



JANUARY 19, 2017

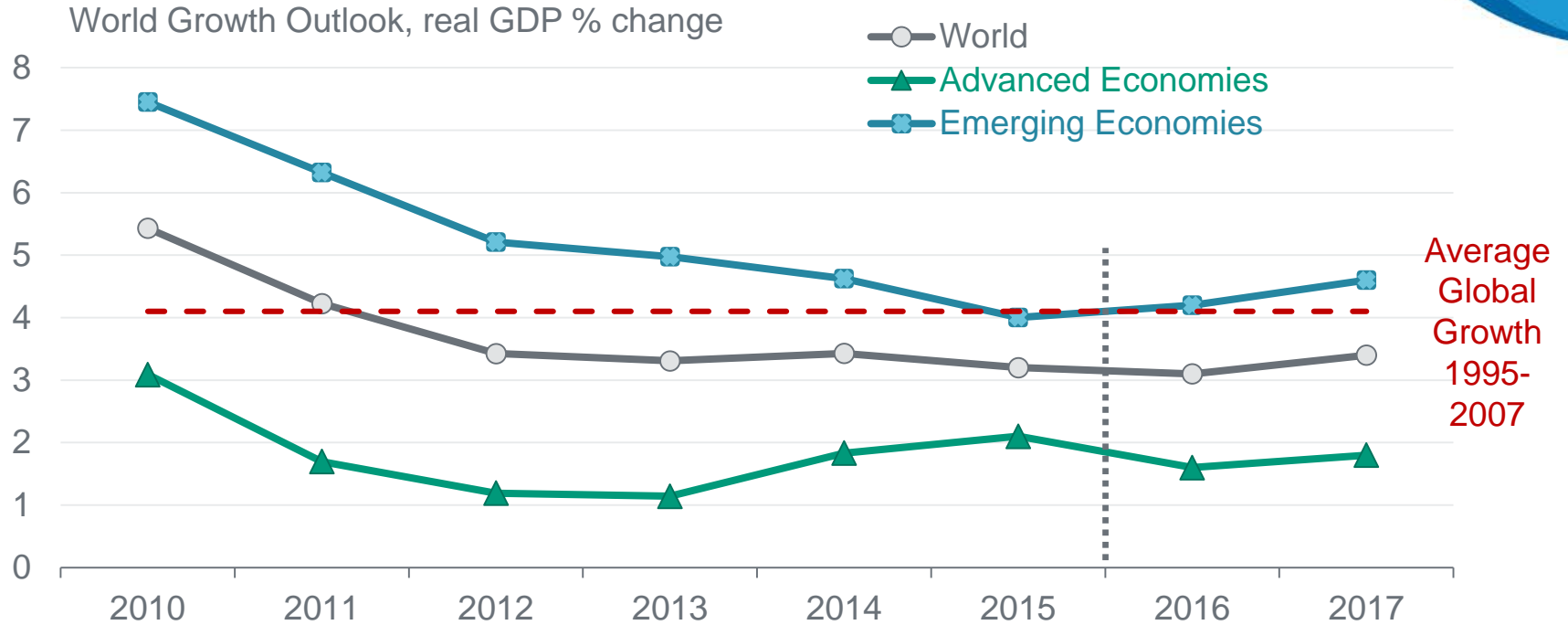
BRITISH COLUMBIA'S ECONOMIC PROSPECTS IN AN
UNCERTAIN AND RISK-PRONE WORLD

PRESENTED TO

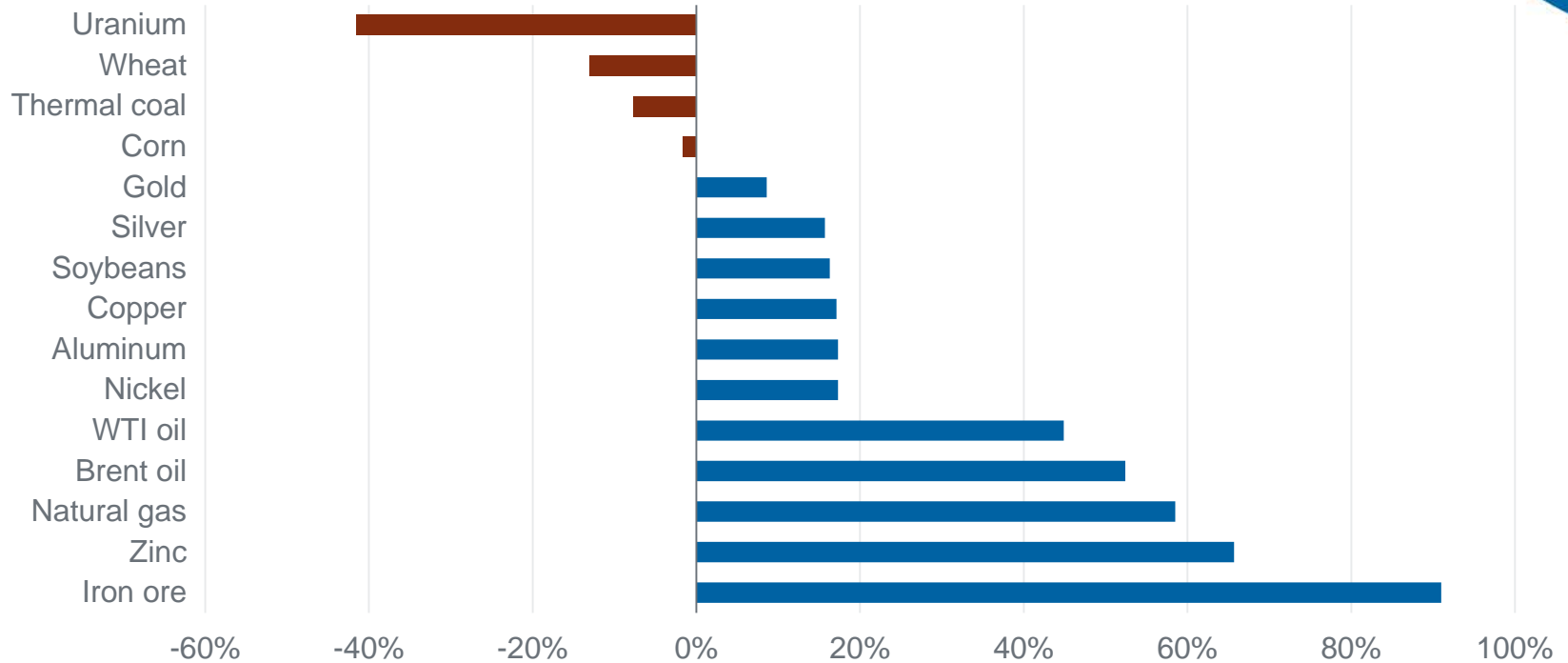
BC CONSTRUCTION ROUNDTABLE

KEN PEACOCK
Vice President and Chief Economist

THE GLOBAL ECONOMY REMAINS IN LOW GEAR

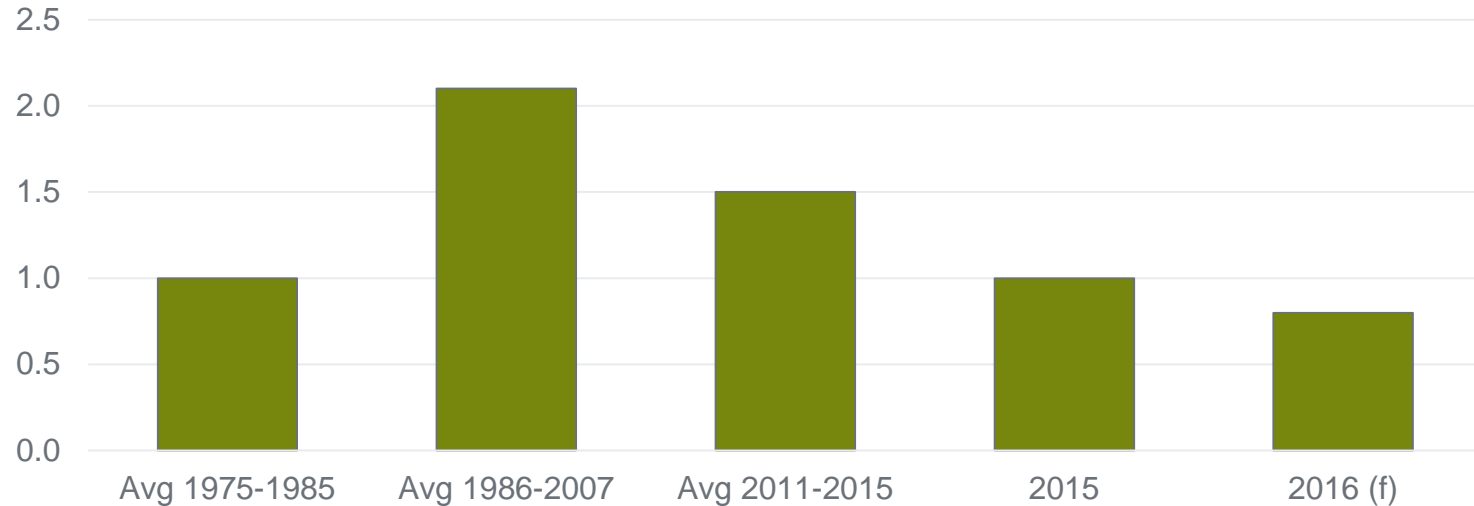


COMMODITY PRICE PERFORMANCE IN 2016 (US DOLLARS)



WORLD TRADE* HAS LOST MOMENTUM

(RATIO OF WORLD TRADE GROWTH TO WORLD GDP GROWTH)



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

RETREAT OF GLOBALIZATION?

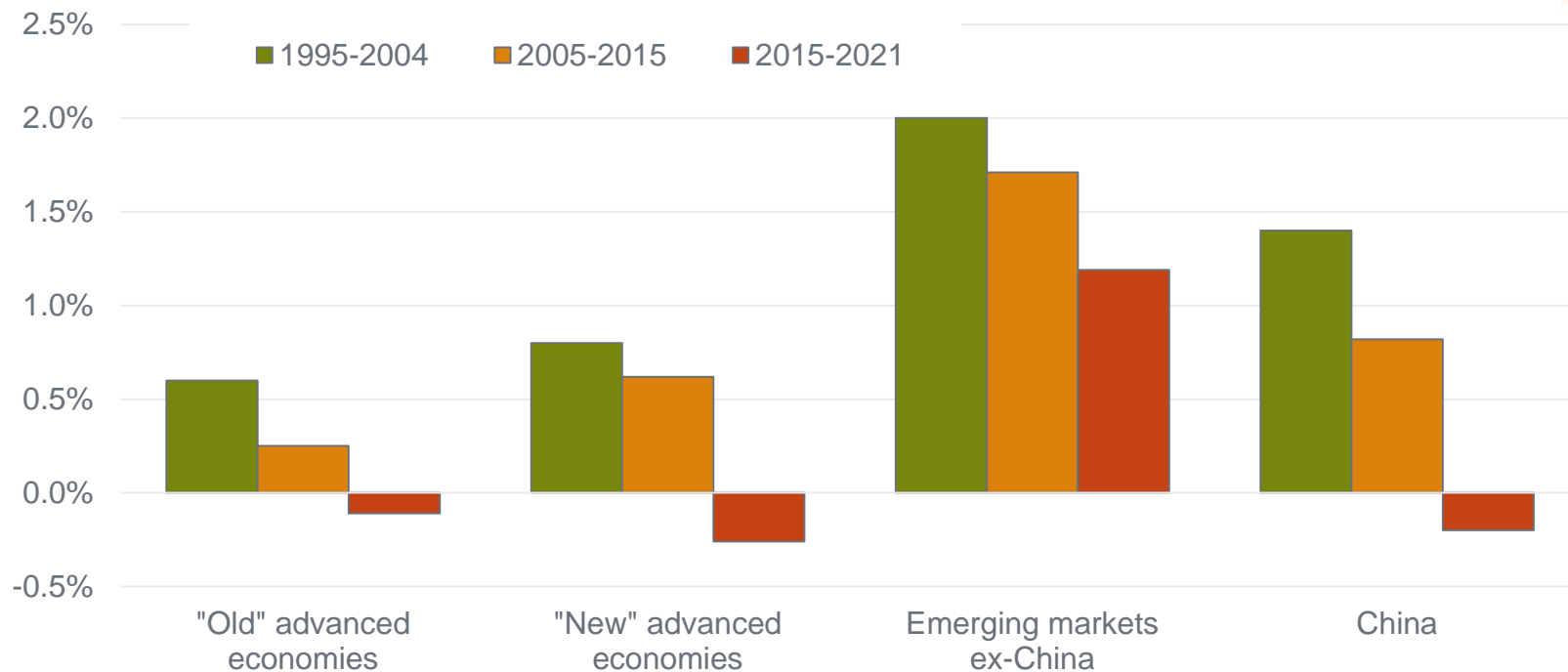
- Underlying growth of world trade has decelerated since 2007 – it's no longer outpacing global output growth, reversing the pattern of the previous three decades
- The retrenchment of international capital flows – especially portfolio flows – that began with the 2008-09 crisis has continued
 - Annual gross world-wide capital flows were 10-15% of global GDP pre-2008...vs. 6-7% today*
- One area where globalization is still gaining speed: the movement of data. Cross-border bandwidth capacity has expanded by 45 times since 2005**

* Ecomonitor, November 3, 2016.

** McKinsey Global Institute.

GLOBAL DEMOGRAPHICS WEIGHING ON POTENTIAL ECONOMIC GROWTH

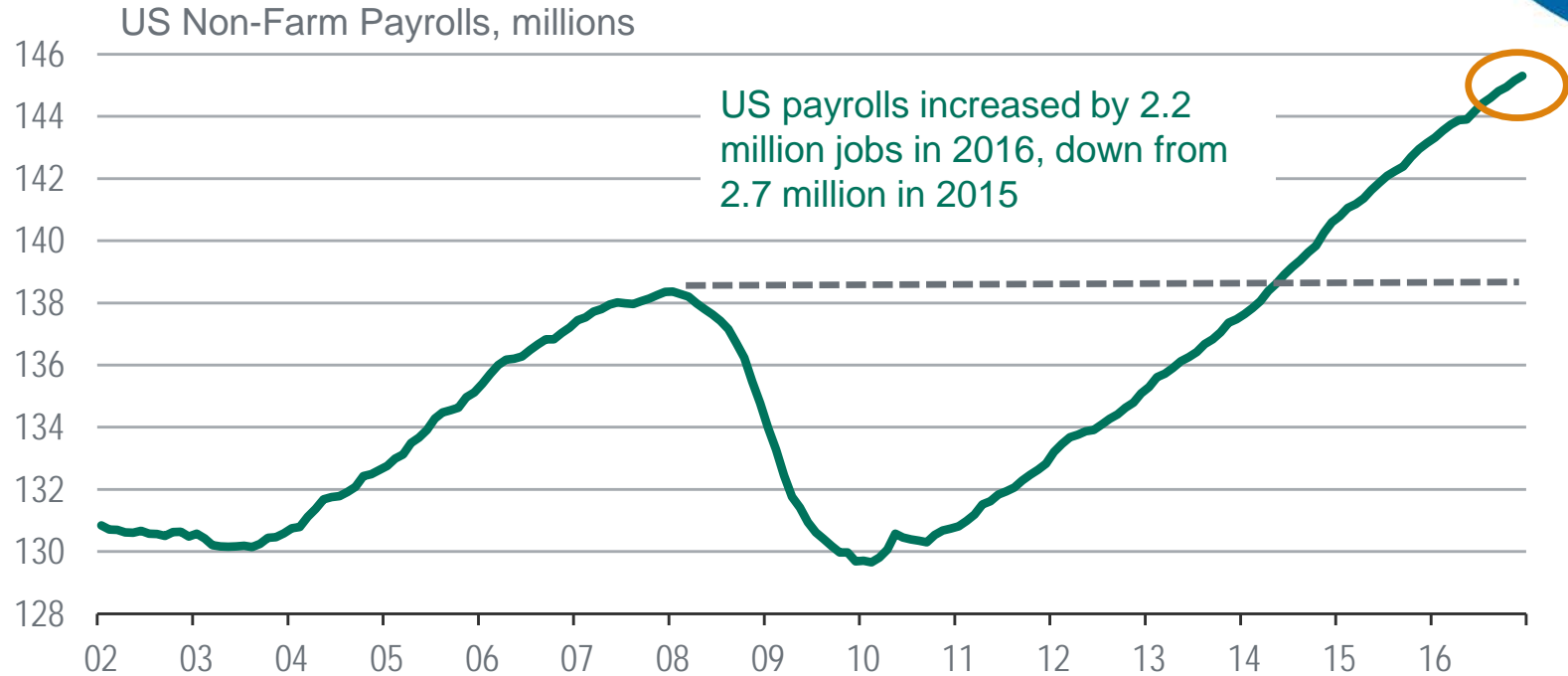
(WORKING AGE POPULATIONS, ANNUAL GROWTH RATES, %)



AT LEAST THE US ECONOMY CONTINUES TO IMPROVE

- Real GDP increased by just 1.6% last year, well below the 2.6% gain in 2015
- Most of the weakness was concentrated in the first half of 2016, reflecting the strong US dollar, soft global economy, and plunging domestic oil and gas investment
- Overall, the current multi-year economic expansion cycle continues...
 - 78 consecutive months of employment gains, with real wages now picking up
 - consumer spending is trending higher
 - housing starts slowly climbing, should reach ~1.2 million this year
 - Trump's promised tax cuts and extra infrastructure/military spending will add to growth (later this year and into 2018)
- Recent forecasts suggest the US economy will grow by ~2% (after-inflation) in 2017
- Will the Trump/Republican agenda pave the way to faster growth, post-2017-18?
- US Federal Reserve hiked its policy interest rate in December... more increases are coming

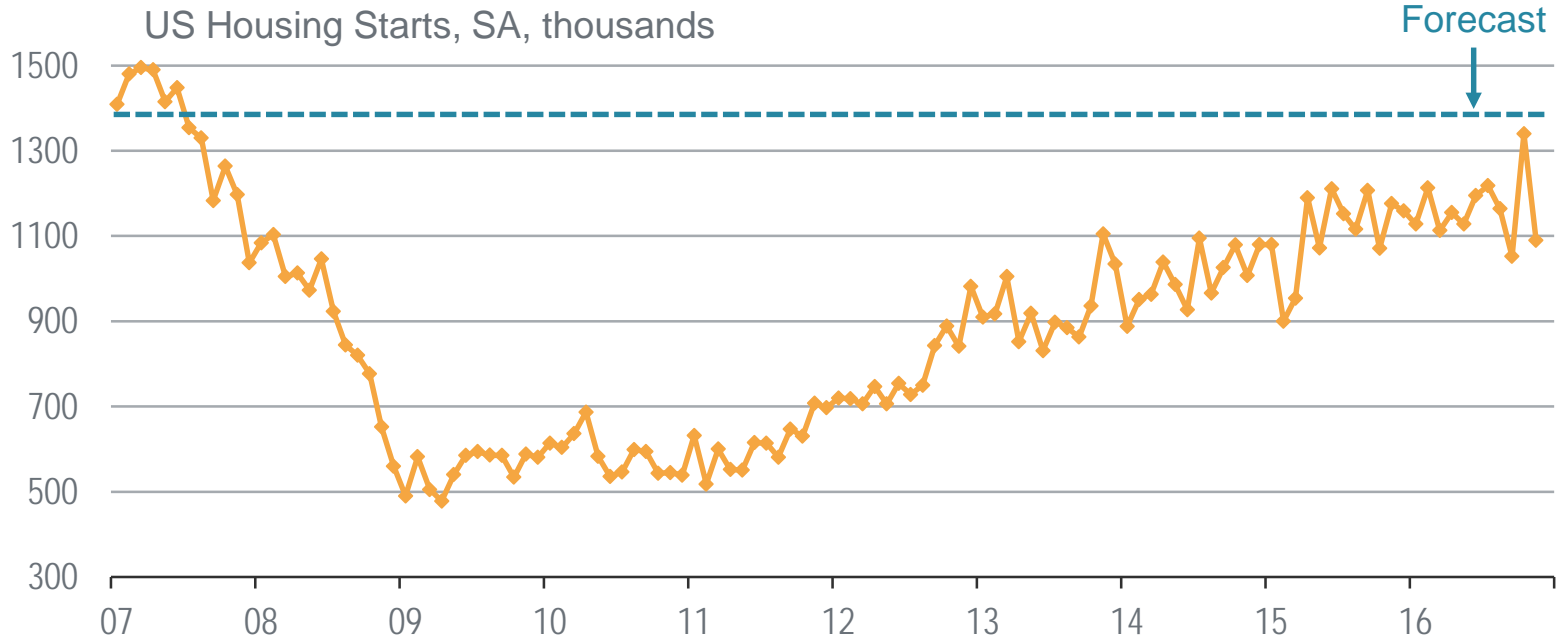
US EMPLOYMENT IS ON A TEAR



Latest: December 2016

Source: US Bureau of Economic Analysis. seasonally adjusted data

HOUSING STARTS STILL GRINDING HIGHER



Latest: November 2016

Source: US Census Bureau, seasonally adjusted data.

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

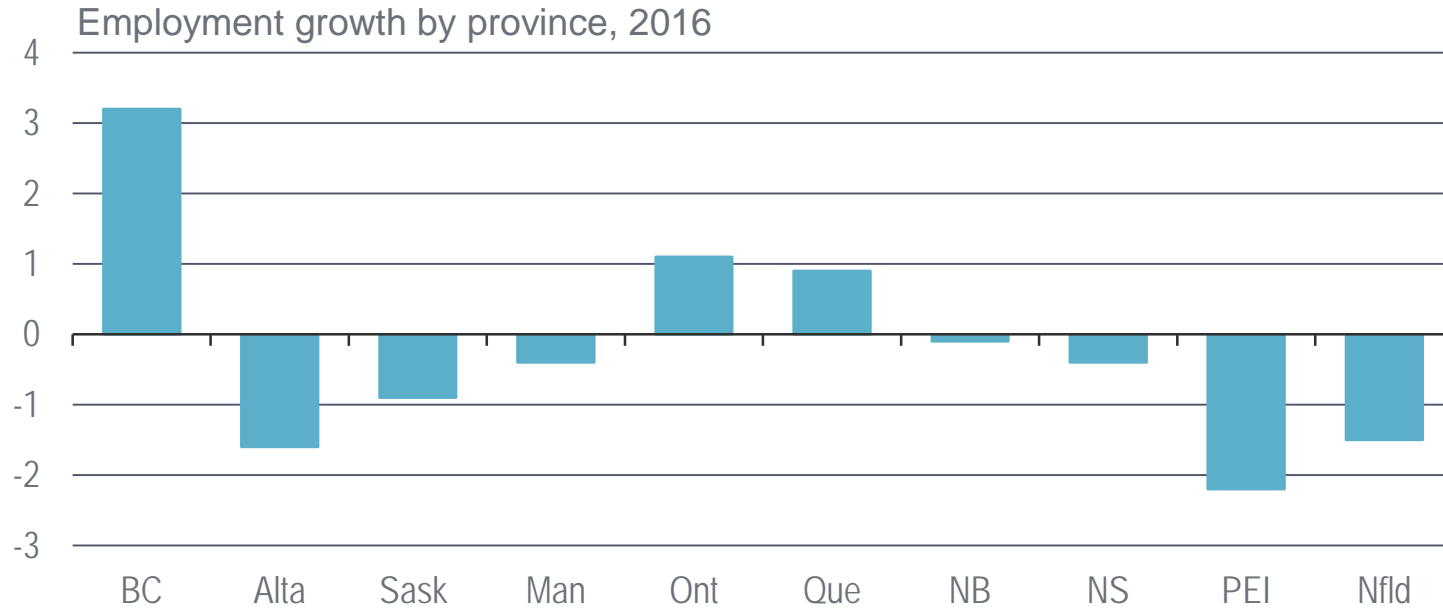
Positive

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

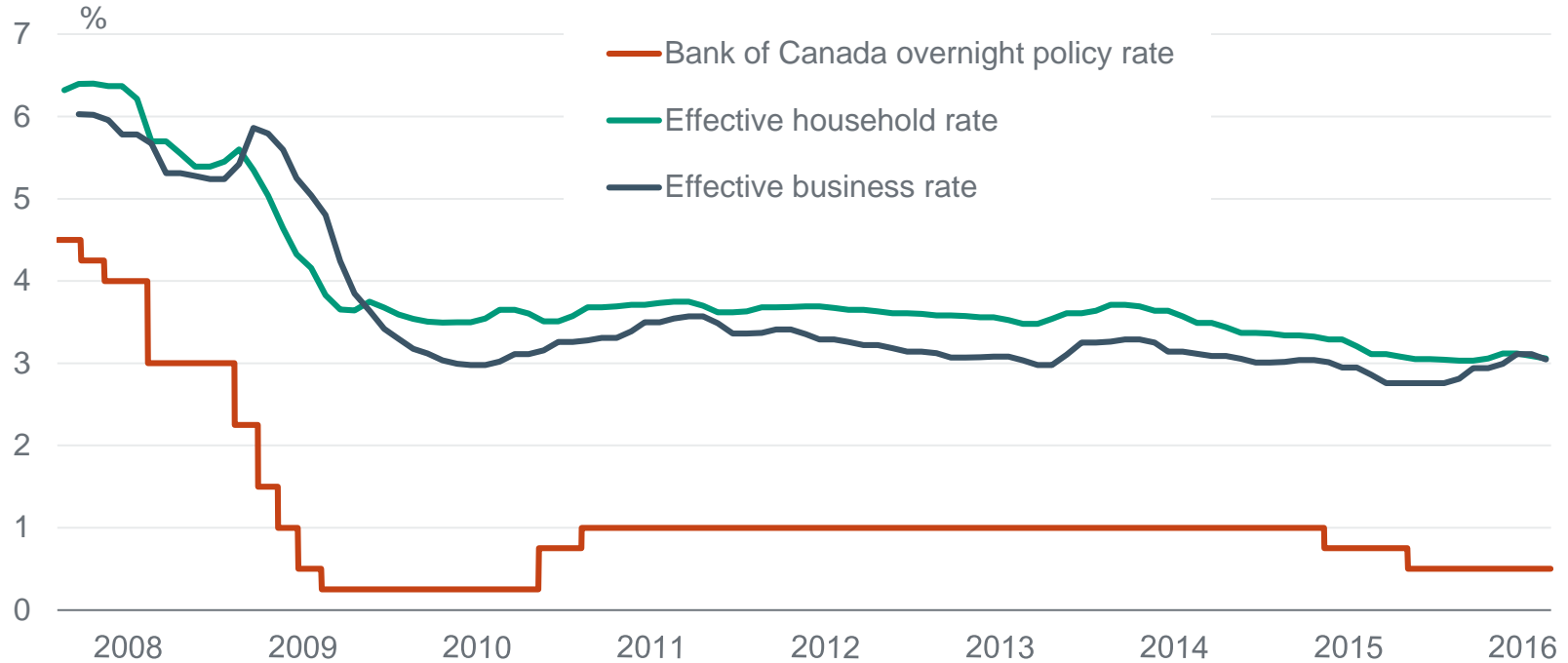
Negative

- Renegotiation of NAFTA – what does this mean for Canada?
- Risk of increased global protectionism if US slaps tariffs on China and other suppliers – who then retaliate
- Trans-Pacific Partnership agreement looks dead
- An expected sharp decline in Canadian tax competitiveness under Trump’s tax plan (federal corporate tax rate drops from 35% to 15-20%, top personal tax rate from 39.6% to 33%)
- US rejection of Paris accord and carbon pricing will leave Canada at an increasing disadvantage in energy costs

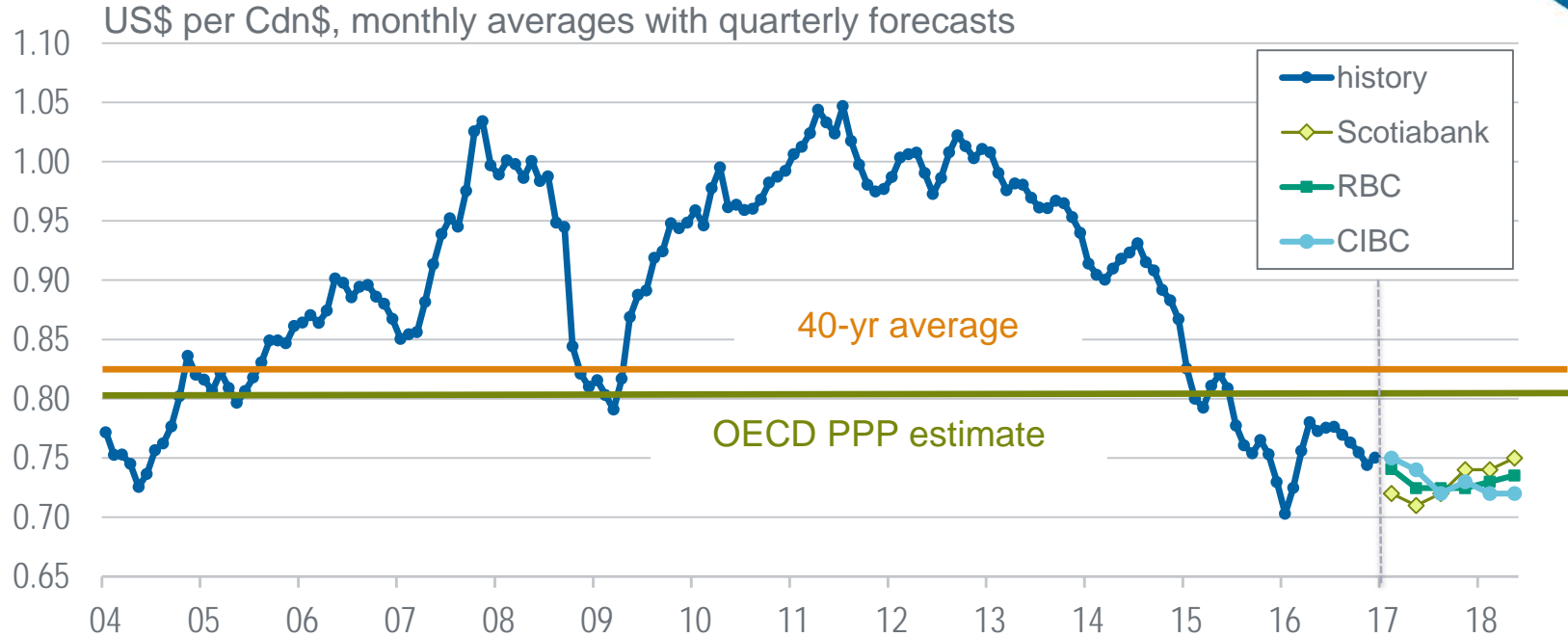
IN CANADA, BC & ONTARIO HAVE LED IN JOB GROWTH, WITH EMPLOYMENT DOWN IN MOST OTHER PROVINCES



CANADIAN INTEREST RATES AT/NEAR RECORD LOWS



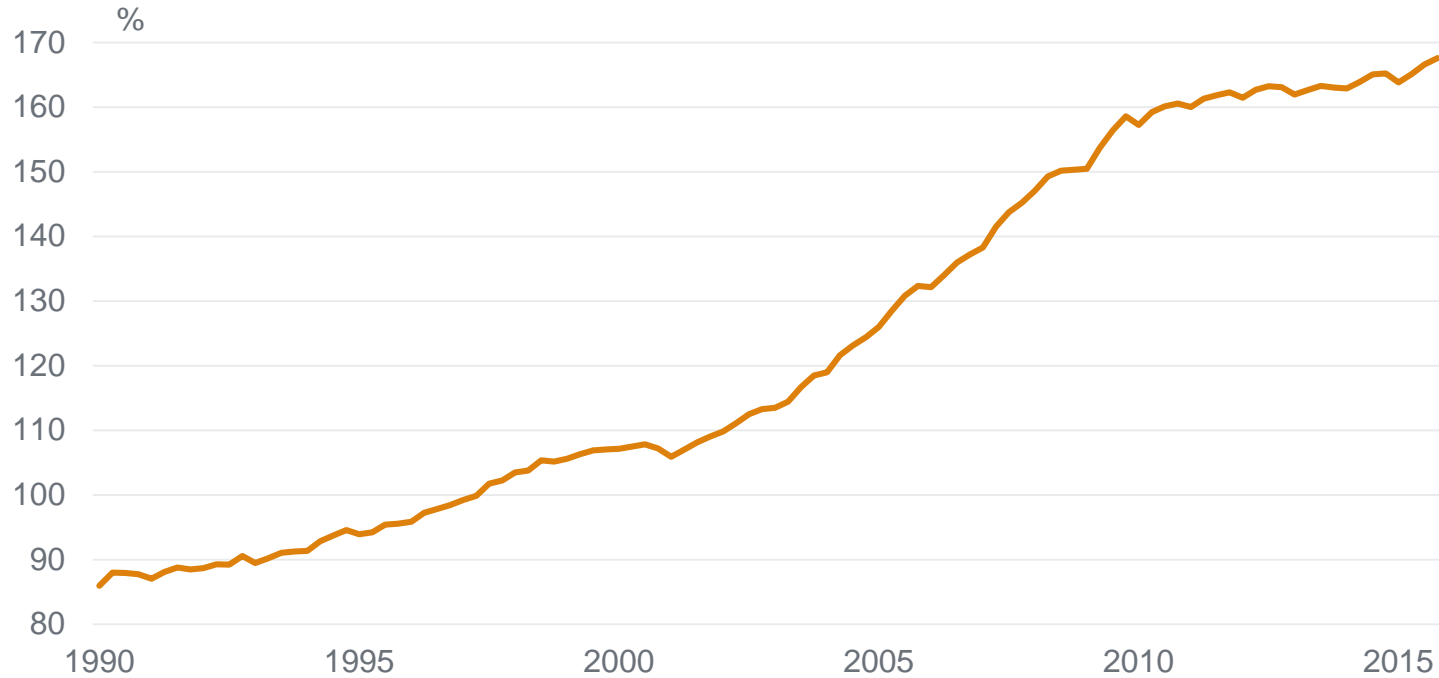
A BUMPY RIDE FOR THE CANADIAN DOLLAR



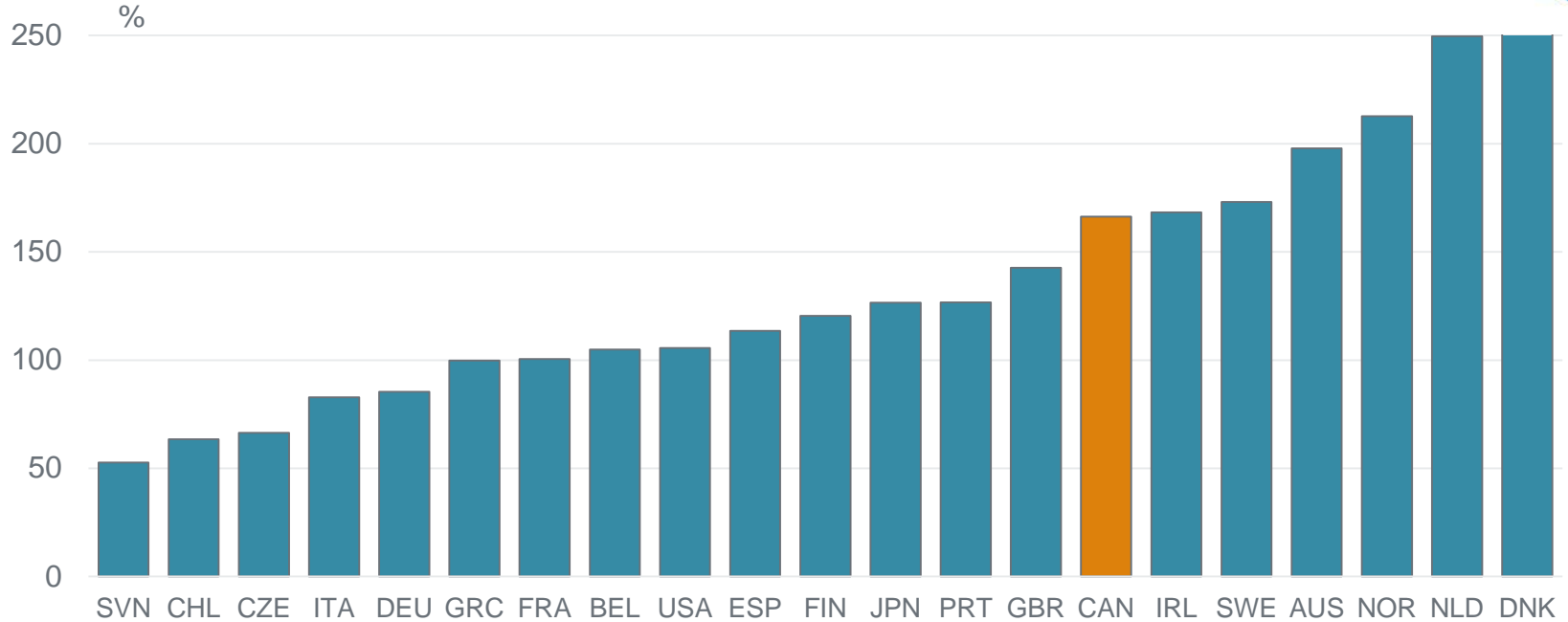
Latest: December 2016

Source: Bank of Canada, noon rate.

CANADIAN HOUSEHOLD DEBT TO DISPOSABLE INCOME

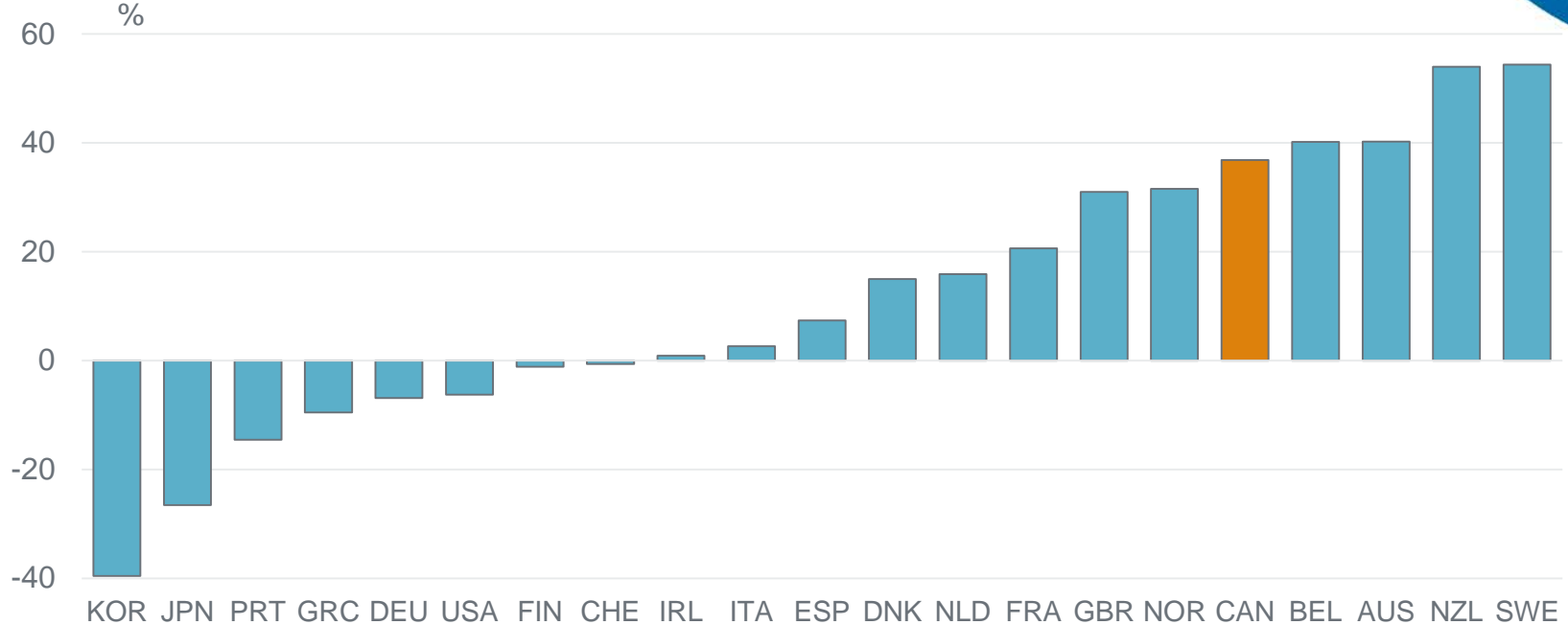


HOUSEHOLD INDEBTEDNESS RATIO, CANADA VS OTHER OECD COUNTRIES, Q4 2015¹



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

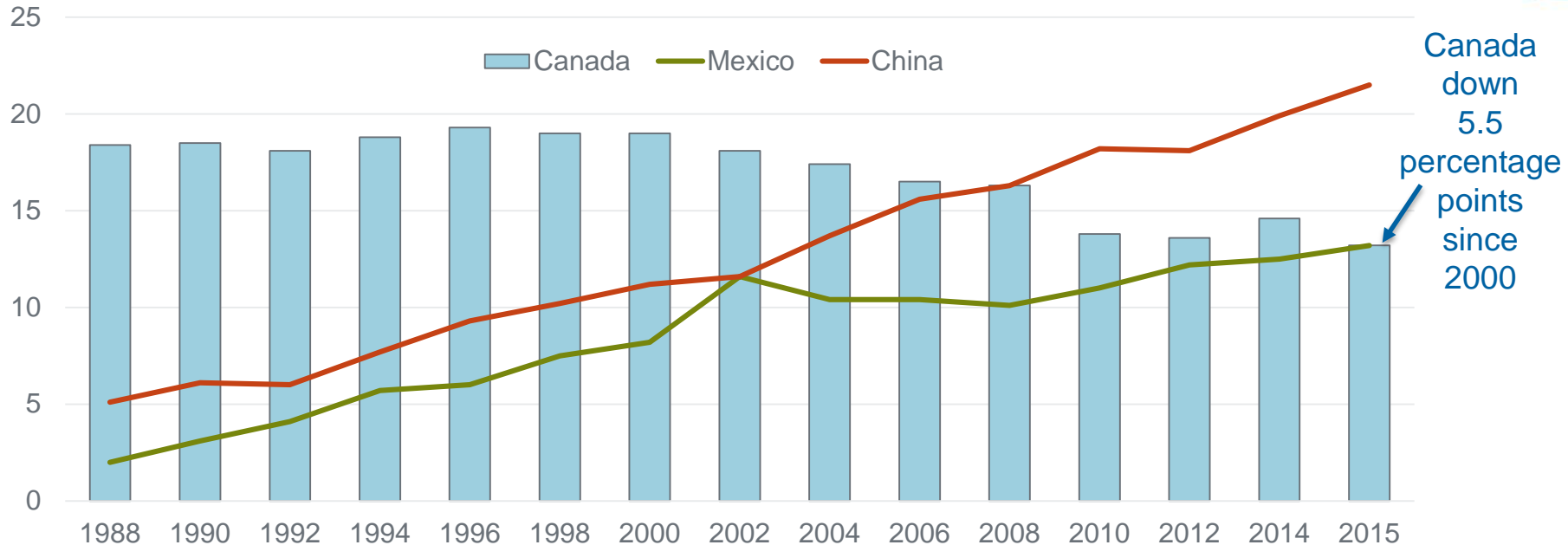
CANADIAN HOUSE PRICES ARE HISTORICALLY HIGH RELATIVE TO INCOMES, Q1 2016¹



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.

CANADA HAS LOST COMPETITIVENESS IN THE US MARKET

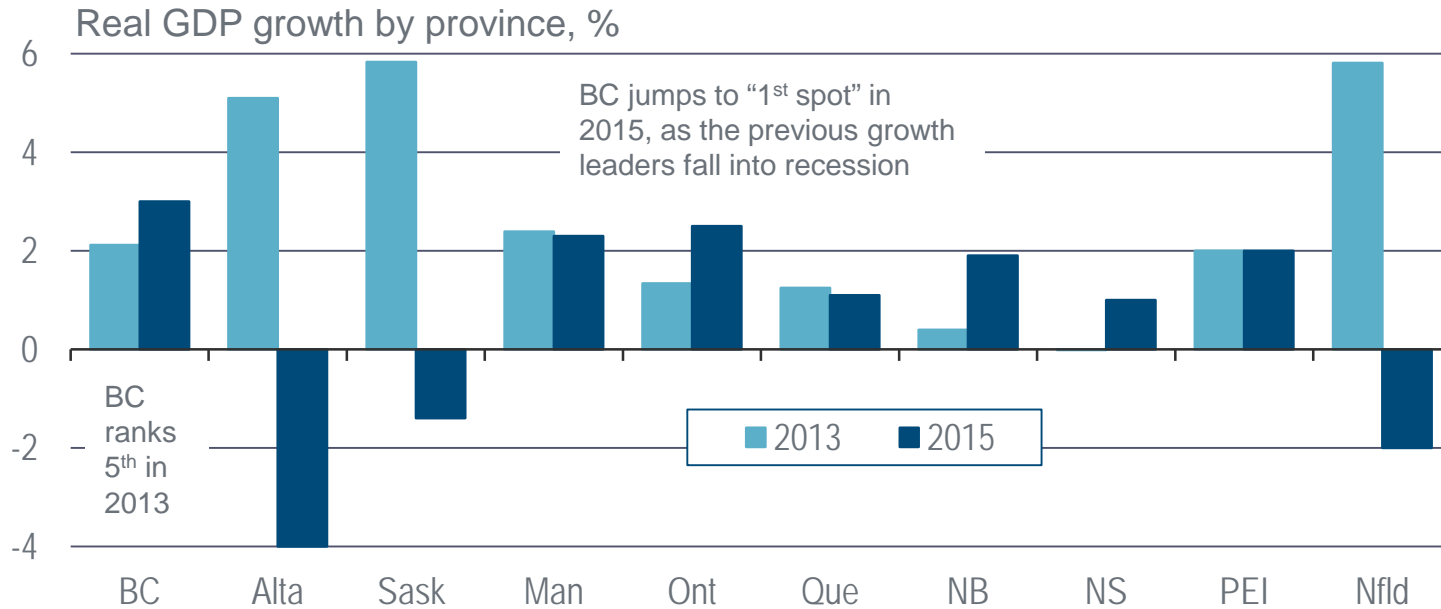
Country share of total US merchandise imports, per cent



AN UPDATED ECONOMIC FORECAST FOR CANADA (ANNUAL % CHANGE UNLESS NOTED)

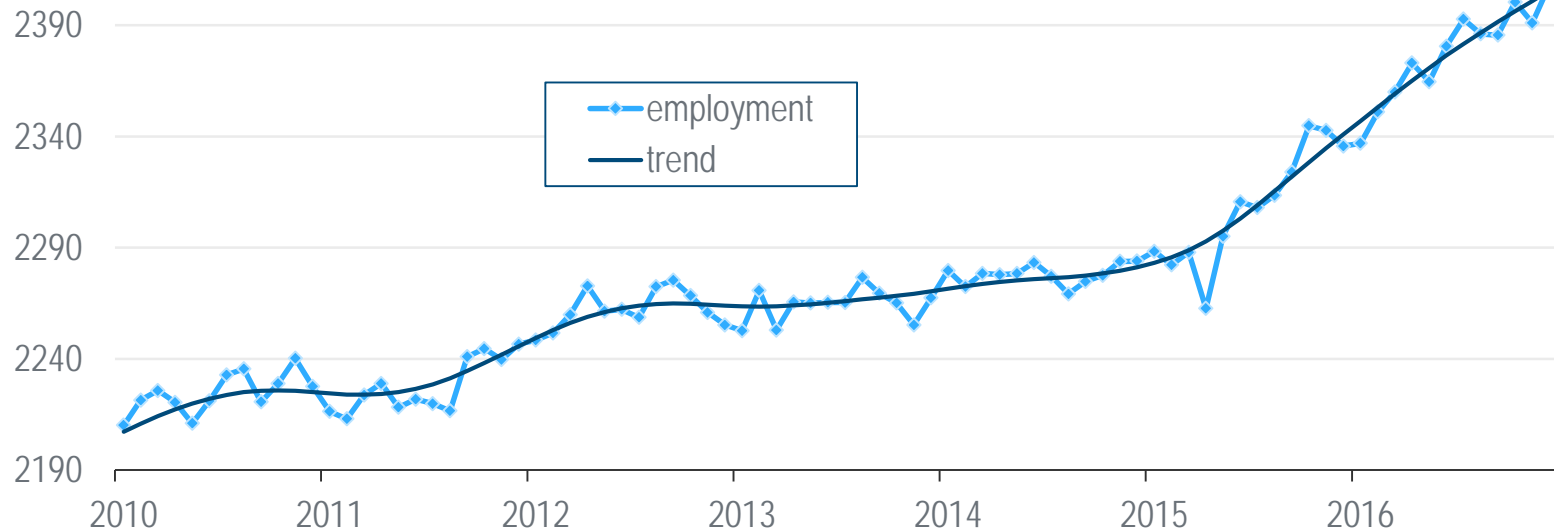
	2015	2016	2017
Real GDP	0.9	1.3	2.0
Real business investment	-11.5	-7.4	-0.1
Employment growth	0.9	0.7	1.0
Unemployment rate (%)	6.9	7.0	6.8
Real exports	3.4	0.8	2.3
Real imports	0.3	-1.1	0.7

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



BC'S JOB MARKET HAS REBOUNDED

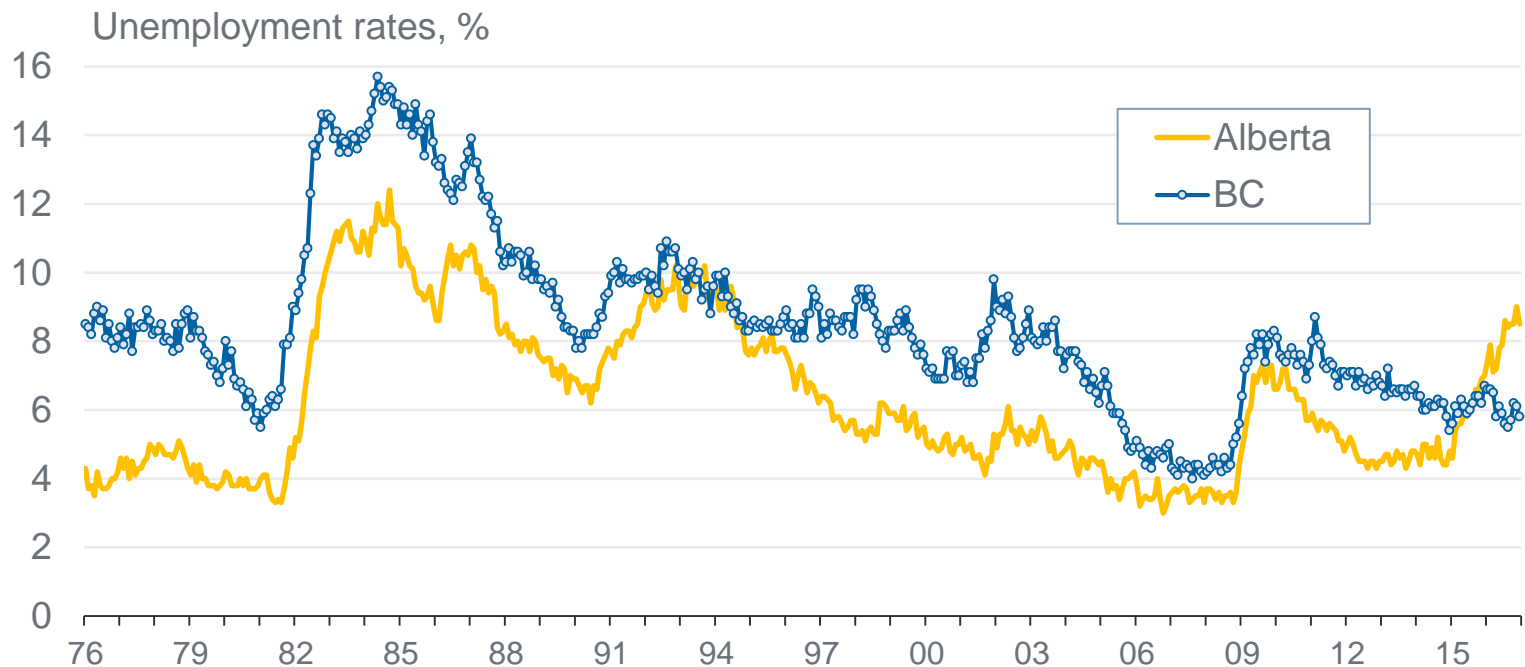
BC employment, SA, thousands



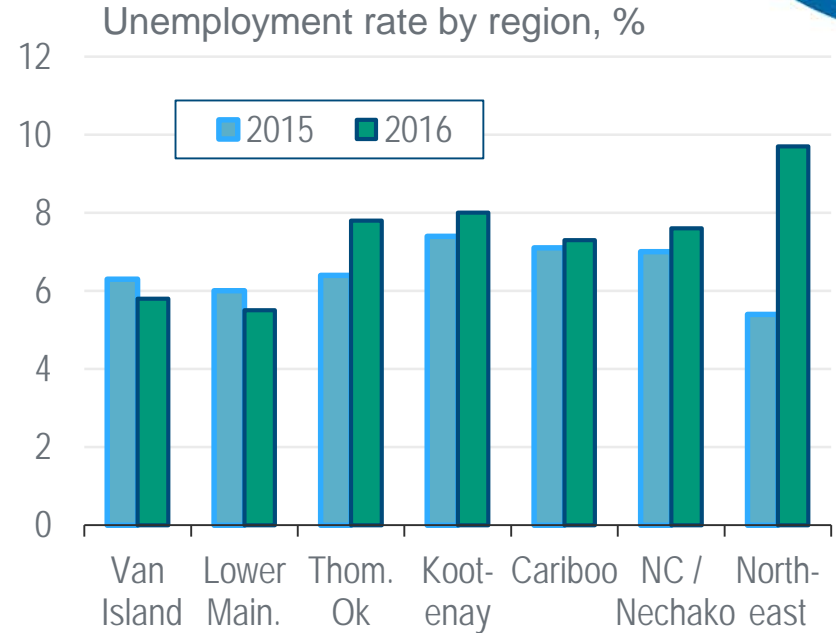
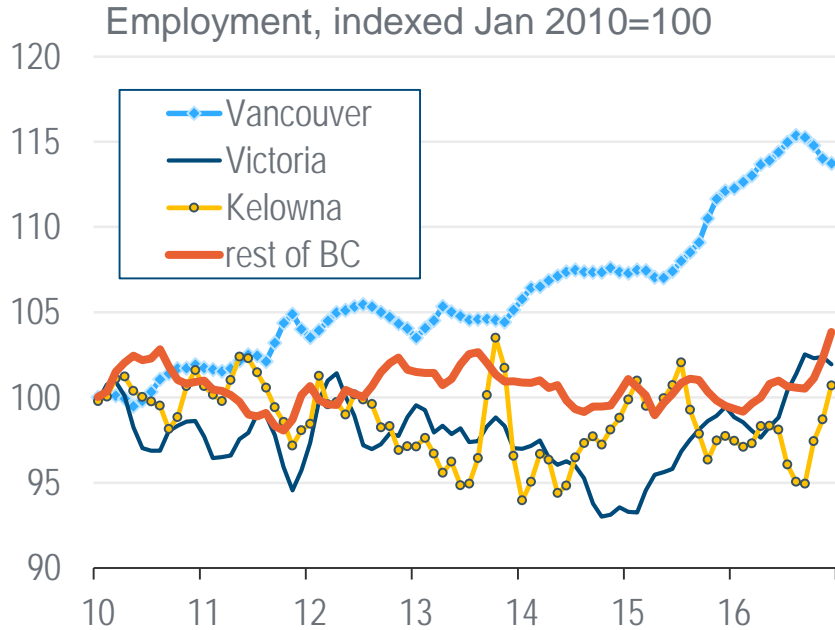
Latest: December 2016

Source: Statistics Canada, LFS.

SWITCH IN UNEMPLOYMENT RATES



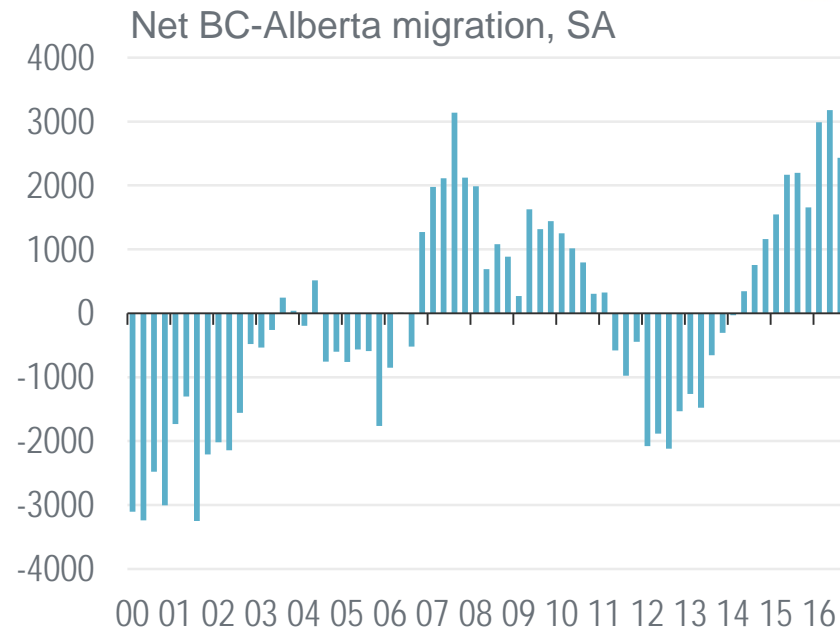
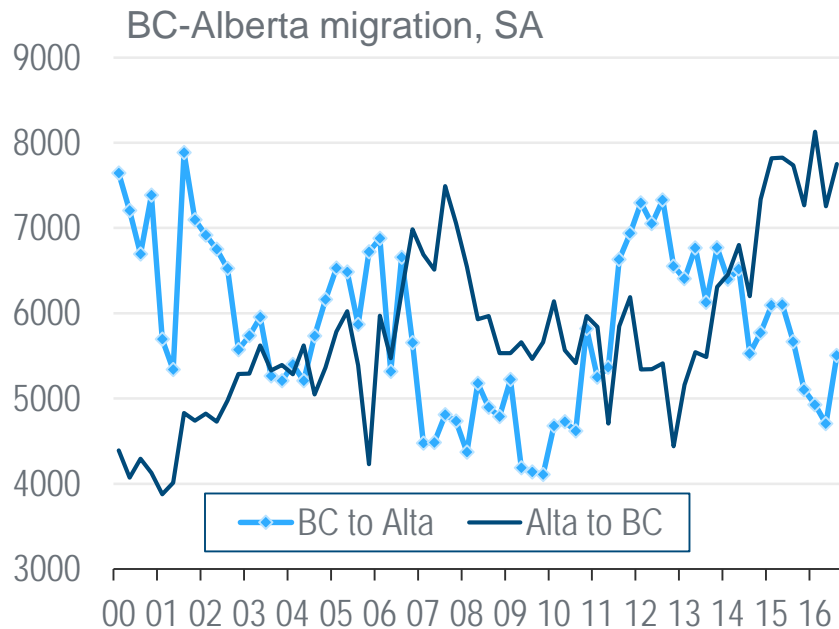
JOB GROWTH CONCENTRATED IN THE LOWER MAINLAND



Source: Statistics Canada, LFS.

Unemployment rates are annual averages

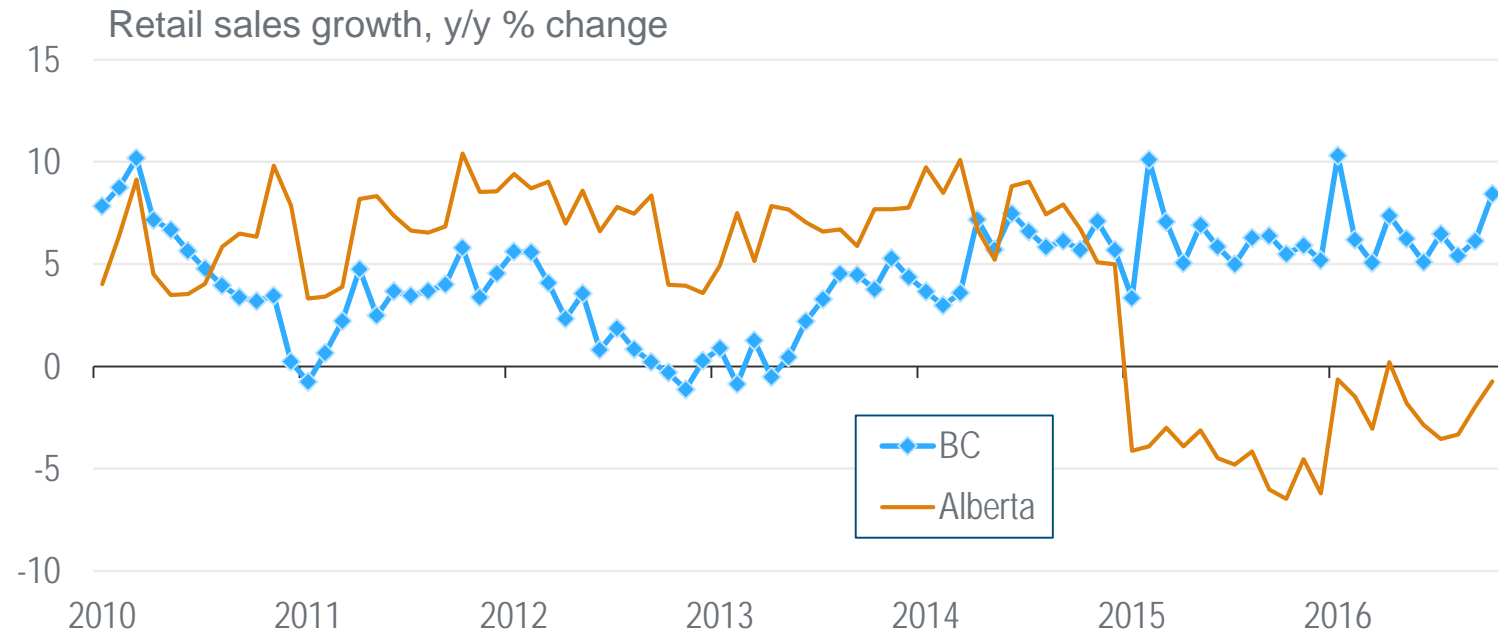
NET POPULATION INFLOW FROM ALBERTA PICKS UP



Latest: Q3 2016

Source: Statistics Canada.

BC CONSUMERS ARE BUSY SPENDING

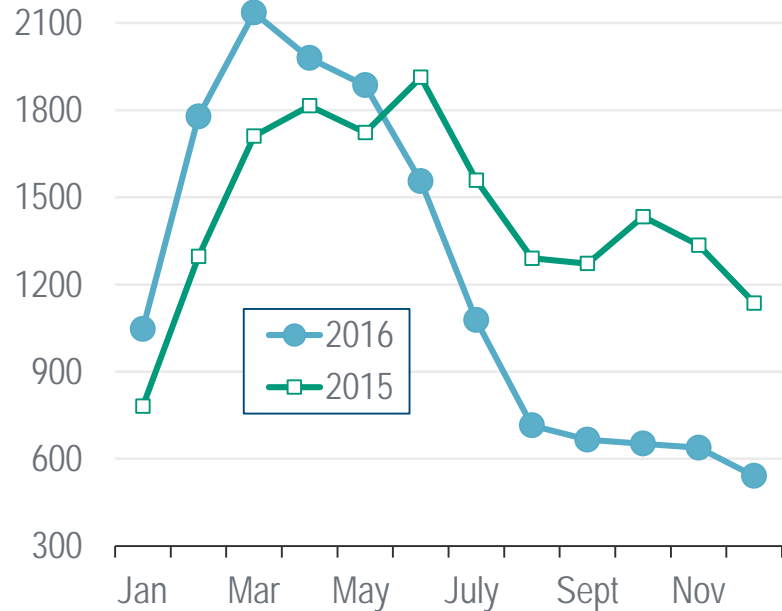


Latest: October 2016

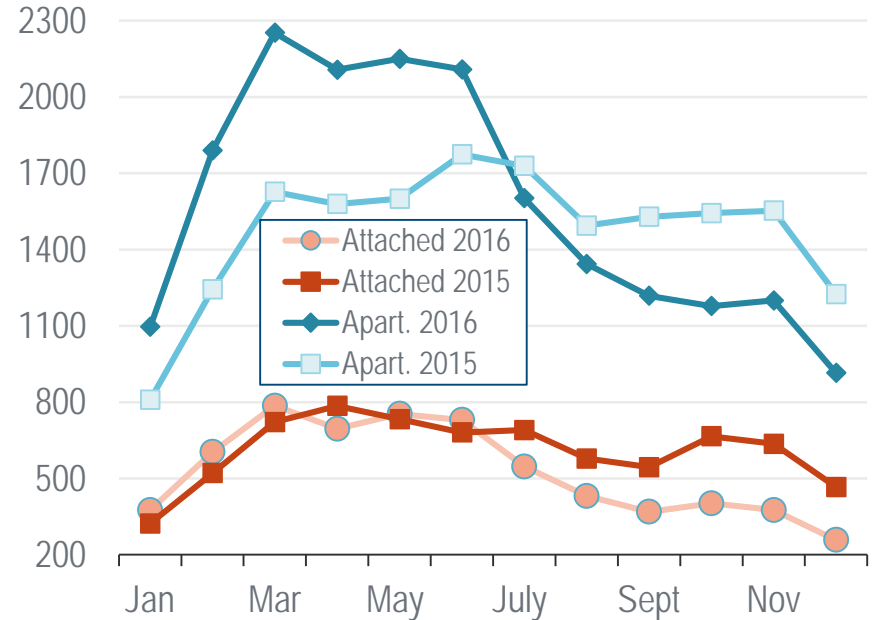
Source: Statistics Canada.

SIGNS THE MARKET IS COOLING IN METRO VANCOUVER

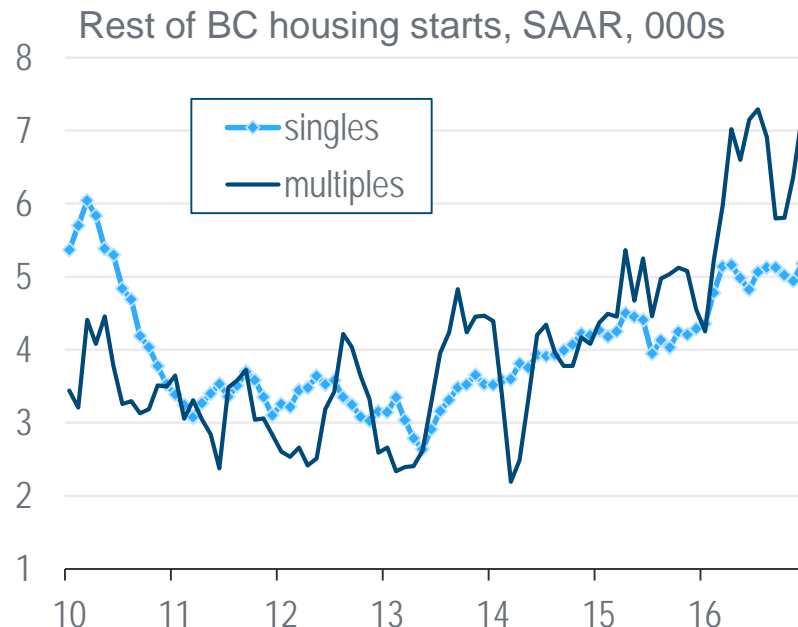
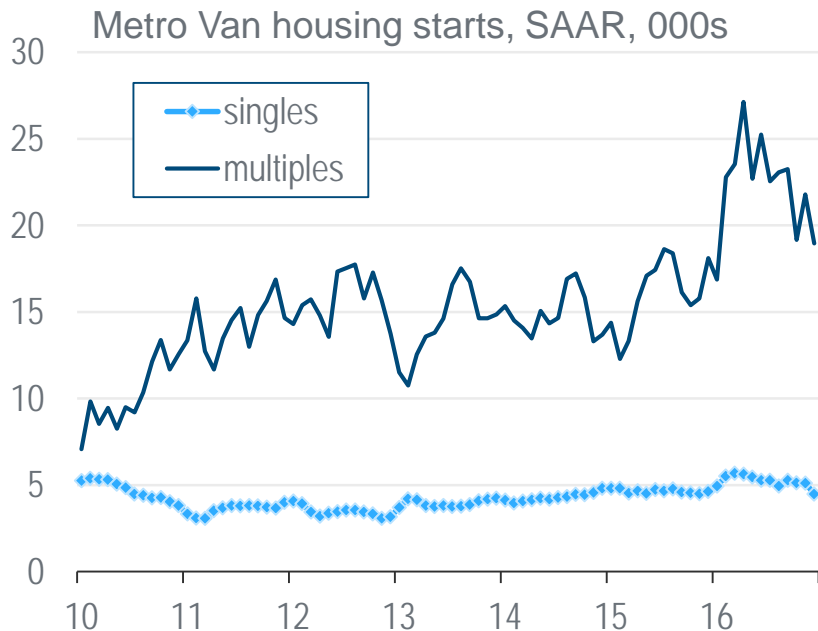
Detached housing sales, GVREB



Attached & Apartment sales, GVREB



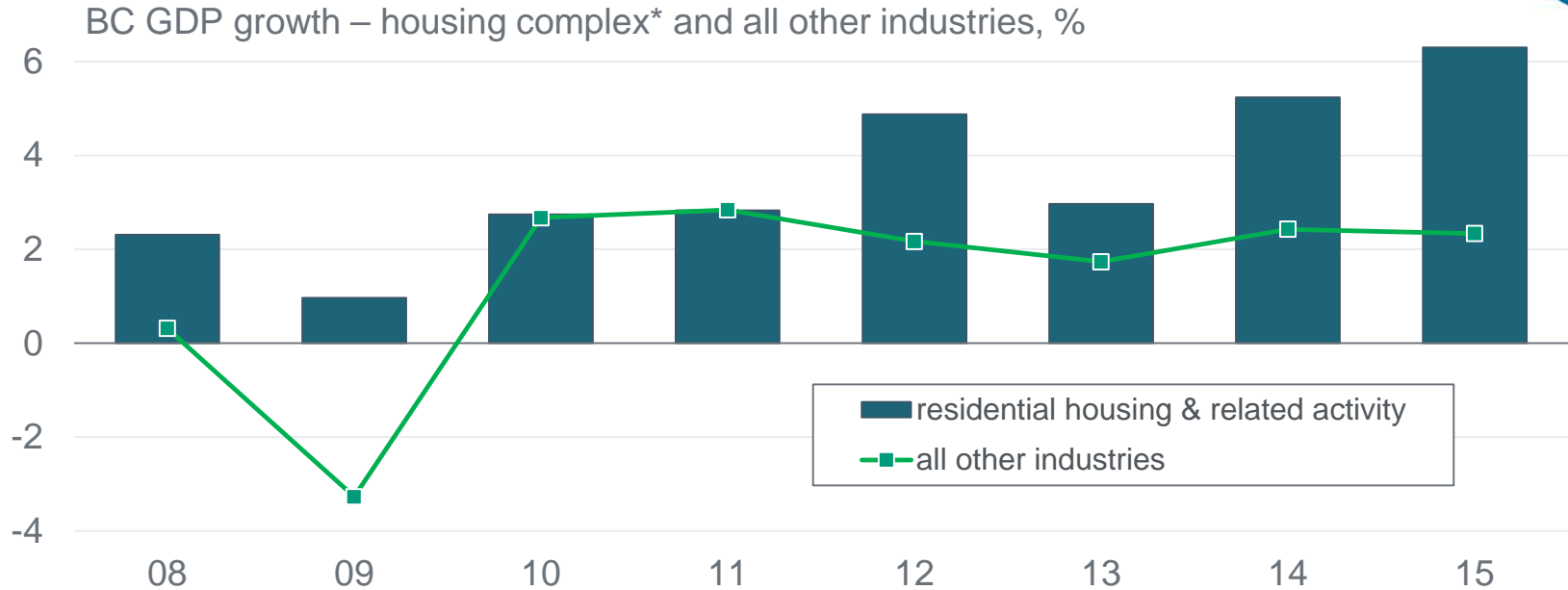
HOUSING STARTS STILL AT ELEVATED LEVELS



Latest: December 2016 data are 3 month moving averages

Source: Statistics Canada.

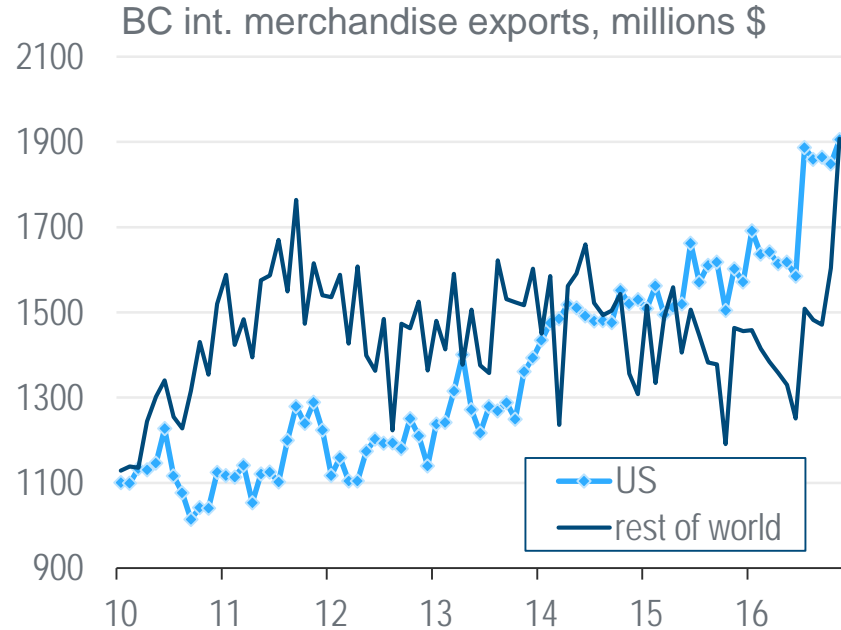
HOUSING HAS PROVIDED A BIG ECONOMIC LIFT FOR BC



* 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.

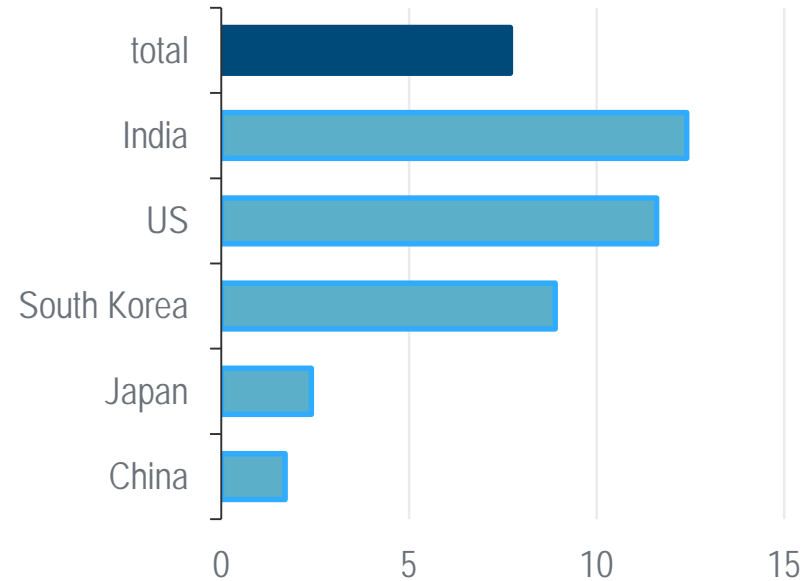
EXPORTS TO ASIA REBOUND



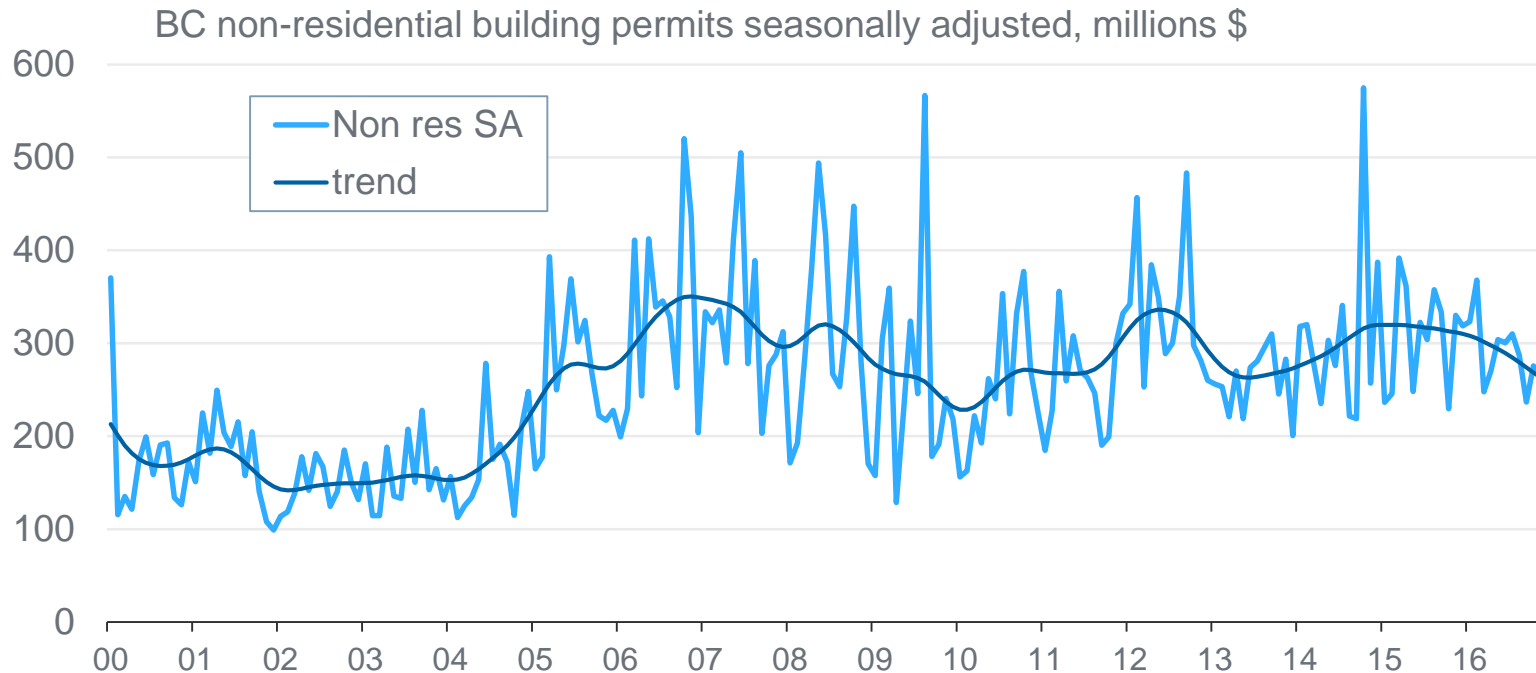
Latest: November 2016

Source: BC Stats.

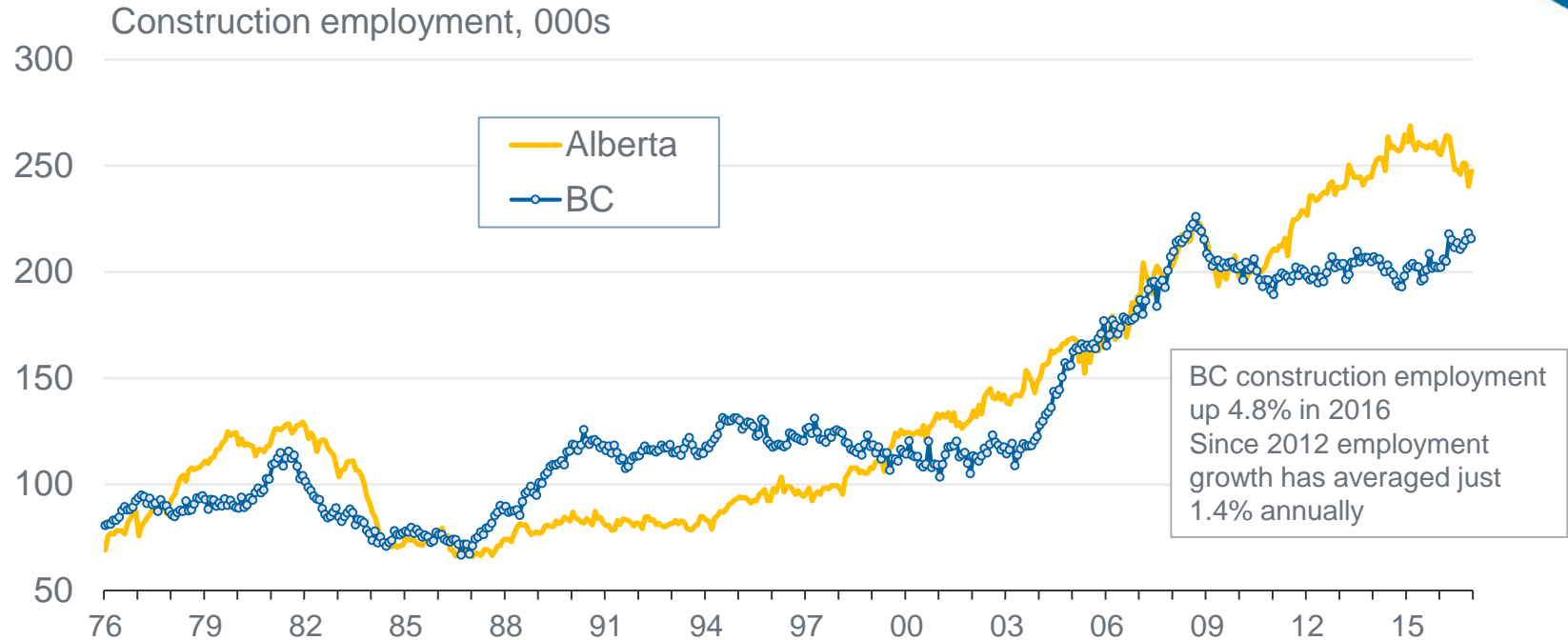
Export growth (Jan-Nov) by country, annual % chng



NON-RESIDENTIAL CONSTRUCTION TRENDS LOWER IN 2016

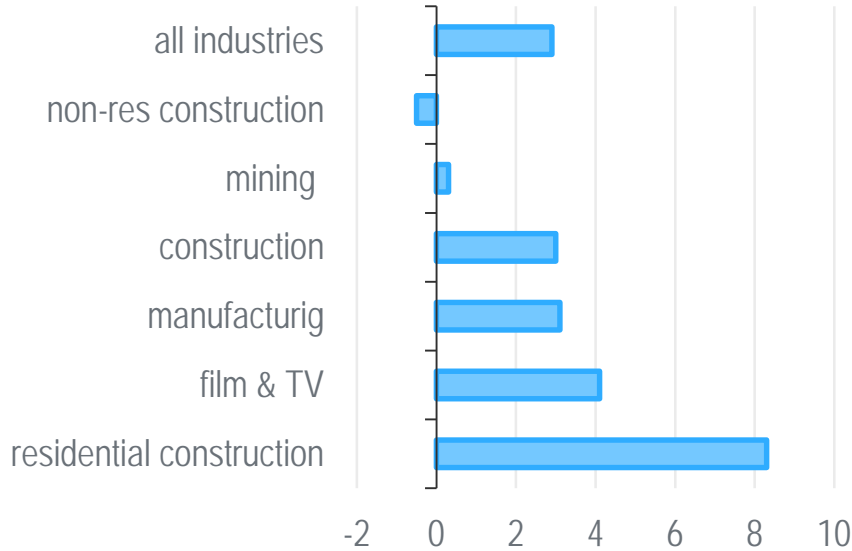


STRONG JOB GAIN IN CONSTRUCTION IN 2016

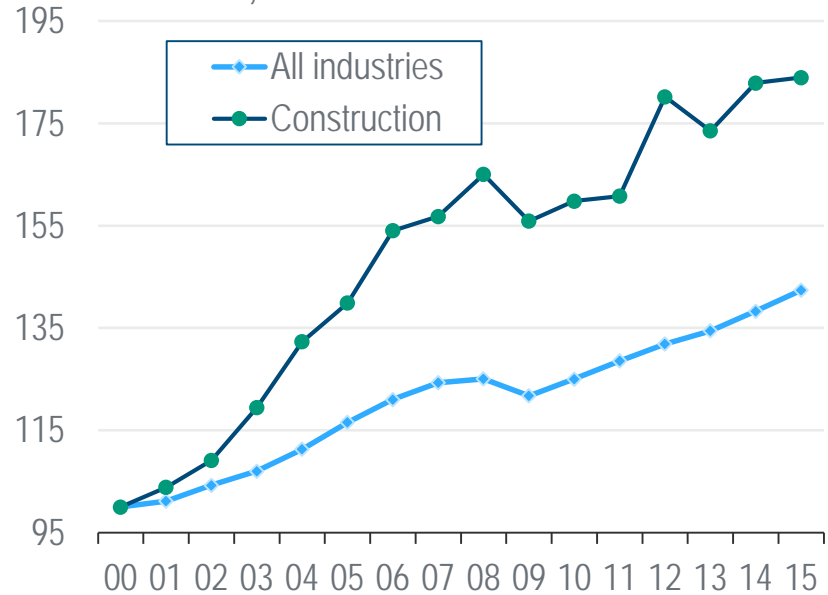


STRONG GROWTH IN RESIDENTIAL CONSTRUCTION

BC GDP growth avg 2014-15, selected industries, % change



BC GDP, Indexed 2000=100



BC ECONOMIC OUTLOOK

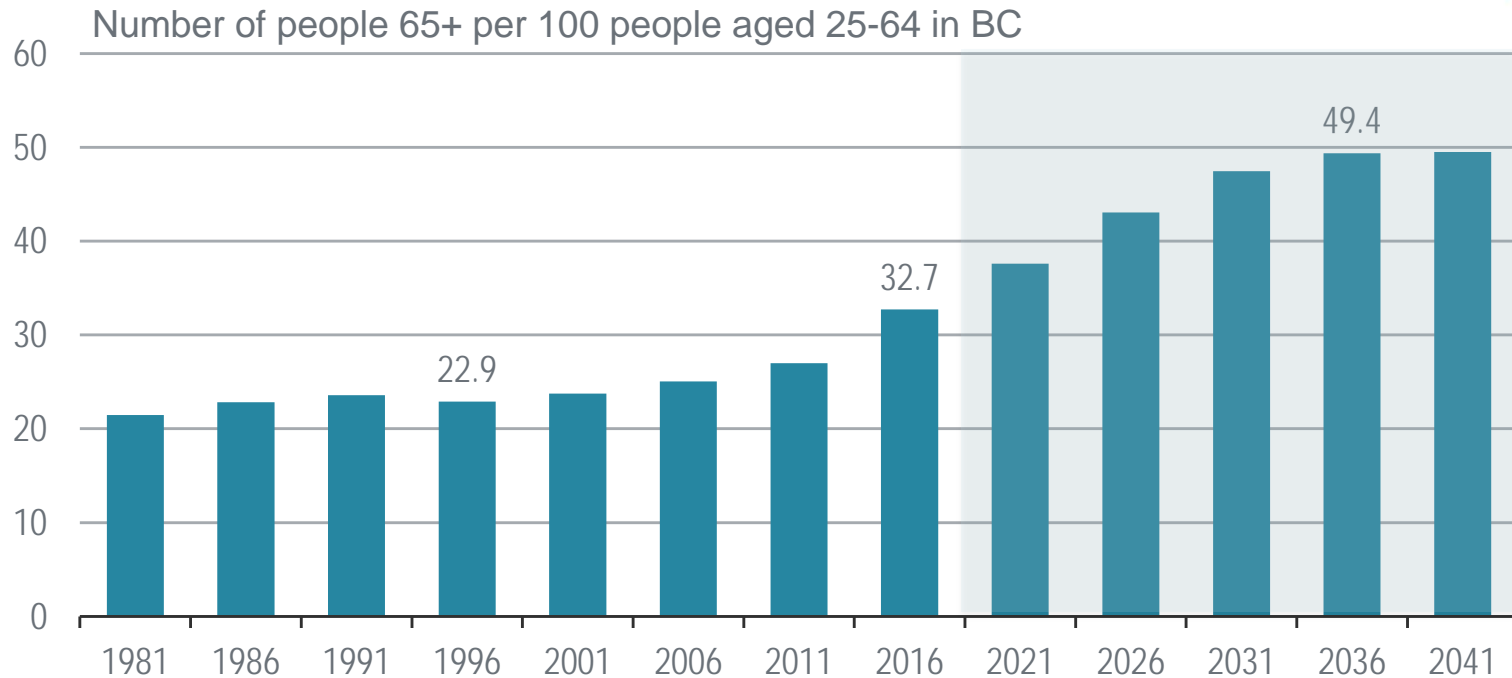
(ANNUAL % CHANGE UNLESS OTHERWISE INDICATED)

	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

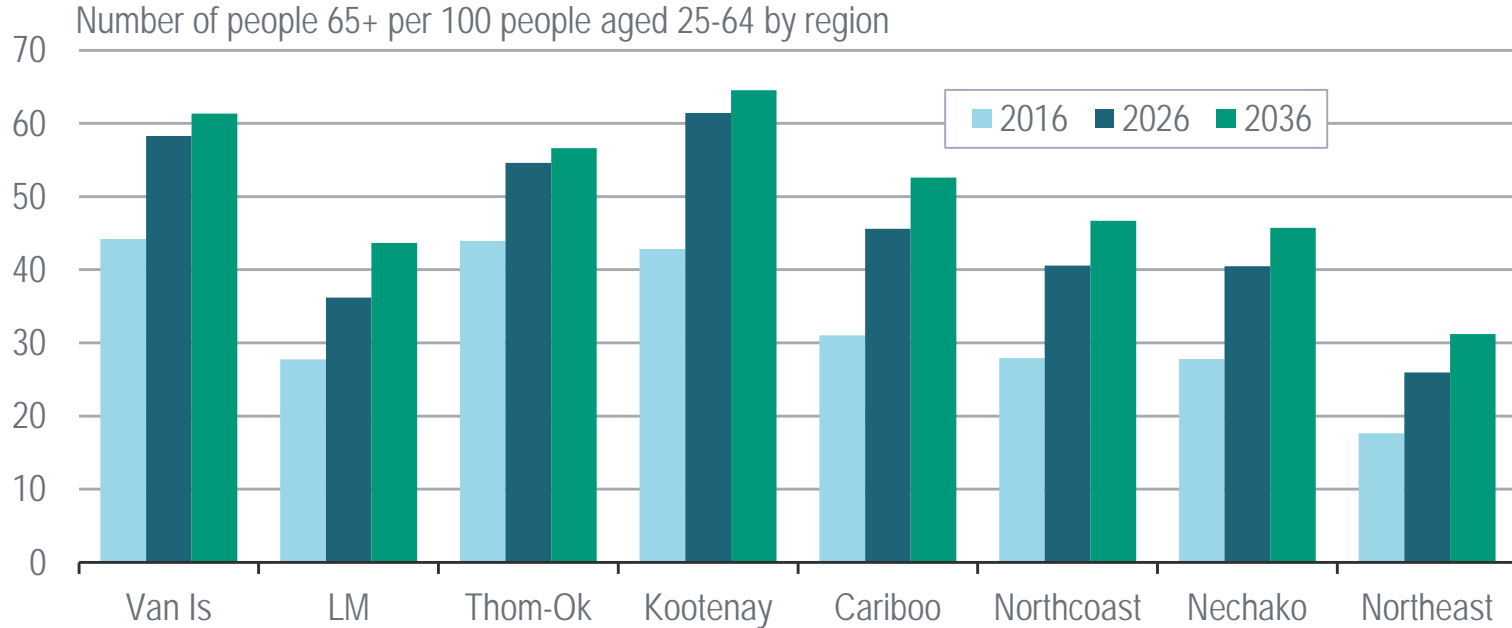
f – forecast

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

HEADING FOR ONE 'RETIREE' FOR EVERY TWO WORKING AGE PEOPLE



AGING POPULATION MORE PRONOUNCED IN SMALLER COMMUNITIES



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
- The world faces heightened uncertainty, with Trump as President, looming elections in Europe, ongoing fall-out from BREXIT, and the prospect of escalating China-US conflict
- Economic growth in BC is set to slow in 2017-18, after three years of above-average performance, reflecting slower housing market activity (mainly in the lower mainland), difficulties in the lumber industry, and waning competitiveness across a number of industry sectors
- Looking to the medium term and beyond, BC must contend with structural headwinds stemming from a pattern of weak business investment, too few large & fast-growing mid-sized companies, and lagging productivity