



SEPTEMBER 6, 2016

OUR ECONOMIC PROSPECTS IN A
SLOW-GROWTH WORLD

PRESENTED TO

BCBC/ABIC

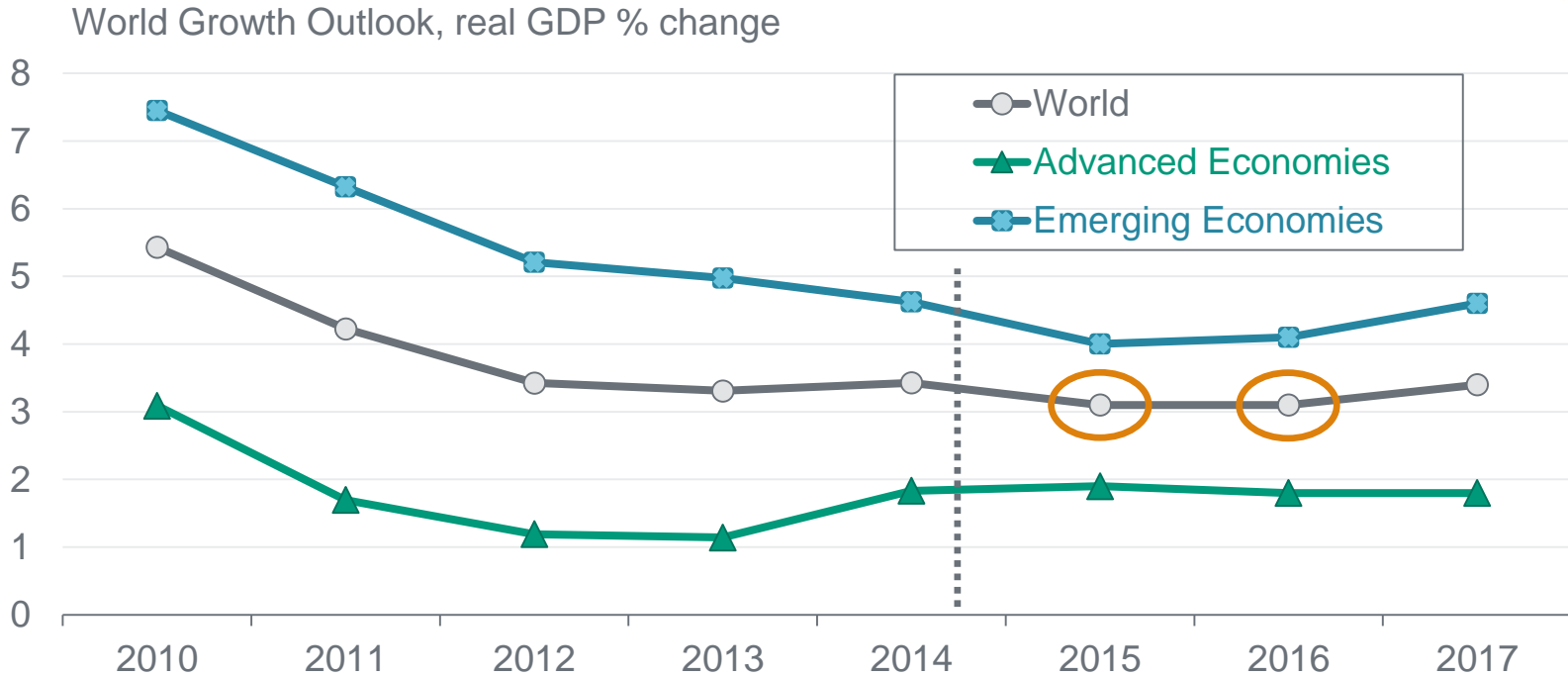
ABORIGINAL ECONOMIC DEVELOPMENT AND PROSPERITY FORUM

JOCK FINLAYSON,
Executive Vice President and Chief Policy Officer

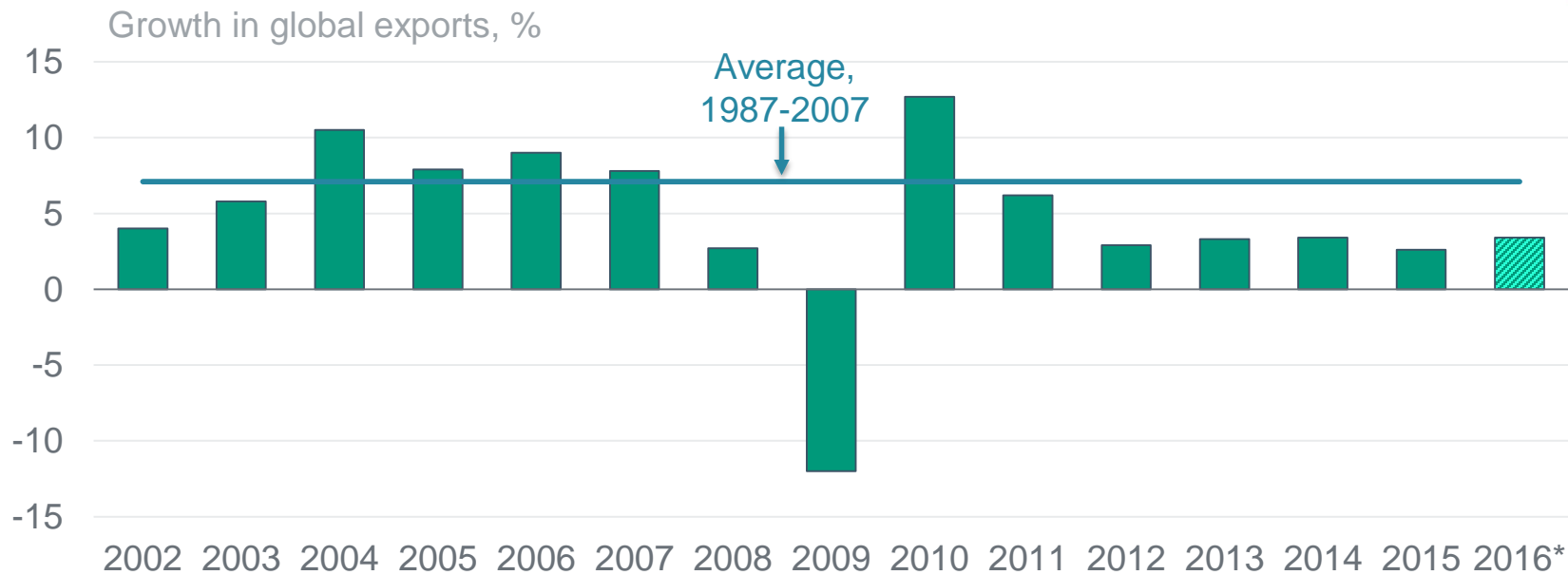
and

KEN PEACOCK
Chief Economist and Vice President
Business Council of British Columbia

THE GLOBAL ECONOMY REMAINS STUCK IN LOW GEAR



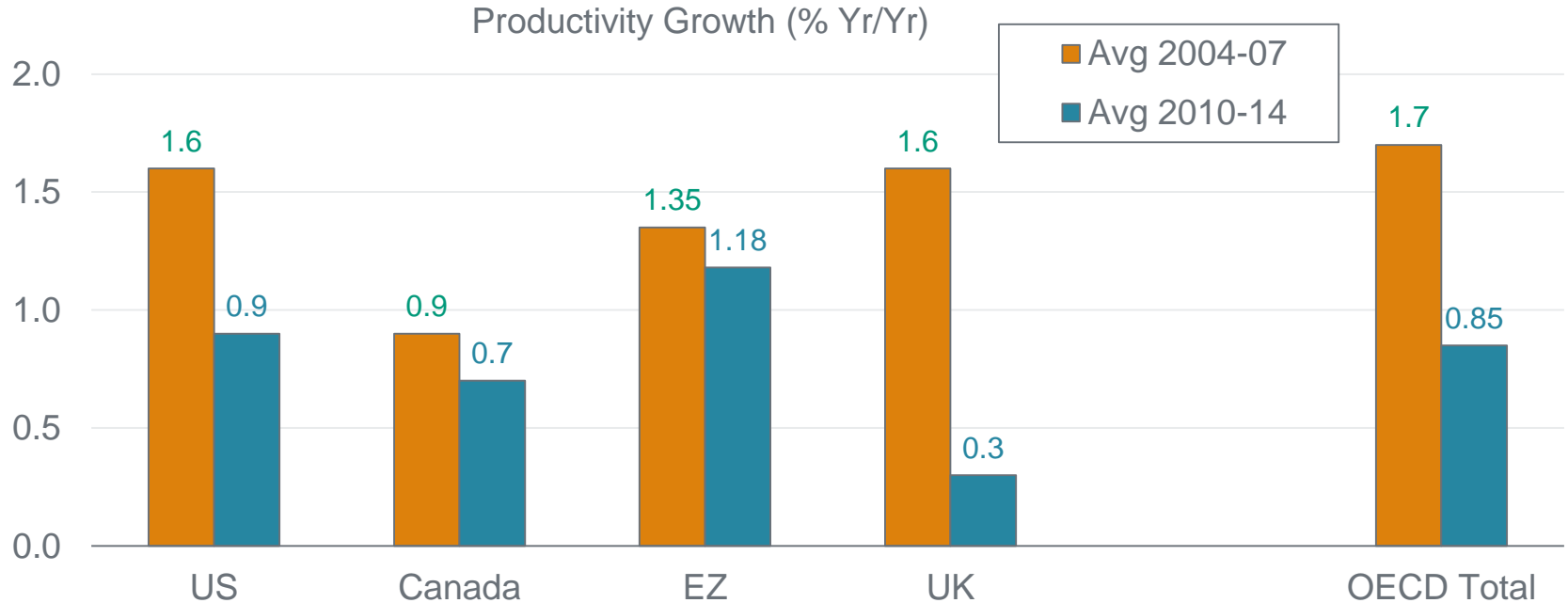
FALTERING GAINS IN INTERNATIONAL TRADE



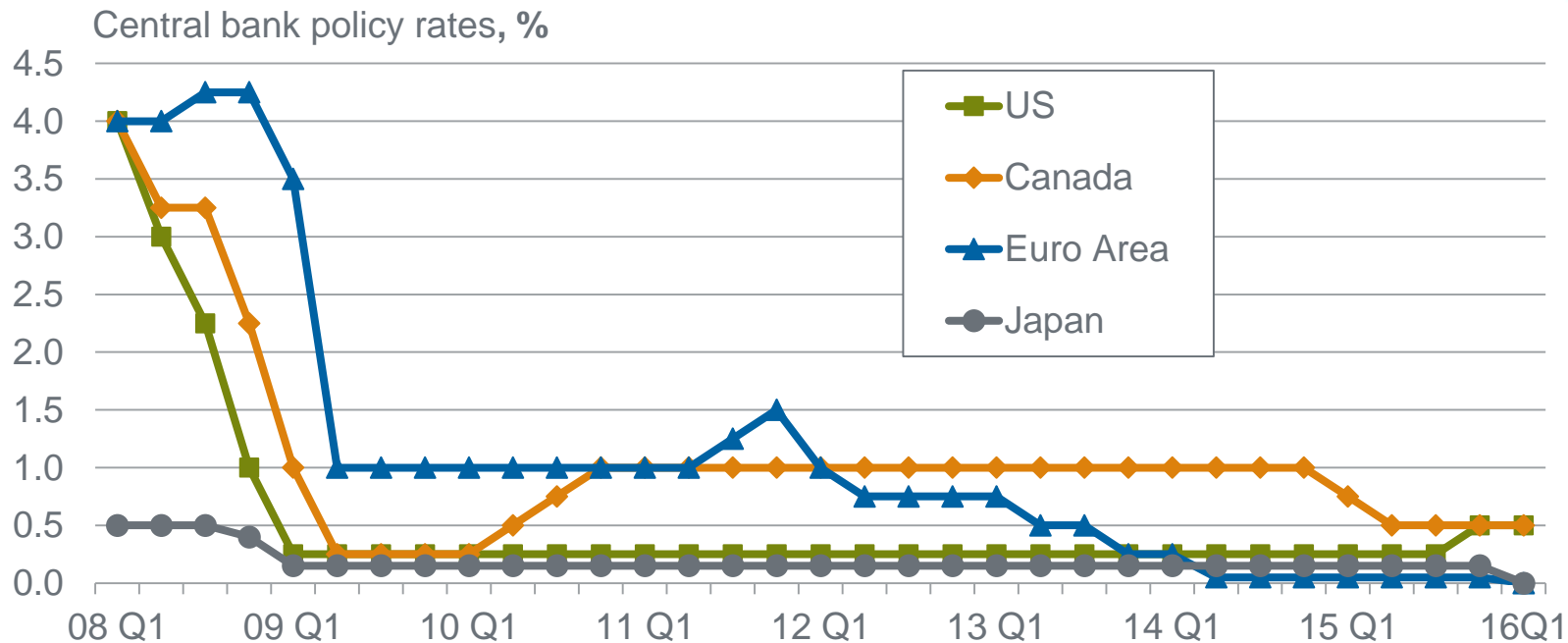
* Forecast.

Source: IMF. Data refer to the volume of exports.

A SURPRISING PRODUCTIVITY SLOWDOWN ACROSS THE OECD



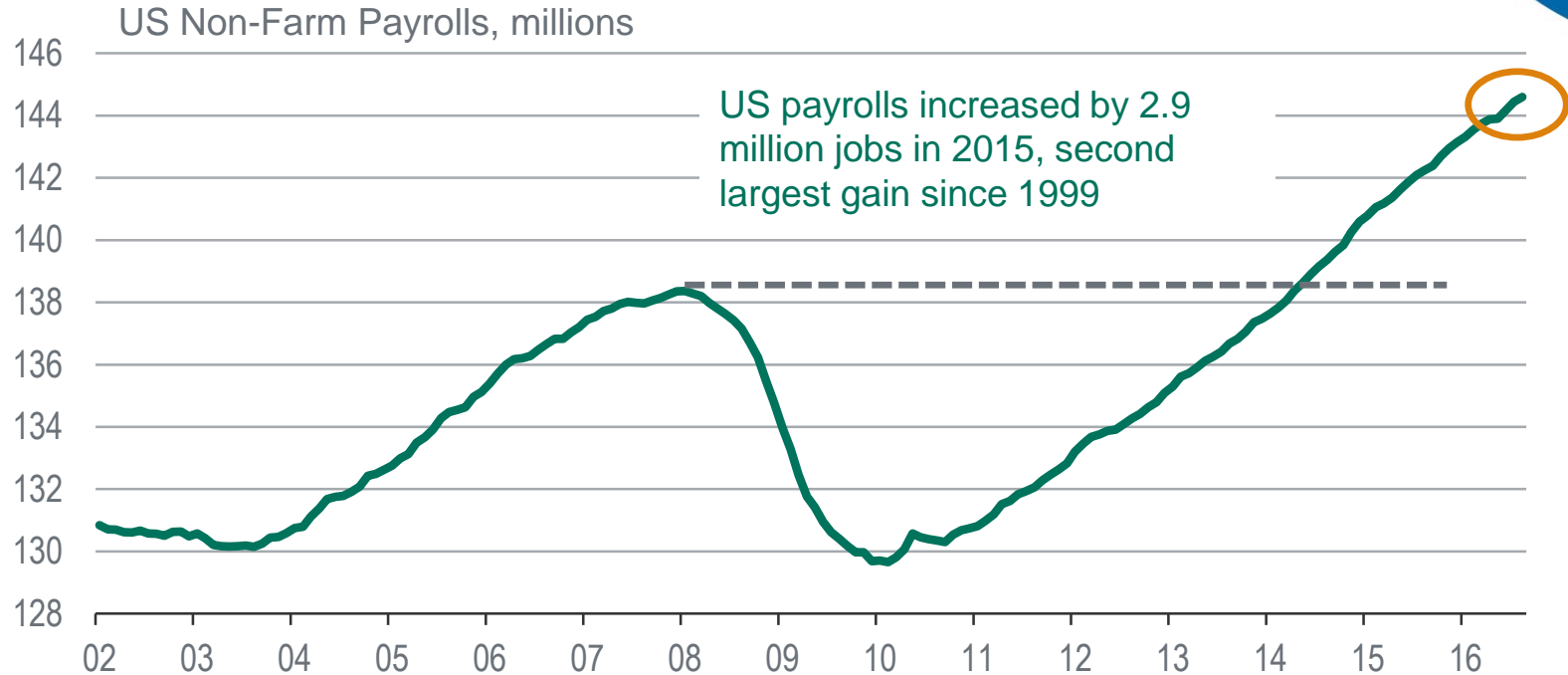
SEVEN PLUS YEARS OF RECORD LOW CENTRAL BANK INTEREST RATES



AMERICA'S ECONOMIC EXPANSION CHUGS ALONG

- Real GDP grew 2.4% in 2015, the same as 2014
- But growth eased to just ~1% (annualized) in the first half of 2016, reflecting the strong US dollar, soft global economy and plunging investment in the oil and gas sector
- However...
 - 78 consecutive months of employment gains
 - consumption spending is trending higher
 - housing starts are slowly climbing, should reach ~1.2 million this year
 - lower energy prices are a (net) economic plus for the US...in the medium-term
 - fiscal drag is diminishing as state/local government budgetary positions improve
- Recent forecasts suggest the US economy will grow by 1.5 - 2.1% (after-inflation) in 2016/17
- Interest rate hikes by the Federal Reserve will be slow to come in the next 2 years

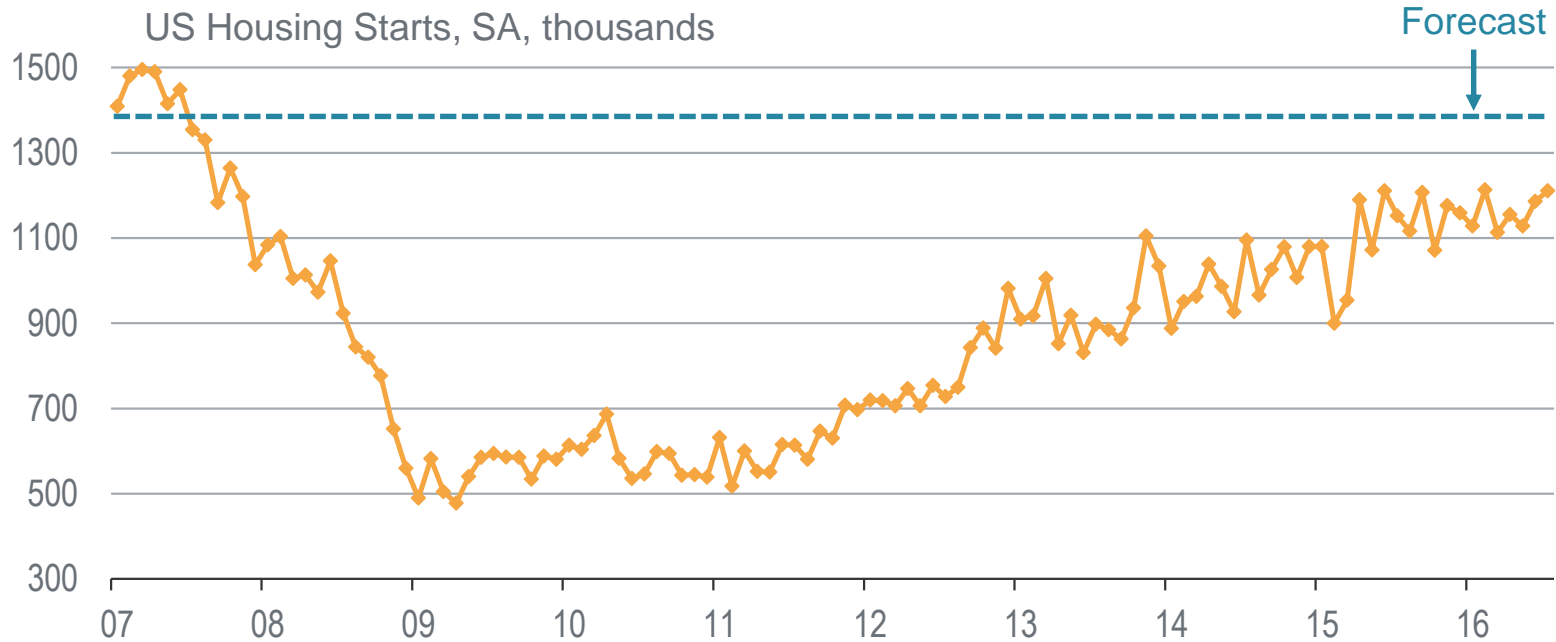
US EMPLOYMENT SURGES



Latest: August 2016

Source: US Bureau of Economic Analysis. seasonally adjusted data

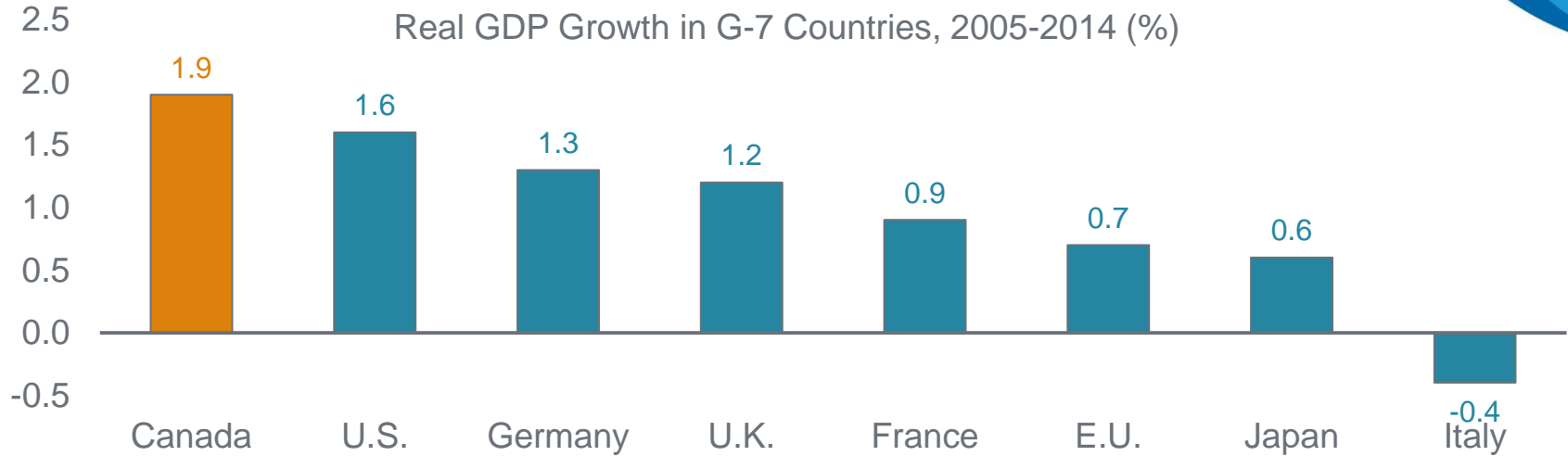
HOUSING STARTS CONTINUE TO GRIND HIGHER



Latest: July 2016

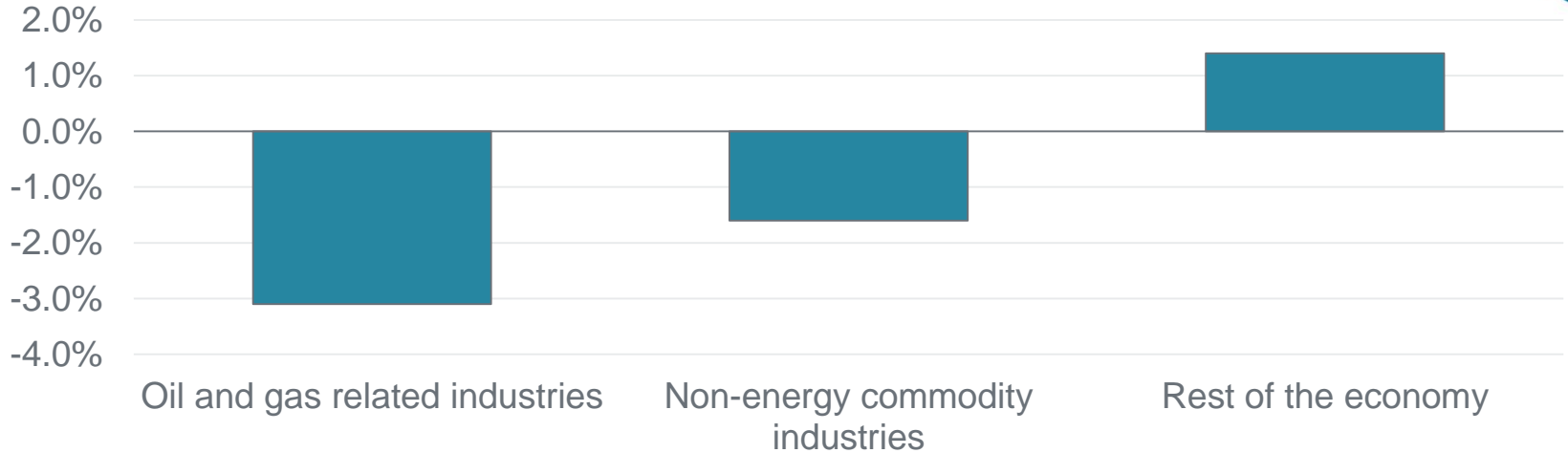
Source: US Census Bureau, seasonally adjusted data.

CANADA PREVIOUSLY LED THE G-7 IN ECONOMIC GROWTH



- Data from the OECD place Canada at the top of the G-7 in overall economic growth in the decade ending in 2014

...BUT OUR ECONOMY HIT THE SKIDS IN 2015 (Y/Y % CHANGE IN REAL GDP FROM 2014)



- Resource-related industries, representing ~20% of Canadian GDP, have accounted for most of the recent weakness in the Canadian economy

FACTORS SHAPING CANADA'S ECONOMIC PERFORMANCE IN 2016-18

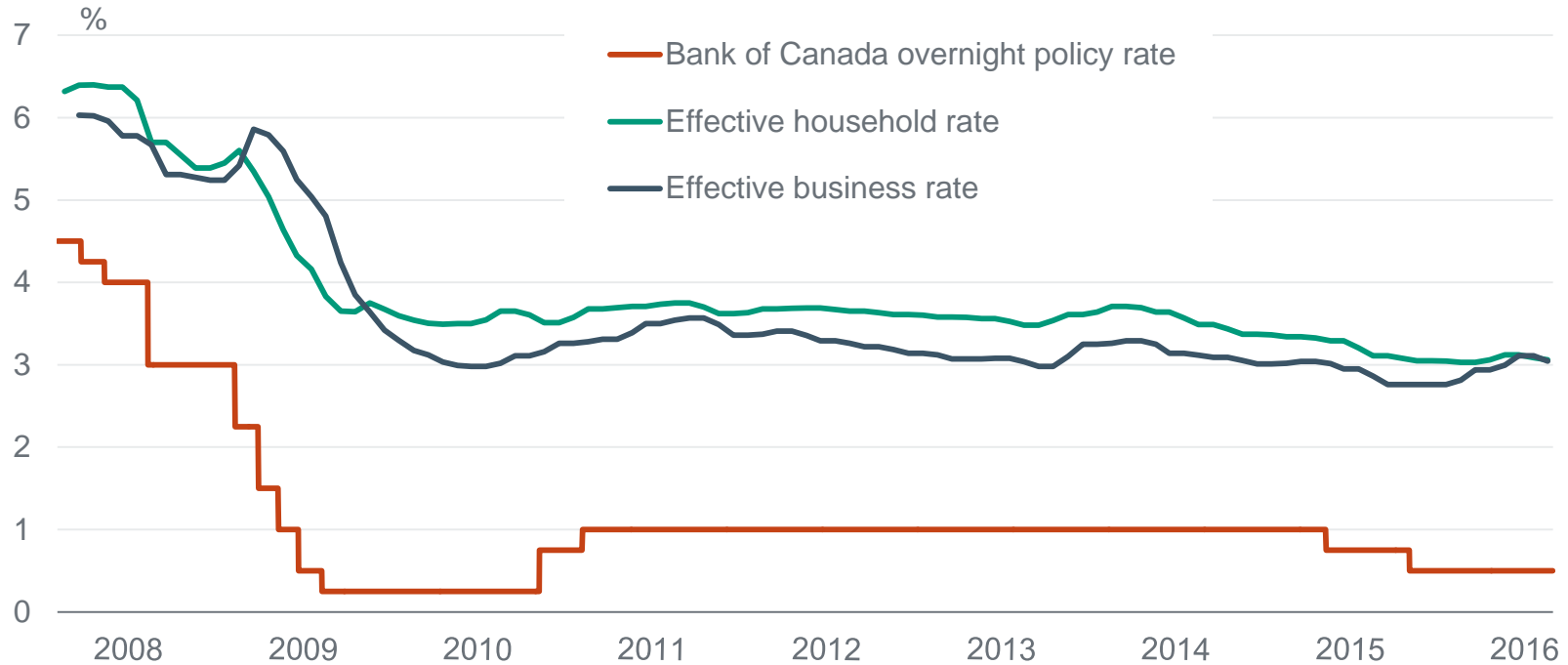
Negative impact

- Increasingly indebted households – pointing to weaker growth in consumer spending going forward
- Anticipated slowdown in housing-related investment
- Declining business investment; plus eroding industrial competitiveness vis-à-vis US and Mexico
- Still relatively weak commodity markets (energy, most metals, other industrial raw materials)

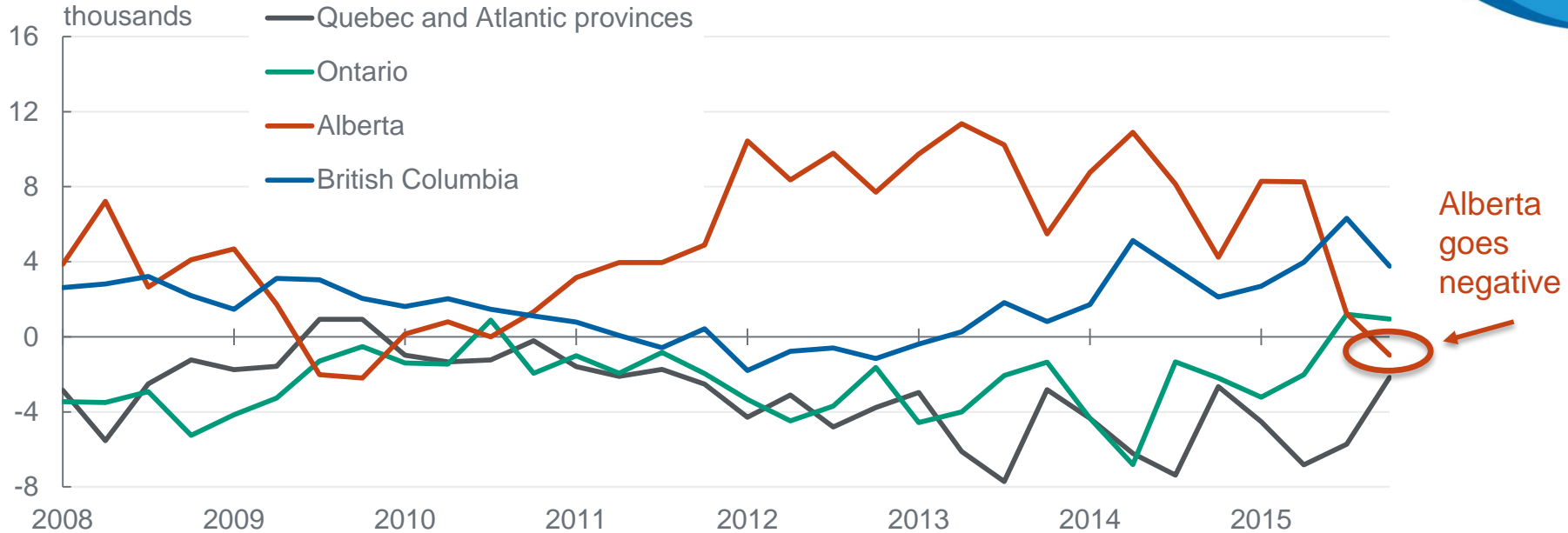
Positive impact

- Federal government fiscal stimulus, including higher infrastructure spending
- Moderate US economic expansion
- Continued low interest rates and low(er) Canadian dollar
- A rebound in some non-energy exports

CANADIAN INTEREST RATES AT/NEAR RECORD LOWS

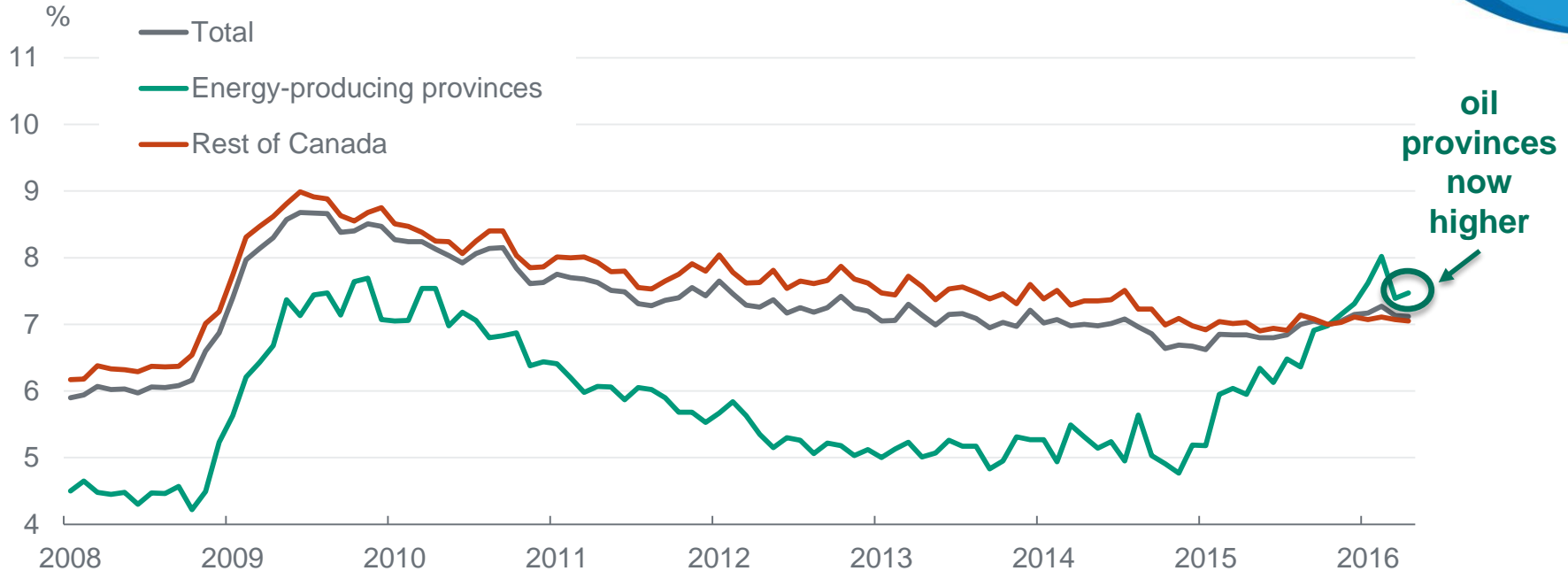


CANADIAN ECONOMIC ROTATION - NET INTERPROVINCIAL MIGRATION FLOWS



¹ Atlantic provinces include New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador.

CANADIAN ECONOMIC ROTATION – SHIFTING UNEMPLOYMENT RATES BY BROAD REGION¹



¹ Data from the Labour Force Survey. Energy-producing provinces include Alberta, Saskatchewan, and Newfoundland and Labrador.

TOP GLOBAL OIL PRODUCERS

Top Producers ¹	Crude Oil (mmbpd)	
	1993-2013 Average	2014
US	8.1	11.7
Russia	8.2	10.4
Saudi Arabia	7.8	9.7
Canada	3.0	4.3
China	3.5	4.1
Iraq	1.8	3.3
Iran	3.3	2.8
UAE	2.1	2.8
Kuwait	2.1	2.8
Mexico	3.3	2.8

¹ includes products

Source: International Energy Agency.

ENERGY'S PLACE IN CANADA'S EXPORT MIX*

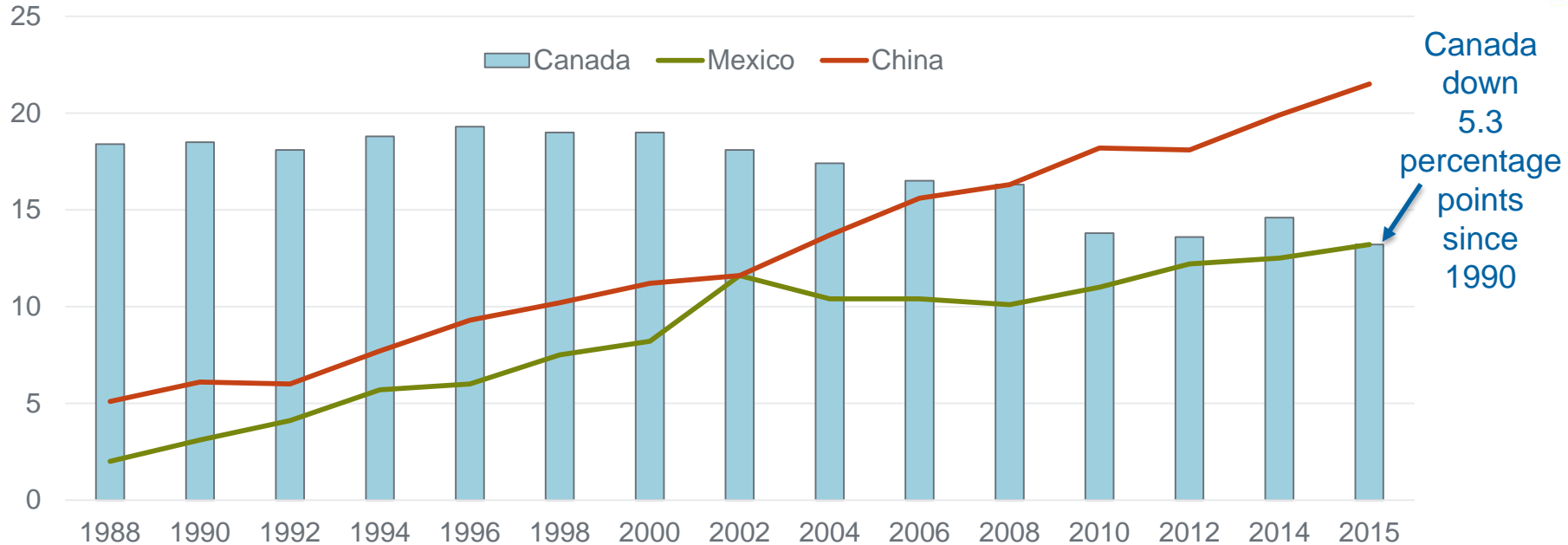


*Merchandise exports only; excludes services

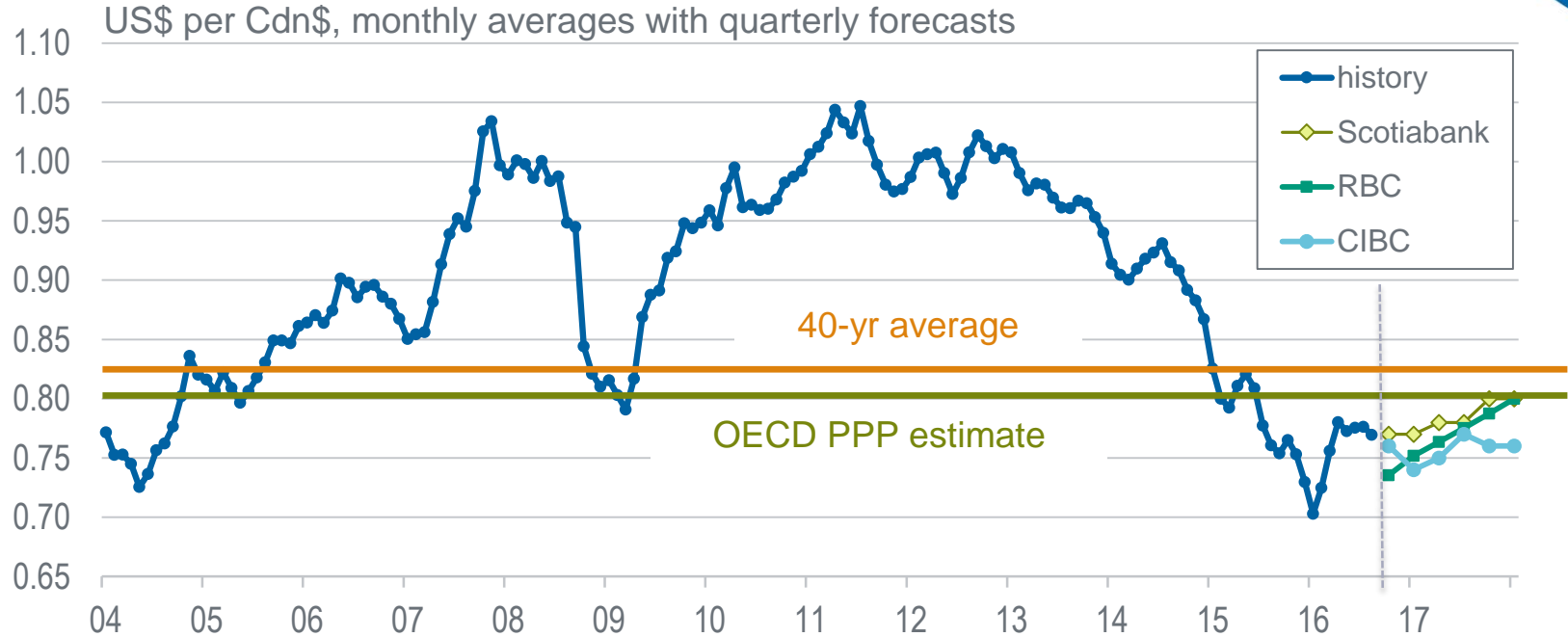
Source: CIBC World Markets.

CANADA HAS LOST GROUND IN THE US MARKET

Country share of total US merchandise imports, per cent



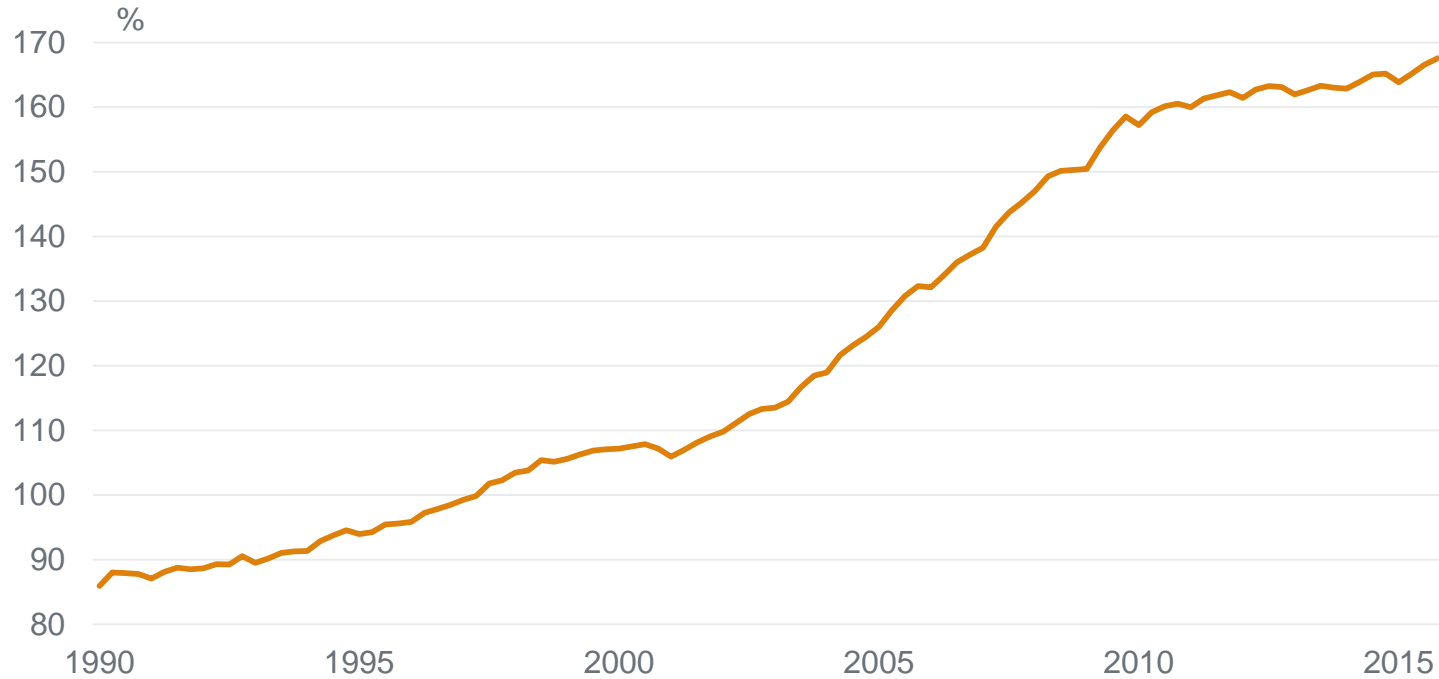
A BUMPY RIDE FOR THE CANADIAN DOLLAR



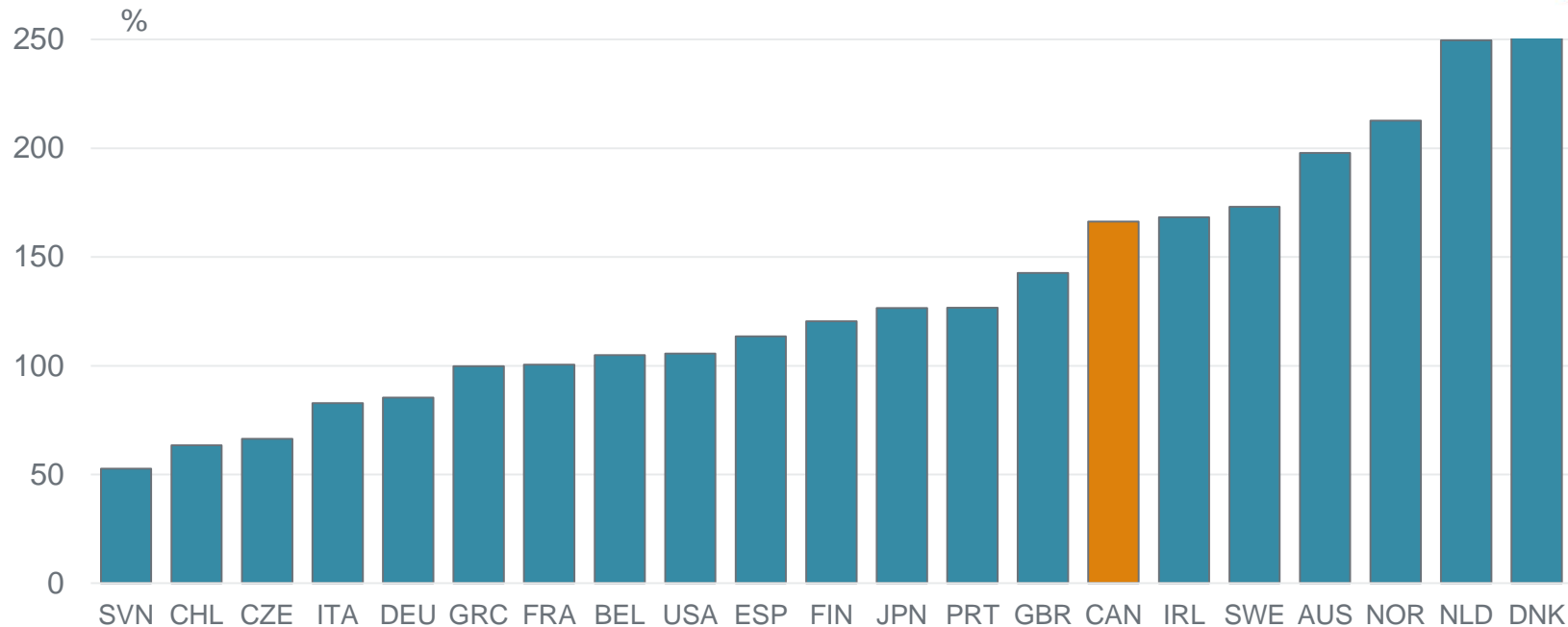
Latest: August 2016

Source: Bank of Canada, noon rate.

CANADIAN HOUSEHOLD DEBT TO DISPOSABLE INCOME



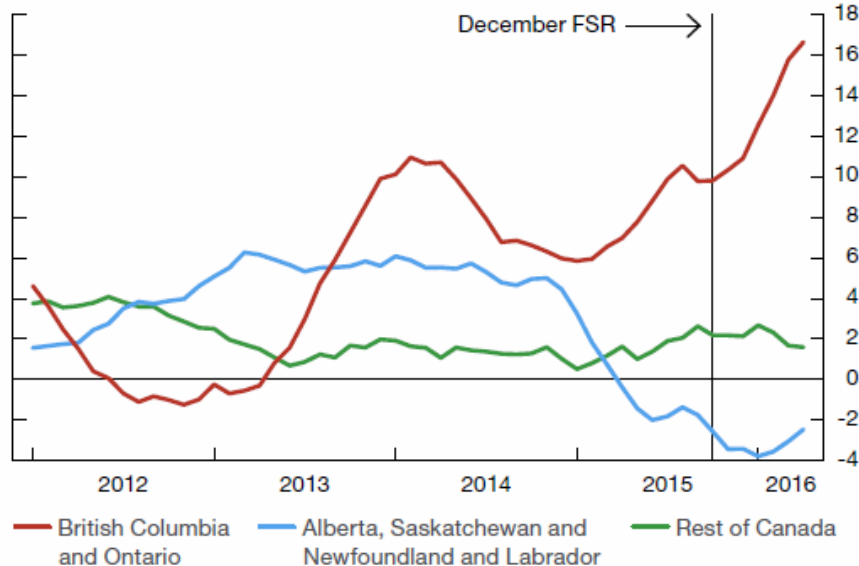
HOUSEHOLD INDEBTEDNESS RATIO, CANADA VS OTHER OECD COUNTRIES, Q4 2015¹



¹ Total household outstanding debt as a percentage of household gross disposable income. Q4 2014 for Denmark and Q1 2015 for Japan.

TRIFURCATION OF CANADIAN HOUSING MARKETS

y/y growth in average prices* %



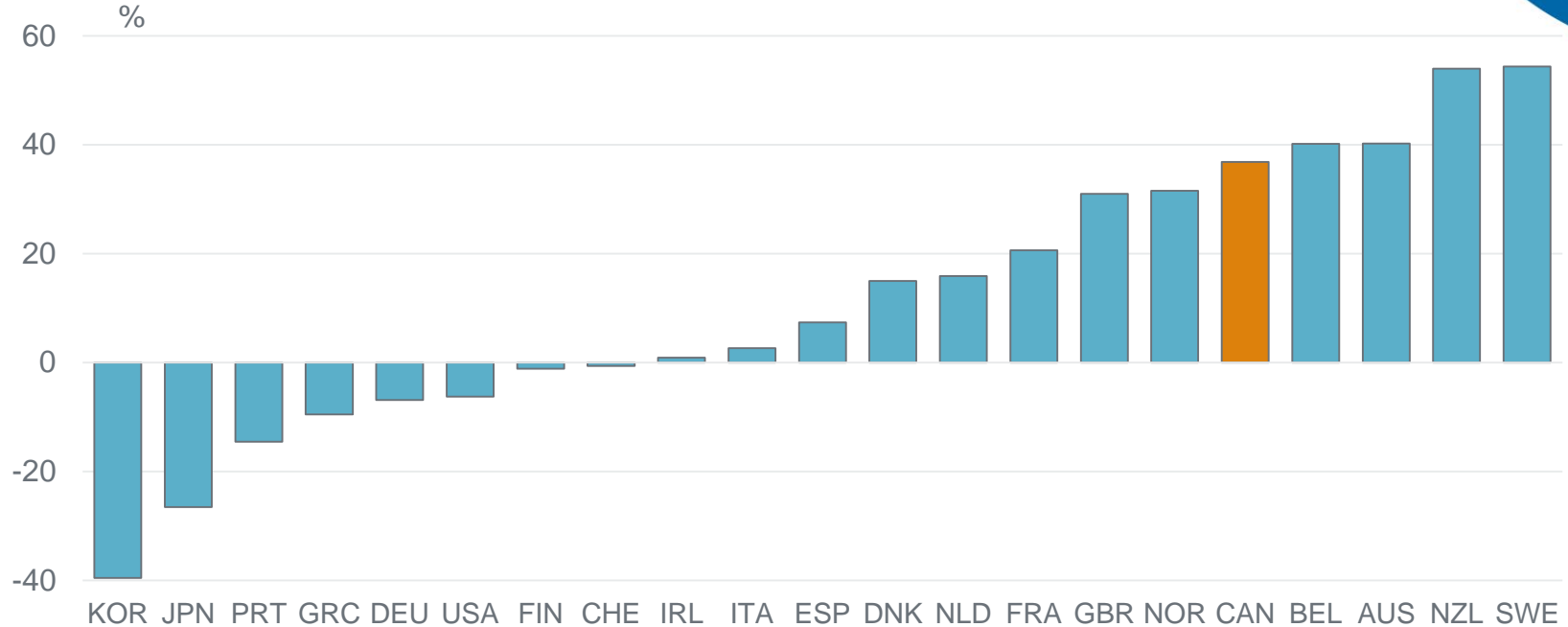
* six month moving averages

- Nationally, home resales reached new highs in H1 2016
- Average prices up 10% y/y to June
- Strength in national market, however, masks growing divergence across regions
- Greater Vancouver house prices climbed >30% in the year to June 2016
- Markets in Vancouver and Toronto have been supported by in-migration, foreign capital inflows, and robust job growth

Latest: May 2016 *Jan to June

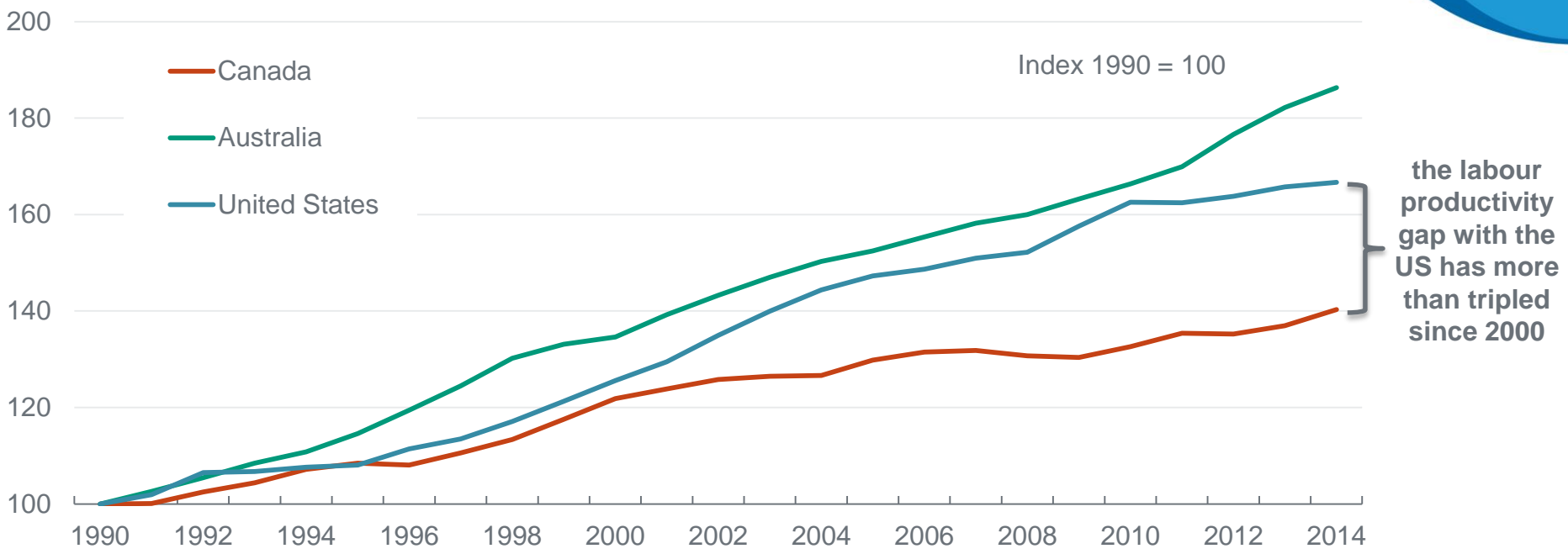
Source: Statistics Canada, LFS.

CANADIAN HOUSE PRICES ARE HISTORICALLY HIGH RELATIVE TO INCOMES, Q1 2016¹



¹ Deviation of the ratio of nominal house prices/nominal disposable income per capita over the long-term average. The long-term average starts in Q1 1980 for most countries, with a few exceptions. The price-to-income ratio starts in Q1 1981 for Denmark, Q1 1986 for Korea and New Zealand, Q1 1987 for the United Kingdom, Q1 1995 for Portugal and Q1 1997 for Greece. The latest observation is Q4 2015/Q1 2016.

LABOUR PRODUCTIVITY¹

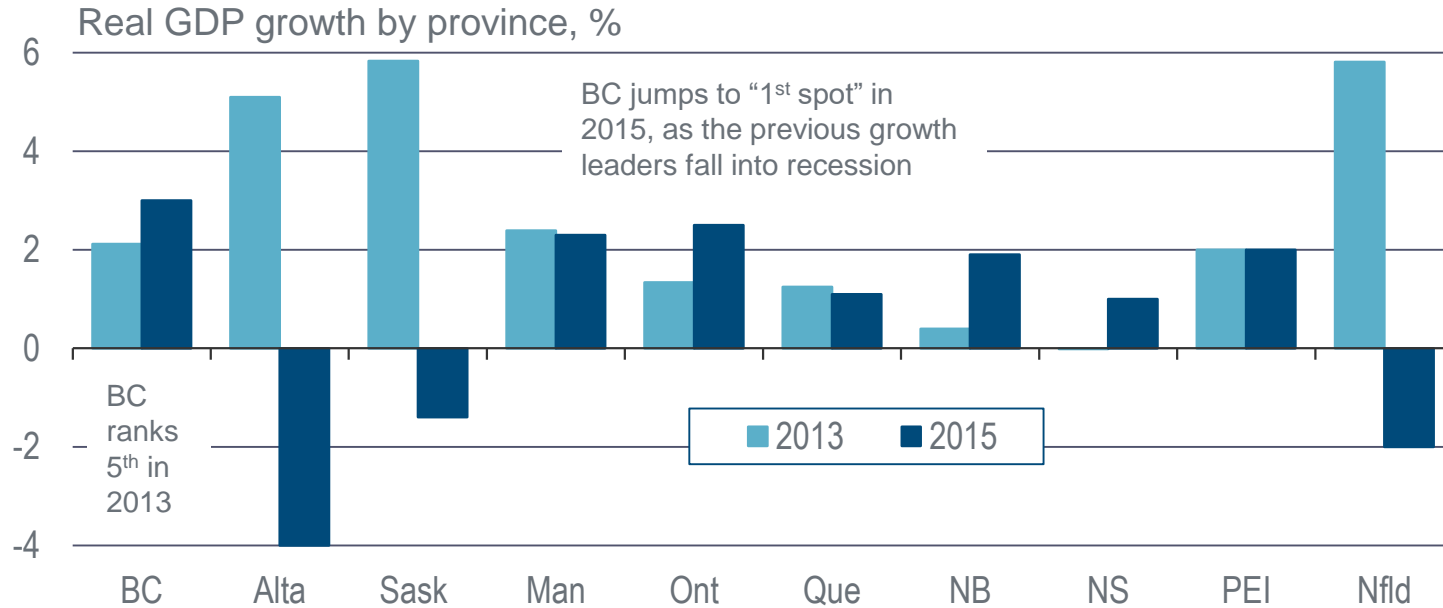


¹ In the business sector.

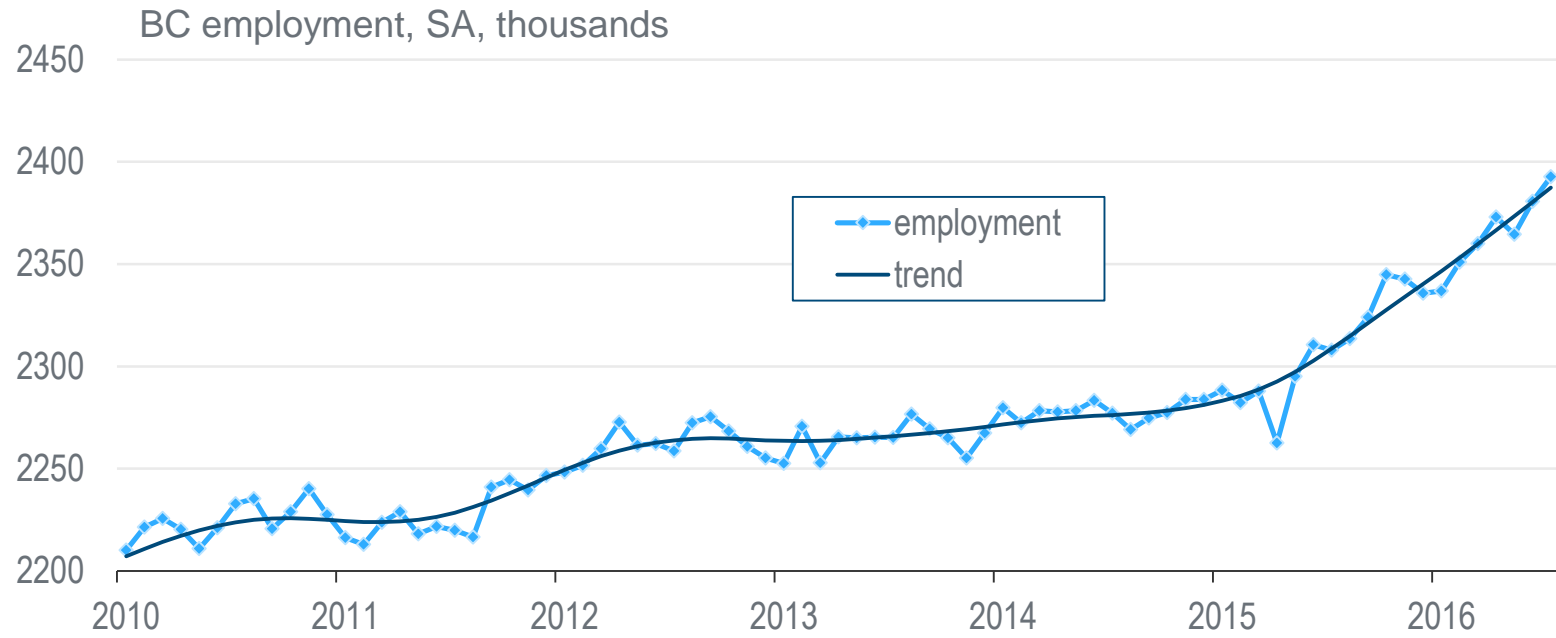
AN UPDATED ECONOMIC FORECAST FOR CANADA

	2015	2016	2017
Real GDP Growth (% change)	1.1	1.3	1.8
Real consumer spending (% change)	1.9	2.0	2.0
Real business investment (% change)	-10.6	-8.6	1.8
Unemployment rate (%)	6.9	7.0	6.8
Current account balance (% of GDP)	-3.2	-3.0	-2.0
Housing starts (000)	196	191	181
Corporate profits (% change, pre-tax)	-15.8	-1.1	7.9

BC'S RELATIVE ECONOMIC POSITION DEPENDS IN PART ON HOW OTHER PROVINCES PERFORM



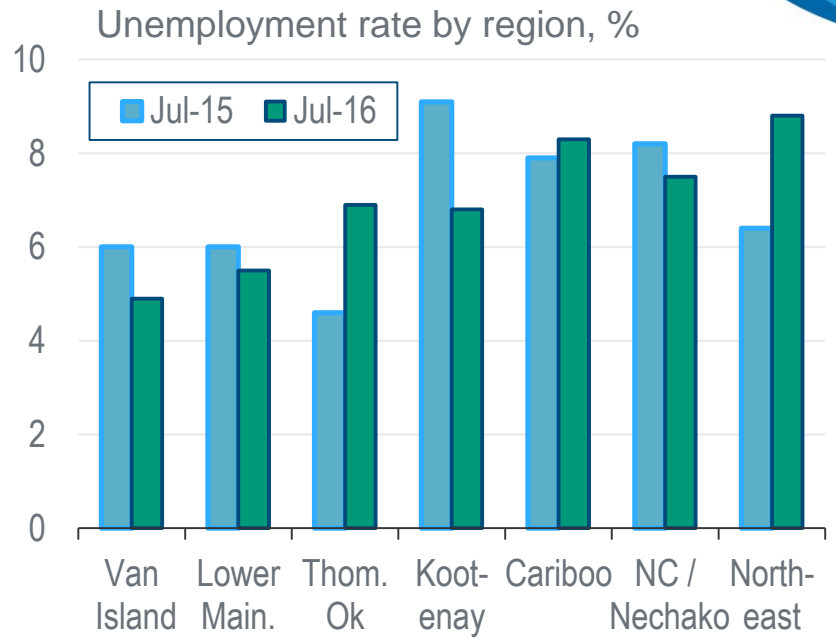
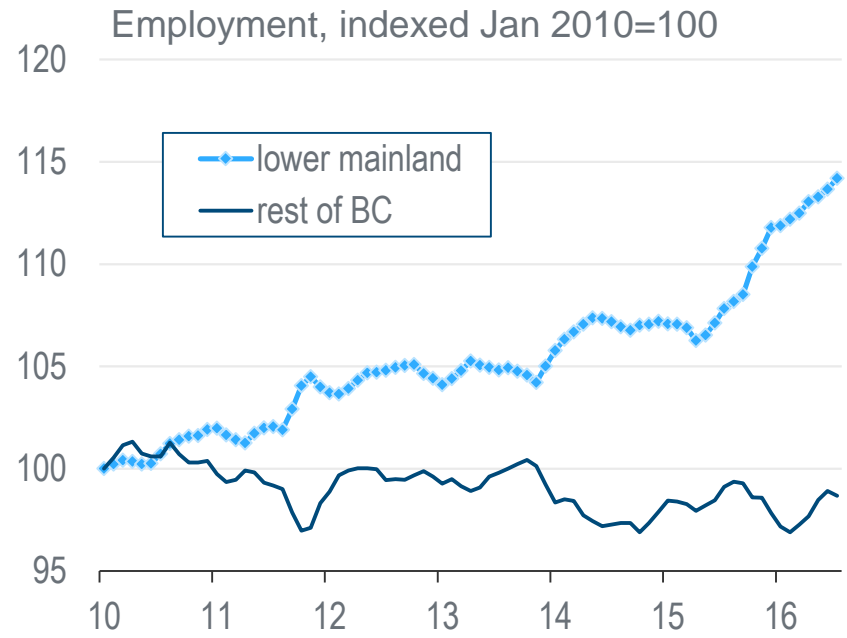
THE BC JOB MARKET HAS REBOUNDED



Latest: July 2016

Source: Statistics Canada, LFS.

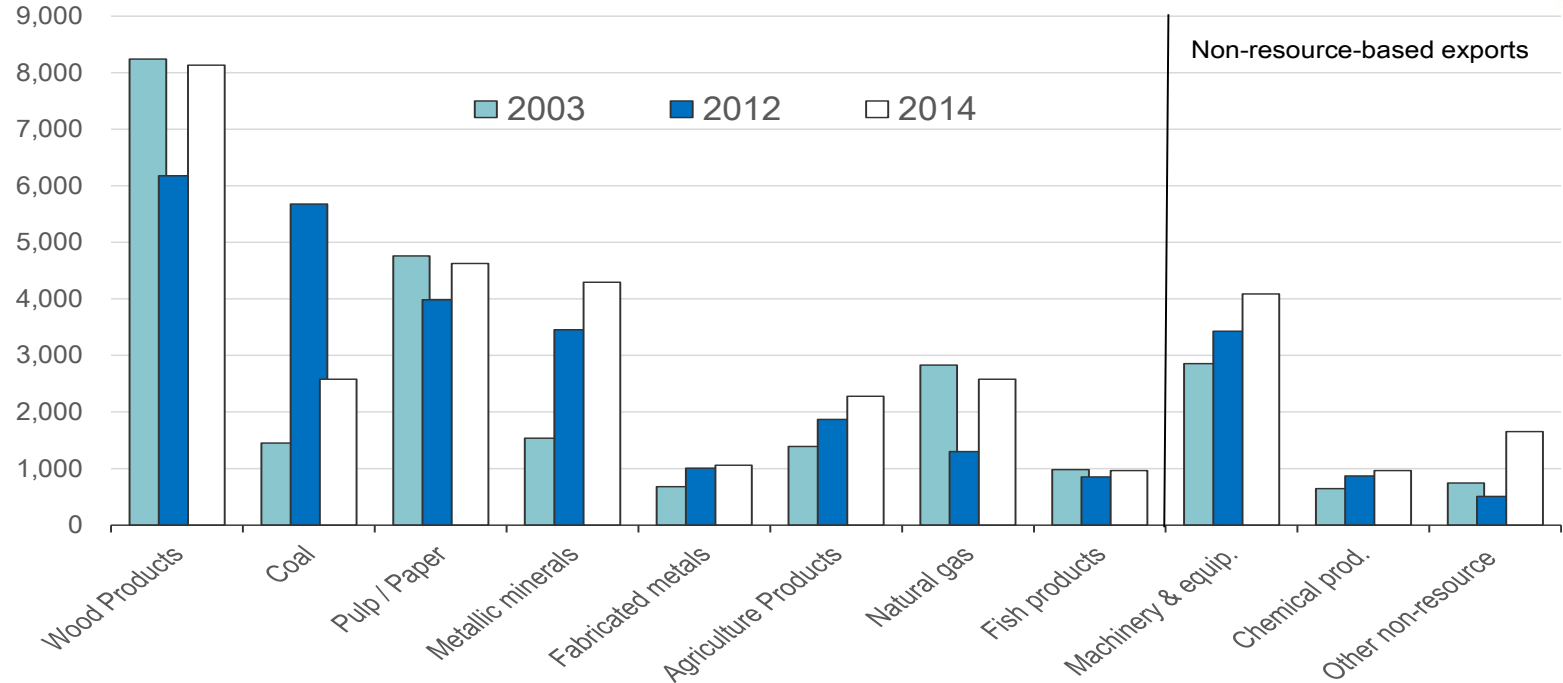
BUT JOB GROWTH HAS BEEN CONCENTRATED IN THE LOWER MAINLAND



Latest: July 2016

Source: Statistics Canada, LFS.

RESOURCES STILL DOMINATE BC'S GOODS EXPORTS



BC ECONOMIC OUTLOOK

(ANNUAL % CHANGE UNLESS OTHERWISE INDICATED)

	2014	2015	2016f	2017f
Real GDP	3.2	3.0	2.7	2.6
Employment	0.6	1.2	3.0	1.5
Unemployment rate (%)	6.1	6.2	6.1	5.9
Housing starts (000 units)	28.4	31.4	39.0	38.0
Retail sales	5.5	6.5	6.5	5.5
BC CPI	1.2	1.1	1.6	1.6

f – forecast

Source: Statistics Canada and BC Stats; Business Council for forecasts.

ASSESSING BC'S OVERALL COMPETITIVENESS *

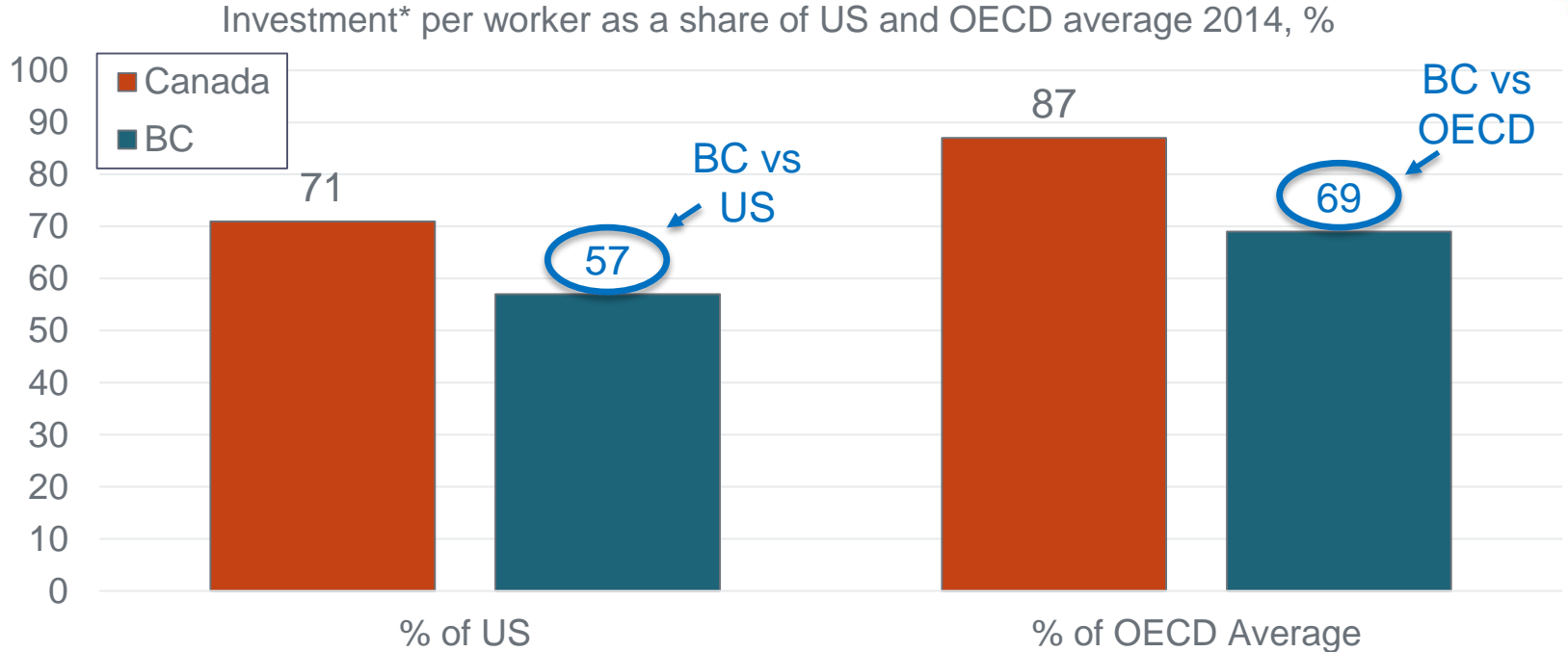
General/Cross-Sectoral Strengths

- Rich natural resource base
- Workforce talent and strong PSE system
- Quality of life
- Proximity to large markets
- Global connections/networks
- Relatively low corporate tax rate
- Gateway sector and infrastructure assets
- Clean environment
- Relatively healthy provincial gov't finances

General/Cross-Sectoral Weaknesses

- Uncompetitive features of the broad business tax regime (PST on business inputs, municipal property tax system, escalating government fees/levies not linked to profitability)
- Very complex regulatory environment, esp. for land-based and infrastructure industries
- Highest fossil fuel costs in North America; dwindling competitive advantage in power costs
- Paucity of investment incentives compared to many other jurisdictions, notably in the US
- BC (like Canada) is a slow-moving jurisdiction operating in a dynamic, fast-changing world

BC LAGS IN CAPITAL INVESTMENT



* Tangible Investment

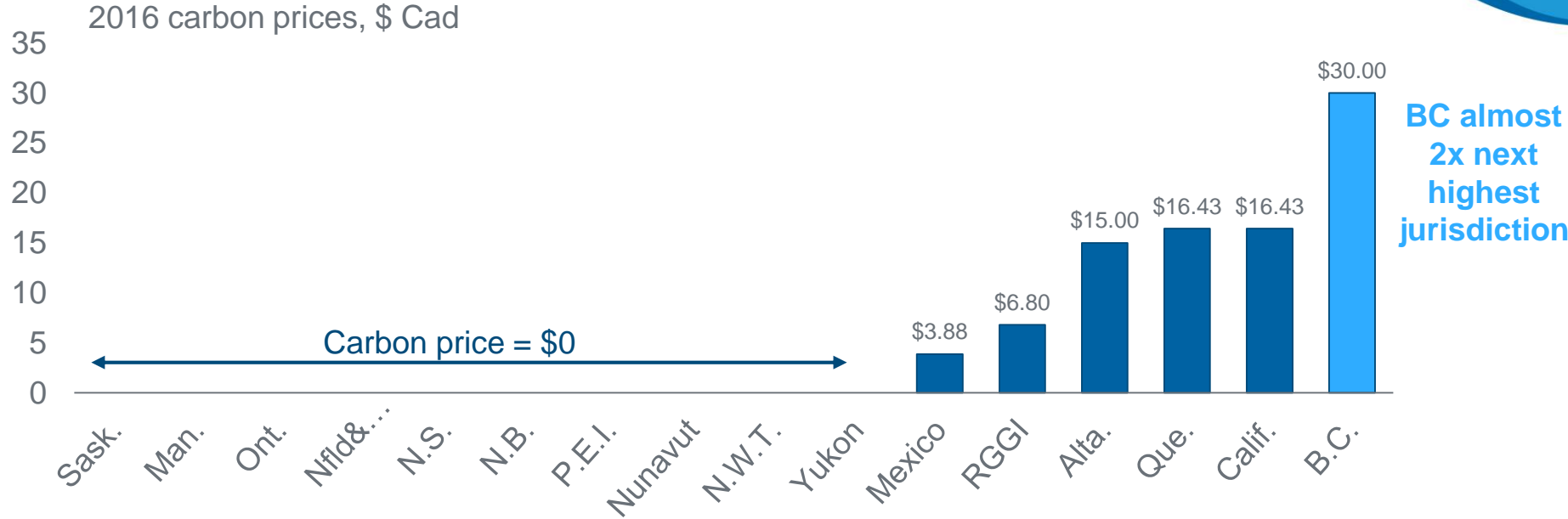
Source: C.D. Howe Institute

BC HAS A HIGH MARGINAL EFFECTIVE TAX RATE ON BUSINESS

Marginal Effective Tax Rates, Average of all Industry Sectors Combined, %			
	2014	2011	2005
Canada	18.8%	18.8%	38.8%
BC	27.5%	19.0%	39.2%
Alberta	17.0%	18.2%	31.7%
Ontario	18.2%	19.3%	43.3%
Quebec	15.2%	17.5%	36.1%
USA	35.3%	35.3%	35.9%
Japan	29.3%	31.5%	31.5%
Australia	25.9%	25.9%	25.9%
UK	23.7%	27.2%	30.0%
Germany	24.4%	24.0%	34.0%
France	36.0%	35.1%	35.4%
Sweden	16.1%	19.5%	20.9%

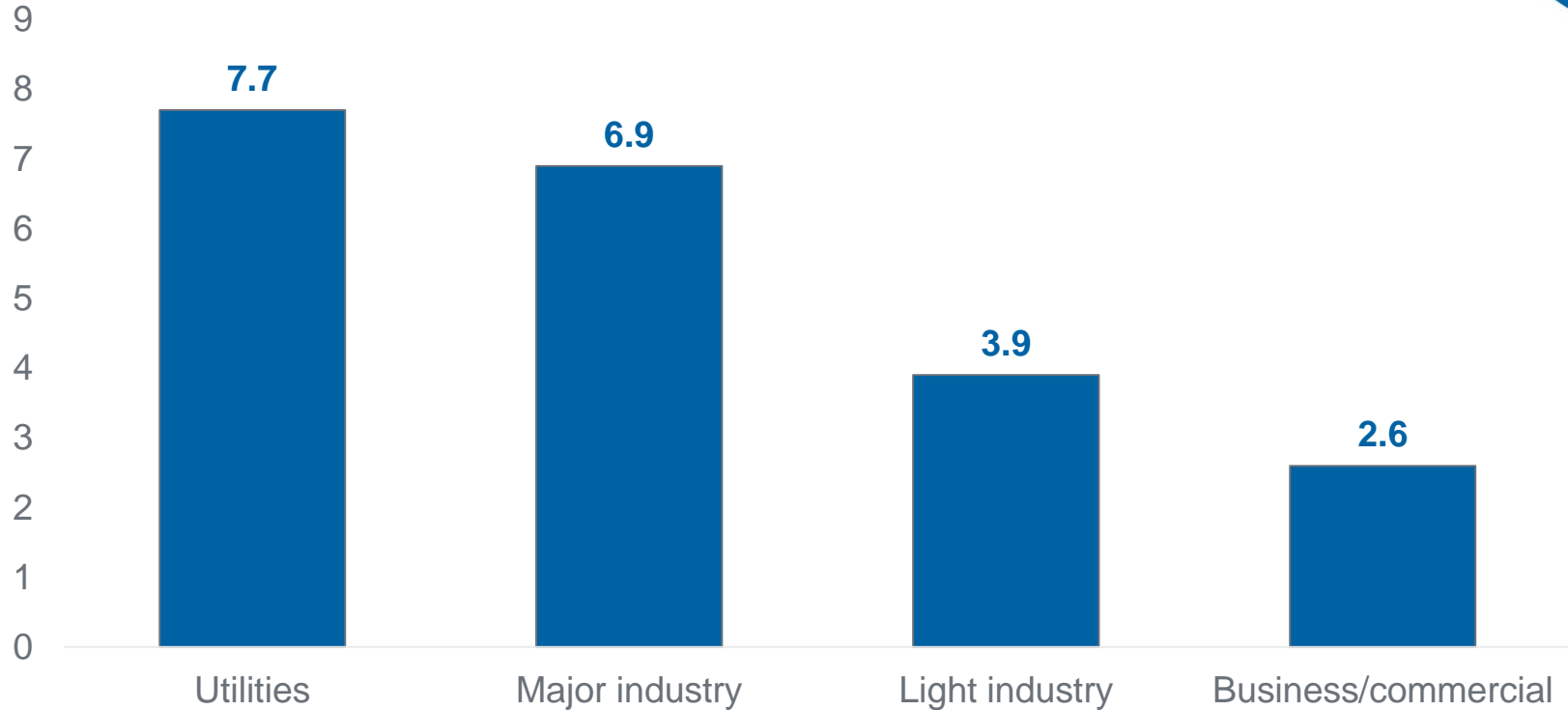
BC now has the 6th highest average METR among the ten provinces and 34 OECD countries combined, as well as the 2nd highest average METR in Canada

...ALSO THE HIGHEST CARBON PRICE IN NORTH AMERICA



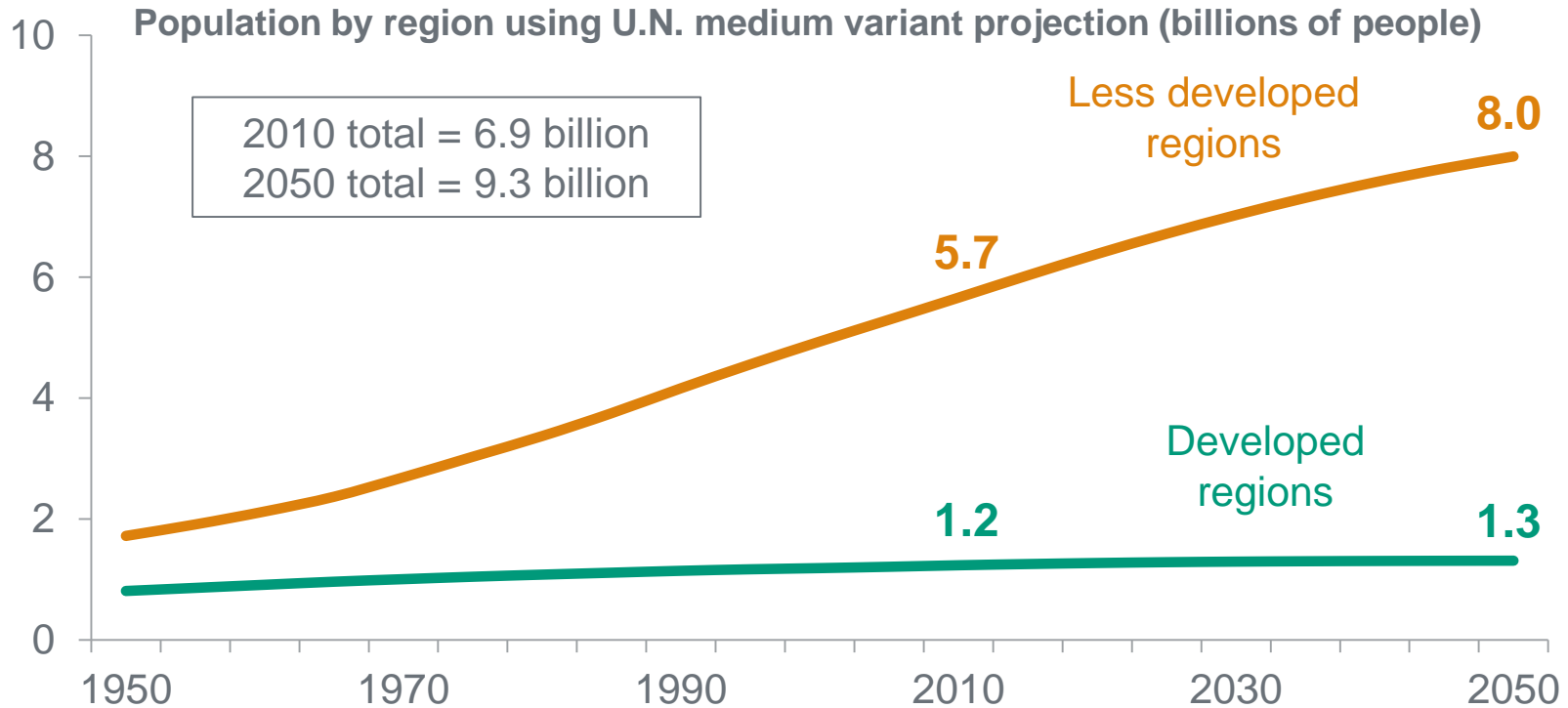
Notes:
RGGI is made up of 9 states: Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont. RGGI market applies to electricity only.
Alberta Specified Gas Emitters Regulation only applies to facilities who emit more than 100,000 tonnes per year. Payment is only for incremental emissions.
California protects 47 sectors and 94 related industrial activities.
Quebec protects the following industries: Aluminium, lime, cement, chemical and petrochemical industry, metallurgy, mining and pelletizing, pulp and paper, petroleum refining, glass containers, electrodes, gypsum products, some agri-food establishments.

AVERAGE PROVINCE-WIDE MUNICIPAL PROPERTY TAX RATIOS (BUSINESS VERSUS RESIDENTIAL, 2014*)



* For BC municipalities that report tax revenue under each class heading

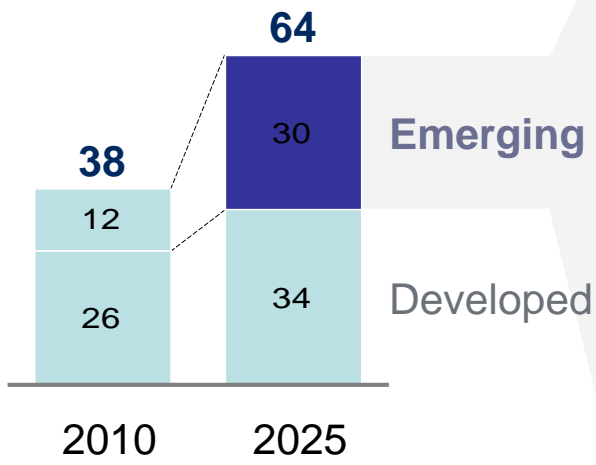
WORLD POPULATION PROJECTIONS



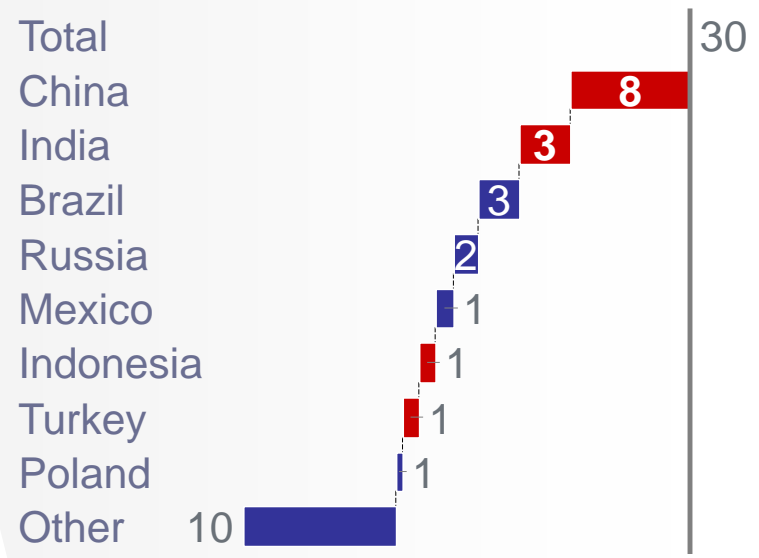
EMERGING MARKET CONSUMPTION WILL REACH \$30 TRILLION BY 2025, NEARLY HALF OF GLOBAL TOTAL

World consumption

\$ Trillions

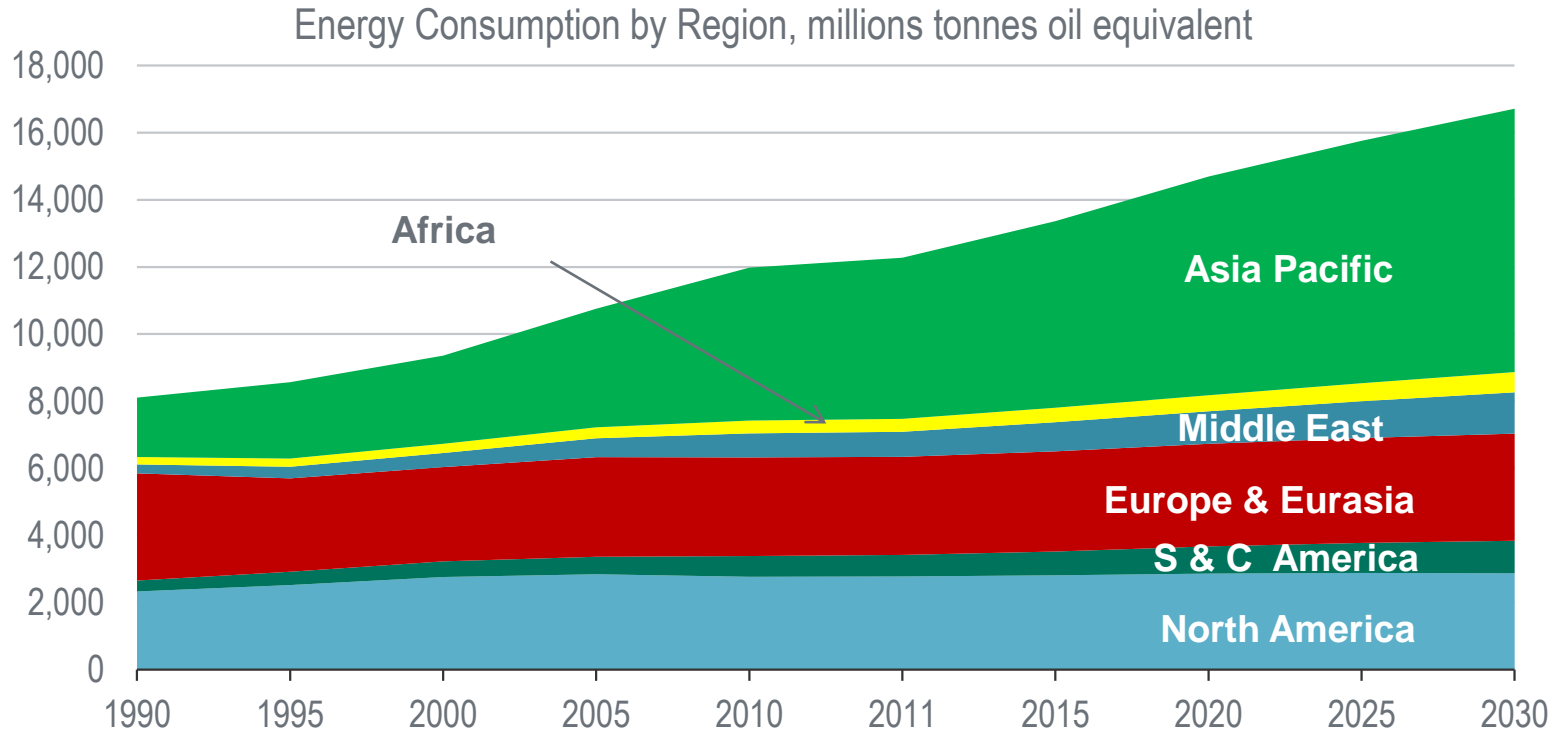


Emerging market consumption in 2025



Sources: McKinsey & Company, McKinsey Global Institute.

FUTURE GROWTH OF WORLD ENERGY DEMAND CONCENTRATED IN ASIA



RECAP

- The current choppy, risk-prone global economic environment is expected to persist through 2017 – and perhaps beyond
- A fairly muted economic outlook for Canada, with hopes largely riding on the US
- BC is set to outpace Canada in GDP and job growth in 2016-17, supported by a rising population plus strength in retail, tourism, advanced technology, film production and construction
- The continued, gradual rise of Asian (and other) emerging markets in the global economy will create future growth opportunities for BC (and Canada) – for energy & other resource products, tourism, educational services, professional and technical services, shipping/gateway services, etc.
- Looking ahead, BC faces competitiveness headwinds stemming from elements of the business tax structure, complex regulatory regimes and permitting processes, high land/housing costs in urban areas, and the aggressive strategies being deployed by other jurisdictions to attract investment and other high-value business activity