

- Revenues at food services and drinking places up 1.9% in April
- Film, TV and video production revenues reach \$631 million in 2007
- Immigrants make up 12% of population in rural and small town BC

The Economy

- The province's food services and drinking places took in approximately \$639 million (seasonally adjusted) in April, moderately more (+1.9%) than in March. Receipts at food service establishments climbed 1.8%, while drinking places posted a 3.8% boost.

Nationally, sales were up 1.3% to \$4.0 billion as both full- (+1.0%) and limited- (+1.2%) service restaurants thrived, while drinking places (+1.8%) and special food services (+2.5%) registered even stronger increases. With the exception of Québec (-0.3%), every province saw sales climb in April, with growth ranging from 0.4% in Alberta to 2.7% in Nova Scotia. *Data Source: Statistics Canada & BC Stats*

Film and Television

- Film, television and video production in the province is catching up to Ontario and Quebec, as Canadian producers headquartered in BC earned \$631 million in 2007. Operating revenues in Canada reached \$3.5 billion in 2007, with Ontario bringing in over half (53%, or approximately \$1.8 billion) of the national revenue for this industry. BC (18%) was only slightly behind Quebec (22%) in terms of the share of overall operating revenue and Alberta accounted for a further three percent of the national total. The province fared even better in terms of its positive profit margin (1%), as the nation as a whole reported a slight loss in 2007 (a -0.4% margin of profit). Despite its stronghold in the film and video industry, Ontario's operating expenses outweighed its revenues in 2007, re-

sulting in a profit margin of -3.1%.

Data Source: Statistics Canada

Immigration

- In BC's rural and small town areas, immigrants accounted for 12% of the population in 2006, the highest proportion in the country. Of those immigrants who called rural BC home, most arrived before 2001, while more recent immigrants (those who landed after 2001) were more likely to settle in metropolitan areas. Among predominantly rural Census divisions, the Sunshine Coast, Okanagan-Similkameen and Nanaimo Regional Districts (each 13% of total population) were in the top ten rural Canadian regions, based on their shares of well-established immigrants (those who arrived before 1986). These shares were comparable to those of the province's largest metropolitan cities, which is rare, as large cities generally attract more immigrants than do outlying areas. Indeed, immigrants accounted for just over five percent of the population living in Canada's rural and small town regions in 2006. In contrast, immigrants represented about one-quarter of the total population living in census metropolitan areas.

Among the provinces, the share of immigrants in the rural and small town population ranged from one percent in Newfoundland and Labrador to 12% in British Columbia. Traditional sources of immigrants (mainly Western and Northern Europe followed by the USA) constituted a higher share of the population across the nation's rural zones compared to its cities. Conversely, larger cit-

Did you know...

9 in 10 Canadian parents believe that eating breakfast is important to their child's health, but a third (32%) say their child doesn't always eat it without a struggle. *Source: Ipsos Canada*

ies had a higher share of immigrants from South-East and East Asian countries.

Data Source: SC Cat. # 21-006-XIE

Health

- **In 2008, an estimated 37% of British Columbians aged 50 or older reported that they had been tested for colorectal cancer (CRC), the third most common cancer in Canadian adults.** Across the country, there was considerable provincial variation in CRC screening with percentages ranging from 28% in Quebec to 53% in Manitoba. Testing was most commonly associated with being 65 or older, earning a higher income, having a regular doctor, being a non-smoker, and being physically active.

Data Source: SC Cat. # 82-003-XIE

- **In 2008, 72% of Canadian women aged 50 to 69 reported having had a mammogram in the past two years, up from 40% in 1990.** Screening through mammography was comparatively less common in BC (68%), with a usage rate four percentage points below the national average. PEI (61%) had the lowest rate among the province, while mammography testing was most common in Alberta (74%). Breast cancer is the most common cancer among women, and will be diagnosed in an estimated 22,700 Canadian women in 2009.

Data Source: SC Cat. # 82-003-XIE

The Nation

- **The Canadian economy shrank 0.1% (seasonally adjusted) in April, marking the ninth consecutive monthly decline in real gross domestic product (GDP).** Output in the goods sector continued to slump, dropping another 0.5% after falling back 1.1% in March. Manufacturing (-1.0%) and mining (-0.7%) continued to lose ground. With the exception of utilities (+0.6%), other goods industries posted little or no growth. The service sector remained in the doldrums, with GDP unchanged for a second straight month.

Data Source: Statistics Canada

- **Tourism spending in Canada fell 1.3% in the first quarter of 2009.** This marked the

third straight quarter of losses, the longest set of consecutive decreases since 2001, when tourism was markedly affected by the events of September 11th. Non-resident tourism demand, (-5.7%) posted the sharpest decline since the SARS outbreak during the second quarter of 2003. Meanwhile, tourism spending by Canadians also edged down (-0.1%).

Tourism employment fell 0.4% in the first quarter, driven by job losses in the travel services, food and beverage services and air transportation industries. However, the number of jobs advanced in the accommodation and recreation & entertainment industries.

Data Source: Statistics Canada

- **Canadian manufacturers' prices were substantially lower (-4.3%) this May than in the same month last year.** A 39.1% year-over-year plunge in the price of petroleum & coal products was the largest contributor to the overall decrease. Prices for chemicals (-3.3%) and primary metals (-16.2%) also continued to exert deflationary pressure. The decline was partially offset by climbing prices for motor vehicles & other transportation equipment (+10.6%), while Canadian manufacturers of lumber & other wood (+0.2%) and pulp & paper (+4.6%) products also saw higher prices. If petroleum & coal products were excluded, the overall Industrial Product Price Index (IPPI) would have climbed 1.5% in May.

BC softwood lumber prices were 2.2% above 2008 levels. Coastal producers received notably less (-5.9%) for their product than they had a year earlier, but prices for Interior lumber continued to rise (+6.3%). Meanwhile, prices for BC wood pulp fell 7.1%.

Following a similarly sharp drop in April, the Raw Materials Price Index (RMPI) fell another 31.6% in May. Downward pressure on the RMPI was again due to weakness in prices for mineral fuels (-45.9%).

Data Source: Statistics Canada

Infoline Issue: 09-26

July 3rd, 2009

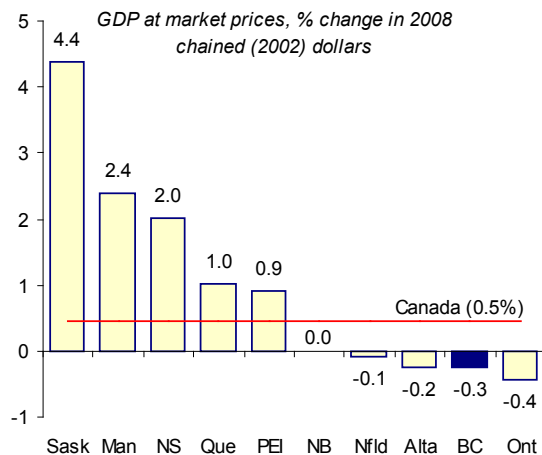
Economy Shrinks in 2008 as B.C. Feels Effect of Global Slowdown

GDP falls for first time since 1982

British Columbia's economy shrank slightly (-0.3%) in 2008, marking the first annual decline in the province's gross domestic product (GDP) since 1982. This was also the first time since 2001 that the BC economy has failed to grow faster than the Canadian average.

Three of the country's four biggest provinces posted declines in 2008, with Ontario (-0.4%) hardest hit by the downturn. BC and Alberta (-0.2%), together with Newfoundland (-0.1%) saw modest declines in GDP.

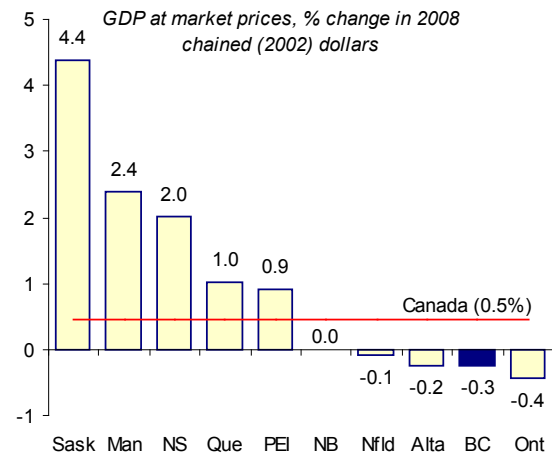
Economy stalls in 2008...



Data Source: Statistics Canada

¹ Unless otherwise noted, all figures are in chained 2002 dollars.

...as BC, together with Alberta, Ontario and Newfoundland, slips into a mild recession



Data Source: Statistics Canada

Saskatchewan (+4.4%) and, to a lesser extent, Manitoba (+2.4%) were clear frontrunners, continuing to build momentum with another year of solid growth.

Global economic conditions contribute to downturn

Global economic conditions played a role in the slowdown in the BC economy, as well as in other parts of Canada. Although the Canadian economy posted a modest (+0.5%) increase during 2008, this fell far short of the strong gains seen earlier in the decade.

Canada, together with other industrialized economies, began to show signs of stress after the failure of some US financial institutions weakened the international banking system and pushed a number of economies into recession at the end of 2008. Although Canadian banks fared better than those in many other countries, the effect of the in-

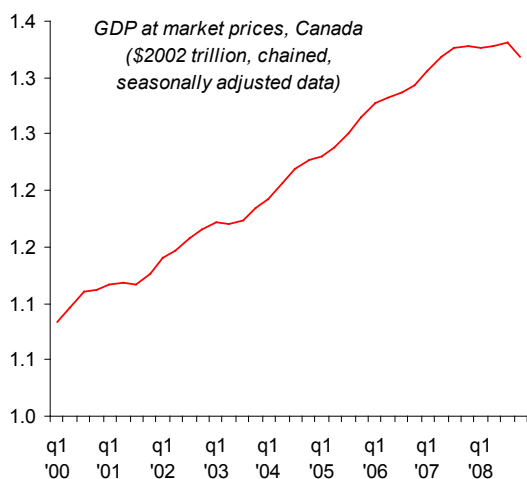
stability in financial and securities markets, together with a slowdown in global economic conditions, was significant.

Many of the goods and services produced in Canada are destined for consumption in other countries. The US is Canada's major trading partner, and the situation south of the border has created challenges for exporters. Economic growth has also slowed in key markets in Asia and Europe, as the fallout from the crisis in the financial sector has rippled through these economies.

Slumping international demand affects Canadian producers

International demand (and prices) for commodities such as metals, fuel and lumber dropped in the latter part of 2008 as producers and consumers around the world cut back their spending. The Canadian economy shrank 0.8% in the fourth quarter, with virtually every goods-producing industry, and most of those in the service sector, contracting.

Canadian economy shrinks in fourth quarter



Data Source: Statistics Canada

Some provinces were more affected by the downturn than others. The weakness in British Columbia's economy was partly at-

tributable to a decline in the forest sector. Housing starts south of the border have been plummeting, and had dropped to a fifty year low by January 2009. The US is a key market for BC lumber products, and with new housing construction in the US grinding to a virtual halt, the demand for BC lumber products has been significantly reduced.

US housing starts at a fifty year low



Data Source: Statistics Canada

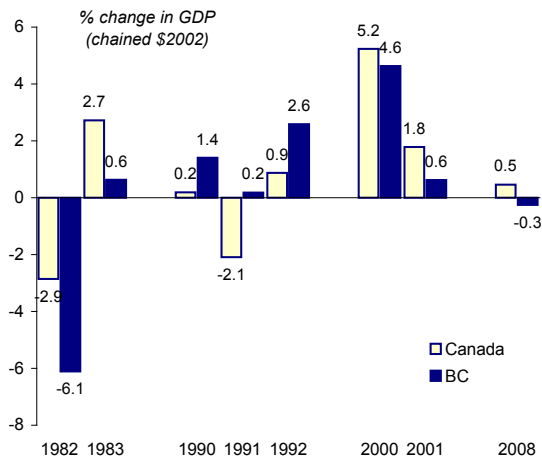
Ontario, which posted the biggest decline in 2008, suffered a setback as auto manufacturing, a key industry in that province, was particularly hard hit by slumping demand. Alberta, which had been riding high on soaring oil prices, lost momentum when the value of its main export commodity plunged late in the year. Output in the province's energy sector was down 5.1% in 2008. Newfoundland was also affected by a decline in the energy sector.

Downturn relatively mild in 2008; recession may deepen in 2009

Although there were some signs that economic conditions were softening throughout 2008, the downturn was most pronounced late in the year. Given the factors that precipitated the global slowdown, and

the strong trading linkages that exist among the major economies, it is difficult to predict how deep or how long the trough may be.

Decline in 2008 modest compared to past recessions



Data Source: Statistics Canada

So far, the recession in BC has been relatively mild compared to similar periods in the past. BC's economy contracted 6.1% in 1982, more than double the national decline (-2.9%) during that period. The recession of the early 1980s was deeper, and the subsequent recovery slower, in BC than in the country as a whole and the province did not recover the ground it lost until the mid-1980s.

By comparison, BC managed to continue on a slow upward path, inching ahead (+0.2%) during the next recessionary period, which occurred when the Canadian economy contracted 2.1% in 1991. That recession was largely localized in central Canada, especially Ontario, which experienced back to back (and substantial) declines in GDP in 1990 and 1991. Most of the western provinces escaped the general economic malaise at that time.

The extent and depth of the current recession has yet to be determined. The World Bank has predicted that the global economy will shrink in 2009, marking the first time in

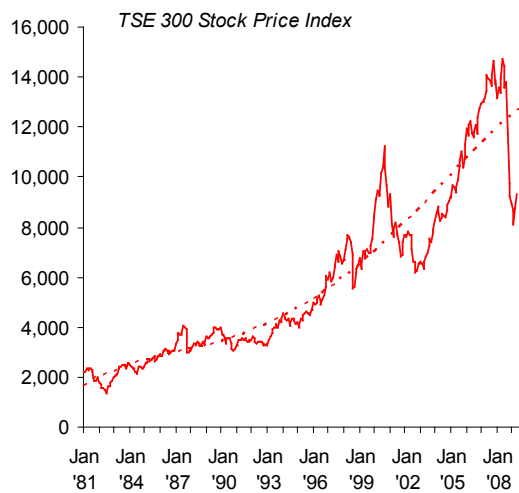
sixty years that this will have occurred. Should the prediction prove true, it is unlikely that BC or Canada will bounce back as quickly as would be hoped.

Encouraging signs?

There are some encouraging signs. Nationally, GDP slipped just 0.1% in February following three months of substantial declines. Key economic indicators are moving into more positive (or at least less negative) territory.

Losses on the stock exchange have mounted during the last year, but despite the plunge, the TSE 300 index is still higher than it was at the beginning of the decade. Although substantial ground has been lost, and the volatility has been extreme, the average value of Canadian stocks traded on the Toronto Exchange is still on a long-run upward trend.

Despite huge losses in recent months, the TSE 300 index remains well above historic levels



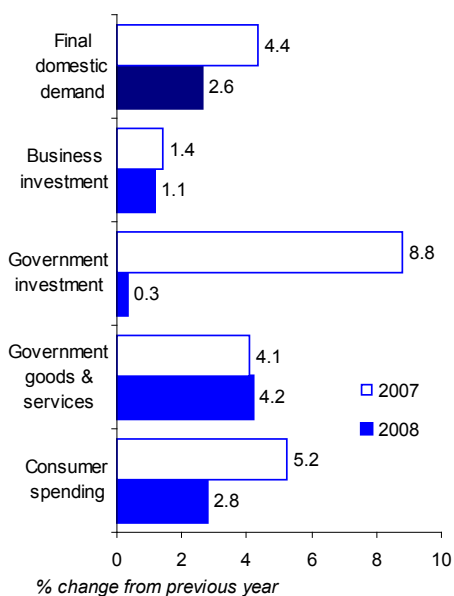
Data Source: Statistics Canada

The current rally in the stock market seems to indicate that investors may be starting to feel more confident about the economy. Time will tell if this will translate into sustainable gains.

Domestic demand for goods and services softens

Slower growth in domestic demand for goods and services contributed to BC's weak economic performance in 2008. Overall, final domestic demand, which includes consumer, government and business spending on goods and services, rose 2.6%. This was the lowest rate of increase since 2002.

Consumer, government and business spending increased, but at a slower rate than in the past



Data Source: Statistics Canada

Consumer spending rises, but at a slower rate than in the past

A drop in consumer spending on big-ticket items contributed to the weak growth in final domestic demand. Purchases of durable goods slipped (-0.4%) for the first time in ten years. The number of new vehicles sold in BC fell sharply (-9.7%) even though bargains offered by dealers helped lower average vehicle prices. Retailers handed over the keys for fewer North American and overseas-made cars and truck sales were off significantly in 2008.

Consumer spending on semi-durable goods such as clothing, footwear and household textiles increased modestly (+1.8%) and purchases of non-durable items (e.g., food, beverages and drugs) were up 1.5%. However, these increases fell far short of the growth rates seen earlier in the decade. At the same time, spending on services continued to rise steadily (+4.0%), and as a result total purchases of goods and services were up 2.8% during the year.

Current government expenditures on goods and services continued to increase, rising 4.2% during the year.

Government investment flat in 2008; may get a boost from stimulus projects in 2009

Government investment in structures and equipment was only marginally (+0.3%) higher than in 2007. In recent years, governments have been investing in new facilities and transportation infrastructure as the province prepares to host the 2010 Olympics. Work on many of these structures has either been completed, or is well underway, and the drop off in public sector investment reflects this.

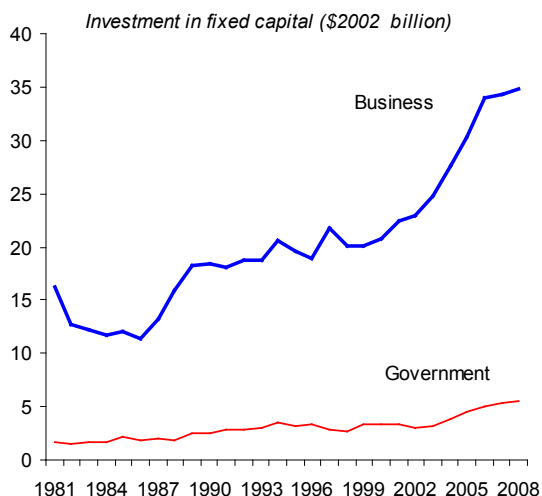
Public sector respondents to the *Public and Private Sector Investment Intentions Survey* (taken between October 2008 and late January 2009) indicated that they plan to reduce their infrastructure spending by 3.9%² in 2009. However, the federal *Infrastructure Stimulus Fund*, announced after the survey was taken, is expected to result in new public sector investment on "shovel-ready" projects.

Government infrastructure construction typically accounts for less than 3% of final domestic demand in the province. Even with new projects boosting investment le-

² Current dollars

vels, the effect of the spending may only partly offset a downturn in private sector investment, which typically accounts for a much bigger share (about 12%) of final domestic demand.

Government and business investment slows



Data Source: Statistics Canada

Business investment increases only marginally as housing boom comes to an end

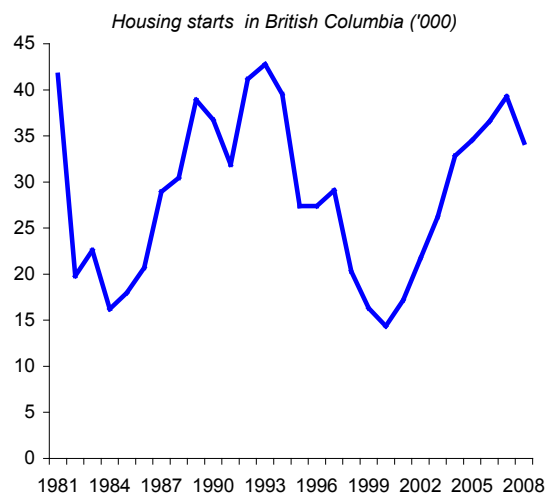
Business investment rose marginally (+1.1%) in 2008, marking the second straight year in which there has been little change in business investment. Businesses spent 8.5% more on new non-residential structures, and increased their purchases of machinery and equipment by 2.8% in 2008.

The housing sector has provided much of the impetus for growth in business investment in recent years. Spending on residential structures fell (-4.1%) for the first time since the late 1990s, as a long upturn in the housing market came to an end in 2008. With the decline in housing market activities, purchases of new furniture and floor coverings dropped off. However, consumers continued to invest in new appliances and other types of household furnishings, possibly because lower prices (and low in-

terest rates) made them more of a bargain for price-conscious shoppers.

Housing starts in the province were off 12.8% in 2008, with most of the deceleration in new building activity occurring at the end of the year, when it became evident that a slowdown was occurring. Housing construction activity is highly cyclical, and new home builders react relatively quickly when the market for their products begins to show signs of weakening. If past patterns are repeated (and evidence in the first four months of the year suggests this may be the case), it is likely that the slump in new housing starts will continue during the next few months.

Housing starts drop in 2008



Data Source: Statistics Canada

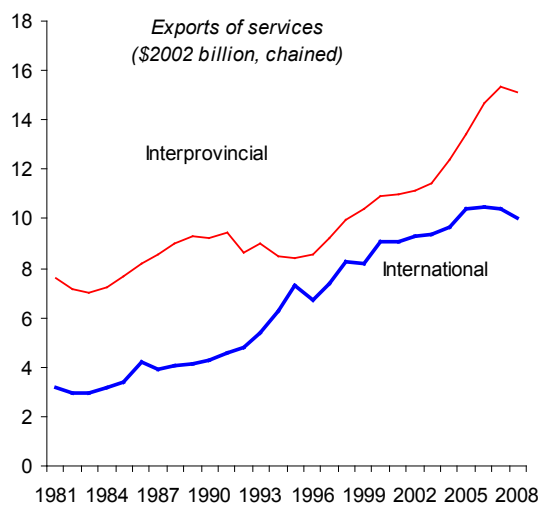
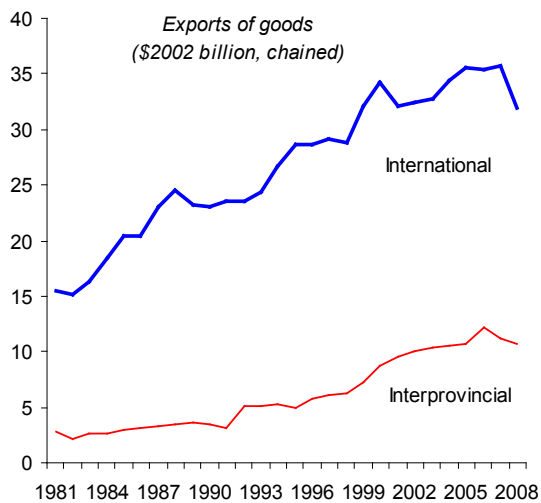
Private sector establishments surveyed between October and January indicated that they intend to cut back their investment in non-residential structures by 13.9%³, and foresee a further 2.1% reduction in new housing construction during 2009. Machinery and equipment purchases by both the private and public sectors are expected to fall 7.8% this year.

³ Current dollars

Exports a major source of weakness in BC economy

Exports were a major source of weakness in the BC economy as both international (-9.0%) and interprovincial (-3.0%) exports of goods and services dropped off significantly in 2008.

Exports of both goods and services slump



Data Source: Statistics Canada

International sales of BC commodities fell sharply (-10.6%), as shipments to the US, the province's biggest trading partner, slumped. With economies in Europe and Asia slowing, the demand for raw materials, especially min-

ing and forestry products used in industrial processes, was also weaker.

Price effects pushed up the *current dollar* value of international exports even though the volume of goods sold outside the country was significantly lower than in 2007. BC's goods exports remain largely resource-based, with eight out of every ten international export dollars⁴ coming from sales of forestry, energy, mining, agriculture or fish products. While prices for some key British Columbia commodities have moderated, the average cost of energy products and some metals was significantly higher in 2008 than in the previous year.

International exports of services fell 3.5%, as a drop in demand for goods translated into less activity handling, insuring and transporting commodities entering or leaving the country (including those coming from or going to other regions). BC's trade with other provinces also slowed in 2008, and exports to the rest of Canada were down 3.0%.

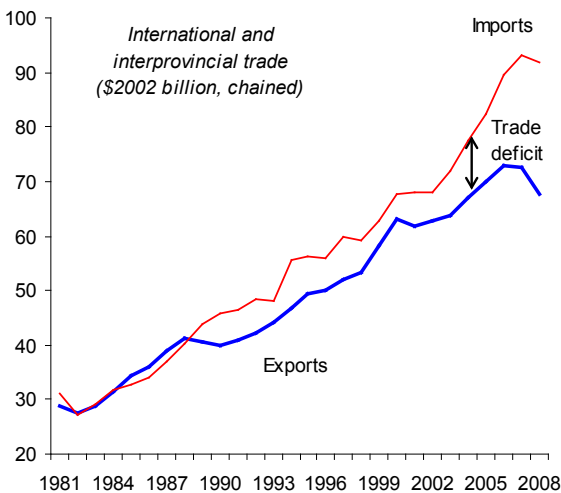
The slump in exports was only partly offset by a modest decline in the value of imports, which fell 1.2% overall as British Columbians purchased fewer goods and services from other countries (-1.0%) and other provinces (-1.4%). Most of the province's imports come from outside the country rather than other regions of Canada.

Trade deficit grows

BC's trade deficit deepened in 2008, and this, together with the decline in final demand, kept the lid on economic growth in 2008. Many of the goods and services consumed by British Columbians (both as inputs into production, and final products sold to consumers) are sourced outside the province.

⁴ This excludes exports of services and is based on current dollar (customs port) export data.

Trade deficit deepens



Data Source: Statistics Canada

The value of BC’s imports has tripled during the last three decades as final demand (especially for goods) is increasingly being supplied by overseas producers. External markets for BC goods and services have also expanded, but at a much slower rate, and the net effect of external trade has been to dampen overall economic growth in BC.

British Columbia has always had a trade deficit with other provinces, but the international trade deficit has only emerged in recent years. Most of the increase in the province’s trade deficit in recent years can be attributed to BC’s trade with other countries. The interprovincial trade deficit has been relatively stable over time.

Goods sector falls back; service industries continue to post modest growth

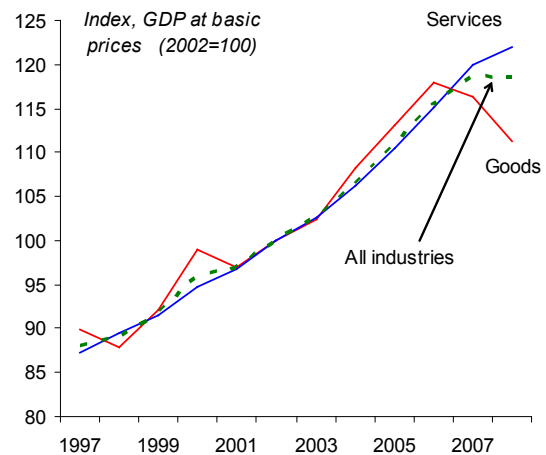
In recent years, British Columbia’s economy has been buffered by the service sector, where steady growth has helped offset volatility in the goods industries. This has allowed the province’s economy to expand even when major goods industries have been in decline. However, service sector growth in 2008 (+1.7%) was not strong enough to offset an ongoing recession in the goods sector, which shrank (-4.3%) for the

second year in a row. The downturn in the goods sector was widespread, with every industry except construction (+4.2%) posting declines.

Manufacturing shrinks as forest sector pulls back

BC’s manufacturing industry shrank 10.5% as the forest sector sank deeper into recession. GDP in wood products manufacturing plunged (-21.4%) and the paper industry fell back 10.5%. Primary forestry & logging were down 18.2%.

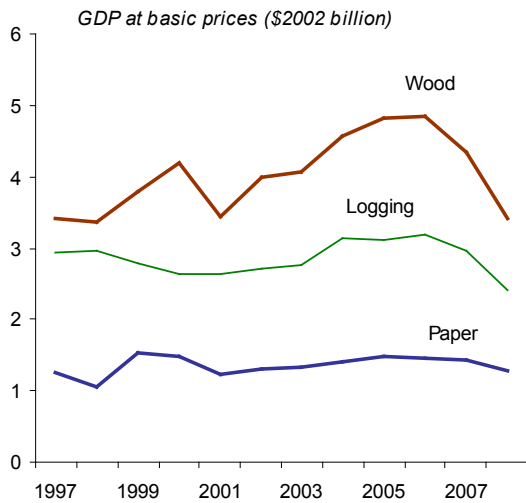
Service industry growth not strong enough to offset contraction in goods sector



Data Source: Statistics Canada

The forest sector has been struggling in recent years, and global economic conditions during 2008 did not help matters. US housing starts began to decline in 2006, and the drop in output by the wood products industry is partly related to a slump in demand south of the border. The pine beetle epidemic which has devastated some Interior stands of timber, has had a less dramatic effect on output. Much of the timber destroyed by the beetles has been salvageable, although the lumber produced from these stands is of a lower quality, so commands a lower price than would otherwise be the case.

...as forest sector is felled by slumping demand

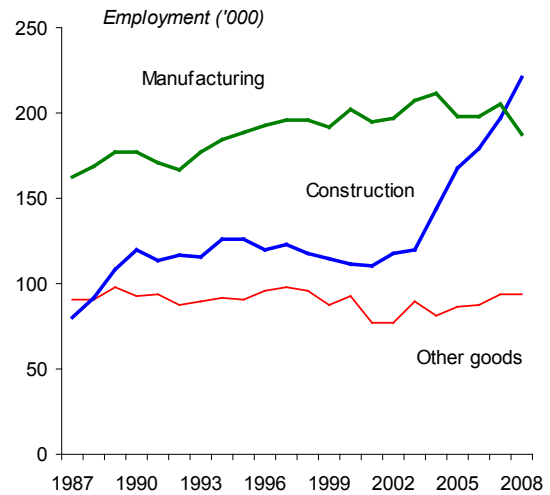


Data Source: Statistics Canada

There have been some changes in the characteristics of BC's manufacturing industry as a result of the downturn in the forest sector. The food industry became the biggest source of manufacturing revenues in the province in November 2008, with shipments exceeding those by the wood industry for the first time since 1961⁵ and has maintained its lead since then.

In terms of employment, the decline in manufacturing, together with continued growth in construction activities propelled that industry ahead of manufacturing to become the biggest employer in the goods sector in 2008. Whether or not this shift will be permanent is unclear, as construction employment began to fall toward the end of 2008.

Construction now biggest employer in goods sector



Data Source: Statistics Canada

Mining oil & gas extraction slumps

The province's mining, oil & gas extraction industry contracted 2.7%, as the oil & gas extraction industry, which now dominates the sector, reduced its output (-2.3%) and mining activities fell back 5.0%.

Service sector slows

In the service sector, wholesale trade was down (-3.6%) and retail activities increased only marginally (+0.6%) in 2008. The transportation & warehousing industry moved ahead, but just barely (+0.3%). Most other service industries fared better in 2008.

It's not all doom and gloom

Labour market conditions robust in 2008

Although the province slipped into recession in 2008, economic conditions during the year were not universally weak. The number of jobs in the province rose 2.1% during the year, and British Columbia's unemployment rate fell to a thirty-year low.

⁵ 1961 is the first year for which this information is available

Unemployment rate still low despite recent increases



Data Source: Statistics Canada

The unemployment rate averaged 4.6% in 2008, and although it has since risen⁶, it is still below the long-term average for the province. The youth unemployment rate fell to its lowest level in years, as employers faced labour shortages during the summer. However, signs of stress started to appear at the end of the year and the jobless rate began to creep up.

Wages and salaries⁷ increased 5.6% and corporation profits rose marginally (+2.2%) during the year.

Real after tax income continues to rise

Although real per capita GDP fell slightly (-1.9%), per capita after-tax income⁸ in the

⁶ The jobless rate was 7.4% in April 2009.

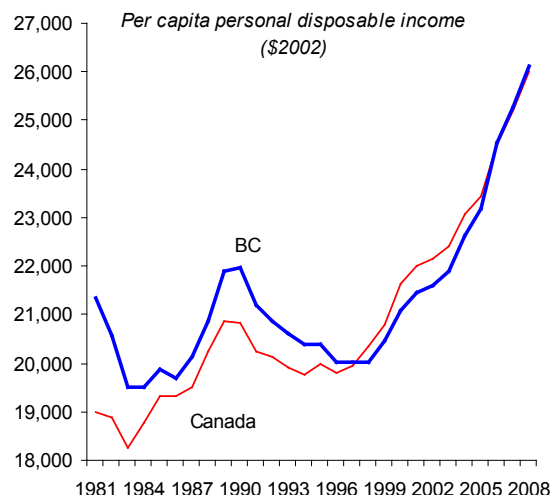
⁷ These figures are reported in current dollars.

⁸ Personal income includes wages and salaries, unincorporated business income, miscellaneous investment income and transfer payments such as Employment Insurance benefits or government and private pensions.

Personal after-tax (disposable) income is net of income taxes and other payments to government such as contributions to social insurance plans, medical insurance premiums and motor vehicle licences.

province increased 3.3%, slightly more than the national average (+3.1%). Alberta (+4.1%), Manitoba (+4.2%) and Saskatchewan (+8.7%) were the only provinces to make bigger gains. This marked the third straight year in which per capita after-tax income in the province has exceeded the Canadian average. The gap remains very small (in 2008, real per capita disposable income was \$26,110 in BC compared to \$25,992 nationally), but is growing. The difference was only \$35 per capita in 2006. Real after-tax personal income in the province is approaching that in Ontario (\$26,514) but remains significantly lower than in Alberta, where per capita after-tax income was \$32,882 in 2008.

Personal after-tax income inches ahead of Canadian average

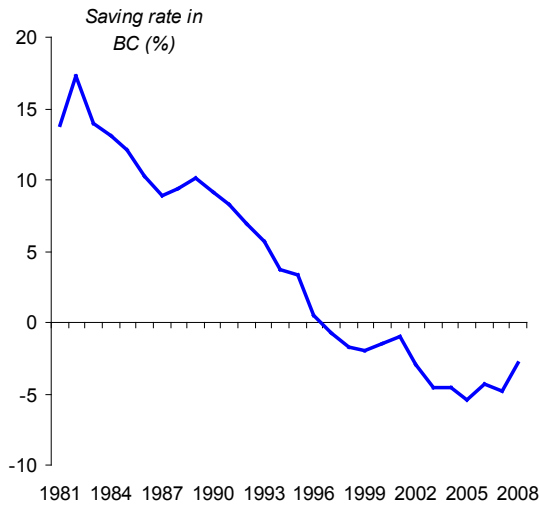


Data Source: Statistics Canada

Saving rate increases marginally

A long decline in the province's saving rate (savings as a percent of personal after-tax income) came to an end, although the rate remains negative, indicating that British Columbians are continuing to spend more on goods and services than they take in every year.

Saving rate still negative, but rising



Data Source: Statistics Canada

What lies ahead?

Most economic indicators suggest that global economic conditions may remain turbulent for some time. Although Canada is relatively well positioned to weather the storm, BC has already been harder hit than other regions. The province faces big challenges, not only because some key industries are likely to continue to be stressed, but also because some of the fundamental building blocks of economic growth in the province are weak. Labour productivity and business investment in BC are lower than in other parts of the country, and during economic downturns, these drivers may hamper the province's ability to make a robust recovery from the current economic downturn.

