

## British Columbia Since 1995: A Brief Retrospective

As we ponder what British Columbia will look like in 2035, it is useful to review how the province's economy and society have been reshaped over the past two decades, a period of time that has seen the rise of Asia, an expansion of BC's gateway economy, the development of new and emerging industries, various commodity cycles, changes in the currency, steady inflows of migrants, population aging, and continued urbanization.

What follows is a brief snapshot of a number of significant, high-level economic and demographic trends that have influenced the province since the mid-1990s. But first, to provide a bit of context, we highlight a few features of the political setting and the wider external environment from two decades ago.

Back in 1995 Mike Harcourt was Premier and Elizabeth Cull was the province's Minister of Finance. Premier Harcourt announced his resignation in November of that year. He was succeeded by Glen Clark.

Nationally, Jean Chrétien was early in his tenure as Prime Minister, and Paul Martin was the Minister of Finance then engaged in a program of aggressive fiscal consolidation designed to address Ottawa's large structural budget deficit. The biggest political story of the year was the referendum on Quebec sovereignty. The vote was held on October 30, with

Quebecers narrowly rejecting the idea of leaving Canada (50.6% voted "no").

Also in 1995, the North American Free Trade Agreement had been in place for a year. NAFTA would further reinforce Canada's trade orientation towards the United States, a path that had already been set with the predecessor bilateral Canada-US Free Trade Agreement concluded in the late 1980s. Continuing with the international trade theme, the World Trade Organization started operations on January 1, 1995, replacing the General Agreement on Tariffs and Trade.

Oil prices and the Canadian/US dollar exchange rate in the mid-1990s were not entirely dissimilar to what we see currently. World oil prices averaged \$16.75 per barrel (US) in 1995 and fell to a low of \$12 three years later; in inflation-adjusted terms, the oil price in 1995 amounted to ~US\$26/bbl. The Canadian dollar averaged US72.8 cents in 1995 and it, too, would lose further ground over the next few years.

The interest rate environment circa 1995, however, was very different than that of today. The Bank of Canada's overnight lending rate averaged just over 7%; at present it sits at a rock-bottom 0.5%. For BC home buyers, 5-year mortgages were available in 1995 in the 8.5%-9.5% range; today, they can be had for less than 3%.

After running around 5% annually in the early 1990s, by 1995 inflation in Canada (and BC) had fallen to slightly more than 2%. The mid-point of the 1990s marked the end of an era of relatively high Canadian inflation. The Bank of Canada's inflation targeting regime, introduced in the early 1990s, has effectively kept consumer price inflation at or below 2%.

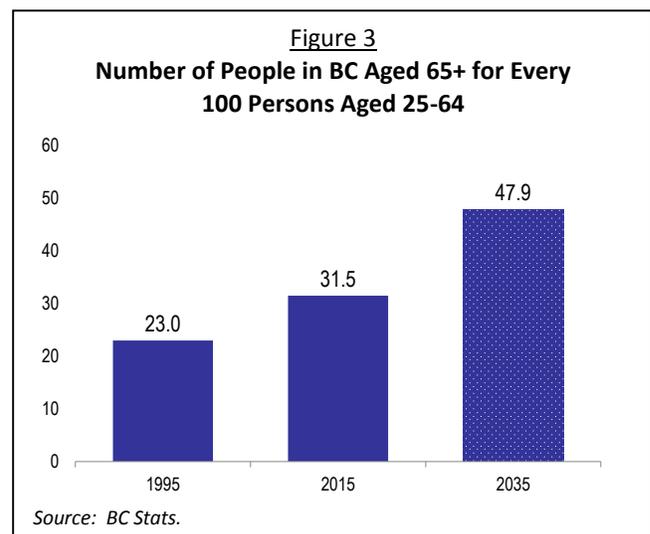
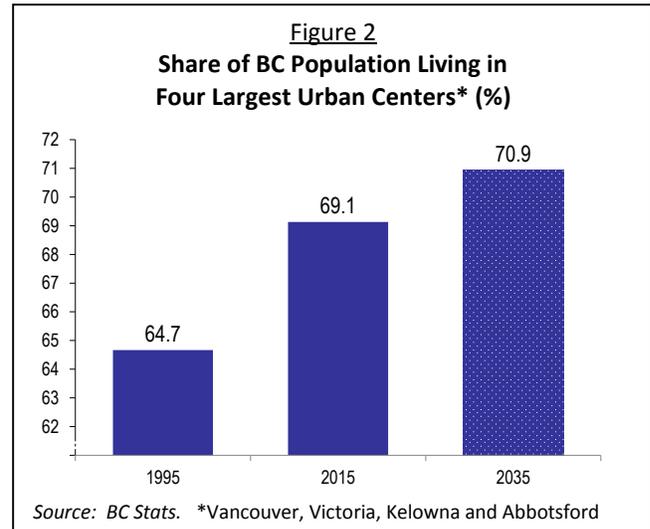
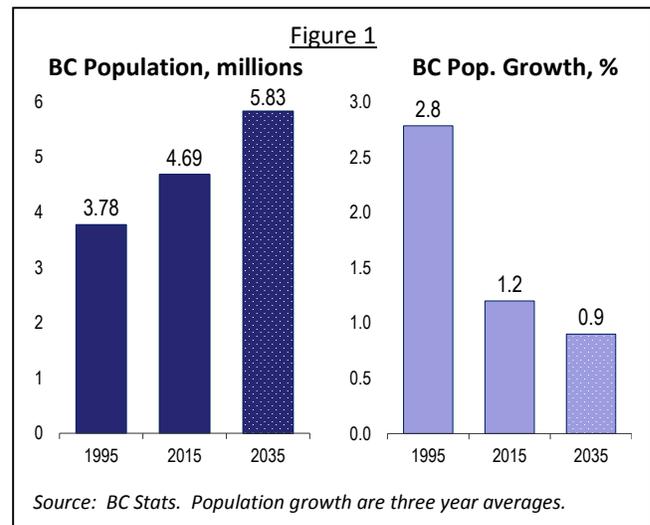
In Vancouver, Library Square and GM place were both completed and opened in 1995.

In 1995 the internet was in its infancy. Netscape Navigator was released in late 1994; without even a glimmer of real competition, it went on to become the *de facto* portal to the web a few months later. Windows 95 was released in mid-1995 and quickly took the world by storm. It was the first widely used graphical interface. Windows 95 was sold with a separate add-on pack: Windows 95 Plus! Pack, which included the Internet Explorer 1.0.

### **BC Demographics**

There are currently ~4.7 million people living in BC. Over the past 20 years, the province's population has increased by 908,000. Circa 1995, the population was growing at an annual rate of 2.8%, based on strong net interprovincial migration, international migration, and a relatively high rate of natural population increase (births minus deaths). Now, BC's population is expanding by 1.2% annually, somewhat higher than the Canadian average.

In the next 20 years, despite slower growth, BC's population is projected to expand by 1.14 million persons. Natural population growth dwindles after 2015 and will



approach zero by 2030. At that point, BC's population will be increasing solely as a result of net in-migration from other provinces and international sources.

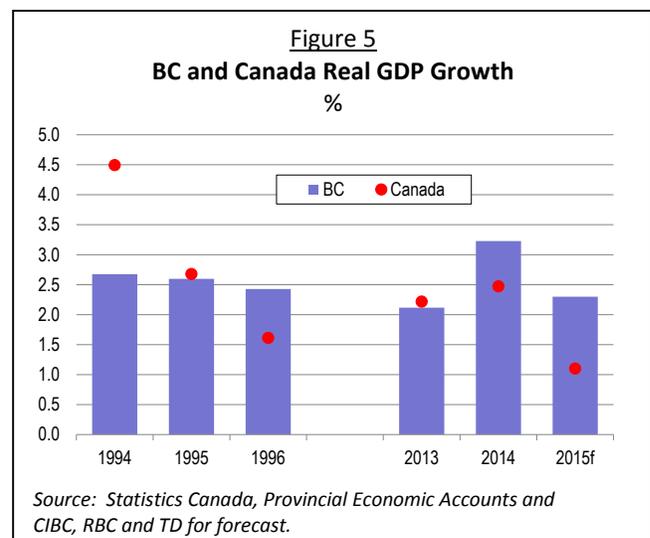
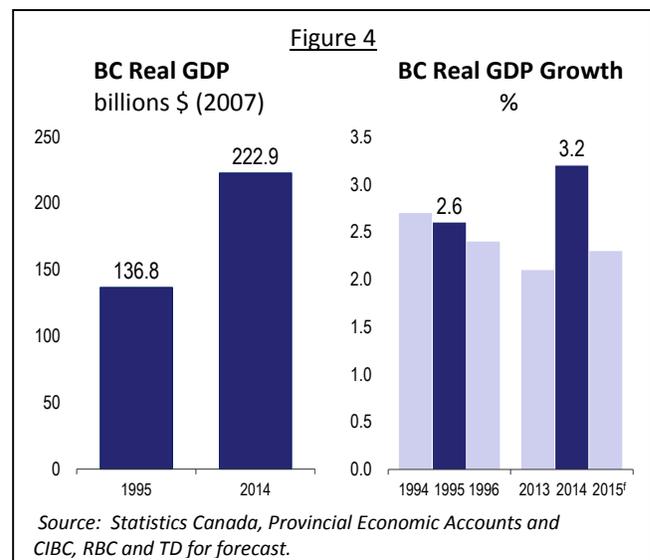
The province's population has gradually become more urbanized, as is the case for Canada as a whole. The four largest urban areas – Vancouver, Victoria, Kelowna and Abbotsford – are home to 69% of British Columbians, up from 65% two decades ago. Going forward, we expect urbanization to continue, driven in particular by the locational preferences of international immigrants.

In common with many other jurisdictions, BC's population is also aging. Baby boomers are now moving into and beyond the "traditional" retirement age. Our population has become notably greyer since 1995, when the median age was 35.4; today it is 44.0. The inexorable aging of the population is further underscored by the ratio of traditional working-age persons to those 65 years and older. In 1995 there were 23 British Columbians 65 and over for every 100 between the ages of 25 and 64. Now the ratio is 31.5; 20 years hence, it will have climbed to ~48 (Figure 3).

One of the reasons the population is aging is because people are living longer – a good news story. Two decades ago male life expectancy stood at 75.8 years, and for females it was 81.5. As of 2015, a male British Columbian can expect to live to 80.8 years (a gain of 5 years) and females until 85 (a gain of 3.5 years).

## The Economy

British Columbia's gross domestic product (GDP), measured in 2007 chained dollars to remove the effects of inflation, was \$223 billion last year, almost two-thirds larger than 20 years ago (Figure 4). Interestingly, despite a softer global economic backdrop, real GDP growth averaged over the most recent three-year period is essentially the same as it was in the mid-1990s.

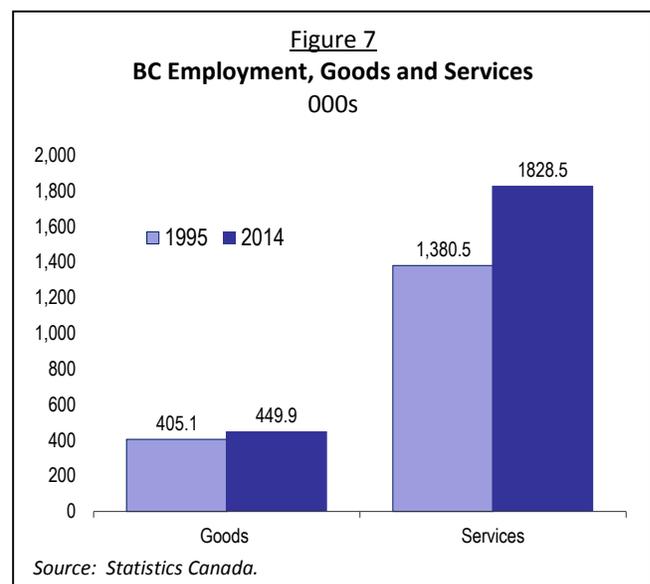
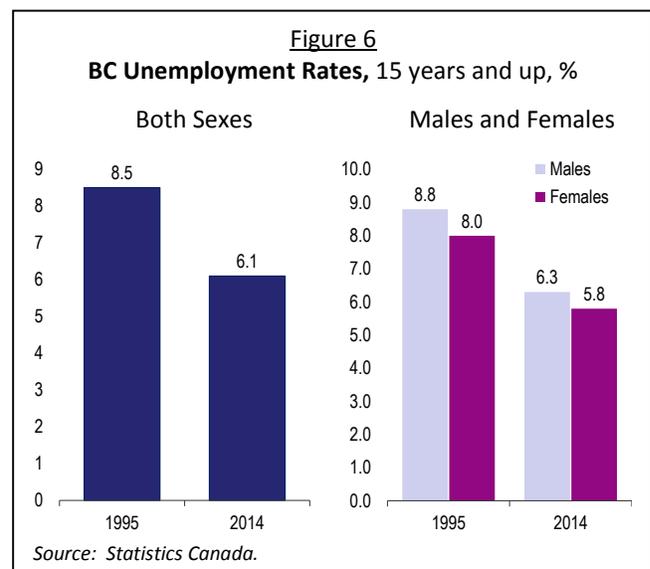


Compared to Canada, BC is now outperforming in aggregate and per capita economic growth. Average real GDP growth over 1994-96 was 2.9% for Canada, compared to 2.6% for British Columbia. As shown in Figure 5, the Canadian figure in the mid-1990s was lifted by an especially buoyant year in 1994. Over the more recent three-year period, BC's real GDP growth rate has averaged 2.5%, substantially higher than 1.9% for Canada.

Our job market has changed over the past 20 years. One telling shift is a general tightening of labour market conditions. Back in 1995, the unemployment rate was 8.5%. As growth in the labour force slowed over the next 20 years (due to demographic developments and a levelling-off in female participation rates which had risen over the previous decades), the unemployment rate trended lower. The female unemployment rate is now lower than the rate for males, as it was in 1995 (Figure 6).

The labour force participation rate (the share of the population that is either employed or actively looking for work) has fallen for the 15-24 age cohort since the mid-1990s, from 67% to 61.6%, as a larger fraction of individuals in this group now pursue post-secondary education/training compared to 20 years ago. On the other hand, participation rates for those between the ages of 25 and 64 have edged higher. The most pronounced change in labour market engagement has occurred among BC residents over the age of 65: in 2014, 12.3% of this traditional "retirement age" group was in the labour force, whereas in 1995 only 5% of them were.

British Columbia's broad industrial and employment structure have also undergone changes in the past two decades. Service industries collectively represent a bigger slice of GDP than 20 years ago, while the share of GDP directly attributable to goods-producing industries (primary industries, construction, manufacturing, and utilities) has diminished. This continues a longstanding pattern that is common among advanced economy jurisdictions.



As summarized in Figure 7, the majority of new jobs in BC have come in the service-based sectors of the economy. Since 1995, 9% of the cumulative increase in employment was in the goods-producing sector, with fully 91% in the services sector. The job growth that did take place in the goods segment was due entirely to construction, as the natural resource and manufacturing industries saw declines in employment.

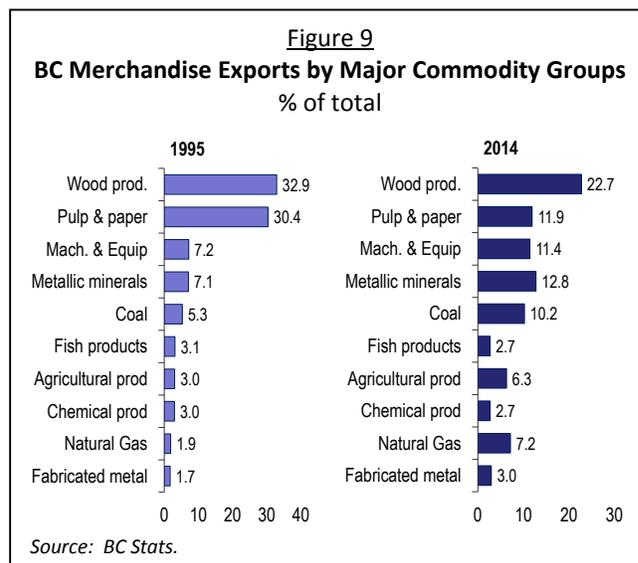
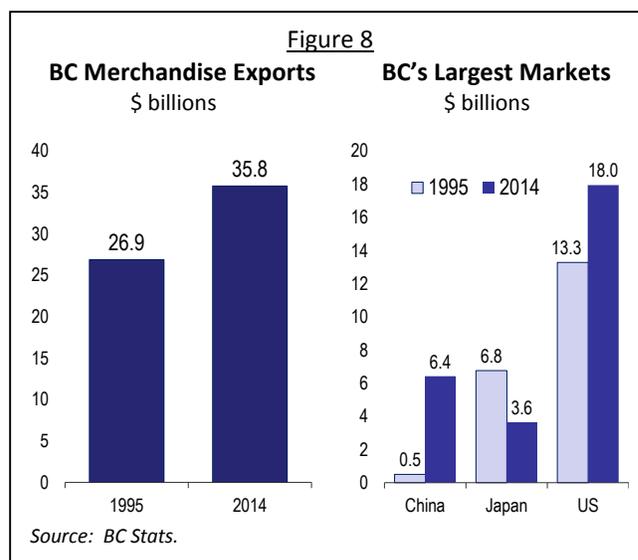
On the services side, the strongest job gain (75%) has been in Professional, Scientific and Technical Services (which captures most computer and many other technology-related jobs). Healthcare has also seen robust job growth (+50%). Back in 1995, 10% of all jobs in the province were in healthcare. Today the health sector supplies almost 12% of employment in BC.

British Columbia's merchandise exports have fluctuated with commodity cycles and trends in the world economy. By 2014 they were roughly \$10 billion higher than in 1995, measured in nominal terms (Figure 8). Despite a significant softening in global and North American commodity markets, BC's exports reached a new high in 2014.

It should be noted that the BC export data discussed here and reported in Figures 8 and 9 exclude exports of services – everything from tourism to transportation, finance, scientific and technical services, education, communications, environmental consulting, engineering and architecture, other professional services, management consulting, and research and development. The Business Council estimates that services now represent approximately one-third of the province's international exports of goods

and services combined. Looking ahead, we believe service-based exports will grow faster than merchandise exports, meaning that service industries are likely to loom progressively larger in the province's overall export base in the next 20 years.

Since 1995, the composition of BC's merchandise exports has become more diversified, both in terms of foreign markets served and the industrial mix of exports. Two decades ago the province's exports to China were just \$500 million. Since then export



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shipments to China have increased 12-fold in dollar terms. China was the destination for only 2-3% of the province's exports in the mid-1990s; by 2014 its share had jumped to 18%. Exports to the United States have also risen over time. On the other hand, by 2014 BC's exports to Japan had fallen to barely half of the level recorded in 1995.

The product mix of BC's merchandise exports has also shifted over time (Figure 9). Back in 1995, forestry was by far the dominant export sector, accounting for more than three-fifths of merchandise exports in value terms. By 2014, wood products and pulp & paper together made up approximately 34% of our exports. Since the mid-1990s, natural gas, agri-food and seafood products, machinery and equipment, coal, and high-value non-resource manufactured goods have all become more important within BC's export economy.

Because of often volatile commodity markets, the shares of some categories of resource-based products in the province's overall exports can vary significantly from year-to-year, and even decade-to-decade. However, it is important to recognize that natural resource-based goods continue to dominate BC's international merchandise export basket.

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