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BC ECONOMY: A RETROSPECTIVE

Highlights

Average annual economic growth in British Columbia from 2002 to 2008 was only slightly stronger than during the years 1992 to 2000.

However, adjusted for population size, which is necessary to get a clear picture of trends in prosperity, BC did much better in the most recent period, with real gross domestic product per capita increasing by 2.2% per year from 2002 to 2007, compared to an annual gain of 1.0% from 1992 to 2000. In addition, BC has outperformed Canada in boosting real GDP per capita since 2001, after lagging well behind the national average in the 1990s.

Over the period 1992 to 2000, the province recorded no increase in real after-tax income per person. Since 2001, real after-tax income per person has been rising by more than 2% per year.

From 2002 to 2008, employment in British Columbia grew on average by 2.7% per year, compared to 2.0% for Canada as a whole.

British Columbia has also improved its absolute and relative standing in the key area of business investment. Investment in both structures and machinery and equipment was stronger in BC during the years 2002 to 2007 than over the 1992 to 2000 period. In addition, since 2001 BC has outpaced Canada in the growth of machinery and equipment investment.

Amid the current global economic slump and regular stream of bad news, we thought it would be interesting to revisit British Columbia's economic accomplishments over the past several years. To be clear, this is not a story about the province somehow being insulated from the severe downturn now gripping the world economy. The reality is just the opposite: faced with tumbling US housing starts and retreating commodity prices, BC has slipped into recession, and the near-term outlook is cloudy at best. But recessions (even deep and long ones) eventually pass. With this in mind, what follows is a reminder that the province headed into the present downturn on a solid economic footing, buttressed by several years of prudent fiscal management and a more competitive economic environment. The main focus of the discussion below is on BC's post-2002 economic performance, both in an historical context and relative to Canada as a whole.



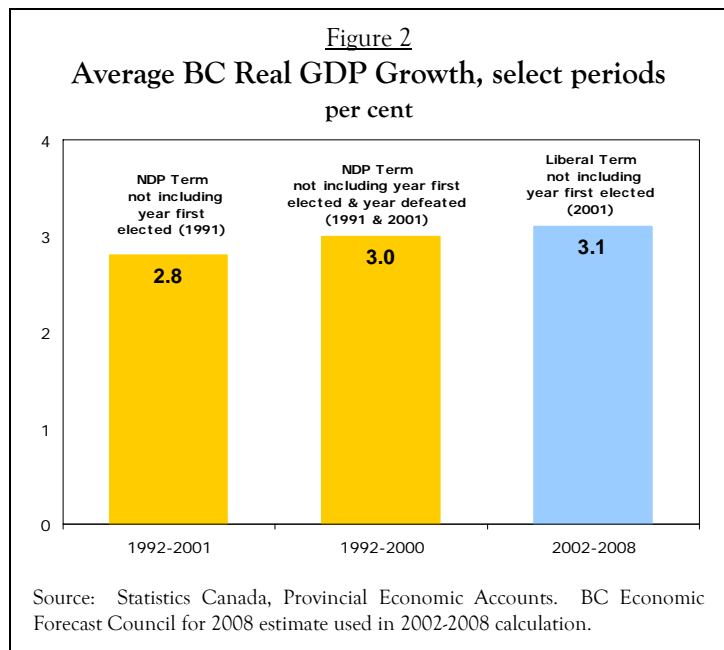
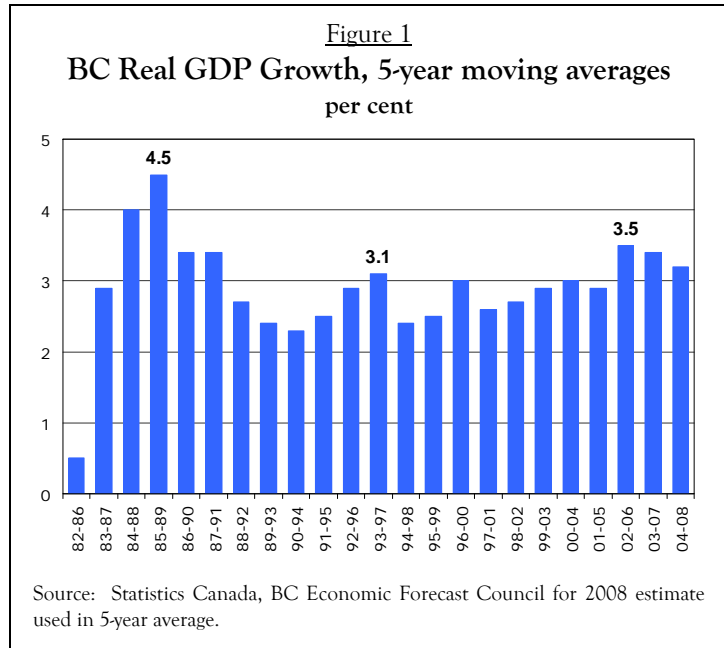
Overall Economic Growth

Between 2002 and 2007 British Columbia experienced generally favourable economic conditions. Figure 1 shows five-year moving averages for real GDP growth stretching back to 1982. By this measure, the years from 2002 to 2006 (inclusive) amounted to BC's strongest multi-year expansion since the late 1980s. Of interest, the period 1993 to 1997 also saw solid economic growth. While the economy was weak in the early 1990s and also in 1998-99, real GDP advanced on average by 3.0% per year over the half decade ending in 2000 ~ not much different from the recent upswing.

In fact, if economic growth is averaged over the NDP (1991-2001) and Liberal (2001-2008) administrations, the top-line performances are actually quite similar. Excluding the years when a new government came to power (1991 for the NDP and 2001 for the Liberals), but including the year when one was defeated (2001 for the NDP), average growth was three-tenths of a percentage point lower under the NDP. This may not seem like much of a gap, but on a cumulative basis over time it does add up.

Some might argue that 2001 should not be counted as part of the NDP administration because the party was in office for less than half of the year. If 2001 is removed from the NDP column, the difference in overall economic

growth essentially disappears: on average, real GDP increased by 3.0% per year between 1992 and 2000, versus 3.1% over the 2002 to 2008 period (Figure 2).

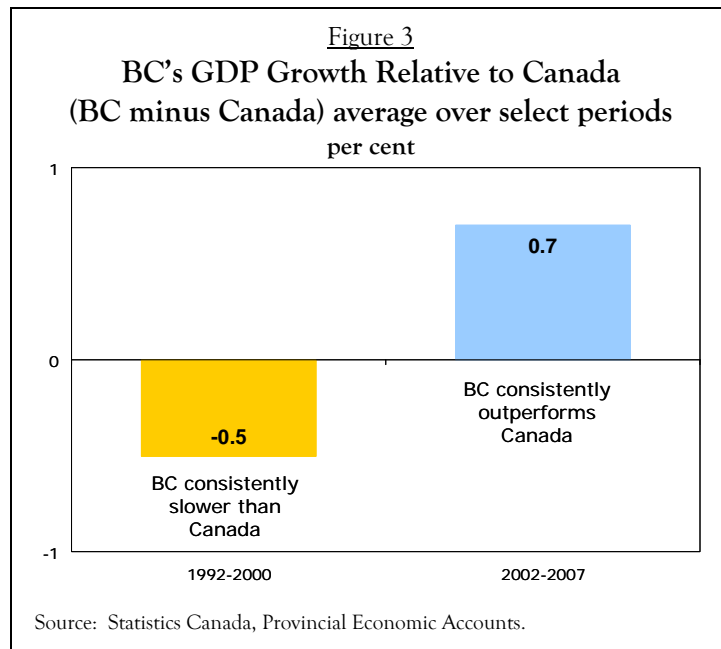




This result may be surprising to some. The recent economic upswing felt stronger than anything experienced in the 1990s. And it's true that in the post-2002 period, more people were working, the unemployment rate fell to record lows, incomes rose after a decade of stagnation, net interprovincial migration turned positive, and consumers were in a spending mood.

It turns out that this intuition is well-founded. Looking just at total GDP masks the strength of the domestic economy after 2002, fails to situate BC within the wider Canadian context, and - most importantly - ignores measures of individual economic well-being. Instead of concentrating on aggregate GDP growth, an examination of other metrics reveals a fairly stark difference in BC's economic performance between the 1990s and the post 2001 years.

One way to illuminate BC's record is to chart economic growth relative to Canada. The provincial and national economies face a similar global context, so highlighting BC's performance vis-à-vis Canada provides a valid indication of how we have fared. **In fact, output in BC has grown faster than in Canada every year since 2002** (including 2008)¹. In contrast, over the 1992 to 2000 period, real GDP growth lagged Canada



in six of the nine years, with average growth over the period coming in a full 0.5 percentage points lower than the national benchmark (Figure 3).

Trends in Prosperity and Economic Well-Being

The most widely used measures of economic well being - and of how it changes over time - adjust for shifts in population size. Thus, real GDP growth of, say 4% a year, would not lift individual prosperity if the population also rose by 4% or more. This is why economists prefer to use real GDP per capita and real income per capita when studying trends in prosperity within and across jurisdictions.

In BC, real GDP per capita declined over much of the 1990s. Some gains were made late in the decade, which helped to push average growth in real GDP per capita to 1% for the 1992 to 2000 period as a whole. More recently, in the post-2001 era, real GDP per capita has been

¹ According to estimates from the BC Ministry of Finance, RBC Financial Group, and TD Economics.

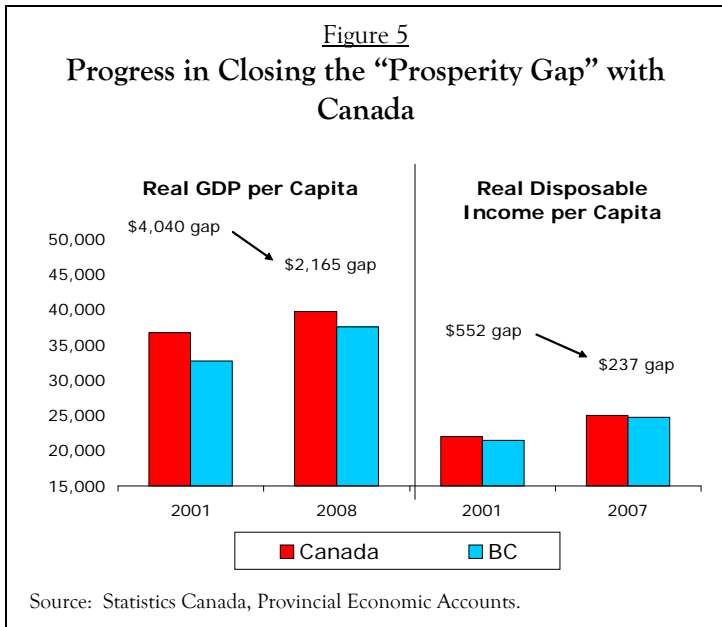
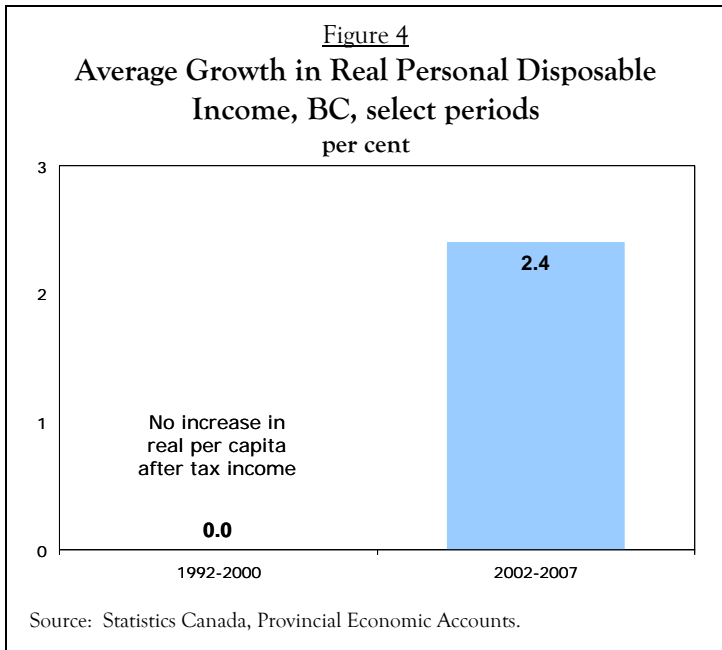


rising almost twice as fast (1.8% per year if 2008 is included; 2.2% if it is left out) - a sizable difference.²

A similar pattern holds for real incomes (Figure 4). This is not surprising, as bigger increases in per capita GDP typically translate into heftier gains in individual incomes. In BC's case, the difference in the growth of disposable incomes is even more pronounced because the tax burden rose over the 1990s but has fallen in the current decade. Between 1992 and 2000, real disposable income per person was flat in British Columbia. In contrast, from 2002 to 2007 it increased by an impressive 2.4% per year. What this means is that in 2000, average real "take home" income was unchanged from 1992, whereas by 2008 it was at least 15% higher than in 2002.

Thanks to several years of steady increases in both real GDP per capita and real disposable income per capita, British Columbia has managed to significantly narrow the "prosperity gap" with Canada that widened over the 1990s. As

shown in Figure 5, by 2008 the gap with Canada in real GDP per capita stood at \$2,165, down from more than \$4,000 in 2001. In the case of real disposable income per capita (for which official 2008 data are not yet available), the gap between Canada and BC diminished from \$552 in 2001 to \$237 in 2007. **These results provide compelling evidence that British Columbia has been able to advance its level of prosperity relative to Canada since the start of the decade.**



² This is the average over for the years 2002 through 2008. The 2008 figure is an estimate (-0.7%) from the BC Ministry of Finance. If this estimate is dropped and only official Statistics Canada data are used for the 2002 to 2007 period, the average growth in real per capita GDP is 2.2%.



Other Indicators

Real GDP per person and real disposable income per person are the most common measures used to assess trends in living standards. But other indicators also provide valuable information on how economies perform over time. Employment, which is perhaps the most closely watched indicator, grew more quickly in BC during the post 2001 years. The difference from the 1990s, however, is modest. From 1992 to 2000, employment increased by 2.3% per year. Over the 2002 to 2008 era job growth averaged 2.7%. While the labour market was clearly stronger in the latter period, BC also outpaced Canada in job creation in the 1990s (in fact, the absolute gap between BC and Canada, 0.7 percentage points, was the same in both periods). Robust job growth over 2002-2008 pushed BC's unemployment rate steadily lower, with unemployment averaging 6.2% during 2002-2008, versus 8.7% over 1992-2000.

	BC		Canada	
	1992-2000	2002-2008	1992-2000	2002-2008
Real GDP Growth	3.0	3.1	3.5	2.4
Real Investment in M&E	5.3	7.3*	7.9	6.2*
Real Investment in non-residential structures	1.1	4.5*	2.1	5.7*
Real GDP per Capita	1.0	2.2*	2.5	1.7*
Real Disposable Income per Capita	0	2.4*	0.8	2.1*
Employment	2.3	2.7	1.6	2.0

Source: Statistics Canada, Provincial Economic Accounts, BCBC for calculations
* average over 2002-2007.

In recent years, BC has also posted a much improved record in the critical area of business investment. Investment in both structures and machinery and equipment grew appreciably faster from 2002 to 2008 than during the 1992-2000 period (see table above). Moreover, BC has done better than Canada in boosting M&E investment since 2001 - reversing the pattern seen in the 1990s (and 1980s).

A glance at the interprovincial migration data confirms that BC has fared well in a Canadian context. Recall that the early 1990s saw a massive net inflow of people into the province from other parts of Canada. But thereafter a deteriorating economic picture led to a gradual decline in net in-migration. By 1997-1998 more people were moving out than were relocating here from other parts of Canada. This net interprovincial outflow continued until 2003. Since then, BC has recorded substantial net inflows of people from other provinces.



Conclusion

While overall GDP growth in the 1990s differed little from that during the 2002 to 2008 period, a review of other key indicators shows that the province's economy was stronger in the post-2001 years. Of particular importance, per capita output increased more quickly, which together with a buoyant job market and lower taxes, translated into much bigger gains in disposable incomes. Also worth emphasizing is BC's improved performance in business investment since 2001.

Although it is difficult to determine precisely how changes in taxes and other government policies influence the economy, the evidence suggests that lower taxes, sound fiscal management and other pro-growth policies contributed to BC's generally good economic performance over the past eight years.

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