



Business Council *of*
British Columbia

Gaining Traction in an Unstable World: BC's Economic Prospects Through 2015

Presented to:
BC Construction Roundtable
Vancouver, BC
September 23, 2014

Ken Peacock
Chief Economist and Vice President
Business Council of BC

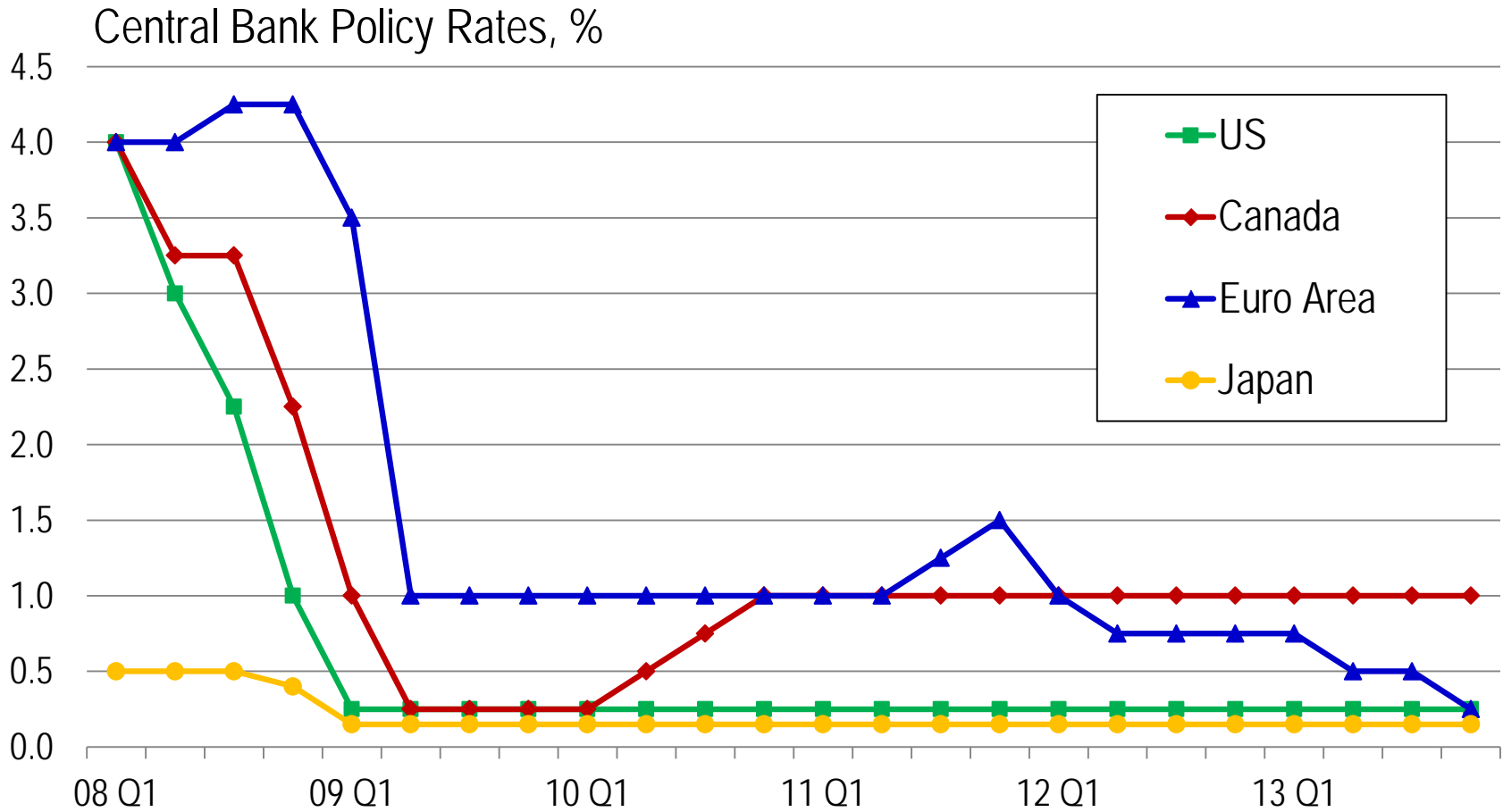
Global Economic Picture

- World economy remains sluggish
- US economy is gaining momentum
- Eurozone recession ended last fall; but...it may return
- China is holding up well...but slower growth in other emerging economies

Key risks.....

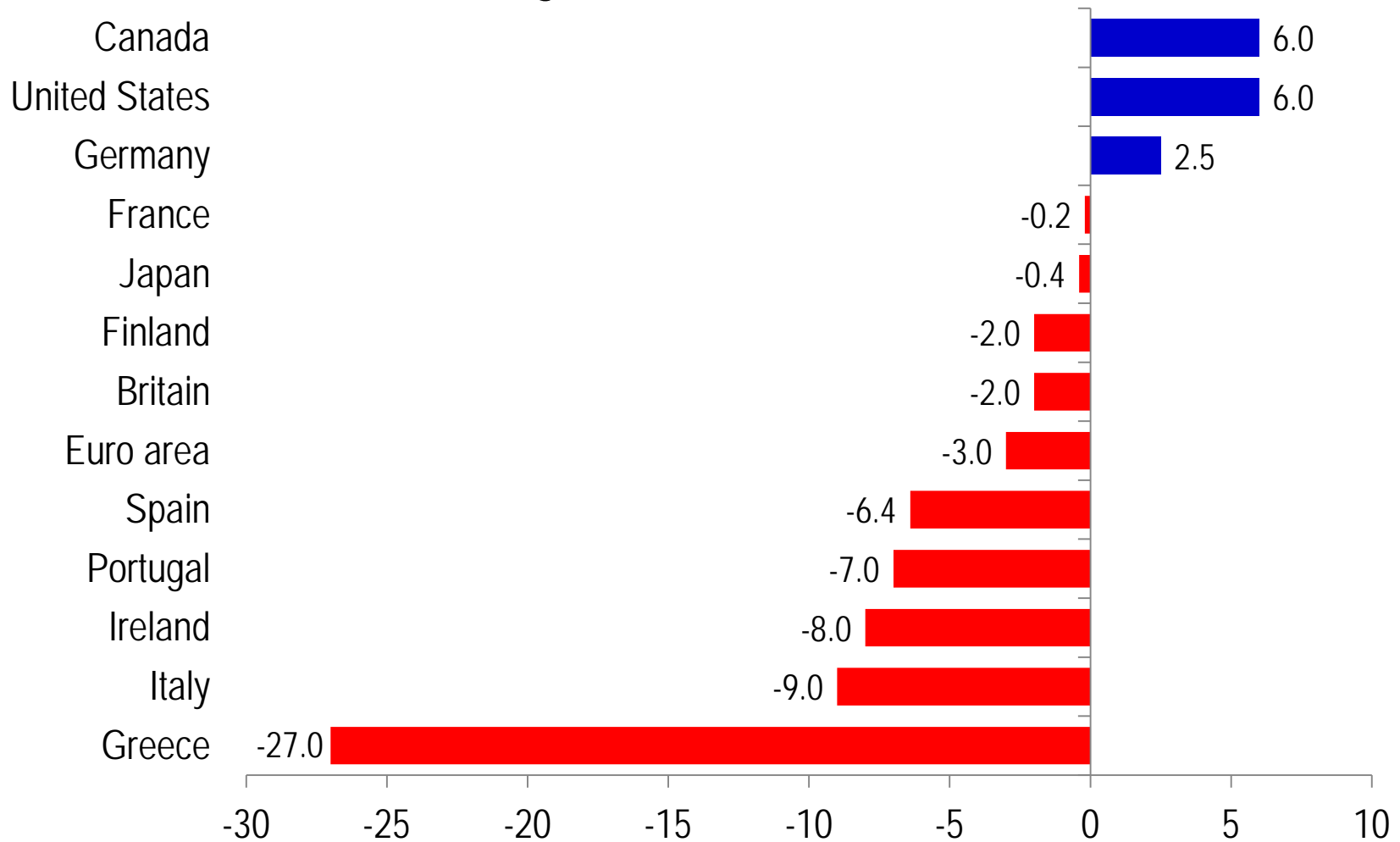
- Uncertain pathway to "normalization" of US monetary policy
- Eurozone economic, banking and sovereign debt issues
- Chinese economic rebalancing challenges
- Longer term...prospect of 'secular stagnation' (OECD)

More Than 5 Years of Rock Bottom Central Bank Policy Interest Rates



Output Still Below Pre-Recession Peak in Many Advanced Economies

Percent Change in GDP from Q1 2008 to Q4 2013





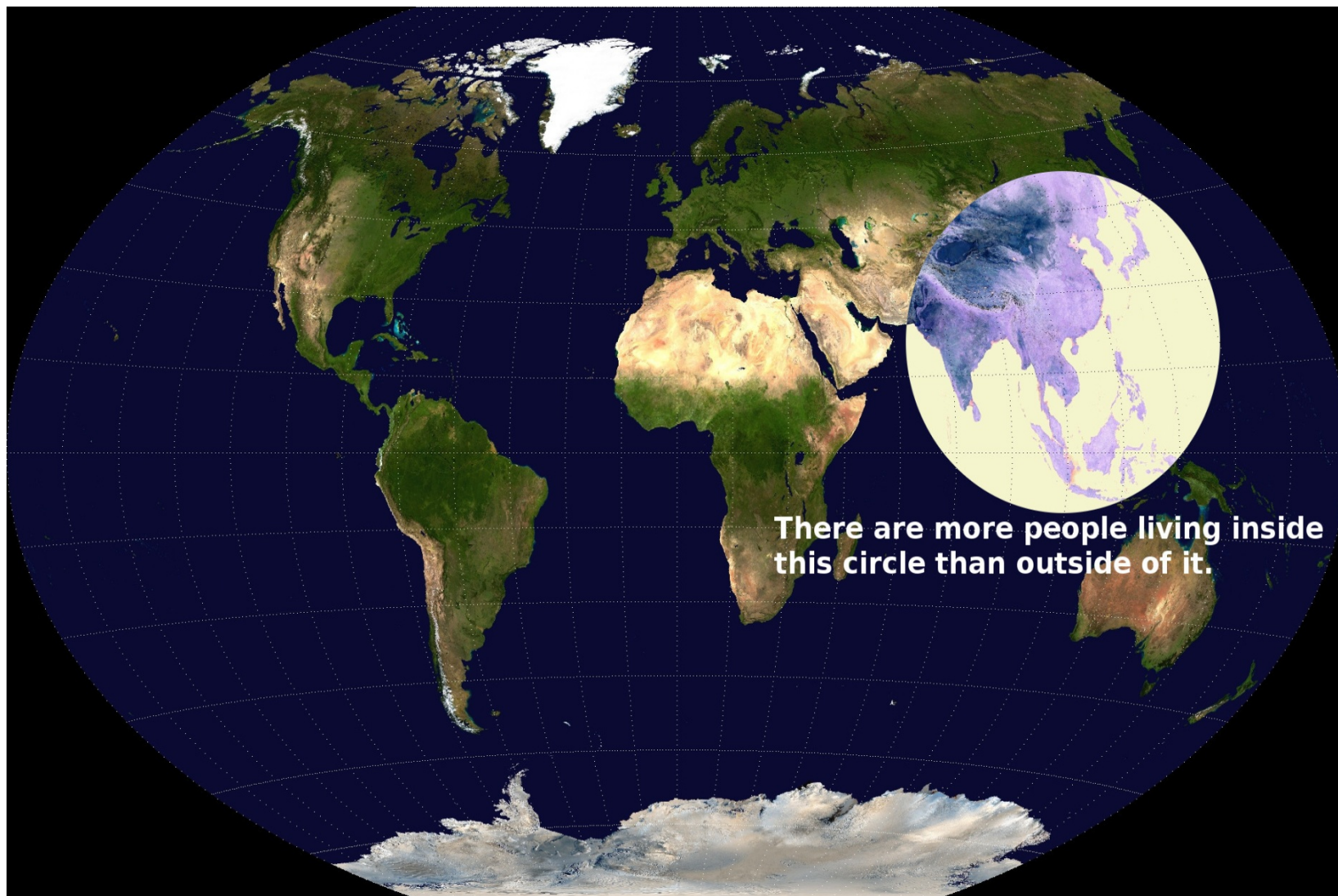
World Economic Forecast

(% change in real GDP)*

	2013	2014	2015
<i>World</i>	3.0	3.2	3.6
US	2.2	2.1	3.2
Japan	1.5	1.6	1.2
Eurozone (18)	-0.4	0.8	1.4
China	7.7	7.4	7.2
<i>Canada</i>	2.0	2.2	2.5

* based on purchasing power parity exchange rate estimates

The Rise of Asia



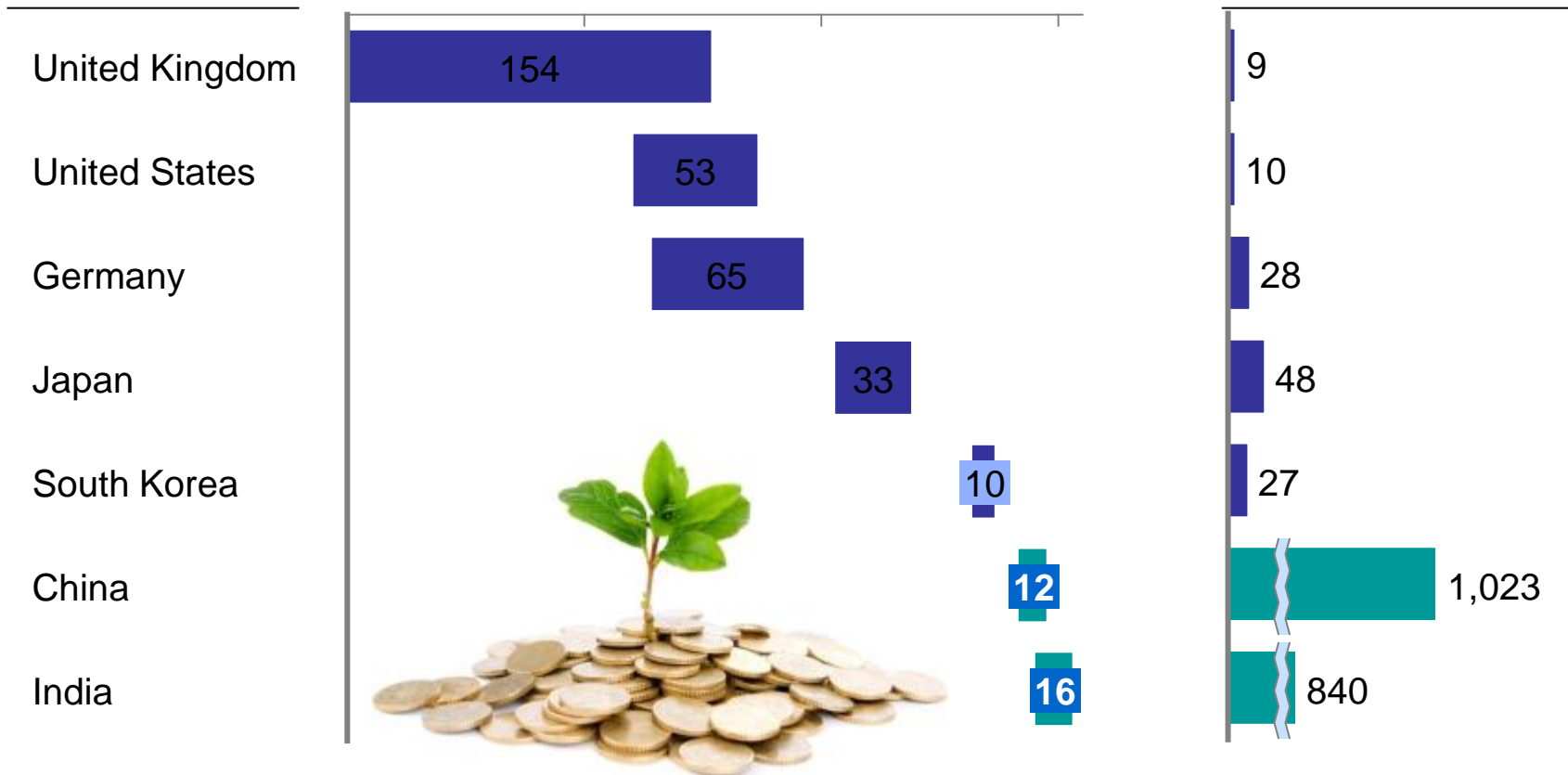
Incomes Rising in Developing Economies Faster, and at a Greater Scale, Than Any Previous Time

Years to double GDP per capita

Population at start of growth period

Country Year 1700 1800 1900 2000

Million



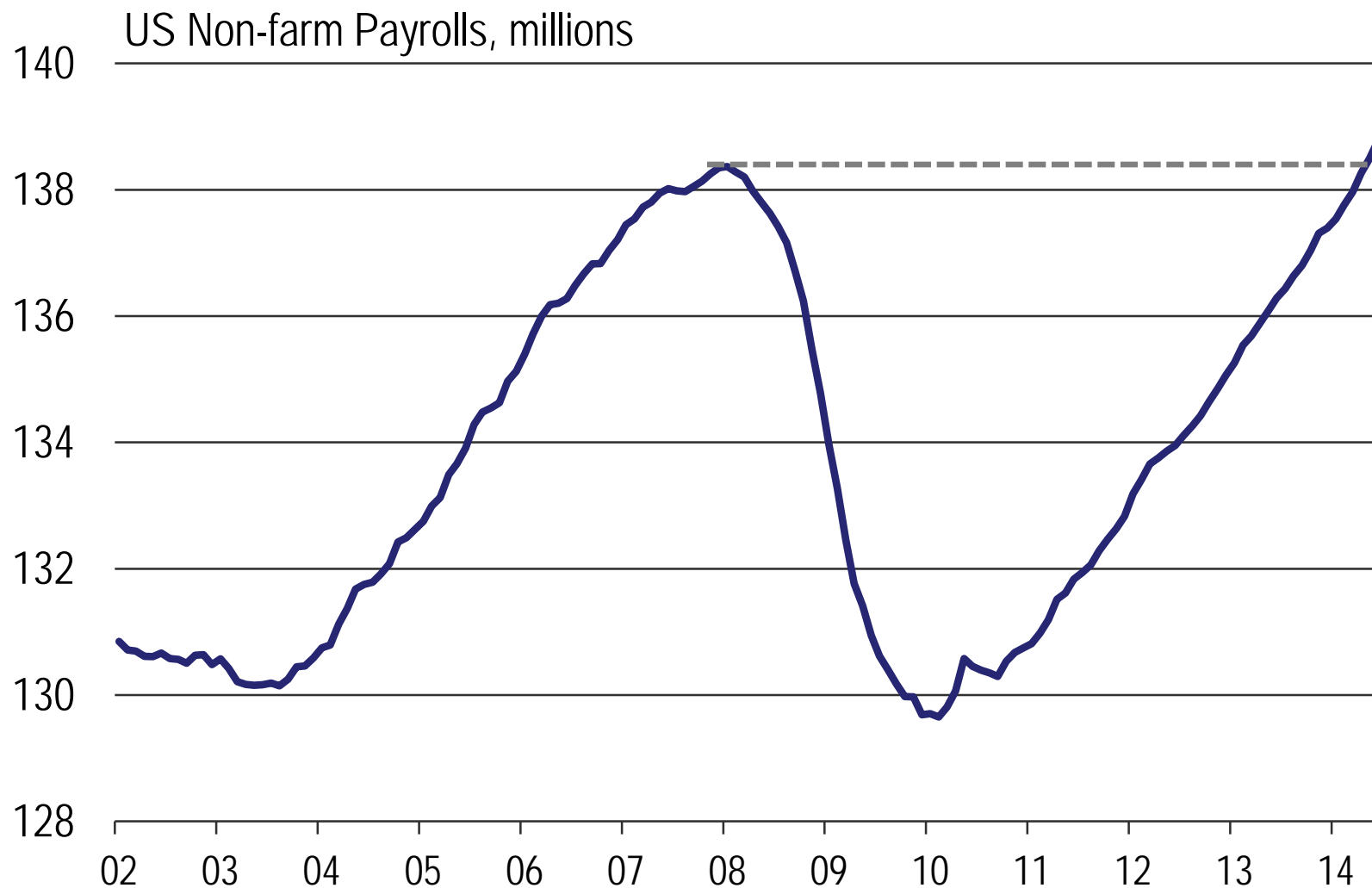
Sources: McKinsey & Company; Angus Maddison; University of Groningen; *Resource Revolution: Meeting the world's energy, materials, food, and water needs*, McKinsey Global Institute, 2011.

America's Economic Expansion is Accelerating

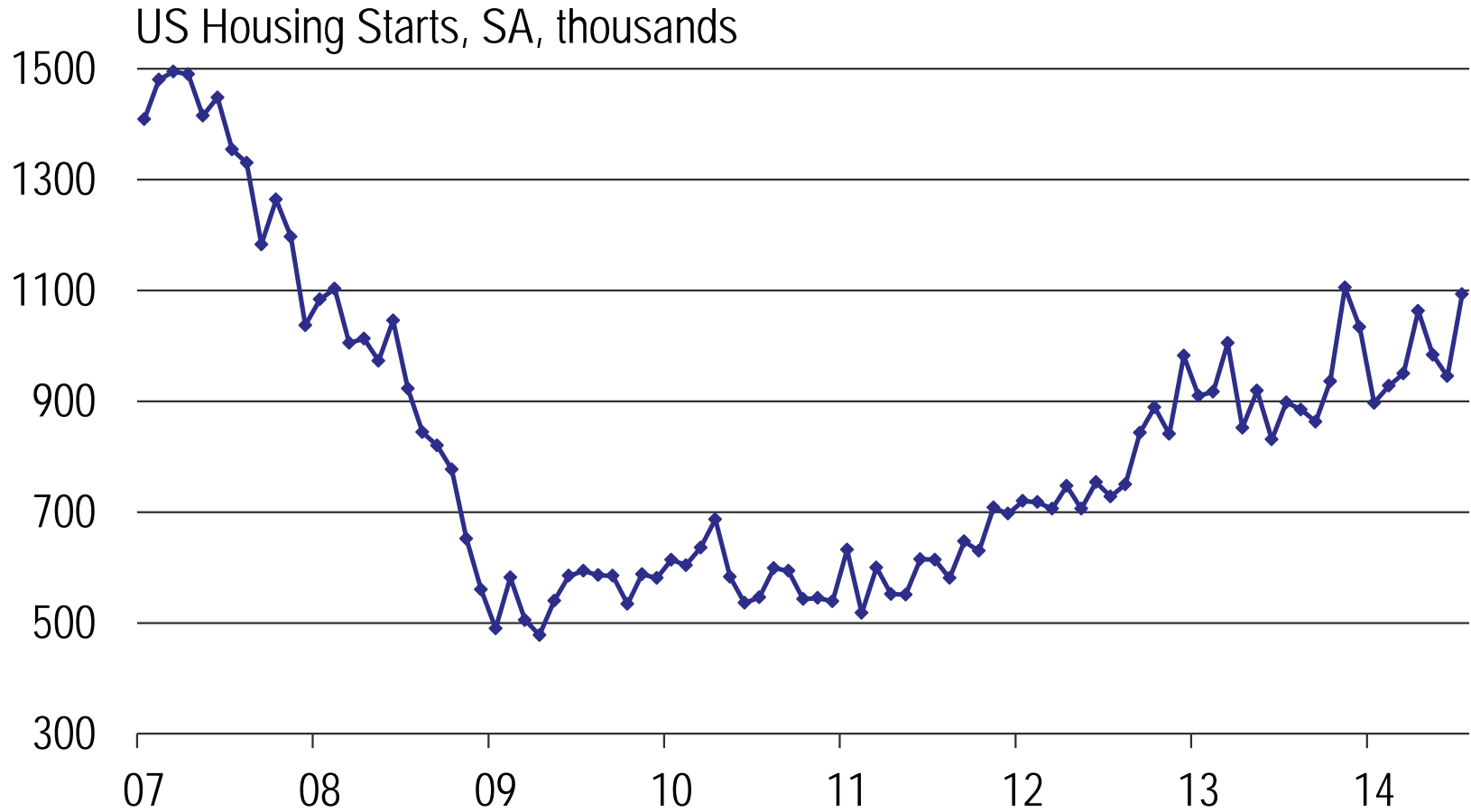
- ▶ Real GDP growth rose to 3.2% (annualized) in 2013 H2
 - » GDP growth stalled in Q1 – weather a factor
 - » decent job gains, most recent monthly data strong
 - » significant household balance sheet repair since 2009
 - » corporate America in solid financial shape
 - » housing starts rebounding, will surpass 1 million in 2014
 - » government 'fiscal drag' is diminishing

- ▶ US Federal reserve is paring back its Quantitative Easing program ('tapering')...but its policy interest rate will remain at very low levels until mid-2015

US Employment Has Finally Recovered



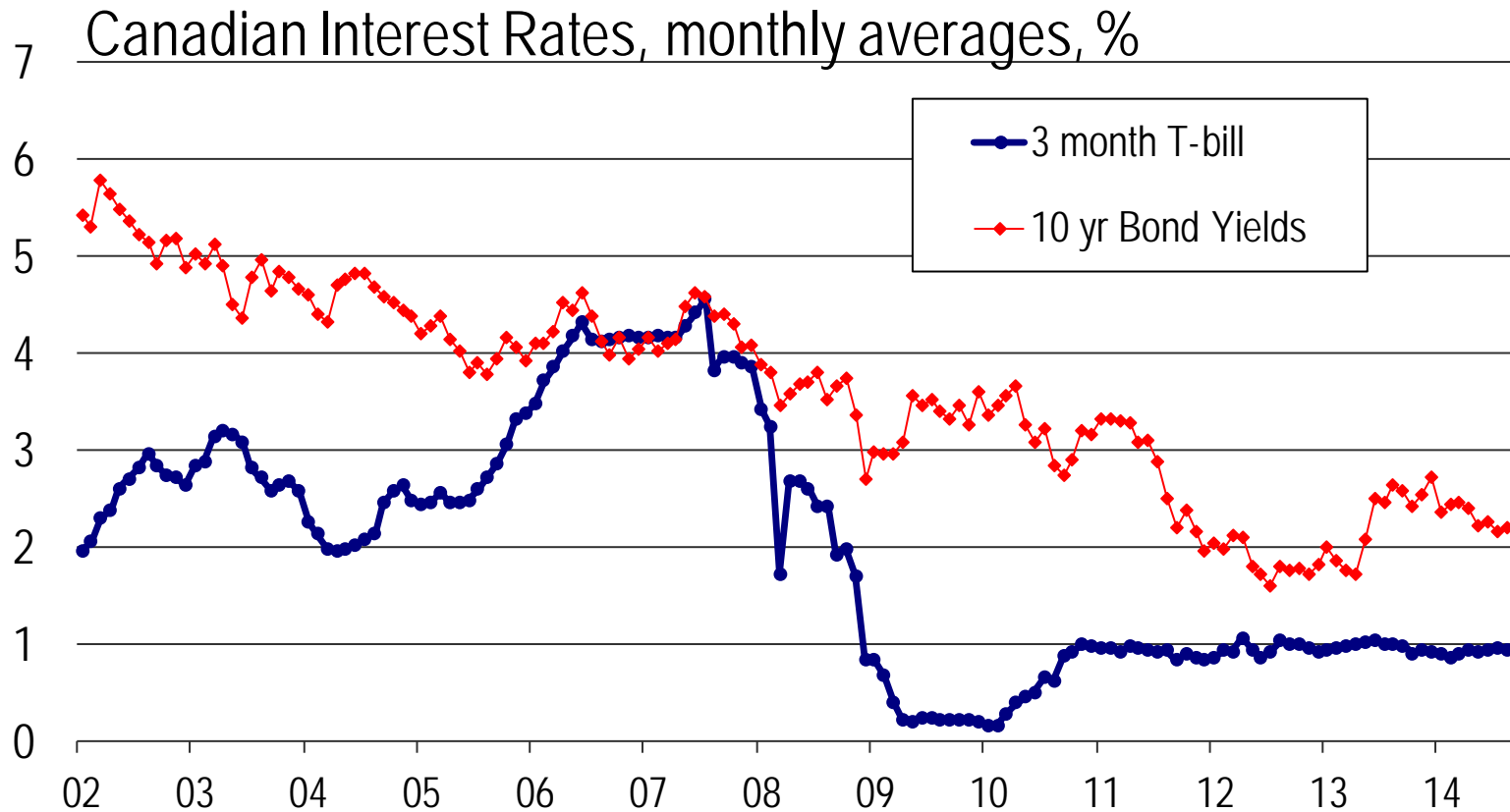
US Housing Starts Accelerating



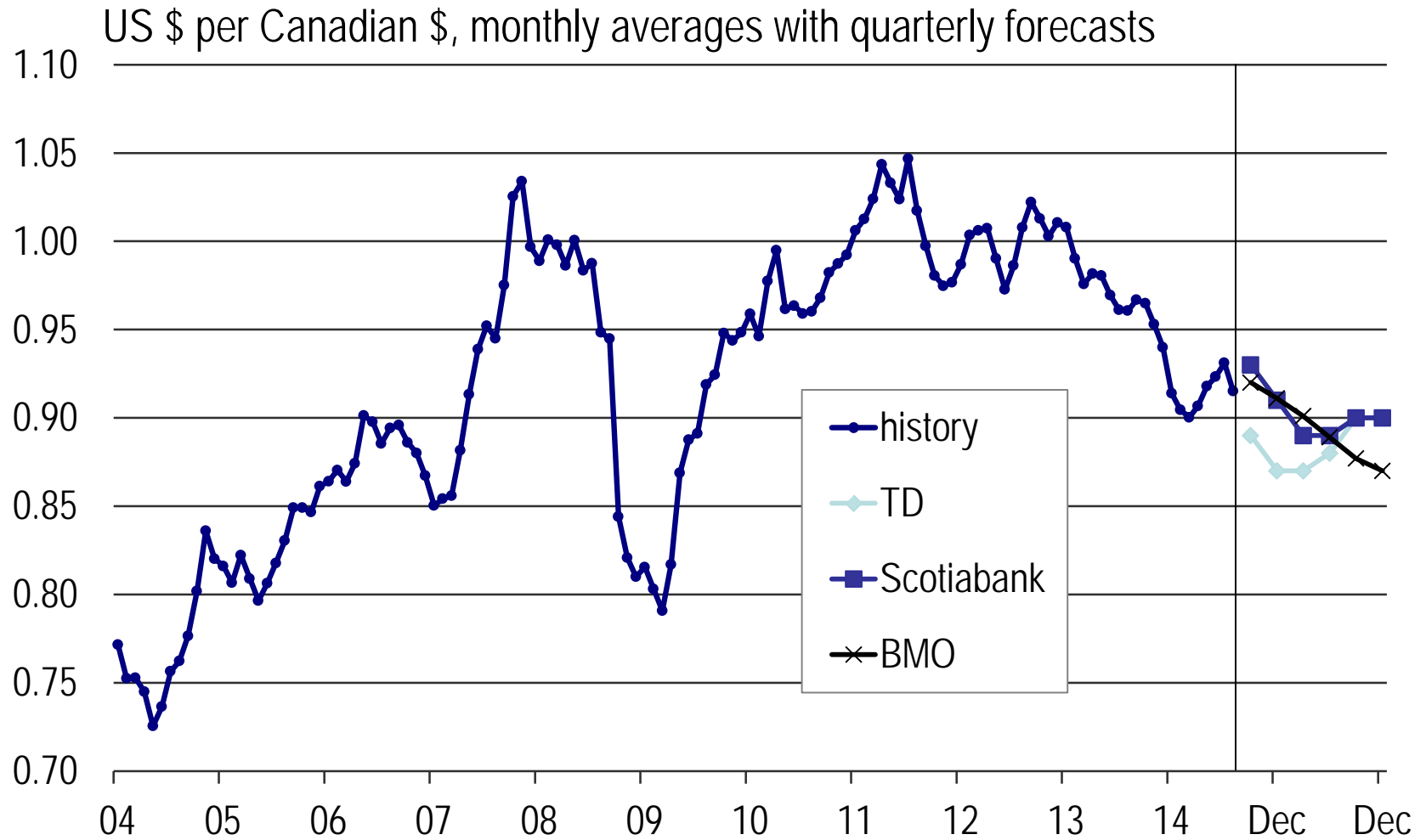
Canada Needs to Shift the Economic Growth Dynamic

- ▶ Consumer spending above its long-term average as a proportion of GDP
- ▶ Household debt/disposable income ratio at a record high
- ▶ Residential investment as % of GDP is tracking above the long-term average (almost 7% now, versus 5.8% avg.)
- ▶ Ratios of housing prices to i) incomes and ii) rents are near all time highs
- ▶ Economic growth will have to shift to net exports and business investment – and away from consumer- and housing-related spending

Interest Rates Stay Low



The Loonie is Down



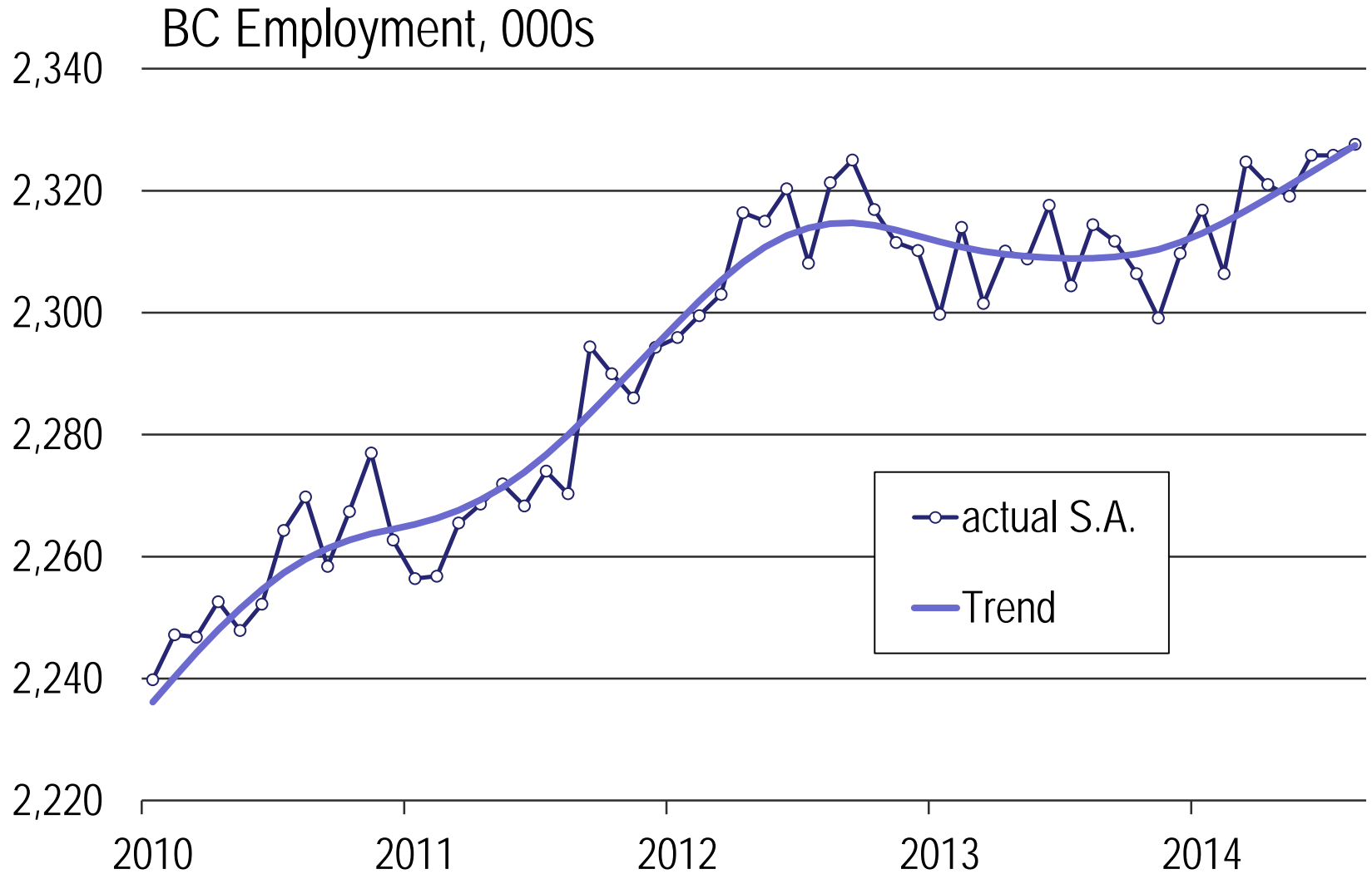
Canadian Forecast – (Slightly) Sunnier Days Ahead

	2012	2013	2014	2015
Real GDP (% change)	1.7	2.0	2.2	2.8
Unemployment rate	7.2	7.1	6.9	6.6
Housing starts (000s)	215	188	183	174
CPI (total change in %)	1.5	0.9	1.9	1.6
10 Year Gov't bond yield (Q4)	1.80	2.77	3.00	3.85

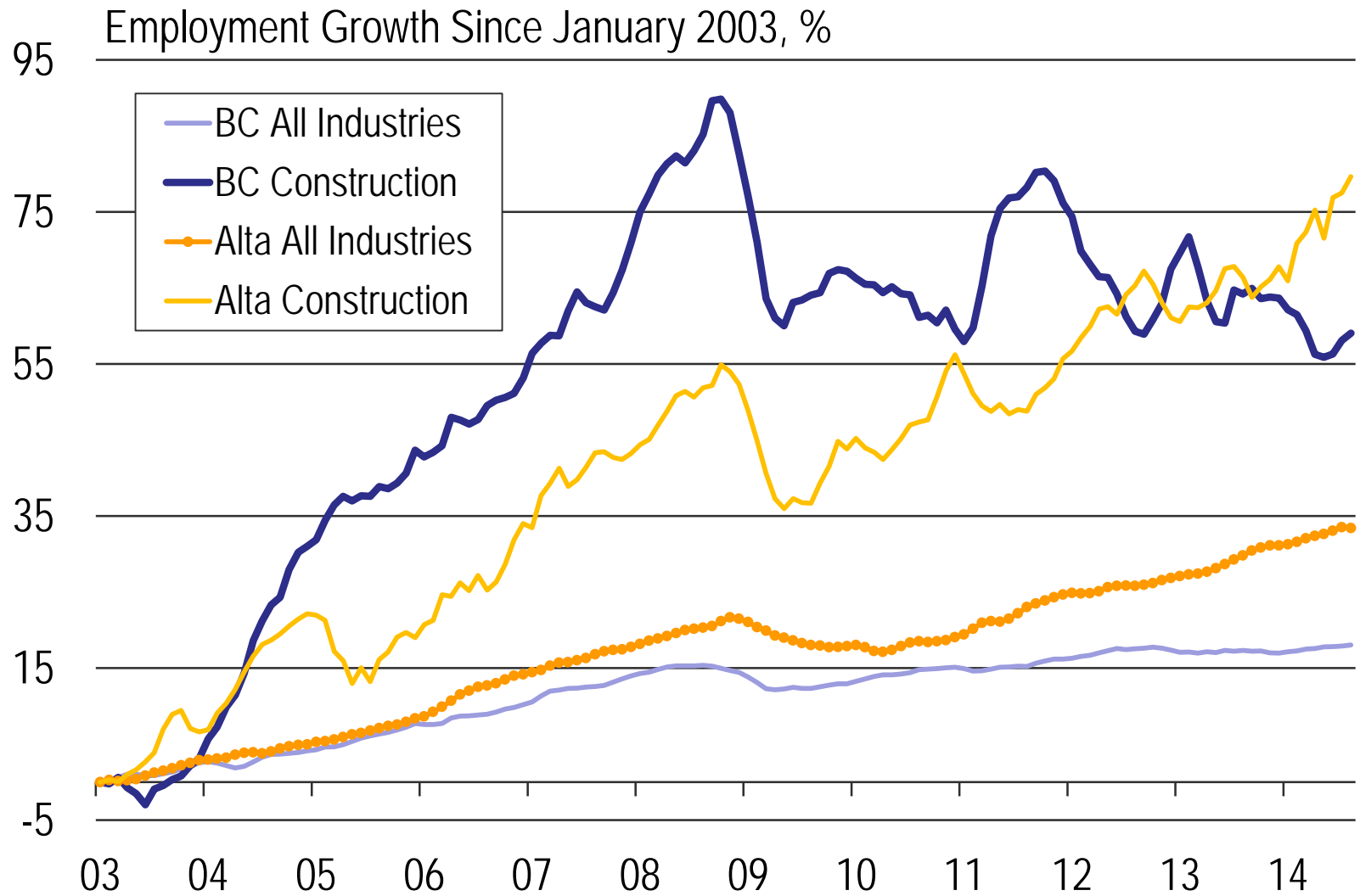
BC Economic Setting

- 2013 was a sluggish year; 2014 also started off soft
- Domestic demand hindered by stretched consumer finances, miniscule job growth, lower business investment, government 'fiscal drag'
- Better in 2015, stronger global growth, US improvement, some gains in BC exports, and somewhat stronger job market
- Rising business investment is expected to provide a major economic boost over the medium-term (not in 2014)
- LNG – the opportunity is big, but mainly relevant post-2015

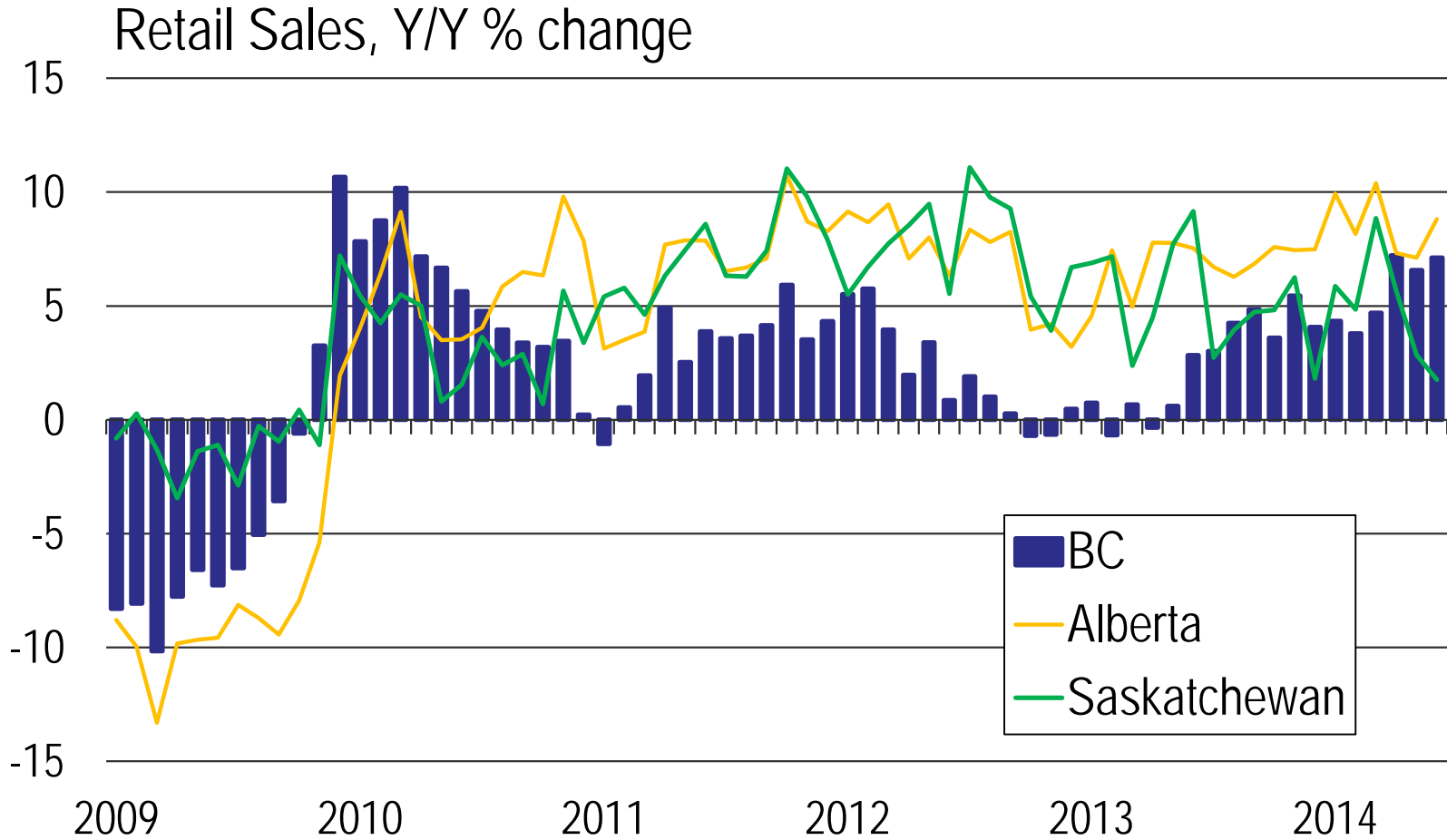
Some Job Growth After Flat 2013



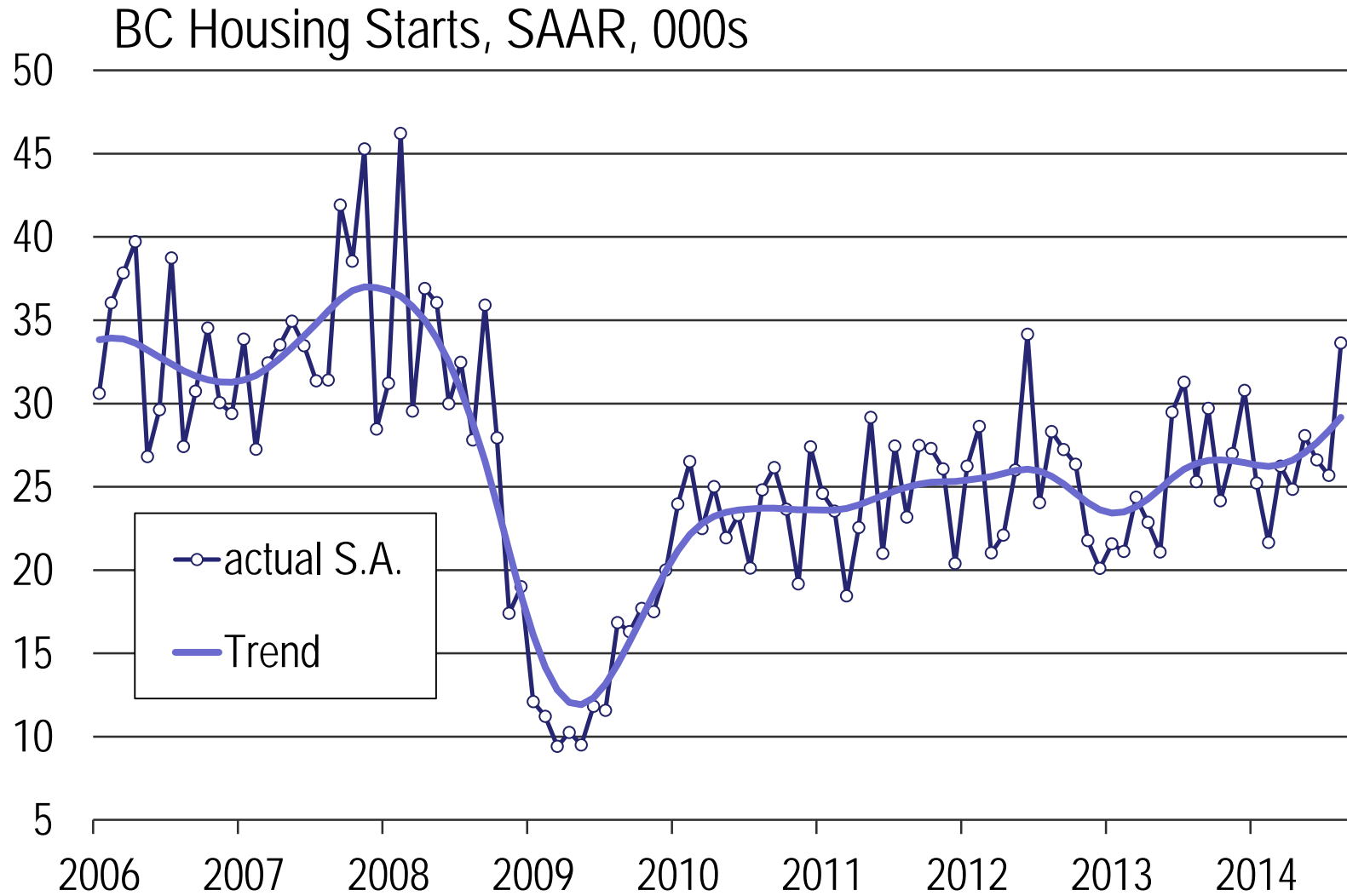
Stronger Job Growth in Construction



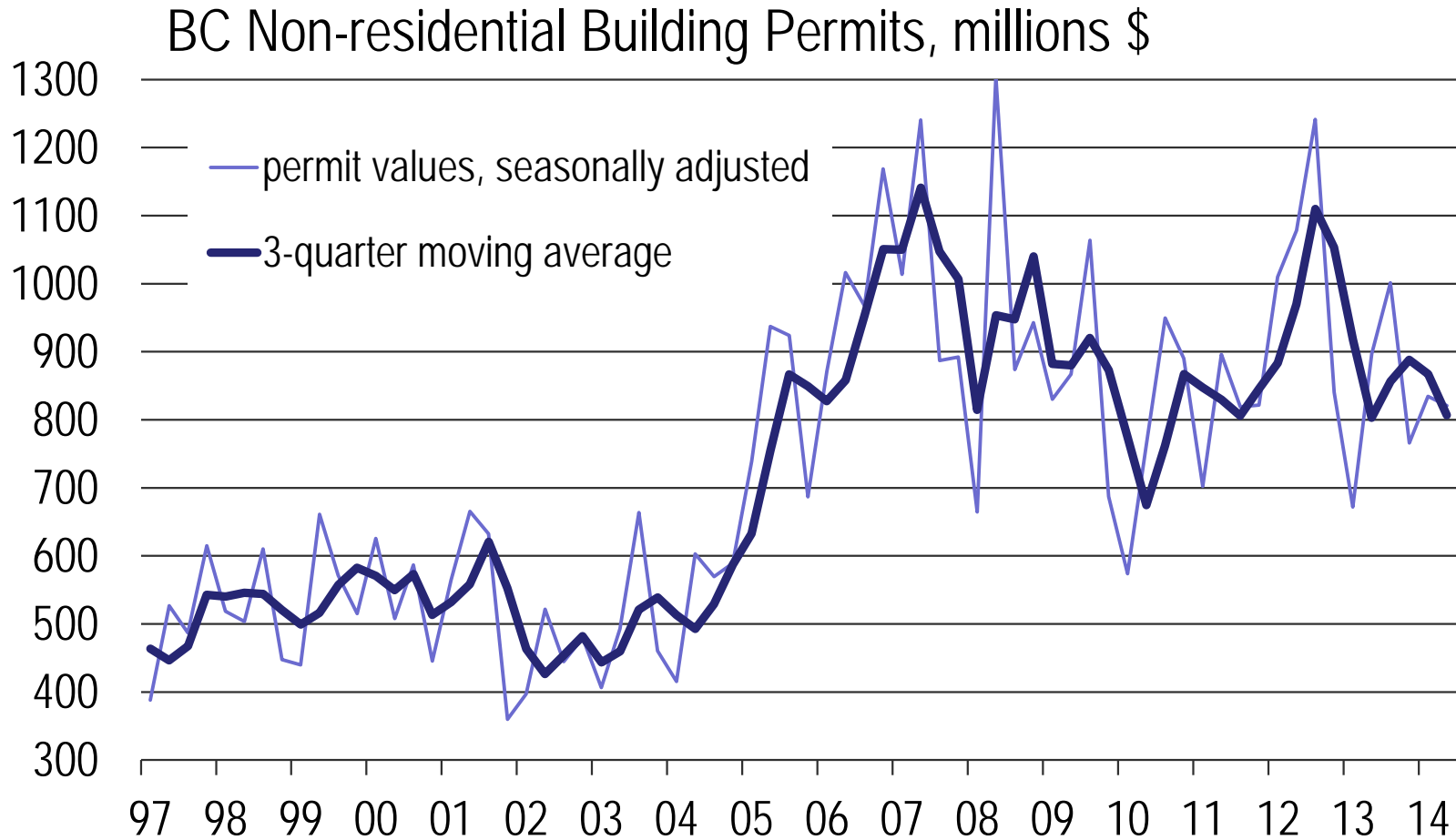
Consumer Spending Picking Up After a Period of Softness



Housing Starts Trending Up



Non-Residential Construction Remains Volatile



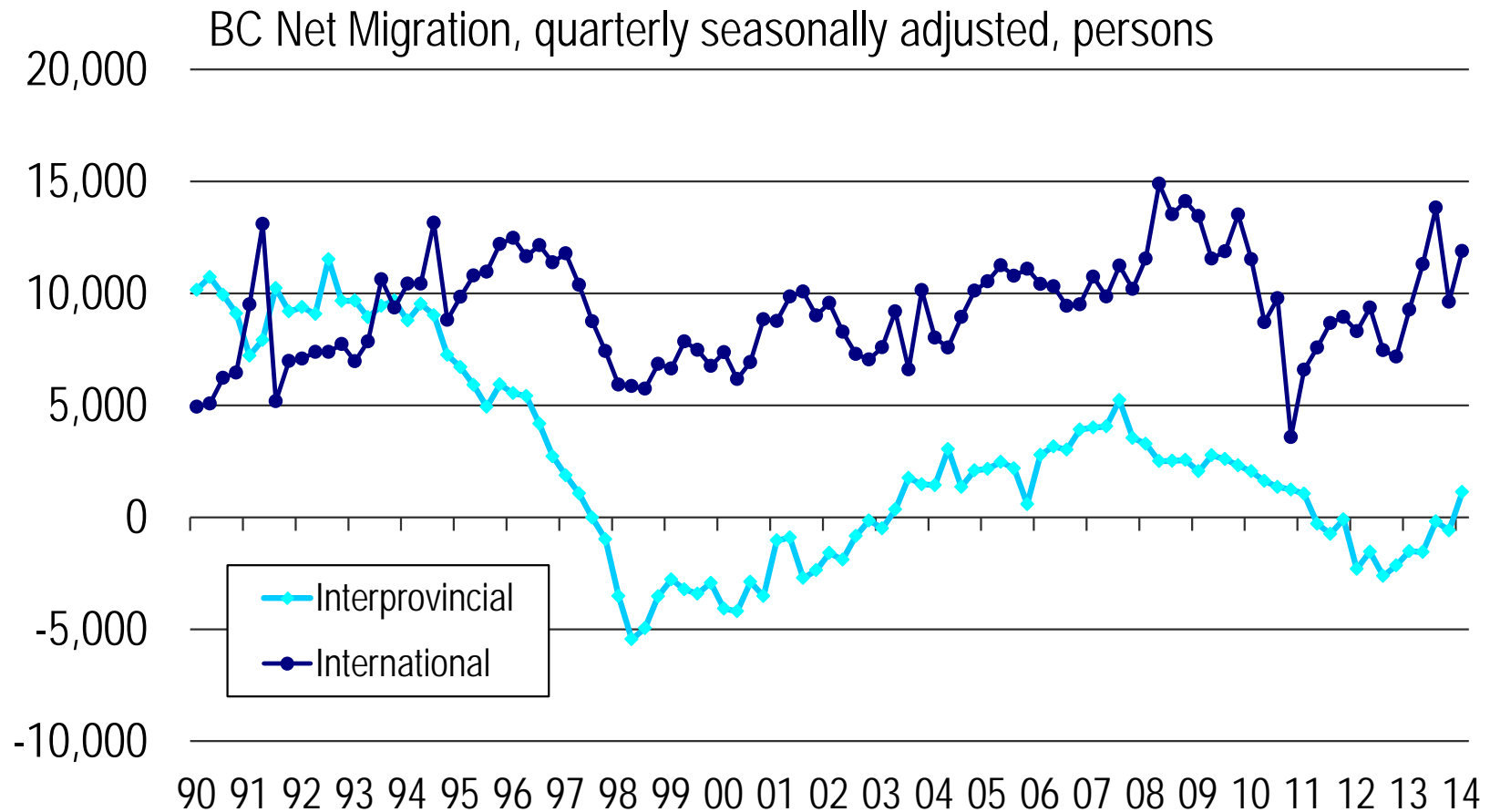
High Level of Project Investment Activity

- ▶ Capital cost of 'major projects' already underway or approved = \$80 billion. Another >\$150 billion of 'proposed' projects identified in the Major Projects Inventory (includes LNG, oil pipelines and Site C)
- ▶ Some current/imminent non-residential capital investments of note...
 - » Rio Tinto Alcan smelter modernization (\$3.3 billion+)
 - » Evergreen Line
 - » Port Metro Vancouver capital program
 - » Port of Prince Rupert and Ridley Terminal expansions
 - » YVR expansion/upgrading
 - » Northwest Transmission Line (Highway 37 power corridor)
 - » Other significant BC Hydro capital projects, plus some IPP projects
 - » Development of new office/retail complexes in the lower mainland
 - » Hospital upgrades, university building projects (various regions)
 - » Plus LNG????

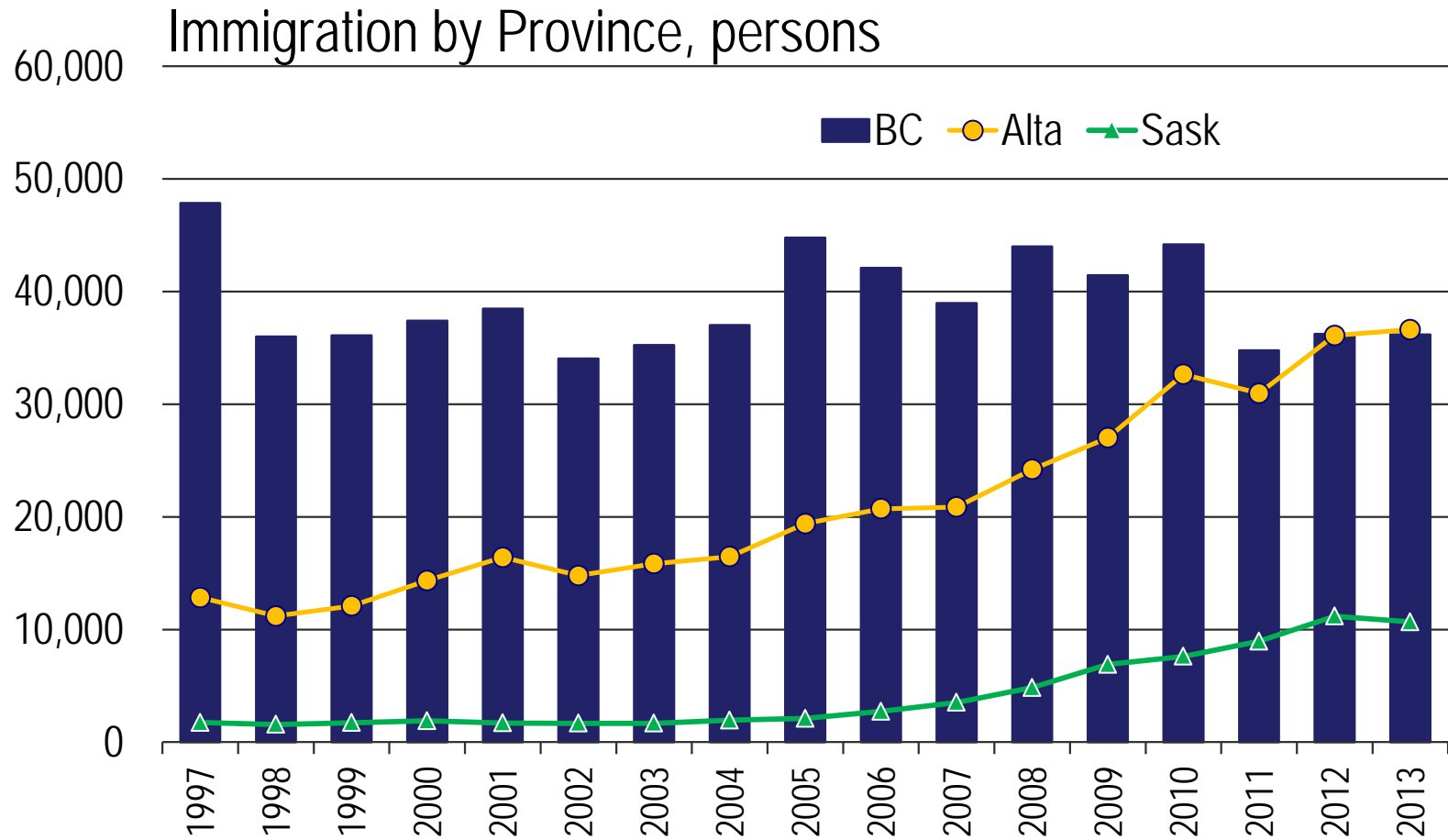
BC Merchandise Exports Up 10% ytd in 2014



Net Interprovincial Migration Turns Negative



Competition for Immigrants Heats Up



BC Industry Outlook (next 2-3 years)

Brightest Prospects

- Wood products (US housing rebound)
- Energy (LNG preparatory work, not FIDs)
- Transportation/logistics
- Non-residential construction
- Engineering, scientific/technical, and environmental services
- Segments of advanced technology
- Tourism (lower dollar, stronger US economy)

BC Industry Outlook (next 2 years)

More Subdued Picture

- Mining
- Film and TV production
- Most parts of manufacturing
- Homebuilding
- Retail trade (spending will grow in line with nominal GDP)

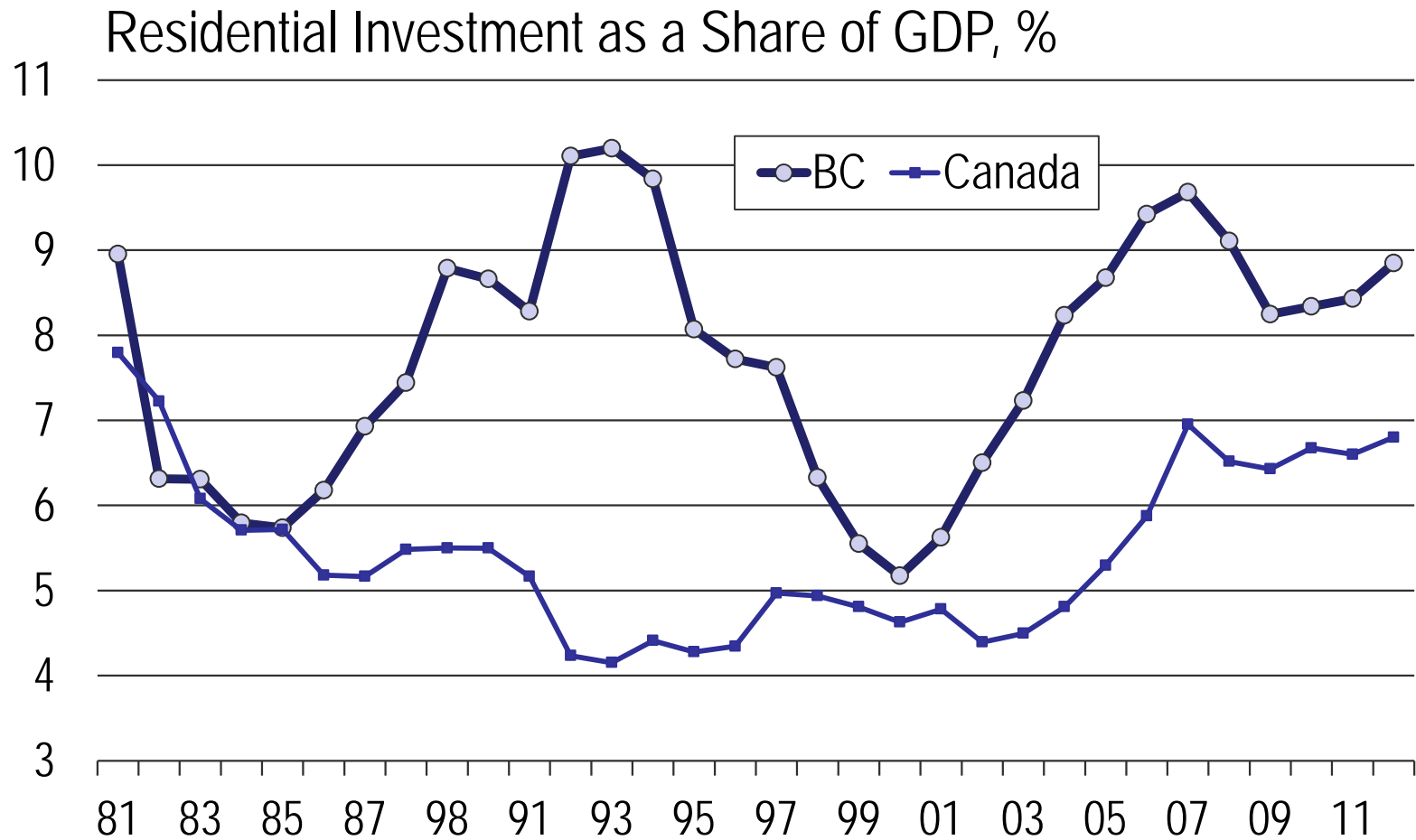


BC Economic Forecast

(annual per cent change unless otherwise indicated)

	2012a	2013a	2014f	2015f
Real GDP	1.9	2.0	2.2	2.9
Employment	1.7	-0.2	1.0	1.5
Unemploy. rate (%)	6.8	6.6	6.4	5.9
Housing starts – all areas (units)	27,500	27,100	27,000	27,100
Retail sales	2.8	1.6	3.2	3.2
All-items CPI	1.3	0.0	1.0	1.5

Residential Investment: Big Role in BC's Economy



Some Policy Issues for BC Business

- Eroding competitiveness -- shift back to retail sales tax regime, highest carbon tax in North America, rising electricity costs, complex regulatory environment for land-based and infrastructure industries, paucity of business incentives to help attract new investment
- Growing “social license” challenges around resource and infrastructure development
- Addressing skills mismatches and talent shortages
- Municipal government-related costs
- Canada-US trade, border issues, regulatory cooperation

The 'New' Canadian Economic Pecking Order

Real GDP per person, 2012		Average Weekly Earnings, 2013		Labour Productivity: real output per hour worked, business sector, 2012	
1. Alberta	\$74,201	1. Alberta	\$1,062	1. Alberta	\$68.50
2. Sask	\$53,865	2. Sask	\$924	2. Nfld.	\$68.10
3. Nfld	\$52,359	3. Nfld	\$923	3. Sask	\$58.30
4. Ontario	\$46,177	4. Ontario	\$901	4. Ontario	\$44.10
5. BC	\$45,993	5. BC	\$882	5. Quebec	\$43.90
6. Quebec	\$40,470	6. Quebec	\$796	6. BC	\$43.60
Canada	\$47,809	Canada	\$885	Canada	\$47.70

Summary

- ▶ Modest growth for BC
- ▶ External conditions weighing on exports, but US improving
- ▶ Labour market conditions mixed
- ▶ Non-residential investment a growth driver, but slower recently
- ▶ Migration patterns changing, but population still rising
- ▶ Risks – Europe, slower US growth, stronger dollar