

# Troubled Economic Times – What’s Happening and What Can We Expect?

presented to:

Central Okanagan Economic Development Commission

June 23, 2009  
Kelowna, BC

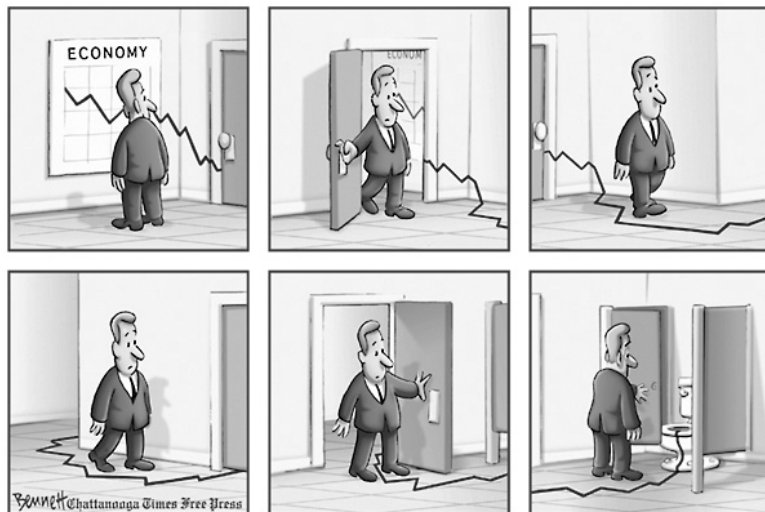


Business Council of British Columbia

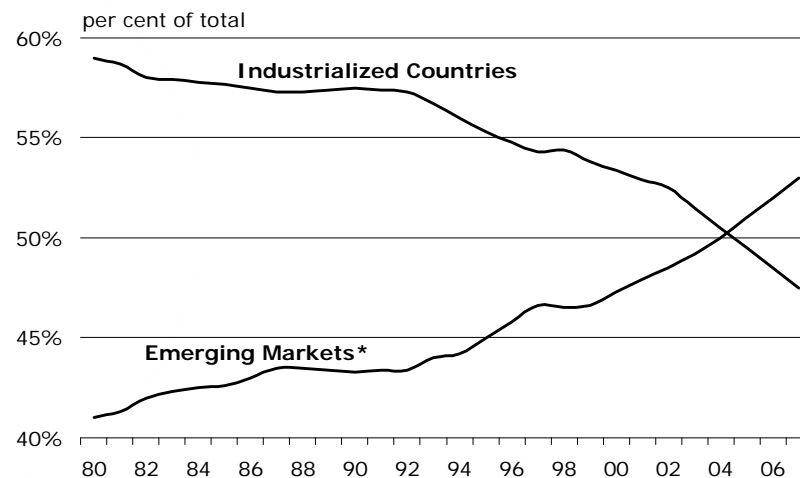
**Jock Finlayson**  
EXECUTIVE VICE PRESIDENT - POLICY

## Highlights

- Intense and synchronized global recession, accompanied (and preceded) by dysfunctional credit markets and continued financial instability
- Downturn and financial crisis started in the US, but then spread to Asia and Europe and is also hitting Canada
- Worldwide wealth is estimated to have declined by \$50 trillion since Q2 2007 (equity markets, real estate assets, plus financial system losses/mark-downs)
- Global trade dropped dramatically in Q4 2008 and continued to shrink into the early months of 2009
- Canada’s economy will contract by 2.5-3.0% this year, with some recovery expected in 2010. British Columbia is in a full scale recession



## Share of World Growth (1980-2007)



Source: TD Economics.  
\* Including Newly Industrialized Asian countries.

## US Economy and Housing Market Slump

- US recession began in December 2007 and will continue through at least Q2 2009
- US housing starts down to 500,000 versus 2.2 million in 2005. Urban housing prices down 32% since peaking in July 2006.
  - » approx. 16 million homeowners face negative equity
  - » **avg. home sales price, 2008, Detroit: \$20,514**
- 5.7 million payroll jobs lost since January 2008
- Preliminary signs suggest the recession is ending, but structural challenges from overleveraged households, weak banks, and the need to rein in huge government deficits will act as a drag on growth for some time

## Record Low for US Home Construction



Source: US Census Bureau.

Latest: May 2009

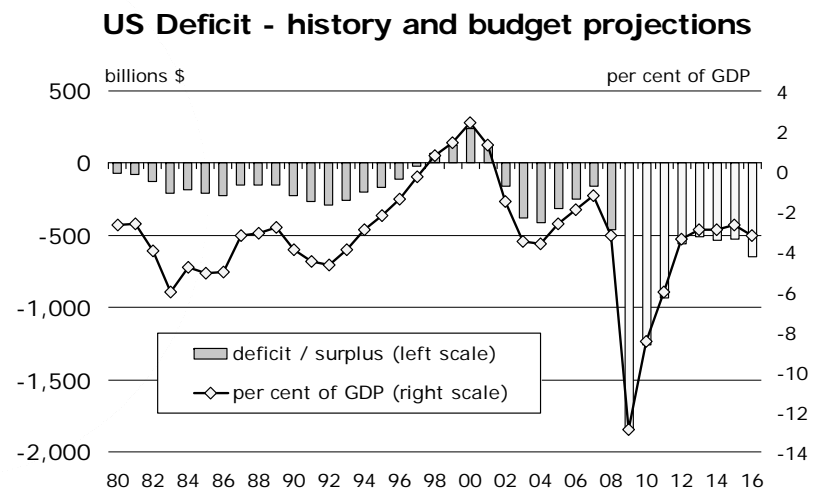
## US Consumers Throw in the Towel



Source: US Department of Commerce, Census Bureau.

Latest: May 2009

## US Budget Deficit Swells



Source: IMF, PPP=purchasing power parity.

## Another Great Depression?

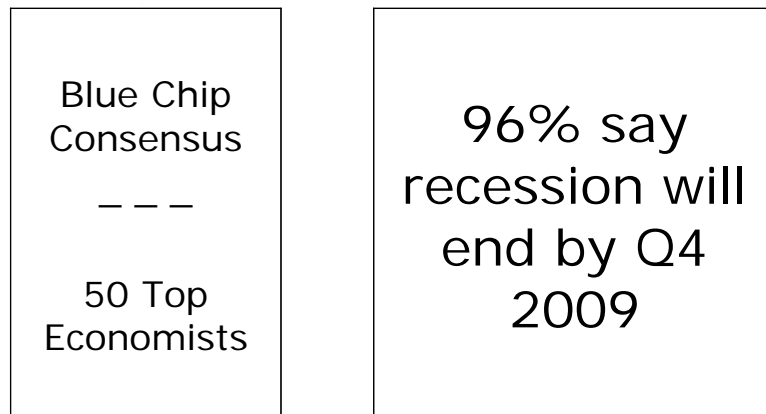
- In the Great Depression real GDP in the US declined for 4 years – almost 30% cumulative drop

1930	1931	1932	1933	1934
-8.6%	-6.4%	-13.0%	-1.3%	+10.8%

## A Few Positive Signs

- Global trade flows beginning to recover after plummeting – but will still be down for the year as a whole
- US housing starts and consumer spending have firmed; mortgage rates at record lows
- Some recovery in equity markets
- Large-scale policy stimulus by US, China, UK; action also taken by EU, Japan, Canada, Russia

## Survey of Leading US Economists



Source: Blue Chip Consensus, May 2009.

## Recovery Likely to be Sluggish

- Shape of the expected economic recovery is widely debated
- World Bank just downgraded global growth to minus 2.9% this year followed by +2% in 2010
  - » indicators in US and China more suggestive of recovery than in Europe and some other developing economies
  - » unemployment continues to rise, housing prices still falling in many countries, bank balance sheets remain fragile (US and Europe)
- Thus...post 2009 economic rebound will be more muted and extended than usual
  - » lingering impact of financial crisis
  - » global scope of the recession

## World Economic Forecast (% change in real GDP)

	2008	2009	2010
US	+ 1.1	- 3.0	1.8
Euro area	+ 0.6	- 4.5	0.5
Japan	- 0.7	- 6.8	+ 1.0
China	+ 9.0	+ 6.5	+ 7.5
World	+ 1.9	- 2.9	+ 2.0

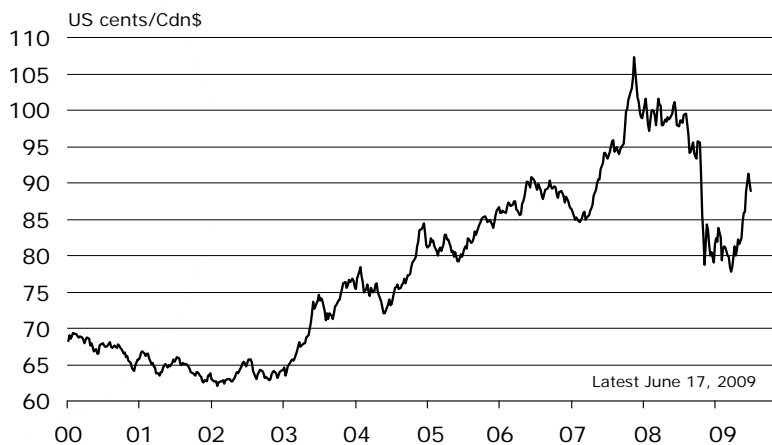
Source: World Bank, Global Development Finance 2009, June 22, 2009.

## Canadian Outlook (Bank of Canada)

- Output declines by roughly 3% this year, as Canada is dragged down by the US and global recessions
- Recovery begins in late 2009 as the global economy hits bottom and the impact of monetary and fiscal stimulus kicks in
- Energy and other commodity prices firm as the global economy gradually improves
- Canadian real GDP growth climbs back to 2.5% in 2010, rising to 4% plus in 2011
- Just as the slumping US housing and auto sectors hit Canada hard, a recovery in these sectors will benefit Canada

## Loonie Marching Higher Again

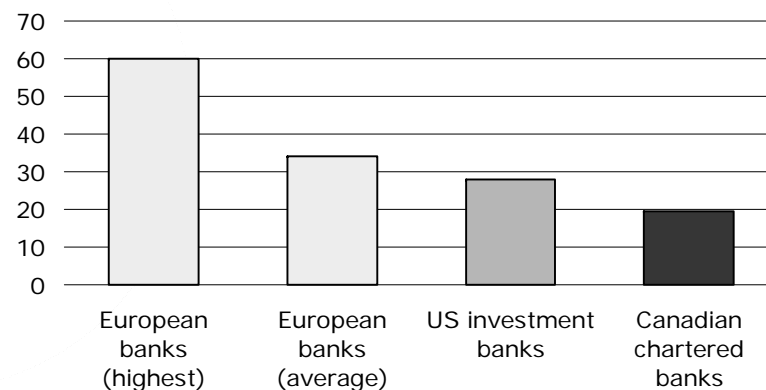
Canada-US Exchange Rate, weekly



Source: Bank of Canada.

## Canadian Banks Not Over-Levered Pre-Financial Crisis

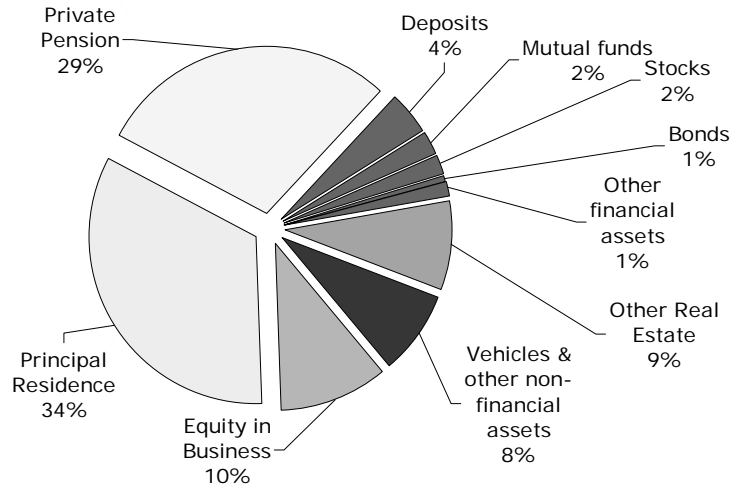
(asset-to-capital multiples, large institutions)



Source: CIBC World Markets.

# Principal Residence is #1 Asset for Most Canadians

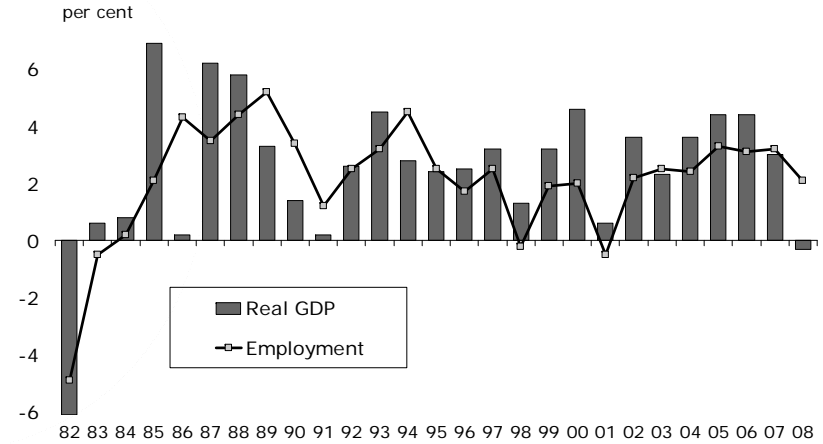
## Share of Household Assets, Canada



Source: Statistics Canada, The Wealth of Canadians, 2005 Survey of Financial Security.

# History of Growth in BC

## BC Real GDP Growth



Source: Statistics Canada, Provincial Economic Accounts.

# BC Economic Setting

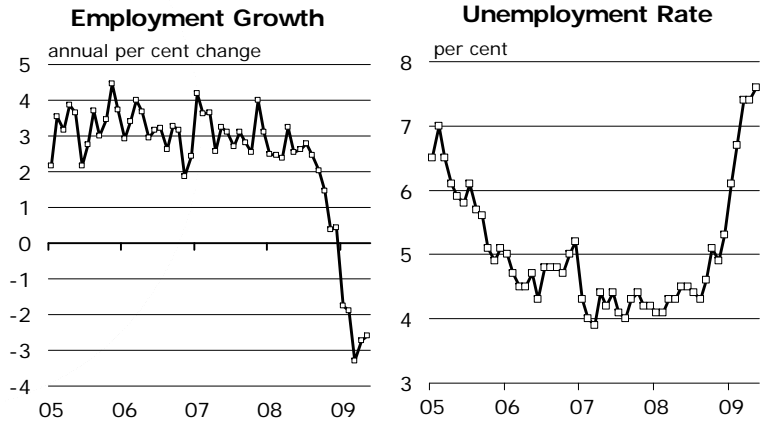
- Global financial turbulence and world recession are affecting businesses and consumers in BC
- Domestic economy faltering
  - » steep job losses and rising unemployment
  - » housing starts down, non-residential construction weaker, retail sales dwindling
- Lots of pain in the export sector
  - » lumber shipments/sales down sharply
  - » foreign visitor numbers dwindling
  - » declining transportation services (port)
  - » natural gas prices down sharply

# Widespread Downturn Unfolding in BC

- Most industries affected
  - » 2008 growth below 5-year avg. in 50 of 67 industries
  - » 27 of 67 detailed industries contracted in 2008
- All regions of the province impacted
  - » employment down in all areas
  - » Lower Mainland not insulated as in previous downturns
- With decline in global trade, gateway business is down
  - » Port Metro Vancouver tonnage handled in 2008 down 10% from 2007
  - » Jan-April 2009 tonnage down 18% from same period last year (inbound down 35%, outbound down 13%)
  - » YVR passenger volumes also declining

# From Labour Scarcity to Job Losses

## BC Labour Market Indicators

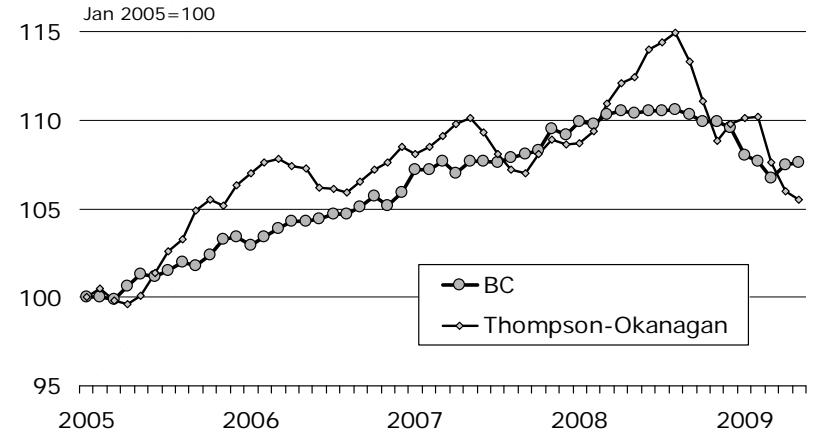


Source: Statistics Canada.

Latest: May 2009

# Employment Falling in the Okanagan

## Employment Indexed, monthly

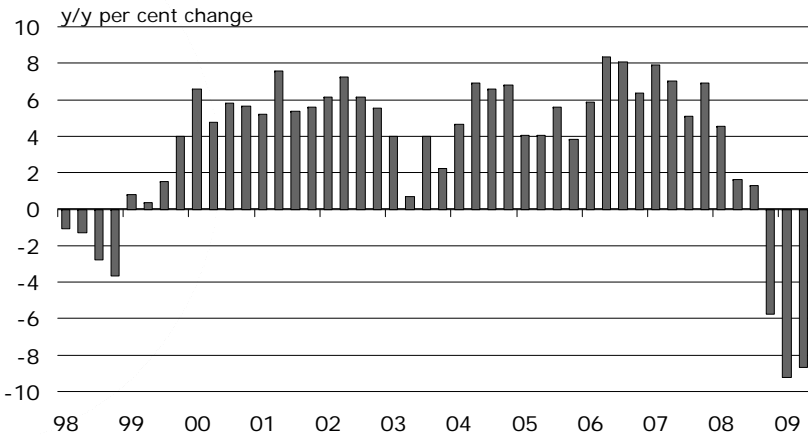


Source: Statistics Canada.

Latest: May 2009

# Consumer Spending Contracts

## BC Retail Sales Growth, quarterly

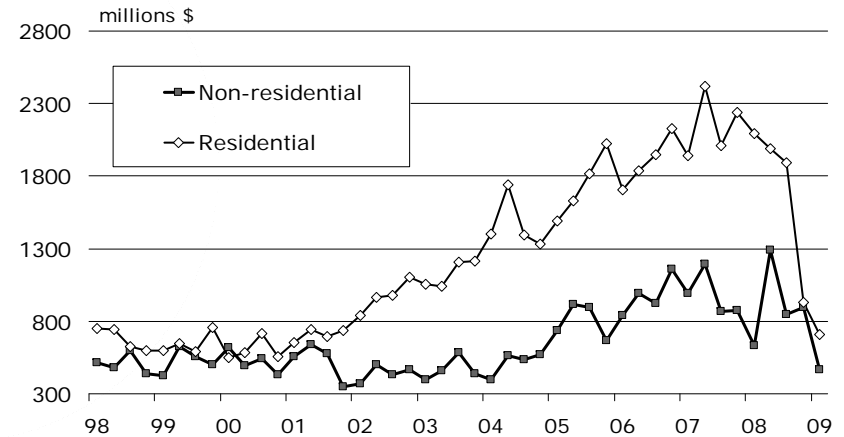


Source: Statistics Canada.

Latest: Q2 estimate based on April data

# Building Permits Turn Down

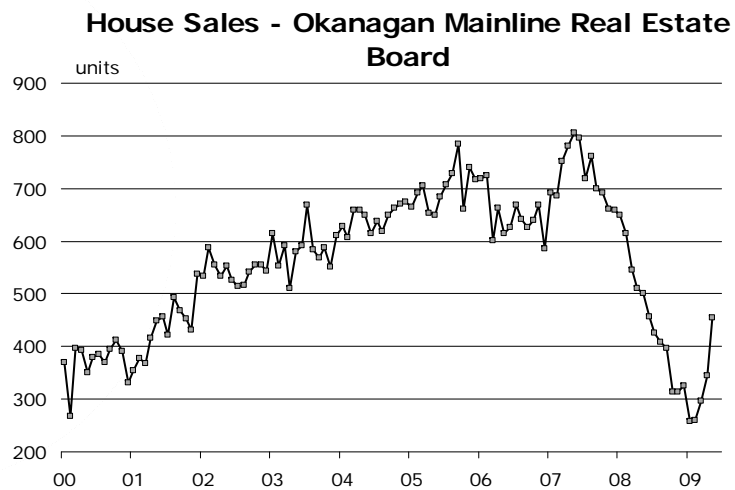
## BC Building Permits, quarterly



Source: Statistics Canada.

Latest: Q1 2009

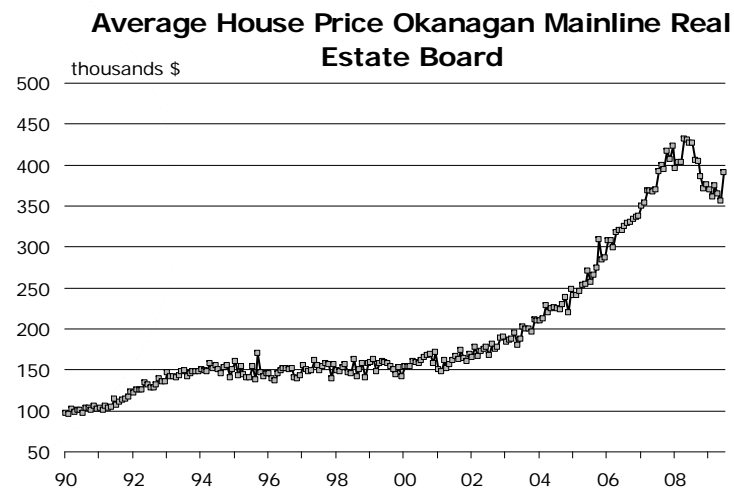
## Okanagan Real Estate Sales Rising



Latest: May 2009

Source: CREA, average price of homes sold through MLS, seasonally adjusted.

## Okanagan Real Estate Prices Firming?



Latest: May 2009

Source: CREA, average price of homes sold through MLS, seasonally adjusted.

## Okanagan Mainline Housing Forecast

	2008	2009	2010
MLS Sales	5,460	4,260 (-22%)	4,900 (+15%)
Avg. price	\$460,647	\$345,000 (-15%)	\$339,000 (-2%)
Housing starts (Kelowna CMA)	2,257	870 (-62%)	1,095 (+26%)

Source: BC Real Estate Association, Spring 2009 Housing Forecast.

## Major Projects: Thompson-Okanagan

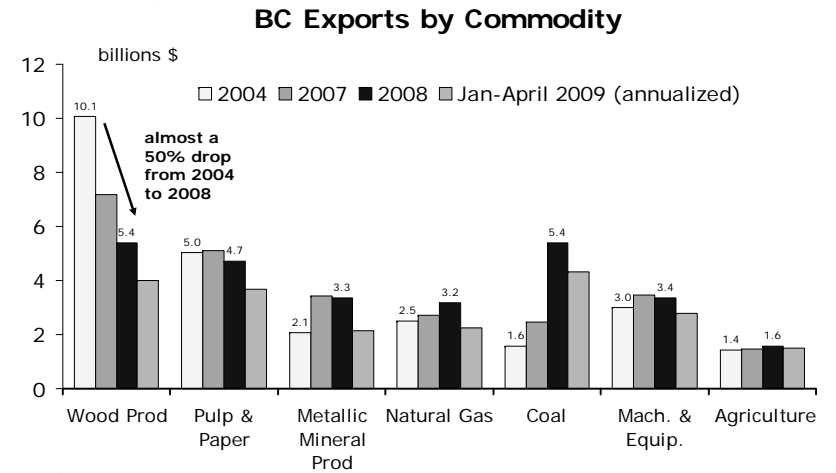
- 170 major projects on the books (Q4 2008)
  - » trending up in recent years (151 projects in Q4 2007)
  - » 80 started, 84 proposed, 6 on hold
  - » estimated all-in value – \$29 billion
- Selected projects underway

	(millions)
» Revelstoke Mountain Ski Resort	\$1,000
» Kicking Horse Canyon project	\$ 965
» Predator Ridge Golf Resort Development	\$ 500
» Kelowna General Hospital expansion	\$ 433
» Highland Valley Copper Mine expansion	\$ 400
» Revelstoke Unit 5 Generation project	\$ 350
» Big White Ski Resort Expansion	\$ 250
» Big White Casino and Convention Centre	\$ 200
» UBC Okanagan Engineering Mgmt. building	\$ 74
» Kelowna Wastewater Treatment expansion	\$ 60
» UBC – Okanagan Arts & Science 2 expansion	\$ 42
» UBC – Okanagan Health Sciences Centre	\$ 34
» Kelowna Airport Expansion	\$ 36

## Major Projects: Thompson-Okanagan cont'd

Selected <u>proposed</u> projects	(millions \$)
» Kelly Lake Windpower project (Clinton)	\$ 1,500
» Mount Kathleen Wind Park (Summerland area)	\$ 750
» Monte Nicola Windpower project (Merritt)	\$ 600
» Copper Mountain Mine	\$ 366
» Highland Valley Copper Refinery	\$ 400
» Harper Creek Copper-Gold-Silver project	\$ 299
» Princeton Power Project	\$ 200
» Nicomen Wind Energy project (Lytton)	\$ 159
» Okanagan Transmission Reinforcement	\$ 140
» Kwoiek Creek Water Power project (Lytton)	\$ 137
» Adams Lake Sawmill replacement	\$ 100
» Ethanol Plant (Kelowna)	\$ 100
» Siwash/Elk Gold Mine (Merritt)	\$ 100

## BC Forest Exports Hit Hard



*"The only function of economic forecasting is to make astrology look respectable"*

John Kenneth Galbraith

## BC Economic Forecast

(annual % change unless noted; as of May 10/09)

	actual		forecast	
	2007	2008	2009f	2010f
Real GDP	3.1	-0.3	-2.0	2.0
Employment	3.2	2.1	-3.0	1.8
Retail sales	7.0	0.3	-4.0	3.0
Foreign exports	-5.6	5.2	-8.0	3.0
Housing starts (units)	39,200	34,300	15,000	24,000

Source: Statistics Canada and Business Council of British Columbia.

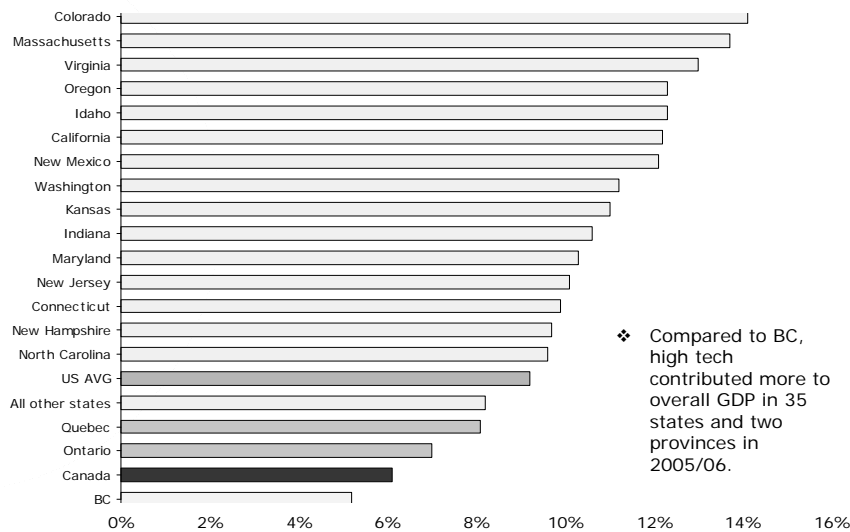
## Outlook for BC Industry Sectors

- **Forestry** – interior lumber sector poised to rebound after 2010; but output will shrink by one-third by 2015 due to pine beetle; coast sector still grappling with high costs and uncertain future
- **Pulp/paper** – BC mills generally are high cost global producers; rising loonie another recent negative; very hard to attract capital
- **Mining** – outlook is favourable as the global economy recovers; but opening new metal mines within BC remains very difficult
- **Natural gas** – newly developed resources coupled with the economic downturn = excess North American supply and low prices; medium-term prospects are better
- **Agriculture** – continued healthy expansion in niche value-added segments (wine, horticulture, aquaculture)
- **Transportation and logistics** – outlook is poor for 2009 but medium term looks better (Asia-Pacific growth resumes)
- **Clean tech, green economy** – financing is hard but rising global demand bodes well for the industry

## Outlook for BC Industry Sectors

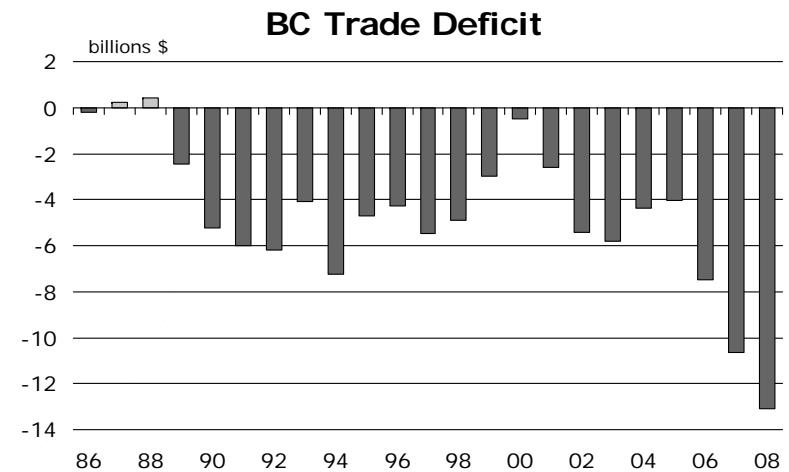
- **High Tech sector** – diverse sector, outlook varies by segment (software, gaming, ICT, life sciences, etc.)
- **Non-resource manufacturing** – US is main export market; currency poses a challenge; BC has some competitive niche producers; more local firms need to be part of global supply chains
- **Professional services** (exportable services) – historically above average growth expected to continue
- **Tourism** – Olympics a plus, but growth prospects hindered by the stronger dollar, security/border delays, passport requirement, realignment of US consumer spending
- **Residential construction** – slump in 2009, followed by a somewhat stronger 2010/2011 (population growth supports recovery) but not likely to return to previous 'boom' conditions
- **Finance and real estate** – BC still an attractive location for investors and retirees, but will take time for recovery to take hold
- **Education** – greater demand for training and education bodes well for colleges and universities and private training facilities

## Share of GDP Accounted for by High Technology Industries (2005)



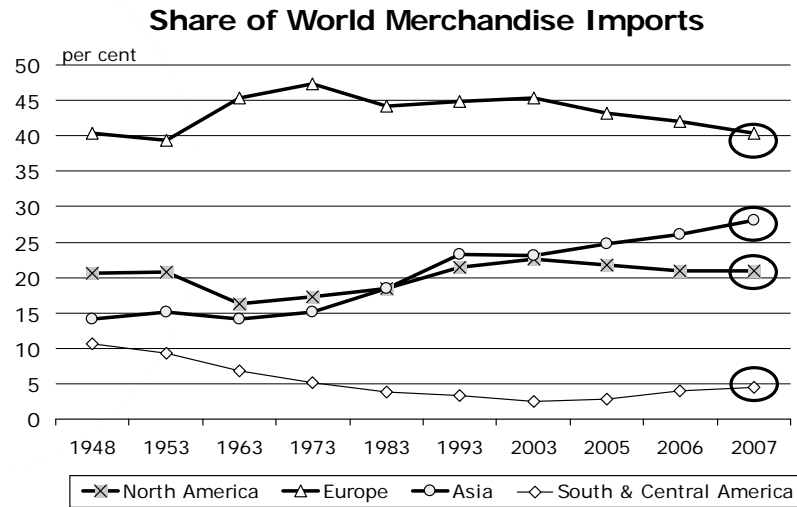
Source: BC Stats.

## A Widening Trade Deficit

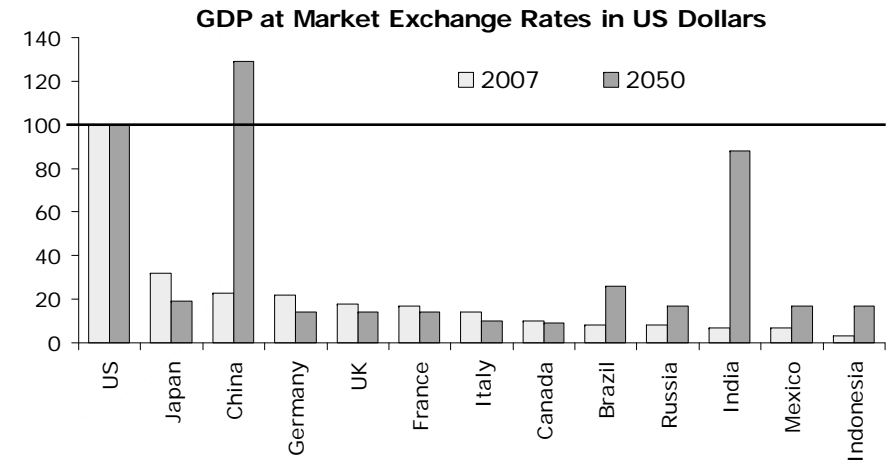


Source: Statistics Canada, Provincial Economic Accounts.

## Asia Imports More than North America



## The World in 2050: Projected Size of Economies (US = 100)



## Conclusion

- Global, Canadian and BC economies all in recession in 2009
- Initial phase of economic recovery in 2010 is likely to be muted due to nature of the current global downturn
- Canada's prospects for 2010 depend on stabilization of banking and financial systems in US and elsewhere, and some recovery in the global economy
- BC is feeling the effects of credit market problems, US housing collapse, slumping world economy, and sagging exports
- Outlook for next year is mildly positive thanks to the Olympics and the expected bottoming out of the American economy by the second half of 2009

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