



Economic Growth and Tighter Labour Markets in BC: Some Implications of the Demographic Shift Ahead

Highlights

- BC's population growth has slowed. In the late 1980s and early 1990s annual population growth averaged 2.6%; in the second half of the 90s it slipped to 1.5% and then eased to an average pace of 1.0% in the 2000s. In recent years, population growth has averaged 0.9%.
- In the coming years population growth is projected to pick up slightly (as a result of more interprovincial migration) and then steadily ease back to around 1% by 2025 and then down to 0.8% by 2035.
- By 2027 the natural increase in BC's population falls to nil. Immigration and migration from other provinces become the only reason BC's population grows.
- BC's population is aging. The number of people aged 65 and over is growing at four times the rate of the number of working-aged people (25-64).
- Currently, there are 31 persons aged 65 years and up for every 100 working aged persons (25-64). By 2025 this ratio rises to 41 and to 48 by 2035. In other words, within two decades there will essentially be one "retirement-aged" person in BC for every two "working-aged" persons.
- BC's population is becoming more urbanized. About 70% of BC's population lives in the province's four largest metropolitan areas and this proportion is projected to rise gradually.
- The working-age population is growing much more slowly outside of BC's large urban centres.
- An older population will put additional pressure on public expenditures while governments' revenue raising capacity is diminished with a smaller fraction of the citizenry working.
- Governments will need to look to policies and incentives that can keep people working longer and boost labour force participation among groups that traditionally have been less likely to be employed. New incentives to locate in smaller communities may need to be considered.

Most people are aware that the population in Canada and other western countries is aging, that longevity is increasing, and that the front-end of the large baby boom generation has started to retire. Fertility rates have also fallen, which means the future supply of workers will be restricted. But how quickly will the population grow, and age, in the coming decades? Will there be a dramatic shortfall of working-age people?

This issue of Policy Perspectives briefly reviews current population projections for BC, shining a spotlight on a few key demographic variables. The findings underscore the steady aging of the provincial as well as the national population. It is also clear that immigration plays a significant role in the changing demographic landscape – within a decade, it will be the only source of population growth for both Canada and BC. Immigration can also help

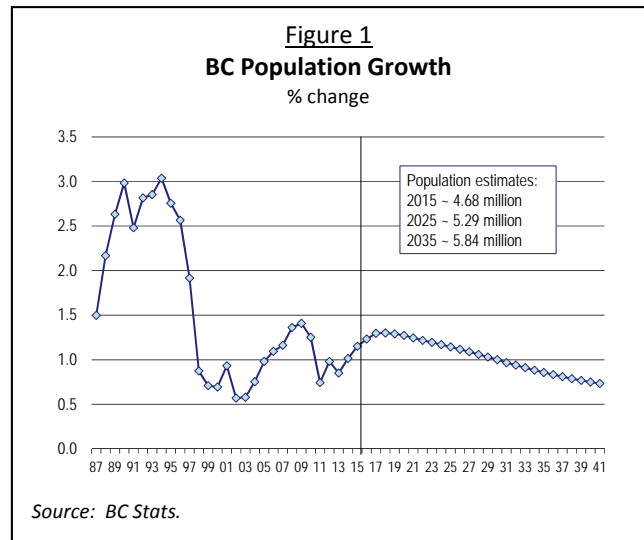
temper the pace – but not reverse the reality of – population aging.

Some Demographic Fundamentals

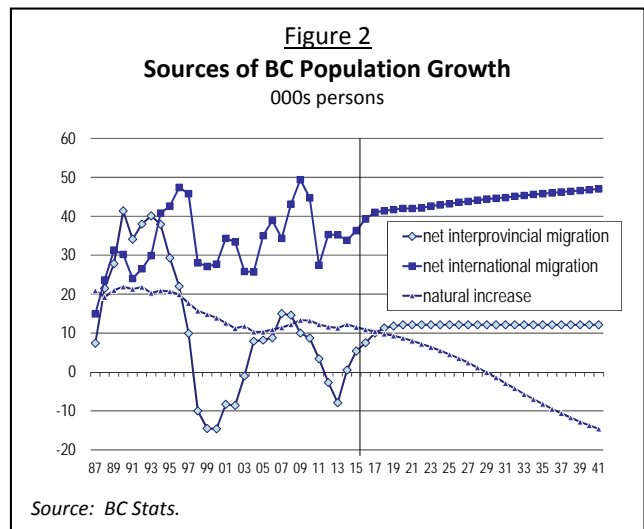
Population data is rich with detail. There is lots of information on different age cohorts, overall population levels and growth rates, male and female dimensions, longevity, migration patterns, geography and cities (urbanization), and so on. Below we present six charts that cover the most salient demographic developments in the province.

The first (Figure 1) summarizes overall population growth rates for BC, historically and with a forecast to 2041. What is immediately apparent is that population growth has slowed. In the late 1980s and first half of the 1990s, BC’s population was increasing by 2.5%-3.0% per year. By the late 1990s this had slowed materially and, apart from a short-lived pre-Olympic spurt, it has been hovering near the 1% mark. Population growth is actually projected to pick up for a few years, a forecast that rests on the expectation that net interprovincial migration will be stronger and immigration numbers will rise modestly (Figure 2). But as natural population growth (births minus deaths) dwindles and then turns negative by the end of the 2020s, total population growth will gradually slow.

The other major demographic trend is the aging of the provincial population. In BC, the ranks of those age 65 and over are expanding approximately four times faster than the traditional “working-age” population – an extraordinary and unprecedented development. With the number of people in the conventional working age category (25-64) increasing by just 1.0% annually, the potential



Source: BC Stats.



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pool of workers in the province is growing at half the rate of the previous decade (Figure 3). Barring any major changes in labour force participation rates (the proportion of the population that is in the workforce), the size of BC’s workforce is likely to edge up at a similar 1.0% annual pace. All things considered, slower labour force growth can be expected to weigh on the economy going forward.

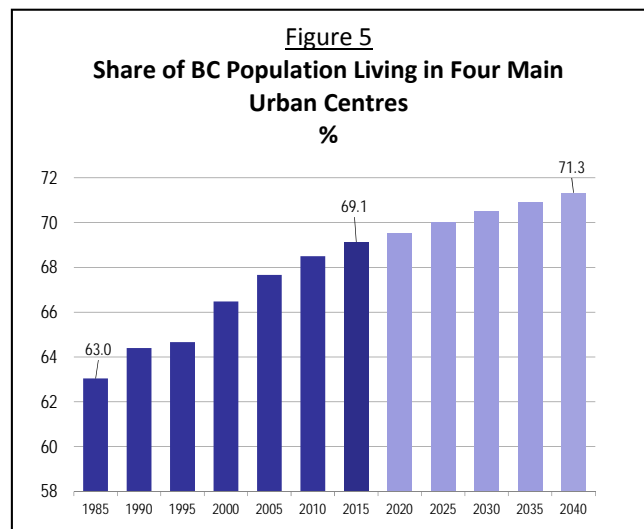
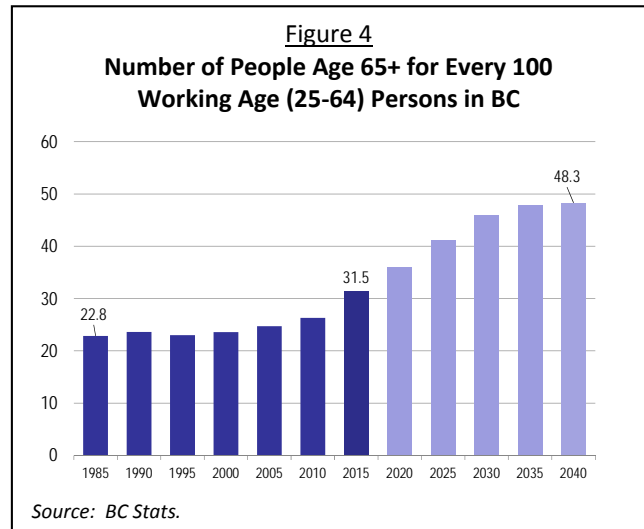
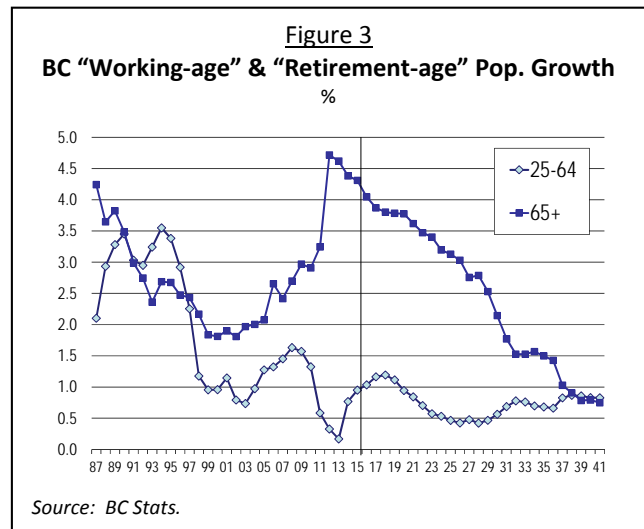
Another implication of an aging population is that fewer people will be working relative to the burgeoning pool of retirees. As Figure 4 shows, there are currently 31 people in the

traditional retirement age category of 65 years and over for every 100 people between the ages of 25 and 64. Ten years from now, this figure will have climbed to more than 40; in two decades' time it will reach 48.3.

Another notable demographic trend is ongoing urbanization (Figure 5). Currently, almost seven in ten BC residents live in the province's four largest urban centres – Metro Vancouver, Greater Victoria, Abbotsford and Kelowna. This proportion is projected to creep higher in the next two decades, continuing a well-established pattern. A serious problem for many smaller communities in BC is the lack of growth (or outright declines) in the working-age population. Currently, the number of people aged 25 to 64 in BC's rural areas is growing by a very tepid 0.1% per year, compared to 1.4% in the four main urban areas. The increase in the size of the working-age population is projected to accelerate slightly in some non-urban regions in the next several years, although this forecast is sensitive to future inter-provincial and intra-provincial migration flows. Note, too, that the gap in population growth between urban and non-urban BC persists, and is consistent with the picture across North America where progressively more people are opting to live in cities that provide a wider array of amenities, specialized services, educational opportunities, and jobs.

Some Implications of Changing Demographics

Perhaps the most far-reaching consequence of slower growth in the population and workforce is the impact this will have on economic growth. For the past three

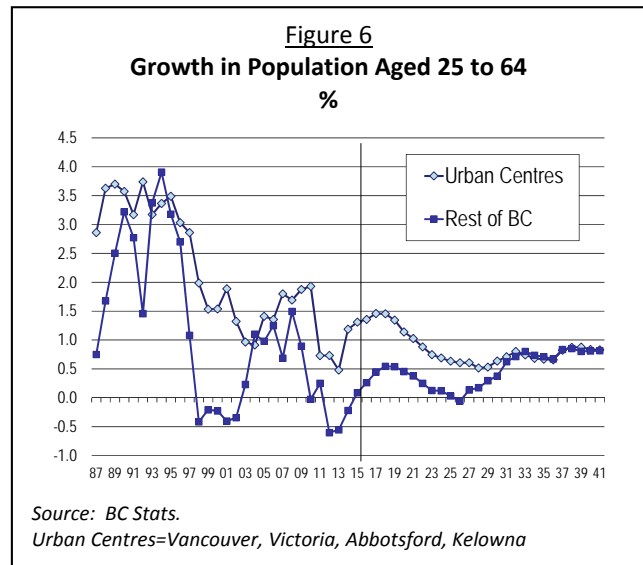


decades or more, economic growth in BC (and Canada more generally) has been mainly driven by an expanding population and labour force. Gains in productivity, the other primary determinant of economic growth, have been underwhelming. Some estimates indicate that in order to maintain economic growth rates in the advanced economies at the levels seen in the previous 30-50 years, productivity growth would need to at least double¹. While not impossible, this scenario is improbable, especially given the generally lacklustre productivity performance of most developed economies in recent decades. What this implies is that looking ahead, there is a good chance British Columbia's (and Canada's) potential economic growth rate will decrease by between one-third and one-half, relative to the post-World War Two historical average.

Another result of the demographic shift that the province is facing is that the job market will change. More BC employers will find it harder to hire new workers with desired qualifications and experience – something that is already happening in certain industry sectors and regions. In this environment, there will also be greater upward pressure on wages and salaries, along with a rising proportion of “older” workers as more people who reach 65 decide to remain in the workforce on at least a part-time basis.

The future size and configuration of the workforce will also depend on female labour force participation (which is still a bit lower than for men), how immigrants fare in the job market, and the extent to which First Nations increase their involvement in the

¹ McKinsey Global Institute, “Can Long-term Global Growth be Saved?” (January 2015).



labour force and the economy. While there has been a sharp jump in labour force participation rates among older cohorts, the average retirement age in BC has yet to increase significantly. Over the past few decades the average retirement age in Canada has declined by one or two years.² During the same period life expectancy increased by about six years, so a typical Canadian is spending more years in retirement than was the case in the past.

For government, population aging and the knowledge that a smaller share of the total population will be working means it is going to become harder to raise revenue. Stated differently, the “tax base” is likely to be less robust than in the past, owing to demographic change. While in BC there is some potential to grow new industries/sectors (such as LNG) that may generate substantial amounts of additional revenue, prudent governments need to start thinking about how to modify tax policy to account for slower growth in the workforce and the

² Average retirement age is rising gradually, but is still below where it was in the early 1980s.

overall economy, along with the spending pressures that are sure to accompany population aging.

Concluding Thoughts

The demographic developments identified above – slower population and workforce growth, population aging, and increased urbanization – will bring challenges as well as opportunities. Demand will grow for products and services tailored to meet the needs and preferences of an aging consumer population. Employers, particularly outside of urban areas, will face much tighter labour market conditions. An older population will put additional pressure on public expenditures while governments' revenue raising capacity is diminished as a smaller fraction of the citizenry is working and producing. Governments will need to look to policies and incentives that can keep people working longer and boost labour force participation among groups that traditionally have been less likely to be employed. New incentives to locate in smaller communities may have to be considered. Finally, there is the tax system. Absent a major windfall from new resource development, demographic projections suggest that the province may need to explore ways to make the tax system less vulnerable to "revenue erosion" linked to population aging and a slowdown in the growth of the workforce.

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Table 1: Growth in Working Age and 65+ Populations by BC Regional Districts

Region	year	Growth 25-64 %	Growth 65+ %	65+ per 100 aged 25-64*
British Columbia	2015	0.6	4.4	30.5
	2030	0.5	2.5	45.1
Greater Vancouver	2015	1.1	4.9	25.4
	2030	0.6	3.3	38.8
Capital	2015	0.1	4.1	37.0
	2030	0.2	2.2	57.7
Fraser Valley	2015	0.9	3.8	31.6
	2030	0.8	2.4	42.0
Central Okanagan	2015	1.0	3.5	37.8
	2030	1.1	2.1	45.8
Nanaimo	2015	0.0	3.9	49.6
	2030	0.9	1.0	63.5
Thompson-Nicola	2015	0.3	4.2	35.0
	2030	0.2	1.5	52.7
Fraser-Fort George	2015	0.3	5.0	23.7
	2030	-0.8	2.4	43.4
Cowichan Valley	2015	-0.5	4.7	42.7
	2030	0.4	1.5	64.2
North Okanagan	2015	-0.5	3.7	44.7
	2030	0.4	1.4	61.9
Peace River	2015	2.0	4.0	18.0
	2030	0.4	3.2	29.4
Okanagan-Similkameen	2015	-1.1	2.5	59.3
	2030	0.1	1.1	82.5
Comox Valley	2015	-0.6	4.2	45.6
	2030	0.6	1.4	61.2
Cariboo	2015	-1.1	5.0	35.2
	2030	-0.3	1.0	59.7
East Kootenay	2015	-0.9	4.7	33.5
	2030	-0.4	1.5	58.5
Central Kootenay	2015	-1.2	4.3	40.6
	2030	0.1	0.9	61.5
Squamish-Lillooet	2015	0.7	5.6	15.3
	2030	0.8	4.0	30.7
Columbia-Shuswap	2015	-0.6	3.3	42.0
	2030	0.0	1.3	61.8
Strathcona	2015	-1.0	6.3	36.8
	2030	0.2	0.9	62.1
Kitimat-Stikine	2015	0.0	4.4	25.7
	2030	-0.1	2.2	42.3
Bulkley-Nechako	2015	0.0	3.8	25.7
	2030	0.1	2.1	42.3
Alberni-Clayoquot	2015	-1.3	3.9	37.7
	2030	0.1	0.7	58.5
Kootenay-Boundary	2015	-2.2	3.3	45.7
	2030	-0.6	0.5	76.9
Sunshine Coast	2015	-1.3	4.9	52.4
	2030	0.6	1.1	80.7

Source BC Stats, BCBC for calculations. *Number of persons aged 65+ per 100 persons aged 25-64. Data are three-year averages, regional districts with fewer than 15,000 persons aged 25-64 are not shown.