

ONGOING ECONOMIC EXPANSION IS BOOSTING INCOMES IN BC

According to preliminary estimates from Statistics Canada, the BC economy grew by a healthy 3.5% (after-inflation) in 2005. While this was down slightly from 2004's 4.0% advance, it still represents a strong showing. BC was second to Alberta in the 2005 provincial growth rankings. Last year also marked the fourth consecutive year in which BC outpaced the national benchmark. Canada as a whole posted economic growth of 2.9% in 2005.

Of greater importance to individuals is that BC's multi-year economic upswing is now translating into gains in income – 2005 brought a 2.5% increase in average real **personal disposable income (PDI)**. This means that, after allowing for inflation and taxes, per capita income rose by a respectable amount.

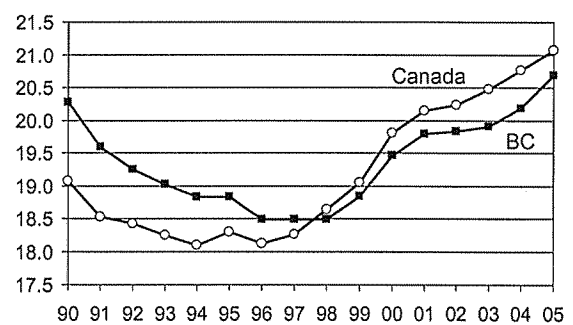
On its own, the income growth figure is not particularly large, but in the context of BC's rather poor long-term record on this key indicator of prosperity, a 2.5% hike is something to celebrate. For one thing, it is the strongest growth in real PDI since 2000 and one the biggest jumps in two decades. In addition, income growth in BC is now comfortably exceeding the national increase (1.5% last year). This is the first time British Columbians have seen per capita incomes rise more quickly than the Canadian benchmark in 15 years.

The improvement is welcome. A long period of sub-par income growth has caused BC to lose ground relative to Canada. In 1990 real PDI per person in BC stood 6% higher than the Canadian average. By 1998 we had slipped below the national level, and by 2004 per capita disposable income was 3% below the national figure. BC's solid income gain in

2005 finally reversed the trend and narrowed the "prosperity gap" with Canada.

**Real Disposable Income Per Capita
BC and Canada**

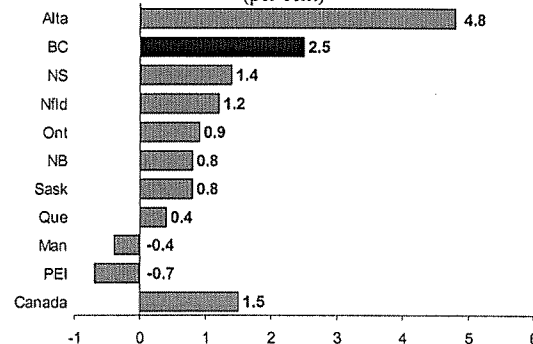
(\$ thousands 1997 chained)



Source: Statistics Canada, Provincial Economic Accounts.

**Growth in Real Disposable Income per
Capita by Province, 2005**

(per cent)



Source: Statistics Canada, Provincial Economic Accounts.

Investment Spending Jumps in 2005

One critical factor in BC's economic upswing is robust capital spending, fuelled in part by a huge rise in construction activity. Statistics Canada estimates that the value of **investment in non-residential building construction** in BC rose 27% to reach \$3.9 billion in 2005. This is a

significant advance and follows a 10% increase the previous year. It is also consistent with other evidence pointing to a steady acceleration in non-residential building activity across the province.

Among the three segments of non-residential construction, spending on both industrial and institutional structures climbed by more than 40% in 2005. Investment spending on commercial buildings (which accounts for almost 60% of total non-residential building investment) increased by 17%.

The rate of growth in non-residential investment spending was similar in Alberta. Gains in the 20%-25% range were seen in Prince Edward Island, Nova Scotia and New Brunswick. The weak spots were central Canada and the other prairie provinces, where non-residential investment was essentially flat in 2005.

Tracking of Projects Suggests Construction Boom will Continue

An inventory of major projects indicates that BC's building boom should continue.¹ Olympic related construction is one factor, but this actually represents only a fraction of all ongoing and planned construction across the province. The March 2006 *Major Projects Inventory* lists 729 large projects (those over \$20 million in the Lower Mainland and over \$15 million elsewhere in the province). Roughly half of these are underway, with the other half being "proposed". Just a year ago there were only 579 projects on the books. Estimated capital costs for all of this construction add up to a record \$91.5 billion, up from \$68.4 billion as of March 2005.

The latest *Major Projects Inventory* confirms that all regions of BC are experiencing stronger building activity.

¹ The *Major Projects Inventory* is a quarterly listing of large construction projects that are underway, planned, or recently completed. It is published by the provincial government.



Final Comment

Whether real per capita income in BC will continue to grow and move back above the national average is difficult to say. Part of the foundation for sustained income growth has certainly been laid. BC's economy is performing well, due in significant measure to a more attractive investment climate. The construction boom is helping to lift incomes, but much also depends on achieving faster productivity growth. Creating/maintaining a competitive business climate for the resource and manufacturing sectors, where most workers earn wages well above the economy-wide average, is also critical. The rising Canadian dollar, higher interest rates, and some uncertainty about the future course of global commodity markets could temper employment growth in some of BC's major export industries as well as in the residential construction sector in the next 1-2 years. But on balance, high levels of business confidence and the broadly based nature of BC's current economic revival suggest that per capita incomes should continue to grow, even if only modestly, over the rest of the decade.

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