

CENSUS REFLECTS WEAKNESS IN REGIONAL ECONOMIES

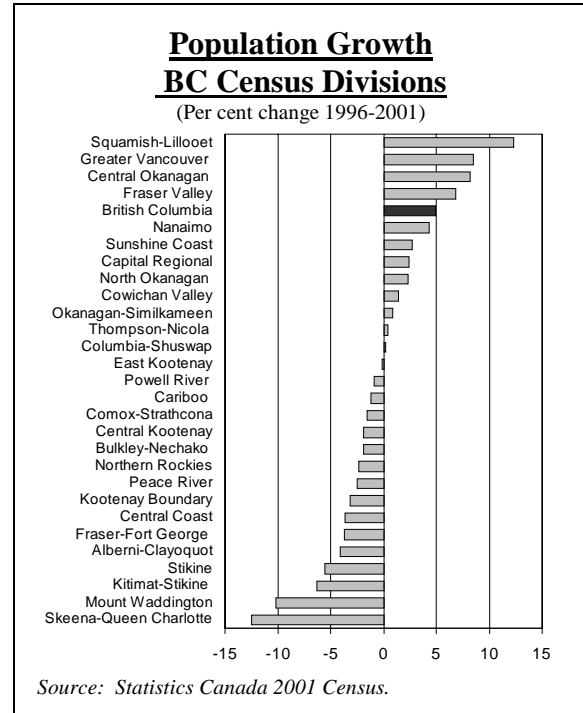
The recently released population data from the 2001 Census confirm what has been evident for some time: overall population growth in BC has been weak and the population is actually declining in many resource dependent regions.

BC's population rose by 4.9% over the 1996-2001 period, the smallest increase for any five-year period going back to the first Census in 1871. The drop off is quite dramatic considering that since the 1960s population growth over comparable five-year periods ranged between 11% and 17%, except for the recession-plagued 1981-86 period when growth dipped to 5.1%. Prior to the 1960s, when the province's population base was smaller, five-year growth rates varied from a low of 20% up to 120%.

The main reason for the record low increase is the net outflow of people to other provinces that started in late 1997 and is only now beginning to show some signs of slowing. The cumulative impact of this interprovincial movement is a net decline of about 35,000 residents since 1996. The only reason BC's population has grown at all since the late 1990s is positive net international migration.

Many resource dependent regions, where international migrants typically do not settle, have seen their populations fall in recent years. In fact, 16 of the province's 28 census divisions recorded a decrease in population between 1996 and 2001, and of the 12 that posted increases, three experienced negligible growth of less than 1%.

This means population growth was overwhelmingly concentrated in the GVRD and the adjacent Fraser Valley, Sunshine



Coast and Squamish-Lillooet Regional Districts. The number of people living in these areas alone increased by nearly 175,000, whereas the population of the whole province was up by just 183,000. Population growth was also fairly strong on eastern Vancouver Island and in the Okanagan region.

Current Economic Conditions

Some key provincial economic indicators softened recently, but employment growth is healthy, supporting our view that the early stages of economic recovery are in place. The collapse of the **softwood lumber** talks and the looming imposition by the US of a 29% combined countervailing and anti-dumping duty does of course dampen the outlook for the province. While most observers did not expect an entirely favourable resolution of the softwood

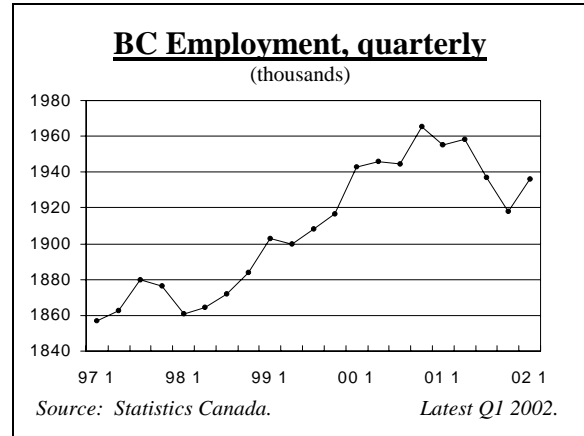
dispute, there was hope that proposed reforms to the provinces' forest policies and an interim export tax would satisfy American concerns. There is still an outside chance that a settlement can be reached before the final penalty duties are implemented in mid-May.

Not surprisingly, some of the huge January surge in **employment** was "given back" in February, but then the drop was reversed in March pushing employment back up to January's level. The bottom line is recent job growth in the province has been strong. Based on quarterly averages (which smooth out some of the monthly volatility), Q1 employment grew at an annualized rate of 3.9% over the final quarter of 2001. Perhaps more encouraging is the fact that quarter-to-quarter **private sector** employment grew at an annualized pace of 8.7%. Overall employment grew at a slower pace because public sector employment (including health care and education) was down.

Turning to **inflation**, the annual increase in the province's CPI shot up from 0.8% in January to 2.9% in February. Higher prices for food and household furnishings were contributing factors, but the jump was mainly due to one-time events and is not a sign that underlying inflation is significantly accelerating.

In particular, last February's rebate from BC Hydro effectively made consumer electricity costs zero for that month and pulled down the overall CPI. As a result, year-ago comparisons are "artificially" inflated; this effect will extend into next month as the Hydro rebate also covered a portion of last March's electricity bills. After this, the measured inflation rate should fall back to around 1.5%. The BC government's decision to hike tobacco taxes also contributed to the higher price level.

January's **international commodity exports** moved up from their December low,



thanks in part to some firming in lumber and metals prices. Machinery and equipment exports also moved up sharply, after falling steadily over the past year. Except for pulp, commodity prices have continued to strengthen since January, pointing to further near-term increases in exports. There is still much ground to be made up, however, as BC's exports excluding energy are 14% lower than year-ago levels and 30% lower if energy is included. If softwood tariffs are imposed in May, much of the near-term strengthening in BC's overall exports unfortunately could quickly unwind.

Retail sales (seasonally adjusted) were flat in January on the heels of solid gains in the previous three months. The pause reflected lower sales in the clothing, furniture and automotive sectors. Some pullback in these sectors is not surprising, as they have been very resilient over the past year.

The **housing sector** remains healthy, although the number of housing starts fell back in February, following a jump in multi-unit construction in January. Sales activity in the Greater Vancouver region also dropped off slightly, but is still at levels not seen since 1994. Market conditions continue to favour sellers, as the ratio of sales to listings is high.

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