BRITISH COLUMBIA

# BC STATS

Ministry of Management Services

# Infoline

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September 3, 2004

- Wages, salaries and benefits of workers in the province increase 1.4% in the second quarter
- Residential construction investment in British Columbia advances 4.4%
- Canadian economy expands 1.1%, boosted by strong export growth

## The Economy

- **Wages, salaries and benefits of workers in the province increased 1.4% (*seasonally adjusted*) in the second quarter, after showing an even bigger gain (+1.8%) at the beginning of the year.** The back-to-back increases in labour income were the strongest in two years. Nationally, labour income advanced 1.3% in the second quarter, building on earlier growth of 1.1%. Every region except Newfoundland (+0.4%) showed robust growth in workers' pay packets. The decline in Newfoundland was due to a downturn early in the spring. PEI (+3.2%) and Nova Scotia (+2.0%), where earnings rebounded from a slow first quarter, posted the strongest gains. *Data Source: Statistics Canada*

- **Labour income in BC rose 0.6% (*seasonally adjusted*) in June, double the rate of increase in the previous month.** Wages, salaries and benefits in the province have increased at or above the national average in all but two months since the beginning of the year. Canadian wages advanced 0.8%. *Data Source: Statistics Canada*

- **Residential construction investment in British Columbia advanced 4.4% (*seasonally adjusted*) in the second quarter.** This was largely due to new construction activity, which climbed 10.8% over the first quarter level, marking the third straight double-digit increase. However, less money was spent on renovations to existing homes, which edged down (-1.8%) in the second quarter. Acquisition costs–sales taxes, processing fees, and so on–were virtually unchanged (-0.4%). *Data Source: Statistics Canada & BC Stats*

- ***Unadjusted* data by province show BC leading the provinces, with a 30.1% increase in residential construction investment in the second quarter, compared to the same period of 2003.** Nationally, spending was up 16.3%, with particularly strong gains occurring in BC, Quebec (+26.2%), Manitoba (+16.3%) and Atlantic Canada (+12.9%). Alberta (+5.0%) and Saskatchewan (+2.5%) posted the smallest increases. *Data Source: Statistics Canada*

- **Spending on non-residential buildings in the province continued to increase, rising 4.5% in the second quarter (*seasonally adjusted*).** Investment in commercial (+8.0%) and industrial (+6.9%) projects remained robust. The public sector continued to rein in its spending on new construction. Investment in institutional and government buildings fell (-4.9%) for the sixth time in the last seven quarters. *Data Source: Statistics Canada, revised data*

## Tuition Fees

- **BC university students heading back to the classroom this month can expect to pay an average of $4,735 in undergraduate tuition fees, 15.6% more than in 2003.** They face the biggest overall increase in fees in the country. Nationwide, fees rose 3.9% (to an average of $4,172).

Last fall, undergraduate fees in BC were $4,098, only marginally higher than the national average of $4,018. Despite the latest increase, BC students will still pay less than their compatriots in Nova Scotia ($5,984), Ontario ($4,960), Saskatchewan ($4,894) and Alberta ($4,804).

The overall fee structure in BC reflects costs at both private and public universities. Tuition fees for undergraduate arts students at public institutions in BC range from an average of $4,011 (for Canadian students) at UBC to $4,269 at Simon Fraser University. Students at private institutions pay substantially more: averaging $8,267 at Royal Roads University, and $13,680 at Trinity Western. *Data Source: Statistics Canada*

**Report** Declining revenues at BC's drinking places

Did you know...
8% of British Columbians never eat breakfast

## Agriculture

- **Farm, nursery and greenhouse labourers in the province received an average wage of $9.44 per hour last year, more than in any other region.** The national average was $8.53 hourly. Farm labourers in Saskatchewan ($7.64) received the lowest hourly wage. *Data Source: Statistics Canada*

## Union Membership

- **Last year, nearly a third (32%) of all workers in BC were union members.** Although the unionization rate is falling (it dropped from 41% to 34% between 1977 and 1997 and is still going down), the province continues to have one of the most highly unionized workforces in the country. Quebec (38%) is the only region with a stronger union presence. In the Prairies, some 27% of workers belonged to unions in 2003, while the rate in Atlantic Canada was 29%. Quebec is the only region of the country where the unionization rate in 2003 was higher than in 1977. This is largely due to an increase in union membership in Quebec between 1977 and 1987 (when the rate climbed from 35% to 40%); the rate has since been falling. *Data Source: Statistics Canada*

- **Not all workers covered by collective agreements are union members.** The union *coverage* rate in BC is currently 34%, down slightly from 35% in 2003. Quebec (41%) and Newfoundland (41%) are the provinces with the highest coverage rates in the country, while Alberta (24%) has the lowest. The national average is 32%. *Data Source: Statistics Canada*

## Prices

- **In July, prices for BC softwood lumber were 27.3% higher than in the same month of 2003.** Interior lumber producers (+37.8%) saw the value of their product rise significantly over the twelve-month period; prices for lumber produced by coastal mills did not increase as much (+7.1%). However, lumber prices are beginning to level off: between June and July, softwood lumber prices fell 1.1%, after decreasing 3.6% (on a month-to-month basis) in June.

  Prices for all six of the main metals produced in BC were up significantly in July, with year-over-year (Canadian average) price increases ranging from +9.5% for gold to +177.2% for molybdenum. Zinc (+16.2%), silver (+22.8%), copper (+55.2%) and lead (+70.9%) prices have all been climbing. Oil producers saw average prices increase 24.3%, but the cost of natural gas rose only marginally (+0.3%). Average prices for thermal coal were down 0.8% from July 2003 levels. *Data Source: Statistics Canada*

- **Canadian manufacturers received an average of 5.0% more for their products this July than in the same month of 2003.** Petroleum and coal products (+24.1%) were a major factor in the strong growth, accounting for 1.2 percentage points of the increase. Primary metals (+23.6%), iron & steel (+24.5%), nickel (+60.8%) and wood (+15.3%) products also contributed to the increase in manufacturers' prices. *Data Source: Statistics Canada*

## The Nation

- **The Canadian economy expanded 1.1% (*seasonally adjusted*) in the second quarter.** The increase in real gross domestic product (GDP) was largely export-driven. Canadian exports of goods and services advanced 5.0%, marking the third straight quarter of solid gains. At the same time, the value of imports rose 3.2%. Domestic demand for goods and services was weak, rising just 0.4% in the second quarter as consumer (+0.3%) and government (+0.3%) spending stalled. Business investment in fixed capital remained robust (+1.2%). The goods (+1.2%) and service (+1.0%) sectors both posted solid gains. Manufacturers (+1.6%) and wholesalers (+2.4%) fared particularly well in the second quarter.

  Corporation profits soared, increasing a hefty 6.5% (*unadjusted for inflation*) in the second quarter. Investment income (+7.9%) kept pace with the strong financial performance of Canadian companies. Labour (+1.3%) and unincorporated business (+1.6%) income posted solid, but more moderate, increases. *Data Source: Statistics Canada*

- **Canada's current account surplus with the rest of the world reached near-record levels in the second quarter, climbing $2.2 billion to $10.4 billion.** This was the second-highest level ever recorded (the highest was in the first quarter of 2001). A surging surplus for goods trade ($20.0 billion) more than offset weakness in other current account transactions. *Data Source: Statistics Canada*

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# Infoline Report

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Originally published in *Tourism Sector Monitor,* Issue 04-07. Annual Subscription $60 +GST

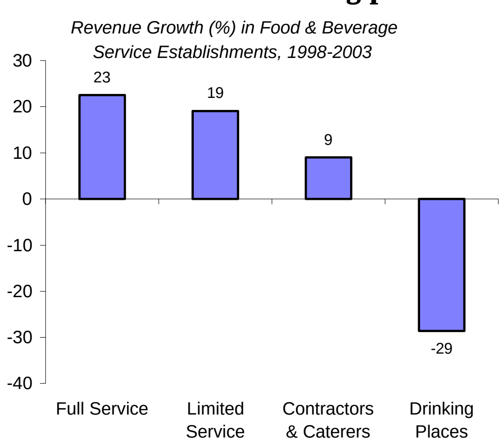
# Declining Revenues at BC's Drinking Places

British Columbia's food and beverage service industry has been enjoying strong growth in revenues in recent years. However, one sector of the industry, drinking places, has been sharply battered over the last half decade. This article examines the downturn and considers a number of possible causes, including prices, the smoking ban, and competition from other establishments.

### Drinking places in decline

Revenues at drinking places in BC have plummeted 29% since 1998, representing a drop of $144 million. Over 30 establishments (6%) have withdrawn from the market in the last five years, and revenues per establishment have fallen 24%.

**Revenues have fallen sharply at BC drinking places**




Source: Statistics Canada

This is in striking contrast with establishments that primarily serve food.

At full service restaurants, revenues have expanded 23%. At limited service "fast food" restaurants, revenues are up 19%. Even food service contractors and caterers have seen revenue growth (+9%). Thus, drinking places are the one weak spot in the food and beverage service industry.

There are several possible factors in the decline of drinking places in BC, including general trends in prices and consumption of alcohol, the WCB ban on smoking in bars, and growing competition from licenced restaurants.

### 1. Overall alcohol sales

Total expenditures on alcohol in BC have shown relatively slow growth in recent years. On a per capita basis, total alcohol sales rose 10% between 1998 and 2002. This was the slowest growth of liquor sales among the provinces, and is roughly half the national average (+19%). This limited growth in demand for alcohol suggests a partial reason why drinking places are in difficult times.

### 2. Liquor prices

BC has some of the highest liquor prices in Canada. Statistics Canada's inter-city price index provides data on the liquor prices in 11 major cities in Canada. Prices in Vancouver, in October 2002, were 4% higher than the 11-city average.

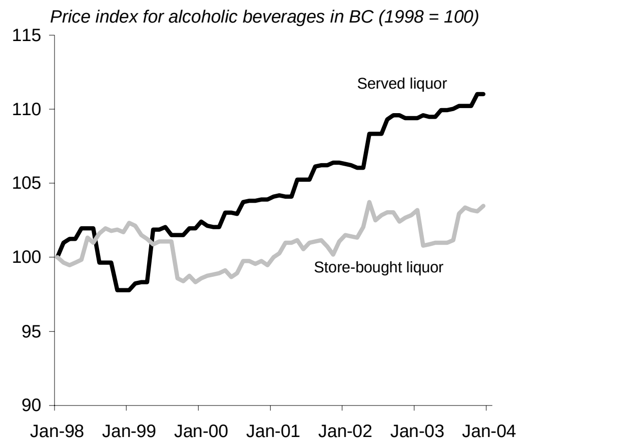
Only the east coast cities of St John's and Halifax had higher alcohol prices (5% above average) than Vancouver. The lowest alcohol prices are in Regina (6% below average) and Winnipeg (16% below average).

Neverthеles7s, liquor prices in BC, while comparatively high, have been fairly stable in recent years. Alcohol prices rose 4.3% between 1998 and 2003, below the overall rate of inflation (9.5%). This suggests that price has not been the cause of slow alcohol sales in BC.

However, there is a growing gap between the price of store-bought liquor and liquor served in establishments.

Alcohol purchased in stores has had price increases of only 1.3% between 1998 and 2003. [1] However, the price of served liquor over the same period rose 9.7%. Thus, the cost of "going out for drinks" has risen significantly compared to "having friends over for drinks". This increasingly unfavourable price comparison has likely hurt drinking places in BC.

**Price of served liquor rising faster than store-bought liquor**




Source: Statistics Canada

### 3. The smoking ban

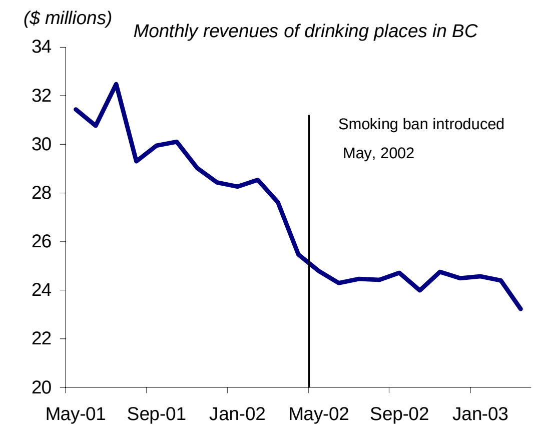
The smoking ban on the food and beverage service industry is another possible factor in the decline of drinking places. Drinking and smoking are often done together, which could make a smoking ban in bars and nightclubs particularly burdensome.

When the Workers Compensation Board first imposed the ban in January 2000, it provoked a sharp reaction from industry. Two and a half months later, the BC Supreme Court ruled that the WCB had failed to adequately consult with stakeholders, and overturned the ban.

A study commissioned by the WCB concluded that the two and a half month ban did produce a short-term decline in the liquor service industry. [2]

The smoking ban was re-introduced in May 2002. However, this date does not correspond to a drop in the revenues of drinking places.

**The smoking ban did not spark a decline in revenues**




Source: Statistics Canada

The decline in revenues at drinking places occurred *prior* to the enactment of the smoking ban, and revenues have been relatively stable since then. It seems that the smoking ban did not have a negative impact on the revenues of BC drinking places.

### 4. Competition from licenced restaurants

Nightclubs and some bars offer a very distinctive "product." However, pubs are often not very different from licenced restaurants.

The distinction between pubs and licenced restaurants is largely a creation of the liquor control laws. In principle, licenced restaurants can only serve alcohol as an accompaniment to a meal. At pubs, food can be served as an accompaniment to alcohol, or served not at all. Pubs exist largely be-

[1] In the beginning of 2004, there was a 3.9% increase in liquor prices, set by the BC Liquor Distribution Branch.

[2] *Pacific Analytics. 2001. "The Economic Impacts of the Proposed Amendment to the ETS Regulation." Prepared for the Workers Compensation Board of British Columbia.* This study was based on provincial liquor sales, rather than establishment revenues.

cause restaurants are not legally permitted to serve alcohol without food. And liquor control legislation takes this issue quite seriously.

For a licenced restaurant, serving alcohol without food (qualifications noted below) is one of the most serious offences under the *Liquor Control and Licensing Act*. A first offence can result in a maximum $10,000 fine and / or a 15-day suspension. In contrast, many of the "public safety" elements in the liquor laws carry significantly lower penalties—including offences such as overcrowding the establishment, serving alcohol to intoxicated patrons, and even serving alcohol to minors. These violations can result in a maximum $7,000 fine and / or a 7-day suspension. [3]

Nevertheless, there are regulatory loopholes in the liquor control laws, and restrictions on restaurants are gradually being relaxed.

Traditionally, restaurants have been allowed to set aside 10% of their seating as a lounge where people can order drinks without food. Changes to the legislation in recent years allow for 20% of restaurant space to be designated as a lounge—doubling the lounge space previously allowed. As restaurants incorporate the new law into their floor plans, they will likely continue to claim market share from pubs.

As well, there is the 'intention to order food' loophole that allows restaurants to serve thirsty patrons not interested in a meal.

In order to serve alcohol, restaurant staff must *believe* that a customer *intends* to order food. This frequently leads to a game in which the customer asks for a menu and a drink, but eventually decides not to order food. Two drinks can be served before a customer has to order food, and even then ordering a side of French fries or carrot sticks can minimally satisfy the restriction.

Through the allowance for restaurant lounge space and the 'intention to order' game, licenced restaurants are able to operate much like a pub, and it seems that restaurants are increasingly competing with liquor primary establishments.

This would suggest that a significant portion of the decline in the revenues of drinking places does not represent a "weakness" in the food and beverage service industry. Rather, it may be more related to a competitive redistribution of market share, which explains in part the strong growth of revenues at full service restaurants.

However, without more detailed data—information about licenced vs. unlicensed restaurants, nightclubs vs. pubs, etc—this account cannot be definitively established.

**Conclusion**

In the food and beverage service industry, drinking places have been the one weak spot, with revenues falling 29% over the last five years.

Overall spending on alcoholic beverages has not been as robust in BC as in other provinces. As well, the price of served liquor (+9.7%) has been rising much faster than the price of store-bought liquor (+1.3%) over the past five years. However, neither of these facts provide an adequate account of why drinking places have seen such a steep decline in revenues.

The introduction of the smoking ban, which might be expected to be a particular burden on drinking places, was a possible factor. However, the downturn in revenues largely occurred before the smoking ban was enacted.

Competition from licenced restaurants has probably been the main factor in the declining revenues and market share of drinking places.

[3] Liquor Control and Licensing Regulation. Schedule 4.

# Infoline

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## BC at a glance . . .

| **POPULATION (thousands)** | Apr 1/04 | % change on one year ago |
|---|---|---|
| BC | 4,177.4 | 1.0 |
| Canada | 31,825.4 | 0.9 |

| **GDP and INCOME** *(BC - at market prices)* | 2003 | % change on one year ago |
|---|---|---|
| Gross Domestic Product (GDP) *($ millions)* | 142,418 | 5.1 |
| GDP *($ 1997 millions)* | 130,914 | 2.2 |
| GDP *($ 1997 per Capita)* | 31,572 | 1.4 |
| Personal Disposable Income *($ 1997 per Capita)* | 19,495 | -0.4 |

| **TRADE ($ millions, seasonally adjusted)** | | % change on prev. month |
|---|---|---|
| Manufacturing Shipments - Jun | 3,493 | -1.3 |
| Merchandise Exports - Jun | 2,779 | -2.2 |
| Retail Sales - Jun | 3,914 | 0.5 |

| **CONSUMER PRICE INDEX** *(all items - 1992=100)* | Jul '04 | 12-month avg % change |
|---|---|---|
| BC | 123.4 | 1.8 |
| Canada | 125.0 | 1.7 |

| **LABOUR FORCE (thousands)** *(seasonally adjusted)* | Jul '04 | % change on prev. month |
|---|---|---|
| Labour Force - BC | 2,245 | -0.2 |
| Employed - BC | 2,082 | 0.1 |
| Unemployed - BC | 163 | -3.4 |
| | | Jun '04 |
| Unemployment Rate - BC *(percent)* | 7.3 | 7.5 |
| Unemployment Rate - Canada *(percent)* | 7.2 | 7.3 |

| **INTEREST RATES (percent)** | Sep 1/04 | Sep 3/03 |
|---|---|---|
| Prime Business Rate | 3.75 | 4.75 |
| Conventional Mortgages - 1 year | 4.60 | 4.55 |
| - 5 year | 6.40 | 6.35 |

| **US/CANADA EXCHANGE RATE** | Sep 1/04 | Sep 3/03 |
|---|---|---|
| *(avg. noon spot rate)* Cdn $ | 1.3068 | 1.3812 |
| US $ *(reciprocal of the closing rate)* | 0.7652 | 0.7246 |

| **AVERAGE WEEKLY WAGE RATE** *(industrial aggregate - dollars)* | Jul '04 | % change on one year ago |
|---|---|---|
| BC | 682.85 | -0.7 |
| Canada | 678.57 | 2.4 |

**SOURCES:**

Population, Gross Domestic Product, Trade, Prices, Labour Force, Wage Rate } Statistics Canada
Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics
For latest Weekly Financial Statistics see www.bankofcanada.ca

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**Next week**

- Quarterly Regional Statistics, 2nd Quarter 2004