



PNWER ECONOMIC REVIEW AND OUTLOOK

At a time when national economies are struggling, the PNWER region is a growth leader within the US and Canada. Bolstered by ongoing economic and industrial development in Asia, expanding inter-regional trade, high commodity prices, and population in-migration, the PNWER region continues to outperform other parts of North America.¹ While it is certainly not immune from the economic slowdown or the financial turmoil unfolding in North America, the region is positioned to continue to out-perform both this year and in 2009. As economic growth in both Canada and the US grinds lower in 2008 (probably in the 1% to 1.5% range for both countries), output in the overall PNWER region is likely to advance by around 2.5%. Job creation in the region will also continue to outpace the national averages. The region's relative strength is underpinned by growing ties to Asian markets and buoyant prices for many of the agricultural, energy and mineral commodities produced by PNWER members.

Common themes, including an orientation to Asian markets and the wealth flowing from resources, have contributed to similar growth patterns on both sides of the border. As shown in Figure 1, real GDP growth rates for the PNWER states and provinces have tracked closely in recent years. The PNWER states' combined output rose by 3.5% in 2007, well ahead of the rest of the US² which grew by a more modest 2%. In Canada, the PNWER provinces (and the Yukon) together grew 3.2% last year while real GDP in the rest of the country expanded 2.4%.

States	2007 Growth (%)	State Ranking	Avg. Growth 2003-07 (%)	State Ranking
Washington	4.3	3	3.4	14
Oregon	3.2	7	4.6	5
Montana	3.5	6	4.0	7
Idaho	2.4	16	4.6	4
Alaska	0.3	43	1.8	41
Provinces	2007 Growth (%)	Provincial Ranking	Avg. Growth 2003-07 (%)	Provincial Ranking
BC	3.1	4	4.7	1
Alberta	3.3	2	3.4	2
Saskatchewan	2.8	5	2.9	4

Sources: Marple's Pacific Northwest Letter, June 18, 2008; Statistics Canada, Provincial Economic Accounts.

Based on average real GDP growth over the past five years, Idaho, Oregon and Montana ranked 4th, 5th and 7th in the country respectively.³ Idaho's manufacturing sector, which

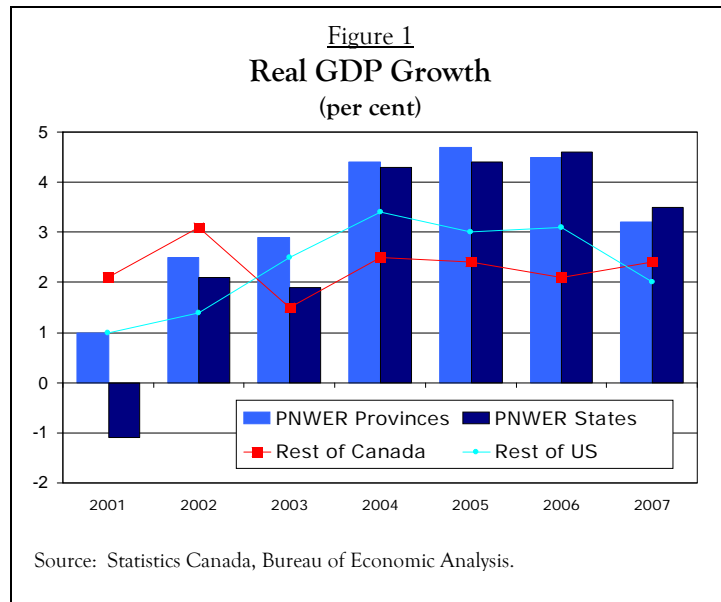
¹ The region includes Washington, Oregon, Idaho, Montana, Alaska, the Yukon, British Columbia, Alberta, and now Saskatchewan.

² The other 45 states combined.

³ Marple's Pacific Northwest Letter, Wednesday June 18, 2008.



includes Micron Technology (memory chips) and Hewlett Packard (printers), helped vault the state to this position. More recently, some of the smaller technology companies in Idaho are reported to be growing rapidly. Oregon's impressive five-year performance is due largely to the rising value of high tech products. Montana's rapid growth reflects the global commodity boom, with the real value of output in the mining and oil and gas sectors rising at an annual rate of 12.5% in the past five years. Robust growth in the telecommunications industry and in the transportation and warehousing sector has also propelled Idaho's economy.



Washington State – the region's largest and most diversified economy – has also put in a strong showing over the past several years. It ranks 14th in the US in five-year growth. One of its standout sectors is the Information industry, which captures Microsoft (as well as a growing array of other software companies). Payrolls at iconic aerospace manufacturer Boeing have also increased in recent years.

Alaska is the one PNWER economy that has been a growth laggard. It ranks 43rd in the US in real GDP growth over the past five years. This showing, however, masks a high level of prosperity, steady (if unspectacular) job growth, and the fact that the state government is awash in cash. According to the Bureau of Economic Analysis, Alaska ranks second in the country in GDP per capita. And its economy has generated rising payroll employment for 20 consecutive years.

On the Canadian side of the border, Alberta and British Columbia rank first and second in real GDP growth over the past five years. Saskatchewan is fourth and would have secured third place had it not faced a serious drought-related fall in agricultural production in 2006. Alberta has posted spectacular growth due to surging oil prices, the accompanying development of its oil resources, and large population inflows. More people moving to the province also supported a construction boom. A similar story holds for Saskatchewan. Oil and gas development has lifted its economy, but more recently it has enjoyed a further boost from strong prices for potash, uranium and agricultural products. To a lesser degree than its westerly neighbour, Saskatchewan has also benefited from in-migration and a housing boom.

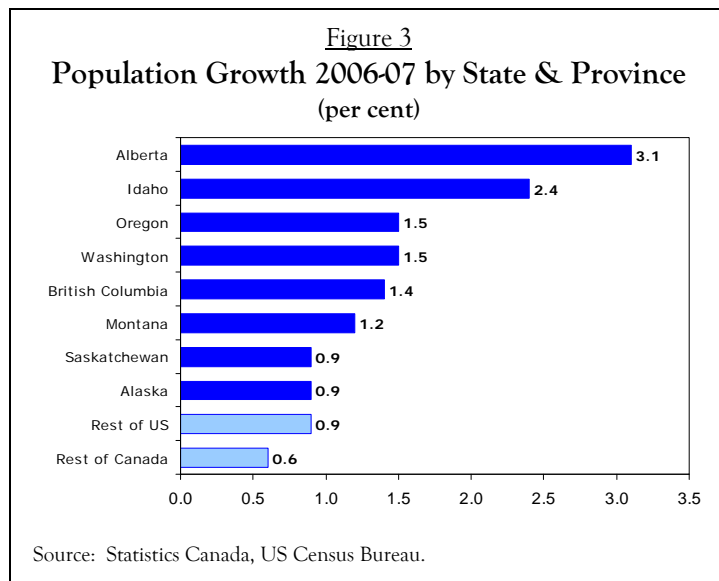
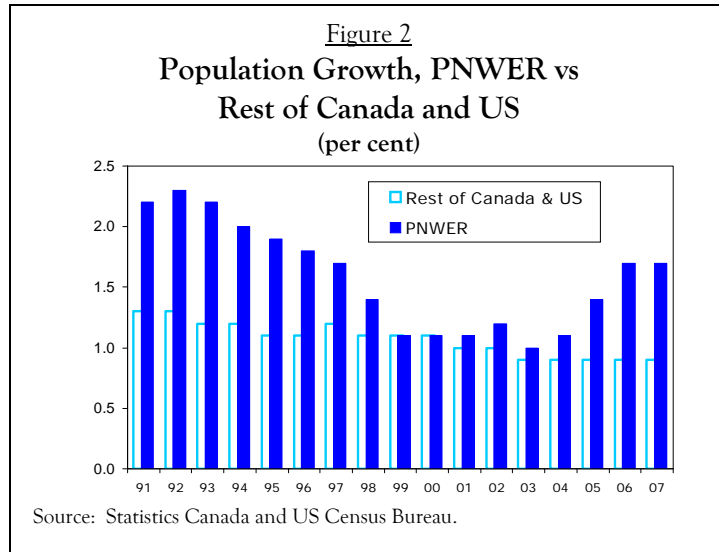
BC's strength has been more broadly-based, but it was a boom in residential construction followed by a massive surge in non-residential construction and large infrastructure projects that catapulted it to second place in Canada in five-year GDP growth. BC's position as a



growth leader is also attributable to the province's excellent fiscal position and the implementation of significant tax cuts since 2000.

Taking a somewhat longer-term view, the comparative strength of the region's economy is evident in the population numbers. PNWER's total population surpassed 22 million in 2007, equal to 6.6% of the collective Canada-US population. More significantly, population growth rates have remained well ahead of the rest of Canada and the United States for most of the past two decades, reflecting the region's longstanding economic prowess and attractive living environment. Last year the PNWER region's population increased by 1.7%, whereas the rest of Canada and the US combined saw growth of just 0.9%.

Last year, Alberta led the pack with population up by 3.1%. Idaho, where the population grew 2.4%, ranked second. At the other end of the scale, population growth rates in Saskatchewan and Alaska were more in line with the rest of Canada and the US.



Solidly performing economies have translated into substantial increases in employment. The longer-term view depicted in Figure 4 shows that job creation in the PNWER region has consistently outpaced the national US and Canadian figures. PNWER employment rose 42% between 1990 and 2007. The rest of Canada and the US have had somewhat different growth paths, but over the period covered in Figure 4 both nations have seen employment rise by about 25%.

Situating the Region in the Medium-term

The outlook for the region over the next five to ten years is favorable. Longstanding growth-supporting factors and a number of more recent trends that have given the PNWER region a boost should remain in place for the foreseeable future.



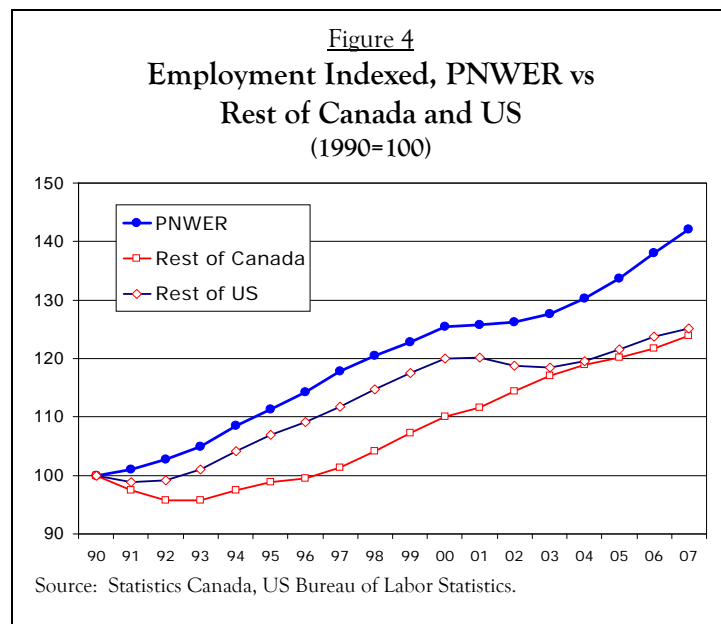
With its diverse industrial base, manufacturing employment will continue to expand in Washington. The devaluation of the US dollar has bolstered net exports across all of the PNWER states. After being flat for the better part of a decade, exports from the PNWER states nearly doubled (from US\$51 billion US\$92 billion) over the past three years. Looking ahead, there is scope for further export gains.

In Canada, the general westward shift in economic dynamism and population growth that has materialized since the start of the decade looks set to continue. One reason is shifts in the exchange rate. The marked appreciation of the Canadian dollar has undercut the competitive position of many Canadian producers and resulted in a distinctly mixed export picture among the provinces. Central Canadian manufacturers have pared output and shed jobs. In the west, however, strong commodity prices have more than mitigated the effects of the rising currency in the agricultural, mining and energy sectors. The one notable exception is forest products, where companies all across the country have been struggling. Among the Canadian PNWER members, BC has been hit hardest by the surging Canadian dollar, due in large part to its dependence on lumber and pulp and paper and the important role of American visitors in the province's tourism business.

One reason to be optimistic about the region's prospects is the rise of Asia in the global economy. The rapid development and industrialization of China, India and other parts of Asia should continue to benefit the PNWER region both directly and indirectly going forward. Some recent projections suggest that Asia as a whole will see its share of global output climb from 35% today to as much as 45% within 15 years.

As emerging market economies in Asia continue to advance and grow wealthier, they will buy more products and services from the US, Canada and other developed economies. While this transformation is arguably just in its infancy, it is worth noting that over the past four years alone PNWER's exports to China have soared, growing at twice the pace of international exports in general. This has provided a welcome lift to the region, especially in the US states where China already ranks as the top or one of the leading export markets. Although the PNWER provinces are somewhat less dependent on the Chinese market, they too have seen exports to China (and other parts of developing Asia) grow at double the rate of sales to other international markets.

The PNWER region will also benefit more generally from expanding linkages to the Asia Pacific. Washington, BC and Alaska in particular are home to critical air- and sea-port





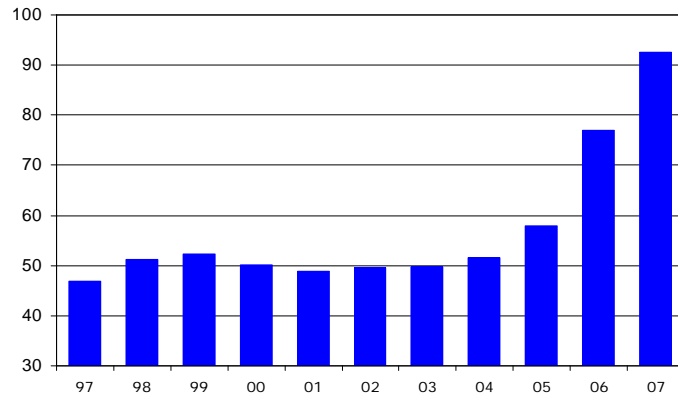
infrastructure that connects North America to Asia. The need to move products throughout North America via rail means that opportunities linked to increased trade with Asia also extend to the inland PNWER jurisdictions. Within the region as a whole, the transportation and logistics sector is expected to be a long-term and stable source of growth and wealth creation.

In addition to its direct purchases and growing requirements for transportation services, Asia's ongoing development and huge appetite for commodities benefits the PNWER region indirectly through higher commodity prices. Prices for mineral products, coal, pulp, and more recently agricultural products have all risen in part because of strong demand from emerging Asia.

The region's abundant energy resources, including hydro electricity, natural gas, coal and oil, should prove to be a particular advantage in a world where energy prices have moved sharply higher and are likely to remain elevated in a historical context. The rise in energy and other commodity prices has led to massive increases in capital investment in resource-related sectors, more jobs and surging government revenues for several PNWER members. While most commodity markets remain susceptible to cycles, the rise of emerging Asia in the global marketplace should support higher commodity prices in general. Over the medium term, increased global demand for resource-based products improves the region's terms of trade and translates into greater wealth.

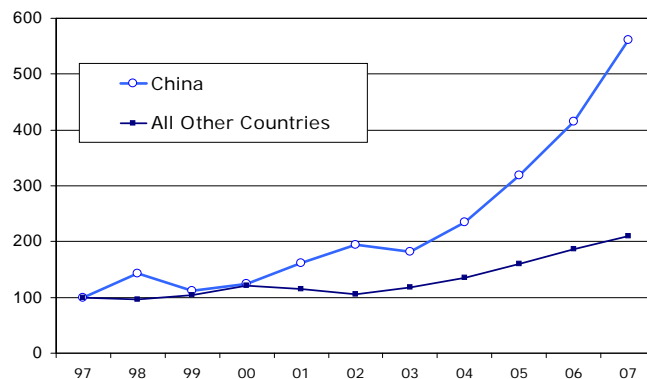
It should also be noted that the PNEWR region's large and economically important forest industry will be a positive factor in the medium-term. While the sector is currently reeling from the downturn in the US housing market and slumping lumber prices, beyond the next two years the outlook is positive. US demographic trends are such that there will be a

Figure 5
International Merchandise Exports,
PNWER States*
(US\$ billions)



Source: WISERTrade. * Washington, Oregon, Idaho, Montana and Alaska.

Figure 6
PNWER International Exports
China and All Other Countries, Indexed
(1997=100)



Source: WISERTrade, Statistics Canada.



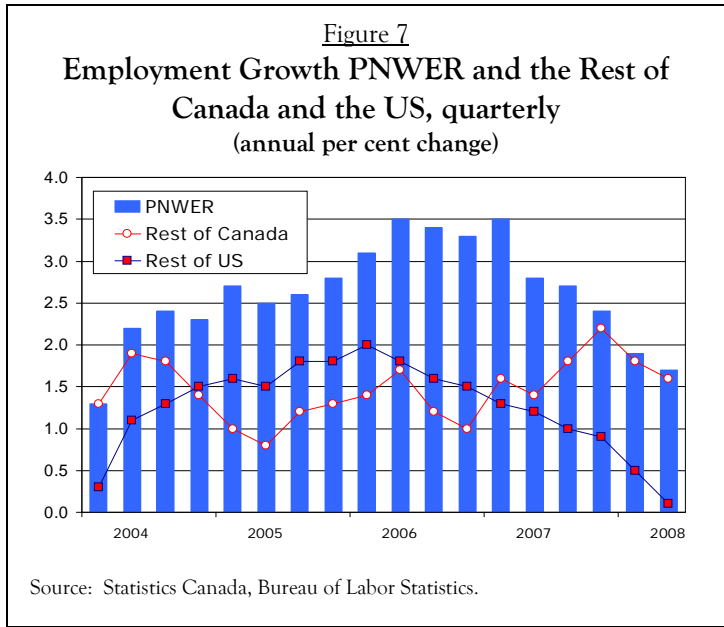
significant upswing in the demand for housing. Millions of new homes will have to be built to accommodate a growing population and steady increases in the number of American households. The fact that future fibre supply will be curtailed in eastern Canada and in BC because of government policies and the pine beetle infestation supports a scenario of robust pricing conditions for lumber and other wood products once the current US housing downturn has run its course.

That PNWER’s population growth is expected to remain above-average is another positive factor for the medium-term outlook. One reason for sizable population gains is the relative strength and prosperity of the regional economy, something that will continue to attract international migrants as well as people from other parts of Canada and the US. The region’s high quality of life and natural attributes should not be overlooked as assets that reinforce its economic advantages.

Finally, PNWER members also benefit from high levels of interregional trade, commerce and labor flows. Growing inter-regional ties and cooperation will help to strengthen these commercial connections in the coming decade. PNWER states and provinces are working to establish the foundations for beneficial interjurisdictional commerce and are stepping up the pace of cooperation in areas such as transportation, climate change, and innovation.

Recent Economic Performance and Near-term Outlook for PNWER

While the medium-term outlook is for the region is positive, in the near-term PNWER is not immune from cyclical forces and broader national economic developments. Against the backdrop of weaker North American growth, the PNWER regional economy is currently slowing. The downshift is already evident in the regional job market, where employment growth has slipped from a healthy 3.5% at the outset of 2007 to 1.7% in the second quarter of 2008. Although this is a notable drop that will dampen income growth and spending in the coming months, in a comparative context the region’s job market is still in good shape.

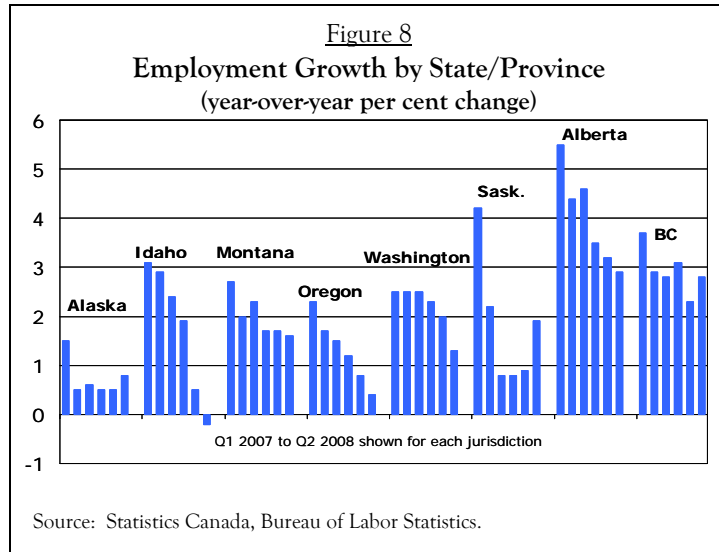


Variations within the PNWER region have become more pronounced over the past year. Alberta posted job growth of nearly 3% in the second quarter (year over year basis). At the other end of the scale, Idaho recorded a small decline in employment in Q2, while job growth in Oregon slipped to a modest 0.4%.



Washington

The near-term outlook for Washington State is for economic growth to moderate in 2008 and stay soft in 2009. Net job creation has already eased to a 1.3% pace, down from 2.5% in early 2007. Some of this reflects a 5% drop in employment in residential construction and related trades. The number of people working in Washington's financial services sector fell for the fourth consecutive quarter and will likely continue to slide in light of the recent US financial turmoil.



In common with patterns at the national level, the number of housing units authorized by building permits in Washington declined by 6,800 in the first quarter of 2008. This pushed the number of units down to 31,600, the lowest level since Q4 1991. Conditions in the home construction industry have deteriorated more rapidly than expected at the start of the year.

According to the official state Economic forecast, residential building permits are projected to fall 30% in 2008 and then rebound by 35% in 2009. In light of the ongoing issues in the US housing and financial sectors, this is one area where the official outlook may prove to be optimistic. If the rebound does not materialize, the state's projection for non-farm payroll employment to increase by 1% in 2009 will have to be revised down.

Among the PNWER region's economies, Washington's is the most diversified and has the third largest export base (when measured in per capita terms). This, coupled with its trade orientation to Asia-Pacific markets, suggests that Washington is well-positioned to weather the current economic slowdown.

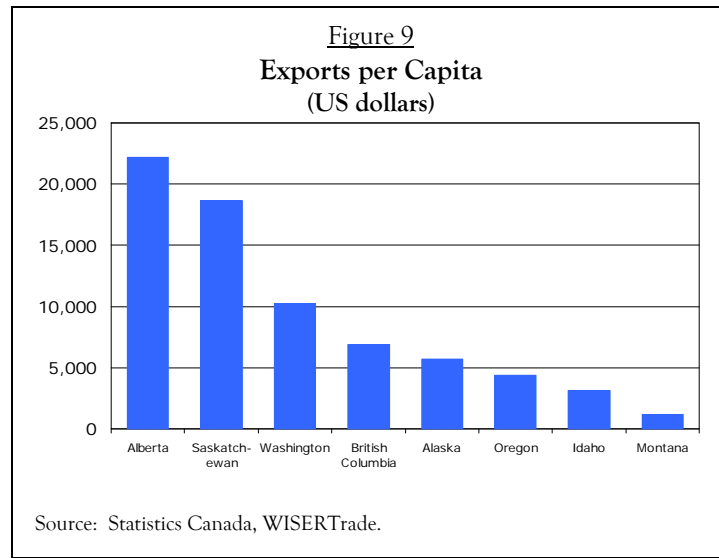
Oregon

While its domestic economy is reeling from a slumping housing sector and the difficulties in the financial services industry, Oregon's export sector is a bright spot. On the heels of a number of years of solid gains, Oregon's international exports advanced another 15.7% in the first quarter of 2008, versus the same period in 2007.

Oregon's housing industry is struggling to shed earlier excesses and may be the hardest hit within the PNWER region. In 2007 housing starts in the state fell 20% and are projected to drop another 40% this year. If this forecast proves to be accurate, the level of housing construction in Oregon will be down by more than 70% from the 2005 peak.



At about half the size of Washington's, Oregon's export base does not provide the same offsetting cushion to weaker domestic conditions. Instead, Oregon's fate appears to be closely tied to that of the wider US economy. As noted in the state's most recent Economic and Revenue Forecast, Oregon "has never failed to follow the US business cycle." Annual job growth has already slowed to just 0.4%, one of the lowest in the PNWER region. In the second half of 2008, the Office of Economic Analysis expects job growth to be flat. Not surprisingly, the Wood Products sector will shed jobs this year as well as in 2009. The job count in the Computer and Electronic Equipment Sector is also expected to be down through 2009.



Idaho

In line with the rest of North America, Idaho's economic outlook has also been scaled back. Although recent projections call for employment to rise by 0.7% in 2008, non-farm payroll employment was down by 0.2% (year-over-year) in the second quarter. This suggests the job market is weaker than expected and that it will be difficult to meet the state's official job growth projection, even with robust conditions in the mining industry and Idaho's rising exports (up 18% so far this year).

New home construction is a weak spot, with housing starts tumbling 27% in 2007, following a 17% decrease in 2006. The outlook is for housing construction to dip another 10% this year, before edging higher in 2009. Again, the weak economy suggests that a meaningful recovery in home building in Idaho may take longer.

The value of Idaho's international exports rose 125% between 2003 and 2007. While the influence of expanding trade with China is evident in all PNWER jurisdictions it is especially significant in Idaho. Since 2003, Idaho's exports to China have soared by 578%. More than 15% of the state's exports are now shipped to China. Within the region, only Alaska (at 18%) sends a bigger share of its exports to China.

Montana

Although Montana has the smallest export base among PNWER jurisdiction (\$US 1.1 billion), between 2003 and 2007 the value of its exports more than tripled. Strong export growth remains a positive factor for the state. Its international exports surged almost 40% in the first quarter of 2008, following significant gains in the previous two years. Although Montana's economy is becoming more diversified, high agriculture and mineral prices are providing a lift. So far this year Montana's job market has remained healthy. In the first



quarter of 2008, employment climbed 1.6% (year-over-year), the biggest increase among the PNWER states. The weaker US dollar is also good news for the state's tourism industry.

Alaska

Job growth in Alaska softened to just 0.5% for most of 2007. Although it picked up to 0.8% in the second quarter of 2008, the state's job market is among the weakest in the region. For the state as a whole, the jobs picture is consistent with projections for 0.7% employment growth in Anchorage in 2008 (the city accounts for nearly half of all jobs in Alaska).⁴

Alaska is the only PNWER state where the export sector appears to be doing little to help counter a weakening domestic economy. The value of Alaska's exports declined in 2007; and, even with a weaker US dollar and soaring oil prices, exports are up only modestly this year. On the other hand, Alaska's exports to China have soared by 360% over the past four years.

Residential building permits for both single and multi-family building contracted by one-third last year and have posted similar sized declines in the first part of this year. There is better news elsewhere: a rise in the number of air passengers (6.7% Q1 2008 vs. Q1 2007) and higher room revenues in Anchorage point to increased tourism activity. In addition, high oil prices, continued expansion in the air cargo business, and Alaska's emerging mining industry should all keep the economy growing at a modest pace this year.

British Columbia

Under the weight of a stronger Canadian dollar and a sharp downturn in the province's still-important forestry sector, British Columbia's economy is slowing after several years of solid growth. In fact, BC stands out as having the weakest export performance among PNWER jurisdictions. Since 2003, its international exports have risen by a comparatively modest 44%. More significantly, exports fell in US dollar terms in 2007 and are down again this year (due in large part to battered North American lumber markets).⁵

Up to this point, the softening in BC's economy has been concentrated in the export sector, but it is beginning to show up elsewhere. There are signs that the once surging domestic economy is losing a bit of momentum. With home sales down, new housing construction has started to back off. The situation, however, is distinctly different from that south of the border, as sub-prime lending has not been a big problem in Canada. More significant for the near term outlook is that the boom in non-residential construction which BC has been also seems to be easing. This segment of construction has been a major growth driver for the past three years.

Despite uncertain economic times, BC's job market has stood up well. Employment grew by a healthy 2.8% pace (year-over-year) in the second quarter, down just slightly from the gains seen over the preceding years. The pace of job creation has been impressive since 2002 and the unemployment rate is hovering near a record low.

⁴ "08 Economic Forecast," Anchorage Development Corporation.

⁵ Measured in Canadian dollars, exports declined in 2006 and 2007.



Real GDP growth looks likely to fall below potential this year as the province puts in its weakest performance since 2001. In 2009, the run up to the 2010 Winter Olympics should trigger new spending and lead to a pick up in overall economic growth. On the downside, a further softening in non-residential construction activity and continued weakness in the export sector are likely to stand in the way of a stronger growth performance over the next 18 months or so.

Alberta

Alberta's economy is cooling off from the "boiling point" reached in recent years. In 2007, the province's real GDP advanced by 3.3%, a very respectable showing but only half of 2006's breakneck 6.6% growth. Strength in the energy sector (oil sands), low unemployment, and rising incomes continue to support the economy, but the pace of growth is expected to further ease this year. Housing sales have already slowed and new home construction is declining. Growth in retail spending is also moderating and is likely to come in near 5% for the year, down from last year's 10% surge. The job market is also softening a bit, but the second's quarter's 2.9% gain means that Alberta still leads the PNWER region in job creation.

The upward march in global and North American oil prices means that Alberta (US\$ 77 billion in 2007) has now surpassed Washington (US\$66 billion) as the PNWER region's biggest exporter. In addition, Alberta is a major producer and exporter of natural gas, the price of which has doubled this year. With high prices for both of these energy commodities, the provincial government is on track for another big budget surplus. Alberta is the only Canadian province with zero net public sector debt.

Saskatchewan

Saskatchewan is a visible and grateful beneficiary of generally high global commodity prices. All of the province's key export products (oil, natural gas, grain, uranium and potash) are at or near record levels. The economic boom which the province is enjoying is evident in unprecedented growth in retail spending, buoyant housing markets, and rising business investment. After decades of net outflows to the rest of Canada, net in-migration has turned positive and is contributing to the economic upswing, as people move to Saskatchewan to take advantage of the good economic times. High housing prices in Alberta have also prompted some people to depart for next-door Saskatchewan, where home prices are still fairly inexpensive (albeit rising briskly).

Saskatchewan is forecast to lead all Canadian provinces in real GDP growth this year, and it is likely to rank among the best performing economies in North America through the end of the decade.

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