



# Publication

## POLICY PERSPECTIVES

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### BC's 2009 RECESSION CRIMPS AN OTHERWISE STRONG GROWTH PERFORMANCE IN 2000s

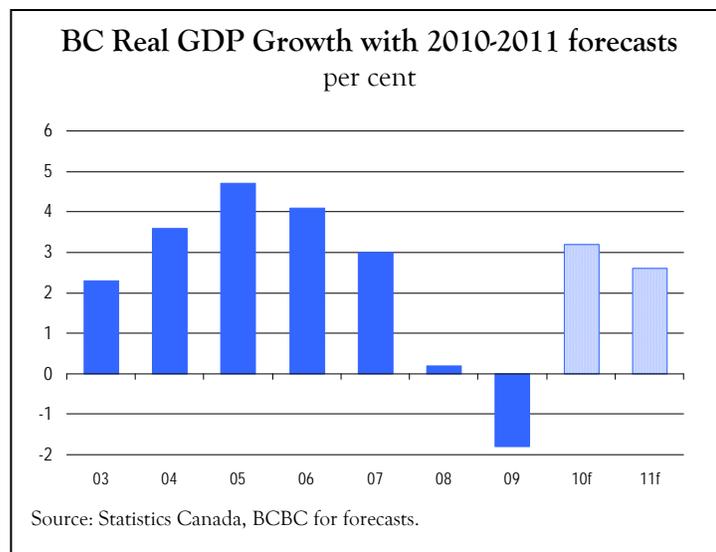
The recently released Provincial Economic Accounts provide an opportunity to look back at BC's economic performance. While preliminary data had already shown the province's economy experiencing a sizable contraction in 2009, the more complete data allows for a more comprehensive review of economic well-being, export performance and other comparative metrics. The 2009 data also brings the decade to a close, affording a longer term assessment of BC's economic performance for the entire decade.

#### *BC in the 'Great Recession'*

Statistics Canada's Provincial Economic Accounts shows that BC's economic downturn was not quite as large as originally estimated. The preliminary estimate for economic growth released last spring had the province's real gross domestic product shrinking by 2.5%, whereas the latest data point to a more moderate, but still sizable, 1.8% decline in economic activity.

BC's population continued to grow during 2009, so measured in **per person** terms, which is a better reflection of economic well-being, the decline was more pronounced. Real GDP per capita dropped 3.5% in 2009, the largest contraction since the 1981-82 recession (when per capita output tumbled 7.7%). With the economic slowdown actually starting the previous year, per capita GDP in BC also fell 1.5% in 2008. Together the two consecutive annual decreases amount to a significant hit to overall prosperity.

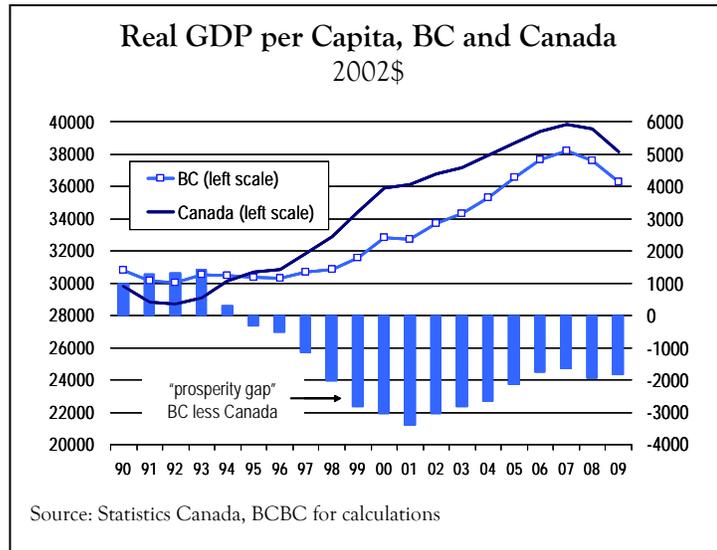
The back-to-back declines in real GDP per person in 2008-2009 erased a number of years of growth and pulled output per person back below 2005 levels. If there is comfort in having company, it is worth pointing out all Canadian provinces saw GDP per capita fall in 2009, with four recording larger decreases than BC. On the other hand, only four other provinces also suffered a fall in per person output in 2008, meaning that





BC was among the hardest hit provinces by the global economic downturn. This is reflected in the widening gap between BC and Canada in per capita GDP in 2008 and 2009, after several years during which this “prosperity gap” had narrowed.

An economic contraction of this size has implications for many individuals and businesses. With fewer people working, or making less money if employed, the level of per capita income after-tax slipped 0.8% in 2009. Allowing for the modest increase in prices during the year, real or inflation-adjusted after-tax income per capita fell by 1.9%.<sup>1</sup> Using this measure of economic well-being, Alberta, Saskatchewan and Ontario also saw decreases in per capita after tax incomes.



### Sources of Contraction in GDP

Both the domestic and export sides of the BC economy were hit during the recession. On the domestic side, total consumer expenditures (which includes spending on durable items, semi-durable items, non-durables and services) edged ahead 0.3%. The small gain was due to an increase in spending on services, driven mainly by population growth. In contrast, spending on more discretionary durable and semi-durable items dropped by more than 4% in 2009. Over the past decade consumer spending has been one of the largest contributors to economic growth, so the fact that it was essentially flat in 2009 was a major drag on BC’s economic performance.

The big downturn on the domestic side of the economy, however, was in business investment. All three components of private sector investment – residential housing, non-residential structures, and machinery and equipment – fell sharply in 2009. The biggest decrease, and the one that weighed most heavily on provincial growth, was investment spending on machinery and equipment (down 23%). Investment in residential structures, which includes renovation spending as well as new home construction, declined by an oversized 11.3% last year.

Amid the collapse in global trade that coincided with the onset of global recession in late 2008 and continued into part of 2009, BC’s export sector was particularly hard hit. Exports of goods and services fell 9% in 2009, with the largest reduction in exports of

<sup>1</sup> Inflation measured by the consumer price index in BC was zero in 2009 but inflation measured by the consumer expenditure deflator in the economic accounts was 1.2%.



goods to other countries. Again in a testament to the magnitude of the recession, the drop in exports erased most of the gains made during the mid-decade boom and pulled the real value of the province's exports back below its 2004 level.

BC's recession would have been even worse if purchases of imports from other jurisdictions had not fallen by an even larger amount. Produced outside of provincial boundaries, imports are subtracted from the total value of economic activity when computing overall GDP, so when imports decline it actually helps boost GDP growth. As BC companies invested less in machinery and equipment and consumers curtailed spending on many durable items, the real value of imports dropped in 2009 (8.4%), which essentially offset the economic effect of the contemporaneous fall in exports.

### ***2010 and the Near-term Outlook***

A review of 2009 is helpful in understanding the province's near-term economic prospects. As is usually the case with economic recoveries, residential investment led the way in the recovery process in late 2009 and into 2010. Some pent-up demand and low interest rates spurred housing sales, which in turn led to a rebound in new home construction. Consumer spending posted a healthy revival in the early stages of recovery, but has slowed to a moderate growth pace recently – this being one of the reasons to expect a growth slowdown in 2011.

The area with the greatest uncertainty is business investment. Spending on new non-residential buildings has started to trend upwards but our sense is that many companies are still hesitant to step up outlays for machinery and equipment. As noted above, this segment was especially hard hit in the recession. Following the steep drop off in trade, BC's export sector has enjoyed a significant rebound in 2010, thanks in large part to strong export growth to China but also some recovery in exports to the US. The export sector is benefiting from strength in the emerging markets and some further recovery in lumber markets, however the overall economic lift from exports in 2011 will not be as large as this year.

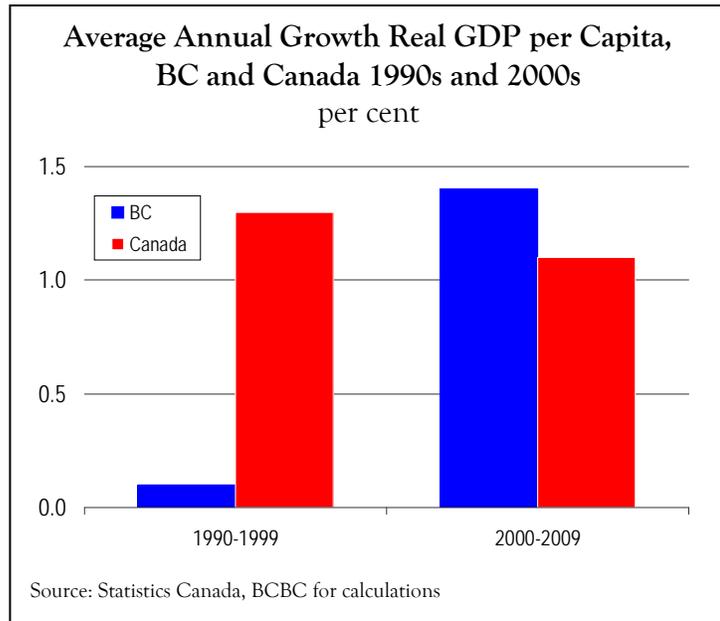
### ***Decade by Decade Performance***

When averaged over the decade, there is little difference between BC's real GDP growth during the 1990s and that in the 2000s. In the most recent decade, real GDP growth averaged 2.5% with the mid-decade boom being weighed down by the dot-com recession of 2001 and the contraction associated with the Great Recession of 2008-2009. During the 1990s, growth was more even, with the odd strong year but no momentum sustained over a multi-year period. Average growth in the 1990s was just slightly weaker, at 2.4%.



These broad averages, however, mask significant differences between the two decades in the important metrics of economic prosperity and well-being. During the 2000s BC made significant headway in boosting real GDP per person. Between 2000 and 2009, per capita GDP grew at an average annual pace of 1.4%. In contrast, during the 1990s the average annual growth in GDP per capita was a miserable 0.1%. What this means is that the average level of prosperity was essentially flat in the 1990s but grew at a reasonable clip in the 2000s. In many ways relative performance is more relevant, so it is interesting to note that in the 2000s BC outpaced Canada's 1.1% average economic growth rate but trailed Canada's 1.3% annual gain during the 1990s. The comparisons with Canada indicate that BC lagged well behind Canada in advancing prosperity in the 1990s but made up some of this lost ground in the past decade.

The fact that over time economic output or real GDP per capita determines prosperity is reflected in the patterns of personal income growth over the two decades. After adjusting for inflation, personal income declined by an average of 0.3% each year in the 1990s. Although incomes actually declined, the pattern is broadly consistent with the flatling of real GDP per capita during the 1990s. In the most recent decade, when economic growth per capita averaged a respectable 1.4%, personal incomes per person grew by an average of 1.8% each year. Both federal and provincial tax cuts helped boost growth in disposable incomes by an even stronger 2.2% on average each year in the latest decade.



### **Conclusion**

The 'Great Recession' set back the gains in prosperity which the province enjoyed earlier in the decade. Still, gains in per capita GDP and personal incomes were made during the 2000s, lifting overall wealth levels and improving economic well-being. With the recovery taking hold and positive GDP growth returning in 2010 and continuing into 2011, albeit at a fairly muted pace, we believe advances in prosperity will resume.

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