

LIVE WORK INVEST

BC IN



METHODOLOGY As leaders in analysing and validating information, CAs are often called upon by businesses to provide independent, fair, and objective information to assist in decision-making. It's with this goal in mind that the Chartered Accountants of BC prepare the *BC Check-Up*. It is our hope that the *BC Check-Up* will make a positive public policy contribution to the province by stimulating debate and discussion about how to make BC a better place in which to live, work, and invest. This report is referred to by government and business leaders alike because of its objective reporting of key indicators.

The first *BC Check-Up* was released in 1999. It, along with subsequent editions in 2000, 2001, and 2002, provided a comprehensive profile of British Columbia as a place in which to live, work, and invest. The 2003 edition provides this profile, and also compares BC with Alberta, Ontario, and the national average to provide a context in which to analyse BC's performance.

The *BC Check-Up 2003* was designed to assess trends in British Columbia's economic and social health. Alberta and Ontario were selected for comparisons because they are considered to be "have" provinces in Canada – a status BC itself held until 1999/00, and which it is now working hard to regain. In addition, the national average of all provinces was selected to provide further comparisons with economic and social trends across the country.

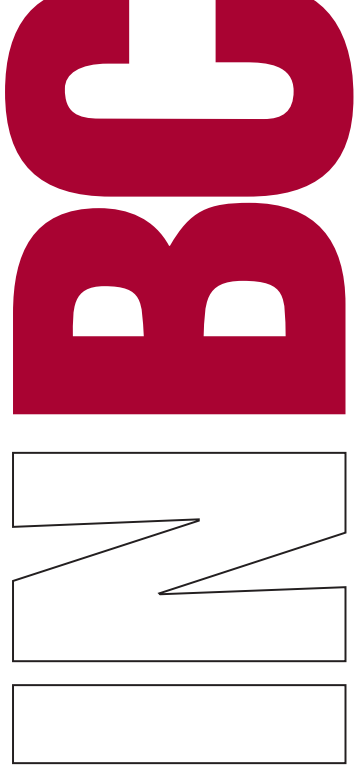
To assess BC as a place in which to live, work, and invest, 15 core indicators were selected (five in each category). To be viable, these indicators had to be independent, available for BC, Alberta, Ontario, and the national average, and broad enough to reflect what's happening in each jurisdiction's economic and social life.

A more in-depth background report, including details on each indicator and further details on methodology, is available on the Internet at www.bccheckup.com.

The data and background report were compiled by consulting economists led by Marlyn Chisholm & Associates in association with Banks Bywater & Company, Crane Management Consultants, Gold Island Consulting, and Shirocca Consulting.

BC CHECK-UP 2003

WORK INVEST



SEPTEMBER 11TH

WAR ON TERRORISM

SARS

PINE BEETLE

SOFTWOOD LUMBER DISPUTE

STOCK MARKET DECLINES

INTRODUCTION Many of the indicators in the *BC Check-Up 2003* are worse than last year. This should come as no surprise, given that the data reflects a time of turbulence - from the fallout of the events of September 11th, 2001, and the continuing "war on terrorism", to stock market declines and the ongoing softwood lumber dispute. Overcoming these challenges has added bumps and detours on the road to BC's recovery. The road does not get much smoother in 2003 with the impact of SARS, mad cow disease, the war in Iraq, and a record wildfire season.

There is some good news, however, with more competitive government policies, a return to fiscal prudence and Vancouver's recent designation as the host of the 2010 Winter Olympics.

RAINING TURBULENCE

How do we move forward in these changing times?

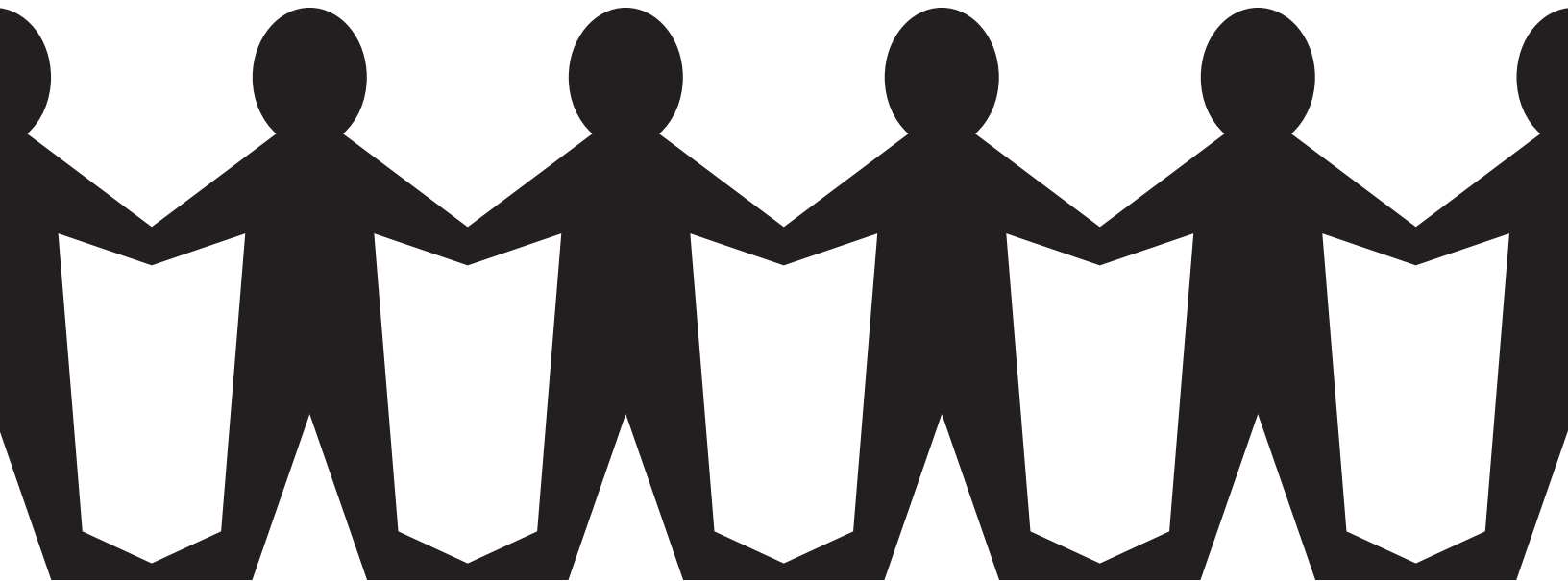
This year, in addition to reporting on the status of the province, the *BC Check-Up* highlights three particular challenges BC is facing in its quest for economic prosperity:

- 1 Additional post-secondary educational spaces are needed to prepare our young people for the jobs we will need them to fill in the future, and to retrain those displaced by job losses in the goods and manufacturing sectors. Unless creative solutions are found, present funding levels may have to be increased.
- 2 Regional economies are losing jobs, and it is increasingly difficult to find employment outside the province's urban centres.
- 3 BC's productivity lags behind other provinces and internationally, making it a less competitive place to do business.

BC must address each of these interconnected issues as it moves toward prosperity – in fact, government policies have been introduced in each area. However, none are easy to resolve. We need the right people in the right places with the right skills. We need the economy to generate revenue to fund training, and institutions to produce skilled workers that meet business needs and raise overall productivity. We also need to make sure our prosperity is evenly distributed, not concentrated in the major urban centres of Vancouver and Victoria.

The province's CAs are confident that we are moving in the right direction to meet these goals. The key now is for all British Columbians to work together to solve these problems and move the province forward.

Together.

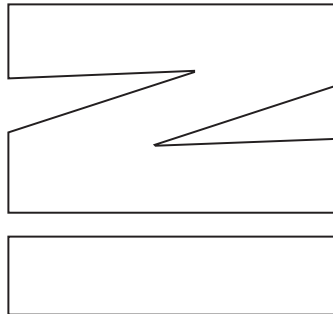


LIVE BC

1.0 BC AS A PLACE TO LIVE

1.1 OVERVIEW BC may be one of the most beautiful places in the world to live, but over the past year (and the past decade), its performance on most LIVE indicators has dropped. Over the past year, British Columbians lost ground on disposable income, crime, and the number of families living below the low income cut-off.

However, the province has retained the highest number of physicians per capita and post-secondary attainment has steadily increased.



1.2 SPOTLIGHT ON POST-SECONDARY EDUCATION Post-secondary attainment is the percentage of the core working-age population that has a post-secondary certificate (or higher), while post-secondary enrolment measures the percentage of those in the 18-24 age group who are pursuing post-secondary studies.¹

Table 1.1 Post-Secondary Attainment %
(ages 25-44)

Jurisdiction	1993	2001	2002	% change 1993-2002
Canada	49.1	59.3	59.7	21.6
BC	48.4	57.2	57.6	19.0
Alberta	52.9	59.1	59.4	12.3
Ontario	48.7	60.2	60.4	24.0

As table 1.1 shows, post-secondary attainment in BC increased by 19% over the past decade.

One of the keys to improving BC's quality of life is increasing the number of people with post-secondary education—the more people in a population with post-secondary education, the more skilled the labour pool. A highly skilled labour pool is becoming increasingly important to investors when making decisions about business locations. According to economists at Scotiabank, demand for highly skilled workers will continue to grow over the next five years in spite of a predicted overall employment slowdown.²

¹In previous editions of the *BC Check-Up*, post-secondary enrolment was used as the report's main indicator of education levels, but 2002 full-time enrolment numbers were not available from Statistics Canada, so it has been replaced by post-secondary attainment.

²Scotiabank Economics, August 28, 2003.

Even more importantly, having a post-secondary degree or certificate increases a person's probability of having a high-paying job. According to the 2001 Census, more than 60% of top income earners (\$100,000 or more) had a university degree.³ By contrast, more than 60% of the lowest income earners (less than \$20,000) had no more than a high school education.

The good news is that the attainment rate is rising in BC, although it is 2.3 percentage points below the national average.

One troubling facet of education for BC is the rate of post-secondary enrolment as a percentage of the population 18-24 (see table 1.2), which is 9.9 percentage points below the national average. It is important to note that this gap is somewhat mitigated by BC's higher part-time enrolments. Unfortunately, comparable part-time data is not available for the other jurisdictions.

³Statistics Canada, *Earnings of Canadians: Making a Living in the New Economy*, Cat. 96F00030XIE2001013, 2003.

Table 1.2 Post-Secondary Enrolment
(as % of 18-24 Age Group)

Jurisdiction	1993	1994	1995	1996	1997	1998	1999	2000	2001
Canada (full-time only)	32.6	33.4	33.9	34.3	34.6	34.3	34.4	34.4	34.8
BC (full-time and part-time)	50.1	48.7	48.1	48.3	48.2	49	49	48	-
BC (full-time only)	22.5	22.5	23.1	23.3	23.8	24.1	24.7	24.6	24.9
Alberta (full-time only)	28.2	28.8	28.8	29.6	29.9	29.1	28.8	29.1	29.6
Ontario (full-time only)	31.9	33.1	33.7	34.6	35.6	35.6	35.7	36.0	36.6

⁴Petti Fong, *Vancouver Sun*, September 3, 2003, pg. A1

⁵Data on inter-provincial migration by education attainment is not available.

⁶Heslop, J. (December 2002) *BC12 Applicants to BC Universities Fall 2002*. Office of Analytical Studies, Simon Fraser University.

BC's lower enrolment and attainment rates tell an interesting story. "Educational attainment" is based on an individual's place of residence, and not on where they obtained their education. The gap between BC's post-secondary attainment and enrolment rates is likely the result of two factors: BC has benefited from the international and inter-provincial in-migration of people with post-secondary certificates, which has raised the province's attainment rate; and a depressed enrolment rate caused by BC's post-secondary system's difficulty keeping pace with the rapid growth in the province's 18-24 population.

Looking only at universities, and ignoring other post-secondary institutions such as colleges and university colleges, the picture is brighter. According to the Canadian Association of University Teachers, this year BC is projected to have the second highest level of university enrolment (behind Ontario), when expressed as a percentage of the total population. This is a good sign, because traditionally BC has had lower university enrolment than other jurisdictions.

However, universities are seriously oversubscribed. A 2002 report from Simon Fraser University⁶ estimated that 1,851 qualified students were denied admission to BC universities for the fall 2002 semester, representing 15.5% of the 11,948 students who applied and qualified for admission. The report also states that while the proportion of qualified grade 12 BC high school graduates applying to BC universities "...has remained relatively constant at 28% over the past seven years, the proportion of... graduates who receive admission offers has declined from 27% to 23%..." Another troubling situation is the recent rise in minimum entrance requirements at the province's three largest universities.

While some of the students who are turned away from universities may find positions in colleges, unless policy changes are made, this problem is only going to get worse as demand increases. Over the past decade, BC's growth in the 18-24 year-old population was 8% higher than the national average, and this growth is projected to further increase by almost 5% over the next ten years.⁷

The increased demand from the growing 18-24 age group is coupled with a shift in the provincial economy: Employment in many of the traditional, goods-producing sectors has been flat or declining, whereas growth in the service and high-tech sectors has been significant.⁸ The fact that displaced workers require retraining to help them find new employment partially explains BC's high number of older graduates and part-time students. This trend is likely to continue, as research predicts that 73% of new jobs from 1998 to 2008 in BC will require some form of post-secondary education.⁹

⁷BC Stats.

⁸Ministry of Advanced Education, *Service Plan 2003/04 – 2005/06*, Province of BC, February 2003.

⁹Lori McElroy, *Student Demand and Faculty Supply in British Columbia Post-Secondary System: Challenge for the Next Decade*, Centre for Education Information, 2001.

Combined with economic restructuring and a growth in the knowledge sector, the growth in the 18-24 age group creates a significant problem for BC. There is neither enough funding, nor enough spaces to support growth in post-secondary enrolments. A demand assessment done in 2000 estimated that if the current post-secondary participation rate remained constant and this demand was met, enrolments at BC's colleges and universities would increase by 13.3%.¹⁰ If, however, a modest increase in the participation rate was to continue (as it must do for BC to take advantage of new employment opportunities), the number of post-secondary spots would have to rise by 45.8% over the next ten years to meet the demand.

Unfortunately, there's no easy solution. Even though provincial government funding to universities has increased by 31% since 1993/94, there is less money per student as a result of the increased enrolment rates. In fact, funding per full-time equivalent (FTE) dropped 3.2% between 1993/94 and 1999/00.¹¹

More students means higher operating costs for universities. Total operating expenditures over the past decade have grown 9% faster than government funding; to offset this difference, universities have cut capital expenditures. University investment in post-secondary infrastructure dropped from over \$352 million in 1993/94 to just below \$98 million in 2001/02. Declines in funding per student have been partly offset by an increase in student revenue, as a freeze on tuition fees was lifted. According to Statistics Canada, university tuition fees went up by an estimated 25.7% in 2002/03 and are estimated to rise by 30.4% in the 2003/04 school year, bringing BC's tuition fees closer to the national average.¹²

BC, like the rest of Canada, is facing shortages of skilled labour as a result of both an aging population and increasing shifts to knowledge-based industries that require higher levels of education. BC must therefore develop strategies to increase post-secondary enrolment by promoting the benefits of post-secondary education to high school graduates and those seeking to upgrade their skills. Even more important, the government and post-secondary institutions need creative strategies to increase the number of spaces for students and thereby meet the demands of British Columbians for a prosperous employment future. The government has started to address this issue by adding 5,800 seats in post-secondary institutions over the past two years, and committing to add another 6,000 in the next two years.

1.3 INCOME Real disposable income per capita illustrates differences and changes in purchasing power in real after-tax dollars. Between 1993 and 2002, British Columbians saw their real disposable incomes rise by 4.2%, less than half the national average increase of 9.9%. Comparatively, Alberta led all other jurisdictions with a 12.8% increase in disposable income.

BC experienced a slight decrease in disposable income in 2002, compared to 2001. The average British Columbian's income dropped \$64 to \$19,632, trailing Albertans by \$2,261 and Ontarians by \$1,650.

The slight decline in disposable incomes in BC last year resulted from a struggling resource sector, particularly the ongoing difficulties in forestry. The result was a shift towards low-paying, part-time jobs in the service sector.

The decline would have been even worse had it not been offset by the provincial government's significant personal tax cuts. In 2001 and 2002, direct taxes per capita in BC declined by \$668, resulting in the lowest direct tax level in BC in almost a decade. BC's tax rates as a percentage of personal income are the lowest in Canada with the exception of Alberta.

Jurisdiction	1993	2001	2002	% change 1993-2002
Canada	18,226	19,805	20,029	9.9
BC	18,846	19,696	19,632	4.2
Alberta	19,412	21,821	21,893	12.8
Ontario	19,825	21,068	21,282	7.3

¹⁰ Lori McElroy, *Student Demand and Faculty Supply in British Columbia Post-Secondary System: Challenge for the Next Decade*, Centre for Education Information, 2001.
¹¹ College enrolment data is not available beyond 1999/00.
¹² Nicholas Read, *The Vancouver Sun*, August 13, 2003, pg. A3.

1.4 HEALTH The number of physicians per 100,000 population measures access to primary health care. In 2002 BC had the highest rate of physicians per capita of the studied jurisdictions, with 199 per 100,000. This was 9% more than Alberta and 9.5% more than Ontario. Over the past decade, there was a 1.9% decrease in BC's physicians per capita. Alberta's rate rose 5.5% during this same period, which is remarkable given that Alberta had population growth of 16.6%.

Table 1.4 Physicians per Capita
(per 100,000)

Jurisdiction	1993	2001	2002	% change 1993-2002
Canada	192	188	189	-1.6
BC	203	198	199	-1.9
Alberta	172	168	181	5.5
Ontario	195	181	180	-7.4

Given attrition in the medical profession, BC is projected to require 300 new doctors per year just to maintain its position. Fortunately the 2003 expansion of BC medical schools is projected to double the number of graduates.

1.5 POVERTY After-tax low income cut-off (LICO), a Statistics Canada measure, tracks the percentage of families that spend 20% or more of their household (after-tax) income on basic necessities than the average Canadian family.¹³

Table 1.5 Families Living in Poverty
(% living below low income cut-off)

Jurisdiction	1993	2000	2001	% change 1993-2001
Canada	16.7	14.6	14.1	-15.6
BC	16.8	16.3	16.6	-1.2
Alberta	17.9	13.3	12.8	-28.5
Ontario	14.5	12.0	11.6	-20.0

Alberta, Ontario, and Canada as a whole made substantial progress over the past decade, decreasing the income disparity between families. BC however, made the least progress over the past decade, decreasing the number of families below the LICO by a mere 0.2%.

Between 2000 and 2001, the number of low income families in BC rose by 1.8% to 16.6%. This puts BC 17.7% higher than the Canadian average, and the only studied jurisdiction to see an increase between 2000 and 2001. There is no doubt that these numbers reflect the economic struggles of BC's forest industry and the impact these struggles have had on many families in resource-dependent communities.

1.6 CRIME The crime rate measures the number of reported property and violent crimes per population of 10,000 and is used as the measure of public safety.

Since 1993, the number of crimes (per 10,000 population) has decreased in BC by 23.3%. Nonetheless, BC still had a higher crime rate than Alberta, Ontario, and the Canadian average in 2002.

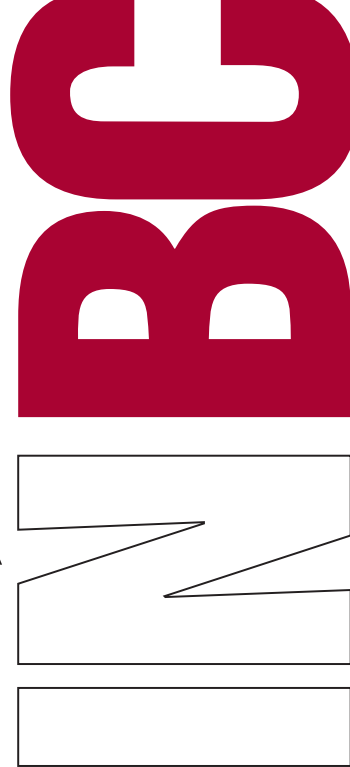
In 2002, BC's overall crime rate went up 0.4% from 2001. The violent crime rate dropped by 1.4%, despite the fact that BC was tied for the highest homicide rate in Canada due to the reporting of the "Pickton farm murders". The decline in violent crime, however, did not make up for a 0.6% increase in property crime. This rise in property crime included the highest increase in vehicle theft in Canada.

Table 1.6 Property and Violent Crimes per 10,000

Jurisdiction	1993	2001	2002	% change 1993-2002
Canada	665	497	493	-25.9
BC	1,002	766	769	-23.3
Alberta	740	551	574	-22.4
Ontario	625	414	406	-35.0

¹³ LICO is adjusted for both family and community size, and is updated annually: Statistics Canada reports two different low income measures, LICO and Low Income Measure (LIM) - the proportion of households with incomes that are less than half the household median income adjusted for family size. In the future we hope to switch to the LIM, but currently there is not enough trend data to provide all proper comparisons.

WORK



2.0 BC AS A PLACE TO WORK

2.1 OVERVIEW Over the past decade, BC has turned in a mixed performance for its WORK indicators. The province showed modest improvement in real wage rates and gender equity, as well as above average improvement in job tenure. However, BC trailed in terms of its labour utilization rate, which declined 3.4% due to a continued increase in the number of part-time workers. Although BC registered a 1.3% increase in employment for the decade, the province's job growth significantly trailed the other studied jurisdictions, largely because of the loss of resource-based jobs. Things look better for 2003, as early employment figures show an increase in full-time jobs.

2.2 SPOTLIGHT ON EMPLOYMENT The employment rate is the number of employed persons as a percentage of the labour force.

Over the past decade, all jurisdictions showed higher employment rates, but BC posted the lowest improvement. Over the period of 1993-2002, the BC employment rate grew by a mere 1.3%, compared to gains of between 4.2% and 4.8% in other provinces and the rest of Canada.

Table 2.1 Employment Rate %

Jurisdiction	1993	2001	2002	change 1993-2002
Canada	88.6	92.8	92.3	4.2
BC	90.3	92.3	91.5	1.3
Alberta	90.4	95.4	94.7	4.8
Ontario	89.1	93.7	92.9	4.3

In 2002, the BC economy added an impressive 31,000 new jobs; however, these new jobs were more than offset by the 54,300 people entering the BC labour force, which meant the unemployment rate increased from 7.7% in 2001 to 8.5% in 2002.

And while the overall number of jobs has increased in BC, these increases have not been evenly distributed geographically. For those living outside the Greater Vancouver or Greater Victoria areas, employment opportunities have become more limited. Almost all job growth for 2002 was concentrated in the Lower Mainland—which now accounts for 62% of the province's total employment—as 33,700 new jobs were created. Vancouver Island generated an additional 6,600 jobs last year. The only other region to experience job growth in 2002 was in the Northeast, which saw a net gain of 200 jobs—due to continued strength in the oil and gas industry. In all other regions of the province, there was a net loss of 9,300 jobs in 2002.

Table 2.2: BC Employment Change by Region 2001/02

Region	Total employment (000's)		
	2001	2002	change
Lower Mainland/Southwest	1,187.9	1,221.6	33.7
Vancouver Island & Coast	305.3	311.9	6.6
North Coast & Nechako	47.4	46.3	-1.1
Cariboo	83.0	81.9	-1.1
Kooteney	71.9	68.3	-3.6
Thompson/Okanagan	213.7	210.0	-3.7
Northeast	33.2	33.4	0.2

Source: Statistics Canada

Table 2.3: Top Five BC Sectors for Job Declines 2001/02

Sector	Decrease in Jobs
1. Forestry, Fishing, Mining, Oil & Gas	-4,400
2. Professional, Scientific & Technical services	-4,300
3. Public Administration	-4,100
4. Other Services	-1,000
5. Information, Culture & Recreation	-600

Source: Statistics Canada

Table 2.4 Real Average Hourly Wage (pre-tax)

Jurisdiction	1993	2001	2002	% change 1993-2002
Canada	18.19	17.86	17.76	-2.4
BC	18.27	18.65	18.36	0.4
Alberta	18.35	18.01	17.75	-3.3
Ontario	19.09	18.68	18.56	-2.8

In 2002, BC suffered the biggest loss in real wages among the jurisdictions with a decline of 1.6%. Despite this loss, BC is still the only studied jurisdiction where real wages in 2002 were actually higher than in 1993.

2.4 ACTUAL HOURS WORKED The ratio of actual to potential hours worked per year reflects the general level of labour force utilization. For this indicator, a higher value is better, and reflects overall economic health.

Table 2.5 Actual/Potential Hours Worked

Jurisdiction	1993	2001	2002	% change 1993-2002
Canada	0.90	0.90	0.89	-1.1
BC	0.88	0.86	0.85	-3.4
Alberta	0.93	0.95	0.92	-1.1
Ontario	0.90	0.91	0.90	0.0

Large job losses outside BC's urban centers have had a significant impact on regional economies. With fewer employers, regional economies are less able to absorb displaced workers. The provincial government has introduced a "Heartlands" strategy to address these problems and 2003 has shown some increases in regional job numbers.

As table 2.3 shows, last year BC lost 4,400 jobs in the forestry, fishing, mining, and oil and gas sectors. An additional 4,300 positions were lost in the professional, scientific and technical service sector, primarily because of consolidations in computer system design services.

2.3 WAGES Real average hourly wage rates capture labour force compensation, net of inflation.

All jurisdictions saw real wages fall over the past decade, except BC, which witnessed wage growth of 0.4%. BC wages peaked in 1996 at \$18.81. They've since shown a slow decline (except in 2000, when there was a small increase).

In BC, the past decade brought no improvements in the ratio of actual to potential hours worked. In 2002, workers worked 3.4% fewer hours than in 1993. The drop to 85% utilization in 2002 brings BC 4.5% below the national average.

Over the past year, worker hours in BC declined by 1.0%, leaving BC with the lowest utilization rates among the jurisdictions studied. Labour utilization levels have dropped across Canada as the number of part-time workers has grown.

2.5 GENDER EQUITY The female/male wage gap is the ratio of female to male hourly wages (full-time workers) in the employed labour force and indicates pay equity in the labour market.

Table 2.6 Female/Male Wage Ratio

Jurisdiction	1997	2001	2002	% change 1997-2002
Canada	0.83	0.82	0.83	0.0
BC	0.81	0.83	0.85	4.9
Alberta	0.78	0.78	0.76	-2.5
Ontario	0.84	0.82	0.84	0.0

BC has seen its female to male wage gap close over the past five years, giving BC the highest female/male wage ratio (among the studied jurisdictions) at 85%.

While this indicator appears to be good news, the reality is that these improvements have come from poor wage growth for men (only 9.9% between 1997 and 2002) rather than strong wage growth among women (up 14.9% between 1997 and 2002). The slow growth in wage rates for men is linked to challenges in BC’s male-dominated resource industries and the high tech sector.

Table 2.7 Average Job Tenure (in months)

Jurisdiction	1993	2001	2002	% change 1993-2002
Canada	94.4	95.6	96.8	2.5
BC	79.1	88.7	91.6	5.8
Alberta	86.3	82.6	84.5	-2.1
Ontario	95.9	93.8	95.1	-0.8

2.6 JOB STABILITY Labour market stability is measured by the average annual length of job tenure or the number of months a person has worked for their current employer. Short average job tenure means people are changing jobs frequently. High average job tenure corresponds with low labour force turnover, a result of jobs that are more secure and/or workers who are less inclined to

change jobs. From both workers’ and employers’ perspectives, longer average job tenure is desirable.

BC’s 5.8% increase in job tenure over the past decade was much better than in other studied jurisdictions. Job tenure continued moving up in 2002, growing by 3.3% (almost three times the national average). While improving, BC still has a low absolute tenure value at 92 months.

Those workers approaching retirement and those in sectors at risk, are less likely to look for new employment, preferring the continued security of their present positions. BC’s aging population and resource sector lay-offs have driven the steady increase in job tenure since 1993. The “baby boom” cohort constitutes a large share of the labour force and holds a growing share of long-term, stable jobs – a demographic phenomenon that will likely produce continued improvement in BC’s tenure rates.



3.0 BC AS A PLACE TO INVEST

3.1 OVERVIEW Over the past decade, BC showed an improvement in three of the five INVEST indicators: unit labour costs, export prices, and the after-tax profits/GDP rate. However, in year-over-year comparisons between 2001 and 2002, BC experienced a slight worsening in four of five indicators: non-residential construction cost, after-tax profits/GDP rate, export prices, and taxpayer supported debt. The only improvement occurred in unit labour costs.

Individually, all of these indicators are important in assessing the province's investment climate, but together they help to assess an overarching concept: productivity. When compared to other provinces and countries, BC's productivity levels reveal a gap that could hamper investment.

3.2 SPOTLIGHT ON PRODUCTIVITY (UNIT LABOUR COSTS) Real unit labour costs are composed of two elements: Labour income (per employee) and labour productivity (GDP per employee). Unit labour costs indicate the actual cost (in wages) to produce one unit of a company's product, and signify the productiveness of a labour force. If labour incomes increase faster than rates of productivity, operating costs rise and competitiveness diminishes. Increasing wages are not bad – in fact, they can indicate greater prosperity, as long as there is a corresponding increase in productivity.

Table 3.1 Real Unit Labour Cost Index (1997=100)

Jurisdiction	1993	2001	2002	% change 1993-2002
Canada	105.1	101.8	102.1	-2.8
BC	104.9	99.5	98.8	-5.9
Alberta	108.9	94.2	101.6	-6.7
Ontario	105.4	104.5	103.0	-2.3

Table 3.1 shows a decade-long decrease in unit labour costs in all the studied jurisdictions.

Productivity levels can be determined by looking at unit labour cost, as unit labour cost is comprised of productivity and labour income. Looking at unit labour cost figures, there is little difference between provinces, but a closer look at labour income and productivity individually reveals distinct differences. Alberta and Ontario

created a steady, decade-long upward trend in labour productivity. Meanwhile, BC's productivity stagnated during the first half of the 1990s; since 2000, however, it has shown improvement.

Table 3.2 shows how BC ranks in productivity improvements. Over the last decade, Alberta, Ontario, and the Canadian average posted double-digit increases, while BC lagged behind with only a 6.6% increase.

¹⁴ Based on GDP per employee estimates of productivity.

Table 3.2: Percentage Change in Labour Income, Labour Productivity, and Unit Labour Cost

Jurisdiction	Labour Income		Labour Productivity		Unit Labour Costs	
	93-02	01-02	93-02	01-02	93-02	01-02
Canada	10.0	1.2	14.6	1.1	-2.8	0.3
BC	1.4	-0.3	6.6	0.7	-5.9	-0.8
Alberta	3.4	6.9	10.9	-0.2	-6.7	7.9
Ontario	14.2	0.5	19.0	2.0	-2.3	-1.4

While BC was able to keep unit labour cost levels in line with other jurisdictions, this was due to smaller wage increases, which are not desirable over the long term. Lower wages mean less money for the individual British Columbian and a less productive workforce to entice new investors.

Over the last decade, BC's average annual increase in productivity was approximately 1.1% lower than the Canadian average (1.4%) and most of that increase came from one sector.

Statistics Canada estimates that over the 1990-1997 period, 52% of BC's labour productivity growth came from the information, communication, and technology industries. BC's best performing sector over the past decade was the finance, investment, and real estate (FIRE) sector, with a 3.0% annual productivity increase.¹⁵ This increase was due, in large part, to the increasing use of information technology, which has led to labour savings and service improvements.

By contrast, the province's manufacturing sector stands on the opposite end of the spectrum, posting much lower productivity gains of 0.6% annually during the same period. But increased competitive pressure caused by the softwood lumber dispute with the US has led to some industry consolidation, mill expansions, and better relationships between unions and management – all of which should increase productivity in this sector.

The challenge for the future is to increase manufacturing productivity levels – a challenge that must be addressed if BC is to return to profitability and growth.

3.3 AFTER-TAX CORPORATION PROFITS The ratio of after-tax corporate profits to private sector GDP indicates a province's current (and expected) earnings environment. It is an important investment climate indicator, taking into account the tax environment and the ability to earn an adequate rate of return. Higher after-tax profits encourage greater investment.

Table 3.3 After-Tax Corporate Profits to GDP Ratio

Jurisdiction	1993	2001	2002	% change 1993-2002
Canada	4.59%	9.10%	9.25%	101.5
BC	3.11%	5.92%	5.65%	81.8
Alberta	6.34%	20.56%	16.21%	155.8
Ontario	5.31%	6.81%	7.81%	47.0

Over the past decade (1993-2002), BC's after-tax corporate profit to GDP ratio increased by 81.8%, largely because corporate income taxes grew more slowly than pre-tax profits. Lowering BC's corporate income tax rate (from 16.5% to 13.5%), removing the corporate capital tax on non-financial companies, eliminating the sales tax on machinery and equipment and raising the small business threshold have helped to address some of the largest inter-provincial discrepancies related to corporate taxation.

While BC's after-tax profit to GDP ratio has increased over the past decade, it is still well below growth rates in Alberta and the national average.

¹⁵ Based on GDP per hour worked estimates of productivity.



3.4 PROVINCIAL DEBT Provincial debt is measured as the ratio between taxpayer-supported debt and the province's GDP. The taxpayer-supported debt-to-GDP ratio reflects the fiscal position of a provincial government. If deficits and debt are increasing, then businesses expect the government to eventually increase taxes and/or reduce services. As a result, a deteriorating fiscal balance can be a deterrent to investment.

In 1992/93 BC had the lowest debt-to-GDP ratio, but it was the only studied jurisdiction to register an increase for the decade (almost 20%), and now has a higher debt ratio than Alberta, Ontario and Manitoba.

BC's debt has climbed over the past decade, due to increased government spending and softened provincial revenues; this is in contrast to the other western provinces, which have decreased their debt.

To address BC's increasing debt levels, the BC government has committed to balancing its budget in the 2004/05 fiscal year and reducing the debt-to-GDP ratio.

3.5 REAL NON-RESIDENTIAL CONSTRUCTION COSTS

The real non-residential construction cost index measures the cost to build a business structure. If the cost of construction "inputs" (materials and labour) increases faster than prices in the economy, then there is less of an incentive to expand or improve a business facility. An increase in this indicator means that prices for building a business structure have increased by more than the increase in general prices.

Alberta maintains the lowest non-residential construction costs (a position it has held since 1999), while Ontario and the national average have increased. BC's index has been steady over the past decade, due to the relatively flat value of non-residential construction. This trend is beneficial for the province's investment climate because construction price increases have kept pace with general price increases.

Table 3.4 Taxpayer-Supported Debt-to-GDP Ratio¹⁶

Jurisdiction	92/93	01/02	02/03	% change 1993-2002
Prov. Average	25.7%	25.4%	23.5%	-22.1
BC	18.2%	20.8%	21.8%	19.8
Alberta	27.1%	3.5%	3.2%	-88.2
Ontario	21.6%	25.2%	20.9%	-3.2

¹⁶ These figures come from the TD Bank, and were used because they provide consistency between the studied jurisdictions. The BC public accounts show the province's debt-to-GDP ratio as 21.6%.

Table 3.5 Real Non-Residential Construction Costs

Jurisdiction	1993	2001	2002	% change 1993-2002
Canada	96.3	102.2	103.3	7.2
BC	98.7	100.7	101.6	2.9
Alberta	99.8	87.2	91.0	-8.8
Ontario	95.6	107.9	108.7	13.8

3.6 REAL EXPORT PRICES The real export price index highlights export prices relative to other prices in the economy. If export prices rise faster than other prices, investment conditions in export industries become more attractive. This index is an important indicator for BC because exports represent a large portion of the province's economic activity. From an investment perspective, the expected demand for a sector's products plays an important role in decisions to expand or build new operations. For those companies whose main customers are foreign, changes in export prices are indicative of market conditions.

Real export prices increased 6.7% in BC between 1993 and 2002, but prices remained lower than in Ontario, Alberta, and the Canadian average-albeit by a small margin.

Between 2001 and 2002, BC experienced a sharp decline of -7.9% in prices as a result of lumber price declines, static pulp and paper prices, and a correction in natural gas prices.

Table 3.6 Real Dollar Export Prices (1997=100)

Jurisdiction	1993	2001	2002	% change 1993-2002
Canada	93.4	102.2	99.2	6.2
BC	92.2	106.8	98.4	6.7
Alberta	93.3	111.1	106.0	13.6
Ontario	97.0	100.2	99.0	2.1

CONCLUSION BC's economy suffered in the 1990s. While the rest of Canada was taking advantage of strong economic growth to lower debt and improve competitiveness, BC was not. Instead, BC became less competitive, its economy faltered, and provincial debt levels increased. As the next decade started, the tech bubble collapsed, the global economy weakened, and the softwood lumber dispute heated up.

However, recent policy changes are attempting to reinvigorate the province. BC's CAs are pleased with these initiatives. Efforts to address post-secondary tuition imbalances, increase physicians, stimulate the heartland, cut personal and business taxes, balance the budget and control government spending are all key to returning the province to competitiveness.

While this year's *BC Check-Up* shows that more work is needed, BC's CAs believe the changes currently underway will position the province for growth in the years to come.



BC Check-Up

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