



**FEBRUARY 2, 2017**

BRITISH COLUMBIA'S ECONOMIC PROSPECTS  
IN AN UNCERTAIN WORLD

PRESENTED TO

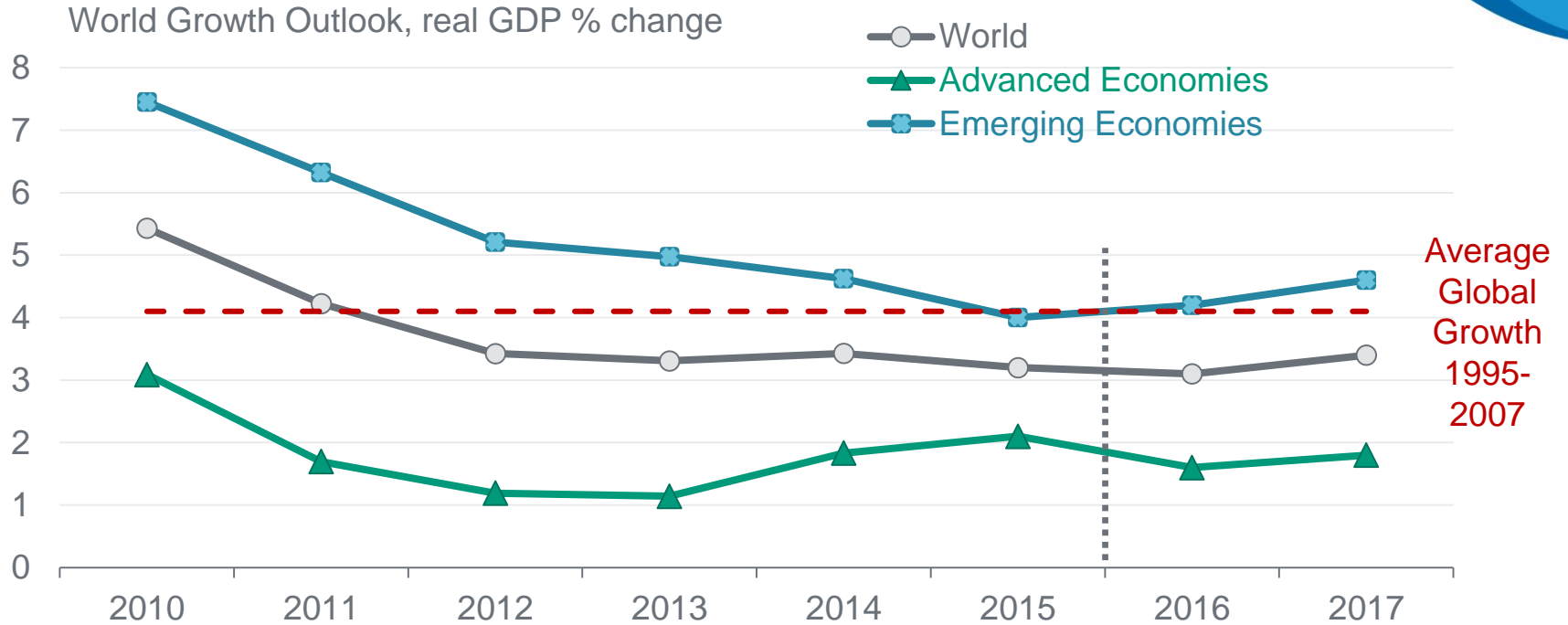
**PFM EXECUTIVE SEARCH CLIENTS  
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## EXTERNAL ECONOMIC SETTING

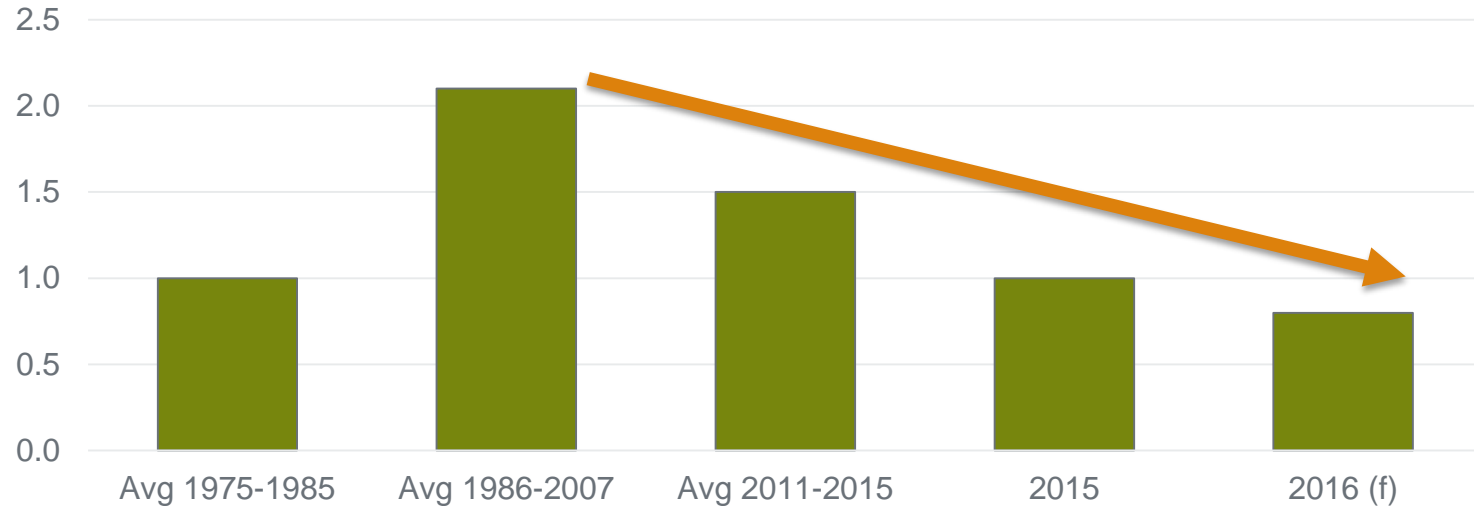
- The global economy remains on a slow-growth path...however, it may gain some added traction over the course of 2017-18
- Most forecasters expect growth in the United States to pick up, but the arrival of a new and very unorthodox President presents significant uncertainties
- Oil prices appear to be finding a new medium-term equilibrium (US\$50-60/bbl)
- Economic indicators point to a firmer growth profile in the EU, despite continued problems in some countries and sectors
- China's economy should expand by 6.0-6.5% over the next two years, but there are downside risks linked to rising debt levels and the prospect of conflict with the US over trade and security issues
- Canada looks to be poised for somewhat stronger growth in 2017-18, after two disappointing years

## GLOBAL ECONOMIC GROWTH HOVERING NEAR 3% SINCE 2012



## WORLD TRADE\* HAS LOST MOMENTUM

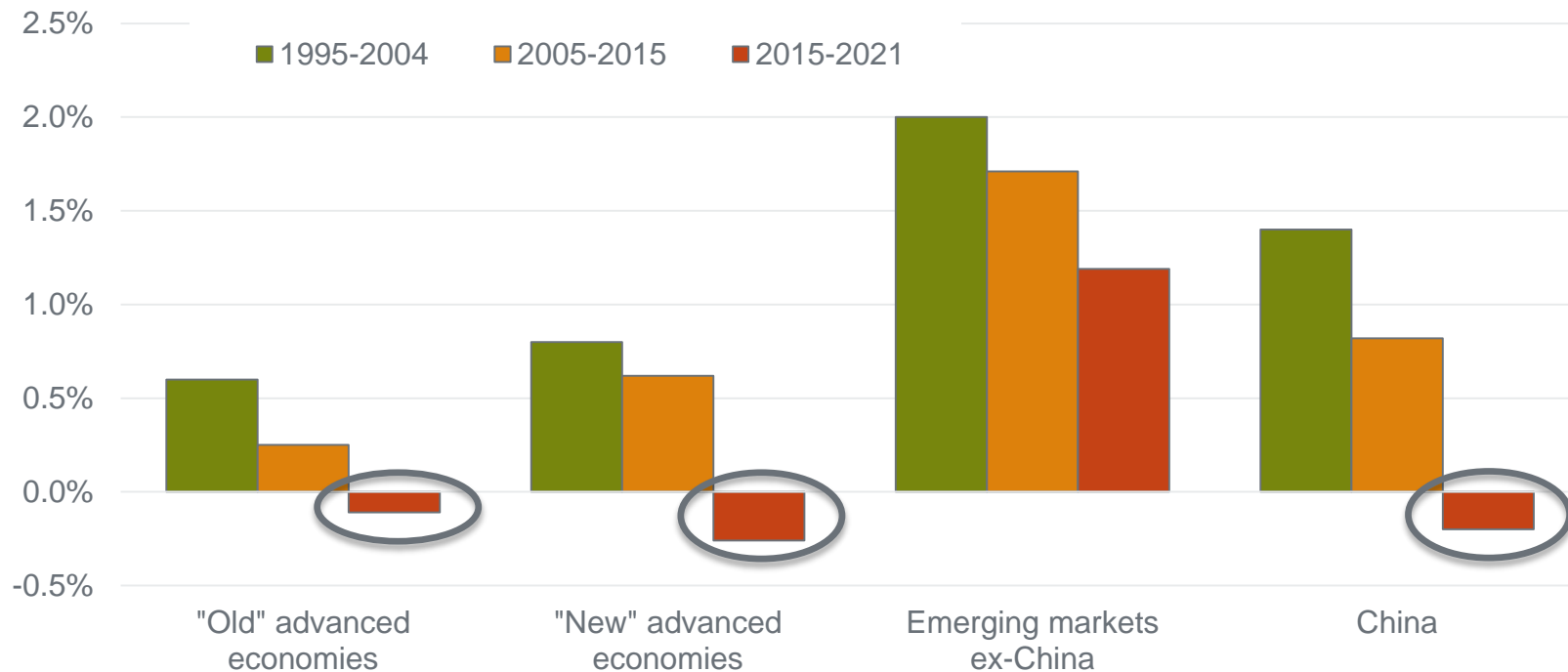
(RATIO OF WORLD TRADE GROWTH TO WORLD GDP GROWTH)



- 2015-16 slowdown partly reflects weaker demand in China
- Recent fall-off in trade growth also due to shifts in global value chains, protectionist policies, re-shoring, and currency mis-alignments & manipulation

# GLOBAL DEMOGRAPHICS WEIGH ON POTENTIAL ECONOMIC GROWTH

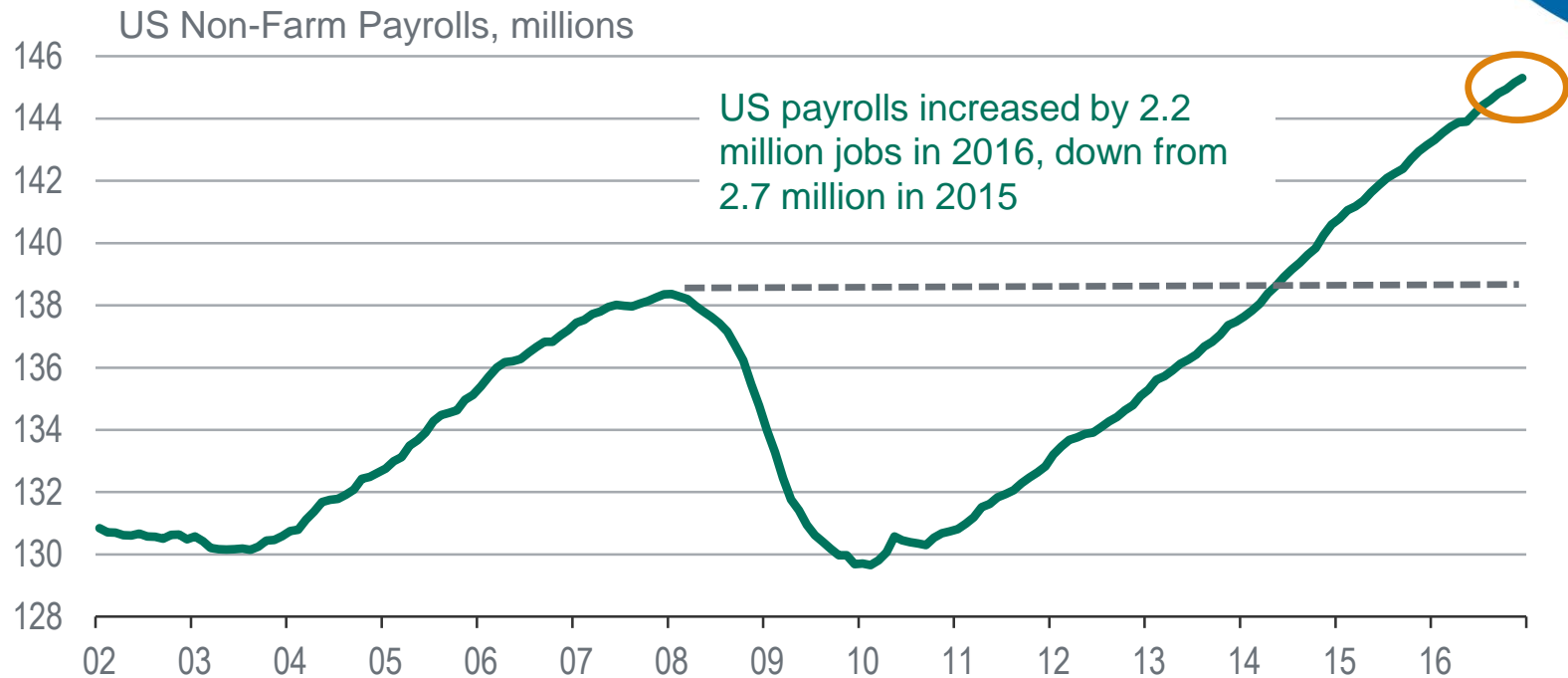
(WORKING AGE POPULATIONS, ANNUAL GROWTH RATES, %)



## THE US ECONOMY CONTINUES TO STRENGTHEN

- Real GDP increased by just 1.6% last year, vs 2.6% in 2015
- But positive momentum was evident over the second half of the year
- Overall, the current multi-year US economic expansion cycle continues...
  - 79 consecutive months of employment gains, with real wages now climbing
  - consumer spending is trending up
  - housing starts grinding higher, should reach ~1.2 million this year
  - Trump's promised tax cuts and extra infrastructure/military spending should add to growth by late 2017 and into 2018-19
- Recent forecasts suggest the US economy will grow by 2.2%-2.5% (after-inflation) in 2017
- Will the Trump/Republican agenda pave the way to faster growth over the medium term?
- US Federal Reserve hiked its policy rate in December... and more increases are coming

## AMERICA'S JOB MARKET HAS BEEN ON A TEAR



Latest: December 2016

Source: US Bureau of Economic Analysis. seasonally adjusted data

## SOME ECONOMIC IMPLICATIONS OF THE TRUMP (AND REPUBLICAN) VICTORY...FOR CANADA

### Positive

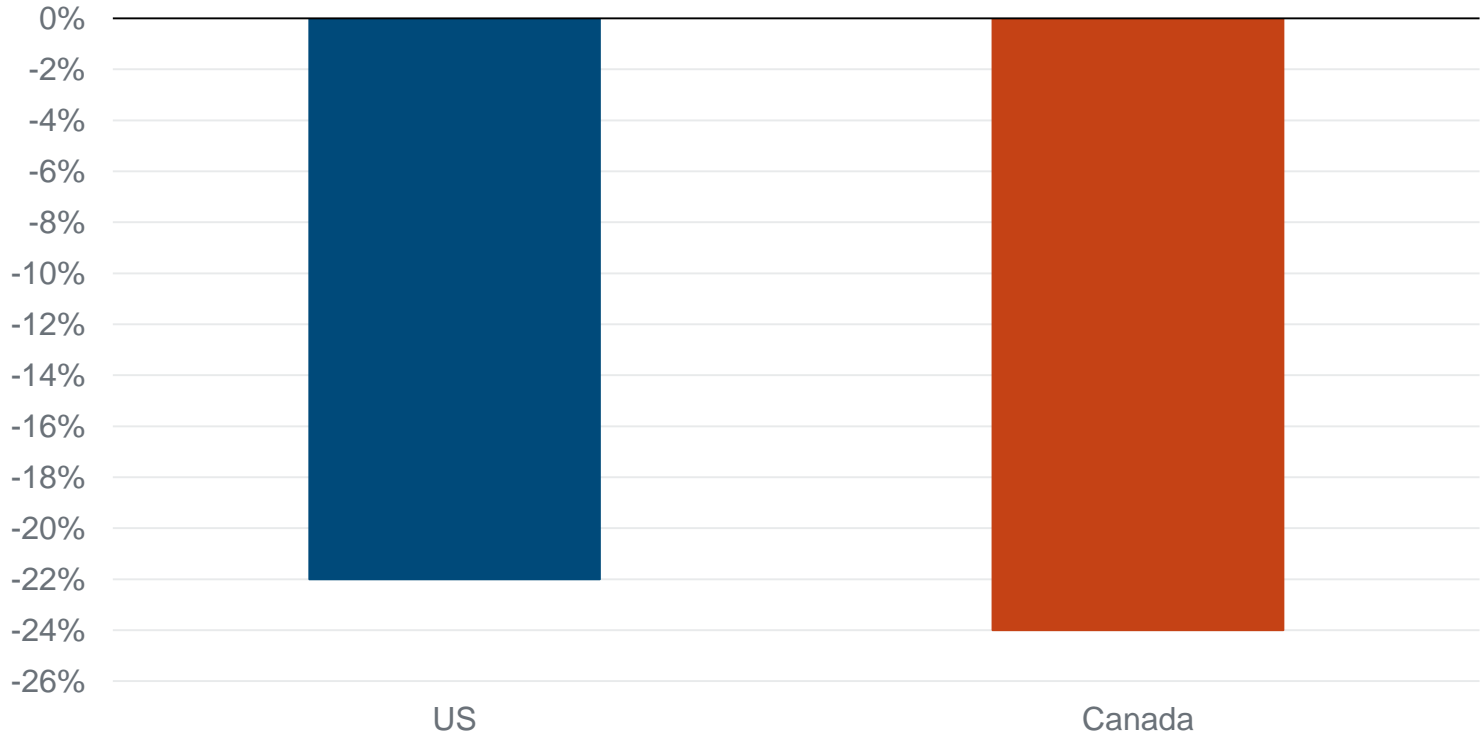
- Faster US economic growth from stepped-up infrastructure and defense spending plus big tax cuts should bolster the demand for Canadian exports...and boost our tourism sector
- More skilled immigrants *may* be attracted to Canada if the US is less welcoming
- Revival of the Keystone pipeline = improved access for Canadian oil; plus, under President Trump, America may come to favour oil imports from 'friendly' nations

### Negative

- Renegotiation of NAFTA – a number of downside risks for Canada
- Trend to global protectionism if the US slaps tariffs on China/Mexico – who then retaliate
- Canada is at risk from a potential US 'border tax' adjustment measure
- A decline in Canadian competitiveness under Trump's tax plan (US federal corporate tax rate drops from 35% to 15-20%, top personal tax rate goes from 39.6% to 33%)
- US rejection of Paris climate accord and carbon pricing will put Canada at an ever increasing disadvantage in energy costs



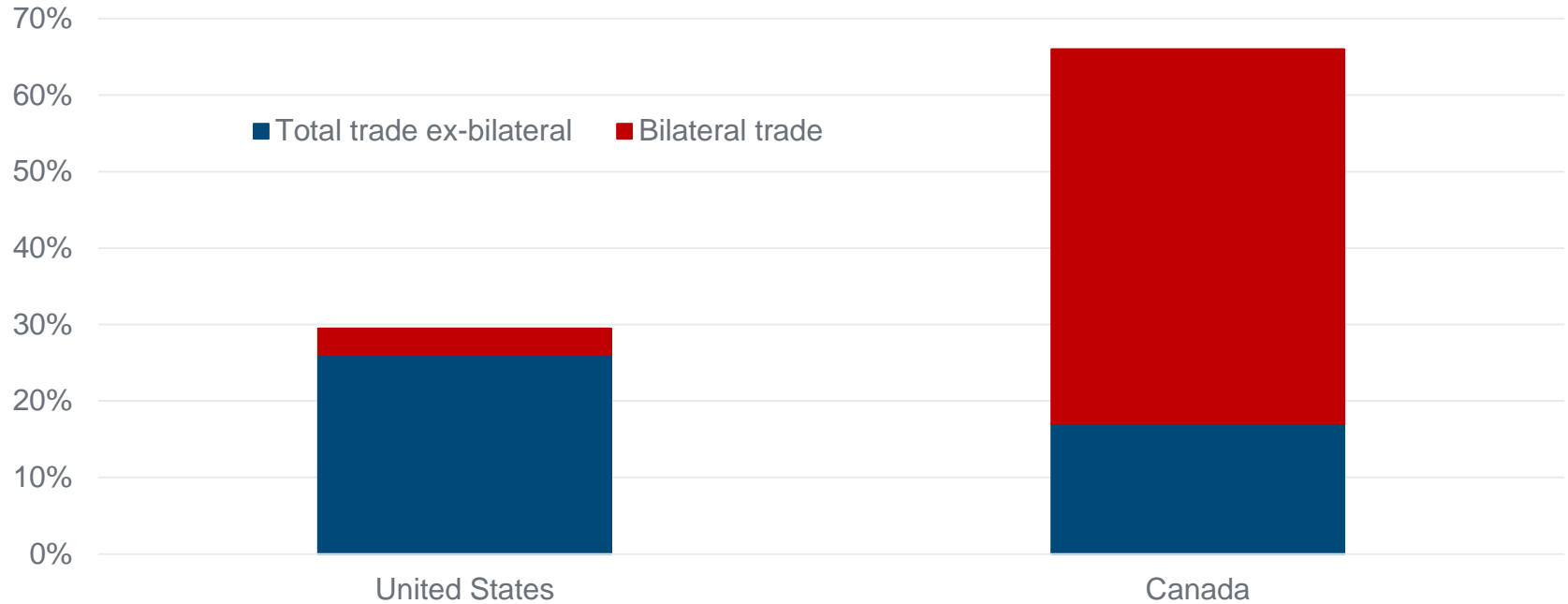
# CUMULATIVE CHANGE IN MANUFACTURING EMPLOYMENT SINCE 2000 (IN PERCENT)



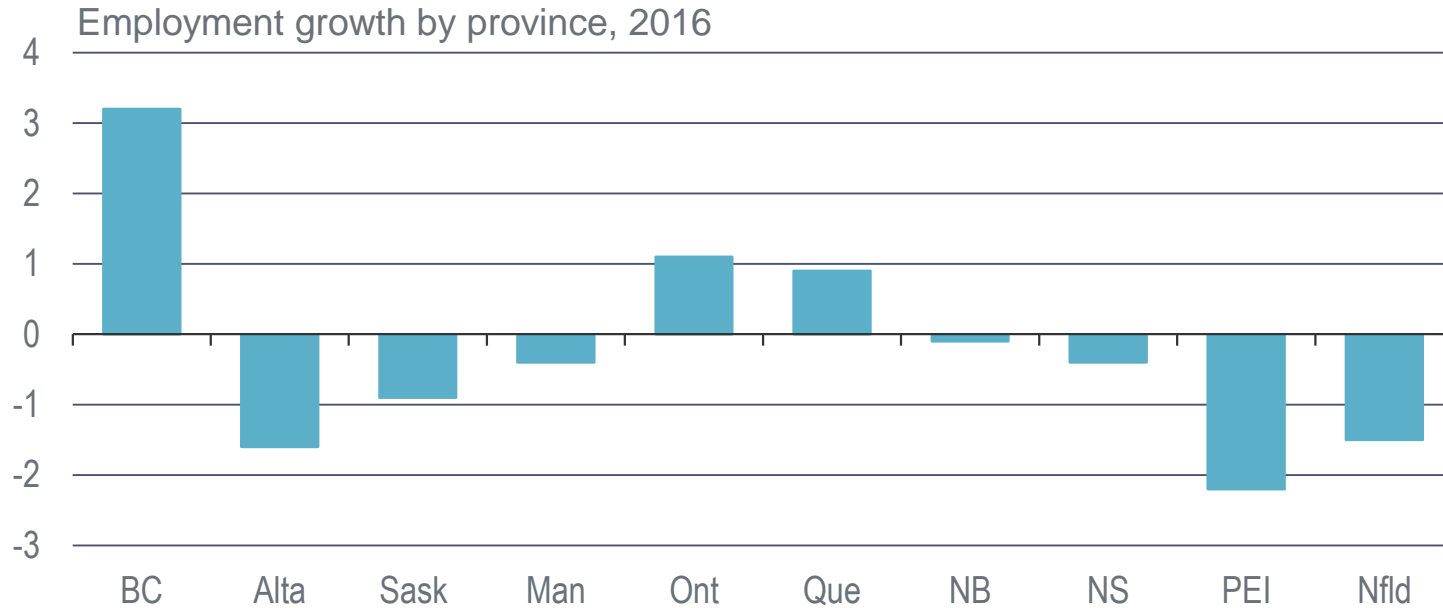
Source: Conference Board of Canada.

## CANADA MORE RELIANT ON BOTH BILATERAL AND TOTAL TRADE THAN THE UNITED STATES

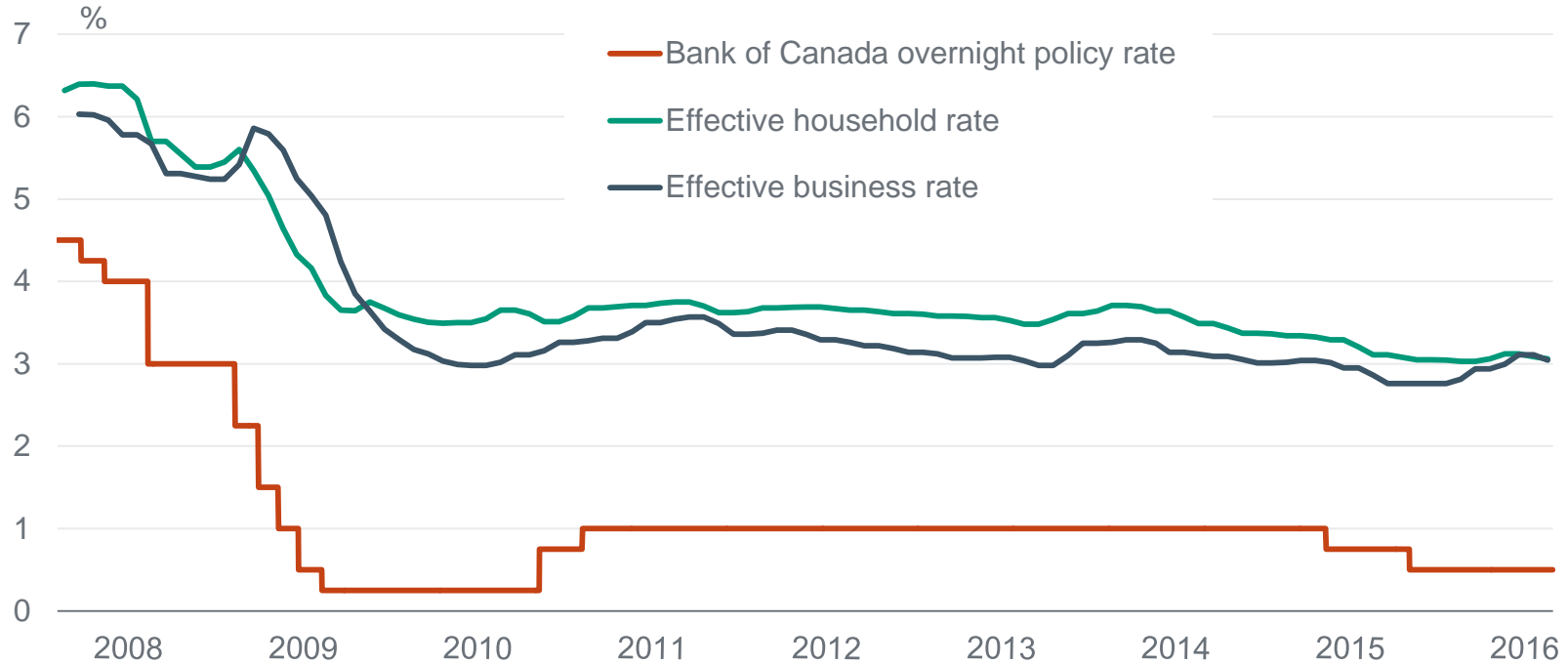
Exports plus Imports as % of GDP, 2015



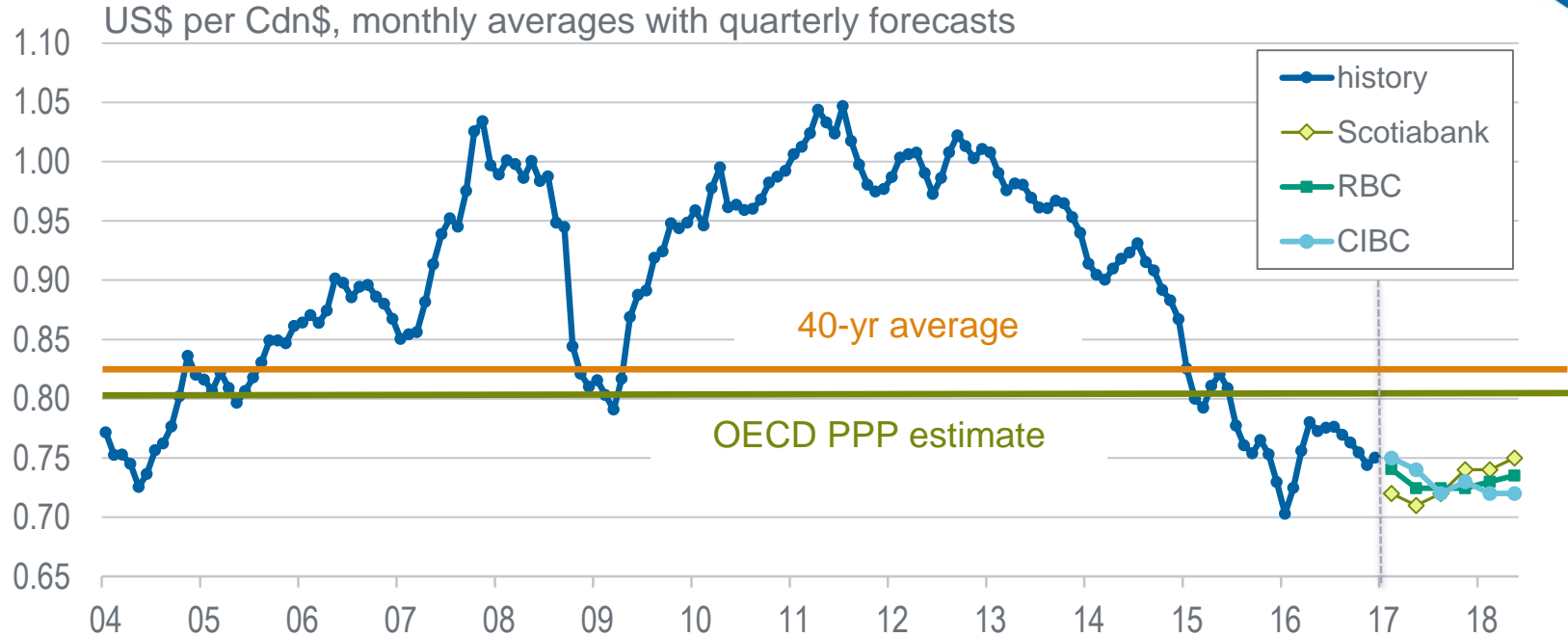
## IN CANADA, BC & ONTARIO LED IN JOB CREATION LAST YEAR, WITH EMPLOYMENT DOWN IN MOST OTHER PROVINCES



## CANADIAN INTEREST RATES REMAIN NEAR RECORD LOWS



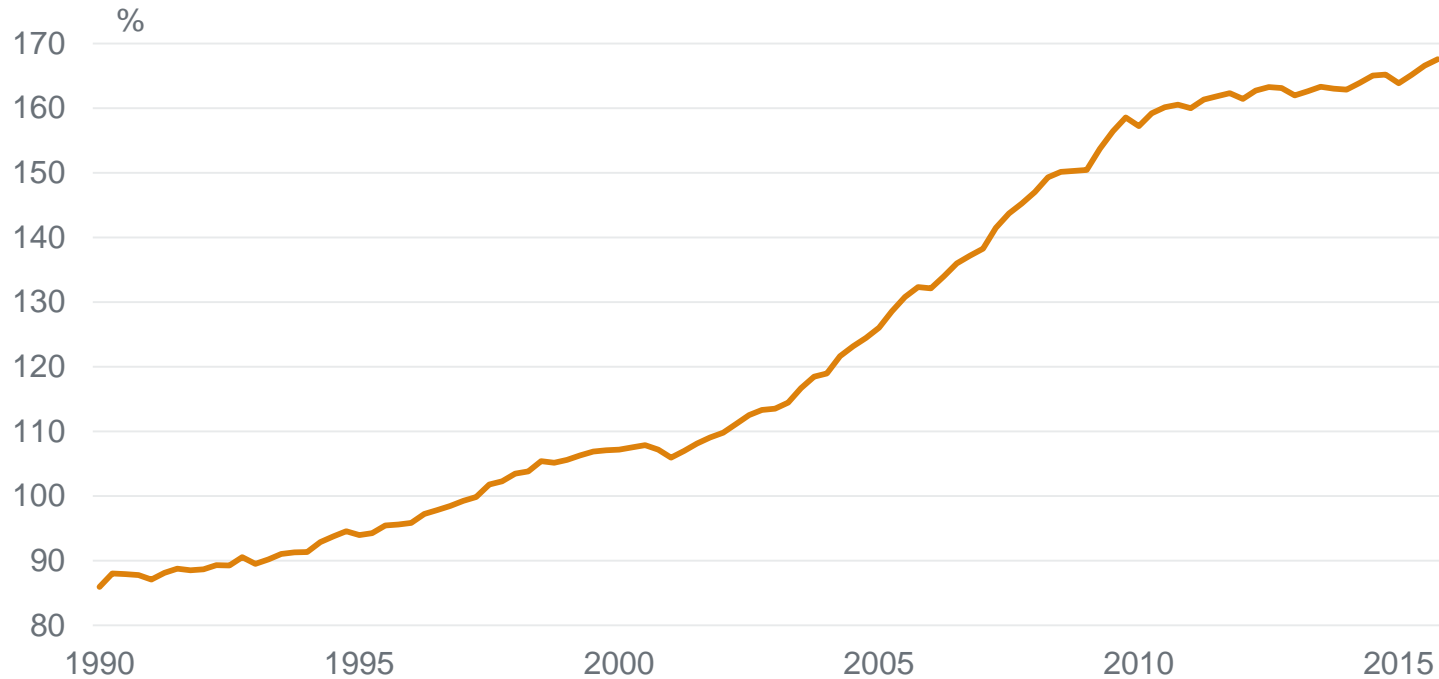
## OUTLOOK FOR THE CANADIAN DOLLAR



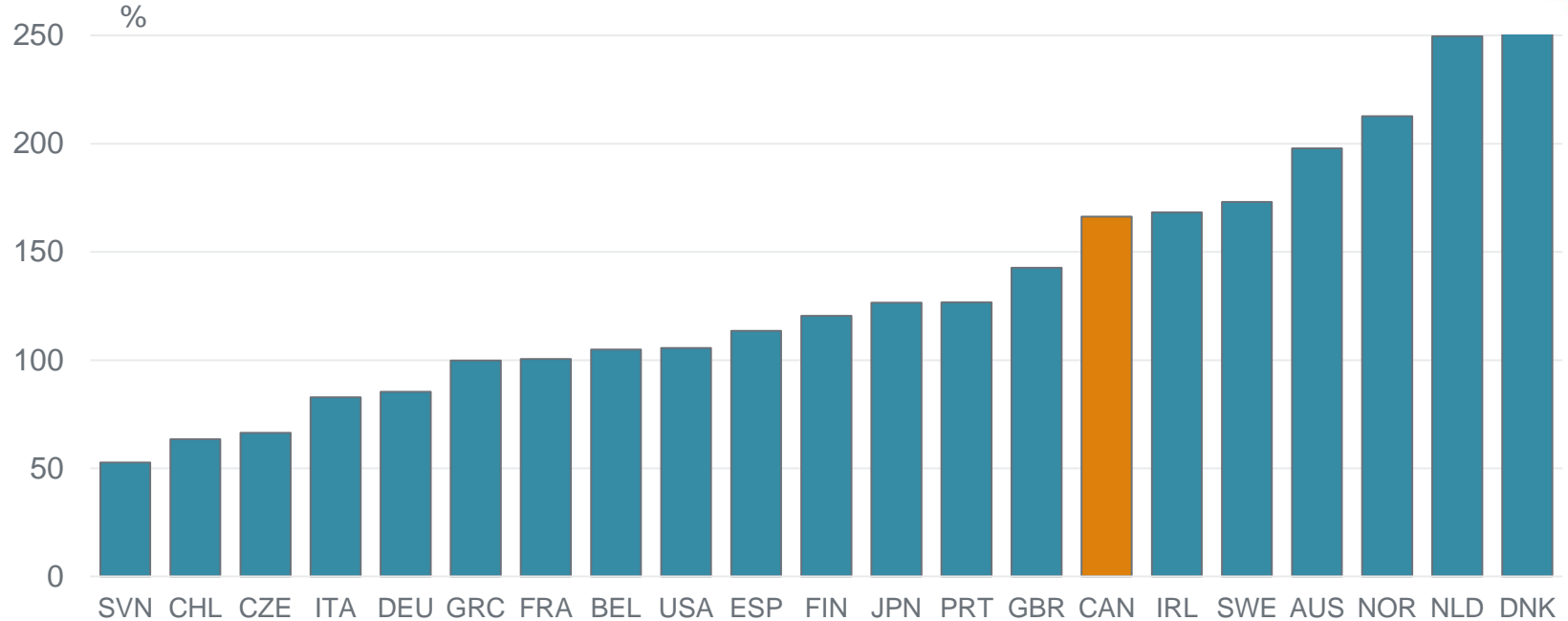
Latest: December 2016

Source: Bank of Canada, noon rate.

## CANADIAN HOUSEHOLD DEBT TO DISPOSABLE INCOME

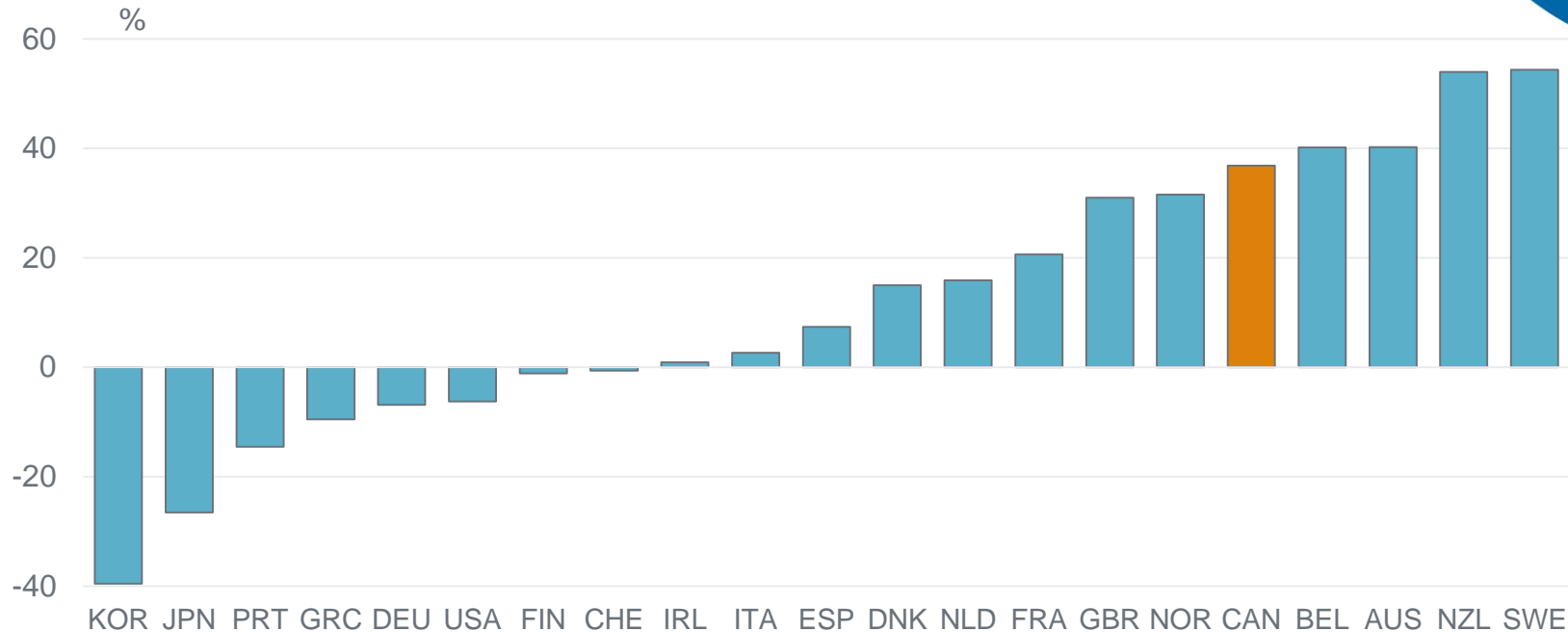


## HOUSEHOLD INDEBTEDNESS RATIO, CANADA VS OTHER OECD COUNTRIES, Q4 2015<sup>1</sup>



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

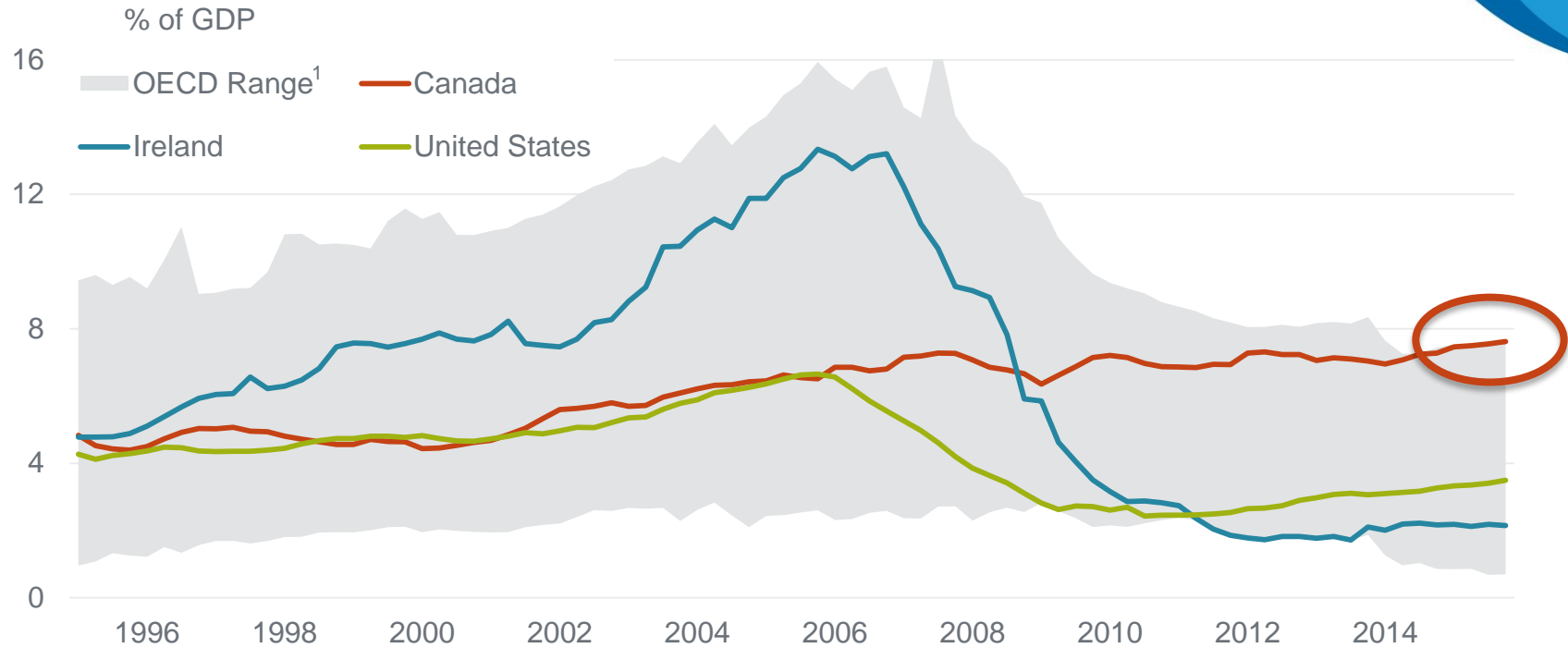
## CANADIAN HOUSE PRICES HISTORICALLY HIGH RELATIVE TO INCOMES, Q1 2016<sup>1</sup>



<sup>1</sup> 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.



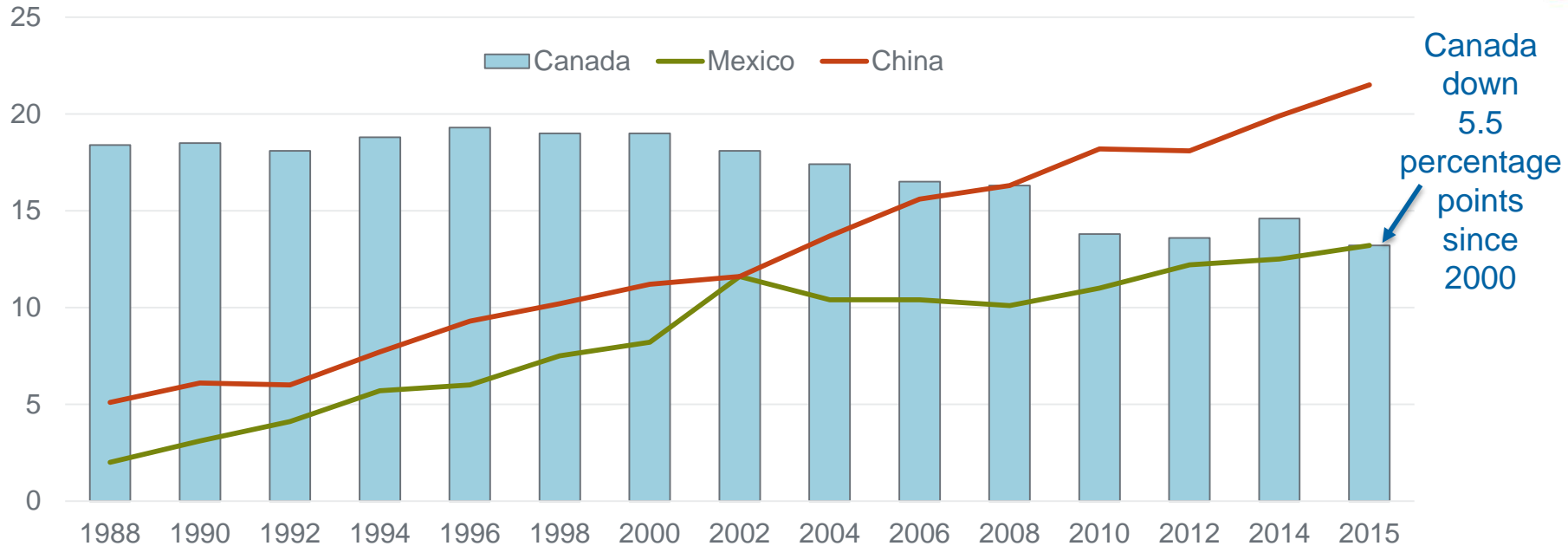
## RESIDENTIAL INVESTMENT HAS LOOMED LARGE IN CANADA



<sup>1</sup> Excluding Canada.

## CANADA HAS LOST COMPETITIVENESS IN THE US MARKET

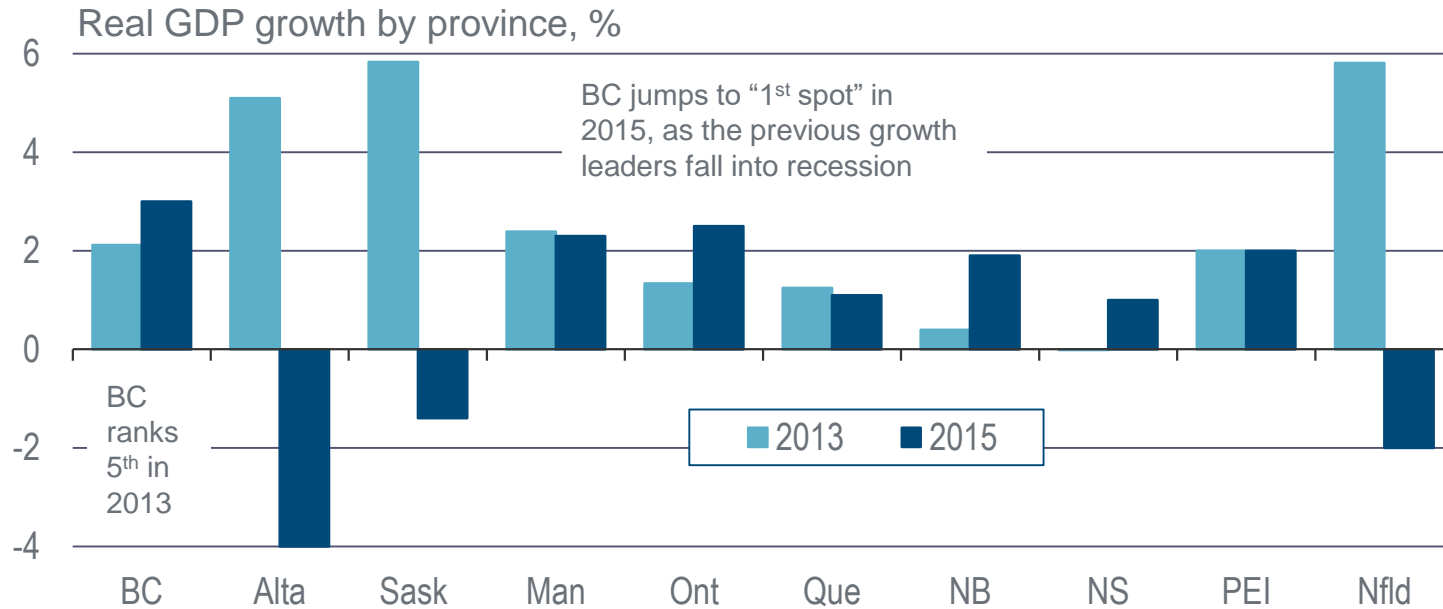
Country share of total US merchandise imports, per cent



## ECONOMIC FORECAST FOR CANADA (ANNUAL % CHANGE UNLESS NOTED)

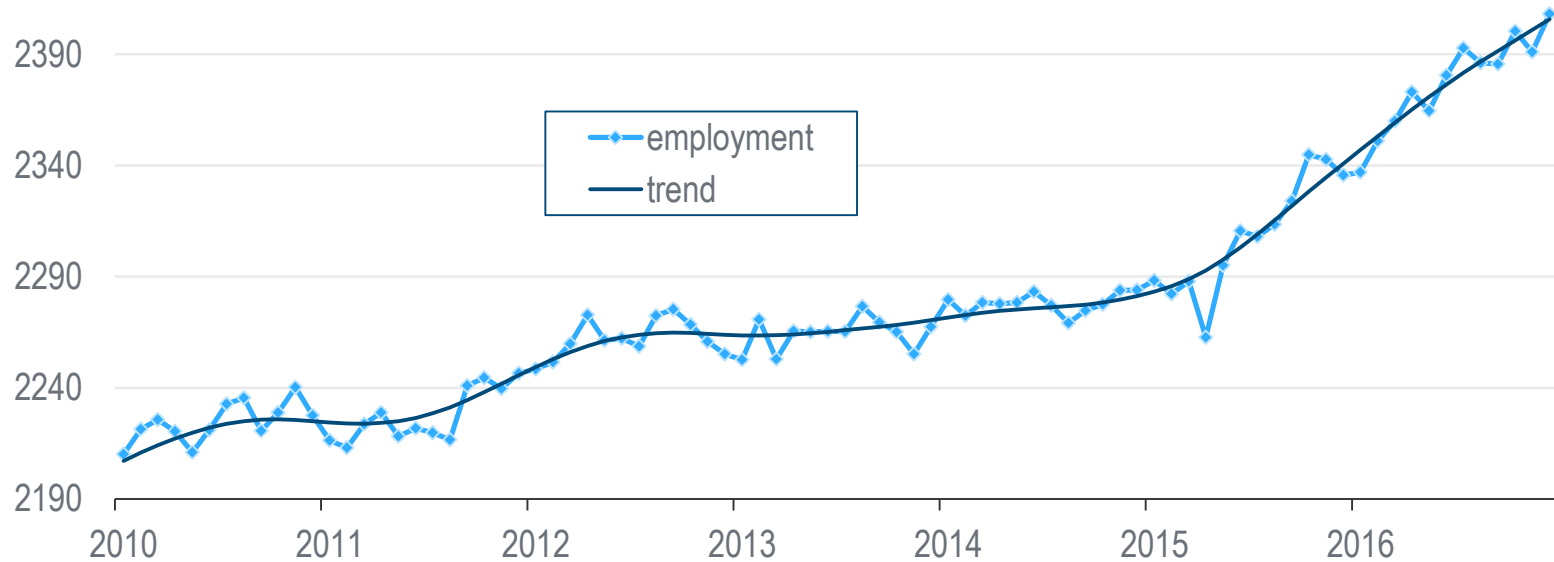
	2015	2016	2017	2018
Real GDP	0.9	1.3	2.0	1.8
Real business investment	-11.5	-7.4	-0.1	2.7
Employment growth	0.9	0.7	1.0	0.7
Unemployment rate (%)	6.9	7.0	6.8	6.7
3 month T-bill rate, Q4 (%)	0.45	0.48	0.45	0.70
10-year Gov't Bond yield, Q4 (%)	1.20	1.45	1.85	2.25

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



## BC'S JOB MARKET HAS SURGED SINCE 2014

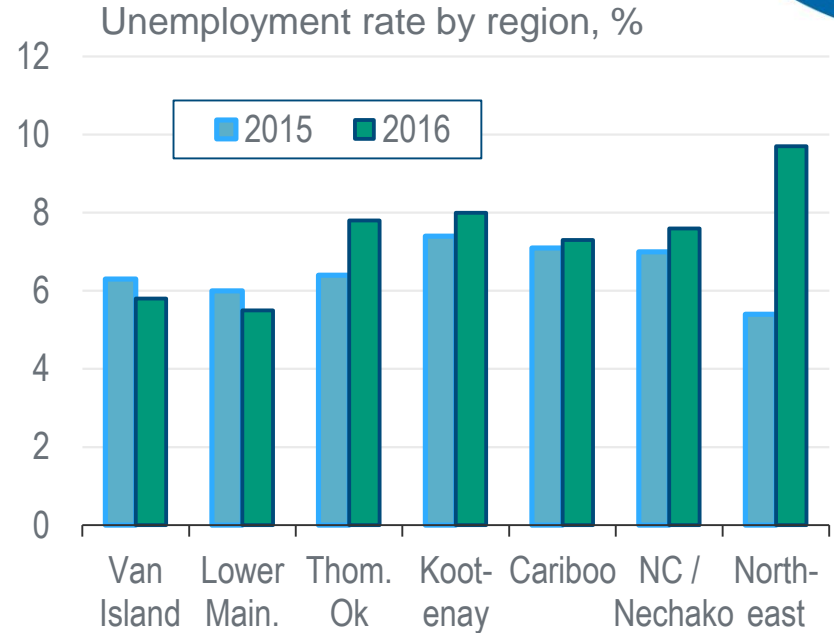
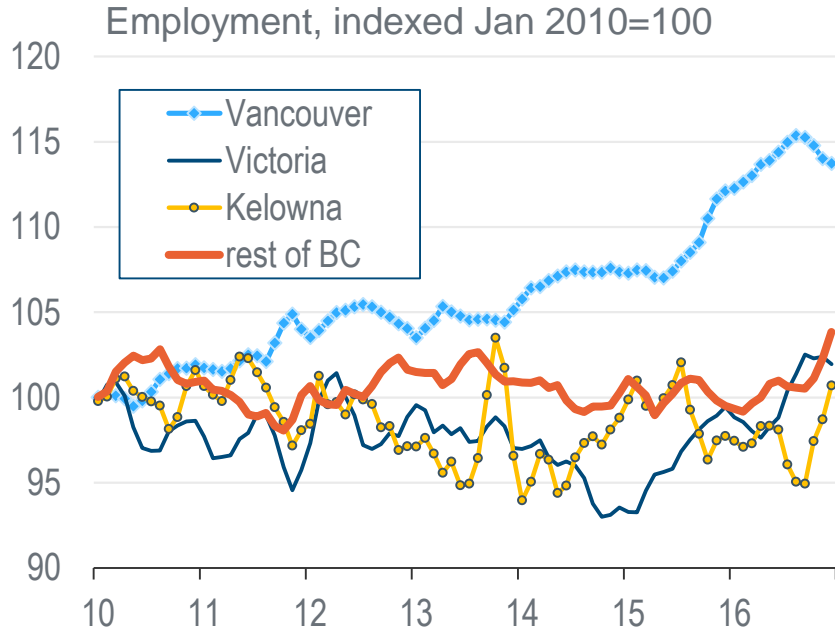
BC employment, SA, thousands



Latest: December 2016

Source: Statistics Canada, LFS.

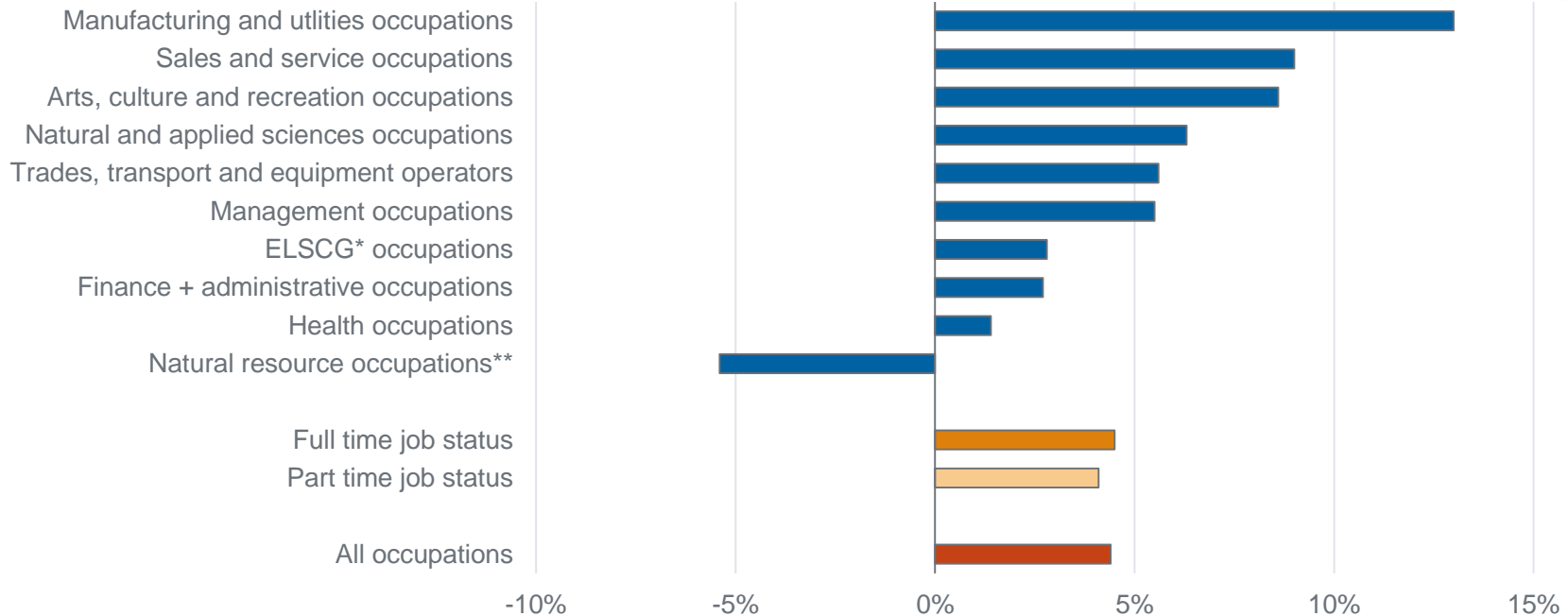
## JOB GROWTH CONCENTRATED IN THE LOWER MAINLAND



Source: Statistics Canada, LFS.

Unemployment rates are annual averages

## CHANGE IN BC EMPLOYMENT, BY BROAD OCCUPATIONAL GROUP AND EMPLOYMENT STATUS, 2014 TO 2016 (%)

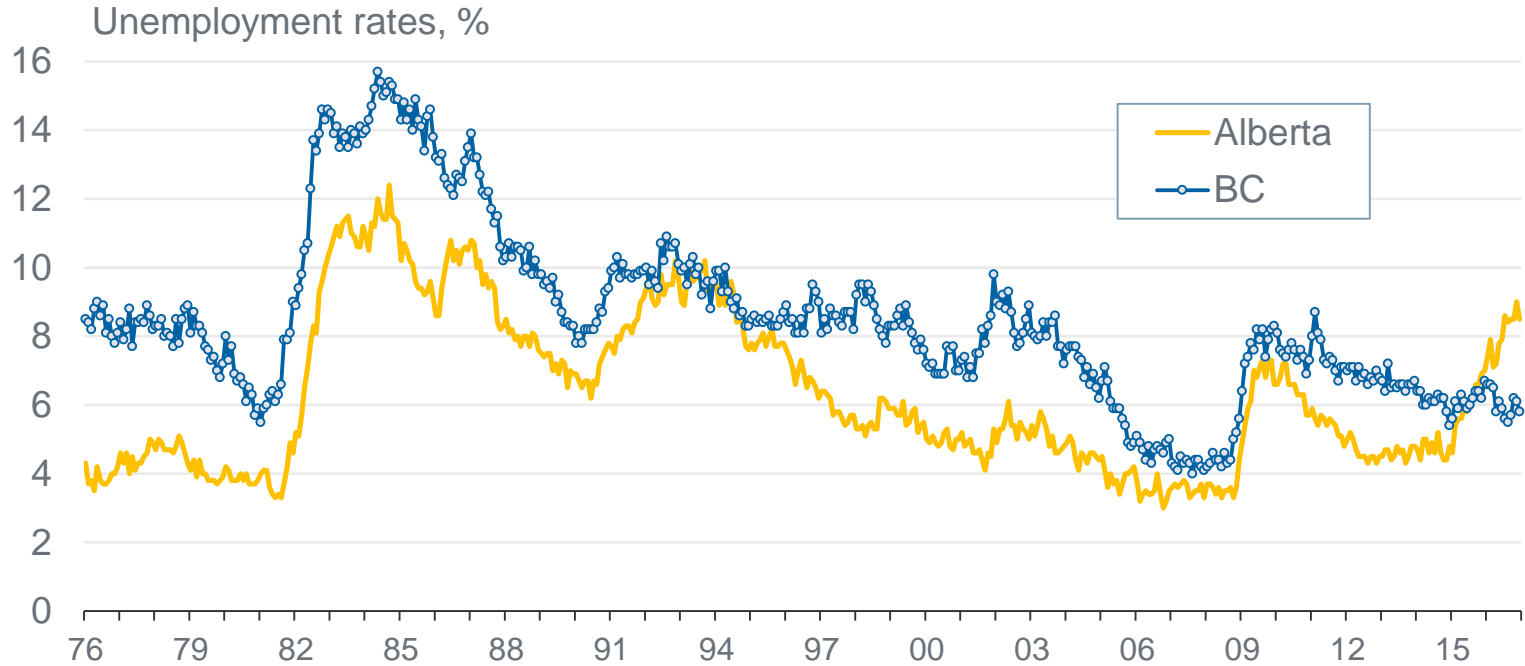


\* Education, law, social, community and government

\*\* Includes agriculture

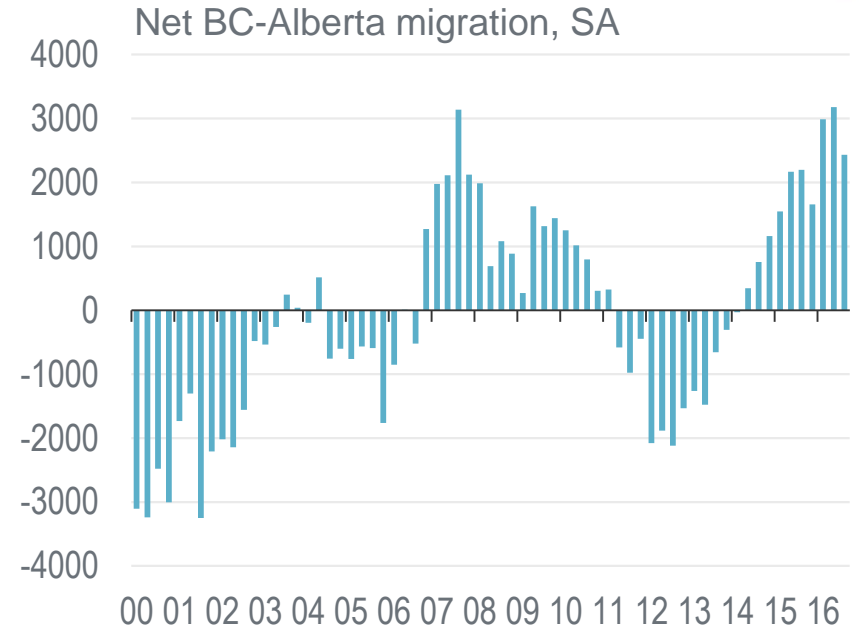
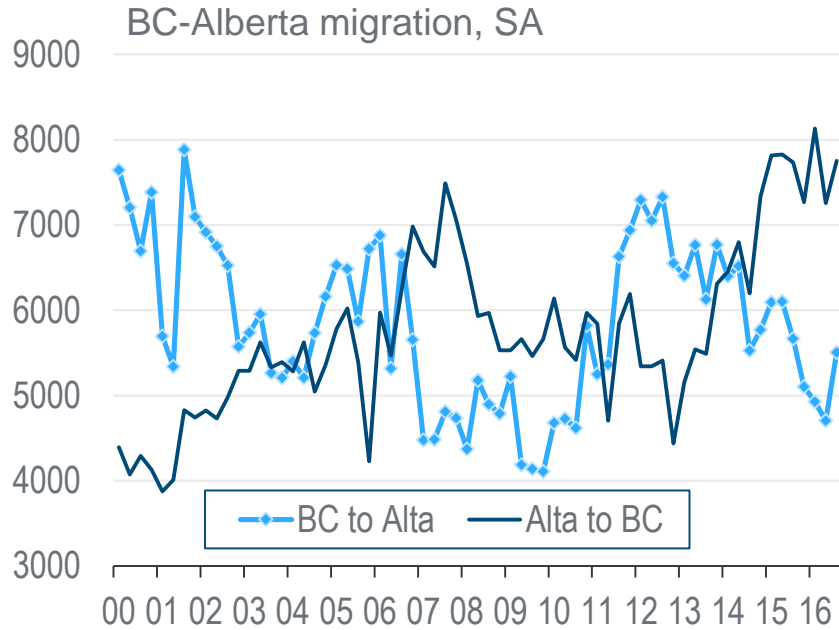
Source: BC Stats.

## SWITCH IN UNEMPLOYMENT RATES





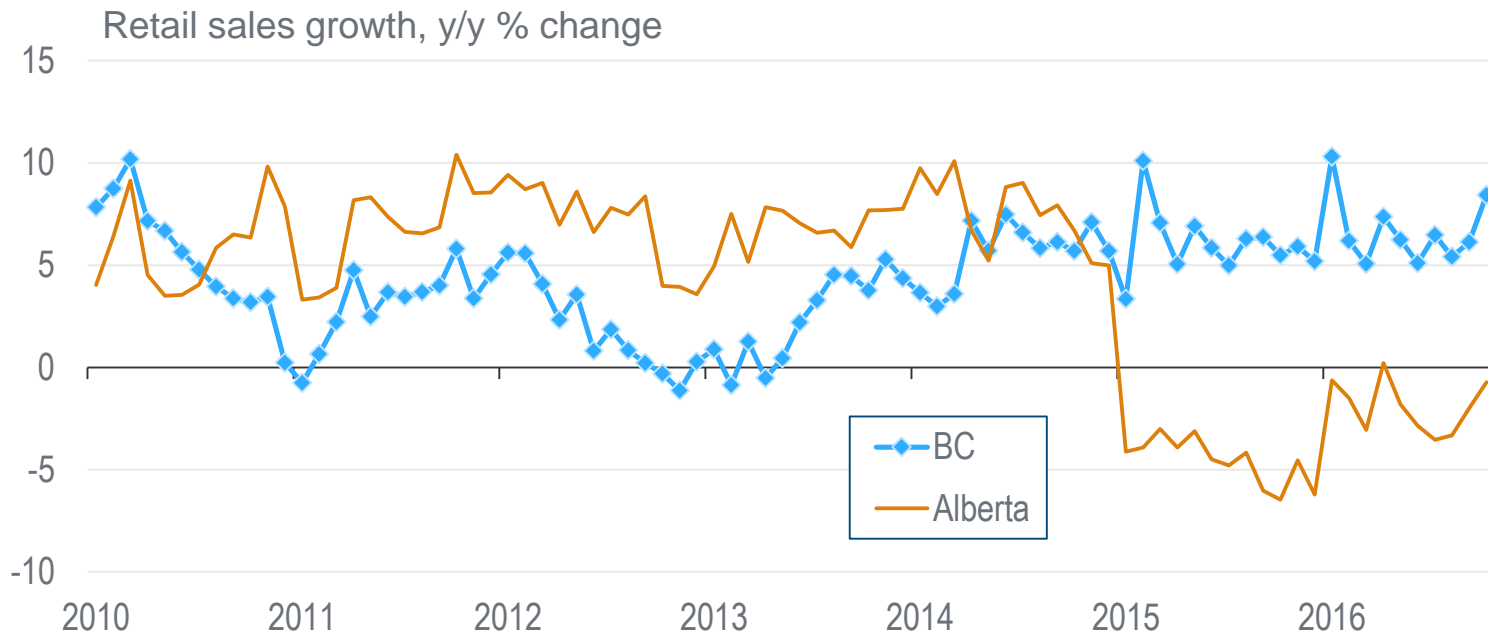
## NET POPULATION INFLOW FROM ALBERTA PICKS UP



Latest: Q3 2016

Source: Statistics Canada.

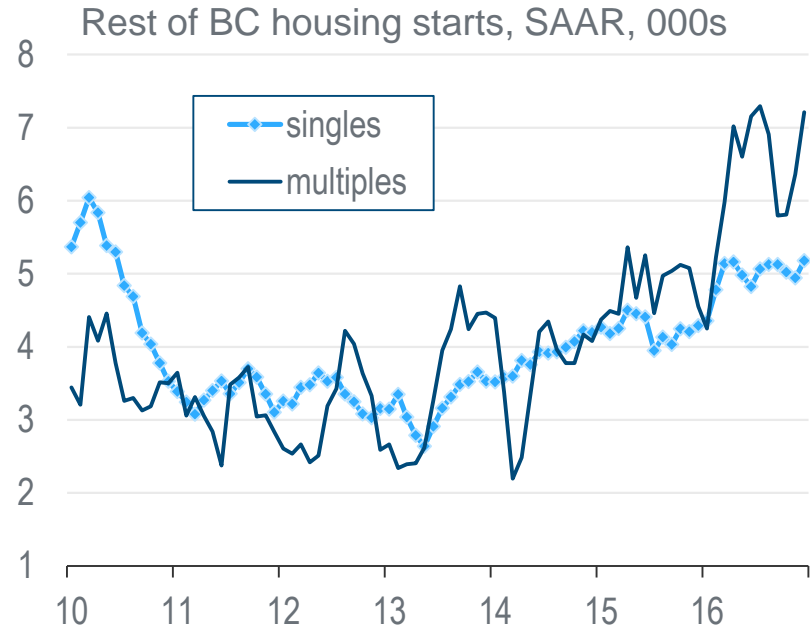
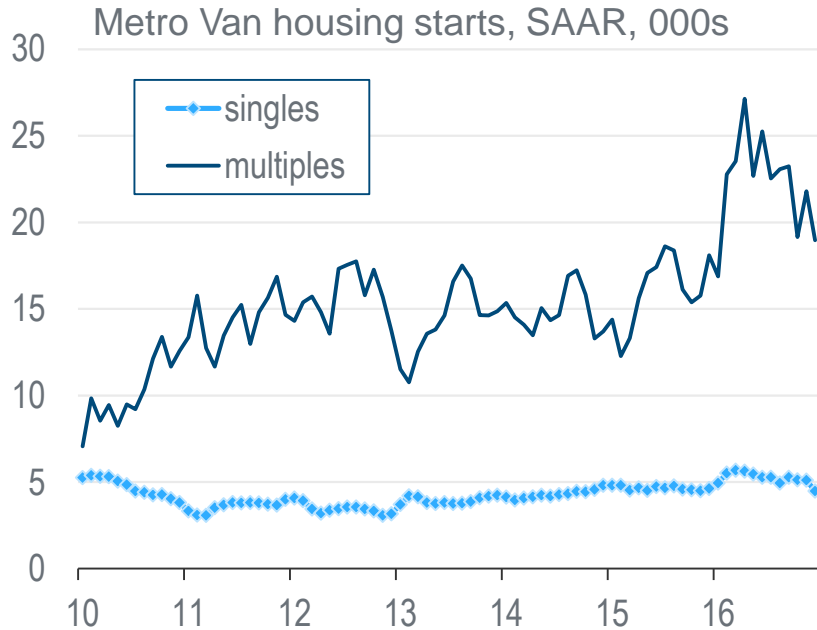
## BC CONSUMERS HAVE BEEN BUSY SPENDING



Latest: October 2016

Source: Statistics Canada.

## HOUSING STARTS STILL AT ELEVATED LEVELS

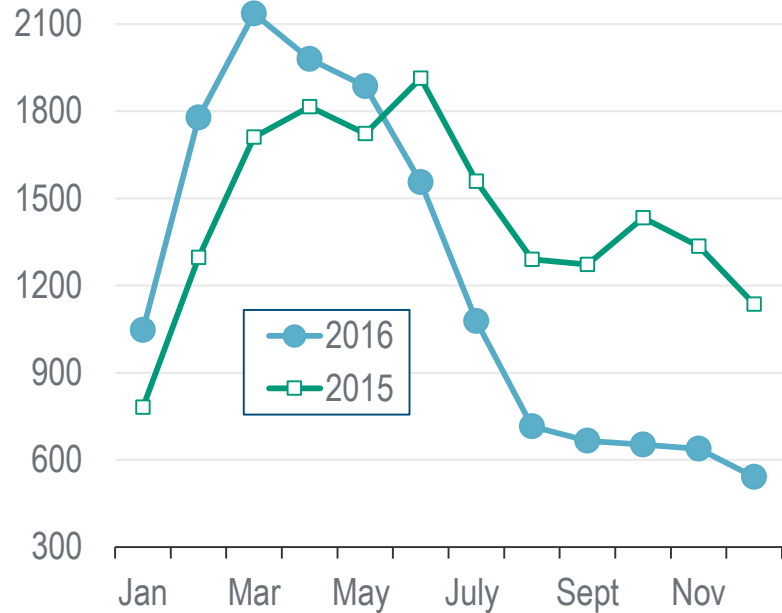


Latest: December 2016 data are 3 month moving averages

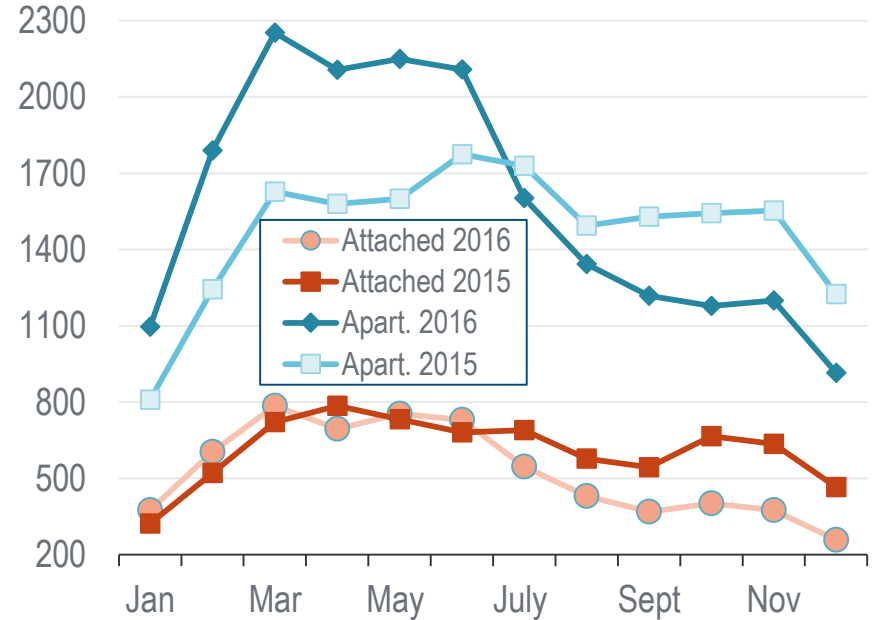
Source: Statistics Canada.

## SIGNS THE MARKET IS COOLING IN METRO VANCOUVER

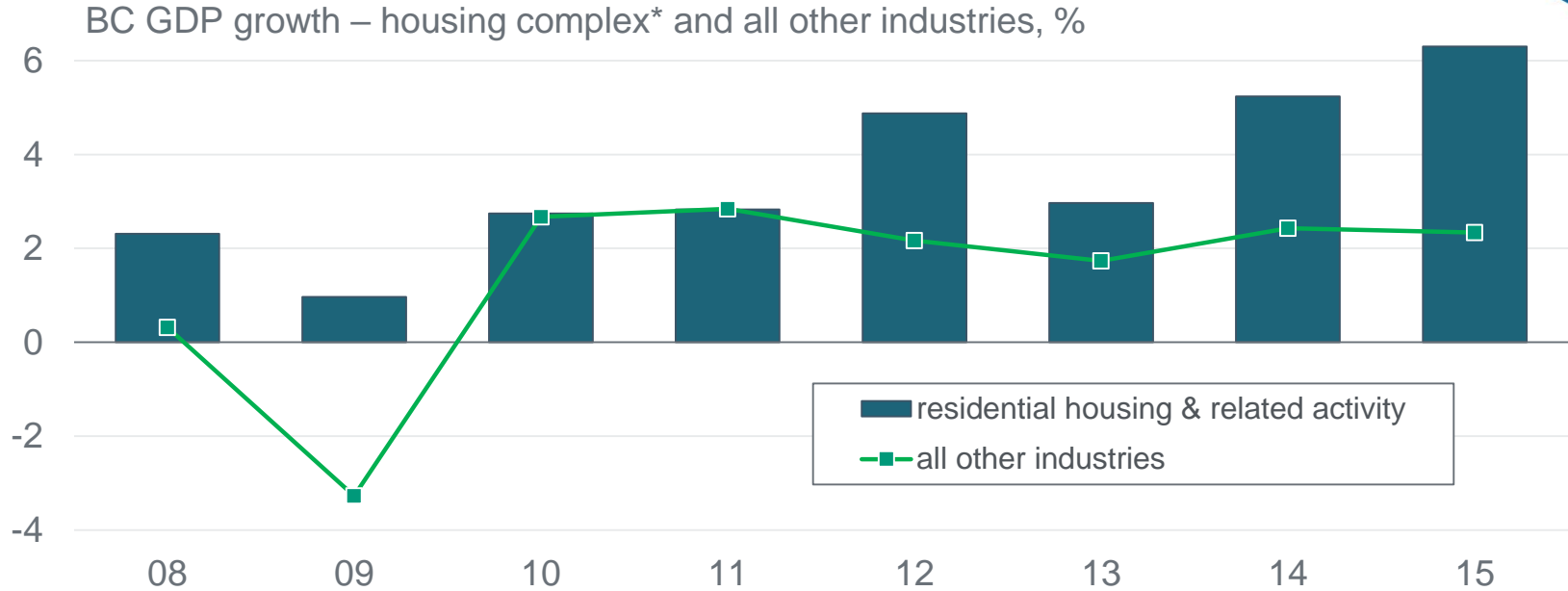
Detached housing sales, GVREB



Attached & Apartment sales, GVREB



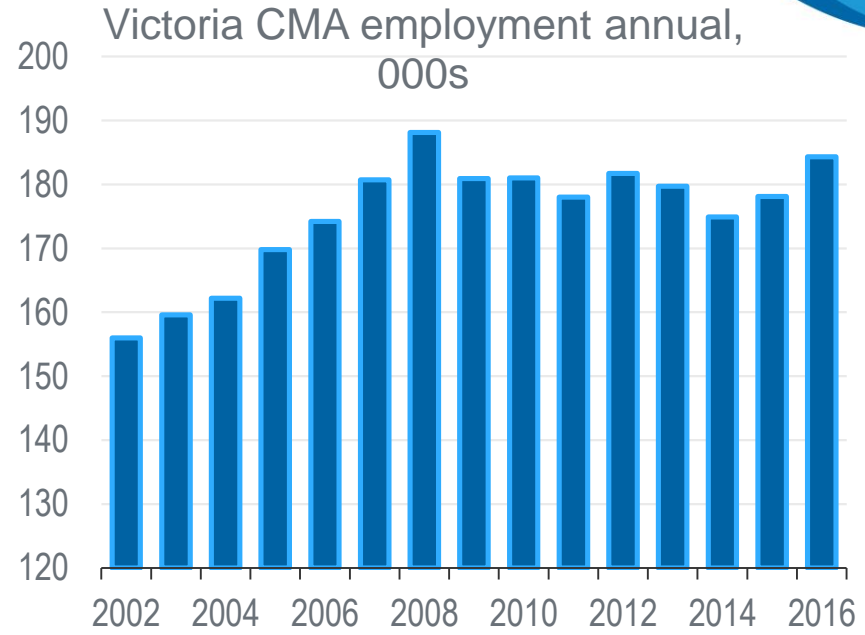
## HOUSING HAS PROVIDED A BIG ECONOMIC LIFT FOR BC



\* Includes residential construction, offices of real estate agents and related, and imputed rent.

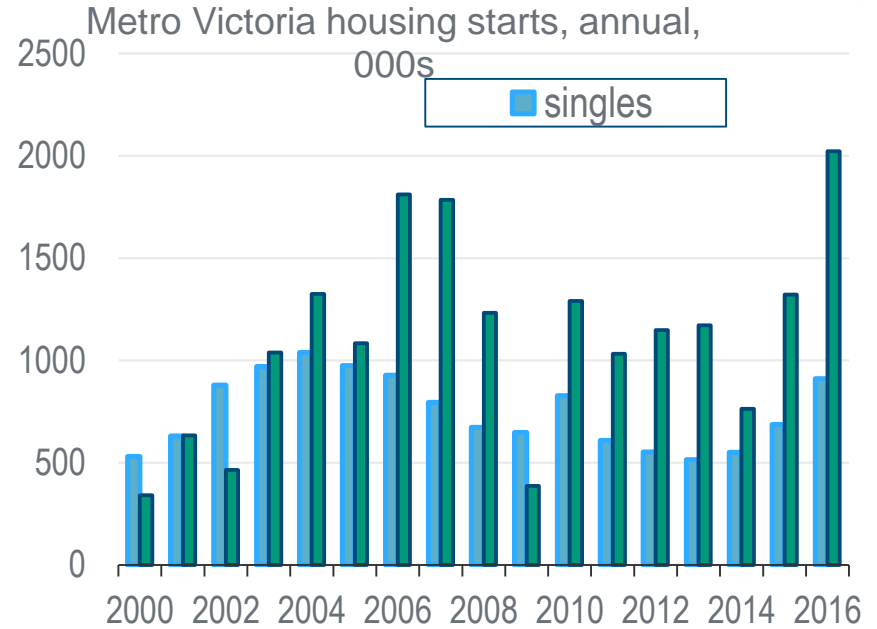
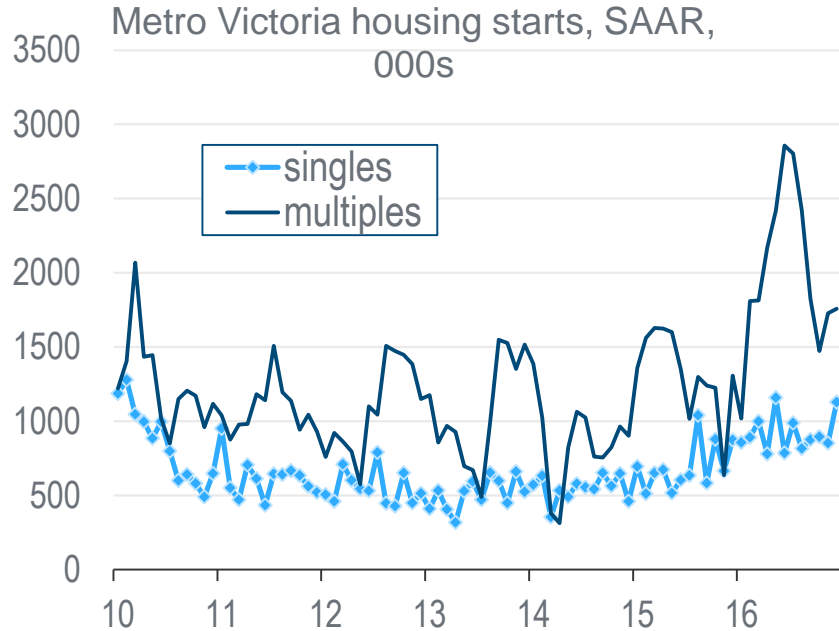
Source: Source: Statistics Canada, CANSIM table 384-0038, data released November 10, 2015.

## EMPLOYMENT GROWTH PICKS UP IN VICTORIA



Source: Statistics Canada, LFS.

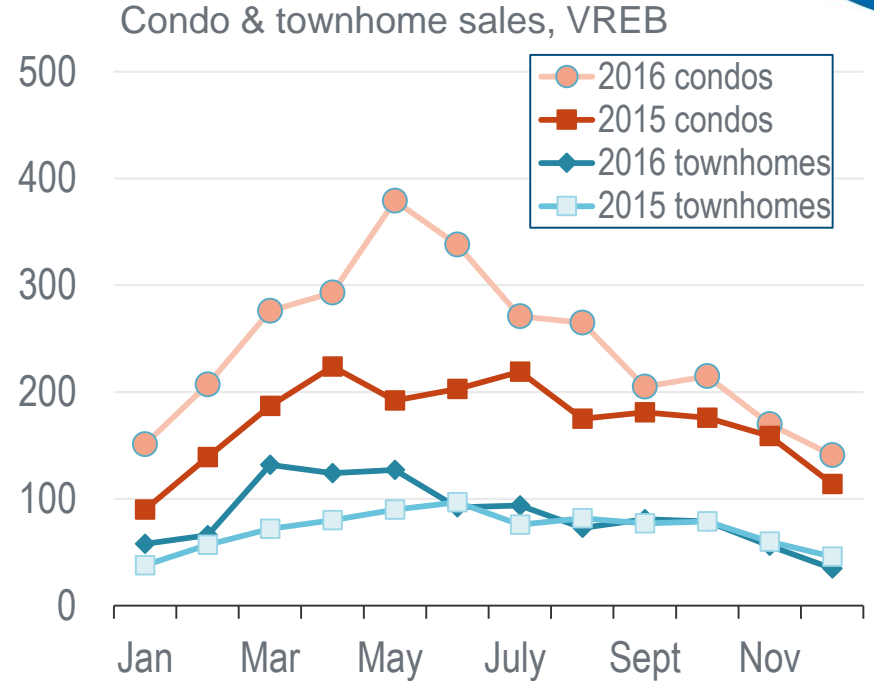
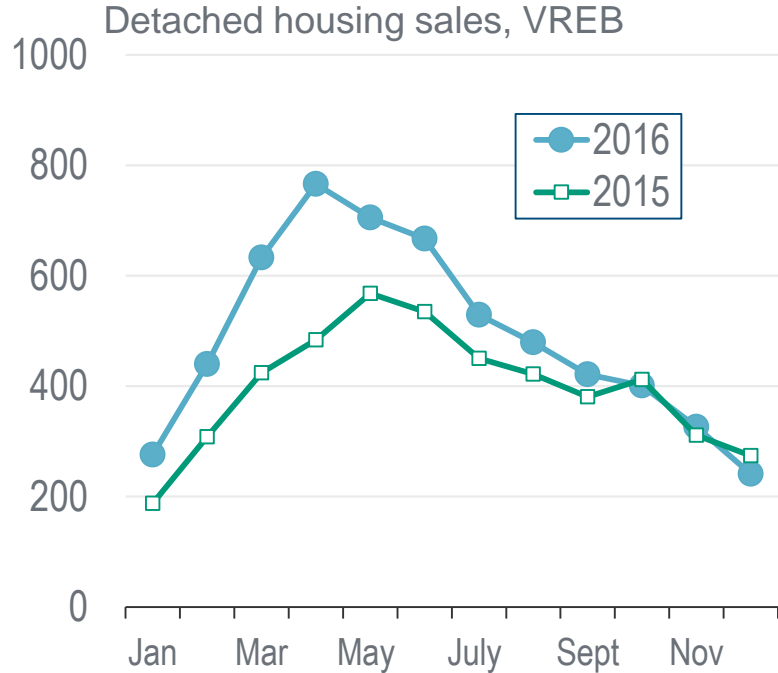
## HOUSING STARTS TRENDING HIGHER IN VICTORIA



Latest: December 2016 monthly data are 3 month moving averages

Source: Statistics Canada.

## HOUSING MARKET STRONGER IN THE CAPITAL REGION



Source: Victoria Real Estate Board.



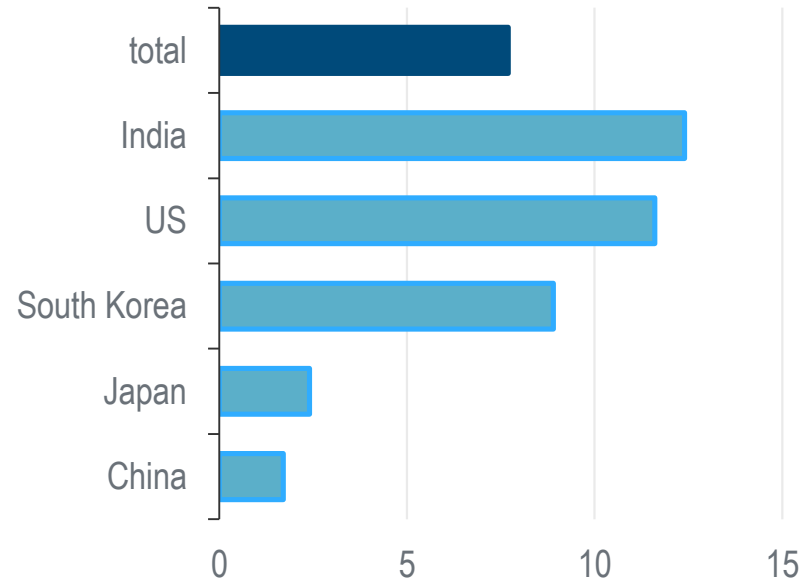
## BC EXPORTS TO ASIA REBOUNDED LAST YEAR



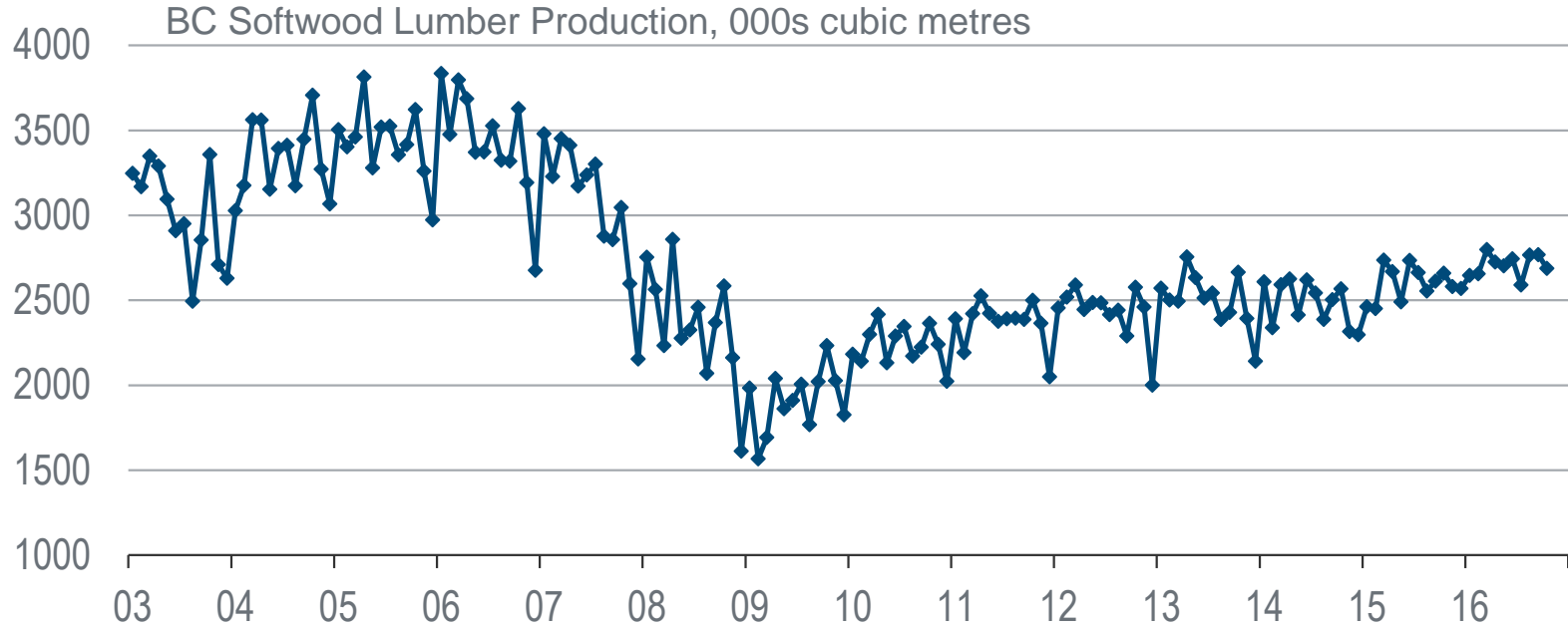
Latest: November 2016

Source: BC Stats.

Export growth (Jan-Nov) by country, annual % chng



## LUMBER PRODUCTION HAS GRADUALLY RISEN



Source: Statistics Canada.

## BC'S MAIN TRADED INDUSTRIES – VALUE OF EXPORTS 2015

<u>Forestry</u>	
Wood products	\$8.5 billion
Pulp and paper	\$4.4 billion
<b>Total forestry</b>	<b>\$12.9 billion</b>
<b><i>Forestry as % of total exports*</i></b>	<b>36%</b>
<u>Others</u>	
Metallic minerals	\$4.4 billion
Machinery and equipment	\$4.8 billion
Coal	\$3.1 billion

<u>Others (cont'd)</u>	
Natural gas	\$1.4 billion
Agrifood products	\$2.7 billion
Fabricated metals	\$1.1 billion
Fish products	\$1.1 billion
Chemical products	\$1.1 billion
Plastics	\$426 million
Apparel etc.	\$124 million
<b>Total BC goods exports:</b>	<b>\$35.8 billion</b>

BC also has service industry clusters that engage in international trade, of which the most important are tourism (~\$4 billion of exports), transportation, communications (incl. software), education, engineering, and technical/scientific/environmental services

## THE BUSINESS COUNCIL'S BC ECONOMIC FORECAST

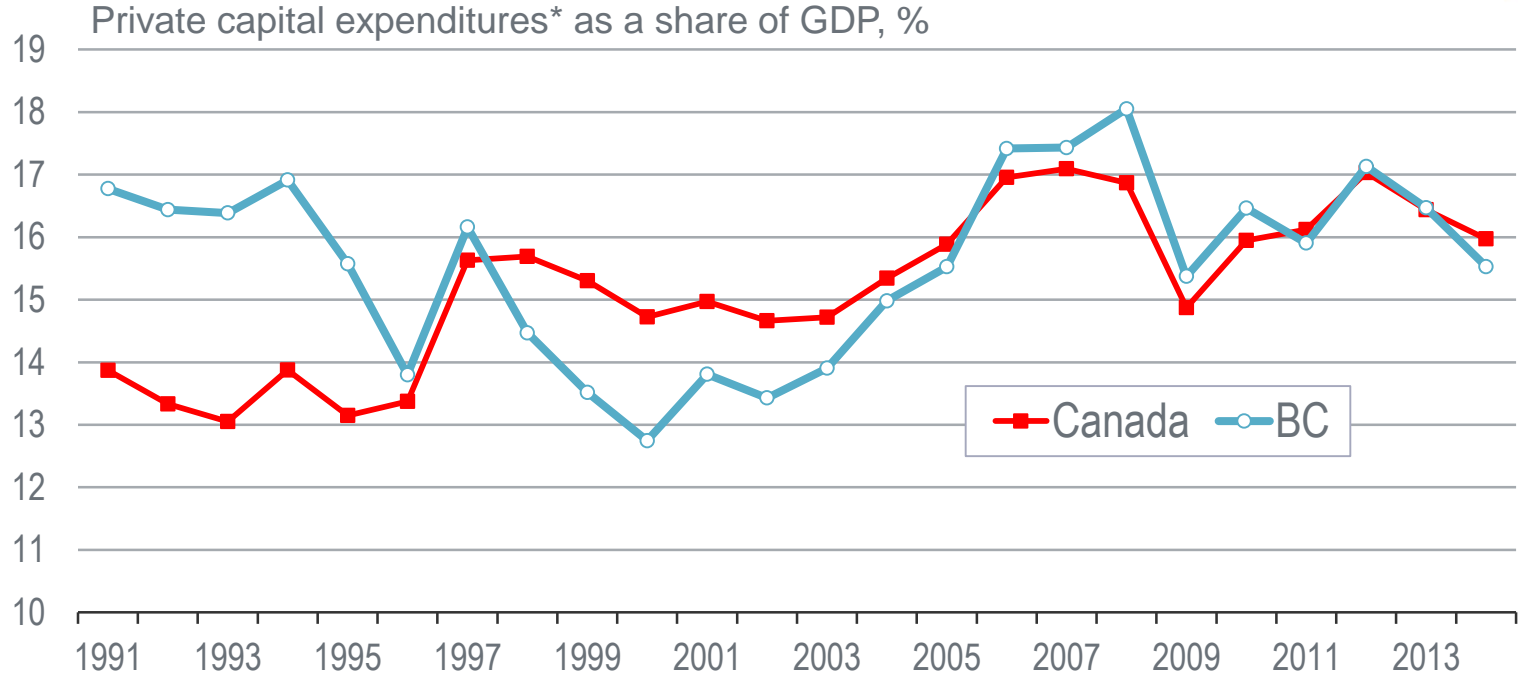
(ANNUAL % CHANGE UNLESS OTHERWISE INDICATED)

	2015	2016e	2017f	2018f
Real GDP	3.2	2.9	2.2	2.2
Employment	1.2	3.1	1.3	1.4
Unemployment rate (%)	6.1	6.0	5.8	5.7
Housing starts (000 units)	31.4	41.0	36.5	35.0
Retail sales	6.0	6.0	4.5	4.5
BC CPI	1.1	1.7	2.0	1.8

f – forecast

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

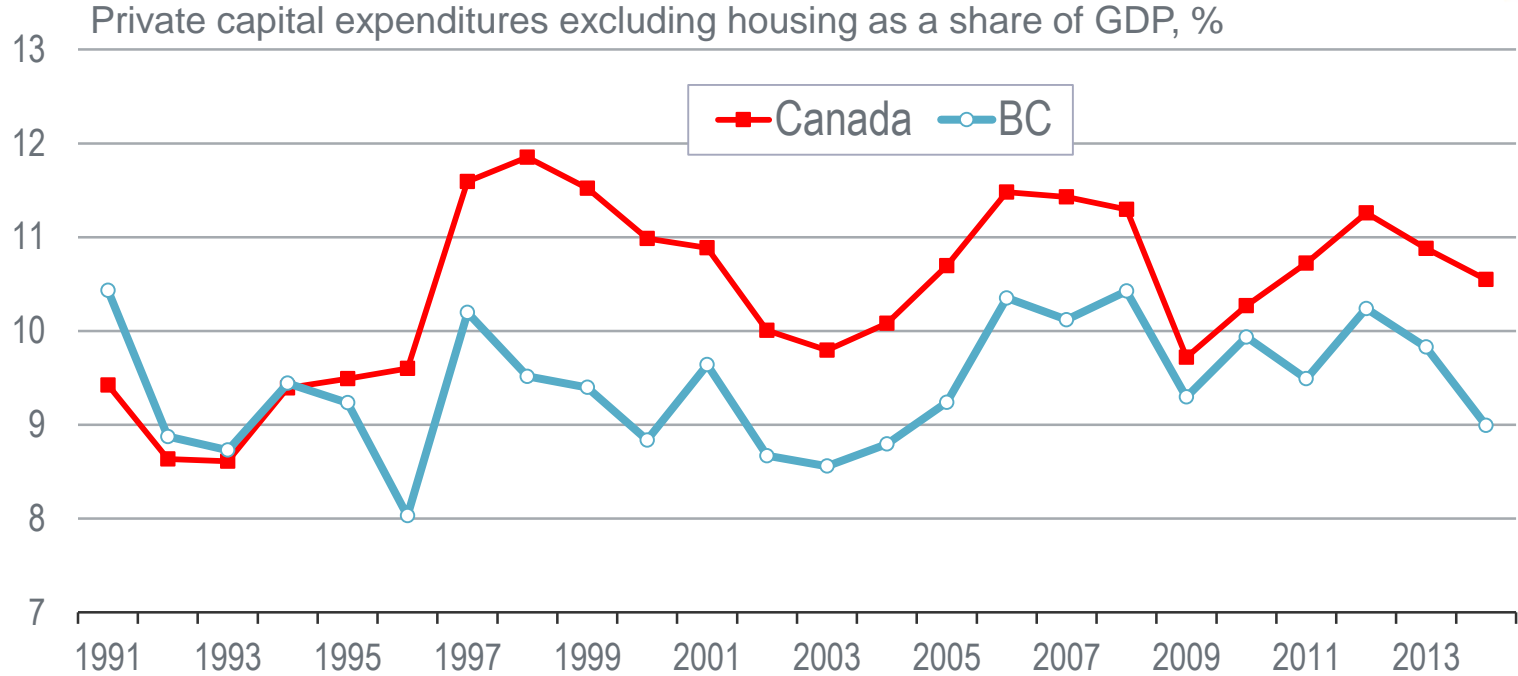
## OVERALL BC CAPITAL SPENDING IS SIMILAR TO NATIONAL PICTURE



Source: CANSIM Table 032-0002 Public and private investment

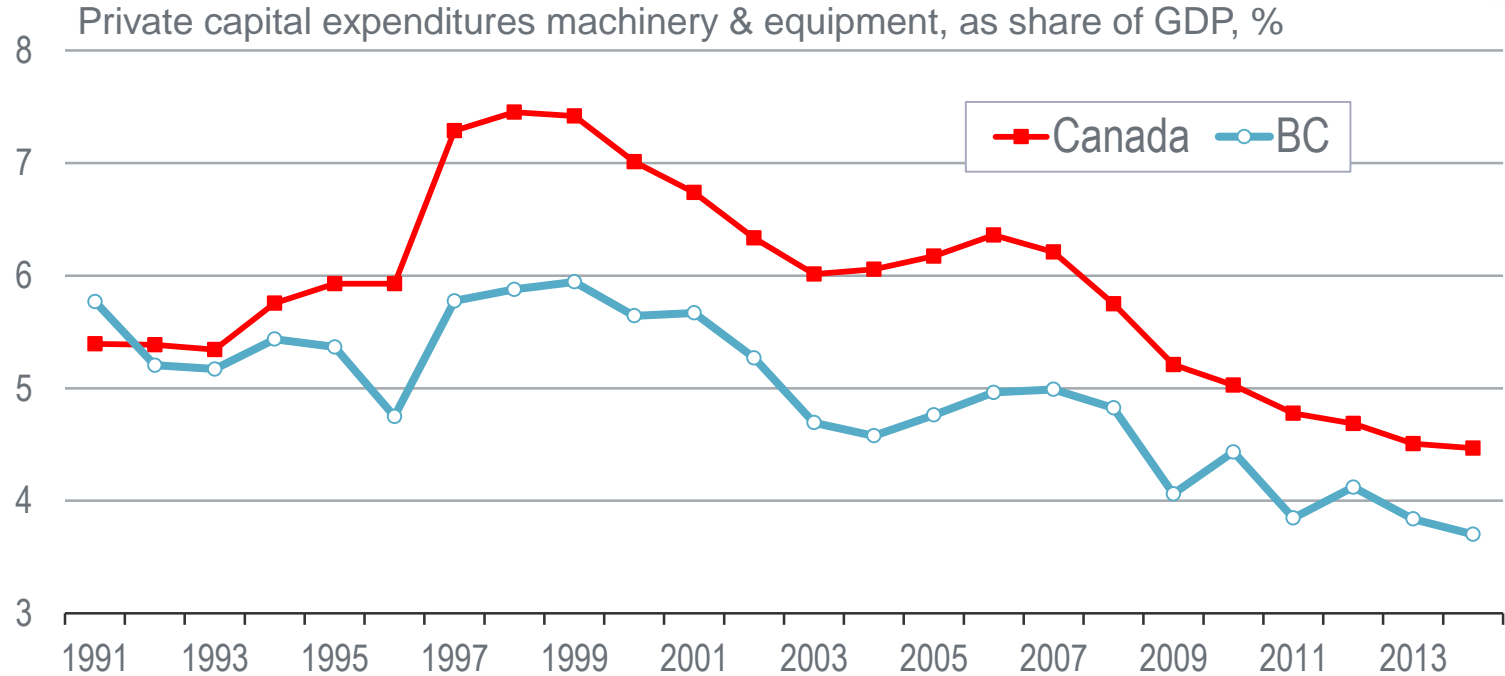
\*includes structures and machinery and equipment

## ...BUT WE DO LESS WELL WHEN *HOUSING* IS EXCLUDED



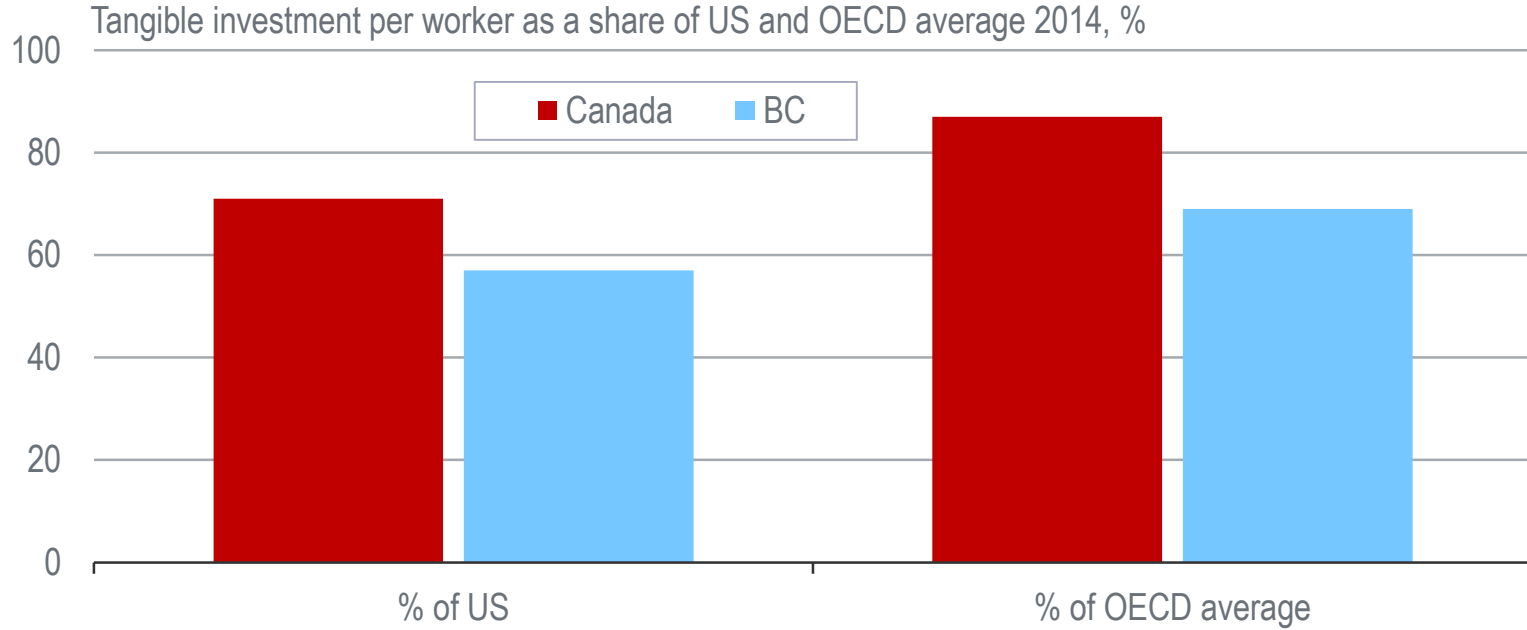
Source: CANSIM Table 032-0002 Public and private investment

## ...AND BC IS PERFORMING VERY POORLY ON *M&E* INVESTMENT



Source: CANSIM Table 032-0002 Public and private investment

## SIMPLY PUT...OUR FIRMS JUST DON'T INVEST ENOUGH



Source: C.D. Howe Institute.



## BC'S BUSINESS TAX REGIME FOR *NEW INVESTMENT* IS NOT COMPETITIVE

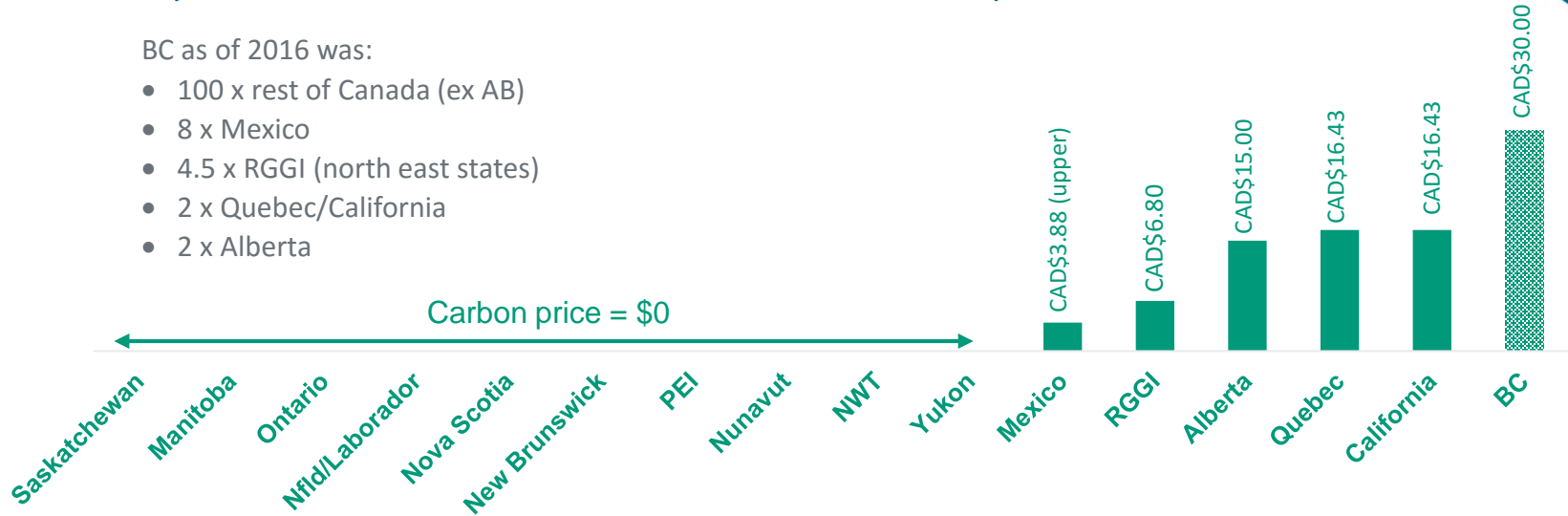
Marginal Effective Tax Rates, Average of all Industry Sectors Combined, %		
	2014	2011
<b>Canada</b>	<b>18.8%</b>	<b>18.8%</b>
<b>BC</b>	<b>27.5%</b>	<b>19.0%</b>
Alberta	17.0%	18.2%
Ontario	18.2%	19.3%
Quebec	15.2%	17.5%
USA	35.3%	35.3%
Japan	29.3%	31.5%
Australia	25.9%	25.9%
UK	23.7%	27.2%
Germany	24.4%	24.0%
France	36.0%	35.1%
Sweden	16.1%	19.5%

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

## BC ALSO HAS THE HIGHEST 'CARBON PRICE' IN NORTH AMERICA (CANADA/US/MEXICO CARBON PRICES, 2016)

BC as of 2016 was:

- 100 x rest of Canada (ex AB)
- 8 x Mexico
- 4.5 x RGGI (north east states)
- 2 x Quebec/California
- 2 x Alberta



### Notes:

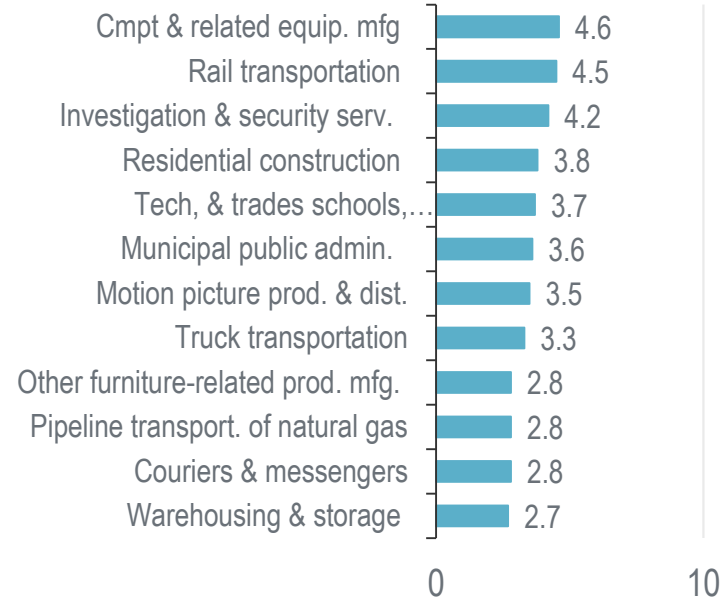
1. RGGI is made up of 9 states: Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont. RGGI market applies to electricity only.
2. Alberta Specified Gas Emitters Regulation only applies to facilities who emit more than 100,000 tonnes per year. Payment is only for incremental emissions.
3. California protects 47 sectors and 94 related industrial activities.
4. 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.

## A LOOK BACK: BC'S LEADING GROWTH INDUSTRIES COME FROM A DIVERSE MIX OF SECTORS

BC top growth industries 1997-14  
average annual % change

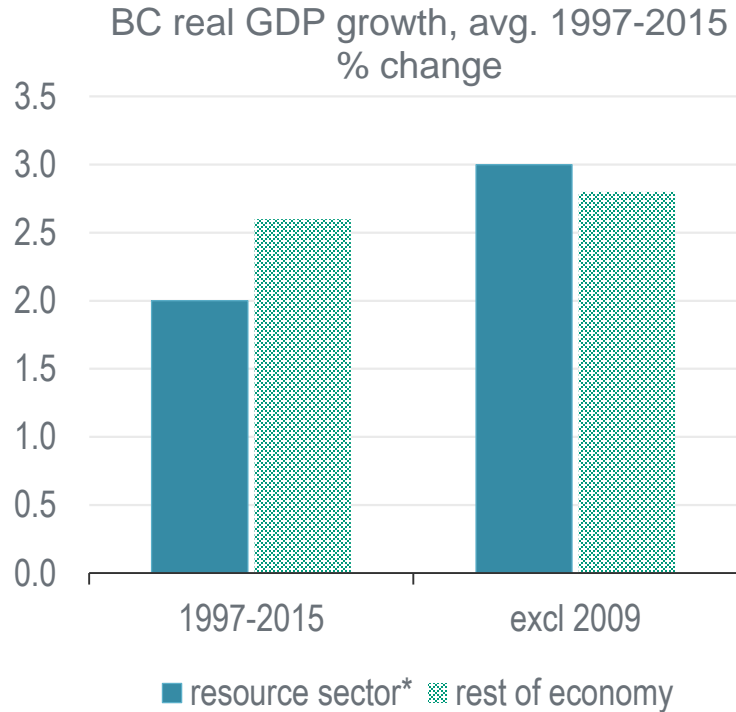


BC top growth industries 1997-14  
average annual % change



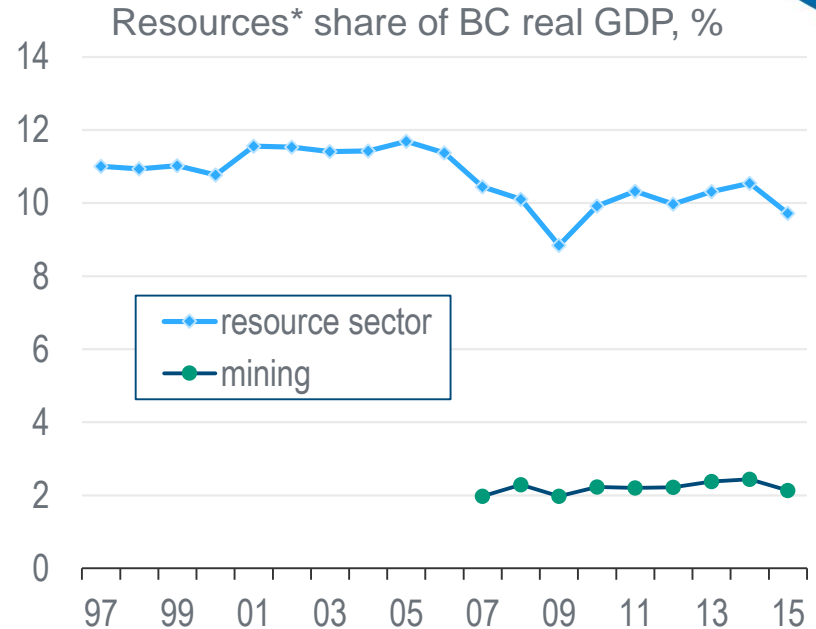
Source: Statistics Canada.

## RESOURCES STILL IMPORTANT



Source: Statistics Canada

\* includes forestry, mining, oil and gas and related support activities and processing.



## 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. Firmer oil prices are helping
- Heightened global uncertainty with Trump as President, national elections coming in Europe, fall-out from BREXIT, and the risk of China-US trade and geopolitical conflict
- The current economic expansion in BC will continue, but at a **slower** pace...after three years of above-average growth. This reflects a drop in housing market activity (mainly in the lower mainland), difficulties in the forest industry, and a modest fall-off in the growth of consumer spending
- BC's increasingly diversified economy is a source of strength and resilience
- Over the medium term, BC needs to address a number of structural weaknesses – sub-par business investment, waning competitiveness in most traded industry sectors, and lagging productivity