

- BC's economy grows 3.6% in 2006, more than in any other province except red-hot Alberta
- Real per capita GDP increases to \$34,971, but still falls short of the national average
- BC manufacturers more upbeat about production prospects in second quarter

The Economy

- **British Columbia's economy expanded 3.6% in 2006, marking a fifth straight year of solid economic growth.** Alberta, which posted a substantial 6.8% increase in gross domestic product (GDP \$1997, chained) was the only province that grew faster than British Columbia. The Canadian economy grew 2.7% last year.

BC's strong economic growth was largely driven by consumer, business and government demand for goods and services. Final domestic demand, which measures total spending on goods and services within the province, rose 5.6% last year, the biggest increase recorded since 1989. Consumer spending was up 5.3%, due in part to strong demand for durable (+8.8%) and semi-durable (+7.8%) goods. Some of this spending was undoubtedly related to the demand for new housing, as investment in residential structures advanced 6.6%. Although this was well-below the double-digit growth seen earlier in the decade, it still represented a significant gain over the previous year.

Overall, business investment in structures, machinery and equipment (including housing) rose 9.5% during 2006. Spending on non-residential structures recovered (+9.2%) after slumping in 2005, while investment in machinery and equipment was up 14.9%. Business investment in inventories dropped slightly to \$1.4 billion in 2006.

Government investment advanced at a more modest pace (+5.6%) following three years of big increases (ranging from 10% to 18%). Spending on goods and services by federal, provincial and local governments was up a relatively modest 2.8%.

The province's overall trade deficit worsened, as export growth fell far short of the increase in

imported goods and services consumed in BC. Overall, exports were up 2.4%, largely because international and interprovincial demand for services produced in BC increased substantially during 2006.

Imports rose 6.3%, reflecting strong demand for consumer goods and business equipment, most of which are produced outside the province. Service imports were also higher in 2006.

Data Source: Statistics Canada

- **GDP increased faster than the population, and real (\$1997, chained) GDP per capita rose 2.3%, to \$34,971 in 2006.** Although this was lower than the national average (\$36,463), BC has made some gains in recent years, and the gap in per capita GDP (relative to Canada) is shrinking.

Data Source: Statistics Canada

- **Per capita after-tax personal income in the province increased 4.8% (\$1997, chained), rising to \$21,984 during 2006.** The province's saving rate remained among the lowest in the country, at -5.1%, but this was an improvement over the previous year, when the rate plunged to an historic low of -5.7%.

Data Source: Statistics Canada & BC Stats

- **BC manufacturers are more upbeat about production prospects in the second quarter than they were earlier in the year.** Twenty-nine percent (*seasonally adjusted*) say production will likely increase in the second quarter, while 16% expect to see declines. Sixty-nine percent think that inventory levels will be about right, but 25% expect them to be too high. While many (54%) manufacturers forecast that orders will be unchanged, 28% think they will rise, and the remaining 18% anticipate a decline. More manufacturers than usual predicted both higher (20%) and lower (20%) backlogs of unfilled orders. Overall, employment levels look promising for the second quarter, with 60% of

Did you know...

There are about 1,700 varieties of tulips, and about 80% of them come from the Netherlands. *Source: The American Institute of Physics*

those surveyed predicting little change and 27% expecting to see an improvement in job prospects.

Expectations are similar for Canadian manufacturers with 62% expecting normal production volumes over the next three months and 22% anticipating increases. Seventeen percent of Canadian manufacturers think inventory levels will be too high, and only ten percent expect orders to decline. Job gains (17%) are thought to be less likely than job losses (15%), although most manufacturers (68%) do not anticipate much change in employment prospects. Concern over the labour dispute in the rail industry was among the factors contributing to a 29% expectation of production difficulties over the second quarter.

Data Source: Statistics Canada

- **Restaurant, caterer and tavern receipts in the province edged down (-0.5% seasonally adjusted) in February.** Food service establishments, which account for 90% of total receipts, saw revenues inch up (+0.2%), but receipts at drinking places continued to slump (-12.5%). Nationally, sales slipped 1.4% as both food service establishments (-1.1%) and drinking places (-6.7%) saw receipts decline.

Data Source: Statistics Canada & BC Stats

- **Production at sawmills and planing mills in BC was significantly lower (-7.2%) in February than in the same month last year.** Mills in the interior produced 5.4% less lumber while coastal mills cut output by 18.0%. Canadian production was also down (-7.6%), largely because of slowed activity in Quebec (-10.3%).

Data Source: Statistics Canada

- **The number of British Columbians receiving regular employment insurance (EI) benefits inched down 0.5% (seasonally adjusted) in February, to 38,600.** Nationally, the number of individuals receiving regular benefits was relatively unchanged (+0.1%) from January.

Data Source: Statistics Canada

Vietnamese Canadians

- **With more than 150,000 people, the Vietnamese community was the fifth largest non-European ethnic group in Canada in 2001, after Chinese, East Indian, Filipino and Jamaican.**

The Vietnamese community is growing steadily, as the number of people who said they had Vietnamese origins rose 11% between 1996 and 2001, nearly three times Canada's overall population growth (4%) during this period.

Almost all Canadians of Vietnamese origin live in the country's four largest provinces. Ontario had the largest Vietnamese community (approximately 67,400 individuals), with Quebec in a distant second (28,300). In BC, 27,200 people identified themselves as Vietnamese in 2001 while Alberta had the fourth largest Vietnamese community (21,400). Most (23,000) of BC's Vietnamese Canadians lived in the Vancouver area. While only 0.5% of all Canadians were of Vietnamese background in 2001, the rates were higher in BC and Alberta (each 0.7%), than in Ontario (0.6%) and Quebec (0.4%).

Nearly three-quarters (70%) of Vietnamese Canadians were born outside Canada, compared to 18% of all Canadians who were foreign-born. Most came to Canada during the last 20 years, with 44% immigrating between 1981 and 1990, and a further 31% arriving between 1991 and 2001.

The Vietnamese Canadian population is somewhat younger than that of Canada as a whole. In 2001, children under the age of 15 represented 25% of the Vietnamese community, compared to 19% of all Canadians. Conversely, only five percent of Vietnamese Canadians were over the age of 65, versus 12% of the overall population. *Data Source: SC, Catalogue 89-621-XIE No.2*

The Nation

- **Canada's composite leading indicator advanced 0.4% (seasonally adjusted) in March, building on its February gain (+0.7%).** Financial market conditions remained strong, as the stock market (+1.3%) reached a new record. Manufacturing indicators were also robust, with new orders (+0.8%) rising for the third consecutive month. *Data Source: Statistics Canada*

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Are Room Revenues Red Hot?

Room revenues are determined by both room rates and occupancy rates, and have risen almost steadily since 1995, with only one year of negative growth in that time. While there is not an adequate measure of room rates and occupancy rates for all accommodation types in BC, there are such measures available that are specific to hotels. By first starting with an analysis of hotel room and occupancy rates, and then expanding the discussion to more accommodation types, we hope to answer the question: is this rise due to a genuine increase in business or simply a result of inflation in the accommodation industry?

Hotel Room Revenues and Room Rates

Hotel room revenues fluctuate with changing conditions, but have climbed rapidly over the past twelve years. Between 2001 and 2006, annual room revenues at hotels had increased 19.6%. The only year that room revenues experienced a downturn during this period was in 2003 (-3.1%). Over the same period, the average cost for a hotel room in the province rose from \$116.10 to \$122.90, an increase of 5.8%.

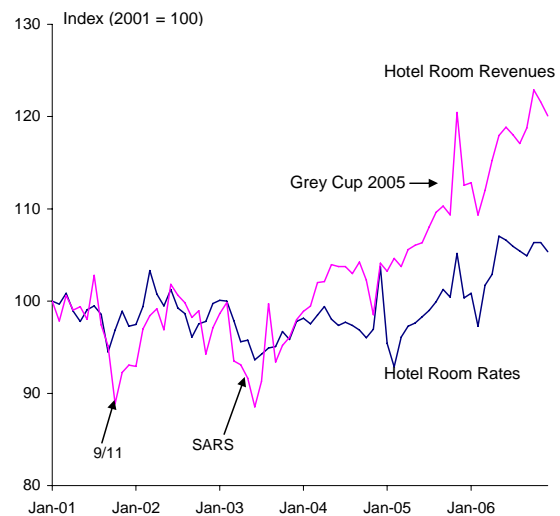
That is not to say that hotel room revenues have not suffered or benefited from the effects of a number of economic shocks. The attacks of 9/11 exacerbated an already ongoing decline in business. Overall, receipts were off 9.0% in September and October of 2001. The average hotel room rate over this time also fell, though only slightly (-1.6%).

The SARS outbreak in 2003 also depressed revenues and prices significantly at hotels. During the month of March alone, business fell 6.3%. This was met with similar de-

creases in the average room rate for both March (-2.1%) and April (-2.3%). In Vancouver, hotel room rates reached a low of \$111.00 in August of 2003, having shrunk 15.6% since March when the outbreak first showed up in Canada.

In contrast to these negative shocks, hotel operators enjoyed a sharp rise in revenues in the month of November 2005 with the Grey Cup being held in Vancouver. The effects of this increase were keenly felt in the city of Vancouver where hotel room revenues were up 19.0% and hotel room rates rose 10.1% in November 2005.

While room revenues rose 19.6% since 2001, hotel room rates have risen only 5.8%

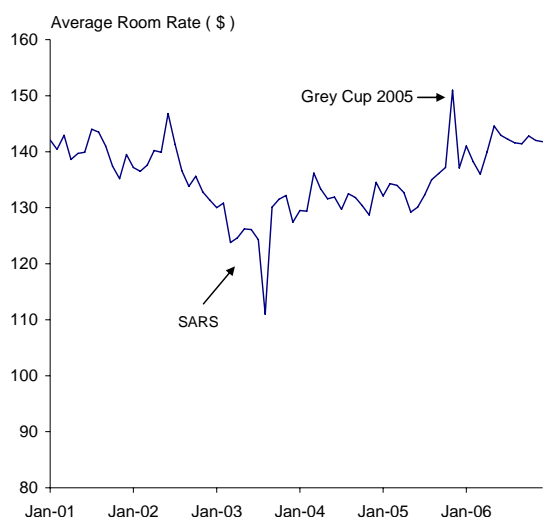


Data Source: Room revenue data, BC Stats
Hotel room rate data, Pannel Kerr Forester.

Overall though, while the average room rate has climbed somewhat in time with room revenues, beyond a few significant shocks, the increase has been modest. This suggests that other factors are also driving the activity seen in room revenues.

It is also interesting to note that when comparing growth rates in both hotel revenues and hotel room rates, the series advances through time much more closely before 2004 than it does today. In fact, the 'gap' in growth rates as been steadily increasing each month. This suggests that other factors are playing a larger role in determining the dynamics of hotel room revenues today than they did previously.

Hotel room rates in Vancouver fell 15.6% between March and August of 2003, but spiked 10.1% in November 2005 during the Grey Cup



Data Source: Pannel Kerr Forester

Hotel Room Revenues and Occupancy Rates

If the rise in room revenues cannot be fully explained by a rise in the average room rate for the province, it is likely that a genuine increase in demand is driving revenues upward. Trends in occupancy rates indicate that this has occurred.

BC's hotel occupancy rate has increased 6.7 percentage points since 2001¹. Two sharp declines during the fourth quarter of 2001

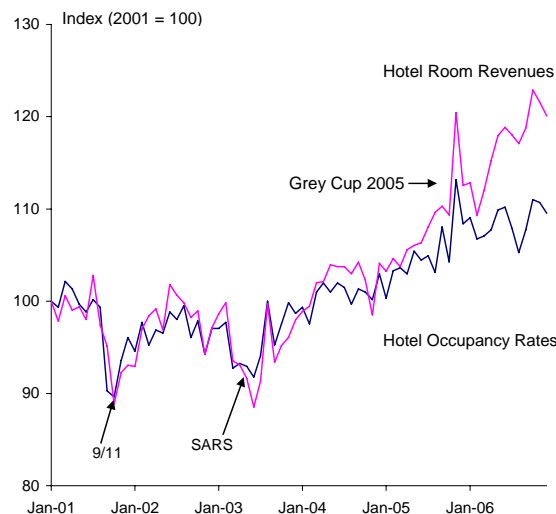
¹ Data for hotel occupancy rates is produced by Pannel Kerr Forester. Analysis is done by BC Stats.

(-2.1 percentage points) and the second quarter of 2003 (-1.9 percentage points) correspond to the attacks of 9/11 and the SARS outbreak respectively; illustrating the fact these events did have a marked effect on demand for accommodation services.

Since 2003, occupancy rates in the province have steadily increased, with a surge in occupancy during November 2005 when the Grey Cup was held in Vancouver (+5.4 percentage points). In the city of Vancouver occupancy rates were 4.1 percentage points higher than in the previous month.

It is important to note though that while occupancy rates, like room rates, have risen over time, occupancy rates measure demand for a fixed number of rooms and, therefore, an increase in the number of rooms available would have the effect of driving down the occupancy rate. However, it is unlikely that this is a significant factor. Since 2001, the number of hotel rooms in BC has only increased 1.8% from nearly 53,000 to almost 54,000 rooms.

Hotel occupancy rates show marked declines in the wake of 9/11 and SARS



Data Source: Pannell Kerr Forester; seasonally adjusted by BC Stats

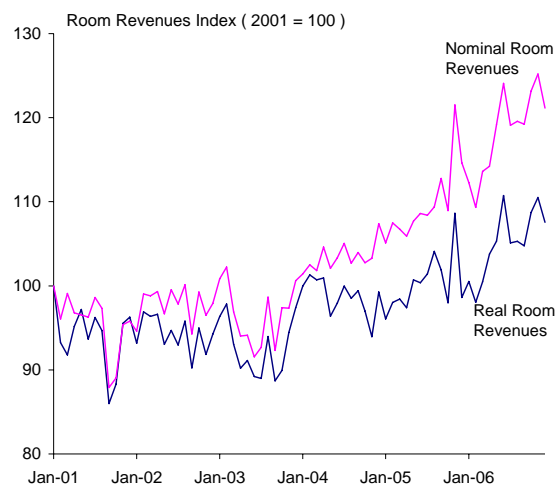
As was the case for hotel room rates, the difference in growth rates between occupancy rates and room revenues has increased in more recent months and years. Again, this suggests that there may be other factors that are playing a larger role in determining the growth rates in hotel room revenues.

Real room revenues

In general, nominal room revenues for all accommodation types in BC have trended strongly upward. In 2006, revenues reached more than \$1.8 billion, 23.6% higher than the total in 2001. This may appear to suggest that there has been a complete recovery from the effects of 9/11 and SARS. Further, this suggests that there has been rapid growth in the sector despite these events and the growing value of the Canadian dollar against the US greenback and skyrocketing fuel prices.

However, nominal room revenues are affected by price fluctuations that impact the relative purchasing power of the currency. Real room revenues, a measure that eliminates the effects of changes in the price level by deflating it with the Traveller Accommodation Services Price Index (TASPI)², show a more modest (+11.8%) increase.

Nominal room revenues increased 23.6% since 2001, real room revenues up 11.8%



Data Source: BC Stats

This more conservative improvement in real revenues suggests that while accommodation providers are certainly seeing a growth in business, the amount of business that has been generated in real terms is not quite as strong as it appeared to be at first glance

² The appendix that follows this Special Focus expands on the reasoning for switching from the CPI to the TASPI as a deflator in order to obtain a measure of real room revenues.

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BC at a glance . . .

POPULATION (thousands)	Jan 1/07	% change on one year ago
BC	4,338.1	1.3
Canada	32,777.3	1.0
GDP and INCOME (Released Apr 25)	2006	% change on one year ago
<i>(BC - at market prices)</i>		
Gross Domestic Product (GDP) (\$ millions)	179,701	6.4
GDP (\$ 1997 millions)	150,741	3.6
GDP (\$ 1997 per Capita)	34,971	2.3
Personal Disposable Income (\$ 1997 per Capita)	21,984	4.8
TRADE (\$ millions, seasonally adjusted)		% change on prev. month
Manufacturing Shipments - Feb	3,424	-1.4
Merchandise Exports - Feb	2,642	-4.1
Retail Sales - Feb	4,551	0.4
CONSUMER PRICE INDEX	% change on one year ago	12-month avg % change
<i>(all items - Mar 2007)</i>		
BC	2.2	1.9
Vancouver	2.5	2.2
Victoria	1.9	1.6
Canada	2.3	1.9
LABOUR FORCE (thousands)	Mar '07	% change on prev. month
<i>(seasonally adjusted)</i>		
Labour Force - BC	2,357	0.4
Employed - BC	2,265	0.6
Unemployed - BC	92	-2.9
		Feb '07
Unemployment Rate - BC (percent)	3.9	4.0
Unemployment Rate - Canada (percent)	6.1	6.1
INTEREST RATES (percent)	Apr 25/07	Apr 26/06
Prime Business Rate	6.00	5.75
Conventional Mortgages - 1 year	6.60	6.25
- 5 year	6.64	6.75
US/CANADA EXCHANGE RATE	Apr 25/07	Apr 26/06
<i>(avg. noon spot rate)</i> Cdn \$	1.1145	1.1270
US \$ <i>(reciprocal of the closing rate)</i>	0.8973	0.8861
AVERAGE WEEKLY WAGE RATE	Mar '07	% change on one year ago
<i>(industrial aggregate - dollars)</i>		
BC	743.18	3.5
Canada	735.11	1.9

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

Socio-Economic Profiles & Indices

The 2006 edition of these widely monitored reports provide the most complete and up-to-date basis for measuring and comparing the social and economic dimensions of regions in the province. Released April 4.

www.bcstats.gov.bc.ca/data/sep/index.asp

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