



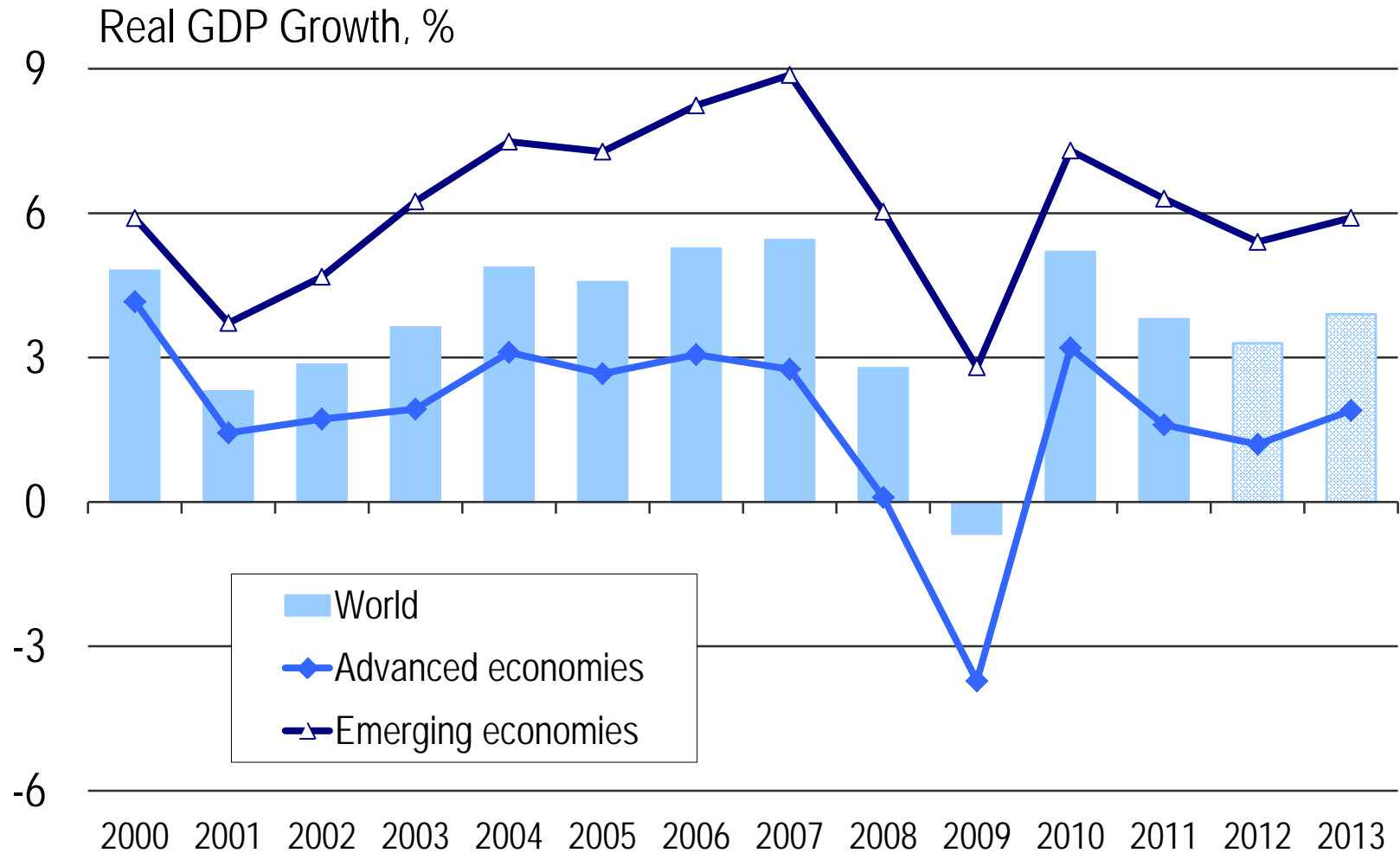
Business Council *of*
British Columbia

Hoping for the Best: Economic Prospects for 2012-13

presented to
PWC Global Forest and Paper Industry Conference
Vancouver, BC
May 10, 2012

Jock Finlayson,
Executive Vice President
and Chief Policy Officer

Two-Track Global Economy

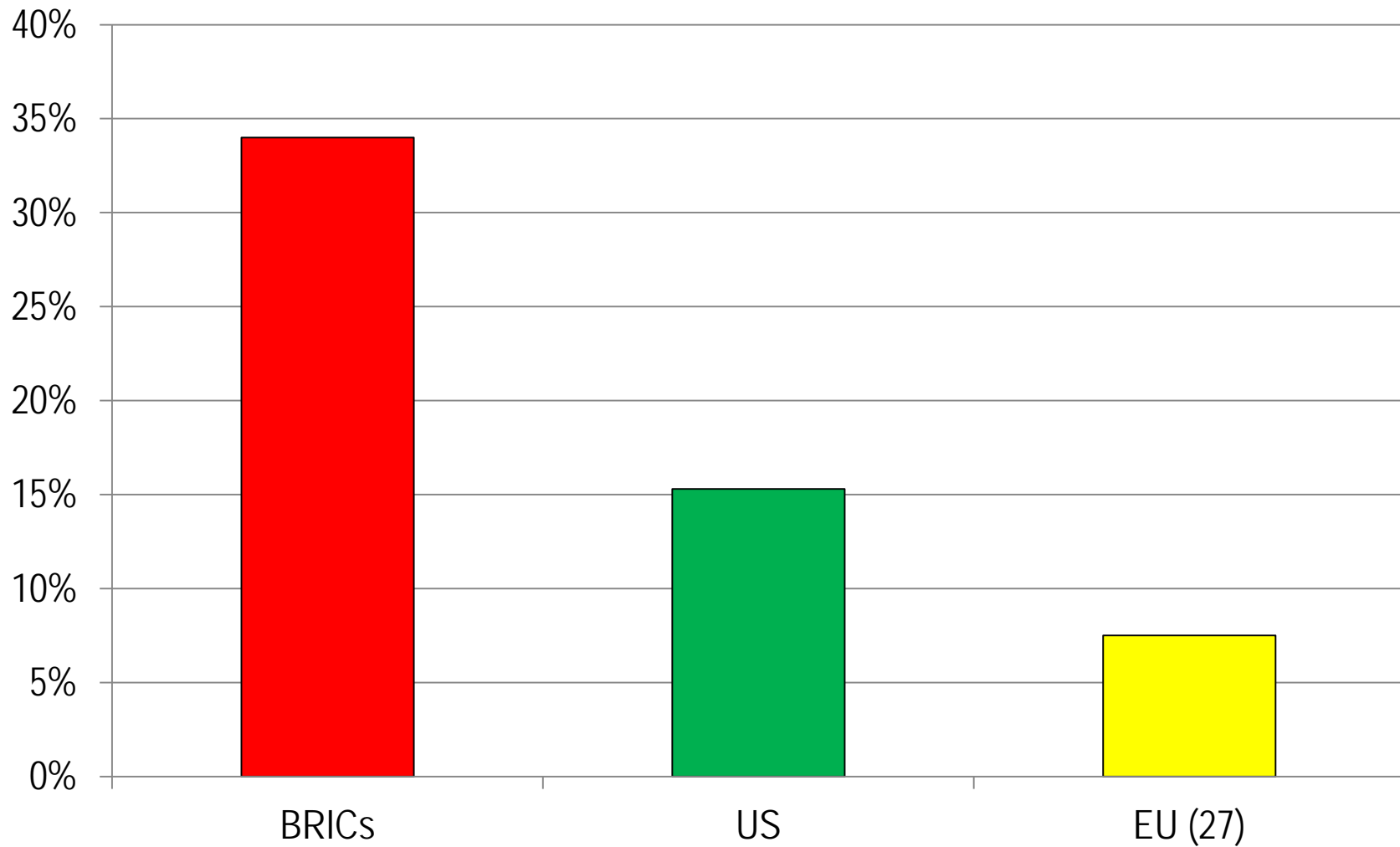


Growth Set to Slow (Real GDP % Change)

	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

* GDP shares are based on International Monetary Fund (IMF) estimates of the purchasing power parity (PPP) valuation of country GDPs for 2010.

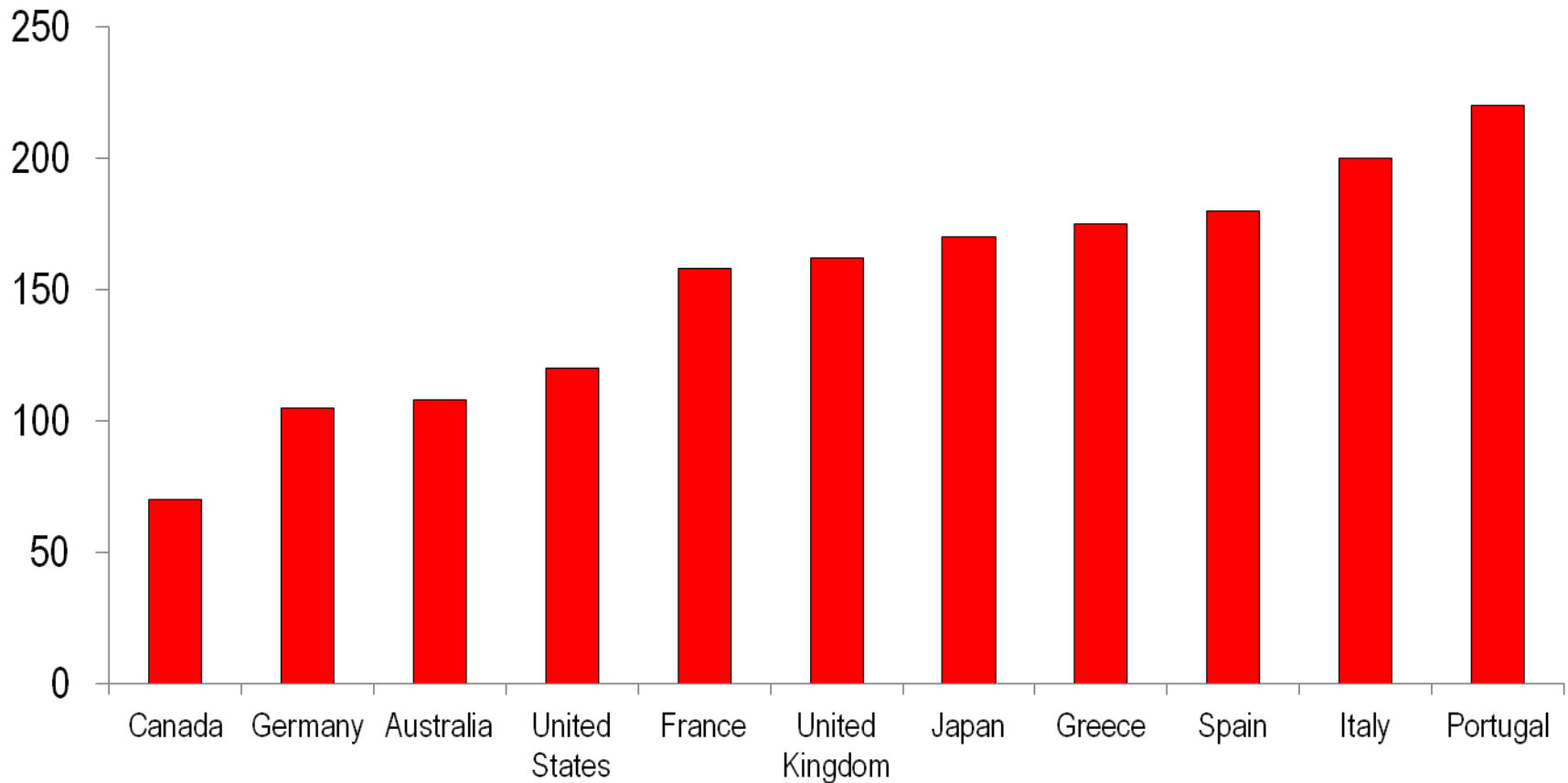
Contributions to Global Growth, 2000-2011





Sharp Increase in Debt Across the Developed World

Changes in household, corporate and net government debt as percentages of nominal GDP from 1980 to 2010

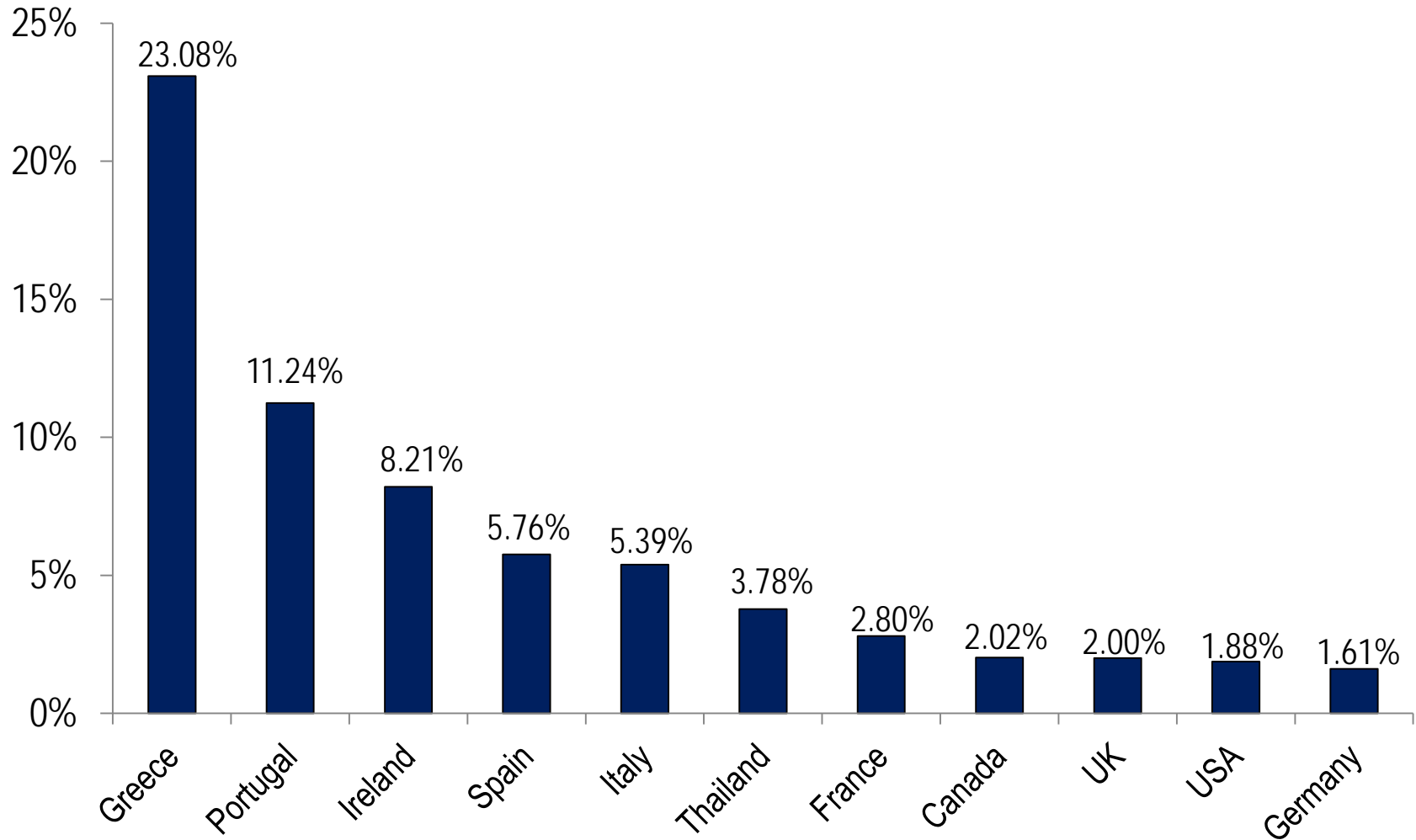




Eurozone Mess

- ▶ Eurozone = 17 out of 27 EU countries. Common currency and central bank (ECB) – but without fiscal integration, a single labour market, common financial regulation, or a “lender of last resort”
- ▶ Crisis triggered by accumulation of large public/private debts, coupled with structural impediments to growth in some countries, rising internal imbalances, and poorly capitalized banks
- ▶ Since early 2010...bailout packages for some countries; massive ECB lending to banks; fiscal austerity pact proposed by Germany (but now unravelling following elections in France/Greece and defeat of the Dutch gov't)
- ▶ The path ahead isn't clear...but Eurozone looks unlikely to survive in its present form

The (Varying) Cost of Government Borrowing: Ten-Year National Gov't Bond Yields (as of May 8, 2012)



Nine Eurozone Nations Downgraded by S&P in 2012

France	from AAA to AA+
Austria	from AAA to AA+
Slovenia	from AA- to A+
Slovakia	from A+ to A
<i>Spain</i>	from AA- to A
Malta	from A to A-
<i>Italy</i>	from A to BBB+
Cyprus	from BBB to BB+
Portugal	BBB- to BB
* Germany, Finland, Netherlands still rated AAA.	

Sovereign Debt and Bond Yields: Different Strokes

	10-year Gov't Bond Yield*	Gov't Debt/GDP**
Portugal	11.24%	112%
US	1.88%	107%
Spain	5.76%	79%
UK	2.00%	88%

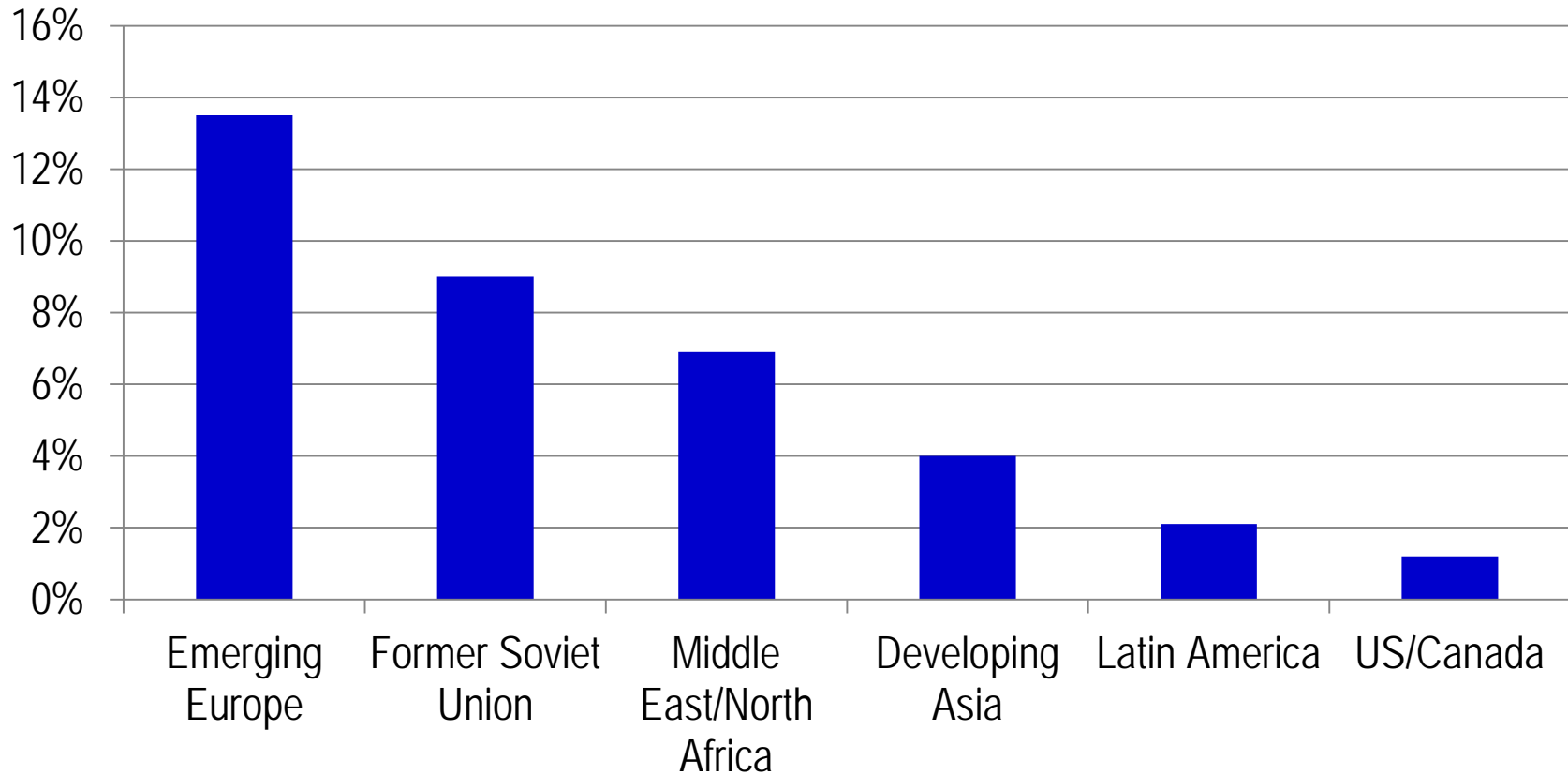
...What Eurobonds Look Like to Germany





Euro Area Spillovers

(Exports to Europe as share of region's GDP)



- Spillovers from the euro area recession are likely to be quite limited, except for within Europe and the former Soviet states, which have strong trade and banking linkages with core Eurozone countries.



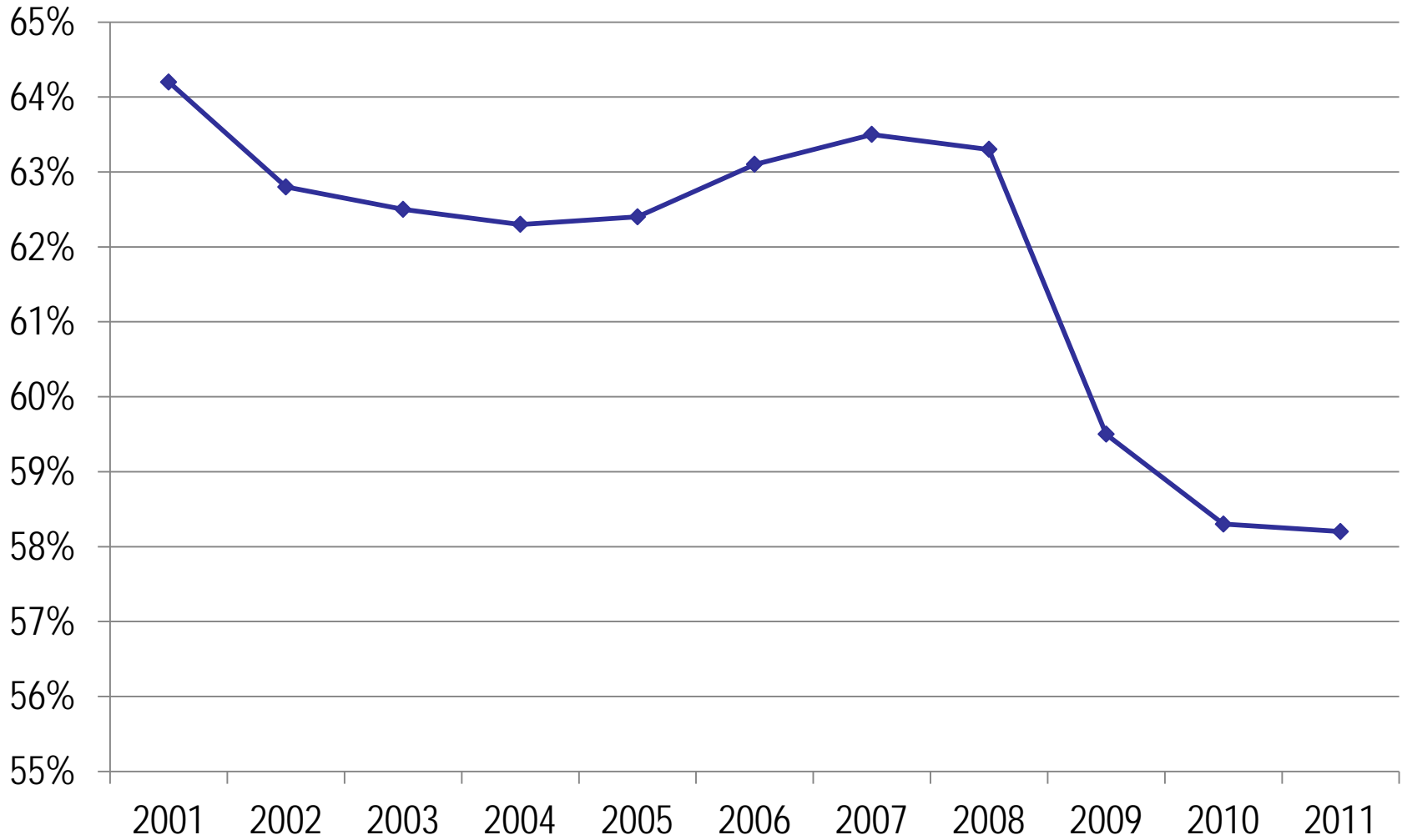
US Economy Continues to Recover

- ▶ Mostly positive signs in recent months, but concerns about sustainability
 - ▶ Stronger job gains, pick-up in consumer spending, increased industrial production
 - ▶ Housing markets remain weak
 - » prices (urban markets) down 32% since late 2006
 - » housing starts rebounding, but very slowly
 - ▶ Uncertainty about Bush tax cuts and stimulus programs, plus other aspects of US fiscal/tax policy, pose a risk for 2013 (“fiscal cliff”)
 - ▶ Non-financial corporate sector in good shape, balance sheets are strong, US industrial competitiveness has improved
-

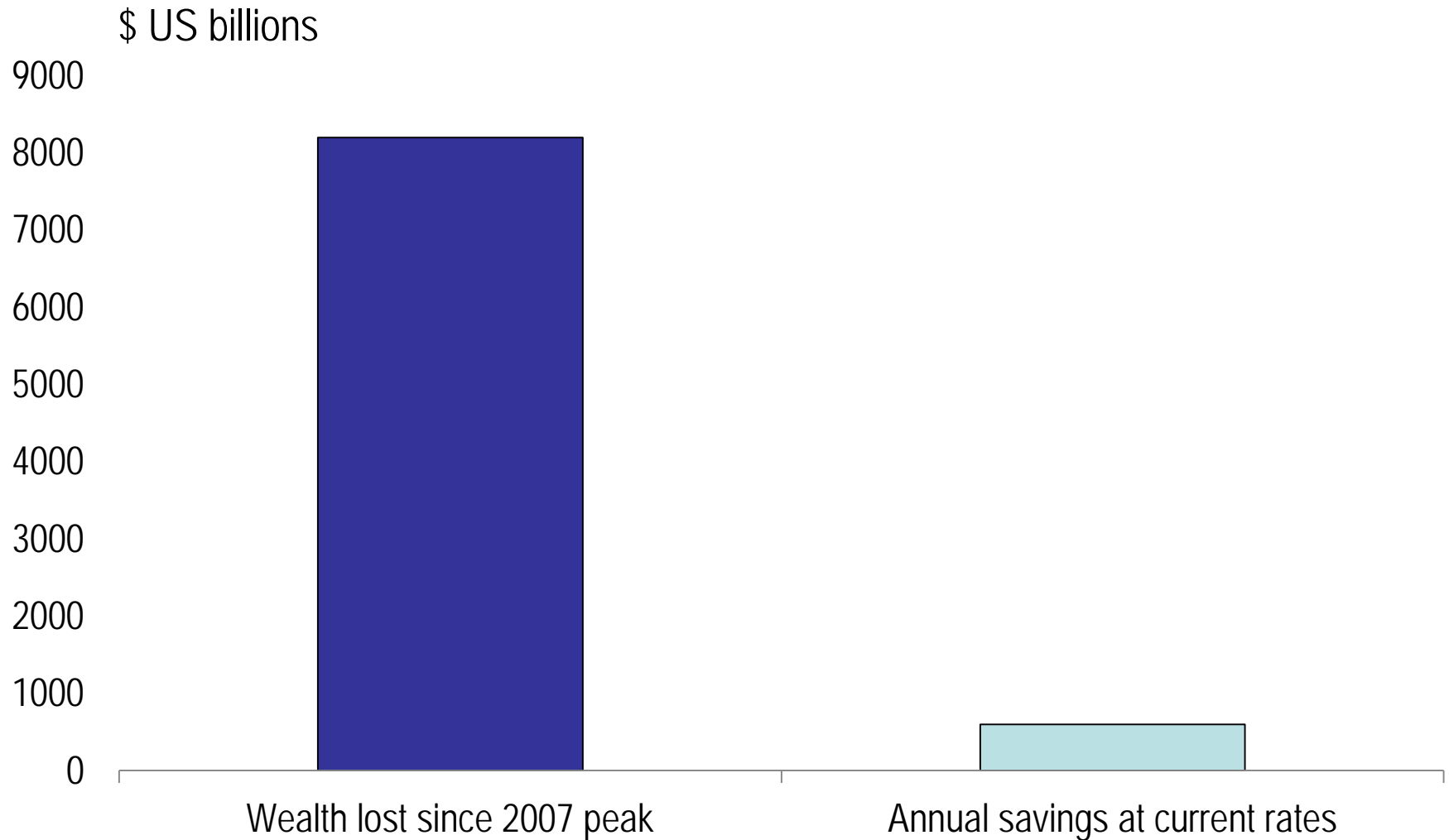


Sharp Decline in US Employment to Population Ratio

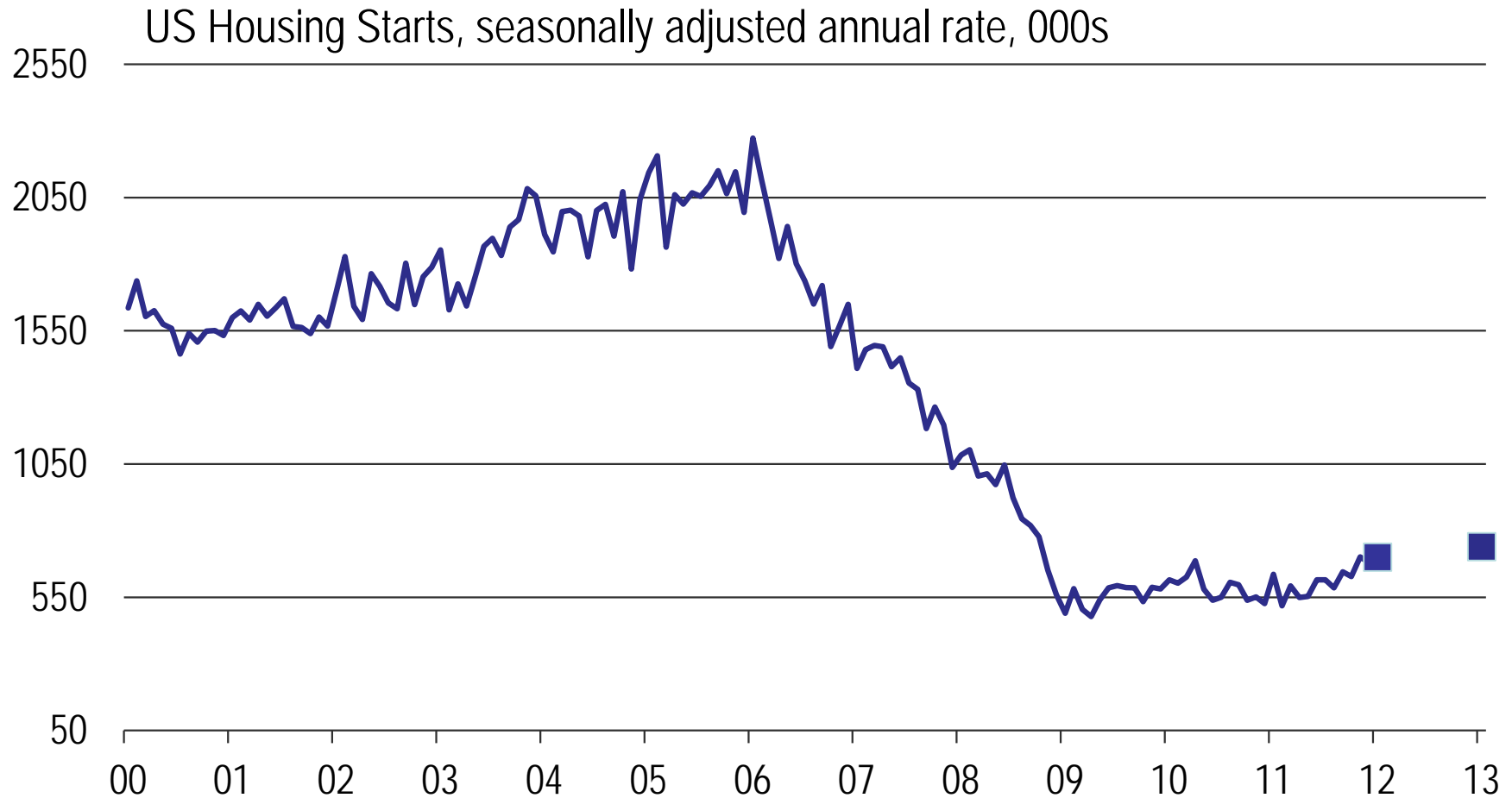
(Q1 of each year shown)



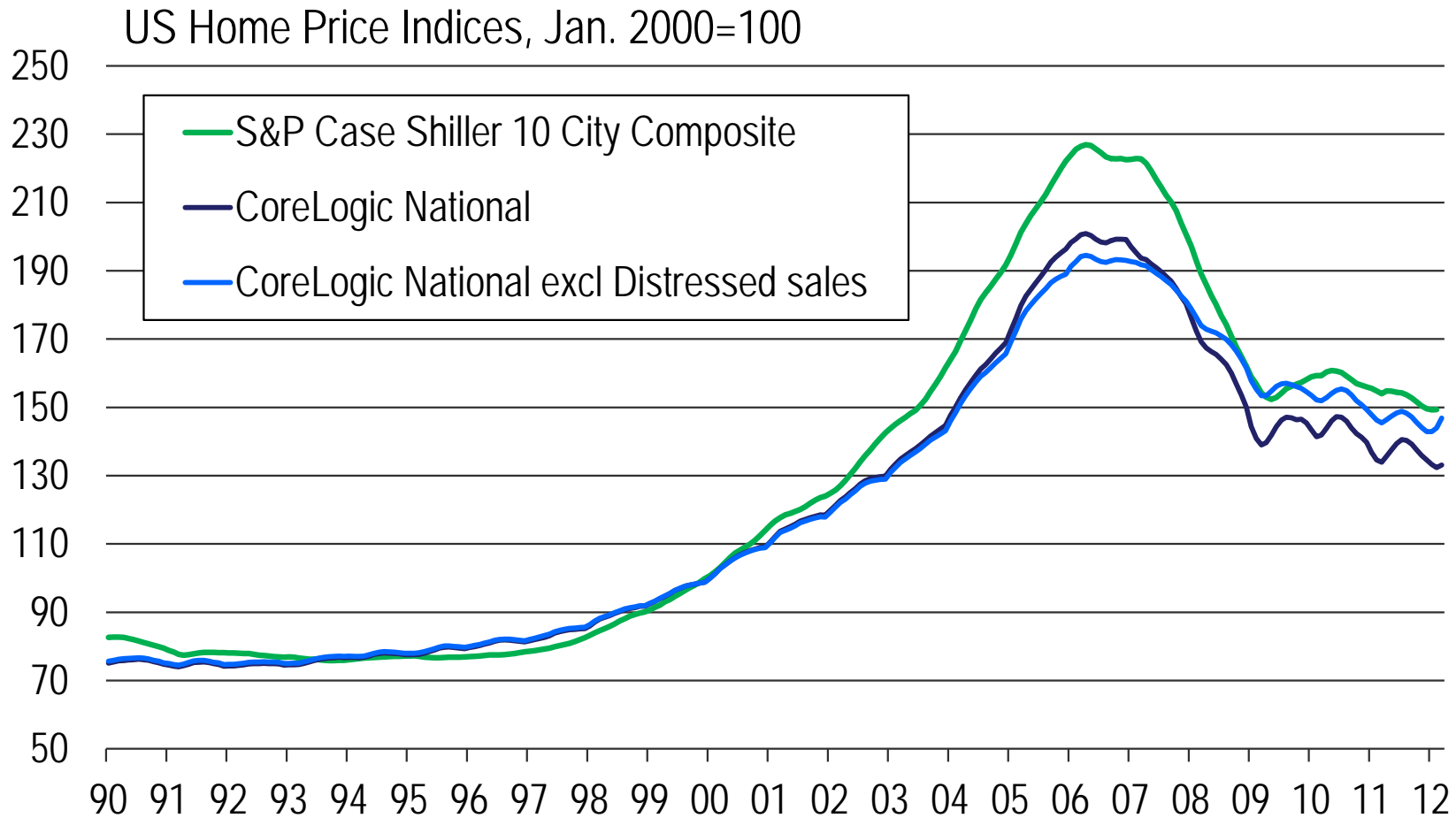
US Households – A Long Climb to Rebuild Net Worth



US Housing Starts



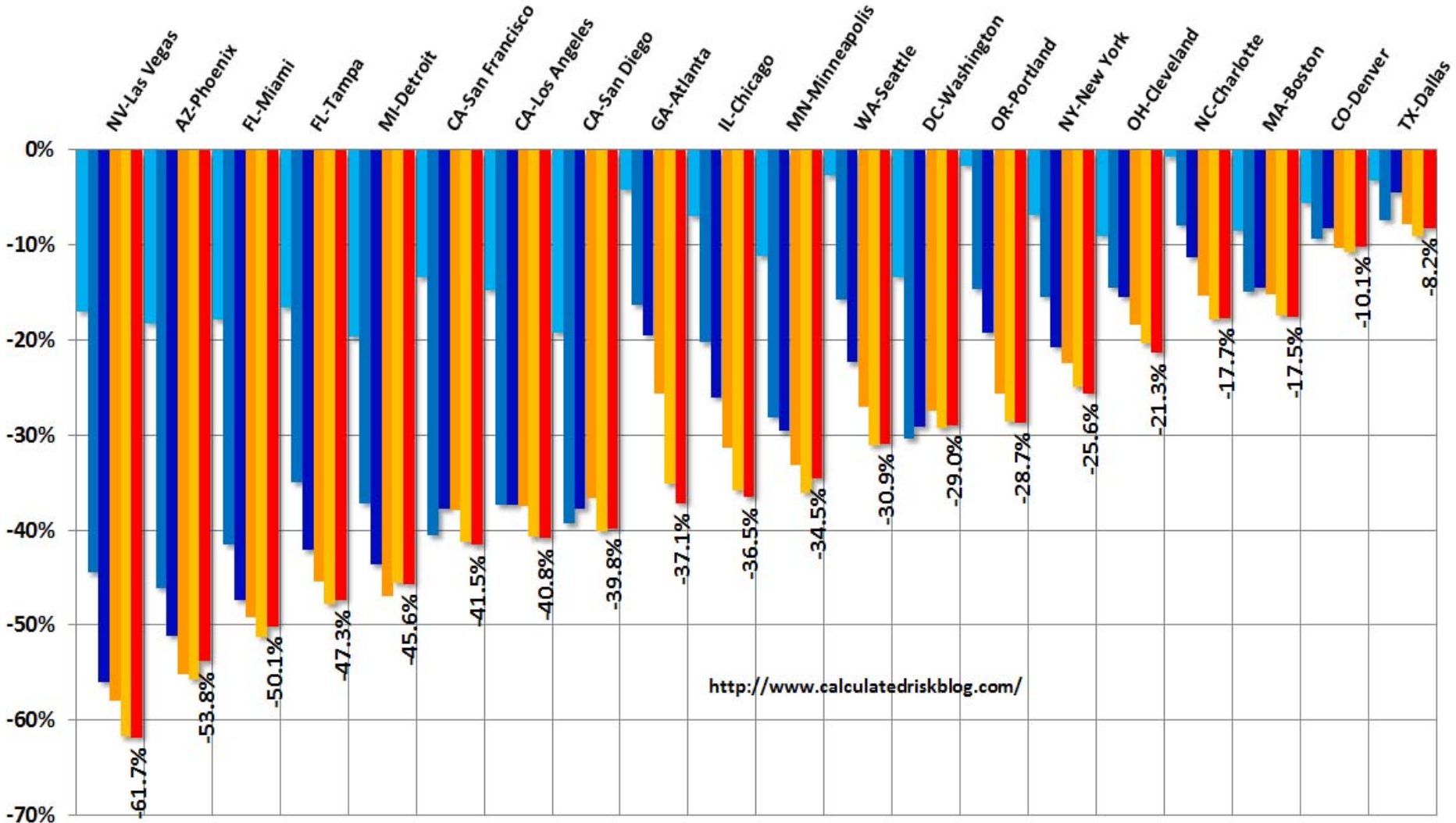
US Home Prices Stabilizing?



Prices in Vegas Down 67% From Peak

Case-Shiller Price Cumulative Declines from Peak (SA), Year and City

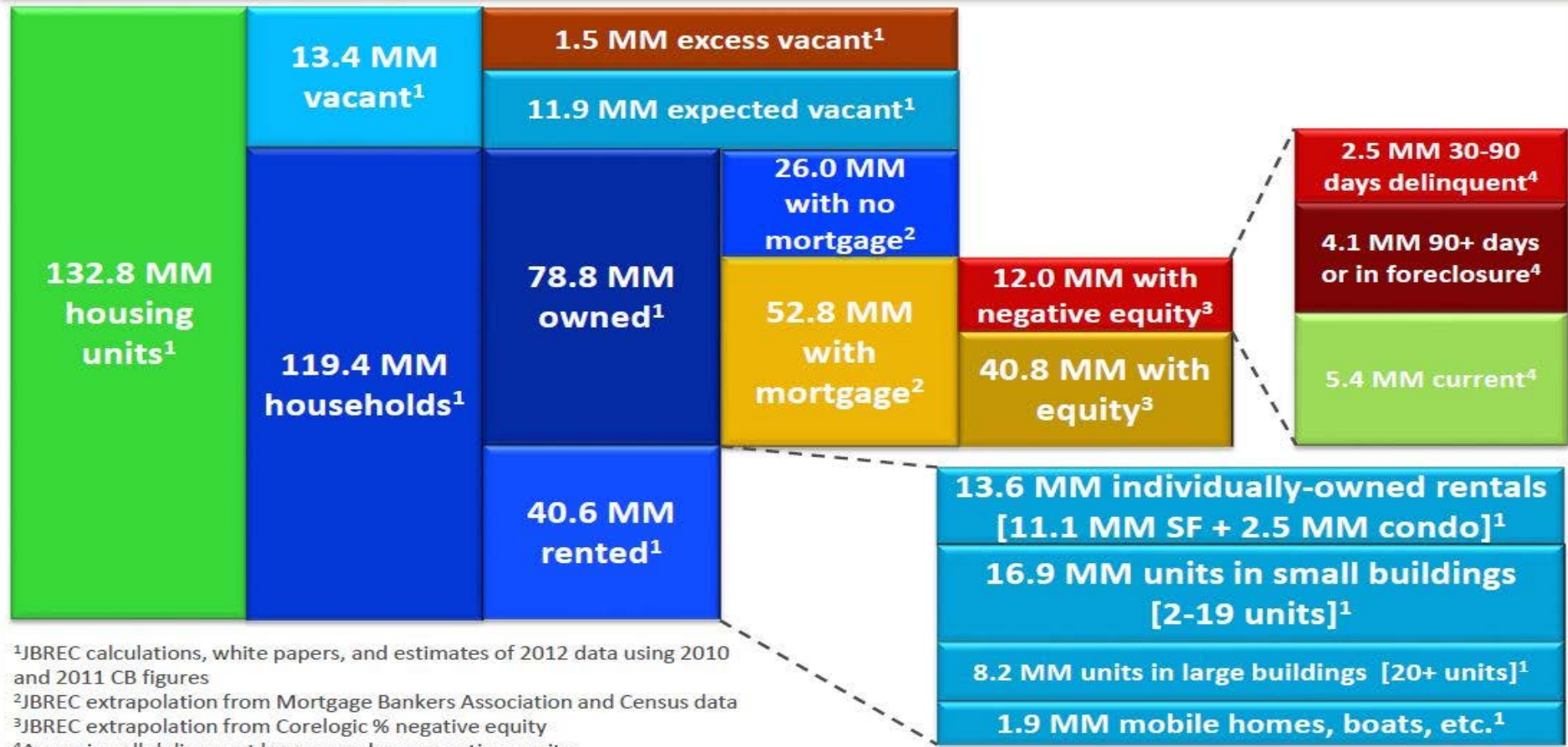
■ through Dec 2007
 ■ through Dec 2008
 ■ Through Dec 2009
 ■ Through Dec 2010
 ■ Through Dec 2011
 ■ Through Feb 2012



<http://www.calculatedriskblog.com/>

Estimated 12 Million US Homes in Negative Equity

U.S. Housing Summary 2012



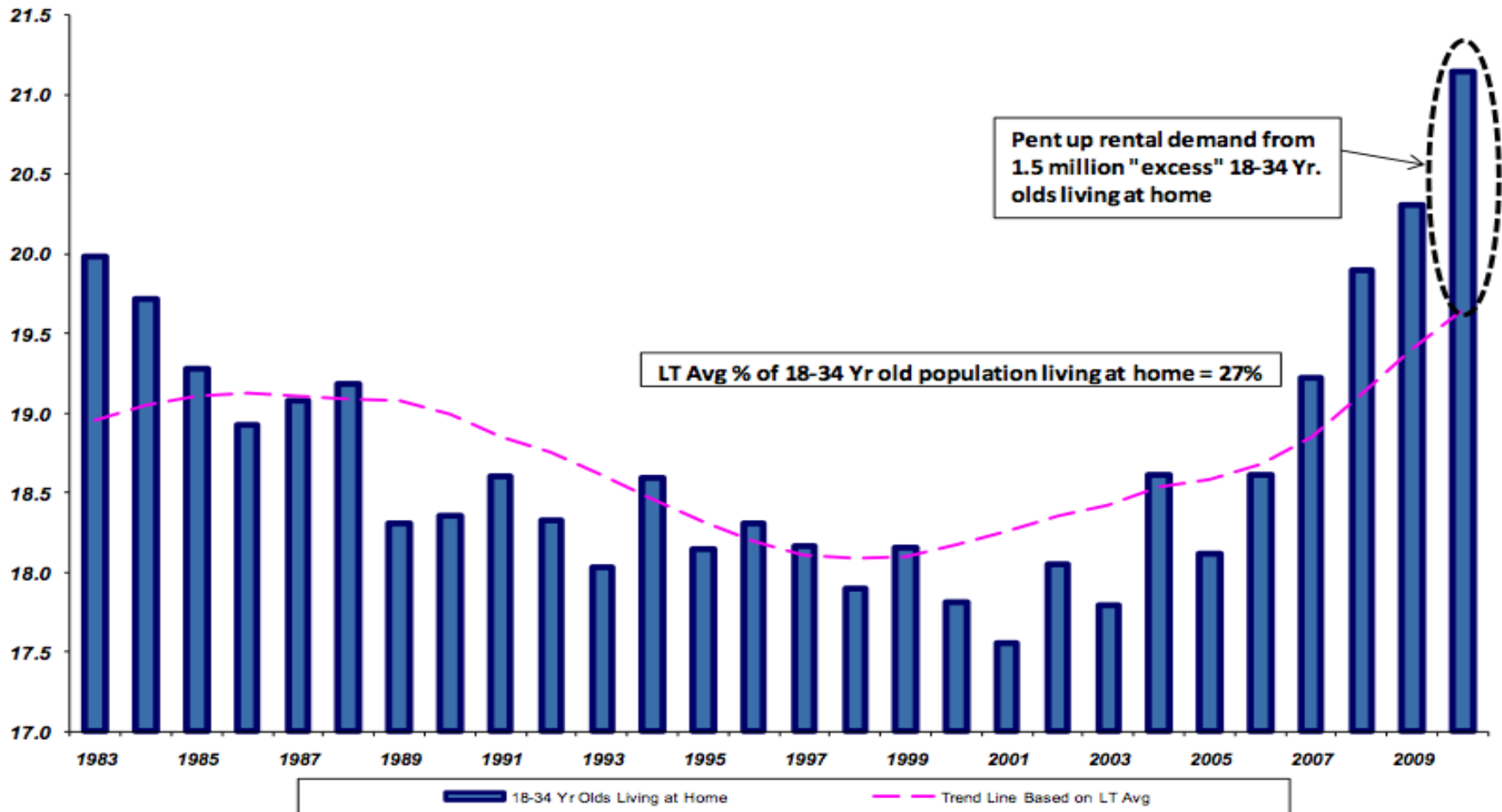
¹JBREC calculations, white papers, and estimates of 2012 data using 2010 and 2011 CB figures
²JBREC extrapolation from Mortgage Bankers Association and Census data
³JBREC extrapolation from Corelogic % negative equity
⁴Assuming all delinquent borrowers have negative equity

When They Move Out... Starts Will Climb

Deferred Renters/Owners Will Drive Demand

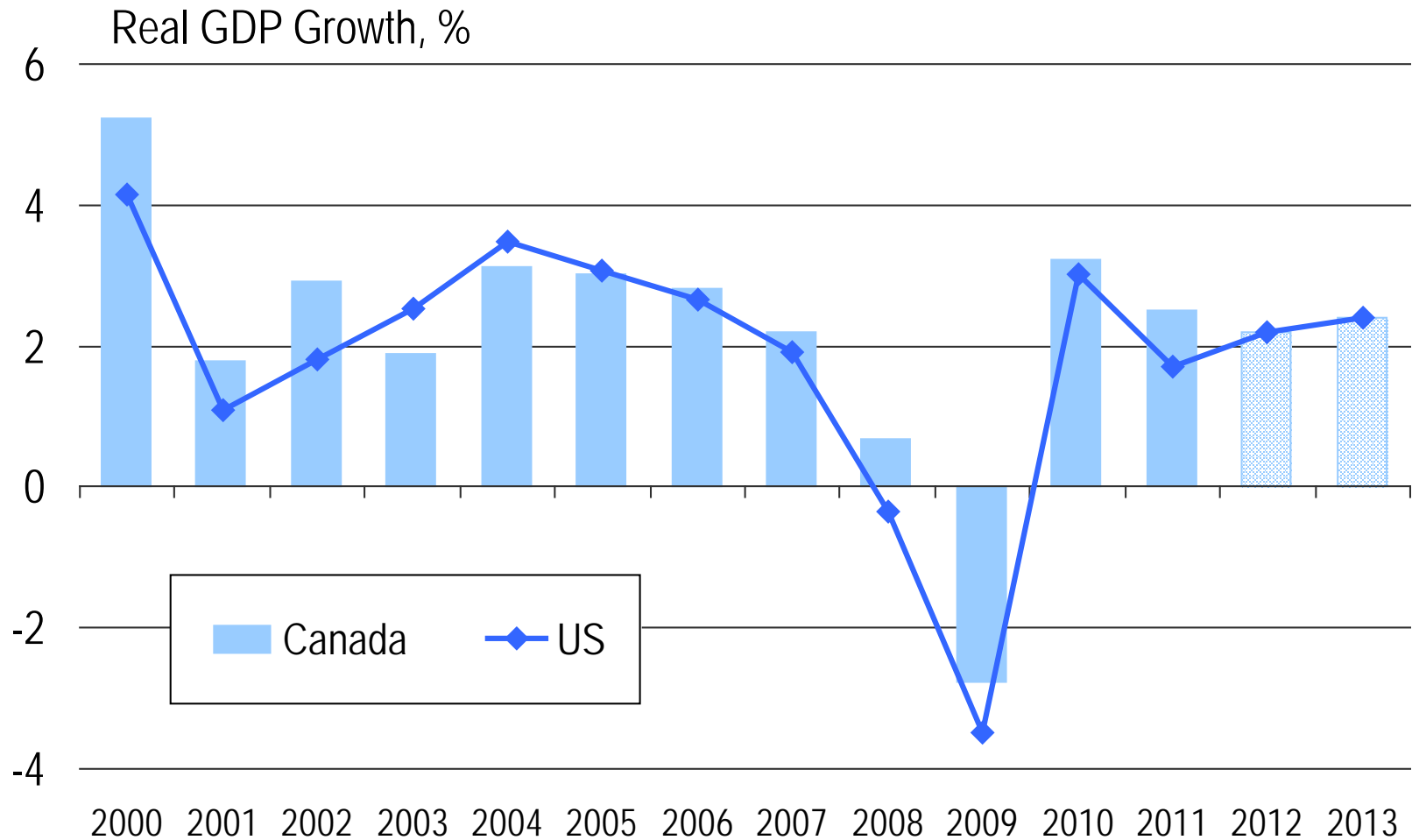
HARVEST
CAPITAL STRATEGIES

18-34 Year Olds, in millions



Source: U.S. Census Bureau, Raymond James & Associates, Inc.

Canada's Growth Still Aligned with US

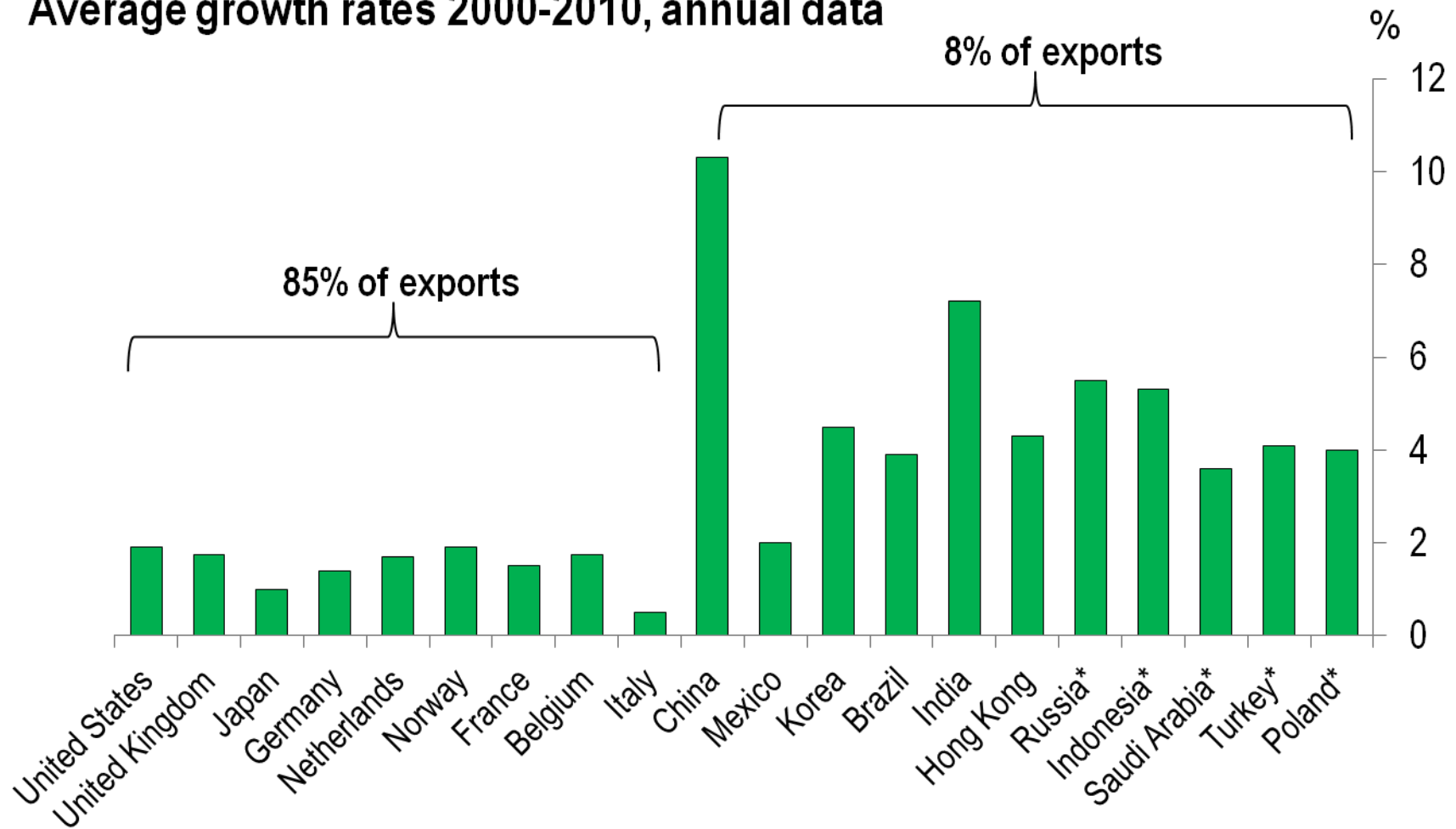


Sluggish Growth for Canada in 2012 (% change)

	2010	2011	2012	2013
Real GDP	3.2	2.5	2.0	2.5
Employment	1.4	1.5	0.9	1.2
Housing starts (000)	191	193	193	185
CPI Inflation	1.7	1.7	1.9	2.1

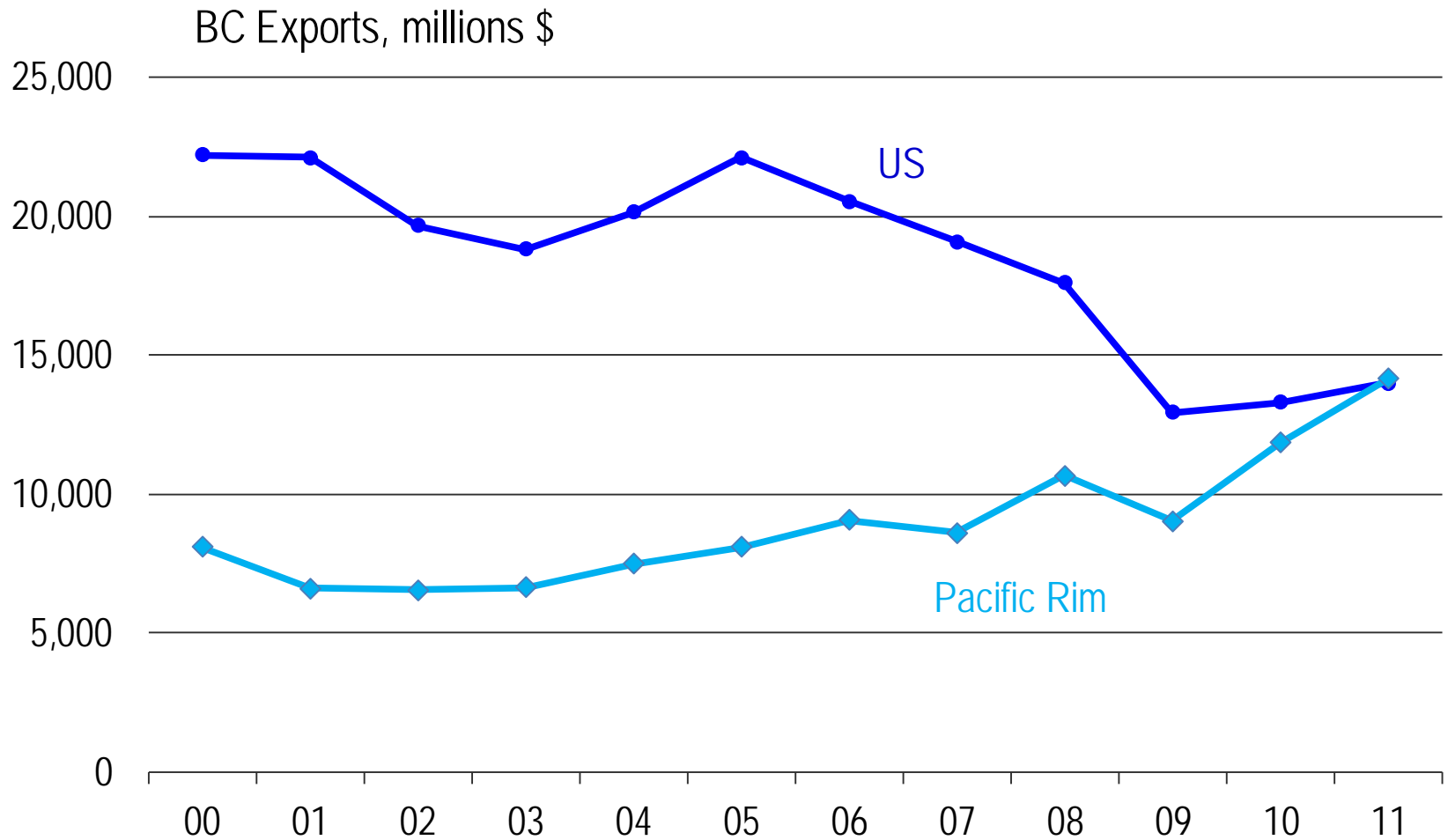
Canada's Trade Directed Toward Slow Growing Economies

Average growth rates 2000-2010, annual data



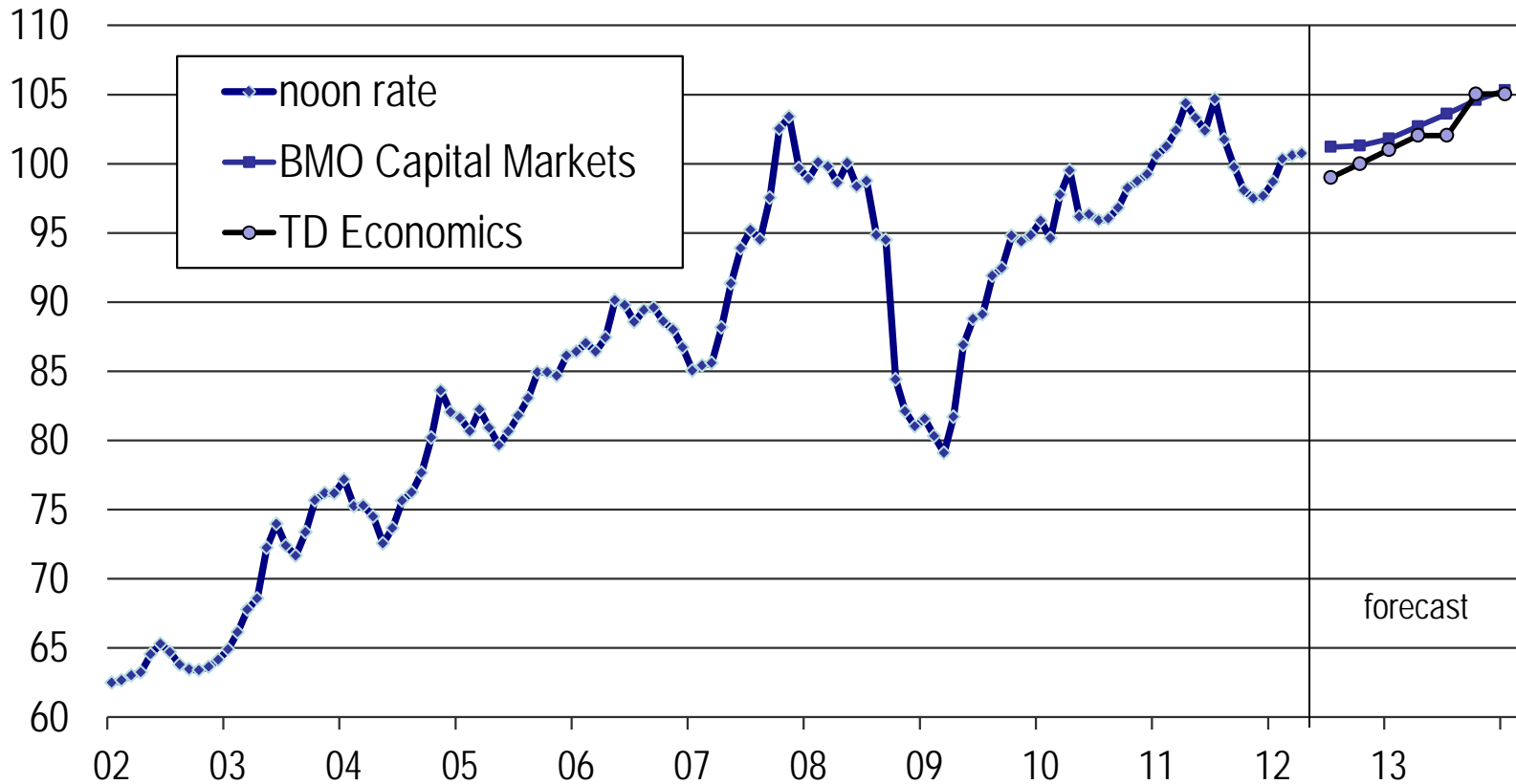
* This country is not one of Canada's top 15 trading partners

BC Exports to Pacific Rim Now Equal to US



Loonie Shapes the Competitive Landscape

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

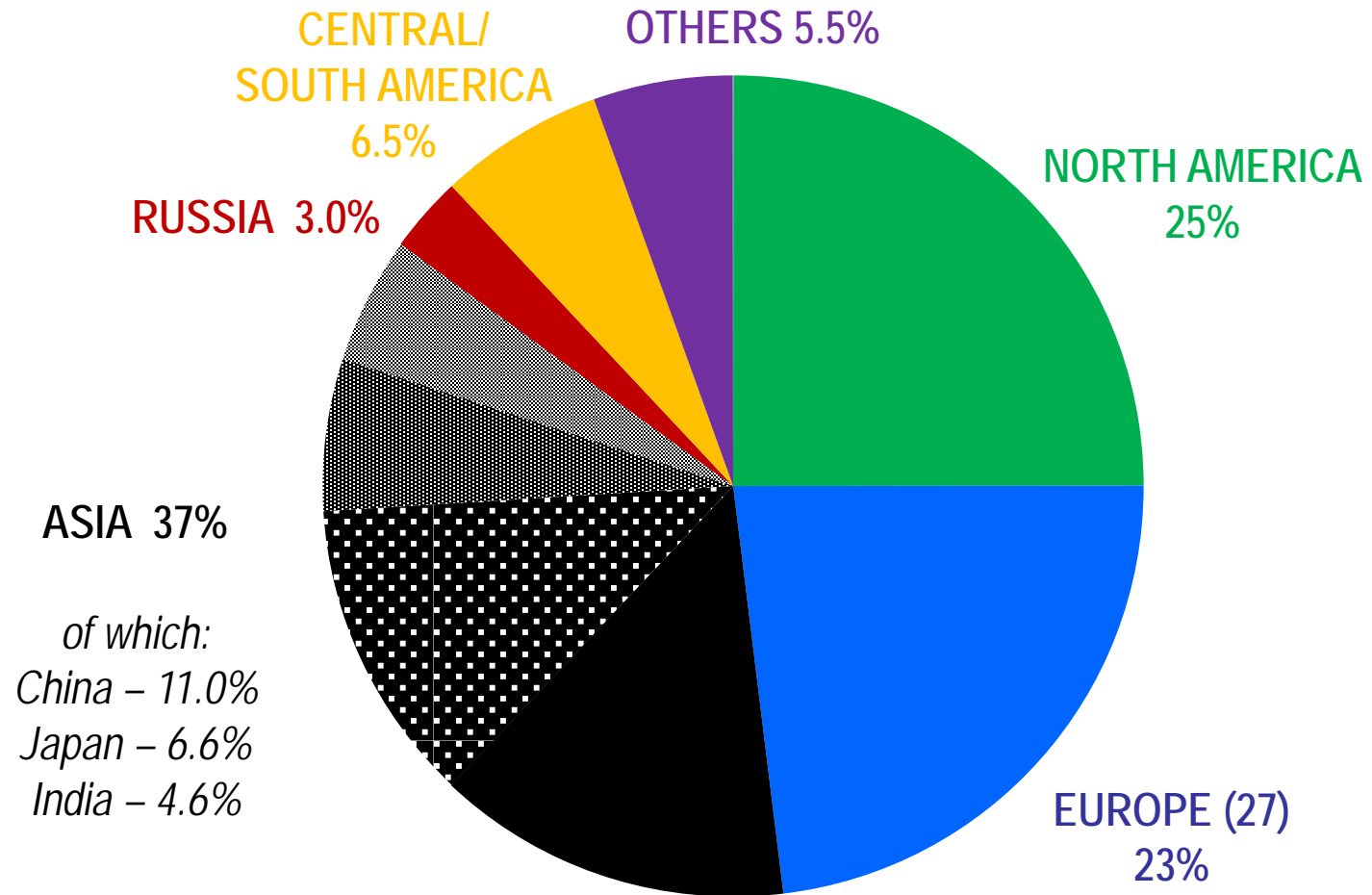


Some Macro Level Economic Trends Affecting Canada

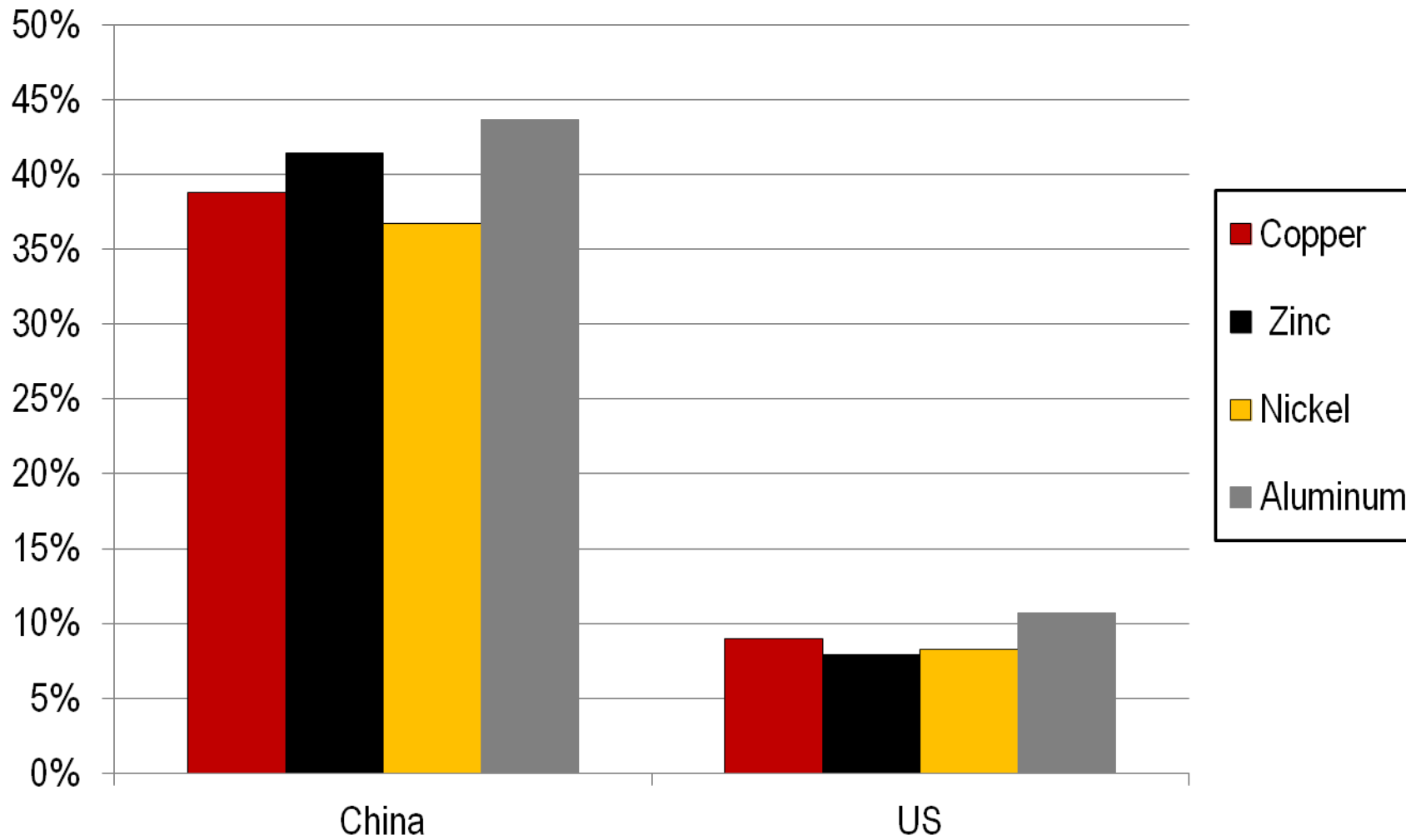
- ▶ Continued **rise of emerging markets** in the world economy (they will soon account for half of global output)
- ▶ **Increased importance of Asia** – in terms of production, as an import market, and as a source of investment, innovation and global-scale companies
- ▶ Expectation of a period of **subdued economic growth for most advanced economies**, weighed down by debt, unfavorable demographics and skills mismatches
- ▶ A long **up-cycle for many commodities** and resource-based goods

McKinsey Global Institute: "...the rise of 3 billion more middle class consumers [by 2030] will strain natural resources. The race is on to boost resource supplies, overhaul their management, and change the game with new technologies."*

Distribution of Global Output by Region (2011)

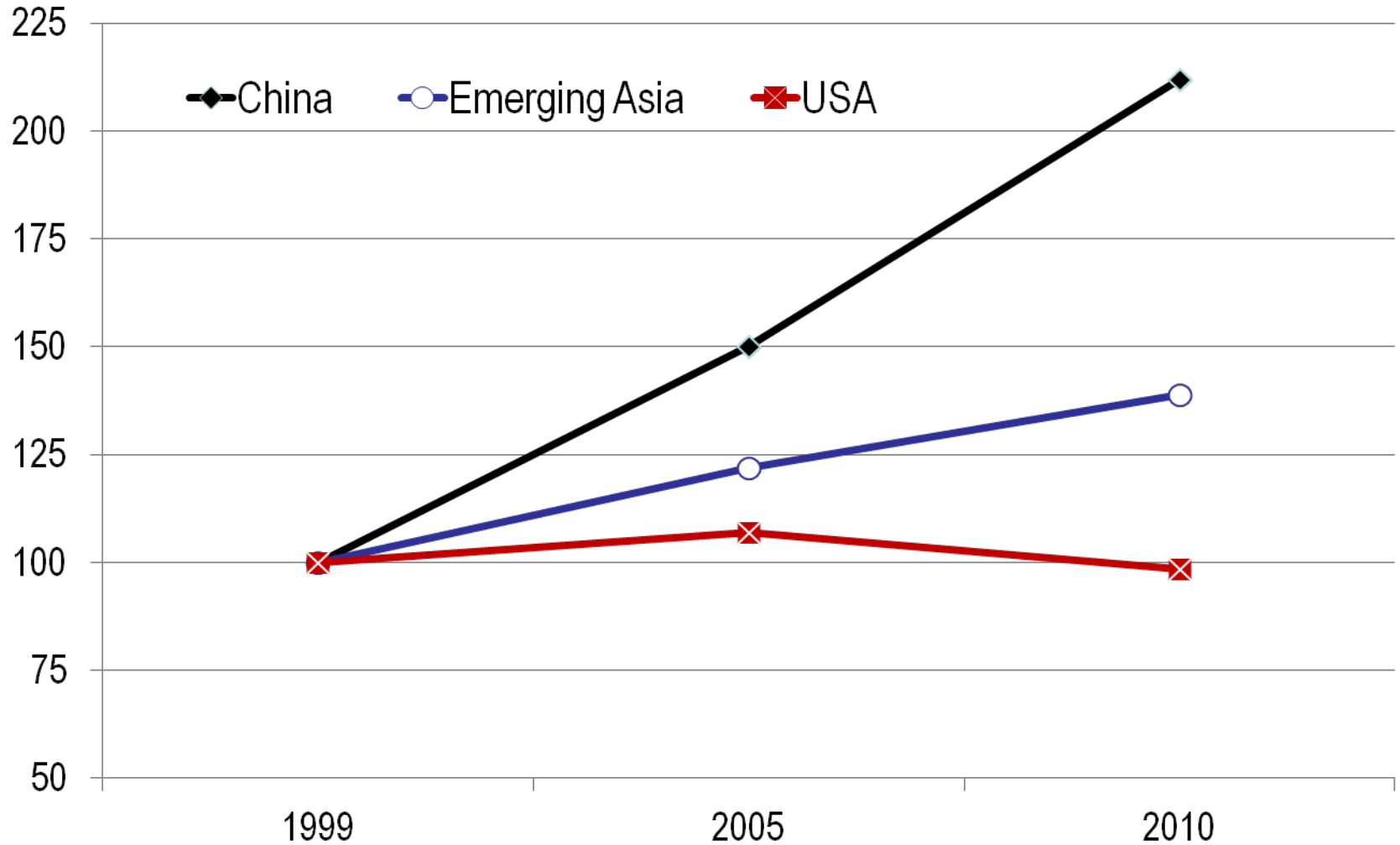


China and US: Shares of World Commodity Consumption in 2010

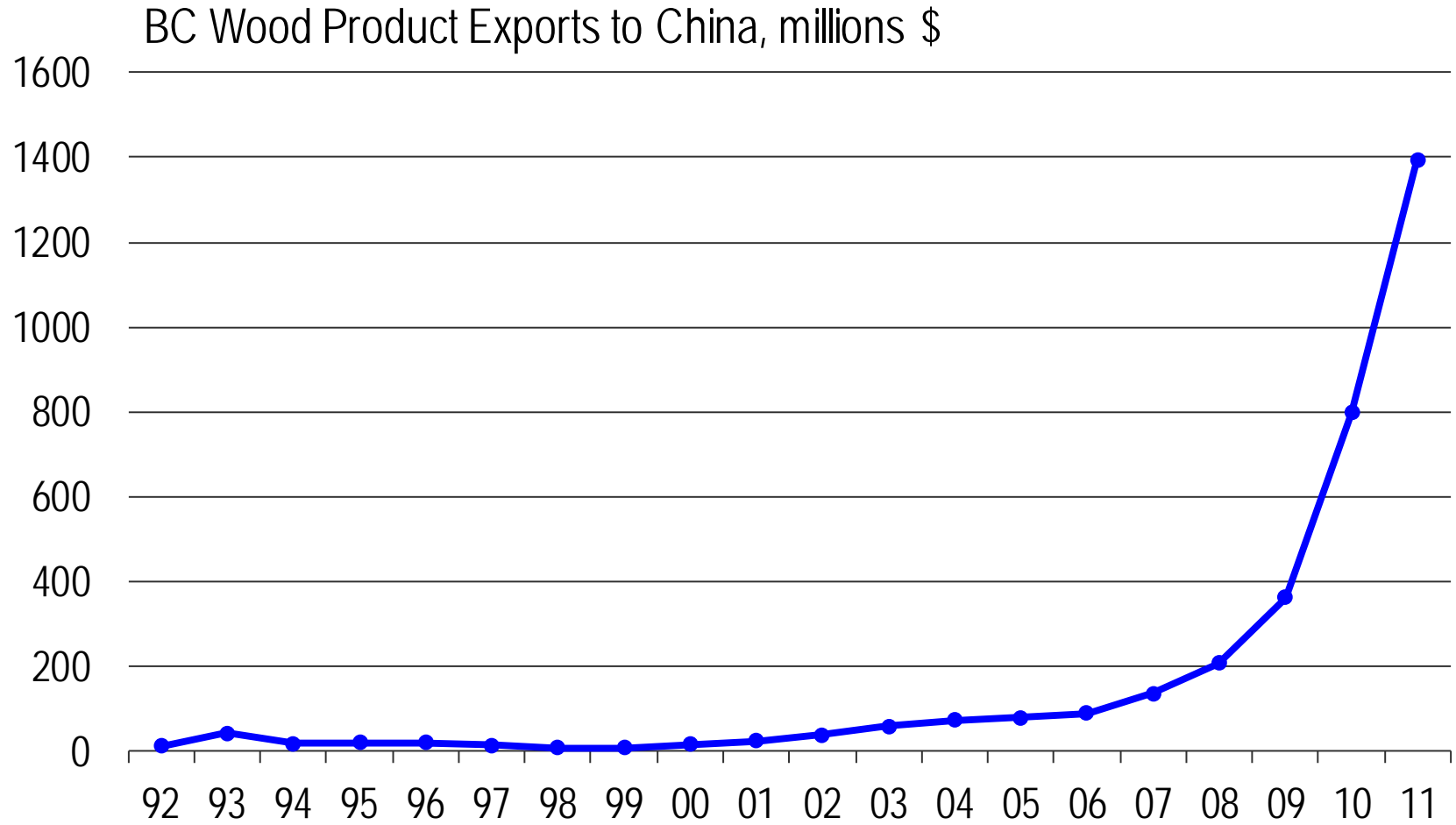


Change in World Oil Consumption

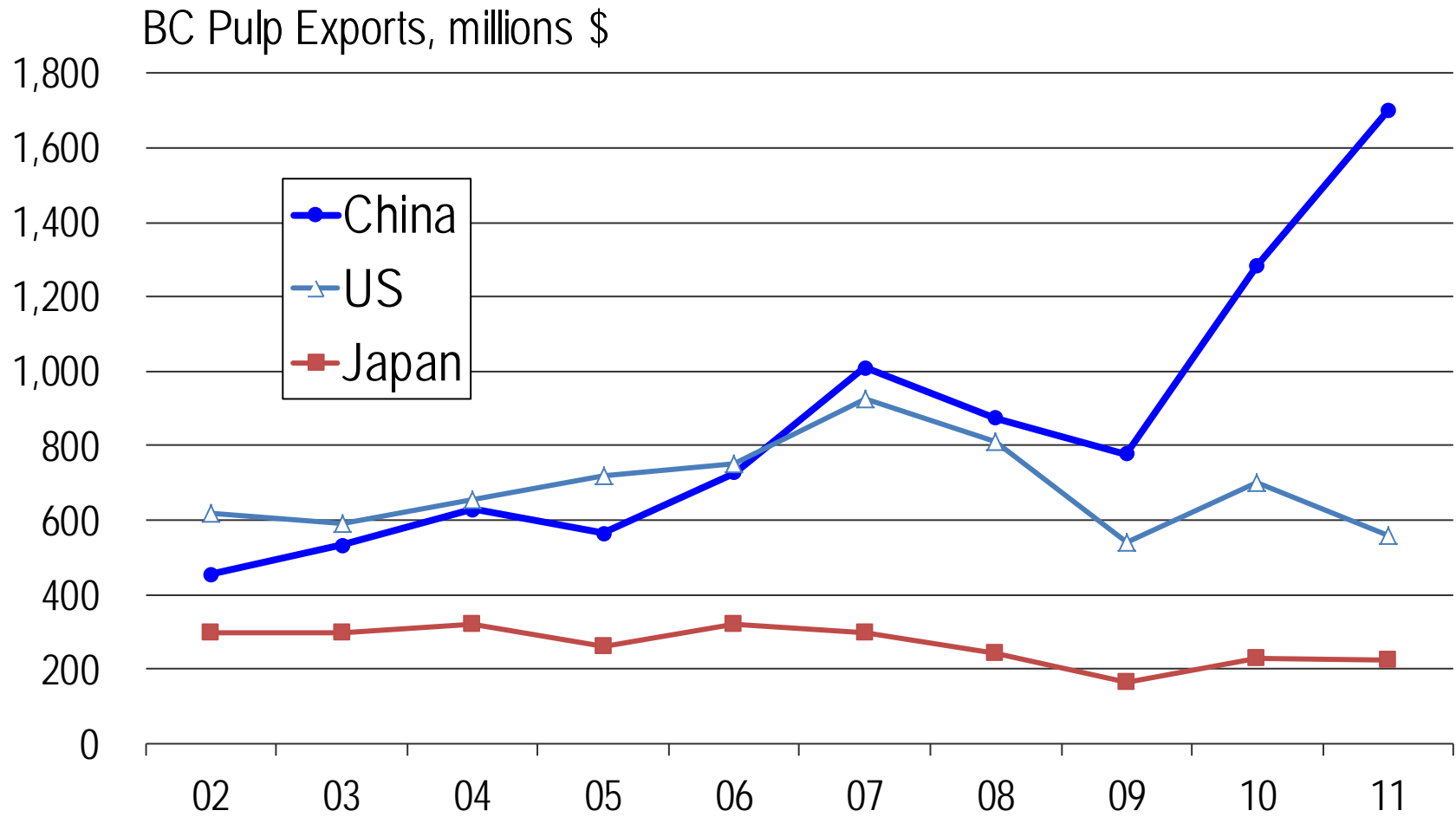
(1999 = 100)



China Buying More BC Wood!

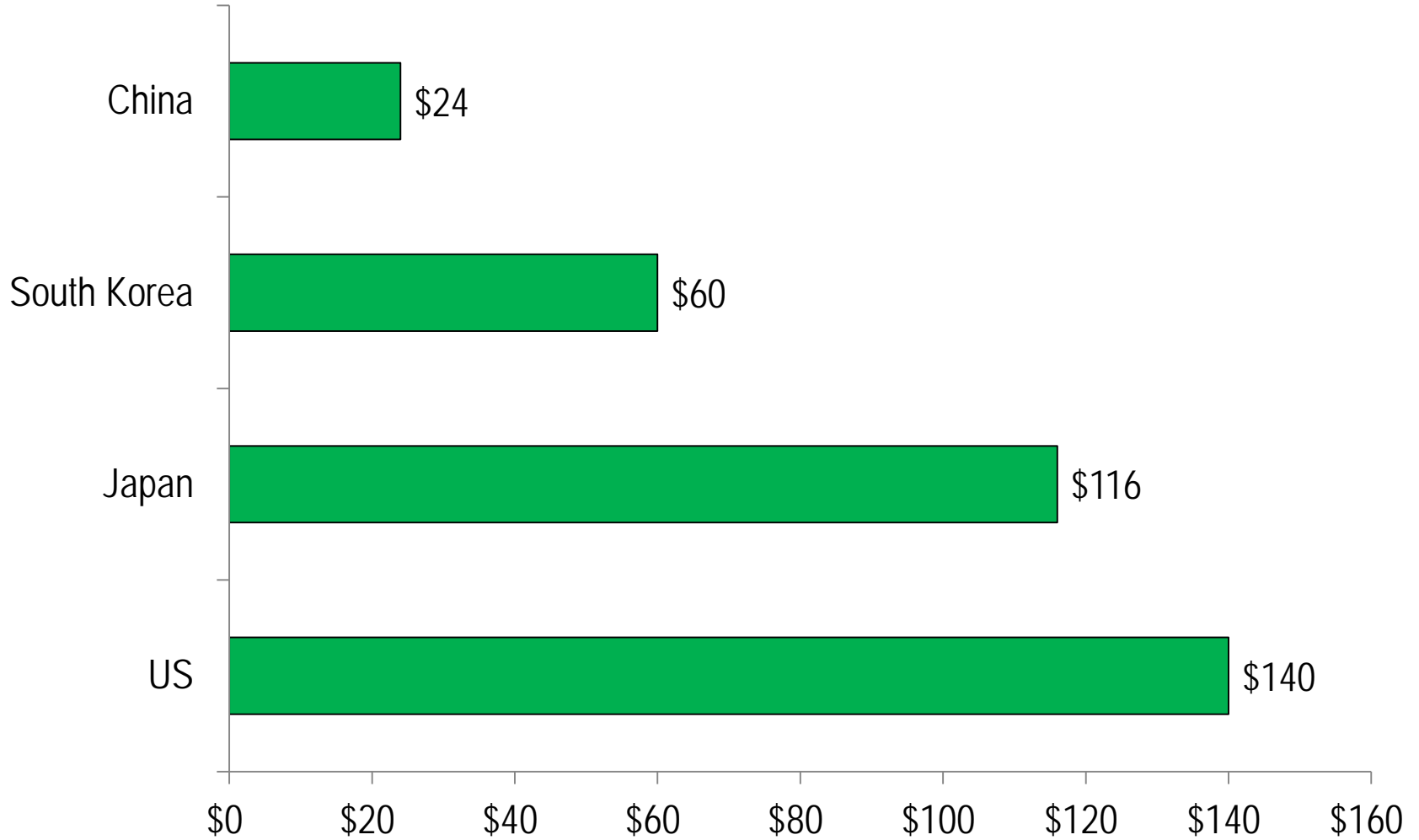


China is BC's Largest Pulp Market



Capital Stock Per Person, 2010*

(thousands of US dollars)





Top 10 Economies, 2010 and 2030

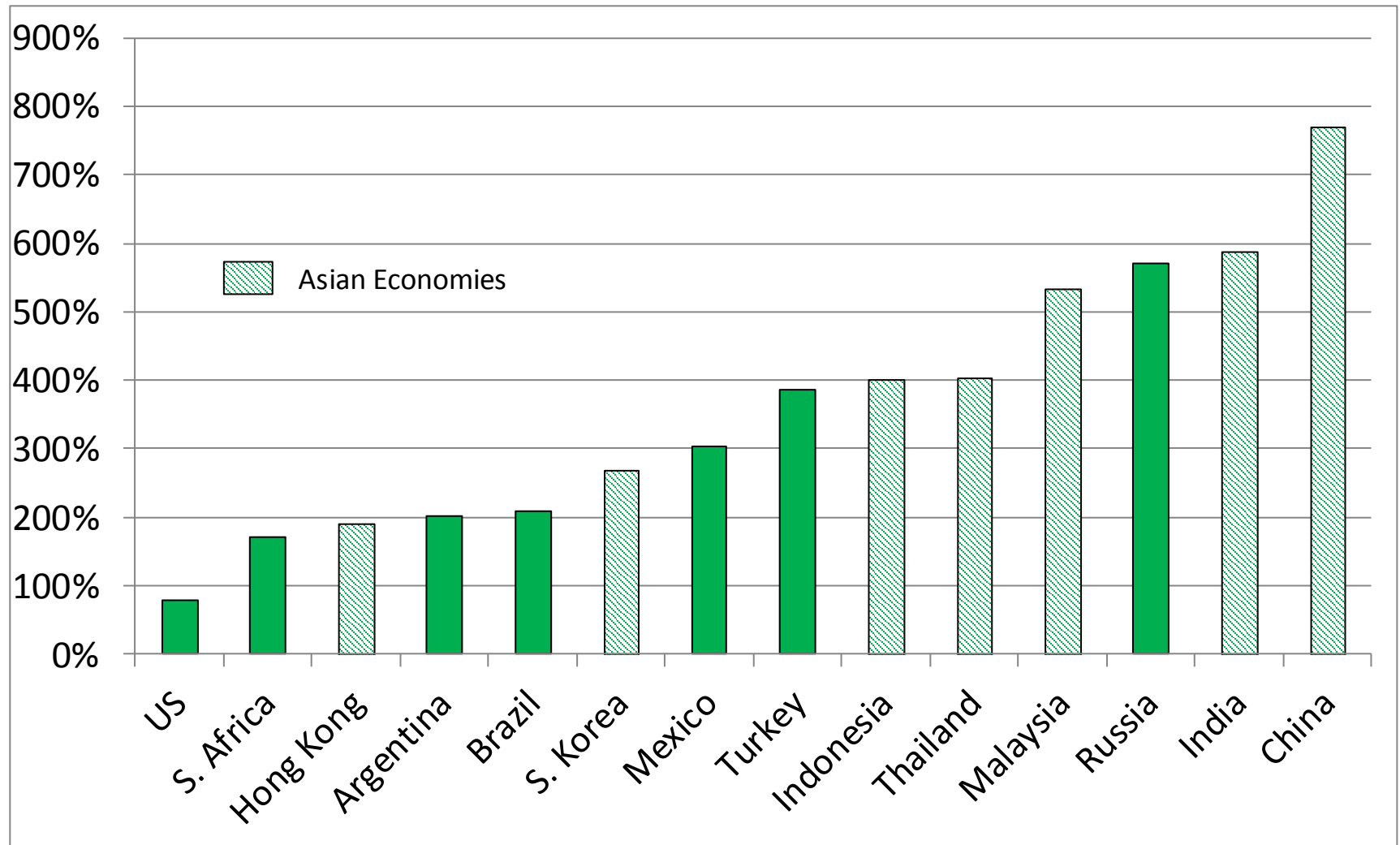
(measured in trillions of US 2010 dollars using PPP exchange rates)

Rank	2010
1. US	14.12
2. China	9.98
3. Japan	4.33
4. India	3.92
5. Germany	2.91
6. Russia	2.20
7. Brazil	2.16
8. UK	2.16
9. France	2.12
10. Italy	1.75

Rank	2030
1. China	38.49
2. US	24.62
3. India	23.27
4. Japan	5.55
5. Brazil	5.28
6. Russia	4.82
7. Indonesia	4.28
8. Germany	4.05
9. UK	3.67
10. Mexico	3.20



Projected Increase in Real Income Per Person 2010-2050



The Global Economic Order is Changing

“A new world order is taking shape before our eyes, and it is one that includes accelerated convergence between the old Western economic powers and the emerging world’s new players”

Mohammed El-Erian,
Co-Chief Executive and Chief Investment Officer,
PIMCO, January 2012.