



Business Council *of*
British Columbia

Hoping for the Best: BC's Economic Outlook

Presented to:

EDABC

Richmond, BC

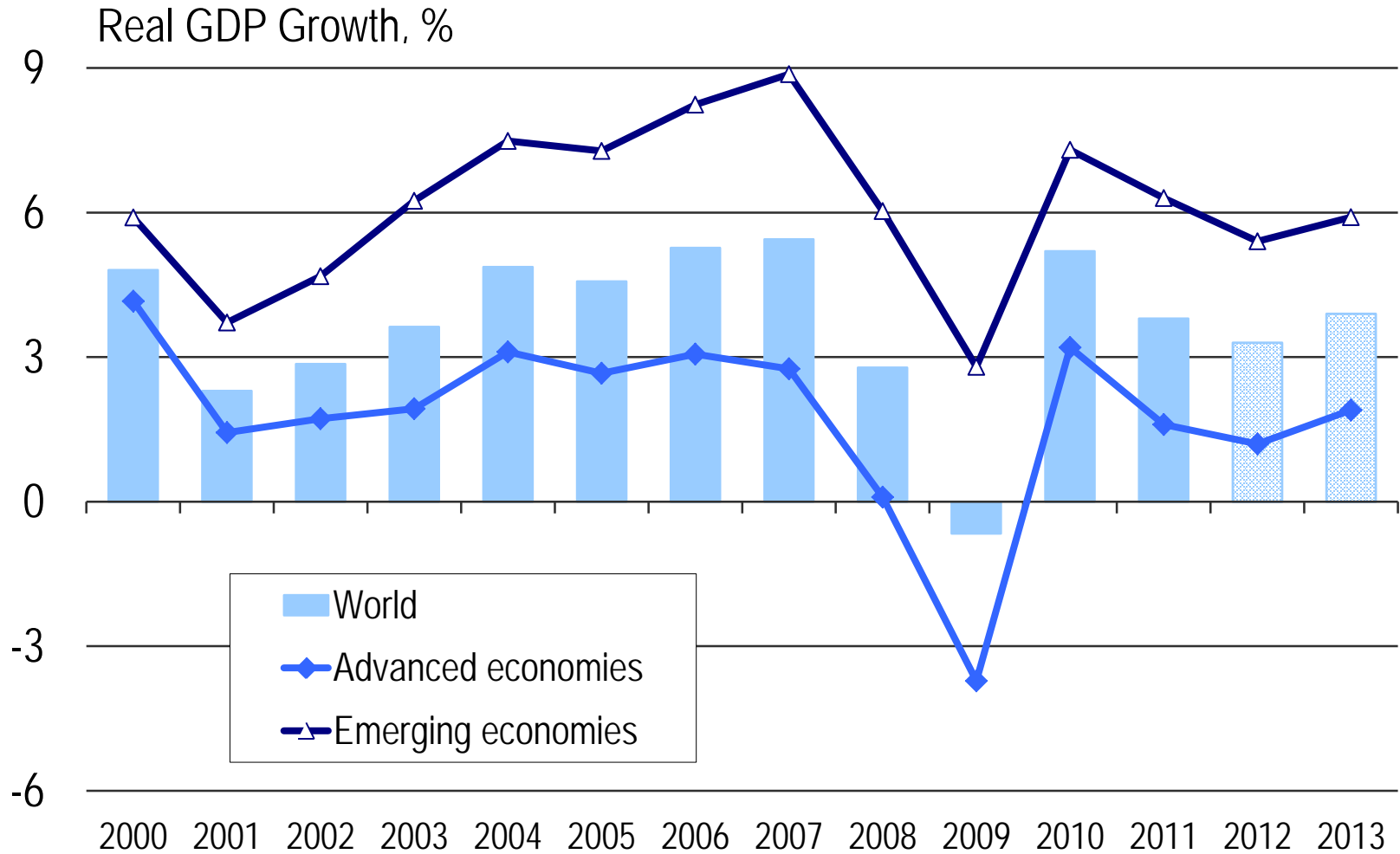
May 15, 2012

Ken Peacock

Chief Economist

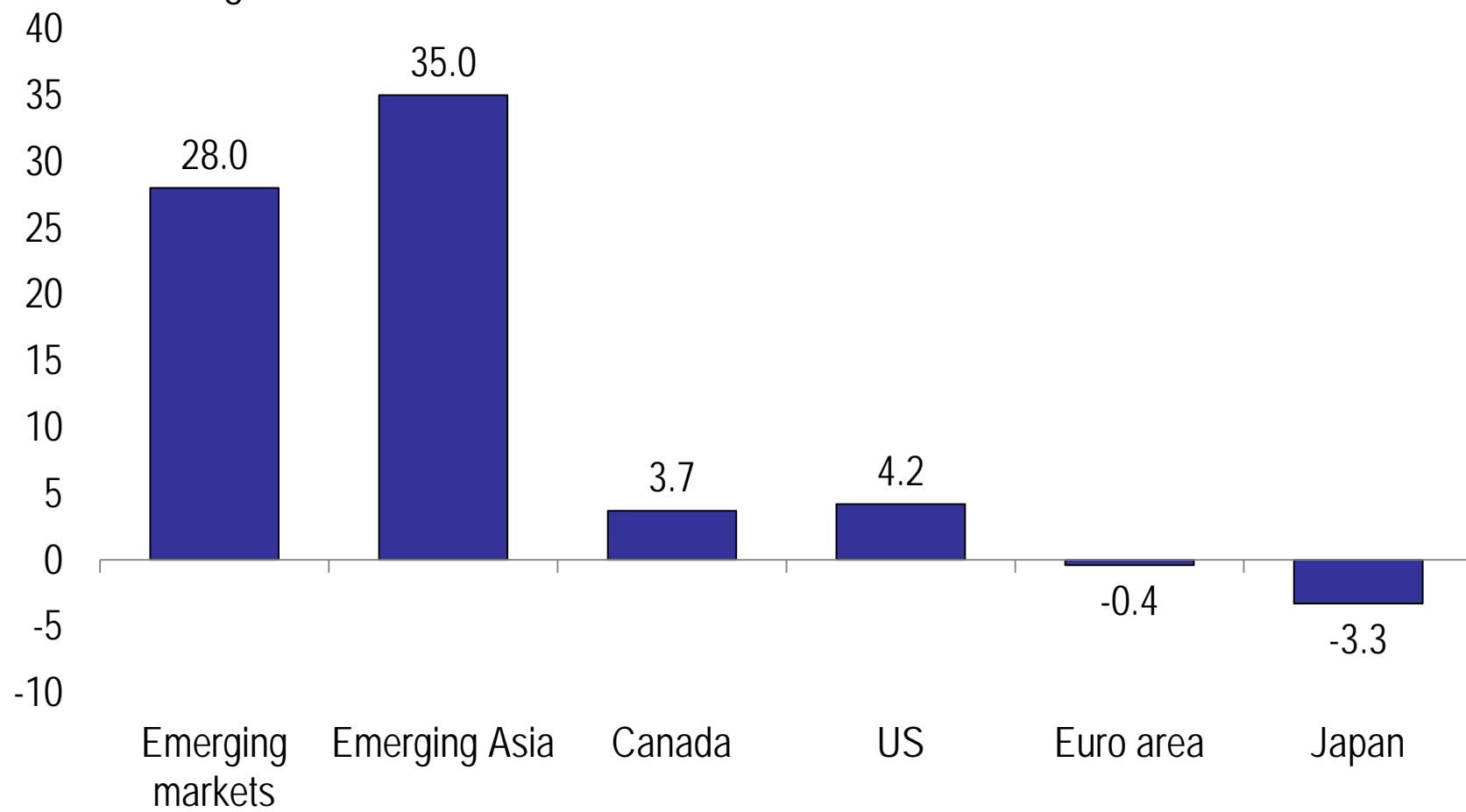
Business Council of BC

Two-Track Global Economy



Emerging Markets Driving the World Economy

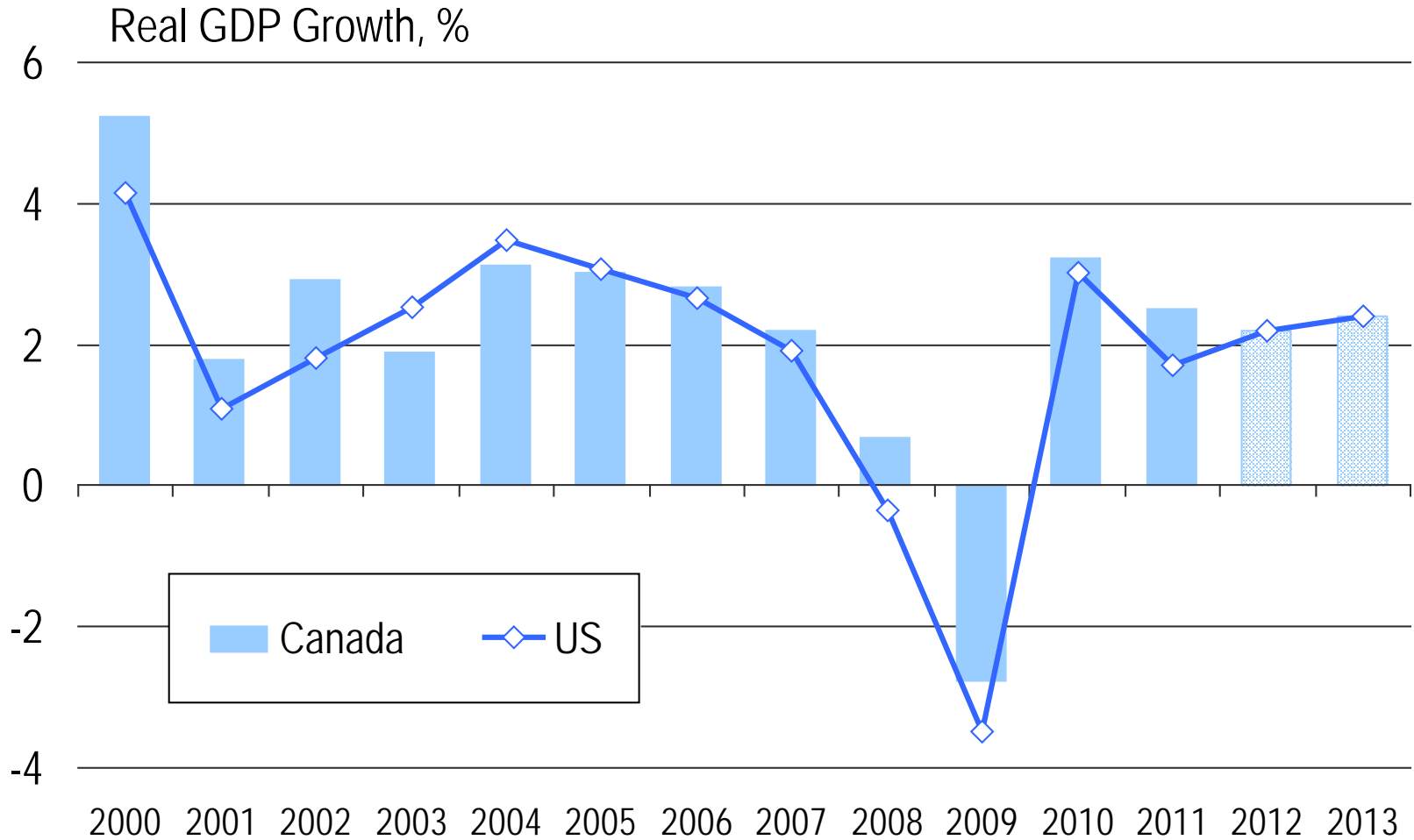
Change in level of real GDP, 2007 to Q3 2011



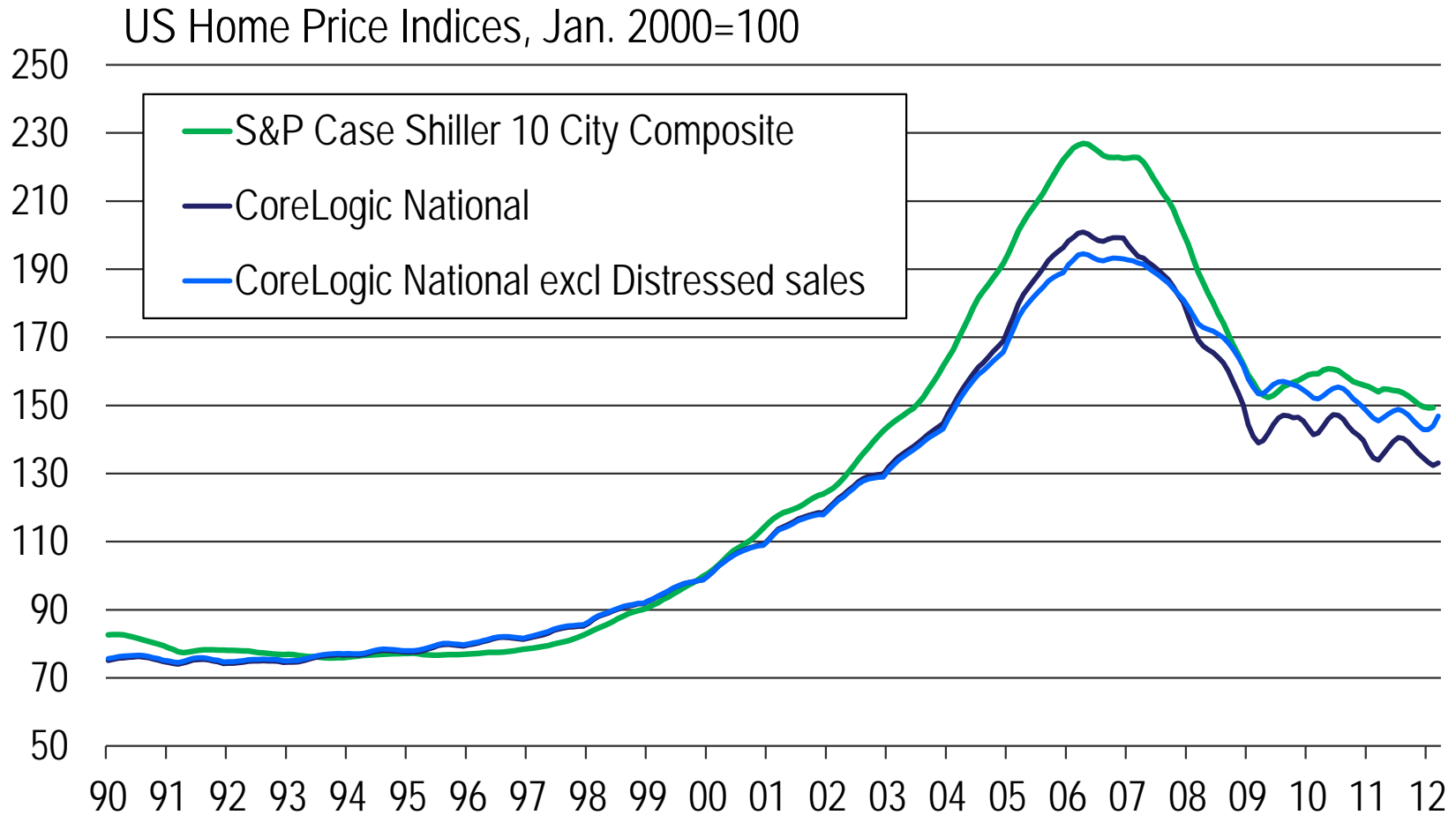
Global Growth Set to Slow (Real GDP % Change)

	2002-2007 average	2011	2012	2013	2014
United States	2.6	1.7	2.3	2.5	3.6
Euro area	2.0	1.5	-0.6	0.8	1.4
Japan	1.6	-0.7	1.9	1.6	1.6
China	11.2	9.2	8.1	8.0	8.0
Rest of the world	5.1	4.3	3.4	3.5	3.7
World	4.4	3.8	3.2	3.4	3.8
Canada	2.7	2.5	2.4	2.4	2.2

Canada's Growth Still Aligned with US

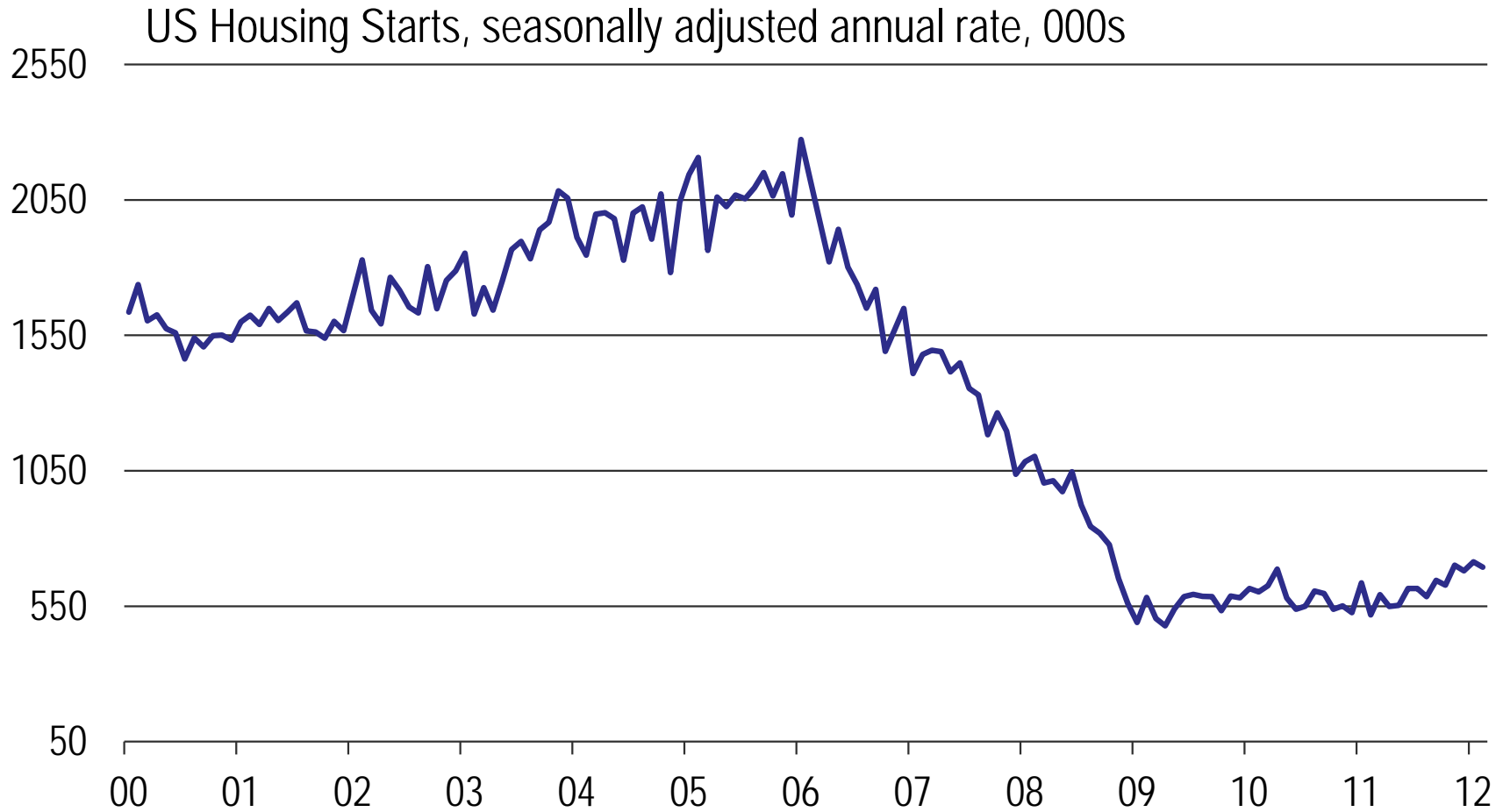


US Home Prices Stabilizing?





US Housing Starts Gradually Rising

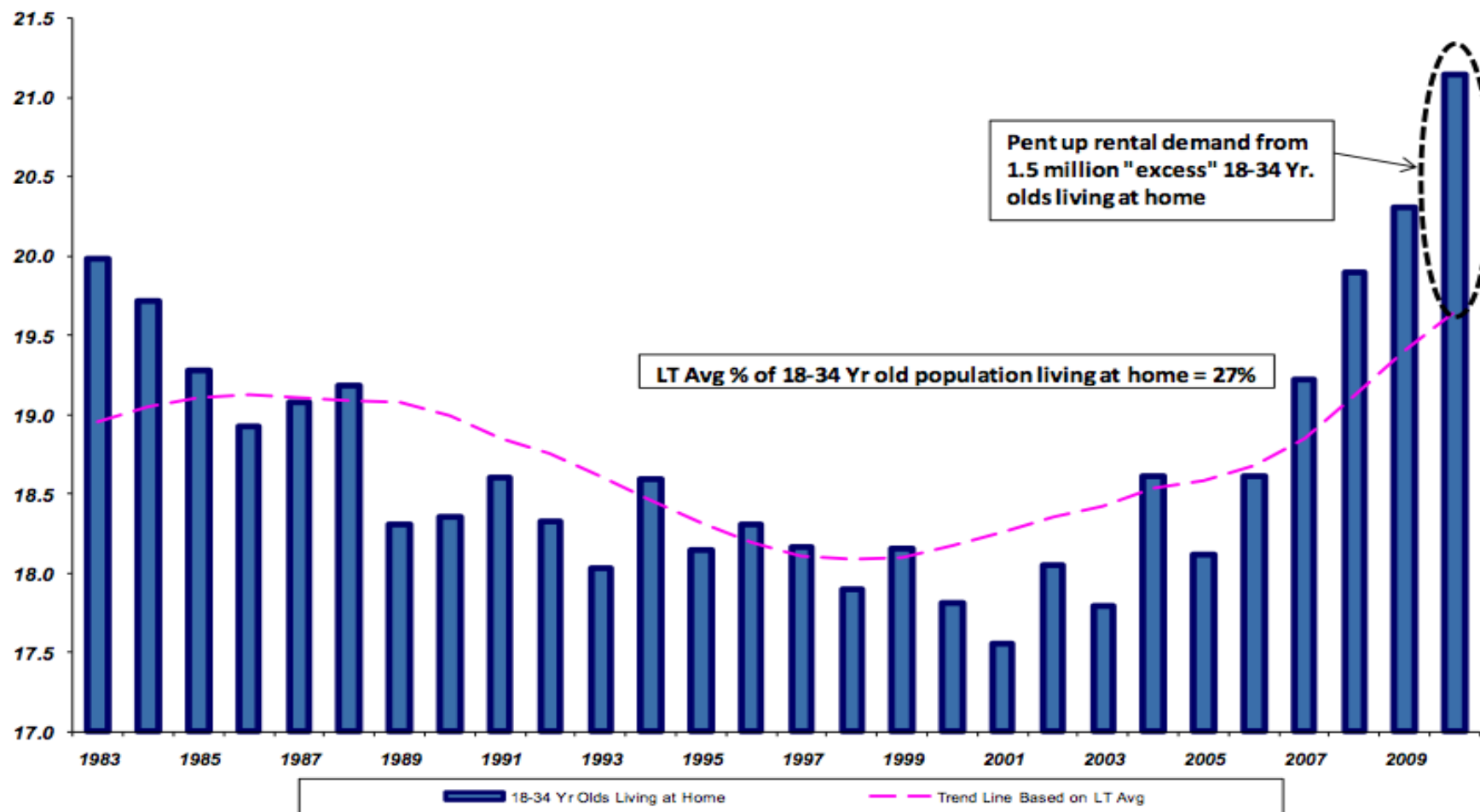


When They Move Out... Starts Will Climb

Deferred Renters/Owners Will Drive Demand

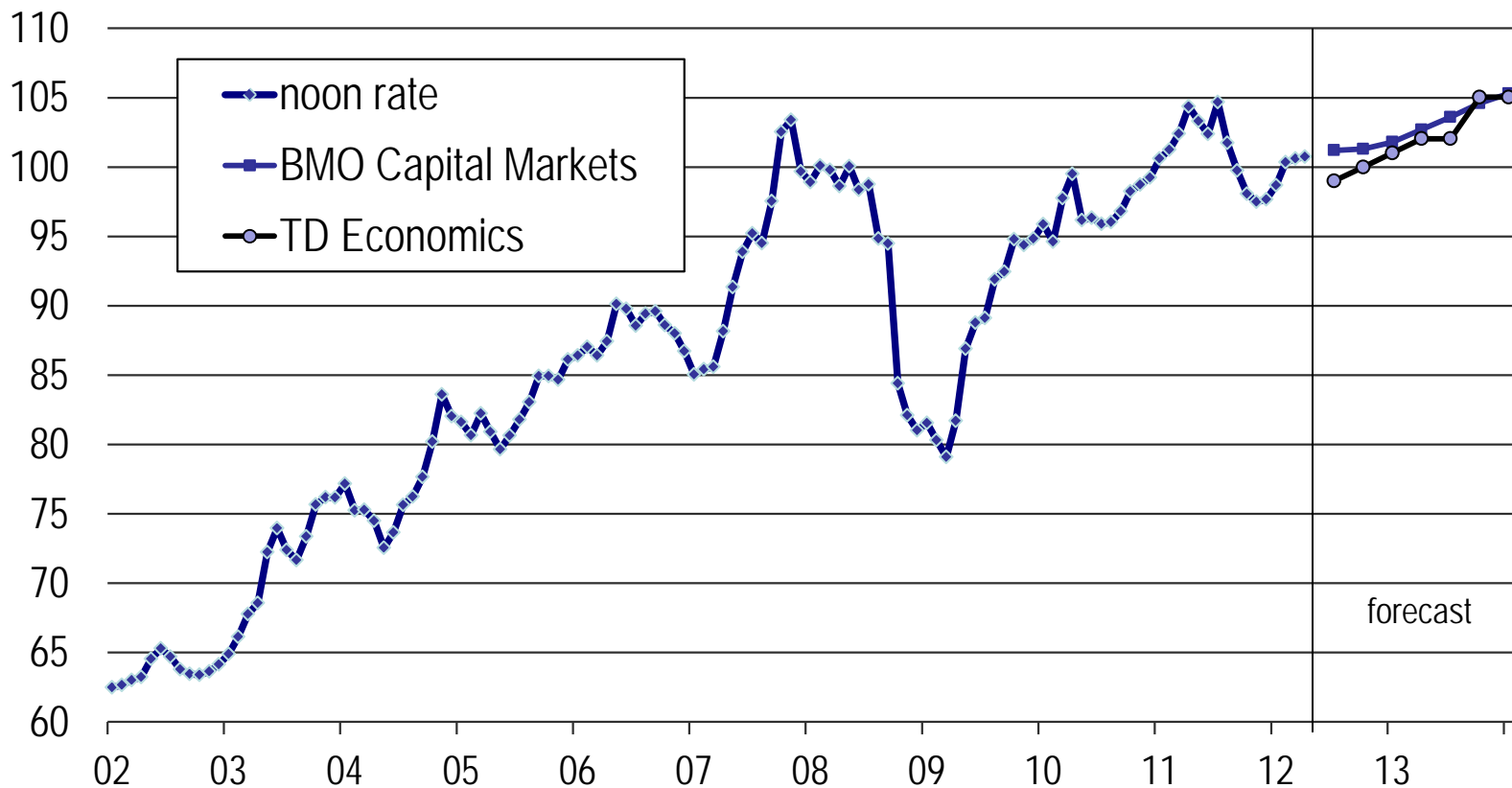
HARVEST
CAPITAL STRATEGIES

18-34 Year Olds, in millions

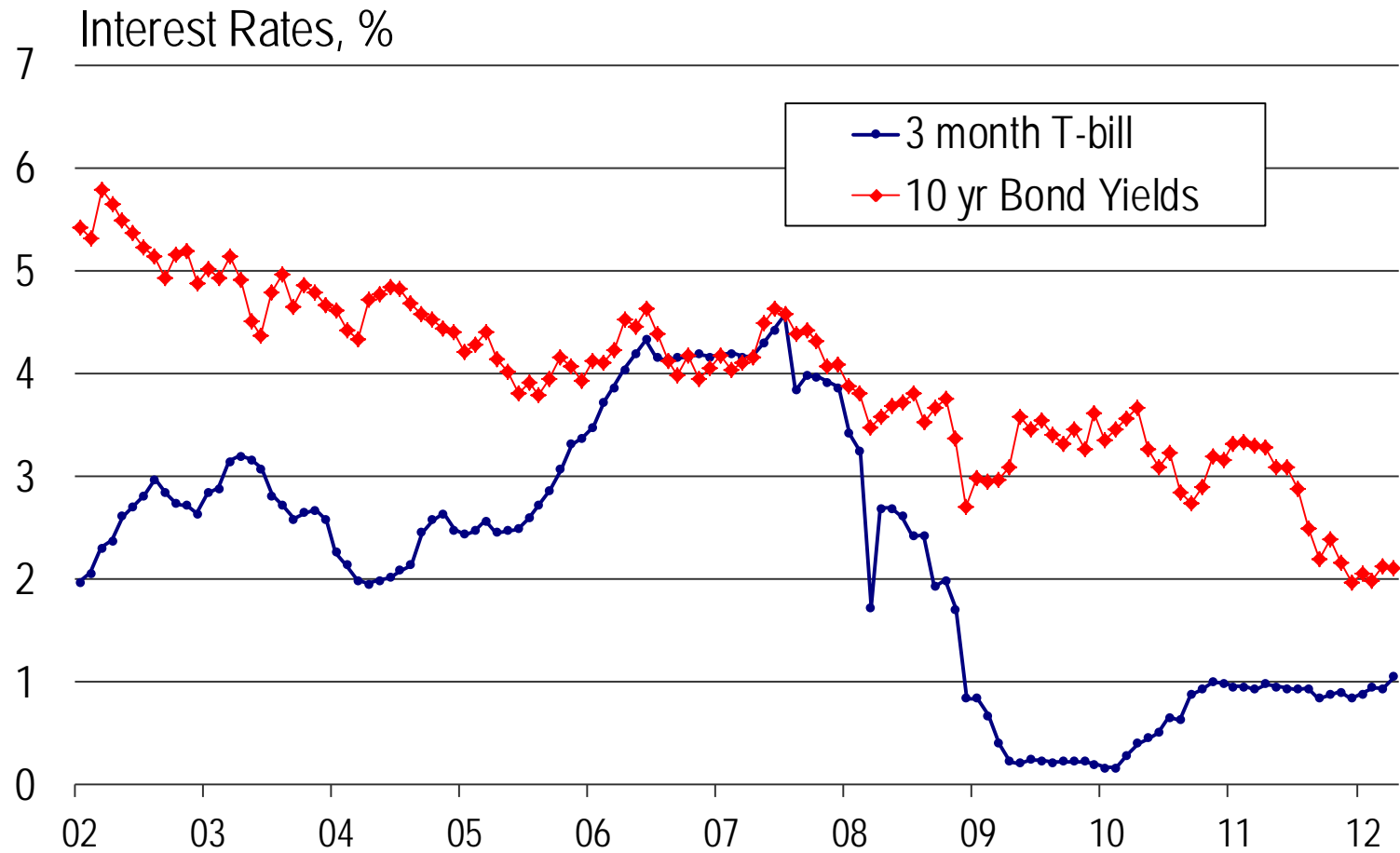


Loonie Shapes the Competitive Landscape

Canada - US Exchange Rate, monthly with quarterly forecasts,
US cents/Cdn\$



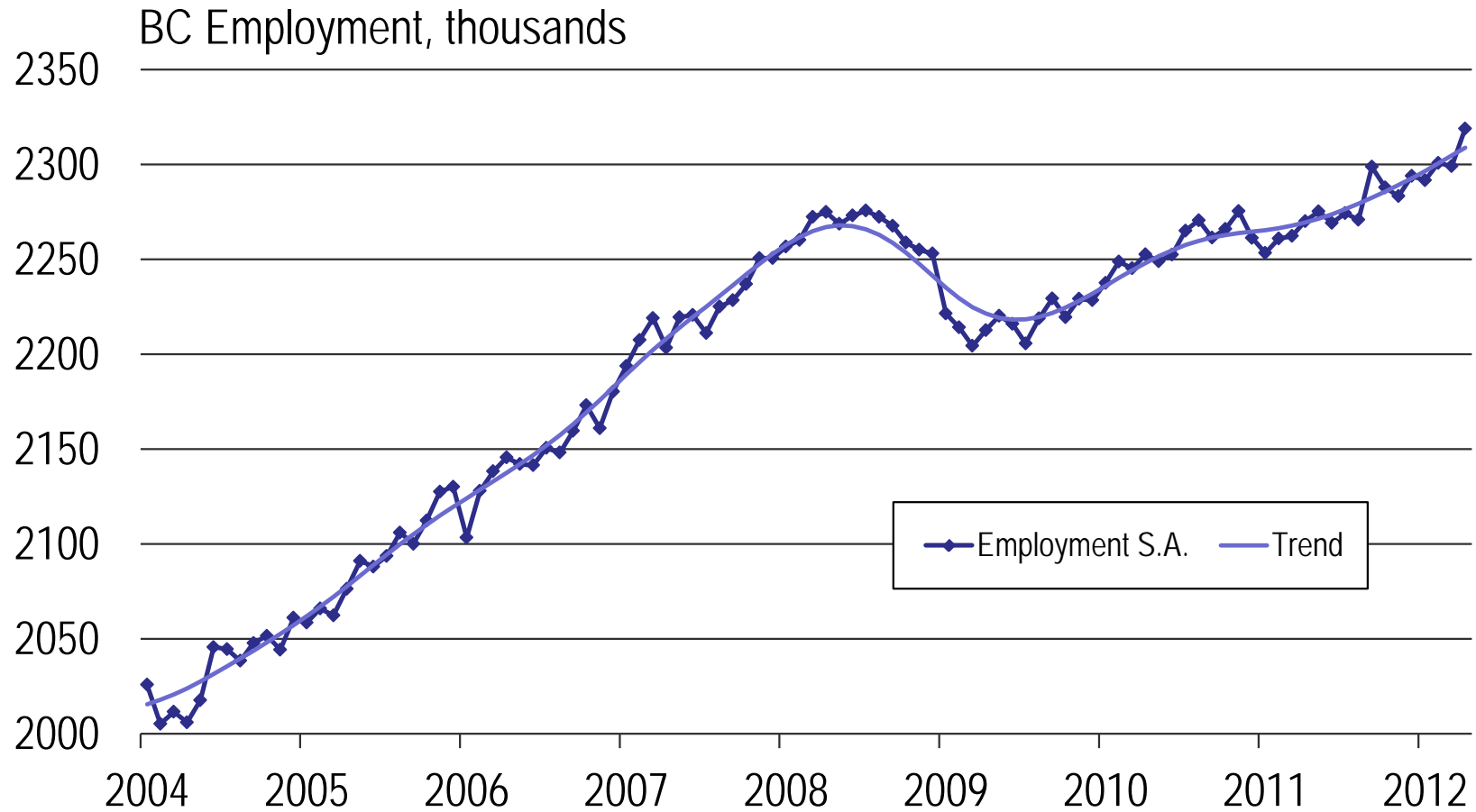
Canada: Interest Rates at Rock Bottom Levels



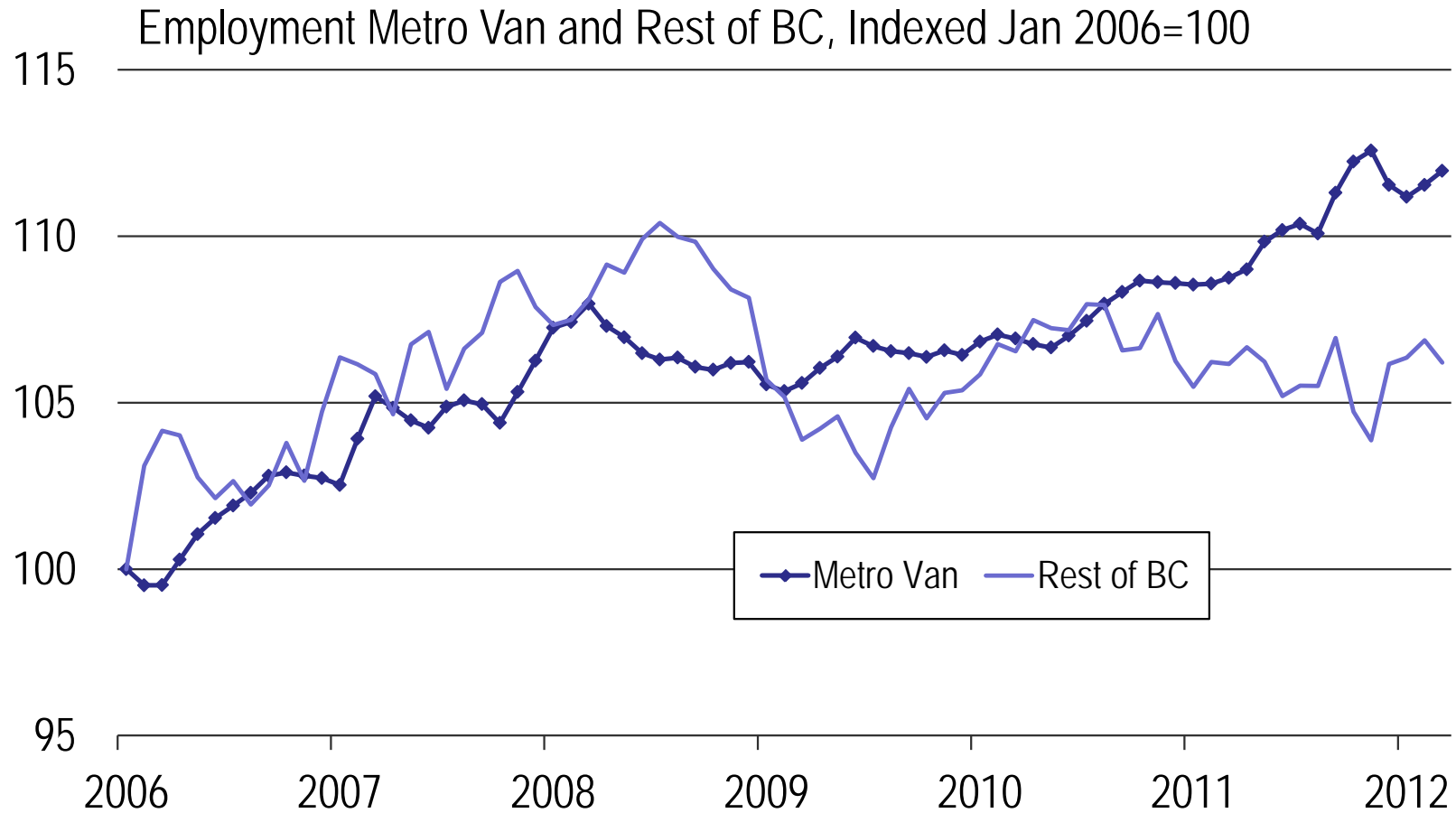
BC Economy: Key Themes

- ▶ Export sector has rebounded since 2009 – growing influence of Asia
- ▶ Domestic activity were soft in 2011, hindered by muted job growth, high household debt and HST-related issues
- ▶ Construction (non-residential) is expected to provide an economic lift going forward
- ▶ Northern BC on the rise
- ▶ Skill/talent shortages re-emerging as a key business concern

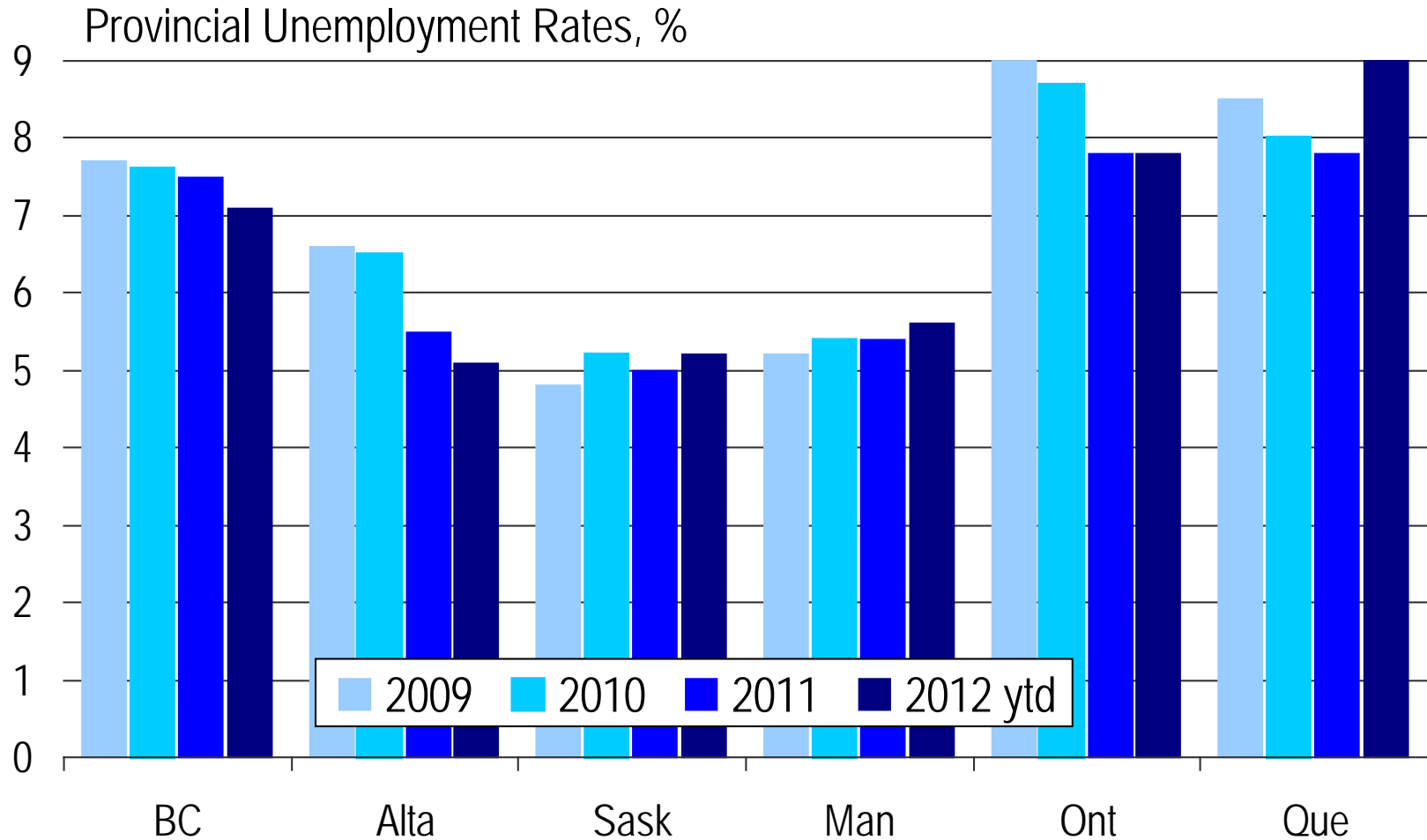
Modest Employment Gains



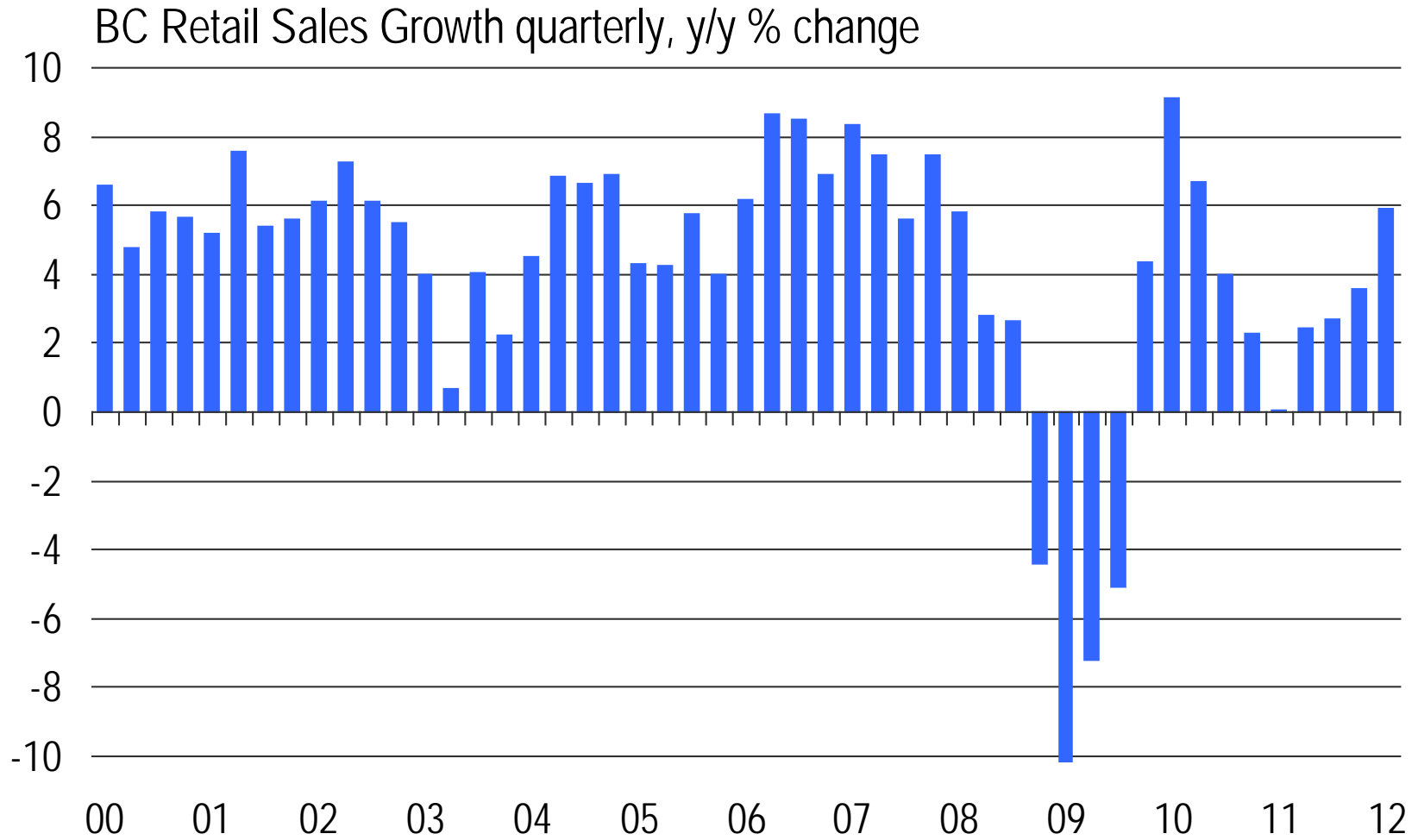
Job Growth Concentrated in Metro Vancouver



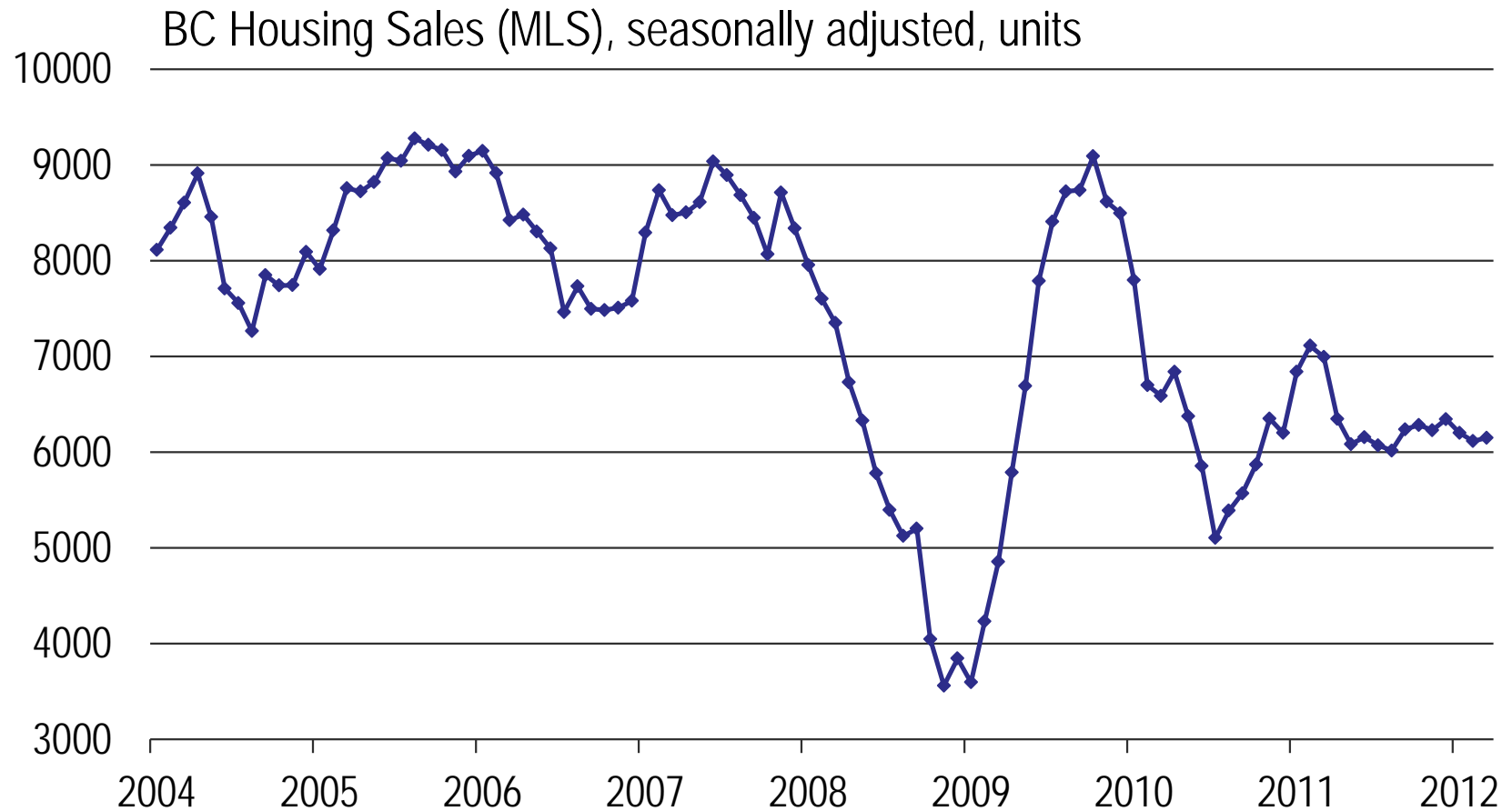
Unemployment Lower in the West



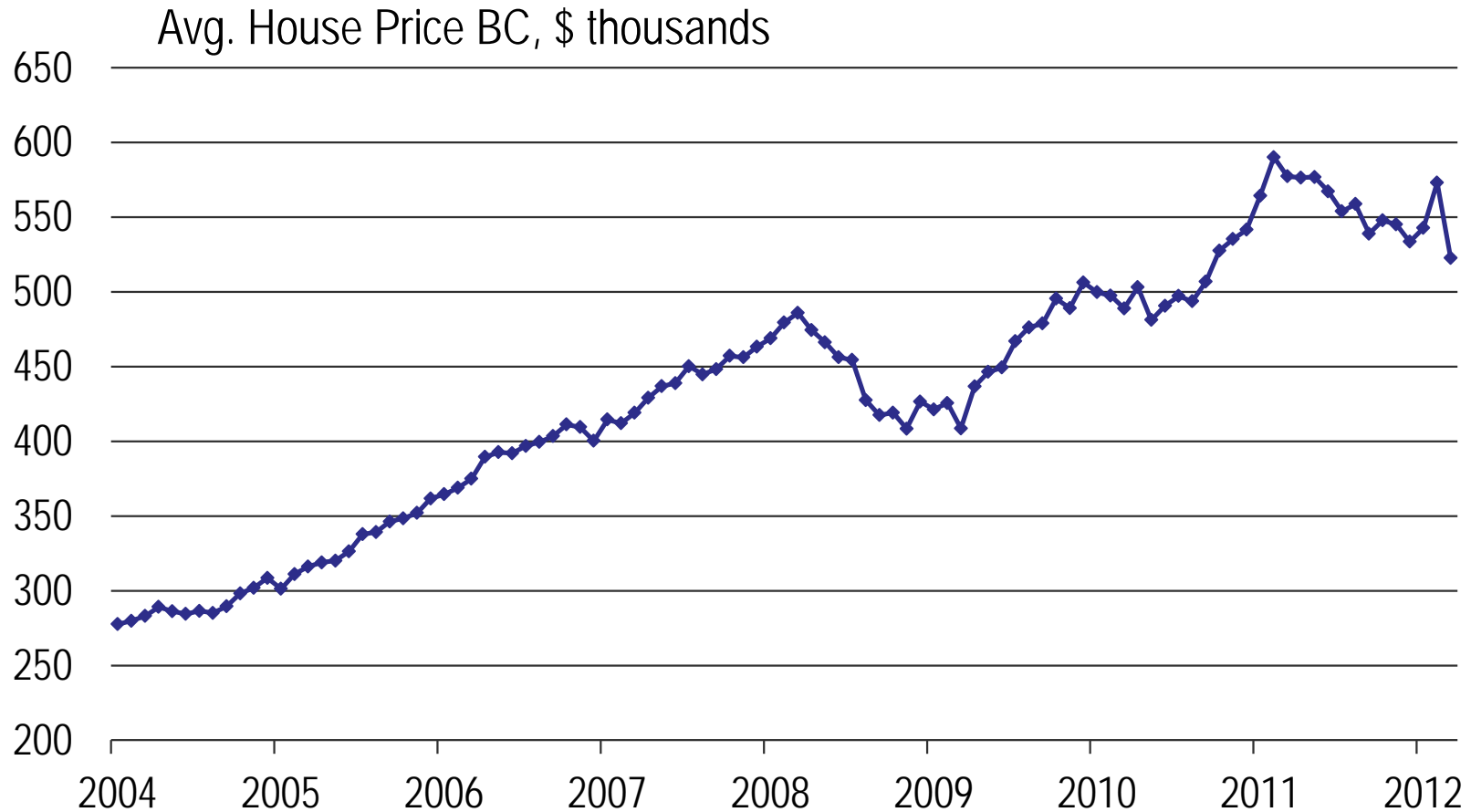
Growth in Consumer Spending Picking Up



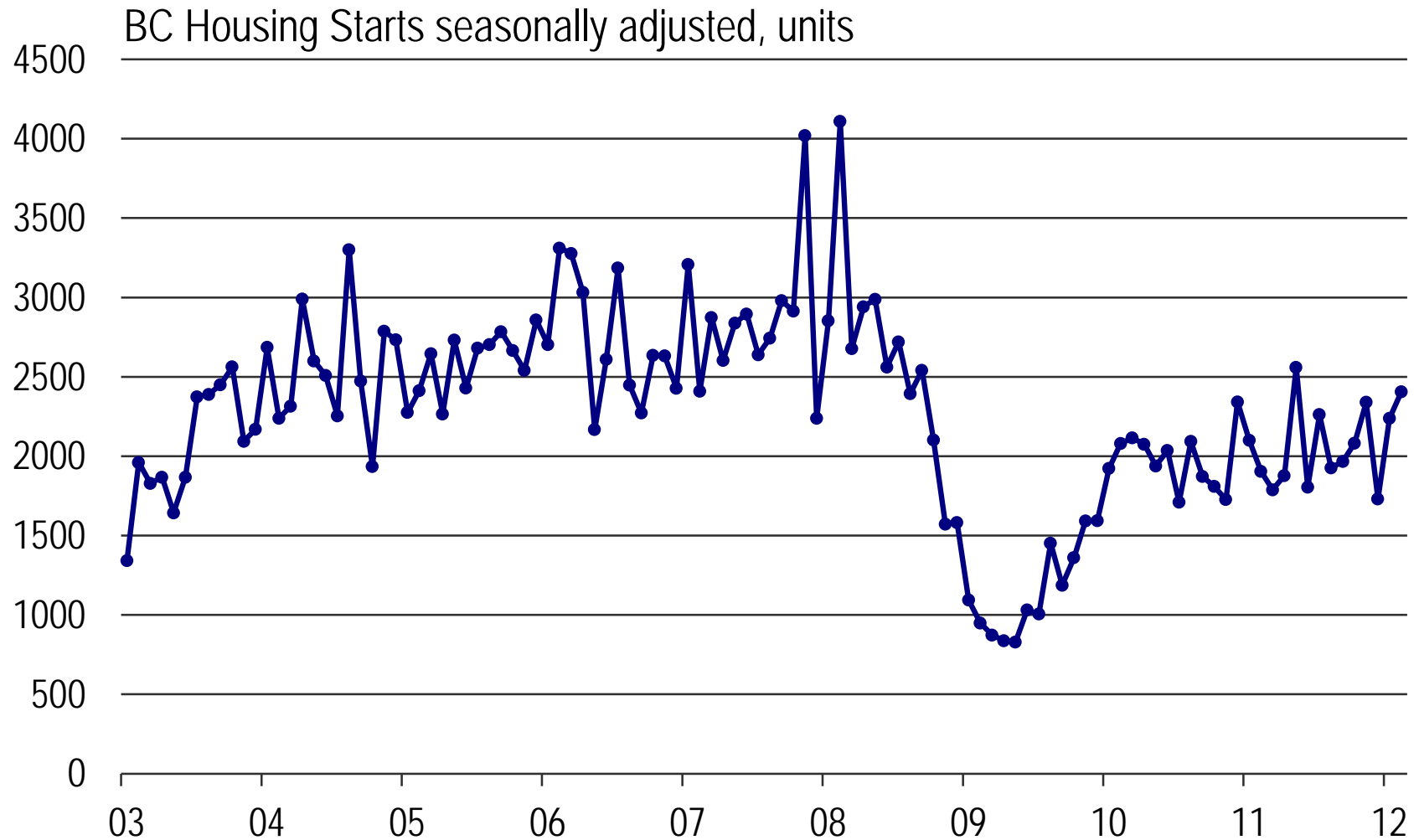
Housing Sales Level Off in BC



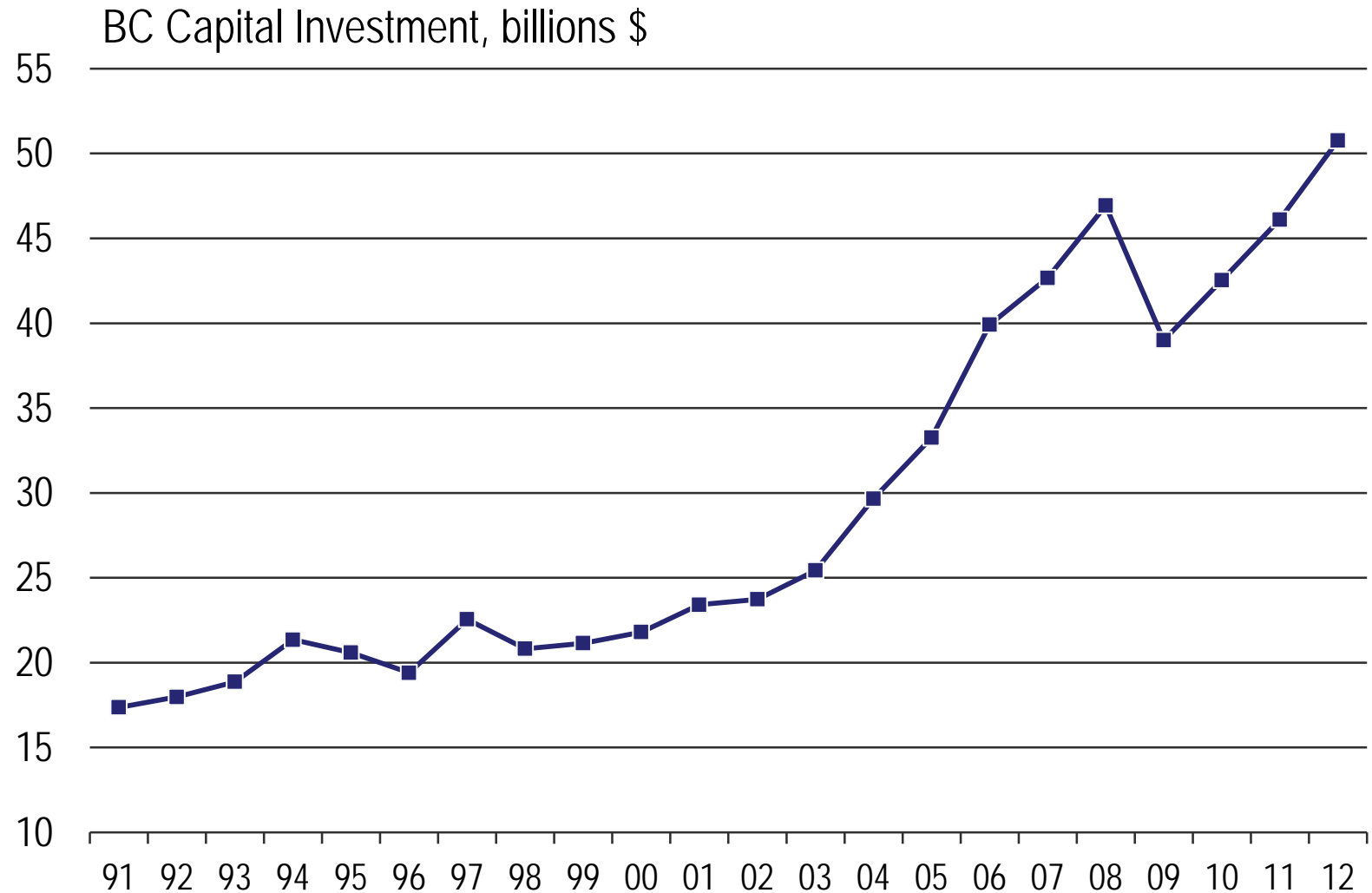
House Prices Moderating?



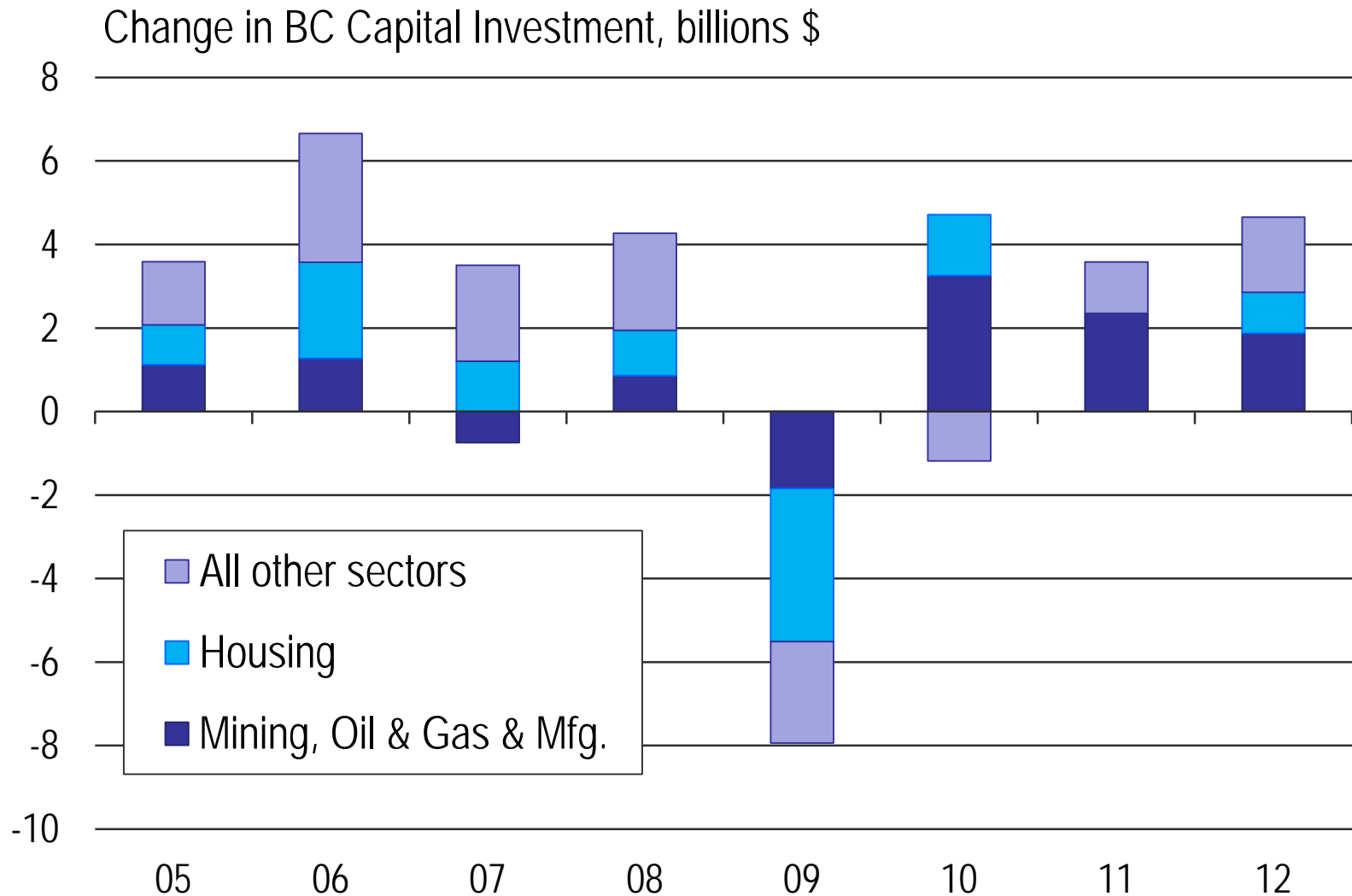
Residential Construction Flat



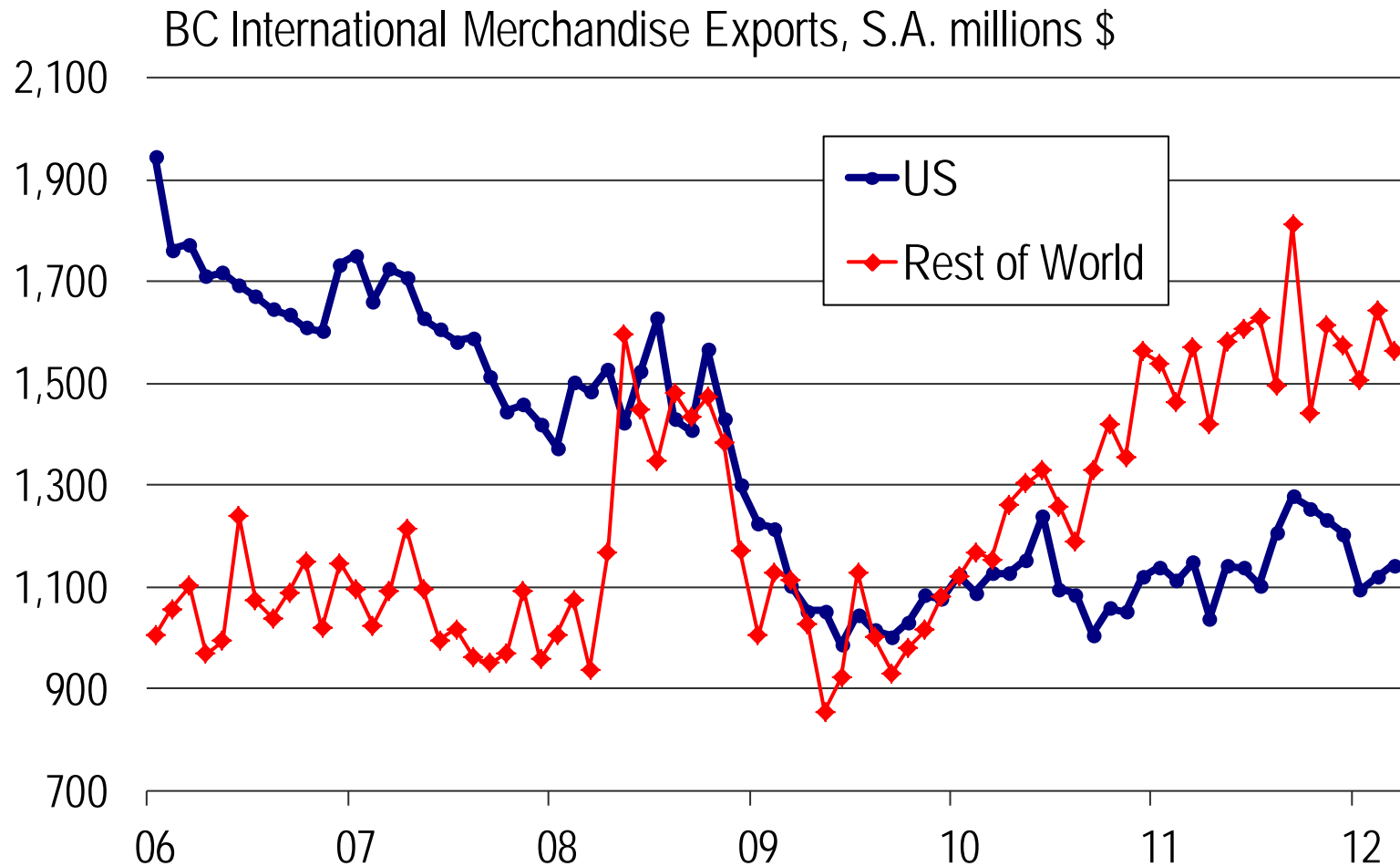
Capital Spending to Exceed \$50 billion



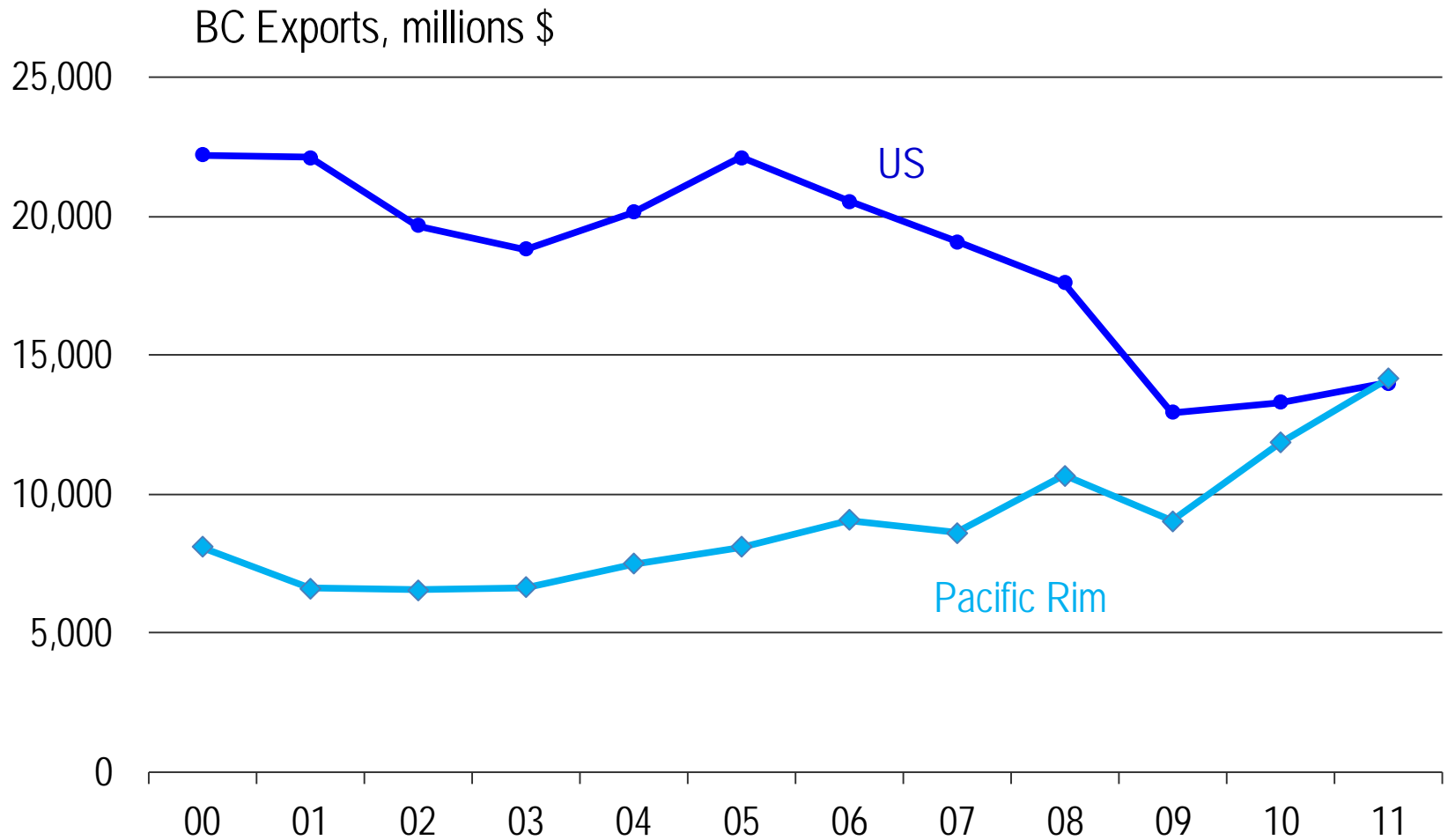
...thanks to More Investment in Resource Industries



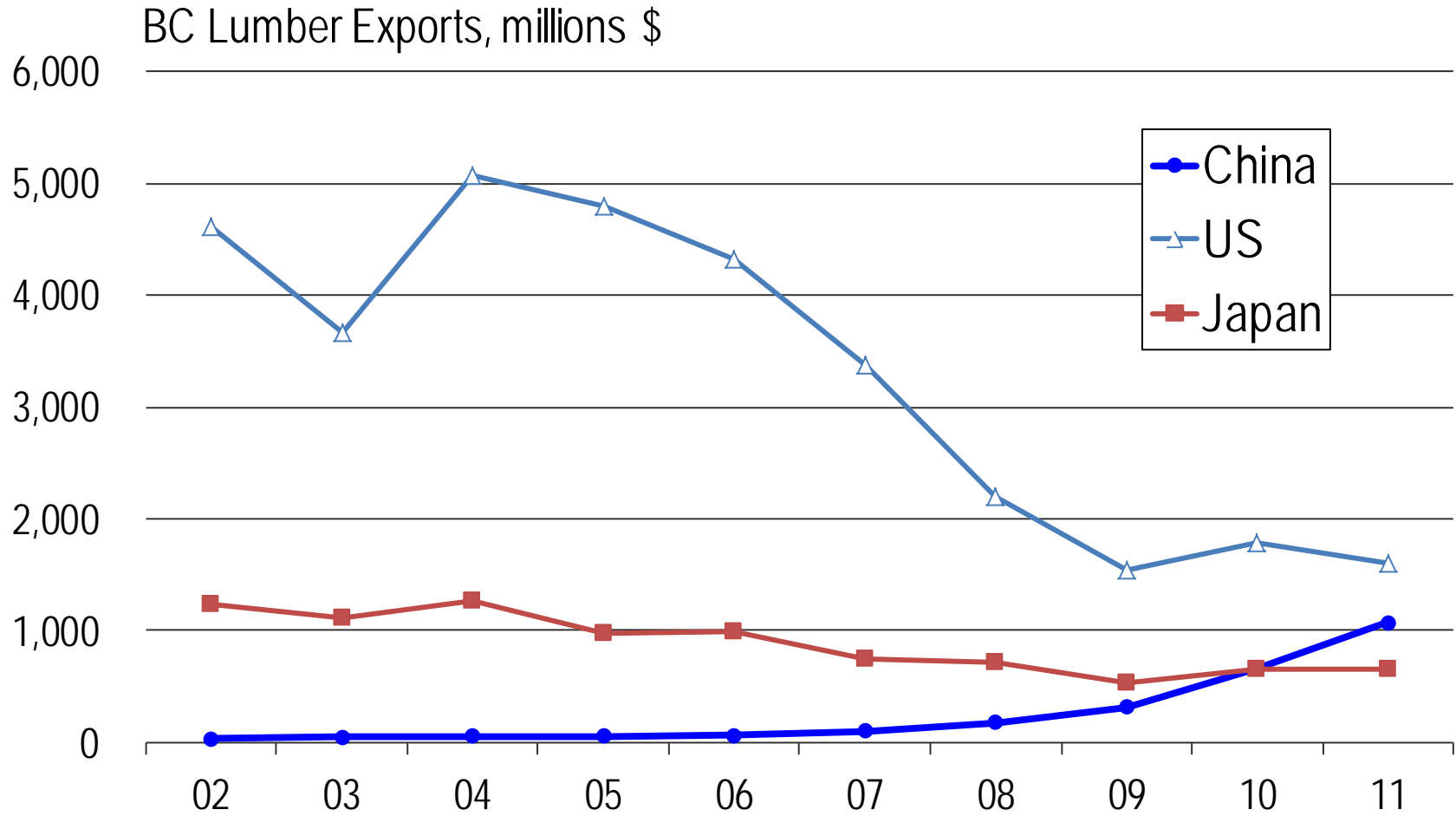
China and Other Markets Have Driven BC Exports



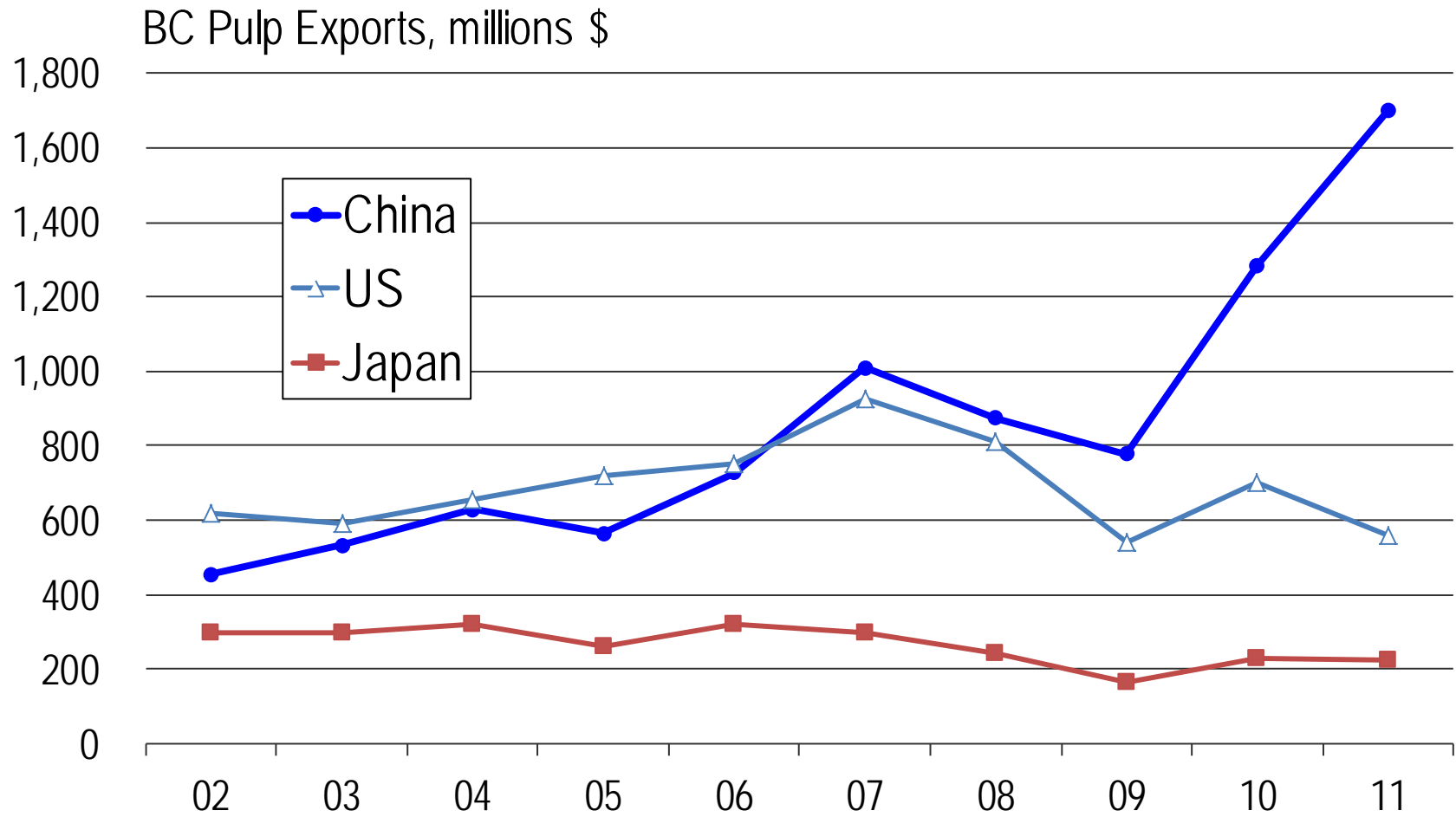
BC Exports to Pacific Rim Now Equal to US



Asia Eclipsing Languishing US Market



China is BC's Largest Pulp Market

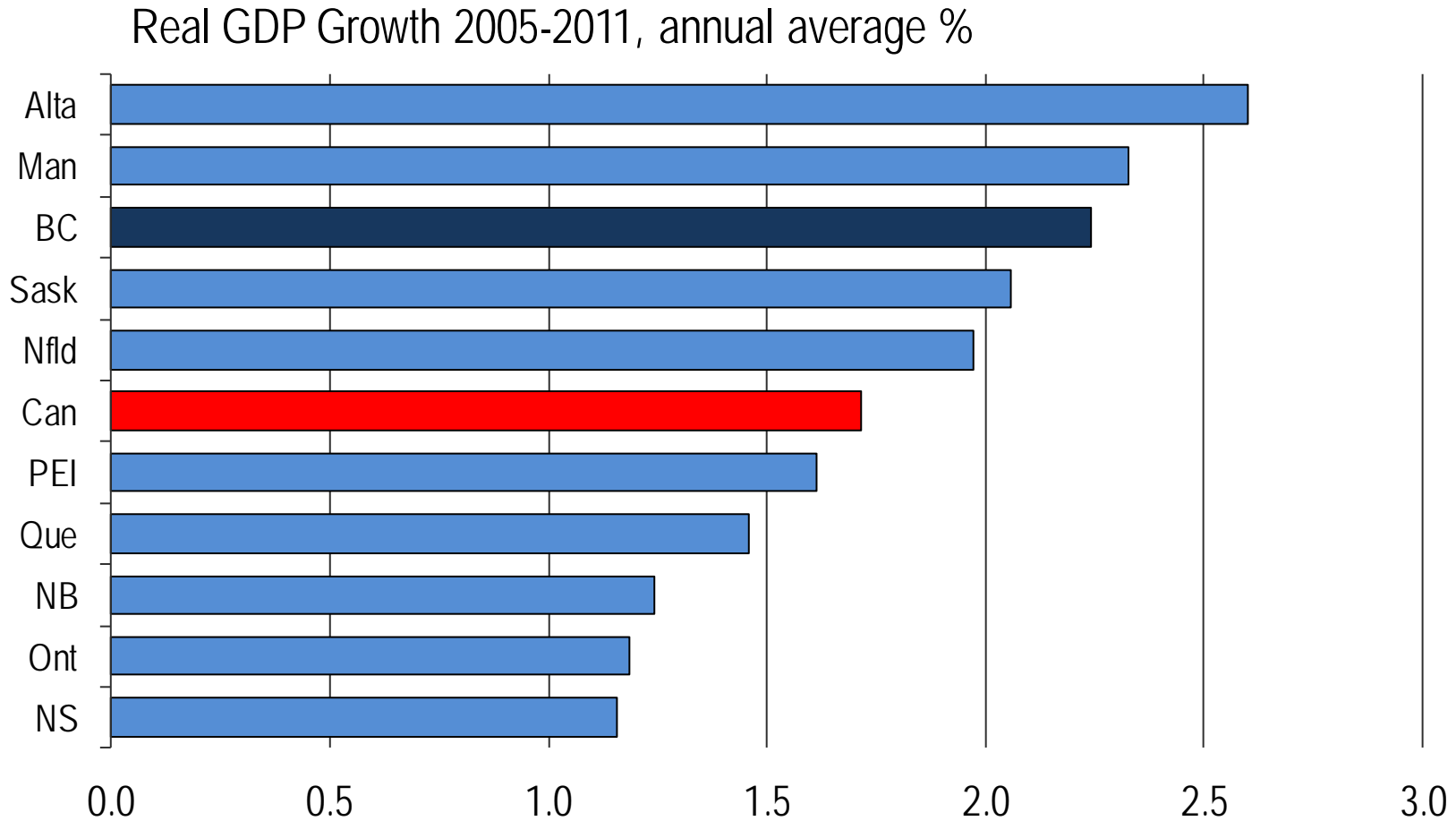


Slower Growth in 2012

BC Economic Forecast, % change unless noted

			Forecast	
	2010	2011	2012f	2013f
Real GDP	3.0	2.9	2.2	2.6
Employment	1.7	0.8	1.6	1.6
Retail sales	5.4	3.1	4.0	4.5
Housing starts (units)	26,500	25,500	25,000	25,000

A Decent Overall Economic Performance for BC





BC's Economic Position in Canada: Three Metrics

Real GDP per person, 2010	
BC	\$36,899 (5 th among provinces)
Alberta	\$49,249
Ontario	\$39,902
Sask	\$39,769
Nfld	\$37,214
Canada	\$38,826

Real Disposable Income per person, 2010	
BC	\$26,166 (4 th among provinces)
Alberta	\$33,438
Ontario	\$27,004
Sask	\$26,193
Canada	\$26,571

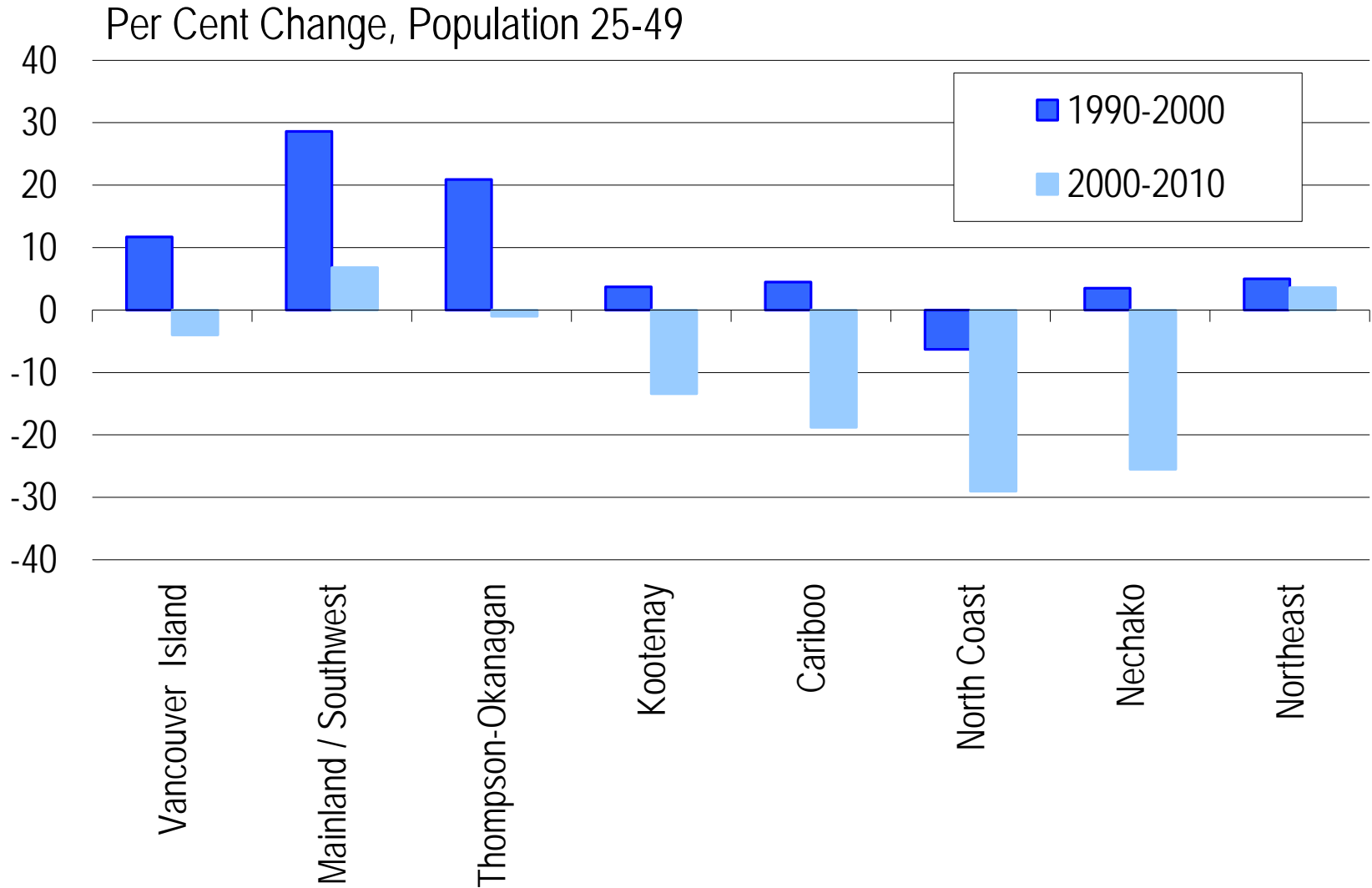
Labour Productivity: real output per hour worked, business sector, 2010	
BC	\$34.15 (6 th among provinces)
Alberta	\$46.96
Nfld	\$45.00
Sask	\$42.77
Ontario	\$38.20
Quebec	\$36.52
Canada	\$38.22

Economic Upswing in “Northern BC”

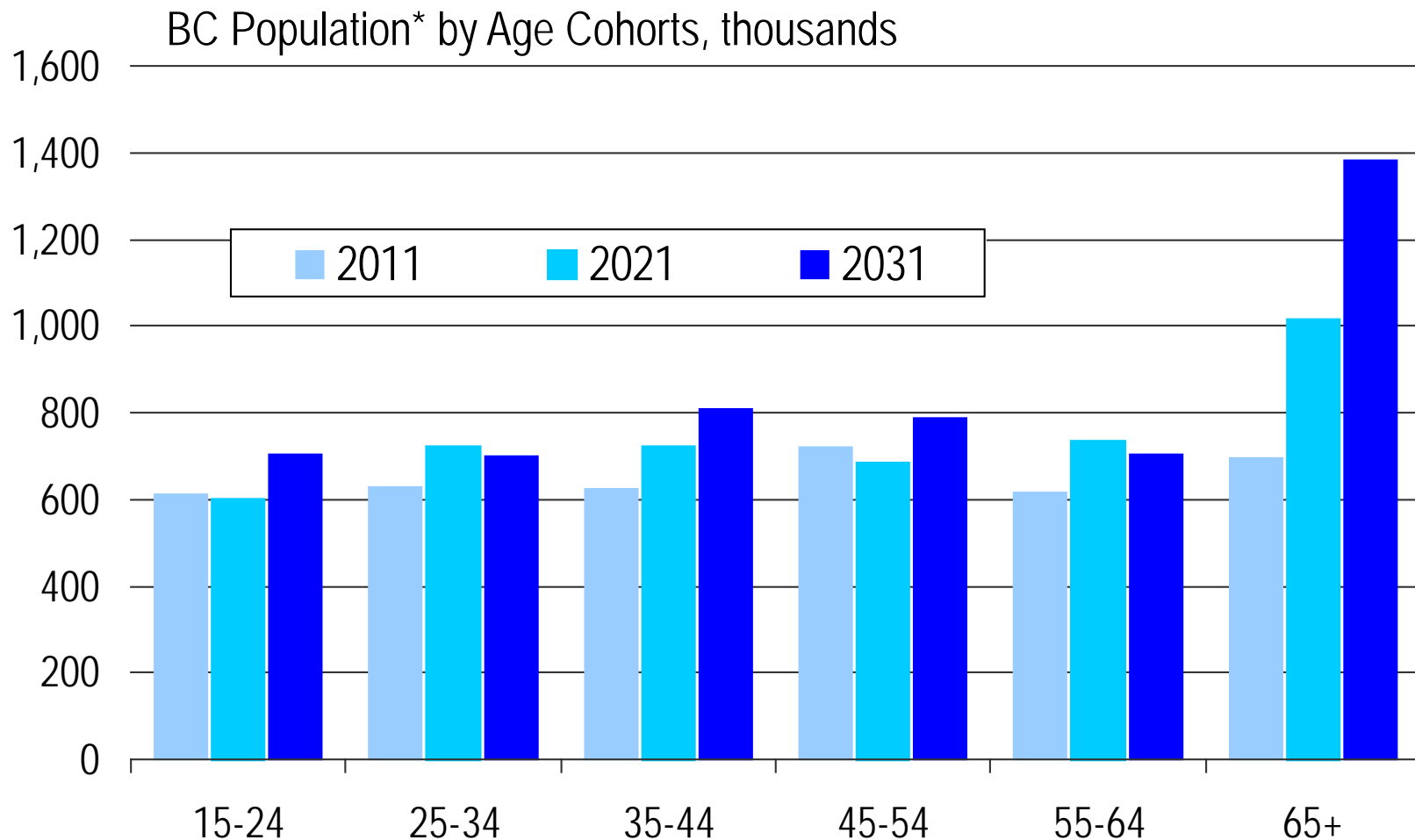
- Mining (coal, metals) – BC Jobs Plan targets 8 new mines by 2020
- Construction – many significant projects
- Wood products (but from a low base)
- Transportation/logistics – PG and Prince Rupert Gateway development and expansion
- Energy (Northwest Transmission Line, IPPs, LNG terminal in Kitimat, other shale gas and LNG plays, pipeline development, bio-energy opportunities, Site C)
- Rio Tinto Alcan smelter modernization
- But...regional skill shortages expected (already emerging)



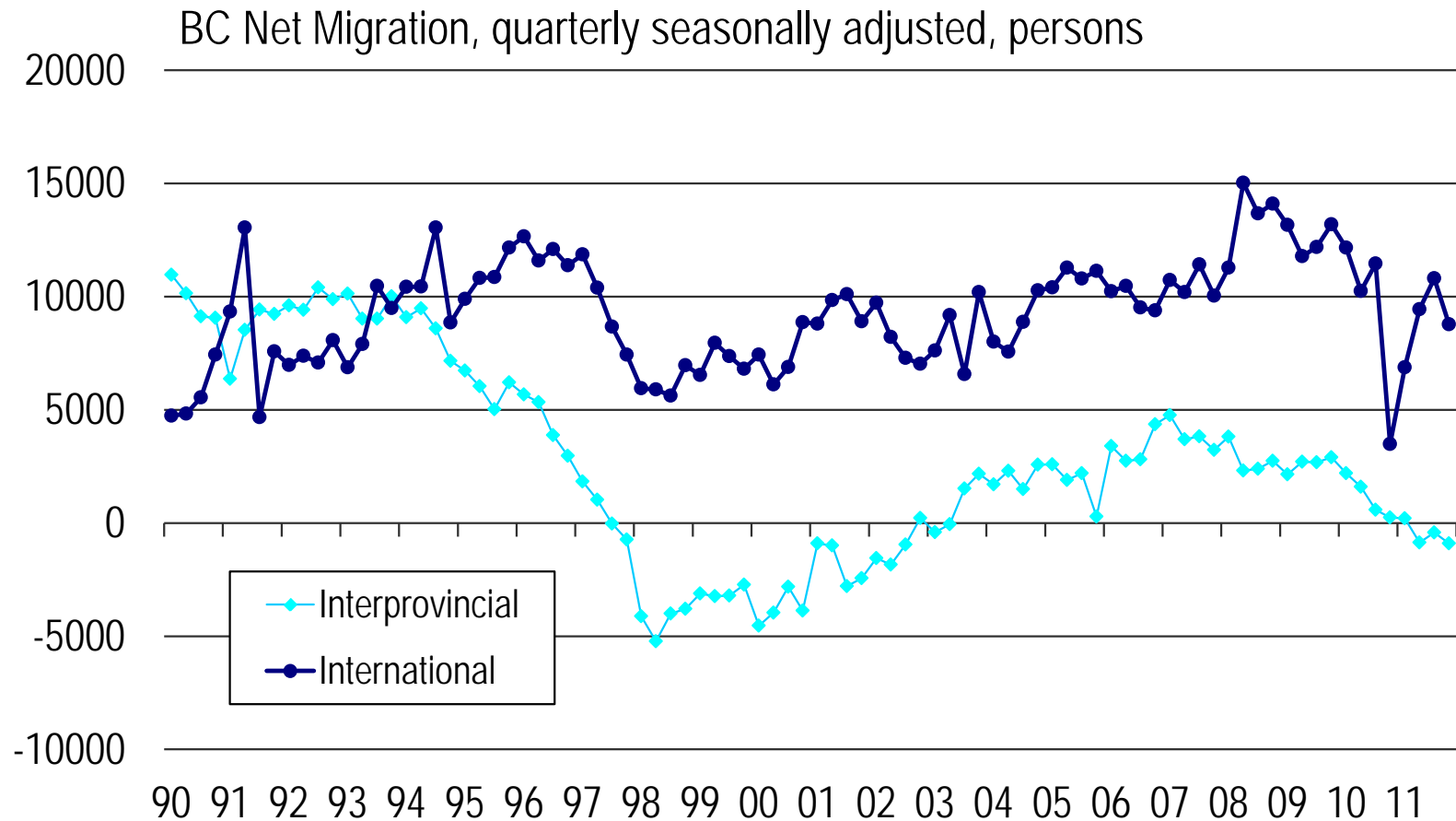
Decline in Core Working Age Population in Many Areas²⁹



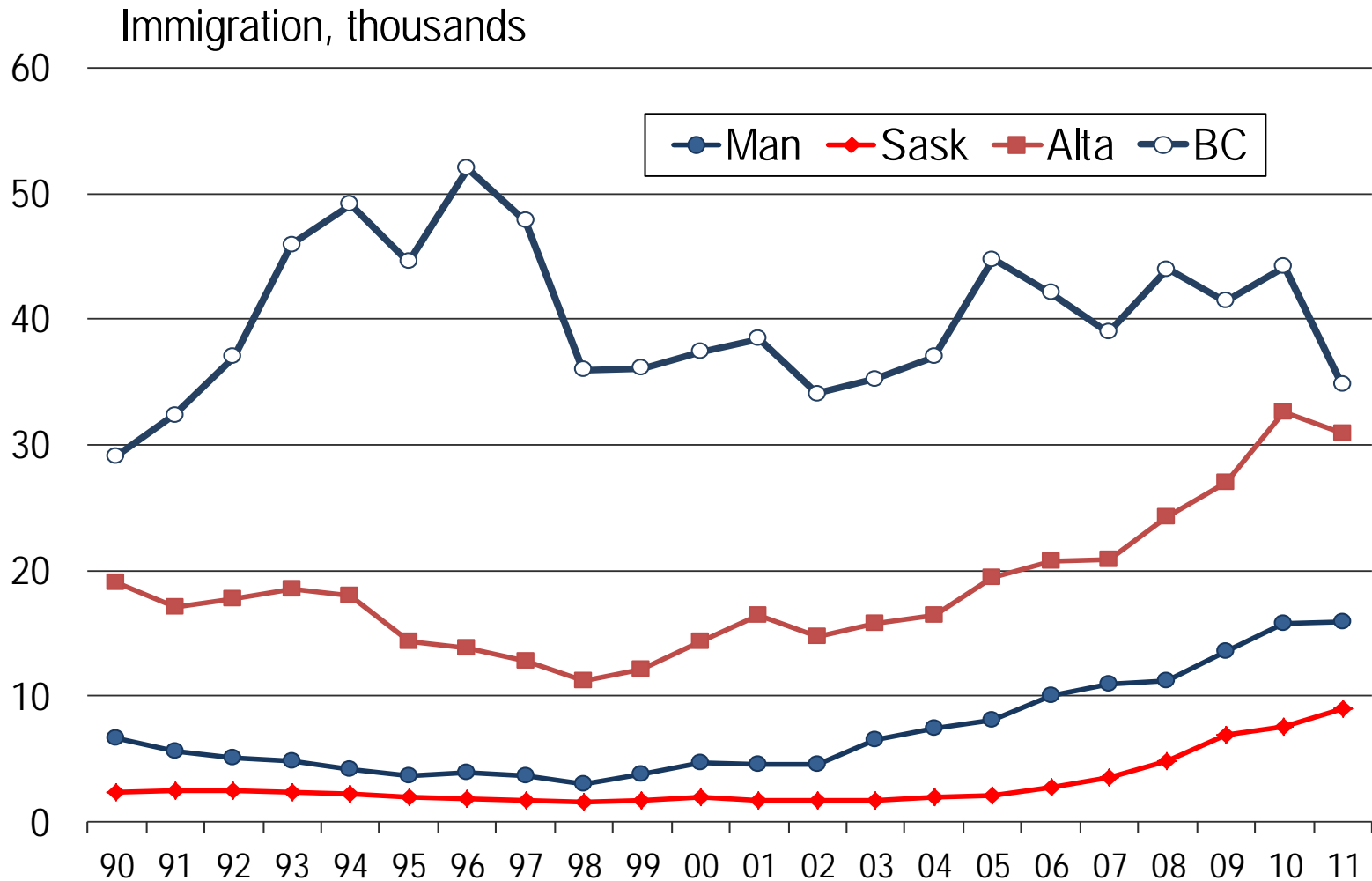
65+ Will Account for 23% of the Population (compared to 15% Today)



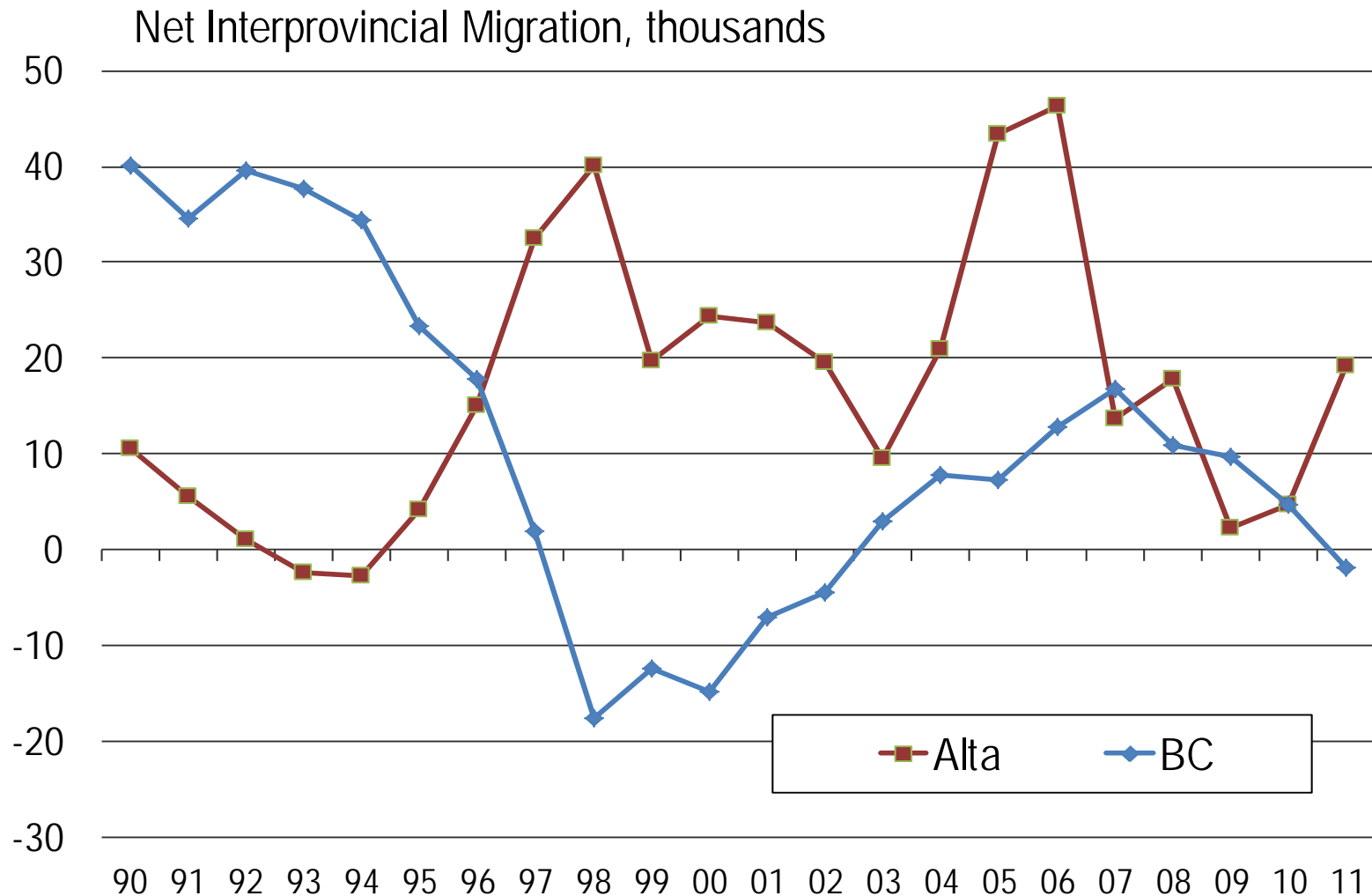
Net Interprovincial Migration Turns Negative



Almost as Many Immigrants Settle in Alberta as BC



Alberta Attracting People



Marginal Effective Tax Rates on Business Investment

<i>BC Pre-HST</i>	26.4%
<i>BC with HST</i>	15.7%
Ontario with HST	16.2%
Alberta	16.3%
Quebec	14.8%
US	34.3%
OECD avg	22%

The Marginal Effective Tax Rate (METR) is a comprehensive measure of the impact of business taxes on investments. It captures all taxes which impact the net return on capital employed – e.g., corporate income tax, capital taxes, sales taxes, and capital cost allowances. The METR excludes R&D tax credits and property taxes.

Keeping BC Competitive in a Post-HST World

- ▶ Maintain low **corporate tax rates**
- ▶ Streamline / simplify **PST administration** – to reduce compliance costs
- ▶ As fiscal circumstances permit, **expand PST exemptions** for business inputs (focus on inputs that drive investment and productivity)
- ▶ Examine scope to deploy **new tax incentives** aimed at boosting productivity-enhancing investments
- ▶ Assess all policies and regulations through a **competitiveness lens**
- ▶ Overhaul the regime governing **municipal property taxation** to improve equity between residential/business property owners

Summary

- ▶ Rise of emerging economies (Asia) reshaping BC economy
- ▶ Resource sectors providing a lift (incl. investment)
- ▶ Domestic economic activity mixed
- ▶ Downside risks still exist, but have diminished
- ▶ BC's competitive position a concern, especially with return to PST
- ▶ Challenges: demographics, and productivity / innovation