

LIVE WORK INVEST

IN BC



Charting a
new course



live

Real personal disposable income per capita is the amount of income available after taxes and net of inflation. It illustrates changes in potential purchasing power and savings.

Financial vulnerability is measured by total debt (both personal and mortgage) calculated as a ratio to personal disposable income.¹

Social risk:

- **Cost of living** is expressed as the percentage of household expenditure spent on basic shelter and reflects the trend in actual household purchasing power.
- **Youth at risk** is defined as the percentage of the labour force aged 19 to 24 lacking a high school diploma.
- **Dependence on social safety** net is defined as the percentage of the population using social assistance.²
- **Crime rate per capita** reports on the number of property and personal crimes per 10,000 population.

Air quality reports on the fourth highest annual ground-level ozone measurement, which is the basis for a Canada-wide standard.

Health is measured by provincial government health care expenditures per capita based on Statistics Canada data.

work

Educational attainment is expressed as the percentage of the labour force between ages 25-64 possessing post-secondary accreditation.³

Unemployment rate represents the number of unemployed persons as a percentage of the labour force (people aged 15 and older who are employed or actively looking for work).

Real average hourly wage captures labour force earnings, net of inflation.

Pay equality is represented by the female/male wage ratio for full-time workers in the labour force.

Job creation is represented by the annual change in the number of employed workers.

invest

Innovation:

- **R&D intensity (industry and higher education share of R&D expenditure)**⁴ reflects innovation at its conception;
- **New patents per million population** is calculated as the annual ratio of newly registered patents per million population, and captures the later stages of the innovation process when diffusion and application occur.
- **Proportion of high-technology jobs**⁵ reflects the relative dominance of technological jobs in the labour force and has a strong correlation with current innovation activity.

Effective provincial tax for unattached individuals earning \$80,000 illustrates the provincial tax burden placed on high-income taxpayers.⁶

Real-labour productivity measures the efficiency of the workforce, or how much output can be produced in one hour of work. It is calculated as real GDP at basic prices (1997\$) divided by total hours worked by the labour force.

After-corporate-income tax profits to private-sector GDP ratio takes into account the influence of provincial taxation on the ability of firms to earn a competitive rate of return on business investments.⁷

Taxpayer-supported provincial debt to GDP ratio looks at the province's tax burden. It excludes self-supported debt (i.e. debt owed by commercial crown corporations and agencies) and focuses on the debt taxpayers are paying down directly.

¹ The measure of debt used is that calculated by chartered banks, credit unions, and caisses populaire, which represent approximately 3/4 of all financial lending institutions in Canada, but excludes trust and mortgage loan companies, life insurance companies, non-depository credit intermediaries, NHA mortgage-backed securities, and special purpose corporations. For this reason, debt figures shown here may not match other national estimates.

² Individuals on Employment Income Insurance have been excluded to avoid any potential for double reporting.

³ Post-secondary certificate, diploma, or higher includes diploma programs at colleges as well as trades and technical-certification programs.

⁴ Ratio of R&D spending to GDP.

⁵ Number of workers employed in natural/applied sciences as a percentage of total labour force.

⁶ This is not the highest provincial tax bracket. Tax data is from the *BC Budget Papers* and is evaluated for a number of tax brackets. Effective provincial tax includes income tax, property tax, sales tax, fuel tax, and health care premiums/payroll tax.

⁷ Note that estimates of direct taxes were developed for 2004 and 2005 in the absence of national or provincial data. Statistics Canada data.

introduction

BC's economy is going strong. The province is in the midst of a construction boom, high commodity prices are boosting the resource sector, and the unemployment rate is the lowest it has been in 30 years.

It is no surprise then that the province received plenty of good economic news this past year: BC's 2005 real GDP growth rate of 3.5% exceeded the Canadian average of 2.9%,⁸ and a strong BC economy resulted in the creation of 67,800 new jobs—the strongest year-over-year rate of job growth in the country—as well as an increase in machinery and equipment investment, and the addition of 40,816 new residents through in-migration.⁹ In fact, 2005 was the second consecutive year in which BC saw more people move into the province from other parts of Canada than move out, indicating Canadians' confidence in the province. The net gain last year was 7,456 persons, slightly down from 2004 (5.2%), but still a substantial improvement from the six prior years of net inter-provincial population loss.

Here's a snapshot of how the province looked in 2005:

- As a place in which to LIVE, BC enjoyed a decreasing crime rate and decreasing cost of living, increasing disposable income, and high government health care spending. At the same time, however, personal debt continued to grow (largely as a result of high housing prices) and air quality deteriorated slightly.
- As a place in which to WORK, BC experienced strong job creation, a declining unemployment rate, and real hourly wages above the national average. Areas requiring further improvement include the level of educational attainment and female/male wage equality.
- As a place in which to INVEST, BC continued to improve, with competitive tax rates, increasing corporate profits, and lower than average provincial debt. However, BC continues to lag behind the other jurisdictions when it comes to measures affecting innovation, especially in terms of patents and R&D spending.

In addition to reporting on the results of these indicators, the eighth annual *BC Check-Up* assesses how performance in the areas of personal disposable income; the professional, scientific, and technical sector; and R&D spending is likely to impact BC's future.

The Institute of Chartered Accountants of BC produces the *BC Check-Up* each year to measure the province as a place in which to LIVE, WORK, and INVEST. The report examines what's happening currently and also what the province's underlying foundation suggests will happen in the future. In order to provide context, BC's progress is benchmarked against that of Alberta and Ontario, and against the Canadian average. Statistics Canada's most recent data is the primary source of information and is supplemented by data from other agencies and publications.

The first-ever regional edition of the report was released in 2006. The *BC Check-Up, Regional Edition* evaluated the living, working, and investing conditions in each of the province's development regions. The regional reports can be found on the *BC Check-Up* website at <http://www.bccheckup.com/>.

⁸ BC Stats.
⁹ Statistics Canada.

BC remained a good place to live in 2005, leading the comparison jurisdictions with the lowest level of youth at risk (9.2%, compared to the national average of 11.4%) and the highest level of health care spending per capita (\$2,662). The province ranked second in dependence on the social safety net (3.5%) and air quality (50 ppb). There are, however, areas in which BC still needs improvement: disposable income (\$23,339); personal debt (1.24); crime rate (745 per 10,000 population); and cost of living, as expressed by the percentage of household income spent on shelter (20.2%).

When comparing 2005 with 2004, disposable income in BC grew by 1.5%, bettering the Canadian average growth rate of 0.9%. BC also added 1.8% to its health care spending. At the same time, social indicators remained unchanged, except for the crime rate, which declined by 6.2%. In addition, a deterioration in air quality occurred as ozone exposure increased by 4.2% in BC, while the other jurisdictions improved. Moreover, the increase in personal debt was the largest of all the comparison jurisdictions (6%).

Summary of LIVE Key Indicators¹⁰

		BC	AB	ON	CAN	
Real Personal Disposable Income per Capita		\$23,339	\$28,672	\$25,223	\$24,099	2005 Value
Debt to Personal Disposable Income		1.24	0.78	0.97	0.91	
SOCIAL INDICATORS	<i>Cost of Living</i>	20.2%	18.6%	20.5%	19.2%	
	<i>Youth at Risk</i>	9.2%	12.1%	10.5%	11.4%	
	<i>Dependence on Social Safety Net</i>	3.5%	2.7%	5.4%	5.3%	
	<i>Crime</i>	745	597	356	468	
Annual 4th Highest Daily Max Ozone Level (ppb)		50	48	71	n/a	
Health Expenditures per Capita		\$2,662	\$2,654	\$2,495	\$2,561	
Real Personal Disposable Income per Capita		1.5%	4.1%	0.2%	0.9%	2004-05% Change
Debt to Personal Disposable Income		6.0%	1.3%	3.2%	3.4%	
SOCIAL INDICATORS	<i>Cost of Living</i>	-0.3 ppt	0.3 ppt	0.2 ppt	0.3 ppt	
	<i>Youth at Risk</i>	0.3 ppt	-1.7 ppt	-0.9 ppt	-0.6 ppt	
	<i>Dependence on Social Safety Net</i>	-0.4 ppt	-0.2 ppt	0.0 ppt	-0.1 ppt	
	<i>Crime</i>	-6.2%	-3.1%	-4.0%	-4.9%	
Annual 4th Highest Daily Max Ozone Level (ppb)		4.2%	-9.4%	-21.1%	n/a	
Health Expenditures per Capita		1.8%	7.7%	7.1%	4.4%	
Real Personal Disposable Income per Capita		4.1%	11.1%	-1.2%	3.1%	2000-05% Change
Debt to Personal Disposable Income		22.8%	16.4%	26.0%	24.7%	
SOCIAL INDICATORS	<i>Cost of Living</i>	-0.6 ppt	1.4 ppt	1.3 ppt	0.7 ppt	
	<i>Youth at Risk</i>	-1.3 ppt	-1.7 ppt	-2.3 ppt	-2.0 ppt	
	<i>Dependence on Social Safety Net</i>	-3.0 ppt	0.5 ppt	-1.5 ppt	-1.5 ppt	
	<i>Crime</i>	-2.9%	8.3%	-16.4%	-7.7%	
Annual 4th Highest Daily Max Ozone Level (ppb)		11.1%	-9.4%	-4.1%	n/a	
Health Expenditures per Capita		16.3%	22.5%	27.8%	21.2%	

¹⁰ Cost of living and annual 4th highest daily max (ppb) are 2004 values, and % changes are from 2003 to 2004 and 2000 to 2004; ppt = percentage point.

Focus on Real Per Capita Disposable Income

Over the past decade, BC trailed slightly behind Canada's average growth in real disposable income (1.13% versus 1.24% on average per annum). In fact, BC's real per capita disposable income rate was 3% below the national average in 2005, whereas in 1981 it was 13% higher; this represents the largest deterioration in Canada over the 1981-2005 period¹¹ and coincides with a major economic shift away from the resource sector to a more services-based economy.¹² Nonetheless, there is reason for optimism, as BC's 2005 real per capita disposable income has been increasing at a faster rate than the national average of the past five years.

There are three reasons for this turnaround: First, employment income was the primary driver of total income growth between 2000 and 2005, accounting for 73%; in fact, employment income constituted two-thirds of total income in 2005, up almost two percentage points from 2000.

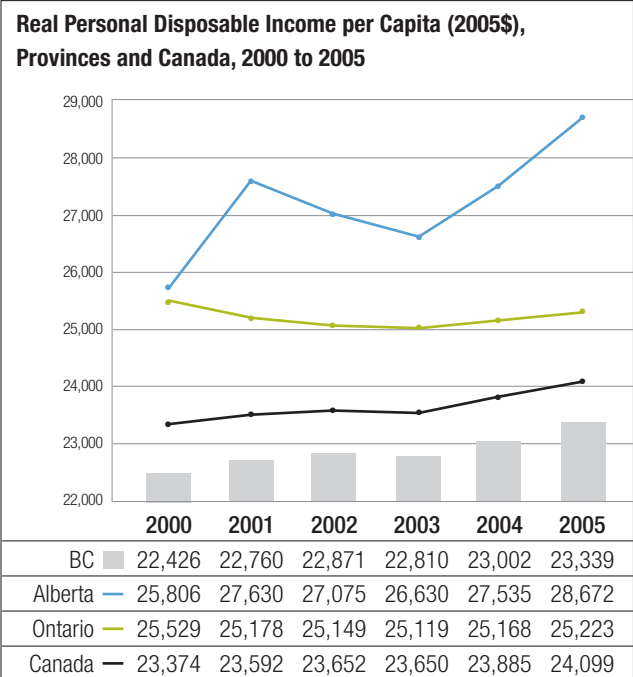
Job creation, for which BC ranked second only to Alberta over the past five years, is the second driver. Although three-quarters of all new jobs in BC over the past five years have been in the service sector, about half of which sprang up in better-paying industries—namely health care, business, building and other support services, education, professional and technical support services, and public administration. Goods-producing jobs also increased, and, more importantly, new jobs were created primarily in the higher-paying construction industry.

Third, BC cut real taxes per capita by 10.3% over the past five years, largely as a result of significant personal tax reductions in 2001.¹³ Consequently, BC now has the lowest personal tax rate for the bottom two tax brackets, and ranks second lowest with regard to the top marginal personal tax rate.¹⁴

BC seems well-positioned for a long-awaited recovery in per capita disposable income relative to the rest of Canada. Employment growth is also expected to increase by 2.1% per year, which should result in a record low unemployment rate.¹⁵ Thus, despite expecting modest inflation,¹⁶ some economists predict that real per capita disposable income will grow by 2.3% per year and either equal or come very close to the Canadian average by 2010.¹⁷

A number of steps can be taken to ensure that growth in disposable income continues. These include: reducing taxes and maintaining a competitive tax structure; continuing sound provincial fiscal management; creating initiatives to increase the skilled labour force; and investing in and making efforts to encourage and improve productivity. Success in these areas will go a long way towards extending per capita disposable income growth beyond 2010.

BC's average real personal disposable income in 2005 was \$913 higher than in 2000—an increase of 4.1%, which, while higher than the increase in the Canadian average (3.1%), is still well short of Alberta's (11.1%). Unlike the other jurisdictions where growth in disposable income has closely paralleled increases in real per capita income before taxes, BC's higher disposable income gain is attributed to the 10.3% cut in real direct taxes over this period (compared to 2.0% cuts in direct taxes in Ontario and Canada as a whole).¹⁸



Source: Statistics Canada

¹¹ TD Economics, *British Columbia's Golden Decade*, March 29, 2006.

¹² Ibid.

¹³ BC Ministry of Finance, *Budget 2006*.

¹⁴ BC Progress Board, *Interim Benchmarking Report 2006*, June 22, 2006.

¹⁵ TD Economics, *British Columbia's Golden Decade*, March 29, 2006.

¹⁶ RBC Financial, *Provincial Outlook*, June 2006.

¹⁷ TD Economics, *British Columbia's Golden Decade*, March 29, 2006.

¹⁸ Statistics Canada.

The province's recent increase in personal disposable income, combined with robust job growth, 30-year record low unemployment levels, rising wage levels, and strong fiscal management practices suggests that a catch-up in personal disposable income may be on the horizon.

Financial Vulnerability

Financial vulnerability is measured by total debt (both personal and mortgage) calculated as a ratio to personal disposable income. BC's debt to personal disposable income ratio rose by 6% last year (the highest increase in our comparison), reaching a record high of 1.24 and leading our comparison for the tenth consecutive year. This increase was primarily due to increased mortgage debt, which rose by 11.7% in 2005.¹⁹

Vancouver is the least affordable city in Canada and the 15th most expensive city in the world.²⁰ Owning an average home requires 42.1% of British Columbians' median pre-tax household income.²¹ Not surprisingly, mortgages comprise 75% of BC's total debt.²²

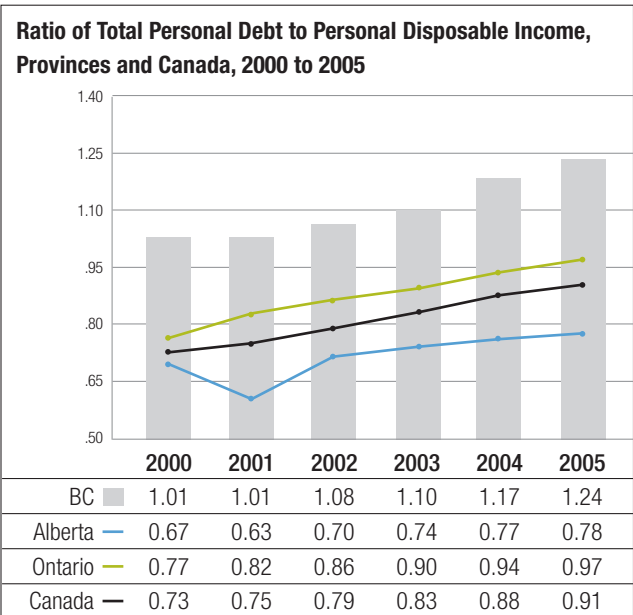
Social Risk

Social risk, as defined by our four sub-indicators—cost of living, youth at risk, dependence on the social safety net, and crime—remained essentially unchanged in BC last year, except for the crime rate, which decreased significantly. However, over the last five years, BC has seen slight improvement in all four sub-indicators.

Cost of Living – BC's cost of living in 2004, as expressed by the percentage of total household spending on shelter, was 20.2%, comparable to Ontario's rate of 20.5%. This is not surprising given that both provinces have the highest housing prices in the country. (While housing prices in BC are 25% higher than in Ontario, other costs, including taxes, water, fuel, and electricity are lower in BC).²³

Youth at Risk – Over the last five years, BC consistently had the lowest proportion of youth at risk in our comparison study, as expressed by the percentage of the labour force aged 19-24 lacking a high school diploma. While this statistic remained essentially unchanged last year, the level of at-risk youth has dropped by 1.3% percentage points since 2000.

Dependence on the Social Safety Net – In 2005, BC had the second lowest rate of social assistance dependency (3.5%) after Alberta. Although BC's rate was virtually unchanged from 2004, social assistance dependency was down 3% since 2000, the biggest decrease of all jurisdictions. BC's job growth, rising wages, and increased personal disposable income since 2000 correlated with the observed reduction in social assistance dependency. BC has also successfully implemented job training and placement programs aimed at reducing the number of British Columbians dependent on social assistance.²⁴



Source: Statistics Canada

¹⁹ Statistics Canada, CANSIM, table 176-0045.

²⁰ Demographia, *Second Annual Demographia International Housing Affordability Survey: 2006*.

²¹ TD Economics, *The Great Divide: Speculation Picks up in the West, Soft-landing unfolding in Central Canada*, April 4, 2006.

²² Statistics Canada, Credit Union Central of BC and author's calculations.

²³ Statistics Canada.

²⁴ P. Adams and C. Tait, *Evaluation of the Job Placement Program and Training for Jobs Program*, Ministry of Employment and Income Assistance, August 2005.

Crime Rate – At 745 per 10,000 people, BC’s 2005 crime rate was the highest in our comparison, and 25% higher than the crime rate in Alberta. Still, BC’s crime rate in 2005 was 6.2% lower than in 2004. Property crime makes up the vast majority of all crimes committed in the province, with BC having the highest proportion (84%) of property crimes to all categories of crime in our comparison. BC’s violent crime rate has remained relatively stable over the past five years (between 120 and 122 incidents per 10,000 people), but did increase by 1.3% over the past year.

Air Quality

Vancouver’s 2004 air quality was roughly comparable to Calgary’s, with 4th highest annual ground-level ozone readings of 50 and 48 ppb respectively. These results were significantly better than Toronto’s readings of 69 to 71 ppb. However, while Vancouver’s level of 50 ppb is considered “good,” it was actually up two ppb from 2003 and five ppb from 2000.

4th Highest Annual Ground-Level Ozone (ppb), Major Cities, 2000 to 2004					
	2000	2001	2002	2003	2004
Calgary	53	52	52	53	48
Toronto #1	74	85	87	90	71
Toronto #2	73	83	81	85	69
Vancouver	45	46	43	48	50
Chilliwack	47	59	62	62	68

Source: NAPS Data and Publications Unit, Environmental Technology Centre, Environment Canada.

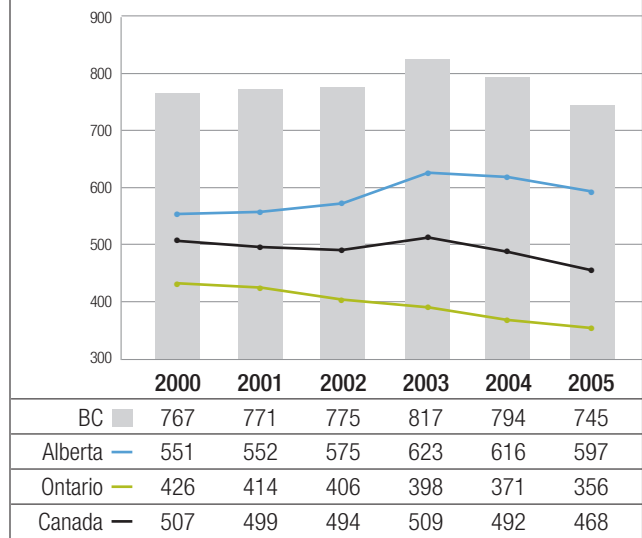
Health

Health care costs in Canada have risen since 2000 as a result of population growth, an aging population, and technological changes in health care service. In fact, public spending on health care increased in Canada as a whole by an average of 7.4% per year over the past seven years,²⁶ and BC’s health expenditures per capita increased by 16.3%. Despite being less than the national average increase of 21.2%, BC has generally been—and remains—the top spender among the comparison jurisdictions.

²⁵ Environment Canada, 2005.

²⁶ Conference Board of Canada, *Healthy Provinces, Healthy Canadians: A Provincial Benchmarking Report*, February 2006.

Property and Violent Crimes per 10,000 Population, Provinces and Canada, 2000 to 2005

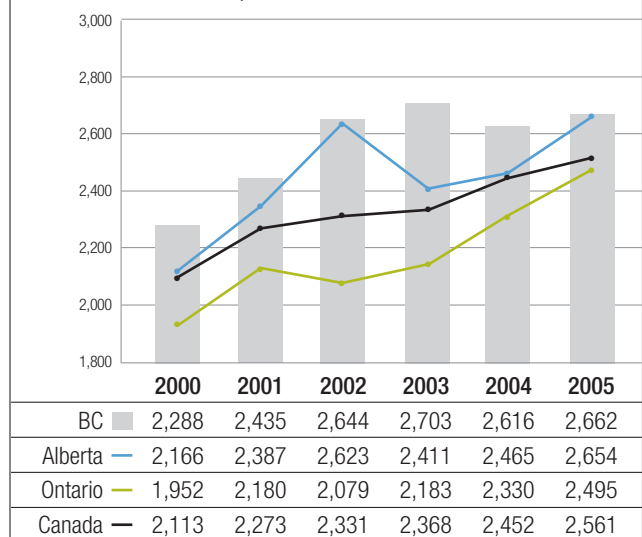


Source: Statistics Canada

Moreover, Chilliwack’s level of 68 ppb, up from 62 ppb in 2003, continues to cause concern.

The Lower Mainland’s ozone levels are principally determined by locally produced emissions—specifically, from motor vehicles. According to Environment Canada, total vehicle kilometres have increased by almost 50% since 1985.²⁵

Real Provincial Health Care Expenditures per Capita (2005\$), Provinces and Canada, 2000 to 2005



Source: Statistics Canada

work

There is no doubt that a strong economy benefits workers. BC's strong economic growth in 2005 resulted in the creation of 67,800 new jobs—the largest growth rate in the comparison—and led to a dramatic decline in the province's unemployment rate. Both trades and professional workers were in strong demand in the 2005 job market.

The dip in the real wage rate in 2005 was minimal, with BC maintaining an average real wage rate slightly above the national average, and the forecast is for significant wage increases as strong job creation continues. This is especially true for women in BC, as they work an increasing range of jobs and are on the cutting edge of wage increases in many sectors.

Of the comparison jurisdictions, BC saw the smallest increase in educational attainment in 2005. However, post-secondary education is expected to become more popular as more and more new jobs in the province require post-secondary certificates or diplomas.

Summary of WORK Key Indicators²⁷

	BC	AB	ON	CAN	
Educational Attainment	59.8%	61.0%	64.1%	63.1%	2005 Value
Unemployment Rate	5.9%	3.9%	6.6%	6.8%	
Real Wage Rate	\$21.05	\$21.97	\$21.93	\$21.02	
Female/Male Wage Ratio	0.845	0.801	0.860	0.856	
Job Creation	67,800	26,900	81,200	222,700	
Educational Attainment	0.8%	3.6%	2.2%	2.3%	2004-05% Change
Unemployment Rate	-1.3 ppt	-0.7 ppt	-0.2 ppt	-0.4 ppt	
Real Wage Rate	-0.5%	1.0%	0.1%	0.3%	
Female/Male Wage Ratio	-2.4%	1.5%	2.0%	0.7%	
Job Creation	3.3%	1.5%	1.3%	1.4%	
Educational Attainment	6.4%	7.0%	9.6%	9.4%	2000-05% Change
Unemployment Rate	-1.2 ppt	-1.1 ppt	0.8 ppt	0.0 ppt	
Real Wage Rate	-1.8%	-0.9%	-2.9%	-1.8%	
Female/Male Wage Ratio	3.0%	4.4%	4.1%	4.4%	
Job Creation	10.3%	12.7%	10.0%	9.5%	

²⁷ ppt = percentage point.



Taking a Closer Look at the Professional, Scientific, and Technical Services Industry

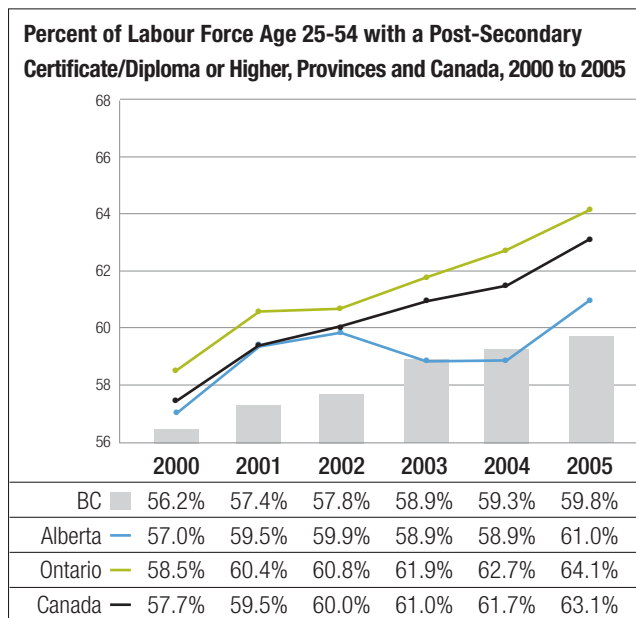
The professional, scientific, and technical services industry provided 19.2% of BC's total job growth in 2005, adding 17,300 new positions to the job market (compared to 2,200 new positions in Ontario). In 2005, BC contributed more than half (54.6%) of the nation's 31,700 newly hired architects, engineers, designers, accountants, lawyers, surveyors, scientific and technical consultants, scientific research and development service providers, and advertising service providers.²⁸ Specifically, BC added a total of 8,300 jobs in architectural, engineering, and design services; 4,700 in legal services; 3,400 in accounting and tax preparation; and 1,900 in advertising services.²⁹

In a 2006 report by Statistics Canada, Vancouver compared favourably to prominent North American cities in its levels of science and engineering employment. The report notes, for instance, that Vancouver ranked among the top 30 cities in North America for the highest science and engineering employment levels in 2001—although Vancouver was 26th on that list, while Toronto was 7th.³⁰ As a result of Vancouver's high levels, the influence of the professional, scientific, and technical services sector on Canada's knowledge-based economy gained more recognition over the past five years.

The *Canadian Economic Observer* notes that growth in the professional, scientific, and technical services sector often reflects the early stages of the business planning process, making these services one of our leading indicators of emerging economic trends.³¹ Science and engineering jobs constitute a major part of the professional, scientific, and technical services sector and can be used to gauge a region's commitment to productivity and competitiveness.

The province's construction boom has been the main trigger for increased professional services such as those offered by engineers, architects, surveyors, and lawyers. From 1994 to 2003, the sector's share of the national GDP increased from 3% to 4.5%³²; over the past six years, job growth in the sector has averaged 21%, increasing from 135,800 in 2000 to 163,600 in 2006. Last year alone, this sector recorded an increase of almost 12% in employment levels.³³

As a knowledge-based sector, the professional, scientific, and technical services sector depends greatly on the availability of highly qualified workers. It is important for BC to ensure that the demand for these professionals can be met. The province's significant increase last year in workers with a bachelor's degree or higher bodes well for this sector.



Source: Statistics Canada – Labour Force Survey.

Educational Attainment

Educational attainment measures the percentage of the population aged 25-54 that has received some level of post-secondary certification: post-secondary certificates or diplomas (including diploma programs at colleges and trades and technical certification programs); bachelor degrees; and masters and higher level degrees (including professional and doctoral degrees). Ontario continues to have the largest percentage of post-secondary certified residents (64.1%). In 2005, BC remained behind Ontario, Alberta, and the Canadian average at 59.8%, though BC's educational attainment had grown from 54.2% in 1996.

²⁸ Statistics Canada, *Labour Force Survey, 2006*.

²⁹ BC Stats, *British Columbia Employment by Industry*, January 25, 2006.

³⁰ Desmond Beckstead and W. Mark Brown. *Innovation Capabilities: Comparing Science and Engineering Employment in Canadian and U.S. Cities*, Statistics Canada, 2006.

³¹ P. Cross, "The Year in Review: The Revenge of the Old Economy," *Canadian Economic Observer*, Statistics Canada, April 2006.

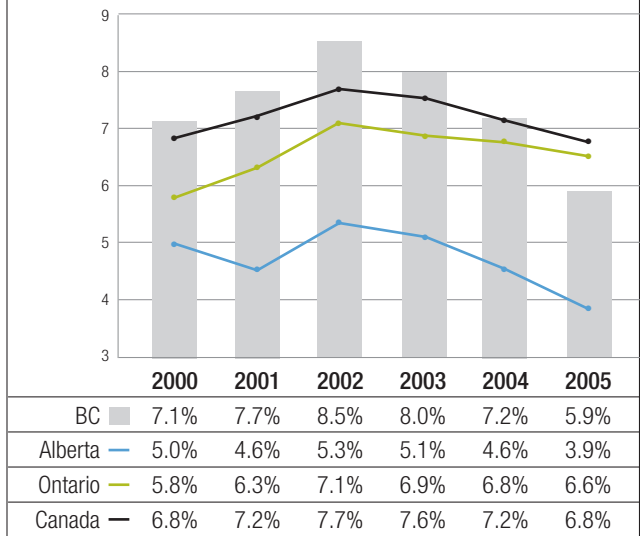
³² Statistics Canada, *Canadian Statistics: Service Industries*, June 28, 2006.

³³ Statistics Canada, *Labour Force Survey, 2006*.

Unemployment Rate

Between 1996 and 2004, BC's unemployment rate peaked at 8.8% in 1998. By contrast, in 2005 it hit a new low of 5.9%—a 1.3 percentage point decrease from 7.2% in 2004—due to strong employment growth that outpaced the increase in the provincial labour force. While this marked the largest decrease from 2004 and bettered the national average, the province still lagged behind Alberta, which maintained the overall lowest rate at 3.9%.

Unemployment Rate (Population Aged 15+), Provinces and Canada, 2000 to 2005

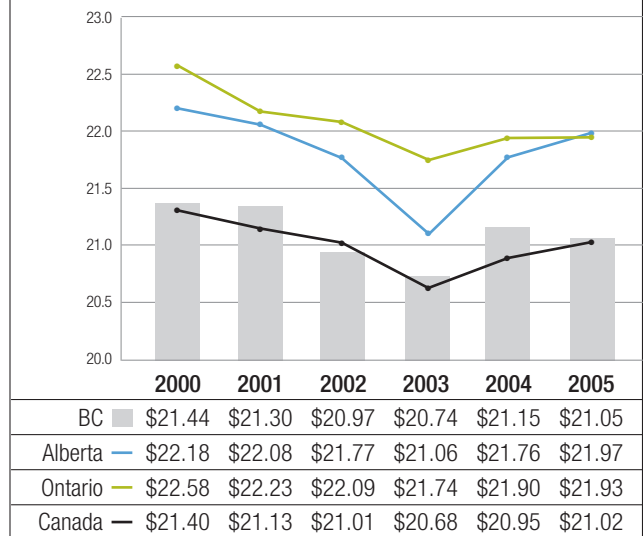


Source: Statistics Canada – Labour Force Survey.

Real Wages

BC's wages, adjusted for inflation, decreased by 0.5% between 2004 and 2005, dropping to \$21.05 per hour³⁴ as a result of strong growth in the wholesale and retail trade sectors, which typically pay lower wages. However, the number of jobs in BC is increasing dramatically and upward wage pressure is mounting, so increases are likely to be seen in the coming years; for instance, the number of British Columbians working in construction trades grew by 16.7% in 2005, which led to an increase of 4.1% in average hourly earnings in this sector from January to November 2005, relative to the same period in 2004.³⁵

Real Average Hourly Wages (2005\$), Provinces and Canada, 2000 to 2005

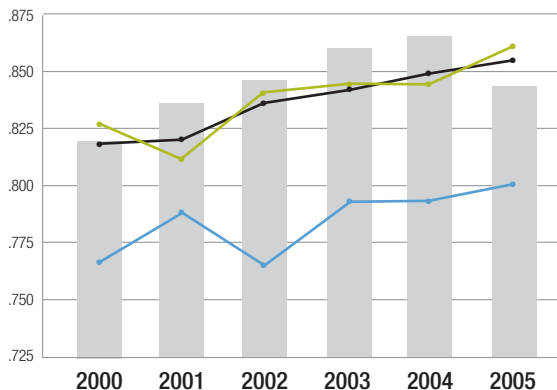


Source: Statistics Canada – Labour Force Survey.

³⁴ Salaried workers' wages are converted to an hourly equivalent to create the single figure for all workers. Source: Statistics Canada, *Labour Force Survey, 2006*.

³⁵ Statistics Canada, *Payroll Employment, Earnings and Hours, May 29, 2006*.

Female to Male Earnings Ratio (Ages 15+), Provinces and Canada, 2000 to 2005



	2000	2001	2002	2003	2004	2005
BC	0.820	0.834	0.848	0.858	0.866	0.845
Alberta	0.767	0.784	0.765	0.789	0.789	0.801
Ontario	0.826	0.818	0.839	0.843	0.843	0.860
Canada	0.820	0.821	0.834	0.842	0.850	0.856

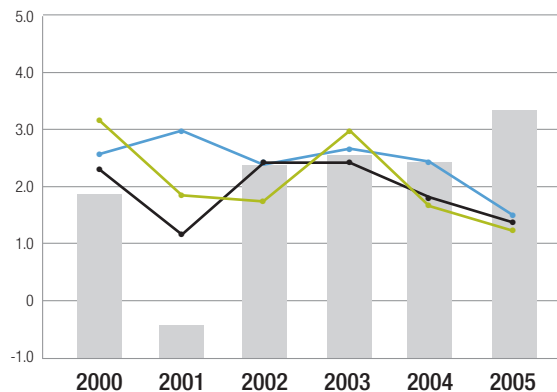
Source: Statistics Canada - Labour Force Survey.

Pay Equality

BC ranked third in terms of pay equality between men and women in 2005, with women (those working full-time) making 84.5% as much as men. Ontario received the top ranking with 86%, while the Canadian average sat at 85.6%. Female to male earnings in BC have gradually improved since 1997, when women earned 81% as much as men.



Annual Growth in Total Employment (Ages 15+), Provinces and Canada, 2000 to 2005



	2000	2001	2002	2003	2004	2005
BC	1.9%	-0.5%	2.3%	2.5%	2.4%	3.3%
Alberta	2.6%	3.0%	2.4%	2.7%	2.4%	1.5%
Ontario	3.2%	1.9%	1.8%	3.0%	1.7%	1.3%
Canada	2.5%	1.2%	2.4%	2.4%	1.8%	1.4%

Source: Statistics Canada - Labour Force Survey.

Job Creation

BC contributed 30% of the 222,700 new jobs created nationally last year. In 2005, BC's was the fastest growing job market in Canada, recording a 3.3% increase and adding 67,800 jobs. Alberta had the second highest job growth rate, with an increase of 1.5%, and was followed by the national average at 1.4%, and Ontario at 1.3%.

Construction led all sectors in job growth in 2005, accounting for 26.7% of all new jobs in BC (24,000 out of 89,900).³⁶ Moreover, the province accounted for 35.4% of all the new construction jobs in the nation.³⁷ Wholesale and retail trade contributed the second largest percentage of jobs, with 18,800 overall (13,700 in wholesale and 5,100 in retail), representing 20% of BC's job market. The professional, scientific, and technical services industry provided 19.2% of BC's job growth, adding 17,300 new positions to the provincial job pool.



³⁶ There were 89,900 new jobs created, while 22,100 were lost, leading to an absolute gain of 67,800 jobs.

³⁷ Statistics Canada, Labour Force Survey, 2006.

BC's investment picture remained strong in 2005, leading the comparison jurisdictions with the lowest personal tax rate for unattached individuals earning \$80,000 (10.1%). The province's fiscal management has also been very strong, with taxpayer-supported debt declining to 16.2% in 2005 (second only to Alberta, which has no provincial debt). This decrease is attributed to a surplus budget and record debt repayment.

In terms of year-over-year changes, BC saw positive results in all indicators except innovation. Despite enjoying the only decline in the effective tax rate and the second-biggest decline in the debt to GDP ratio, BC stood out in only one of three innovation indicators—high technology job share—and saw declines in R&D spending. Moreover, BC remained behind the other jurisdictions with regard to patents, and was the only province to see a decline in this indicator.

Summary of INVEST Key Indicators³⁸

		BC	AB	ON	CAN	
Provincial Effective Tax Rate at \$80K Bracket		10.1%	10.2%	14.6%	15.3%	2005 Value
Real Labour Productivity		35.8	40.7	39.1	37.6	
INNOVATION INDICATORS	<i>Patents per One Million Population</i>	36.0	63.9	53.3	47.1	
	<i>Ratio of R&D Spending to GDP</i>	1.16%	0.85%	1.96%	1.64%	
	<i>Employment Share of Natural/Applied Sciences</i>	6.4%	7.6%	7.3%	6.9%	
After-Tax Profits to GDP		8.75%	20.11%	8.48%	10.24%	
Taxpayer Supported Debt to GDP		16.2	0.0	21.0	20.4	
Provincial Effective Tax Rate at \$80K Bracket		-0.1 ppt	0.0 ppt	0.7 ppt	0.2 ppt	2004-05% Change
Real Labour Productivity		1.1%	3.0%	2.6%	2.5%	
INNOVATION INDICATORS	<i>Patents per One Million Population</i>	-9.3%	9.6%	0.2%	3.5%	
	<i>Ratio of R&D Spending to GDP</i>	-3.9%	-6.2%	-1.6%	-2.5%	
	<i>Employment Share of Natural/Applied Sciences</i>	0.5 ppt	0.4 ppt	0.4 ppt	0.3 ppt	
After-Tax Profits to GDP		0.6 ppt	2.6 ppt	-0.4 ppt	0.4 ppt	
Taxpayer Supported Debt to GDP		-11.0 %	0.0 %	-13.6 %	-8.1 %	
Provincial Effective Tax Rate at \$80K Bracket		-3.2 ppt	-0.9 ppt	-1.1 ppt	-0.8 ppt	2000-05% Change
Real Labour Productivity		4.1%	3.8%	4.5%	5.6%	
INNOVATION INDICATORS	<i>Patents per One Million Population</i>	16.5%	40.1%	8.8%	23.3%	
	<i>Ratio of R&D Spending to GDP</i>	12.5%	18.8%	-1.4%	3.5%	
	<i>Employment Share of Natural/Applied Sciences</i>	0.0 ppt	0.9 ppt	0.0 ppt	0.2 ppt	
After-Tax Profits to GDP		3.1 ppt	4.2 ppt	1.2 ppt	2.1 ppt	
Taxpayer Supported Debt to GDP		-15.6 %	-100.0 %	-30.2 %	-23.6 %	

³⁸ R&D spending by business and higher education institutes uses a 2003 value, and % changes are calculated for 2002 to 2003 and 2000 to 2003.

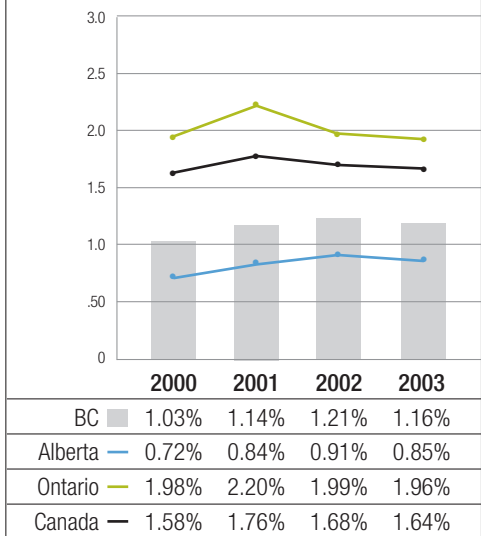
Taking a Closer Look at R&D Spending

R&D is at the heart of innovation, and spending on R&D is an early and critical input into the innovation process. The higher the degree of R&D intensity, the higher the rate of discovery and dissemination of new technology. Canada itself has a relatively low level of R&D spending, and BC lags behind many other Canadian jurisdictions. In 2003, the R&D share of GDP averaged 1.6% across the country, while BC sat at 1.2%.

Overall, the trend in 2003 was one of decline, with all the jurisdictions experiencing a decrease in the R&D share of GDP. Canada's R&D ratio declined by 2.5% between 2002 and 2003, and BC's rate of decline was even more rapid at 3.9%.

Between 1994 and 2003, BC's major sources of funding for scientific R&D were business enterprises, the federal government, and higher education; together, these accounted for 59% of R&D spending in the natural sciences in 1994, and 60% in 2003. Federal and provincial government funding of R&D at higher education institutes grew significantly, jumping from 33% in 2000 to almost 43% in 2003.

Ratio of R&D Spending³⁹ to GDP, Provinces and Canada, 2000 to 2003



Source: Statistics Canada and author's calculations.⁴⁰

Higher Education Research & Development Expenditure on Natural Sciences by Funding Sector (Millions of Dollars), British Columbia, 2000 to 2003

Funding Sector	2000	2001	2002	2003
Federal government	106	136	175	194
Provincial governments	22	28	60	70
Provincial research organizations	0	0	0	0
Business enterprise	51	50	60	65
Higher education	168	187	226	229
Private non-profit organizations	30	31	54	56
Foreign	7	9	11	7
Total	384	441	586	621

Source: Estimates of Canadian Research & Development Expenditures (GERD), Canada, 1994 to 2005, and by Province, 1994 to 2003, Statistics Canada, Catalogue No. 88F0006XIE-No.020.

Canada's federal and provincial governments both offer tax incentives and funding programs to help stimulate R&D activity. The most important tax incentive program is the federal government's Science Research and Experimental Development (SR&ED) program, which provides investment tax credits (ITCs) of up to 35% for qualifying SR&ED expenditures.

R&D is an integral part of most successful goods and services-producing industries. A strong example of R&D's impact on business improvement can be seen in BC's solid wood product industry, where R&D has been essential in improving productivity and increasing competitiveness. As another example, BC's manufacturing sector employs approximately 3,000 workers in R&D activity alone.⁴¹

To improve its long-term competitiveness, BC must continue to develop more effective technology and better ways to utilize its resources—among them: human, natural, and capital resources. Both policy-makers and industry leaders need to recognize the importance of knowledge growth and keep R&D funding a priority. BC policy-makers must find ways to galvanize new R&D in the province and foster partnerships between public and private interests. Tax incentives, consistent long-term funding programs, and a regulatory climate that protects R&D investors are all important ways to cultivate innovation in BC's public and private sectors.

³⁹ Statistics Canada uses two sources to obtain R&D spending data: It sends an annual survey to all companies in Canada known to be performing or funding \$1 million or more into R&D, and this data is augmented by administrative data on R&D spending from the Canada Customs and Revenue Agency (the tax data is the main R&D spending data source for firms spending less than \$1 million on R&D). Data only available to 2003.

⁴⁰ Calculated as the ratio of Gross Domestic Expenditure on R&D by business enterprise and higher education sectors to GDP expenditure based at current prices.

⁴¹ BC Competition Council.

Provincial Effective Tax Rate

All provinces witnessed a fairly steady decline in the effective provincial income tax rate over the past five years, with BC leading the way. This signifies a national trend towards lower tax rates, which began in most provinces in the late 1990s. BC's most dramatic tax reductions took place in 2001.

In 2005, BC enjoyed the lowest provincial effective income tax rate at the \$80,000 income level (10.1%), and was followed by Alberta (10.2%). In addition, BC was the only jurisdiction to see a year-over-year decline in the effective rate in 2005 (-0.1 percentage points); all other jurisdictions remained relatively static except for Ontario where the provincial effective income tax rate rose by 0.7 percentage points.

The two biggest reasons for the reduction in BC's tax burden between 2004 and 2005 were personal income tax and sales tax. Less provincial income tax was collected in BC due to a lower tax rate at the lowest income level (from 16% to 15%) and an increased basic personal deduction, both effective in 2005. In addition, the BC provincial sales tax (PST) declined from 7.5% to 7% in October 2004.

Real Labour Productivity

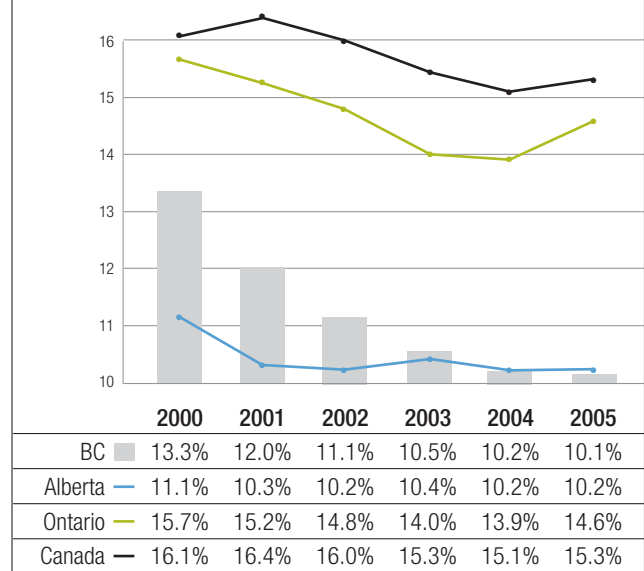
Alberta enjoyed the highest level of productivity of all jurisdictions between 2000 and 2005, followed by Ontario and the national average, in that order. BC remained in last place during this period. Alberta made the greatest labour productivity gain of all jurisdictions between 2004 and 2005, at 3%; Ontario's productivity grew by 2.6%; BC's increased by a mere 1.1%, well below the national average increase of 2.5%. To lift BC out of its productivity slowdown, we need to see greater investment in private and public infrastructure, faster technological innovation, and improvements to our "human capital" through education and training.

Innovation

The *BC Check-Up* uses three measures to reflect innovation at its various stages: The first measure, R&D spending, is discussed above, and the two remaining measures are discussed below:

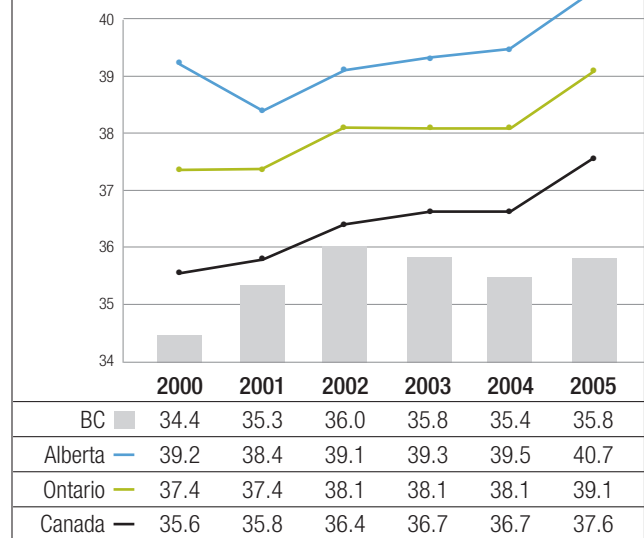
Patents per one million population is defined as the annual ratio of newly registered and approved patents per million population. This ratio represents the final stage of innovation for a variety of products and processes. At 36, BC's number of patents in 2005 was the lowest per capita of all jurisdictions (the national average was of 47.1). Moreover, between 2004 and 2005, BC was the only jurisdiction that saw a decline in the number of patents per capita. This marked the culmination of five years of slow growth in patents per capita, during which BC's patents per million population grew by only 16.5%.

Effective Provincial Tax Rate for \$80,000 Income (Unattached Individual), Provinces and Canada, 2000 to 2005



Source: Tax rates calculated from BC Ministry of Finance data.

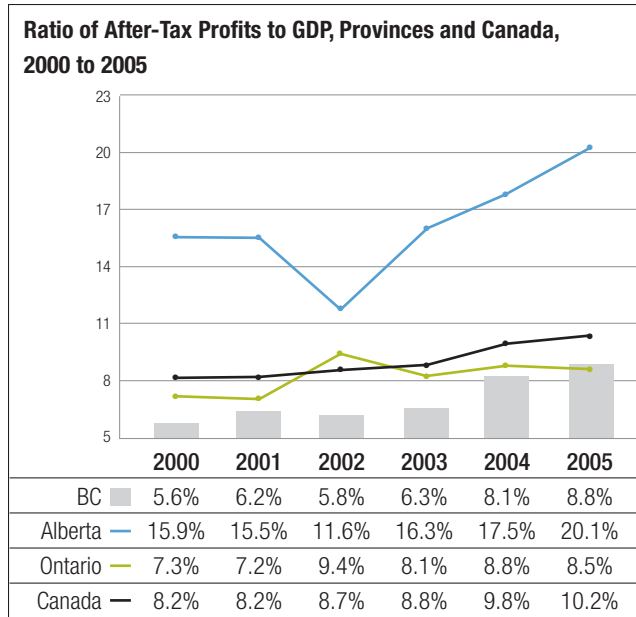
Real Labour Productivity (1997\$), Provinces and Canada, 2000 to 2005



Source: Statistics Canada.

Proportion of high-technology jobs – The extent of technological dissemination in the labour force is captured by the employment share of natural/applied sciences and related occupations as a percentage of the total labour force. In absolute terms, BC has ranked in the middle of the comparison jurisdictions since 2000, with its employment share of natural/applied sciences ranging between 6% and 6.5%. Alberta has led the jurisdictions over the past five years, with its number of technical workers reaching 7.6% of the labour force in 2005. Ontario followed closely in 2005, at 7.3%.

That said, BC saw the greatest gains in its technical share of the labour force between 2004 and 2005, with a 0.6 percentage point increase that outstripped the national average increase of 0.3 percentage points. Over the same period, Alberta and Ontario saw the labour shares of their technical workers rise by 0.4 percentage points respectively.



Source: Statistics Canada.

Taxpayer-Supported Debt to GDP Ratio

On average, the provincial governments have reduced their debt-service burdens (interest paid) from about 14.5 cents on every revenue dollar in the mid-1990s to approximately 10 cents today.⁴⁴ On average, government debt in Canada declined by 1.8 percentage points between 2004 and 2005. Obviously, with its debt-free status, Alberta enjoys the highest ranking for this indicator. However, BC's fiscal performance was very strong between 2000 and 2005, placing it second in 2005 with a debt to GDP ratio of 16.2%. Ontario sat in last place with a ratio of 21%, above the Canadian average of 20.4%. Not only has BC sustained a comparatively low level of debt to GDP, it also had the greatest reduction of all jurisdictions (after Ontario) in its debt to GDP ratio between 2004 and 2005—a decline of two percentage points.

⁴² Statistics Canada, CANSIM.

⁴³ Provincial corporate tax data is only available up to 2003. Estimates of total taxes are made for 2004 and 2005, and assume that they comprise the same percentage of total profits as in the previous two years.

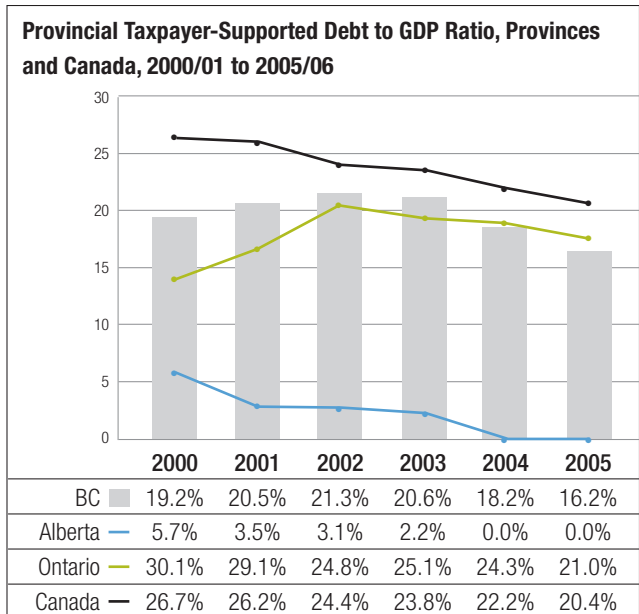
Generally speaking, this is a fairly stable relationship.

⁴⁴ Warren Jestin and Mary Webb, Scotiabank Group, *Economic Directions* (June 15, 2005). "Federal-Provincial Fiscal Arrangements: Time to Get Back to Basics."

After-Tax Profits to GDP Ratio

Corporate profits in Canada rose by 11% between 2004 and 2005, continuing an upward trend after a record year in 2004.⁴² In 2005, BC's after-tax profits to GDP ratio of 8.8% ranked above Ontario's ratio of 8.5%, but below Alberta's ratio of 20.1% and behind the national average of 10.2%.⁴³

Between 2004 and 2005, Alberta saw the greatest increase in its ratio of after-tax profits to GDP at 2.6 percentage points, while BC ranked second highest with an increase of 0.7 percentage points. The strong performance of both provinces in 2004-2005 continued the trend of the previous five years, when Alberta and BC ranked first and second, respectively, in terms of the rise of after-tax profits to GDP. BC's gains can be ascribed to improved markets and investment flows, and also to significant declines in corporate tax rates.



Source: TD Bank., BC 2005/06e – Ministry of Finance, Government of British Columbia, 2005/06 Public Accounts.

BC Check-Up

As leaders in analysing and validating information, CAs are often called upon 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*. Our hope is 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.

The *BC Check-Up* is available online at www.bccheckup.com.

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The *BC Check-Up* summary was written by Michelle McCormick and edited by Michelle McRae.
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Opinions expressed in the *BC Check-Up, 2006* do not necessarily reflect those of individual CAs.

The Chartered Accountants of BC
Suite 500, One Bentall Centre
505 Burrard Street, Box 22
Vancouver, BC V7X 1M4
Tel: 604-681-3264 or 1-800-663-2677 (toll free in BC)
Fax: 604-681-1523
www.ica.bc.ca