BRITISH COLUMBIA

BC STATS Infoline

Service BC
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- **BC's economy grows 4.0% in 2004, outpacing every province but Alberta**
- **Personal income rises 4.4%; disposable income up 4.0%**
- **Housing starts continue to see-saw; building permits drop**

The Economy

- **British Columbia's economy grew 4.0% in 2004, outpacing every other province except Alberta, where GDP advanced 4.3%.** Preliminary estimates released by Statistics Canada in April had shown BC at the front of the pack. Economic growth was considerably stronger than the Canadian average of 2.9%. Growth rates in other provinces ranged from +1.4% in Nova Scotia to +3.4% in Saskatchewan. Newfoundland (-1.4%) was the only province where real GDP declined in 2004.

  Continued strong domestic demand for goods and services was the main reason for BC's solid performance last year. Final domestic demand–the sum of consumer, business and government spending on goods and services–increased 4.8%, marking the sixth straight year of robust growth. However, the external sector (trade with other provinces and nations) put the brakes on the economy: although exports of goods and services expanded a healthy 5.7%, import growth was even stronger (+7.5%), as many of the goods and services purchased by consumers, businesses and governments were produced outside the province. The value of business inventories topped the $1 billion mark ($1997, chained) in 2004. *Data Source: Statistics Canada*

- **On a per capita basis, real GDP in the province was the fourth highest in the country, at $33,129.** Alberta ($42,386) and Ontario ($37,883) were the only provinces where per capita GDP was higher than the national average ($35,167). *Data Source: Statistics Canada*

- **Personal income rose 4.4%, largely due to strong increases in wage (+4.7%) and investment (+3.0%) income.** Transfers from federal, provincial and local governments increased 2.4% during 2004. However, higher income levels contributed to higher tax bills. Direct taxes were up 7.3%, and other transfers to government (e.g., fees and licences) increased 1.3%. As a result, disposable income (+4.0%) did not increase as fast as personal income. After adjusting for the effects of inflation, the disposable income of British Columbians was 2.5% higher than in 2003. The Canadian increase was 2.4%.

  On a per capita basis, real personal disposable income in BC ($20,182) was the third-highest in the country, after Alberta and Ontario. However, it remains below the national average ($20,762). *Data Source: Statistics Canada*

- **Relative to September 2004, (*unadjusted*) exports were up 14.8% in BC.** Exporters in most provinces fared well this September, as Canadian exports jumped 10.3% from the same month last year. Nine provinces posted increases with Nova Scotia (-2.4%) recording the only drop. Newfoundland (+58.8%) saw the biggest jump, with other provinces showing increases ranging from 0.9% in Ontario to 49.1% in PEI. *Data Source: Statistics Canada*

- **Housing starts in the province continued to see-saw in October, posting a 0.3% drop (*seasonally adjusted*) after increasing 10.1% in September.** Canadian starts were down 10.0%, with new building activity slowing in virtually every region of the country. Alberta and Saskatchewan (both at -18.9%) posted the biggest declines. Ontario (-15.1%) and two of the four Atlantic provinces also saw double-digit decreases. The slowdown in Quebec (-9.3%) was not as severe, but helped pull the national total down. *Data Source: CMHC*

- **Some urban areas of BC showed prominent increases in housing starts (*unadjusted*) in Oc-**

"Dutch Disease"

Did you know...

Canadians with the lowest level of literacy skills have an unemployment rate of 26% compared to 4% for those with the highest literacy levels *Source: Statistics Canada*

tober. Starts in urban BC were up 40.0% over October 2004, on the strength of Vancouver's 74.5% increase (to 2,009 units), the highest in 25 years. Multiple starts (+121.2%) in Vancouver more than doubled, offsetting a slight drop (-0.9%) in single starts. Prince George (+47.1%) also recorded a significant rise in new projects. However, Victoria (-30.5%) saw a decline in both single (-1.1%) and multiple (-58.2%) starts. Kelowna (-33.8%) and Abbotsford (-44.4%) also recorded notable decreases. *Data Source: CMHC*

- **The value of building permits issued by BC municipalities dropped (-6.1% *seasonally adjusted*) in September, ending its two-month upsurge.** The increase was largely due to a downturn in planned activity in the non-residential sector (-18.5%), but residential permits also dropped (-0.5%) slightly. Permits jumped in the Vancouver area (+6.9%) and in Victoria (+23.7%). Abbotsford (-23.5%) posted a significant decline. Canadian permits also retreated (-5.3%) in September with a small (+3.2%) increase in the value of planned residential projects failing to offset the significant drop (-17.1%) in non-residential permits. *Data Source: Statistics Canada*

- **During the first nine months of 2005, the (*unadjusted*) value of issued building permits in BC was up 23.6% over the same interval last year.** Permits increased in every region, with the biggest gains occurring in North Coast (+101.4%), Cariboo (+79.4%) and Northeast (+58.3%). Permits were also significantly higher in Nechako (+52.2%), Thompson/Okanagan (+50.6%) and Kootenay (+49.8%), while Vancouver Island/Coast (+26.3%) and Mainland/Southwest (+14.7%) showed slower, but stable growth. *Data Source: Statistics Canada & BC Stats*

- **The cost of land and new housing in BC's two biggest metropolitan centres continued to climb in September.** Victoria's New Housing Price Index was 9.6% higher than in September 2004, reflecting soaring land values (+15.9%), as well as rising housing costs (+6.9%). Housing (+3.0%) and land (+6.3%) prices both contributed to a 4.8% increase in the Vancouver index. Victoria's increase was the biggest in the country, almost double the national average (+4.9%). *Data Source: Statistics Canada*

The Third Quarter in Review

- **The value of permits issued for building projects in the province continued to climb in the third quarter, rising (+4.5%, *seasonally adjusted*) for the fourth consecutive quarter.** Permits for residential (+9.4%) projects increased while planned activity in the non-residential sector fell (-5.0%) for the first time in seven quarters. Industrial permits (+16.5%) were up over the last quarter but planned spending on the commercial buildings sector fell 15.1%. *Data Source: Statistics Canada*

Intellectual Property

- **Universities and hospitals in the province received 11% of Canada's total sponsored research funding in 2003, while accounting for 19% of inventions disclosed.** Prairie institutions also had above average results, obtaining 17% of sponsored research funding and accounting for 20% of inventions. In contrast, Ontario institutions received a higher percentage of funding (38%) than they disclosed in inventions (36%) and Quebec institutions produced 21% of inventions after having obtained 30% of total sponsored research funding. Overall, Canadian institutions progressed significantly in 2003 with the number of inventions increasing from 1,105 to 1,133 between 2001 and 2003. The number of patents held rose from 2,133 to 3,047 and income from intellectual property increased from $52.5 million to $55.5 million over the two year period. *Data Source: Statistics Canada*

Adult Literacy

- **British Columbians over the age of 16 scored among the highest in the country in literacy skills in 2003**. BC's proficiency scores placed 22.9% of the province's population at level 4/5 (the highest levels). Other provinces recording above the national average (17.0%) included Alberta (21.0%) and Saskatchewan (21.0%) while the Yukon had the top scores in the country with 27.3% of its population reading at the highest levels. *Data Source: Statistics Canada*

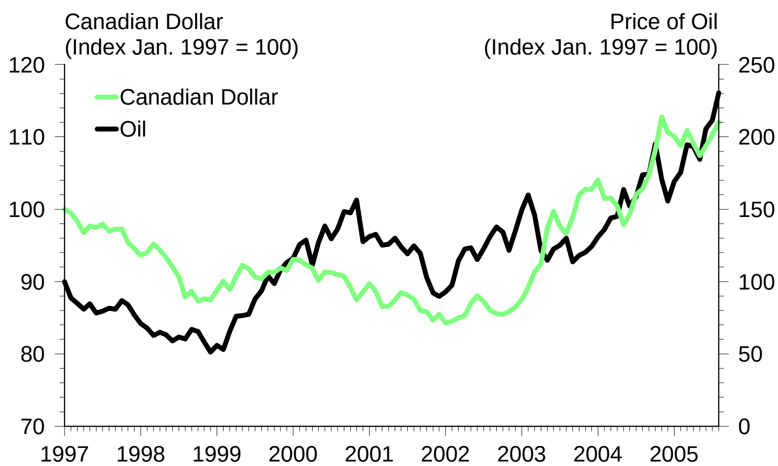
Booming Energy Sector May Give Rise to "Dutch Disease" for Other Exporters

High prices and strong demand for energy products such as petroleum, natural gas and coal are providing a windfall for Canadian producers of those goods, but the escalatory effect this is having on the Canadian dollar is creating difficulties for exporters of other manufactured goods. The emergence of the "petro-dollar" has generated concern that Canada may fall victim to "Dutch disease."

"Dutch disease" refers to a situation where the discovery of a natural resource causes a country's currency to appreciate, which in turn harms exporters of manufactured goods

Dutch disease was a term first coined when the Netherlands discovered natural gas in the North Sea in the 1970s. The sudden revenue influx into the Netherlands drove up the value of the guilder, which hurt exporters of non-energy goods and sent unemployment rates soaring. The sharp rise in the price of oil and other energy commodities in recent months and the corresponding spike in the value of the Canadian dollar have sparked fears that Canada is in danger of following in the same path.

The Canadian dollar is rising more or less in synch with the price of oil, prompting the label "petro-dollar"



As the price of oil soars in the face of supply shortages caused by various global incidents, including hurricane Katrina, Canada's dollar has followed suit and is quickly becoming known as a petro-dollar

Many business leaders, particularly those in Central Canada, the nation's manufacturing hub, are not happy with the Bank of Canada's decision to raise interest rates in the face of an already high dollar. According to a poll performed by COMPAS, the majority (68%) of business leaders surveyed believed that Canada's export sector will be seriously harmed by the rising dollar.[1] There were not many who

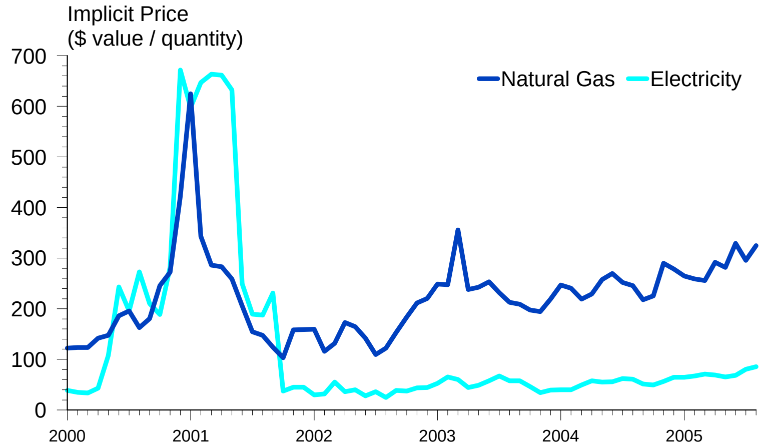
[1] Serious Risk of Dutch Disease—Falling Traditional Exports, Rising Inflation, Intensified Ottawa-Edmonton Conflict; Governor Dodge Far Too Optimistic, Ottawa Gets Bad Grades: A BDO Dunwoody/Chamber Weekly CEO/Business Leader Poll by COMPAS in the Financial Post for Publication October 3, 2005.

agreed with Bank of Canada Governor David Dodge that higher commodity prices benefit all regions of the country or that manufacturers are adjusting well to the higher value of the dollar. Also, 57% believed that Canada is in danger of catching Dutch disease, or has already started to catch it.

In addition to strong inflation in the cost of oil, prices for other energy products have also increased. While the price of natural gas is a long way from its peak during the California energy crisis of late 2000–early 2001, it has continued to trend upward with BC exports of the resource valued at about $300 per thousand cubic metres in recent months, compared to just over $100 a few years ago. However, electricity prices have stabilized since 2001 and have seen far

Natural gas prices have been trending up over the last few years, but the price of electricity has been much more stable

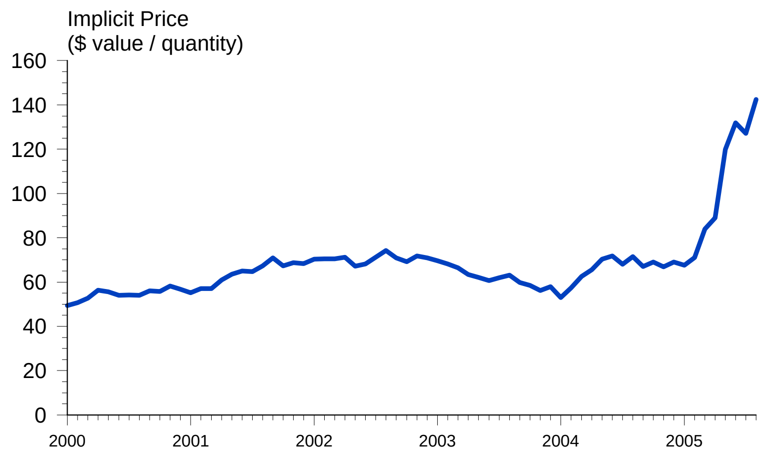
Whereas electricity prices stabilized after the shock of 2000-2001, natural gas prices have trended up



Data source: Statistics Canada - Price based on BC exports

A renewed demand for coal has doubled the price in just the last year

Coal prices have also shot up in the last year

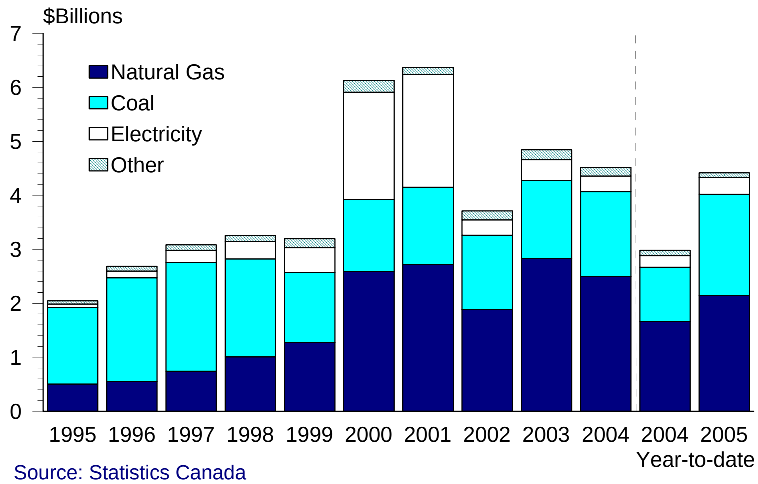


Data source: Statistics Canada - Price based on BC exports less inflation compared to other energy goods. As a result, exports of electricity have declined in importance as a percentage of overall energy exports from BC.

Coal, once the most important BC energy export, has undergone a revival of sorts as prices have doubled in the last year in response to rising demand from countries such as China. As a result, the year-to-date value of exports of coal has increased by approximately 86% compared to the same period in 2004. In fact, the value of coal exports from January to August in 2005 is already higher than that for all of 2004.

While Alberta has been the primary beneficiary of inflation in the energy sector due to its substantial reserves of oil and natural gas, British Columbia has also experienced significant growth in the value of energy exports. So far to August of this year, the value of international shipments of energy products has jumped by 48% compared to the same eight-month period in 2004.

Higher prices for natural gas and coal are providing a boost to BC’s energy sector



Source: Statistics Canada

The value of BC’s energy exports has grown considerably in the last year as a result of increased demand and rising prices

The rise in energy prices may be a boon to BC’s energy sector, but other industries could experience serious problems if the dollar continues to climb in step with the price of oil and other energy goods. For example, according to a 2004 study by PricewaterhouseCoopers for the Council of Forest Industries, each one-cent gain relative to the American dollar costs BC’s forest industry $150 million in annual sales.[2]

The rising dollar could have negative consequences for non-energy product exporters

[2] As quoted in “Rising dollar expensive for forestry, paper firms,” *The Vancouver Sun*, October 29, 2004.

Other exporting industries, particularly those in the manufacturing sector, face similar challenges resulting from the appreciating dollar, but even those businesses that cater mostly to the domestic market are experiencing problems as the jump in energy prices has had a detrimental effect on consumer confidence. The soaring price at the pump has caused a slump in consumer sentiment, which could be bad news for retailers. The drop in confidence may be short-lived, as consumers will eventually adjust their energy consumption patterns leaving them with more money to spend on other items, but with the holiday season fast approaching, it could be too late for retailers who are dependent on seasonal sales to make a profit.

For manufacturers in the forest sector and elsewhere, it will be necessary to make productivity improvements and adopt other cost-saving measures that will allow them to continue to compete despite an increasingly unfavourable exchange rate. However, at some point manufacturers could find that there are no more cost-savings to be found. When that happens, further appreciation of the dollar could place those manufacturers at a severe disadvantage compared to their global competitors and may end up putting them out of business. The de-industrialization brought on by a dollar inflated due to high energy prices would be a classic case of Dutch disease. The worst-case scenario would be that either the energy reserves eventually run out or prices fall and Canada is left without a strong manufacturing sector and no surplus revenues from the energy sector to compensate for reduced manufacturing output.

Manufacturers in Canada will be forced to find cost savings if they are to continue to remain competitive despite a higher dollar

While the debate rages on whether or not Dutch disease is a legitimate phenomenon, Canadian manufacturers can take solace in the fact that the slump in manufacturing in the Netherlands was short-lived and that it remains an industrial nation with a strong manufacturing sector. Canada's manufacturing sector is fairly diversified and has already started to improve productivity, which seems to indicate that the effects of Dutch disease will not be fatal.

Infoline

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BC at a glance . . .

POPULATION (thousands)	Jul 1/05	% change on one year ago
BC	4,254.5	1.3
Canada	32,270.5	0.9

GDP and INCOME	2004	% change on one year ago
(BC - at market prices)		
Gross Domestic Product (GDP) *($ millions)*	157,241	7.7
GDP *($ 1997 millions)*	139,205	4.0
GDP *($ 1997 per Capita)*	33,129	2.8
Personal Disposable Income *($ 1997 per Capita)*	20,182	1.4

TRADE ($ millions, seasonally adjusted)		% change on prev. month
Manufacturing Shipments - Aug	3,613	5.9
Merchandise Exports - Aug	2,922	10.2
Retail Sales - Aug	4,302	2.3

CONSUMER PRICE INDEX	Sep '05	12-month avg % change
(all items - 1992=100)		
BC	126.5	2.1
Canada	129.1	2.2

LABOUR FORCE (thousands)	Oct '05	% change on prev. month
(seasonally adjusted)		
Labour Force - BC	2,265	0.1
Employed - BC	2,149	0.7
Unemployed - BC	116	-9.5
		Sep '05
Unemployment Rate - BC *(percent)*	5.1	5.7
Unemployment Rate - Canada *(percent)*	6.6	6.7

INTEREST RATES (percent)	Nov 9/05	Nov 10/04
Prime Business Rate	4.75	4.25
Conventional Mortgages - 1 year	5.40	4.90
- 5 year	6.15	6.30

US/CANADA EXCHANGE RATE	Nov 9/05	Nov 10/04
(avg. noon spot rate) Cdn $	1.1860	1.1980
US $ *(reciprocal of the closing rate)*	0.8430	0.8375

AVERAGE WEEKLY WAGE RATE	Oct '05	% change on one year ago
(industrial aggregate - dollars)		
BC	705.83	0.2
Canada	711.14	4.1

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

On our site

Small Business Profile

This annual publication provides a profile of BC's small businesses, including number of businesses, employment and GDP.

Small Business Profile 2005

http://www.bcstats.gov.bc.ca/ [*continued*]
data/bus_stat/busind/sm_bus/SBP2005.pdf

Completely revised

Economic Multipliers

(This item is in our WebStore for $75 + GST)

The purpose of this publication is to provide guidance to analysts tasked with trying to quantify economic impacts. The report provides information generated from the 2001 Provincial Input-Output model, which has been used to calculate more than 4500 different multipliers for the BC economy. The report also provides explanatory information and example analyses that should promote the correct selection and application of these multipliers.

There are many situations, however, when the best approach to economic impact estimation is not to use a multiplier, but to make use of the input-output model in a project-specific way. A secondary purpose of this report is to help analysts to recognize such situations and to invite them to contact BC STATS to request use of the model for their application.

Provincial Economic Multipliers & How to Use Them

http://www.bcstats.gov.bc.ca/pubs/pr_pem.asp

Released this week by BC STATS

- Quarterly Regional Statistics, 3rd Quarter 2005
- Labour Force Statistics, October 2005
- Earnings & Employment Trends, October 2005

Next week

- Exports, September 2005
- Tourism Sector Monitor, October 2005

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