanced economy over 2020-30 and 2030-60, with the lowest growth in real GDP per capita (Williams, 2021c). The principal reason is that Canada is expected to rank dead last among OECD countries in labour productivity growth over most of 2020-60. It is therefore most unfortunate that labour productivity ranks low among the federal government's priorities.

The economic pie is shrinking and the only way to feel positive about future living standards is to avoid looking at the data. **Canada lacks a productivity-focused policy agenda that would lead to real incomes going up over time, rather than sideways or down. That needs to change.**

B.C. ECONOMIC OUTLOOK

The B.C. economy is expected to grow by an anemic 0.7% this year. B.C. avoids an outright recession. But like Canada, with economic growth driven mostly by rapid population growth, real income per capita (GDP) is projected to fall 1.8%. In 2025 B.C.'s economy should grow by a more respectable 1.6% pace. But this is still a sub-par recovery especially with population growth marching ahead by at least 2.2%. Several headwinds will curtail a stronger upturn in 2025, including the winding down of several large capital projects, weak private sector capital investment, declining real per capita consumption, and a mixed picture for B.C.'s export sector. Rising taxes and compliance costs appear to be weighing on capital investment and hiring in B.C.'s private sector.

Government spending remains stimulative throughout the forecast horizon and continues to run counter to the Bank of Canada's efforts to temper inflationary pressures.

B.C. saw strong gains in real per capita income in 2021 and 2022 and surpassed Canada on this important metric of prosperity. This is a noteworthy and positive development considering the last time B.C.'s per capita income was above Canada's was three decades earlier in the early 1990s. There is, however, an asterisk to this good news story. Without the construction of LNG, the Transmountain expansion project, Site C and a few other large non-residential projects B.C.'s real per capita GDP would have remained below Canada's per capita income level. As the lift from these projects subsides, without additional large capital projects B.C.'s growth will

TABLE 2: **B.C. ECONOMIC OUTLOOK (ANNUAL % CHANGE UNLESS OTHERWISE INDICATED)**

	2022	2023	2024f	2025f
Real GDP (2017 chained $)	**3.8**	**0.9e**	**0.7**	**1.6**
Population	2.2	2.8	2.5	2.3
Real GDP per capita (2017 chained $)	1.5	-1.8	-1.8	-0.7
Employment	**3.1**	**1.6**	**1.2**	**1.4**
Private sector employees	3.4	-0.2	0.3	0.7
Public sector employees	4.1	4.6	3.2	2.8
Self-employed	0.8	5.5	2.5	2.2
Unemployment rate (%)	4.6	5.2	5.6	5.8
Housing Starts (000 units)	46.7	50.5	46.5	46.0
Retail sales	3.1	0.9e	3.0	3.0
B.C. CPI	6.9	4.0	3.7	2.3

f - forecast   e - estimate

Source: Statistics Canada and BC Stats; BCBC for forecasts.

downshift and B.C. will likely slip below the national per capita income level again.

B.C. SAW THE WEAKEST JOB GROWTH IN 2023

B.C.'s 1.5% increase in overall employment in 2023 was the weakest of any province and also the weakest annual job gain in at least a decade. Job creation was dragged down by a 0.2% drop in the number of private sector employees. This is a worrying development considering that outside of recessions it is unusual for private sector payrolls to shrink. More concerning is the divergence with the rest of Canada as every other jurisdiction in the country registered strong growth in private sector employment in 2023.

In stark contrast with the private sector, B.C.'s public sector payrolls surged 4.4% higher. The gain was the strongest of all jurisdictions in the country. This meant that in absolute terms the number of employees in the public sector rose by 24,000. This was nearly matched by a hefty 23,000 increase in the number of self-employed workers. The number of private sector payroll jobs fell 6,000 which tempered overall job growth and is the reason B.C. dropped to the bottom of the provincial job growth rankings last year.

The fact that the weak labour market picture for 2023 is essentially the same for the medium term is another reason to be concerned about employment prospects for British Columbians. Since 2019 B.C. has seen the number of private sector employees barely edge higher (up just 1.6%) while all other provinces registered strong gains over the same period. In B.C., the only reason overall employment is up from 2019 is because of the unusually strong expansion in public sector employment.

GOVERNMENT CAPITAL SPENDING HIGHER AS PRIVATE SECTOR REMAINS FLAT

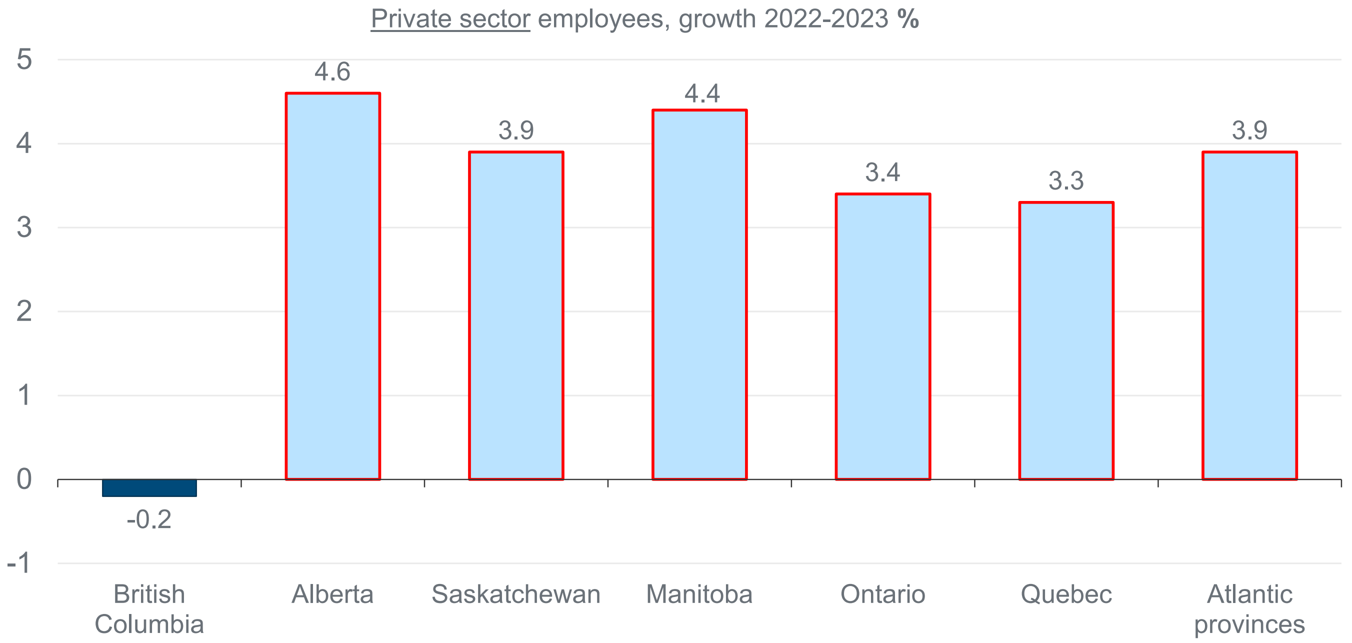
Capital investment is a weak spot in the provincial outlook. Private sector non-residential permit values have been generally flat since 2019. Public sector non-residential permit values have climbed sharply higher as the province has ramped up construction of hospitals and education facilities. The weak and uncertain outlook for private sector capital investment is dampening the province's growth outlook. With no large projects in the proverbial pipeline to replace the construction of several large capital projects in the energy sector that are nearing completion, economic growth downshifts over the forecast horizon.

The downturn in non-residential building permit values (in inflation adjusted dollars) in Metro Vancouver reinforces the outlook for a moderation in construction activity in and around Vancouver. In the rest of the province non-residential building permits climbed to a record high in 2023 (nearly $2.5 billion) boosted by a sharp increase in government and institutional permits.

RESIDENTIAL HOUSING STARTS EASE FROM 2023 HIGH MARK

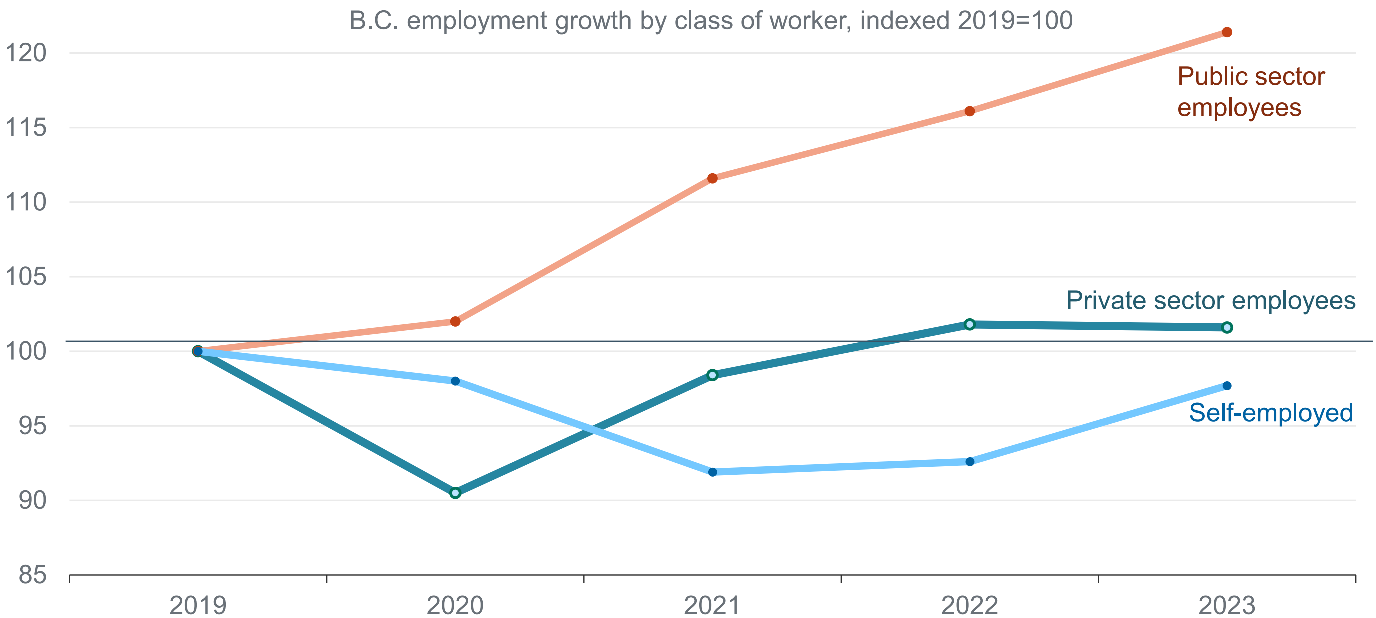
Provincial housing starts rose to more than 50,000 units in 2023. In 2024 we expect housing starts to retreat from this recent high mark to around 46,000 units as higher borrowing costs dampen new

FIGURE 9: **PRIVATE SECTOR EMPLOYMENT DOWN IN B.C. WHILE ALL OTHER PROVINCES RECORD STRONG GAINS**



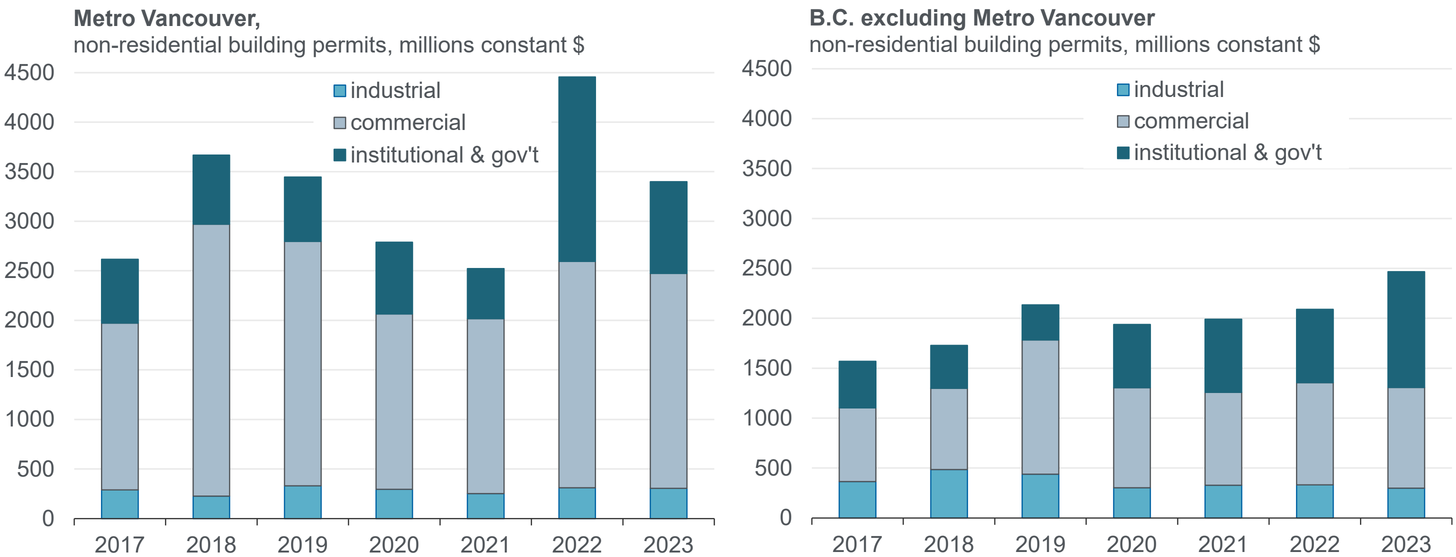
Source: Statistics Canada, CANSIM Table 14-10-0288-01.

FIGURE 10: **PUBLIC SECTOR ACCOUNTS FOR ALMOST ALL JOB GROWTH SINCE 2019**



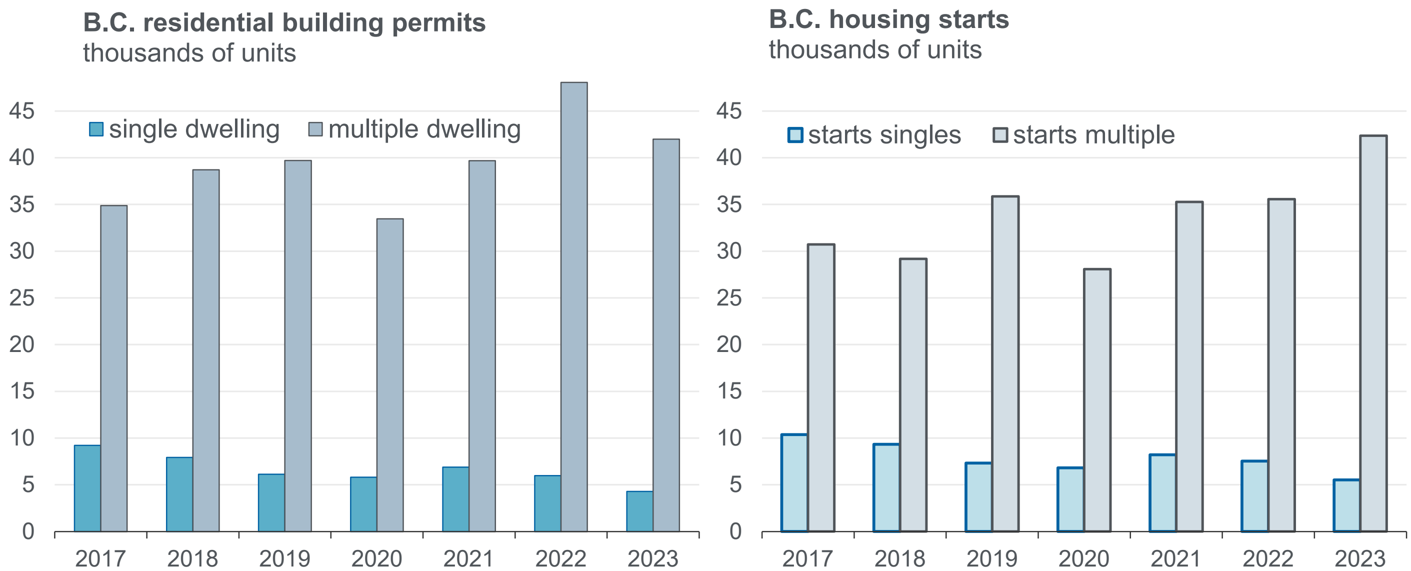
Source: Statistics Canada, Labour Force Survey, Table 14-10-0288-01.

FIGURE 11: **HIGHER GOVERNMENT NON-RESIDENTIAL BUILDING PERMITS**



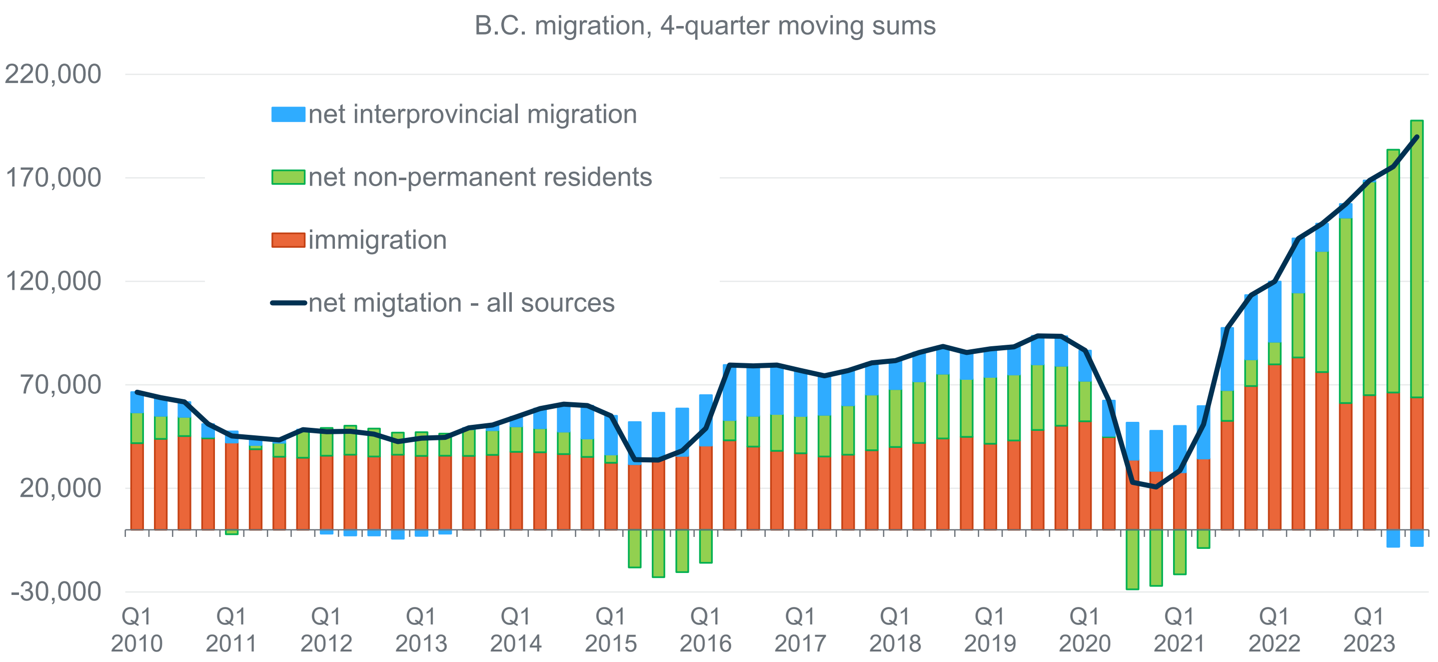
Source: Statistics Canada Table 34-10-0285-01.

FIGURE 12: **B.C. RESIDENTIAL BUILDING PERMITS EASE IN 2023**



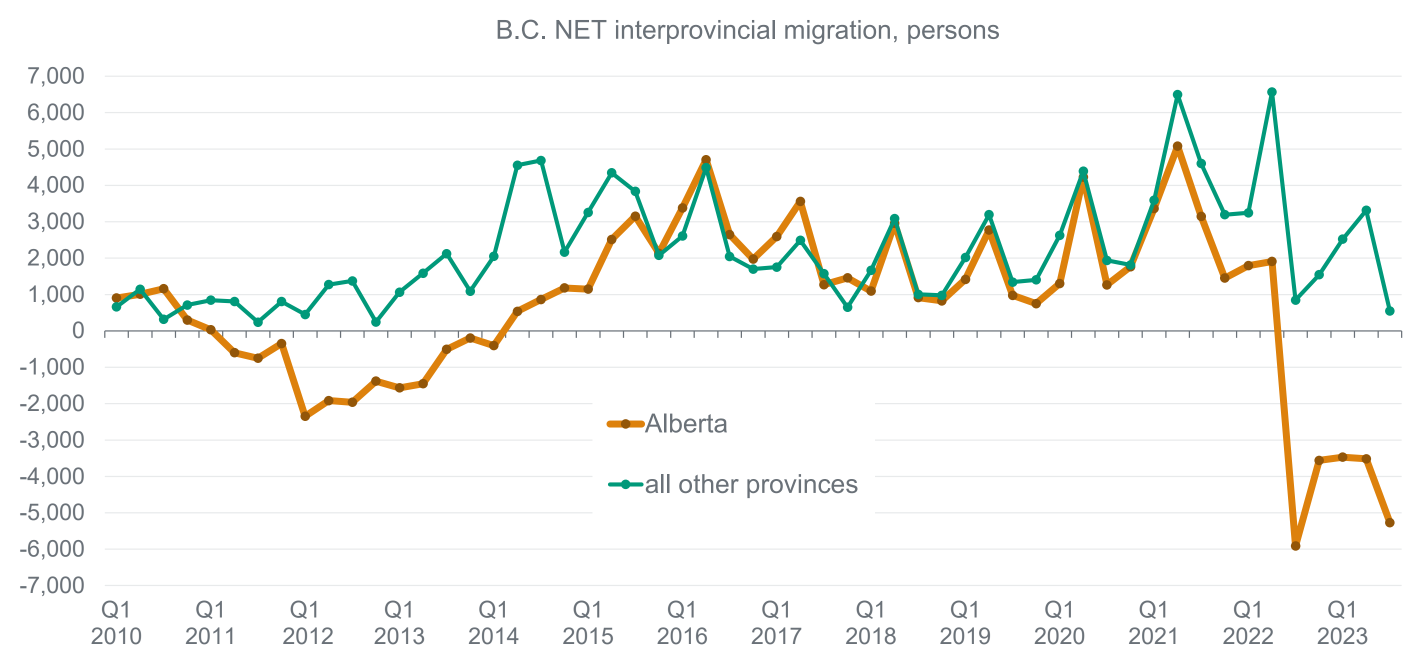
Source: Statistics Canada, Tables 34-10-0285-01 and 34-10-0156-01.

FIGURE 13: **RECORD HIGH IN-MIGRATION TO B.C.**



Source: Statistics Canada, Tables 17-10-0040-01, 17-10-0009-01 and 17-10-0020-01.

FIGURE 14: **NET MIGRATION TO ALBERTA ACCELERATES TO NEAR RECORD OUTFLOW**



Source: Statistics Canada, Table 17-10-0045-01.

home development. The decline in the number of building permits for residential units taken out in 2023 also points to a reduction in new home construction.

INTERNATIONAL EXPORTS RETREAT FROM RECORD HIGHS

Since propelling B.C.'s merchandise exports to new highs in 2022, commodity prices have eased and exports have trended lower. B.C.'s exports have become more aligned with the U.S. as merchandise exports to the U.S. have grown faster than any other large market. The U.S. now accounts for almost 56% of all international merchandise exports compared to a 45% share in 2010. Exports to India have soared by more than 1,000% since 2010. The growth rate in part reflects the low starting point in 2010, but the pace of growth has been sufficient for India to emerge as B.C.'s fifth largest international export market, replacing Taiwan.

A weak spot in B.C.'s export base is forestry. The value of forestry exports has trended lower in recent years and will fall further unless the government can rationalize the allowable cut and provide more fibre supply certainty for B.C. wood products manufacturers.

Mining presents significant upside opportunity for provincial exports. Several mining projects are set to open with several more in the advanced development stage.

International tourism is a bright spot. Passenger traffic at YVR has more than surpassed pre-pandemic levels. The cruise sector has more than recovered. The weaker Canadian dollar and more pandemic rebound effects are positive for the sector in 2024 and 2025. The film and television sector was impacted by labour disputes in 2023, but remains on a strong upward trajectory and a source of economic and employment growth over the forecast horizon. Education service exports which have soared in recent years will no longer be a source of economic growth as the federal government recalibrates the inflow of non-permanent residents.

B.C.'S POPULATION GROWTH SURGES IN 2023

Almost 190,000 migrants settled in B.C. in 2023 (the four quarters ending Q3 2023). The number of permanent immigrants rose to 64,000 while the number of non-permanent residents (mostly students and temporary foreign workers) surged to 133,000. Record in-migration will keep top line GDP growth positive over the next two years.

Net interprovincial migration has been negative for several quarters now, with the annual net outflow amounting to around 8,000 in 2023. This outflow is comparatively small in relation to the international inflows and will do little to change the overall population growth dynamics but is still noteworthy. Migration patterns between provinces, especially B.C. and Alberta, have long been viewed as an indicator of relative economic opportunities across the provinces. B.C.'s net interprovincial migration has turned negative due to a sharp rise in the outflow of interprovincial migrants to Alberta.

Population growth is expected to moderate but still remain at or above 2.3% over the forecast horizon, even as net interprovincial outmigration continues.

SUMMARY THOUGHTS

The lift that B.C. enjoyed from the construction of large capital projects wanes in 2024 and 2025. Real business investment remains weak and weighs on growth prospects in the coming years. B.C. households are under pressure from the rise in living costs and strong underlying inflation.

B.C.'s public sector plays a signficant role in driving economic growth in the coming years. Higher operating costs including comparatively high taxes are weighing on business expansion and capital investment. The province's aggressive climate policy agenda, as outlined in its CleanBC Roadmap to 2030, is a serious impediment to capital investment and will result in less income and employment in B.C.'s foundational land based export sectors.

The planned April 1st increase in B.C.'s carbon tax will add directly to food and energy costs and further undermine the competitive position of B.C. exporters. The expansion in B.C.'s public sector as investment and employment in the private sector languish raises questions about generating enough economic growth to sustain and improve publicly funded services and supports, and the province's ramped up capital spending program.

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