

- **British Columbia's unemployment rate dropped to 6.1%, the lowest since June 1981.**
- **Sales by retailers in the province softened in October, rising just 0.6%.**
- **The Canadian economy held ground in October.**

## Labour Force

- **British Columbia's unemployment rate edged down 0.3 percentage points in December, dropping to 6.1% (*seasonally adjusted*) the lowest since June 1981.** The improvement in the unemployment rate was due to strong job growth (+0.8%, or a net gain of 17,000 jobs) in December. Average annual employment in the province rose by 40,000 (+2.4%) in 2004.

Jobless rates in the rest of the country ranged from 4.5% in Alberta to 15.3% in Newfoundland. The Canadian unemployment rate edged down (-0.3 percentage points) to 7.0%, the lowest since May 2001. As was the case in BC, job growth (+0.2%, or a net gain of 34,000 jobs) was the main reason for the improvement

*Data Source: Statistics Canada*

- **The province's goods (+0.6%) and service (+0.9%) sectors both took on more workers in December.** Job gains in agriculture (+11.8%), forestry, fishing, mining (+4.8%) and utilities (+3.8%) pushed the goods sector up for the fourth consecutive month. However, construction (-0.3%) and manufacturing (-1.4%), which together account for more than 80% of total employment in the goods sector, didn't fare well in December.

Employment gains in the service industries occurred mainly in management & administration services (+6.2%). Information, culture and recreation (+2.5%), health care and social assistance (+2.2%), and "other" services (+2.4%) also hired more workers. However, there were fewer jobs in educational services (-2.3%), professional, scientific, technology services (-1.9%), transportation and warehousing (-0.2%), and accommodation and food services (-0.1%).

*Data Source: Statistics Canada*

- **Both men (+1.3%) and women (+0.3%) benefited from a more robust job market in December.** The private sector (+1.4%) outperformed the public sector (+0.9%) in job gains, while fewer people were self-employed (-1.1%). Full-time employment ended the year with an increase of 1.4% in December, but there were fewer part-time jobs (-1.4%) in the province.

*Data Source: Statistics Canada*

- **Within British Columbia, Northeast (-8.5%, 3-month-moving average) was the only region that experienced a job loss compared to December 2003.** Kootenay (+9.5%) saw the most significant job growth across the province, followed by Vancouver Island/Coast (+5.9%) and North Coast/Nechako (+5.0%). Unemployment rates were down or flat in every region except Kootenay. Both Vancouver (-0.5 percentage points) and Victoria (-0.5 percentage points) saw lower jobless rates in December.

*Data Source: Statistics Canada*

- **The number of people in British Columbia receiving regular employment insurance (EI) benefits dropped 4.7% (*seasonally adjusted*) in October, to 55,860 individuals.** Nationally, there was a 2.2% decrease in the number of EI beneficiaries. Prince Edward Island (+2.0%) was the only province to see the number of EI beneficiaries increase. The number of beneficiaries in Saskatchewan slumped in October (-8.7%). Alberta (-7.4%) and Manitoba (-5.3%) were also responsible for a large portion of the decline in recipients across the country.

*Data Source: Statistics Canada*

## The Economy

- **Sales by retailers in the province softened in October, rising just 0.6% (*seasonally adjusted*) over the September level.** All provinces saw

### Did you know...

A recently completed survey shows that although 79% of video game fans rank video games as more entertaining than Hollywood movies, 73% of gamers still prefer going on a date over playing video games.

growth in retail sales in October, except New Brunswick (-0.6%). Nationally, sales rose 1.4%, with substantial gains made in Manitoba (+2.6%) and Prince Edward Island (+2.1%). Alberta (+1.7%), Saskatchewan (+1.7%), Ontario (+1.5%) and Quebec (+1.5%) all registered above-average growth in retail sales.

*Data Source: Statistics Canada*

- **Wholesale sales in BC bounced back (+2.5%, seasonally adjusted) in October after dipping in the previous month.** While BC's retail industry performed below the national average, BC wholesalers scored the second biggest sales increase, after Newfoundland (+8.6%). Total Canadian sales were virtually unchanged (+0.2%) from the September level. Alberta (+2.4%), Quebec (+1.2%) and Nova Scotia (+0.9%) were the only provinces other than BC and Newfoundland where wholesale activity increased in October.

*Data Source: Statistics Canada*

### The Nation

- **Canadian manufacturers' prices were up 4.1% in November compared to the same month a year earlier.** Significant inflation in petroleum and coal (+36.9%), primary metal (+21.2%) and metal fabricated products (+13.4%) continued to contribute to the surging prices. These increases were partly offset by lower prices for motor vehicles and other transport equipment, which were down 4.8% from November 2003. If petroleum and coal product prices had been excluded, the IPPI would have increased only 1.8%.

On a monthly basis, the all-items Industry Product Price Index (IPPI) fell 1.7% following a 0.4% drop in October. A significant portion of the decrease was due to lower prices for petroleum and coal products (-4.7%) and lumber and other wood products (-4.3%).

Due to higher inventory levels for pulp, prices for pulp and paper products fell 2.5%. Prices for motor vehicles and other transport equipment declined 2.8%, mainly because of a stronger Canadian dollar.

Between October and November, the value of the Canadian dollar strengthened 4.2% against the US dollar. As a result, if the impact of the exchange rate had been excluded, the IPPI would have fallen 0.6% compared with the actual 1.7% decline.

*Data Source: Statistics Canada*

- **The Canadian economy held ground (0.0%, seasonally adjusted) in October largely due to a combination of reduced foreign demand for fabricated products and labour strife.** Both the goods and services producing sectors were affected.

Manufacturers reduced their output (-0.3%) for a second consecutive month. The weakness was widespread as only four of the 21 major manufacturing groups advanced in October.

Construction activity was reduced by 0.6% in October. Large decreases in housing starts were observed in British Columbia and the Atlantic provinces. Ontario also saw a reduction in housing starts. However, there were increases in Quebec and the Prairies.

The information and communication technology industries declined 0.2% in October with reductions in both goods and services production. Tourism related industries had a mixed performance, with air transportation increasing 0.4% while accommodation and food services contracted 0.2%.

*Data Source: Statistics Canada*

- **Productivity growth of Canadian businesses grew 1.5% annually during the 2000 to 2003 period, despite a slowdown in economic activity since 2000.** Several industries such as manufacturing, agriculture and mining extraction and oil and gas experienced a productivity slowdown compared with their performance during 1997 to 2000. In contrast, service industries such as wholesale, retail, transportation, information and financial services and real estate have generated the bulk of the business sector productivity gains during the 2000 to 2003 period.

*Data Source: Statistics Canada*

**Infoline Issue: 05-01  
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## Global Offshoring: Boon or Bust for Canada

There has been a lot of attention given to outsourcing and offshoring in recent months, particularly in relation to the election in the United States, as well as with regard to privacy concerns stemming from the US Patriot Act. The perception seems to be that this is a new phenomenon, but in reality, outsourcing and offshoring have been around for decades. What *is* new is that it is shifting from solely manufacturing activities toward services.

### What are outsourcing and offshoring?

Simply defined, outsourcing is the process of contracting out functions that would otherwise be carried out by internal staff. Offshoring occurs when the work is either outsourced to another company located in another country or performed by a branch in a foreign location. When that foreign country is relatively geographically close to the country in which the work originates, it is often referred to as nearshoring.

### Why outsource?

The primary reason companies choose to outsource work is that it saves them money. The savings are derived from a combination of lower wages, more efficient use of resources and increased productivity. An example of the possible savings in terms of wage differentials is that of a software developer. In the United States, someone working as a software developer could earn \$60 per hour, whereas in India, the same position would earn only \$6 an hour.<sup>1</sup>

Clearly, when the scale of wage disparity is of a magnitude of ten times, there are potential savings to be had. However, there are other potential benefits of outsourcing as well. In many cases,

the types of jobs being moved offshore are viewed as less desirable in North America, whereas in locations such as India, they are highly sought after. As such, these positions may attract employees with higher levels of education than would be the case in North America and the workers may be more motivated to do a good job, which could in turn improve efficiency.

Another reason for offshoring is the lack of available resources domestically. Labour shortages in certain fields may force companies to seek other jurisdictions where there is a deeper pool of workers.

However, while there are significant benefits to offshoring, there are also some costs that need to be considered. For example, the distance between the head office and the offshore facility can lead to significant increases in management and communications costs. There may also be additional legal costs resulting from different laws in the offshore country that regulate the activities being performed, including labour laws that have different requirements. Security costs, particularly relating to offshoring of information technology (IT) jobs, are also a concern. Nevertheless, even after all these costs are taken into account, it is often the case that there are still substantial savings to be made by outsourcing work to an offshore location.

### The controversy over offshoring

During the recent presidential election in the United States, offshoring became an issue. Senator John Kerry, in particular, expressed concern over the number of American jobs that were being exported overseas and made promises to enact legislation to discourage this practise. This kind of concern is nothing new and tends to crop up any time free trade issues are discussed. As virtually any economist will tell you, with free trade there are winners and losers, but in

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<sup>1</sup> McKinsey Global Institute, "Offshoring: Is it a Win-Win Game?" August 2003, p. 1.

the end, there is almost always a net gain. While some people will be displaced from their jobs, which is always traumatic, there will be many more jobs created due to the improved economic climate resulting from freer trade.

In the past, most of the job loss was in the form of low skill manufacturing jobs, while job growth often occurred in higher skilled, and consequently, higher paid service sector jobs. However, with recent technology advancements geographical separation is no longer an impediment to outsourcing many types of service jobs, such as IT positions. It is the disappearance of these high-paid IT jobs that is causing a great deal of concern in the United States. India, in particular, has become a high tech hub that is attracting these skilled service jobs with its significantly lower wage rate structure. Suddenly the argument that the loss of jobs due to outsourcing will be more than counterbalanced by gains in other, better jobs, is not quite so compelling. Protectionist sentiment in the US is rising as a result.

According to a report by the McKinsey Global Institute, companies in the United States are responsible for about 70 percent of global offshoring.<sup>2</sup> Nevertheless, the report suggests that concerns over job loss due to offshoring are overblown. The number of jobs lost to offshoring represents a small portion of overall job layoffs and the benefits of offshoring, in terms of improved efficiency, increased output and lower prices probably result in an overall net gain in jobs. According to one estimate, approximately 3.4 million jobs will be outsourced from the US by 2015. However, "In an average year, the American economy destroys some [30 million] jobs and creates slightly more, dwarfing the effect of offshoring."<sup>3</sup>

There has been less concern in Canada over losing jobs to offshore destinations, partly due to the fact that Canada attracts many of the off-

shore jobs from the United States, but one aspect of offshoring that has sparked a great deal of debate, particularly in British Columbia, is the outsourcing of administrative services involving confidential data. The plans by the BC provincial government to outsource administrative services related to the Medical Service Plan and the PharmaCare program has ignited fears that confidential medical data will be at risk of being accessed without consent under the authority of the US Patriot Act. The Patriot Act not only gives the American government the power to force a company to provide data without consent, but it also stipulates that the request for this data cannot be disclosed.

In response to concerns raised on this issue the BC government ordered the office of the Information and Privacy Commissioner for British Columbia to investigate whether or not there were grounds for these fears and also implemented tougher privacy laws. The Commissioner's report suggests that the Patriot Act could indeed allow the US government to access these records:

[T]here are no assurances that the FIS [Foreign Intelligence Surveillance] Court will not grant orders compelling US-linked companies to disclose personal information records located in Canada, particularly when vital US interests are considered to be at stake. The existence of that reasonable possibility warrants other mitigating steps being taken, such as direct statutory prohibitions on disclosure and contractual remedies.<sup>4</sup>

Despite the Commissioner's assertion that outsourcing of public services should not be outlawed and that taking certain "mitigating steps" will reduce the risk to Canadians' privacy to acceptable levels, there are still some British Columbians who are dead set against the offshoring of these administrative services. On the other hand, some have argued that there is probably

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<sup>2</sup> Ibid, p. 2.

<sup>3</sup> "Nagging doubts about the benefits of globalisation, and a look at the evidence," *The Economist*, September 18, 2004, p. 80.

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<sup>4</sup> Information and Privacy Commissioner for British Columbia, "Privacy and the USA Patriot Act: Implications for British Columbia Public Sector Outsourcing", October 2004, p. 129.

little likelihood that the Patriot Act will compromise these confidential data. Whichever is the case, this issue does demonstrate one of the drawbacks of outsourcing and emphasizes the need for companies to carefully consider all the possible ramifications of contracting out their services, particularly to offshore destinations.

**Canada as a destination for offshoring**

As mentioned above, Canadians so far have not expressed the same level of concern regarding offshoring compared to Americans. This is likely due to the fact that Canada attracts far more service jobs from offshore locations than it loses. The fact that Canada attracts a large percentage of global offshore service revenues proves that cost savings are not the only determinants that influence the choice by businesses where to outsource their services. Compared to countries like India, Canada can't hope to compete in terms of labour costs; however, there are some distinct advantages for American firms in locating portions of their business in Canada. The proximity of Canadians to the United States, a common language and culture, similar time zones, a comparable legal system and generally good quality of service all contribute to Canada's appeal as an offshore location for American services.

According to the McKinsey Global Institute, Canada ranked third in 2001 as an offshore service market. Approximately \$US 3.7 billion worth of services were offshored to Canada in that year.<sup>5</sup> Only Ireland (\$US 8.3 billion) and India (\$US 7.7

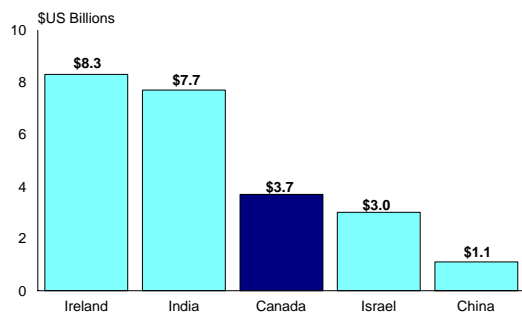
billion) attracted a larger market for offshore services. Israel, at \$US 3.0 billion, was the next most popular offshore destination after Canada. These top four countries were responsible for over 71 percent of the estimated \$32 billion of offshore service exports in 2001.

These figures seem to indicate that Canada is well positioned to become a world leader as an offshore (or nearshore) destination for services; however, a report by PricewaterhouseCoopers (PwC) suggests that caution be used in interpreting these numbers. According to PwC, the majority of these offshore jobs in Canada (perhaps 150,000 employees) are low-paid call centre positions. They estimate that the number of skilled IT workers employed in outsourcing projects may be fewer than 15,000.<sup>6</sup> In other words, Canada appears to be very adept at attracting low-skilled call centre jobs, but may be lagging in reeling in the plum high tech positions. Data from the United Nations provides evidence to support this idea. According to a UN report, Canada ranked second only to India in 2002-2003 in terms of export-oriented call centres, with 56 projects, or 11% of the world share.<sup>7</sup> India was only slightly ahead with 60 projects or a 12% share. However, with respect to IT services, Canada had only 14, representing a 2% share. This was still good enough to rank Canada in a tie for eighth with Ireland and Sweden, but was well behind India (19%) and the United Kingdom (12%).

**The threat of IT jobs heading offshore**

Canadian companies are not strangers to outsourcing IT jobs, but in the past these jobs have generally stayed within the country. As the Canadian dollar continues to appreciate against the American greenback, Canadian companies may find that there are advantages to be gained in off-

Canada ranked as one of the top destinations for business process outsourcing in 2001



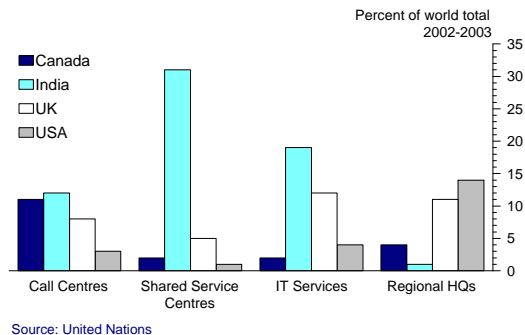
Source: McKinsey Global Institute

<sup>5</sup> McKinsey Global Institute, p. 4.

<sup>6</sup> PricewaterhouseCoopers, "A Fine Balance: The Impact of Offshore IT Services on Canada's IT Landscape," 2004, executive summary.

<sup>7</sup> United Nations Conference on Trade and Development, *World Investment Report 2004: The Shift Towards Services*, United Nations, New York and Geneva, 2004, p. 162.

Canada is a world leader in export-oriented call centres, but not IT services



shoring these IT jobs. PwC suggests that it is possible that more than 75,000 Canadian IT jobs could be either repatriated to the US or moved offshore to another country by 2010 if Canada does not take steps to become more competitive.<sup>8</sup>

One thing that Canada may need to do in order to not only retain outsourced service jobs, but also attract these positions from offshore markets, is put more emphasis on education in these high tech areas. If there are not enough local IT professionals available to do the job, it will be difficult to retain that work within the country. Canada may also want to put more emphasis on increasing the number of immigrants with high tech qualifications.

Canada can't compete with countries like India with regard to the low cost of labour; therefore it needs to ensure that it holds advantages in other areas. As India and other emerging economies continue to develop, the cost of labour advantage will likely erode. Workers will eventually demand higher wages commensurate with a more buoyant economy and this will reduce the wage differential between these countries and more developed nations, such as Canada.

## Conclusion

On the whole, outsourcing should have a positive effect on Canada's economy. As with free trade, there could be some individuals that are affected negatively by losing their jobs to an off-shore destination, but the net effect should be improved efficiency and lower costs of production, which will result in lower prices for consumers and the ability to shift resources to other activities. This, in turn, should increase overall employment.

As communications technologies improve, the world's economies are likely to continue to integrate. Outsourcing and offshoring are natural extensions of global trade and if Canada is to remain competitive and keep its economy strong, Canadian companies will have to position themselves to take advantage of outsourcing, not only as a way to save money, by outsourcing, but also as a way to gain business, by taking on outsourced projects.

<sup>8</sup> PricewaterhouseCoopers, executive summary.

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## BC at a glance . . .

<b>POPULATION (thousands)</b>	Jul 1/04	% change on one year ago
BC	4,196.4	1.1
Canada	31,946.3	0.9
<b>GDP and INCOME</b>		% change on one year ago
<i>(BC - at market prices)</i>	2003	
Gross Domestic Product (GDP) (\$ millions)	145,550	5.2
GDP (\$ 1997 millions)	133,600	2.5
GDP (\$ 1997 per Capita)	32,175	1.6
Personal Disposable Income (\$ 1997 per Capita)	19,758	0.3
<b>TRADE (\$ millions, seasonally adjusted)</b>		% change on prev. month
Manufacturing Shipments - Oct	3,567	-2.3
Merchandise Exports - Oct	2,598	-6.5
Retail Sales - Oct	4,022	0.6
<b>CONSUMER PRICE INDEX</b>		12-month avg % change
<i>(all items - 1992=100)</i>	Nov '04	
BC	123.7	2.0
Canada	125.7	1.8
<b>LABOUR FORCE (thousands)</b>		% change on prev. month
<i>(seasonally adjusted)</i>	Dec '04	
Labour Force - BC	2,246	0.4
Employed - BC	2,110	0.8
Unemployed - BC	136	-5.5
		Nov '04
Unemployment Rate - BC (percent)	6.1	6.4
Unemployment Rate - Canada (percent)	7.0	7.3
<b>INTEREST RATES (percent)</b>	Jan 5/05	Jan 7/04
Prime Business Rate	4.25	4.50
Conventional Mortgages - 1 year	4.80	4.75
- 5 year	6.05	6.35
<b>US/CANADA EXCHANGE RATE</b>	Jan 5/05	Jan 7/04
<i>(avg. noon spot rate) Cdn \$</i>	1.2238	1.2882
<i>US \$ (reciprocal of the closing rate)</i>	0.8156	0.7751
<b>AVERAGE WEEKLY WAGE RATE</b>		% change on one year ago
<i>(industrial aggregate - dollars)</i>	Dec '04	
BC	695.57	2.3
Canada	687.28	2.8

**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](http://www.bankofcanada.ca)

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Statistical Profiles by College Region  
 With Emphasis on Labour Market and  
 Post-Secondary Education Issues

These profiles provide comparisons of the socio-economic conditions of the on-reserve and off-reserve aboriginal populations as well as the non-aboriginal population by College Region. Data are from the 1996 and 2001 Census, Statistics Canada.

[http://www.bcstats.gov.bc.ca/...  
 data/cen01/abor/ap\\_main.htm](http://www.bcstats.gov.bc.ca/...data/cen01/abor/ap_main.htm)

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- Labour Force Statistics, December 2004