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**BC**



*2011 BC Check-Up*



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## **BC's Economic Growth Resumed in 2010**

In 2010, BC's economy marked a clear turning point towards economic recovery. In 2009, the province bore the brunt of the global financial crisis and went through a pronounced economic contraction, particularly in the form of reduced trade and extensive job losses. However, all of these indicators saw improvement in 2010.

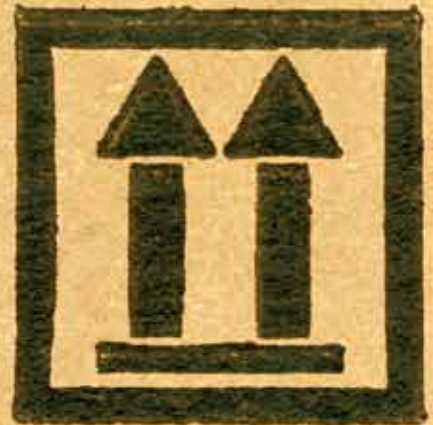
BC's economic growth was driven by American and international demand for the province's resource-based exports. Overall, global exports of BC's natural gas, softwood lumber, minerals, and coal increased significantly from 2009 levels.

The creation of 38,600 new jobs led to a slight improvement in the province's unemployment rate, and BC's real GDP grew by 3.6%. Nevertheless, the economic recovery seen in 2010 did not fully offset the losses sustained in 2009, during which time BC lost 55,000 jobs and export levels plunged. Improvements made during 2010 can be seen as the beginning of an economic renewal for BC, spurring continued progress in 2011.

However, this optimism continues to be tempered by current and ongoing developments. Third quarter economic reports for 2011 indicate that the US economy is slowing, and that job growth and housing prices have stalled. In addition, the recent agreement to increase the US debt ceiling is to be accompanied by a contraction in US federal government spending, further threatening the still-fragile economic recovery.

Looking at the global economic context, the prospect of Greece or another EC country defaulting on its debts could also affect BC's economy. In fact, the list of external factors capable of adversely affecting BC's economy is wide-ranging and extensive.

However, Canada—and BC—will continue to attract investors due to our country's solid economic foundation, which is based on its strong reputation for fiscal responsibility, abundance of natural resources, stable political climate, and consistently high quality of life.



## BC's Performance Improved in Several Indicators

The global financial and economic events of 2008-2009, stalled BC's economic progress, as it did for most other jurisdictions. However, in 2010, BC saw improvement in several key economic indicators.

BC's exports per worker rose significantly in 2010, and while these increases did not attain the level reached in 2008, they provided the necessary economic stimulus to jumpstart the province's recovery from the recession of 2008-2009.

Other indicators that saw improvement last year included educational attainment and employment in scientific and technical services, which grew at a faster rate than any other jurisdiction in our comparison. Overall, BC saw productivity gains second only to those of Alberta.

While BC's government debt as a percentage of GDP rose last year, the province still had one of the lowest government debt ratios in the country.

BC's health care expenditures rose slightly in 2010, however, it continued to have the second-lowest level of health care expenditures per capita of all comparison jurisdictions. The government's commitment to reduced spending and debt reduction could result in lower health care expenditures per capita in the future, but how this would affect BC's high standing in terms of the Health Consumer Index is not clear, and remains a matter of some debate.

On a less positive note, BC's residents continued to be the most financially vulnerable in Canada, despite having the slowest rising consumer debt per capita of all comparison jurisdictions in 2010. After stagnating for the past five years, worker compensation rose slightly, but BC still had the lowest labour compensation rate of all jurisdictions in our comparison, and this was especially true for young workers.

Despite the turnaround in several indicators, 2010 was not a particularly good year for BC's youth. While the province's total unemployment rate declined slightly, the youth unemployment rate increased by 0.5 percentage points (ppt), to reach 13.8%.

Younger individuals who did find employment reported some of the lowest earnings of all comparison jurisdictions, despite living in a province with a high cost of living. The proportion of youth at risk (defined as individuals aged 19-24 without high school accreditation) also rose in 2010, although BC still performed better than most jurisdictions in this indicator. Nevertheless this is a trend that needs to be reversed and permanently reduced in order to ensure all young BC residents are given a chance for a better future.

## What Will Lead the Way?

BC's economy performed well in 2010, and the outlook for 2011 is hopeful. In April 2011, BC's manufacturing sales were up 10.3% when compared to the same time period in 2010. This increase was driven by demand for the province's exports, particularly within the Asian market.

The number of jobs in BC also increased, rising 1.3% between May 2010 and May 2011. Continued economic recovery throughout the remainder of 2011 is likely to be export-led,<sup>1</sup> as commodity prices are expected to hold firm throughout the year, strengthening our resource-based export sector.<sup>2</sup>

However, many BC consumers have high levels of debt; an increase in interest rates would temper consumer consumption activity in 2011 compared to previous years.

The services-producing sector continued to dominate BC's economy, accounting for almost 90% of all new jobs in 2010, and the majority of all new jobs created in BC during the past five years. Between 2005 and 2010, the number of service-sector jobs in BC rose by 166,000, a marked difference to the overall drop sustained by the goods-producing sector, which declined by 1,400 jobs.

Increases in the following industries accounted for the majority of the labour force gains in 2010: retail; professional, scientific and technical; finance and insurance; and health and education. There is no doubt that the growth and diversification of the service industry in BC has created room for newly emerging and increasingly diverse consumer and market requirements.

Increasingly, more and more workers are responding to labour market changes by boosting their educational attainment and scientific and technical skills in order to find employment. BC also has the highest proportion of part-time workers of all comparison jurisdictions.

In the goods-producing sector, the greatest job losses in 2010 occurred in construction and non-durables manufacturing. After eight years of steady annual increases, BC's construction employment numbers plunged in 2009, with further losses occurring in 2010. However, as investment and economic activity is expected to increase throughout 2011 and into 2012, employment in this sector will recover. In contrast, employment in the manufacturing of non-durables has steadily declined in the past decade, and there is little prospect of this trend reversing.

Overall, BC's product mix and markets continue to evolve, both in the service and goods-producing sectors. For example, while the US share of BC exports has declined in the past decade, China's share has increased seven-fold during the same time period, and there is little sign of this stopping. BC's exports per worker are still small compared to other Canadian jurisdictions, but its proximity to the growing Asian market puts it in a superb position to respond to future growth in demand.

Thus, BC's economic future will be shaped by diversification in both products and markets. Technology is the third point of this burgeoning economic triangle. Ongoing investment in, and the diffusion of technology is critical for BC's industries—allowing them to meet changing market requirements, improve productivity, and compete internationally over the long term.

<sup>1</sup> TD Bank Economics, *Provincial Economic Forecast*, April 4, 2011.

<sup>2</sup> *Ibid.*

## Capital Investment in Machinery and Equipment:

### *The Key to Stimulating BC's Productivity*

Between late 2008 and early 2010, worldwide capital investment stalled. However, present financial statistics indicate that an economic recovery is now well underway in Canada. Between the first quarter of 2010 and the first quarter of 2011, real private sector investment in machinery and equipment (M&E) grew 19.6%.<sup>3</sup> Internationally, the Canadian economy is seen as a safe bet, especially in view of continued US economic stagnation, and the prospect of at least one EEC country defaulting on its loans.

Capital investment is the key driver behind productivity gains.<sup>4</sup> It plays a huge role in fuelling annual provincial and national economic activity, and it also contributes, albeit incrementally, to the stock of physical capital that drives current and future economic output.

Nevertheless, Canada and BC have both been under-investing for at least the past decade, and the results are evident in measures of productivity. In both Canada and BC, labour productivity growth has lagged behind that of the US for the past decade; BC has fallen slowly behind its competitors, both domestically and internationally.

In 2010, private and public investing in the BC economy saw a marked improvement, increasing 14% over 2009 levels, to reach \$44.5 billion.<sup>5</sup> Almost one quarter of this capital was spent on M&E, and the remaining three quarters were spent on residential and non-residential structures. Business transactions accounted for approximately 85 % of capital investment in BC, and almost 95 % of investment on M&E.<sup>6</sup>

Machinery and equipment is most commonly regarded as the area of investment that most directly affects labour productivity. A build-up of M&E stock allows for quick dissemination of technological infrastructure and information to labour groupings, and makes the overall labour force and production output more productive. Labour productivity improves when there is growth in physical capital because it increases the means of labour itself.



<sup>3</sup> Statistics Canada. *Economic Indicators by Province and Territory*, 2002 \$C, chained. [http://cansim2.statcan.ca/cgi-win/cnsmcgi.exe?Lang=E&Accessible=1&ArrayId=T916&ResultTemplate=3764\\_HTML2D&RootDir=CII/&Interactive=1&OutFmt=HTML2D&&Array\\_Retr=1&Dim=-](http://cansim2.statcan.ca/cgi-win/cnsmcgi.exe?Lang=E&Accessible=1&ArrayId=T916&ResultTemplate=3764_HTML2D&RootDir=CII/&Interactive=1&OutFmt=HTML2D&&Array_Retr=1&Dim=-)

<sup>4</sup> Capital investment is comprised of residential, non-residential, and machinery & equipment investment.

<sup>5</sup> Statistics Canada. *Foreign and Domestic Investment in Canada, 2009-2011*. Table 3-1 Foreign and domestic capital expenditures in Canada by provinces and territories by Industry. Catalogue No. 61-232-X. Preliminary estimate for 2010, as of May 2011.

<sup>6</sup> *Ibid.* The remaining investment is by government.

## What has happened to productivity?

Real labour productivity measures the efficiency of the workforce, or the amount of output (GDP) per person per hour worked.<sup>7</sup> Productivity gains translate into higher real wages, as well as increased leisure, consumption and/or social spending, all hallmarks of a growth in living standards. However, productivity growth in Canada has lagged that of the US for the past decade, with reported annual private sector productivity gains that were less than one third of those seen in the US.<sup>8</sup>

BC's performance has been worse than the overall national average. Between 1981 and 2007, our province's labour productivity grew at only 0.4 % annually, well behind the national annual average of 1.2% during this same time period, and at a slower rate than any other province in Canada.<sup>9</sup> (More recent data, however, shows a slight improvement in BC over the past two years, and is discussed in our INVEST section.)

During the next decade, the size of BC's labour force will shrink, as a large percentage of workers retire. This will mean reduced material output. The pending decline in labour force size and output can be offset marginally by raising employment or participation rates, increasing the length of the work week, or bumping up the retirement age. However, neither these initiatives nor greater in-migration can fully offset a significant decline in the number of workers. Thus, productivity gains will be critical if we are to sustain our standard of living.

More investment in private and public infrastructure and equipment, as well as improvements to BC's labour force through education and training will all be required to boost BC's productivity growth.<sup>10</sup>



<sup>7</sup> Ideally, a productivity measure should account for both labour and capital inputs used in production, but this is difficult, and labour productivity is generally used as a proxy measure for total change in productivity.

<sup>8</sup> Andrew Sharpe, Centre for the Study of Living Standards, as quoted in TD Bank Economics, Special Report, *The Path to Economic Growth is Paved with Machinery and Equipment*, November 17, 2010.

<sup>9</sup> Andrew Sharpe, Jean-Francois Arsenault, and Peter Harrison (December 2008), *Investment in BC: Current Realities and the Way Forward*. Prepared by CSLS for the BC Progress Board.

<sup>10</sup> Ibid.

## A closer look at capital investment in BC

### *Investment in structures has outstripped that in machinery and equipment*

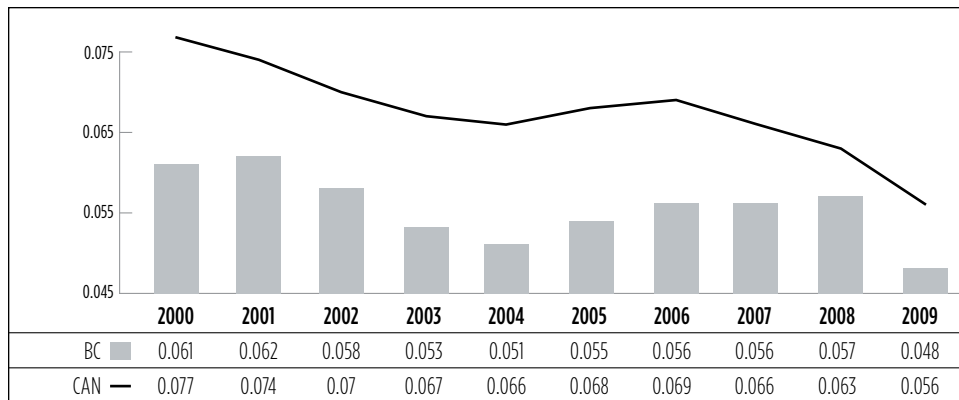
Since 2000, growth in BC's total business gross fixed capital formation (ie, private sector investment on machinery and equipment (M&E) and non-residential structures) has outstripped that of many other Canadian jurisdictions.

Between 2000 and 2008, BC's total business gross fixed capital formation grew by 117.8%, to reach \$43.88 billion; this was faster than the national growth rate of 72.5%.<sup>11</sup> Most of this investment occurred in non-residential structures, which grew 160.8% during this time, while M&E investment growth lagged at 41.5%.<sup>12</sup> The trend was the same for Canada as a whole, where business investment in non-residential structures grew at 111.3%, well ahead of the 21.1% rate for M&E.

The global financial meltdown in 2008-2009 curtailed investment everywhere, but in BC it was investment in M&E that took the biggest hit. During this time, our province's business investment in M&E fell by 19.4%, and investment in non-residential structures declined 8.6%.

The long term result of this skewed investment pattern is that M&E investment in BC shrank from 40% of total capital formation in 2000, to 24% by 2009. In short, for almost a decade BC investors have been slow to build up the stock of machinery and equipment, and the events of 2008-2009 further dampened these capital flows.

### Gross Fixed Capital Formation In BC (% Millions)<sup>13</sup>



Source: Statistics Canada

As M&E investment's share of total capital formation has declined in the past decade, so has its share of GDP. Since 2000, business sector M&E investment in BC has declined from 6.1% to 4.8% of GDP.<sup>14</sup> This raises the question of how BC will make future productivity gains compared to Canada or the US, where the M&E shares of GDP were 5.6% and 7% respectively in 2009.<sup>15</sup>

<sup>11</sup> See Appendix A. Statistics Canada, Gross Domestic Product Expenditure-Based. <http://www.statcan.gc.ca/pub/13-018-x/2010001/t/tab0259-eng.htm>

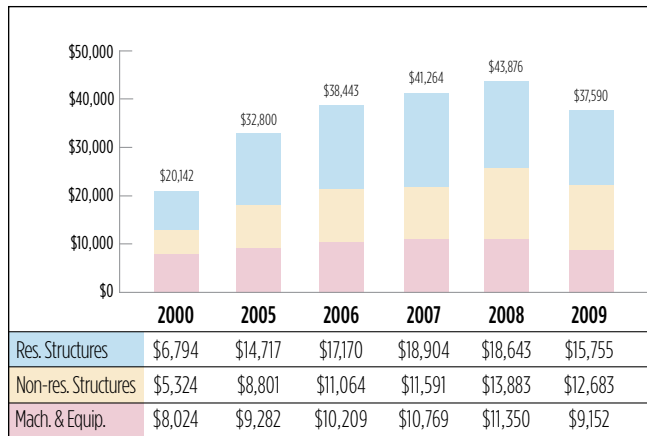
<sup>12</sup> Ibid.

<sup>13</sup> Source: Statistics Canada, Gross Domestic Product Expenditure-Based. Note that actual data is used in this table, while previously cited estimated for 2010 capital investment is an estimate, based on industry investment intentions.

<sup>14</sup> Ibid.

<sup>15</sup> US Department of Commerce, Bureau of Economic Analysis, *GDP: Fourth Quarter and Annual 2010, Preliminary Estimate*. January 28, 2011. Source: Statistics Canada

**Business Sector Machinery & Equipment Investment  
Share of GDP (Share of Total)**



**Industry investment trends**

In absolute terms, over the past decade, BC's greatest gains in capital investment in M&E occurred in: mining, oil and gas extraction; utilities; construction industries; and transportation and warehousing industries. Together, these four industries accounted for an increase of \$1.4 billion in annual M&E investment between 2000 and 2010.<sup>16</sup>

During the same period, several other industries saw gains in M&E investment of a smaller magnitude, most notably information and cultural industries (\$201 million) and retail (\$179 million). Annual M&E investment in the arts, entertainment and recreation industry rose by 170.9%, from a comparatively small \$63.6 million in 2000, to \$172.3 million in 2010, with major infusions of cash occurring in 2008 and 2009 in a build-up to the 2010 Winter Olympics.<sup>17</sup>

At the same time, however, there were signs that M&E investment was declining in the traditional resource industries. Between 2000 and 2010, annual business M&E investment in BC declined in the agriculture, forestry, fishing and hunting sector by \$61.4 million, with the deepest losses occurring in 2009 and 2010.<sup>18</sup> The same thing happened in the manufacturing sector, where annual M&E investment dropped by \$209.4 million over the ten year period.

In BC's service sector, both the finance and insurance, and the real estate and rental and leasing industries have seen significant cutbacks in M&E capital expenditures, with respective annual declines of \$730 million and \$169 million between 2000 and 2010.<sup>19</sup>

Canadian research has shown that BC has seen a lower level of investment than the rest of Canada in those assets where technological change is generally concentrated, such as industrial, and information, computers and technologies.<sup>20</sup>

**Sources of capital**

Domestic investors account for the lion's share of expenditures on machinery, equipment and non-residential construction in Canada and most of the provinces; they accounted for approximately 87% of total investment in both Canada and BC in 2010.<sup>21</sup>

The US continues to be our largest foreign investor. In 2010, it accounted for 66% (\$3.8 billion) of all foreign capital expenditures in BC (\$5.74 billion). US investments were largely targeted at BC's mining, smelting, petroleum, chemical and machinery segments. Countries such as Japan, France, and Germany each invested approximately 1.5% of BC's foreign capital in 2010, but their respective shares are slowly being eclipsed by "other countries"—most notably China—that jointly claimed 7.4% of foreign investment in Canada in 2010.

Until recently, China was one of the world's biggest destinations for inward foreign direct investment, but outward capital investment by Chinese companies is now swelling. Chinese foreign direct investment into Canada rose from \$5.2 billion in 2008, to \$8.9 billion in 2009.<sup>22</sup> No doubt the share of this directed to BC will grow significantly as Chinese investors are attracted to our province's favourable location, resources, and Asian cultural connections.

<sup>16</sup> Statistics Canada, Capital and Repair Expenditures by Sector and Province, CANSIM table 029-0005 and Catalogue no. 61-205-XIB. Includes public and private sector investment.

<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

<sup>19</sup> Ibid.

<sup>20</sup> Andrew Sharpe, Jean-Francois Arsenault and Peter Harrison (December 2008), *Investment in BC: Current Realities and the Way Forward*. Prepared by CSL for the BC Progress Board.

<sup>21</sup> Statistics Canada, *Foreign and Domestic Investment in Canada, 2009 to 2011*. Text Table 2. Cat. No. 61-232-X. <http://www.statcan.gc.ca/pub/61-205-x/2011000/t004-eng.pdf>

<sup>22</sup> Asia Pacific Foundation of Canada, *Canada Inward Foreign Direct Investment from Asia*, February 2011.



## What will affect BC investment now and in the future?

The Canadian economy is finally on the mend; capital purchases are ramping up and expected to fuel more than half of real GDP growth throughout 2011 and 2012.<sup>23</sup> How are BC's investment conditions faring in this new era of economic growth? This can be assessed by looking at some key factors that drive investment decisions—profits, credit market conditions, tax incentives, and uncertainty or risk conditions.

**Profitability** has generally improved in the Canadian private sector during the past year. In the first quarter of 2011, the operating profits of Canadian enterprises rose by 8.1% over the same time period the previous year.<sup>24</sup> While Statistics Canada does not publish industry profits at the provincial level, there are strong signals that profitability in many of BC's non-financial companies is improving.

As of early 2011, BC's major forest industry operators were all reported to be profitable once again, after a protracted slump. BC's oil and gas sector is also performing well. The TD Bank predicts average Canadian industry profit growth of 7% on a quarterly annualized basis until the end of 2012.<sup>25</sup>

In addition to improved market conditions, Canadian companies once again have strong balance sheets. The debt equity ratio for Canadian businesses was 0.85 in first quarter 2011, a record low.<sup>26</sup> Retained earnings that were accumulated throughout in 2008-2009 are now being invested to boost output or achieve productivity gains.<sup>27</sup>

**Credit market conditions** also continue to be favourable in Canada, making it easier for large companies to issue debt, or for small and medium-sized companies to obtain bank credit. The most recent Bank of Canada Senior Loan Officer Survey indicates that business-lending conditions continue to ease, and the Bank of Canada chose to maintain the target for the overnight rate at 1%, as of March 1, 2011.<sup>28 29</sup> Some ratcheting up is expected in late 2011 and throughout 2012, nevertheless, debt financing will be readily available for investors.

Both the BC and Canadian governments have initiated **tax incentives** to stimulate investment in new capital. On January 1, 2011, the federal corporate income tax rate (CIT) declined to 16.5%, and another reduction to 15% is planned on January 1, 2012. In BC, the provincial CIT declined to 10% on January 1, 2011, but is now scheduled to increase again to 12% on January 1, 2012. All federal general corporate capital taxes were eliminated in 2006, and by July 1, 2012, all the provinces are slated to have eliminated theirs.

BC has also benefited from recent federal government capital cost allowance (CCA) initiatives regarding specific capital goods. For example, the federal government extended the 50% straight-line accelerated CCA rate for investment in M&E in processing and manufacturing operations to the end of 2011.

Some investment decisions may be delayed due to ongoing global risks that could affect investment decisions, both in the short and longer term. Nevertheless, the data for 2011 indicates market optimism in Canada, as businesses are ramping up investment in M&E. In BC, estimated preliminary investment in M&E for 2011 is \$11.3 billion, a 7.2% increase over estimated investment in 2010.<sup>30</sup>

<sup>23</sup> TD Bank Economics, November 17, 2010, *The Path to Economic Growth is Paved with Machinery and Equipment*.

<sup>24</sup> Statistics Canada, *Economic Indicators, by Province and Territory (monthly and quarterly)*, July 2011. <http://www40.statcan.gc.ca/l01/cst01/indi02a-eng.htm>

<sup>25</sup> TD Bank Economics, Special Report, *The Path to Economic Growth is Paved with Machinery and Equipment*, November 17, 2010.

<sup>26</sup> Statistics Canada, *Quarterly Financial Statistics for Enterprises – First quarter 2011*. <http://www.statcan.gc.ca/pub/61-008-x/2010003/t030-eng.pdf>

<sup>27</sup> Bank of Canada, *Business Outlook Survey*, April 2011.

<sup>28</sup> Bank of Canada *Senior Loan Officer Survey*, Results of the First Quarter 2011 Survey, Vol. 4.1, 4 April 2011.

<sup>29</sup> Bank of Canada press release, March 1, 2011. [http://www.bankofcanada.ca/en/fixe-dates/2011/rate\\_010311.html](http://www.bankofcanada.ca/en/fixe-dates/2011/rate_010311.html)

<sup>30</sup> Statistics Canada, *Private and Public Investment in Canada, Intentions*, 2011.

## What does this mean for productivity in BC?

The issue of productivity is complex, and no single factor can fully explain its progress over time. Nevertheless, there is a strong correlation between capital investment—particularly on M&E—and labour productivity, and the long-term trend of under-investing in M&E has dampened productivity gains in BC and across Canada.

In light of the profound job losses and industry rationalization of the past few years, labour productivity has recently made modest improvements in BC. The recent surge in real investment on Canadian M&E points to a new era of capital build-up in the wake of the 2008-2009 recession. If BC can match or exceed the national investment growth rate, it will put our province on a better competitive footing with the other provinces and our trading partners.

Statistics Canada's *Preliminary Intentions* indicate that in 2011, the greatest absolute growth in BC's M&E investment is expected to occur in the utilities; mining, oil and gas extraction; and transportation and warehousing.<sup>31</sup> Smaller investment gains are also predicted in finance and insurance, and accommodation and food services.<sup>32</sup> This will translate into productivity gains in these critical sectors. In BC, it will be important to boost capital spending on machinery and ICT equipment, particularly the kind that reflects technological innovation.<sup>33</sup>



<sup>31</sup> Statistics Canada, op. cit.

<sup>32</sup> Ibid.

<sup>33</sup> Andrew Sharpe, Jean-Francois Arsenault and Peter Harrison (December 2008), *Investment in BC: Current Realities and the Way Forward*. Prepared by CSLs for the BC Progress Board.

## Recommendations

Government has little influence over markets or commodity prices, or the global events that affect them. But the BC government can boost investment by providing a physical and regulatory setting that attracts and keeps capital investment. Here are some suggestions.

- **Continue refining fiscal policy to attract investment.**

BC has succeeded in achieving one of the lowest debt/GDP ratios in Canada, giving our province a solid credit rating. Our province has also made inroads with business and personal tax cuts, but there is still room for improvement.

One of the more significant changes to BC's tax system was the introduction of the HST in 2010. The HST created immediate benefits for business by reducing the marginal effective tax rate on investment, and allows firms to retain more earnings (which could potentially be spent on M&E). However, at the time of writing (July 2011), a public referendum was underway to determine whether the BC government will keep the HST or reinstate the old GST/PST regime. If the HST is rescinded, how government chooses to proceed will have a profound effect on business.

Reduced provincial and municipal-level property taxes also offer an avenue towards supporting business and attracting investment.

- **Provide high quality public transportation and physical infrastructure.**

Well designed and maintained road, rail, air, and water transportation networks all provide better accessibility to and from markets, and minimize the cost and risks of doing business in BC. To illustrate this, consider the additional business and personal costs associated with congested traffic conditions in cities like Beijing, Mumbai, and Los Angeles.

Efficient commuter transportation systems and leading-edge information and communication technology systems will also put BC on a par with its competitors. BC has adopted more innovative building and financing models in rolling out infrastructure projects such as bridges, highways, and hospitals. The P3 (public-private partnership) approach has been successful in some transportation projects in BC.

- **Boost labour force educational attainment.** This can be achieved over time by attracting skilled and educated workers from outside the province, as well as providing more support for education and skills training programs within BC. An educated workforce is an enticement to investors.

- **Continue reducing excessive regulatory cost burdens on businesses.** BC has made substantial inroads in this regard while continuing to meet its goals of efficiency, public safety, and environmental protection. BC should continue seeking ways to make its regulatory system clear and predictable to investors and businesses, thereby reducing associated costs. Initiatives, such as the Labour Market Development Agreement, are effective in harmonizing regulation between the provinces, and further efforts are required to harmonize between BC, the rest of Canada, the US, and other countries.

- **Cultivate a more internationally-oriented business climate.** This is a very broad recommendation that transcends mere investment considerations. BC's economy is primarily export based. To better prepare our children to meet the needs of the province's economic base, BC's school system should provide enhanced electives that focus on our major trading partners, and cover areas such as language (Mandarin, Cantonese, and Punjabi), business culture, and social mores.

## Appendix A

### Gross Fixed Capital Formation in BC and Canada (\$ millions)<sup>34</sup>

BC	2000	2005	2006	2006	2006	2009	% Change	
							00-08	08-09
<b>Government Gross Fixed Capital Formation</b>	\$3,283	\$4,985	\$5,552	\$5,842	\$6,289	\$7,037	91.6%	11.9%
Structures	\$2,245	\$3,512	\$4,232	\$4,380	\$4,680	\$5,643	108.5%	20.6%
Machinery and equipment	\$1,038	\$1,473	\$1,320	\$1,462	\$1,609	\$1,394	55.0%	-13.4%
Gov't investment in inventories	\$2	\$2	-\$3	\$1	\$2	\$0	0.0%	-100.0%
<b>Business Gross Fixed Capital Formation</b>	<b>\$20,142</b>	<b>\$32,800</b>	<b>\$38,443</b>	<b>\$41,264</b>	<b>\$43,876</b>	<b>\$37,590</b>	<b>117.8%</b>	<b>-14.3%</b>
Residential structures	\$6,794	\$14,717	\$17,170	\$18,904	\$18,643	\$15,755	174.4%	-15.5%
Non-residential structures	\$5,324	\$8,801	\$11,064	\$11,591	\$13,883	\$12,683	160.8%	-8.6%
Machinery and equipment	\$8,024	\$9,282	\$10,209	\$10,769	\$11,350	\$9,152	41.5%	-19.4%
<b>Total Capital Formation</b>	<b>\$23,425</b>	<b>\$37,785</b>	<b>\$43,995</b>	<b>\$47,106</b>	<b>\$50,165</b>	<b>\$44,627</b>	<b>114.2%</b>	<b>-11.0%</b>
<b>CANADA</b>								
	2000	2005	2006	2006	2006	2009	% Change	
							00-08	08-09
<b>Government Gross Fixed Capital Formation</b>	\$24,524	\$37,067	\$41,151	\$45,321	\$50,955	\$59,078	107.8%	15.9%
Structures	\$15,790	\$25,690	\$29,336	\$32,640	\$37,512	\$44,862	137.6%	19.6%
Machinery and equipment	\$8,734	\$11,377	\$11,815	\$12,681	\$13,443	\$14,216	53.9%	5.8%
Gov't investment in inventories	\$24	\$27	-\$41	\$15	\$29	-\$3	20.8%	-110.3%
<b>Business Gross Fixed Capital Formation</b>	<b>\$181,748</b>	<b>\$255,596</b>	<b>\$283,382</b>	<b>\$301,885</b>	<b>\$313,574</b>	<b>\$269,394</b>	<b>72.5%</b>	<b>-14.1%</b>
Residential structures	\$48,572	\$89,604	\$98,214	\$108,289	\$107,304	\$98,152	120.9%	-8.5%
Non-residential structures	\$49,826	\$72,752	\$85,236	\$92,528	\$105,301	\$86,279	111.3%	-18.1%
Machinery and equipment	\$83,350	\$93,240	\$99,932	\$101,068	\$100,969	\$84,963	21.1%	-15.9%
<b>Total Capital Formation</b>	<b>\$206,272</b>	<b>\$292,663</b>	<b>\$324,533</b>	<b>\$347,206</b>	<b>\$364,529</b>	<b>\$328,472</b>	<b>76.7%</b>	<b>-9.9%</b>

<sup>34</sup> Source: Statistics Canada, Gross Domestic Product Expenditure-Based. Note that actual data is used in this table, while previously cited estimated for 2010 capital investment is an estimate, based on industry investment intentions.

# BC Check-Up indicators

## work

**Educational attainment** is expressed as the percentage of the labour force aged 25 to 64 with post-secondary accreditation.

**Unemployment rate** is represented by the number of unemployed persons as a percentage of the labour force, which is defined as people aged 15 and older who are employed or actively looking for work.

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

**Real Labour Compensation per Employee** is remuneration received by an individual for work done, in the form of wages or salary, and including employers' social contributions, before deducting government transfers.

## invest

**Real labour productivity** measures the efficiency of the workforce (how much output can be produced in one hour), and is calculated as the ratio of real GDP to total hours worked by the labour force.

**Proportion of natural and applied sciences jobs** reflects the extent of technical knowledge dissemination throughout the workforce.

**Exports per worker** is the ratio of the inflation-adjusted value of exports to the number of workers (or exports per capita). Exports include shipments to other countries and other provinces (both goods and services are included).

**Government Net Debt as a Percentage of GDP** measures the fiscal position of a provincial government.

## live

**Consumer Debt** includes both personal and mortgage debt.

**Youth at risk** is defined as the percentage of the labour force aged 19 to 24 lacking a high school diploma.

**Health Care** is measured by two indicators:

- Provincial government health care expenditure per capita, and,
- Canada Health Consumer Index ranking among the provinces.

## About the BC Check-Up

Since 1999, the Institute of Chartered Accountants of BC (ICABC) has used selected economic and social indicators to evaluate BC as a place to work, invest, and live. In order to provide context, BC's progress levels are compared with those of Alberta and Ontario, as well as Canada as a whole. The data is obtained from Statistics Canada, and supplemented with information from other credible published sources.

# work

Four out of four of BC's work indicators improved in 2010, and it was the only jurisdiction in our comparison to see favourable results across the board: job creation (1.7%), unemployment rate (-0.1 ppt), educational attainment (1.4 ppt), and labour compensation per employee (0.5%) were all in positive territory last year. However, even with the increase, BC's rate of educational attainment (64.4%) still lagged Ontario (68.5%) and the national average (67.3%).

BC also ranked last, and by a significant margin, for labour compensation when compared to Alberta, Ontario, and the national average. The table below shows how BC compared with Alberta, Ontario, and the national average on our four key indicators over one and five-year periods.

## Summary of WORK Key Indicators<sup>35</sup>

	BC	AB	ON	CAN
Job Creation (000's)	<b>38,600</b>	-8,600	108,000	227,900
Unemployment Rate	<b>7.6%</b>	6.5%	8.7%	8.0%
Educational Attainment	<b>64.4%</b>	64.1%	68.5%	67.3%
Labour Compensation per Employee	<b>\$46,215</b>	\$64,420	\$51,177	\$49,857

2010 Value

Job Creation	<b>1.7%</b>	-0.4%	1.7%	1.4%
Unemployment Rate	<b>-0.1 ppt<sup>36</sup></b>	-0.1 ppt	-0.3 ppt	-0.3 ppt
Educational Attainment	<b>1.4 ppt</b>	-0.2 ppt	0.5 ppt	0.9 ppt
Labour Compensation per Employee	<b>0.5%</b>	4.6%	-0.1%	1.0%

2009-10 % Change

Job Creation	<b>7.9%</b>	10.5%	3.7%	5.7%
Unemployment Rate	<b>1.8 ppt</b>	2.5 ppt	2.1 ppt	1.2 ppt
Educational Attainment	<b>4.7 ppt</b>	3.0 ppt	4.5 ppt	4.3 ppt
Labour Compensation per Employee	<b>5.2%</b>	11.4%	3.2%	6.2%

2005-10 % Change

<sup>35</sup> An increase in the value of these indicators (except for the unemployment rate, where a decrease indicates improvement) means an improvement in the quality of the province's WORK environment.

<sup>36</sup> ppt = percentage point.

## Job Creation

After 2009's economic slump, BC saw an estimated real GDP growth rate of 3.6% in 2010.<sup>37</sup> Both the goods and services sectors enjoyed renewed employment growth, with the total number of jobs in the province rising 1.7%, or 38,600, to reach 2.3 million.

Services led the way with a total gain of 34,700 jobs. The largest gains occurred in: the retail sector (12,500 new jobs), reflecting an upswing in consumer confidence; the professional, scientific and technical services sector (10,300 new jobs); finance and insurance (8,200 new jobs); health care and social assistance (7,700 new jobs); public administration (6,100 new jobs); and transportation and warehousing (5,800 new jobs).

Accommodation and food services posted the largest decline in 2010 (7,600 lost jobs). While tourism room revenues were up last year, some jobs in this sector were affected by a reduced number of US visitors and the increased severity of impaired driving laws, which negatively impacted the number of patrons at food and drink establishments.<sup>38</sup> The information, culture and recreation industry's workforce also shrank (6,200 lost jobs), as did real estate and leasing and wholesale trading (5,300 and 4,100 lost jobs respectively).

Last year, the employment growth rate in the province's goods-producing sector was slower than that of the service sector, increasing by just 3,900 jobs—a growth rate of 0.9%.

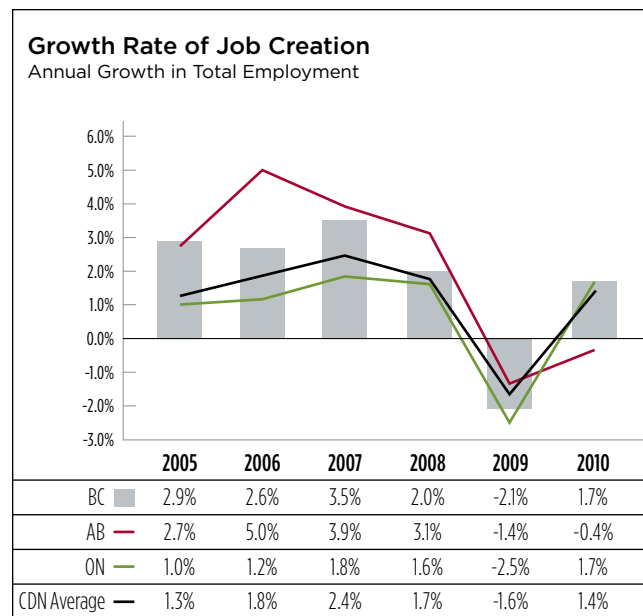
Looking at where this growth occurred, after two years of significant decline, the durables manufacturing industry added jobs last year (8,900 new jobs). However, this increase did not offset previous losses and the number of jobs in this sector remains well below the levels that were recorded in the first half of the decade.

Other sectors that saw increases included: the forestry sector (2,200 new jobs), which was a welcome upturn after two years of significant losses, but still well below the levels of a decade ago; and the utilities sector (1,900 new jobs), which had an impressive one-year increase of 15.7%.

These positive trends were offset by employment losses in non-durables manufacturing (-3,900 jobs); construction (-2,200 jobs); mining (-1,500 jobs); and agriculture (-1,200 jobs). Declining commodity prices and growing international competition have been driving a long-term shift away from non-durables manufacturing in BC.

In 2010 these factors were also instrumental in reducing employment in mining and agriculture. In terms of job losses sustained within BC's construction sector, it appears that the worst losses occurred in 2009, with the elimination of 22,200 jobs, due to the completion of pre-Olympic infrastructure projects. The losses experienced in 2010 were the tail end of the recession's effects.

Looking at the other comparison jurisdictions, BC fared well in 2010; the province recorded a positive job creation rate, at 1.7%, which exceeded the national average of 1.4%. BC's job creation rate tied with Ontario and remained ahead of Alberta, where the number of jobs declined by 0.4%. Between 2005 and 2010, approximately 18% of all new jobs in Canada were created in BC.



Source: Statistics Canada, *Labour Force Survey*

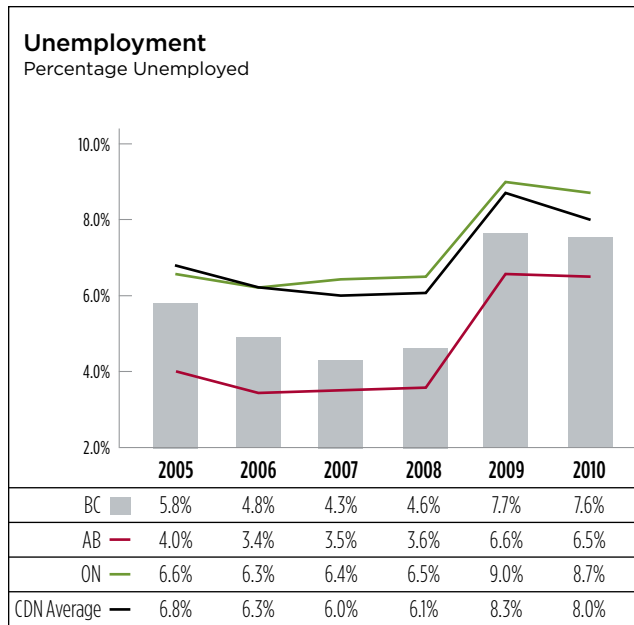
<sup>37</sup> TD Bank Economics, *Provincial Economic Forecast*, April 4, 2011 (preliminary estimate).  
<sup>38</sup> Canadian Restaurant and Foodservices Association, 2011, <http://www.crfa.ca/issues/bc/>.

## Unemployment

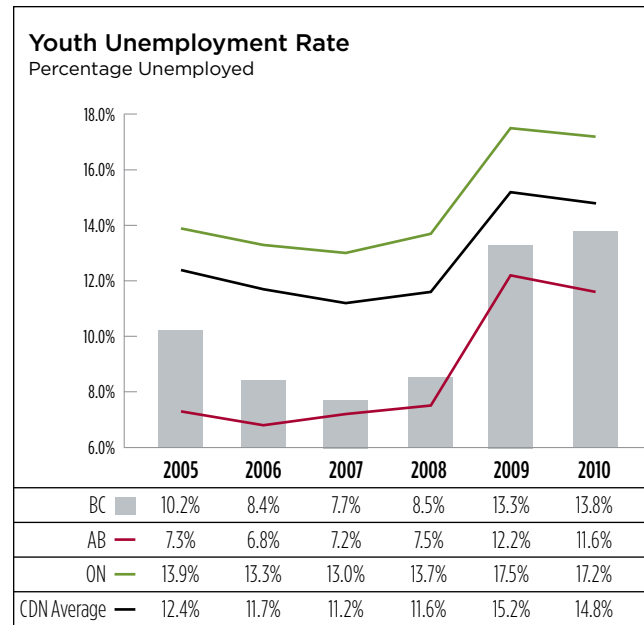
In 2010, BC's unemployment rate declined 0.1 percentage points (ppt), to reach 7.6%. This drop reflected an overall improvement in the provincial labour market conditions. The size of the labour force and the number of available jobs grew at approximately the same rate, and there was a negligible change in the labour force participation rate.

Unfortunately, during a recession unemployment is generally most endemic among young workers. BC's youth unemployment rate, which rose dramatically to 13.3% in 2009, grew another 0.5 ppt in 2010, to reach 13.8%.

In 2010, Alberta continued to have the lowest unemployment rate (6.5%) when compared to the national average (8%), Ontario (8.7%), and BC (7.6%).



Source: Statistics Canada, *Labour Force Survey*



Source: Statistics Canada, *Labour Force Survey*

## Educational Attainment

Last year, the educational attainment level of BC's labour force<sup>39</sup> rose by 1.4 ppt, to reach 64.4%. The value of this indicator has risen every year in the past decade, both provincially and nationally, as the demand for more skilled and highly educated workers has grown.

About 60% of the growth in educational attainment in 2010 was among workers with a bachelor's degree. In contrast, the number of workers with credentials higher than the bachelor level declined.

In 2010, BC's educational growth rate of 1.4 ppt was the highest of all jurisdictions, and above the national average of 0.9 ppt. Ontario's educational attainment level rose by 0.5 ppt, while Alberta's declined by 0.2 ppt.

<sup>39</sup> Educational attainment is the percentage of the labour force between ages 25 and 54 that has received some level of post-secondary education including: post-secondary, certificates or diplomas, bachelor degrees, and/or masters, and higher level degrees.



Despite BC's higher than average one-year growth rate, our province's level of educational attainment (64.4%) remained lower than that of Ontario (68.5%) and the national average (67.3%). BC's labour force needs to catch up to these jurisdictions in order to improve its productivity and economic competitiveness.

### Real Labour Compensation

Labour compensation is defined as both wages and salaries, and supplementary income paid to employees.<sup>40</sup> It is calculated on a gross, pre-tax basis. Our indicator, real labour compensation per employee, is the ratio of labour compensation to the number of employees, adjusted for inflation with the Consumer Price Index.<sup>41</sup>

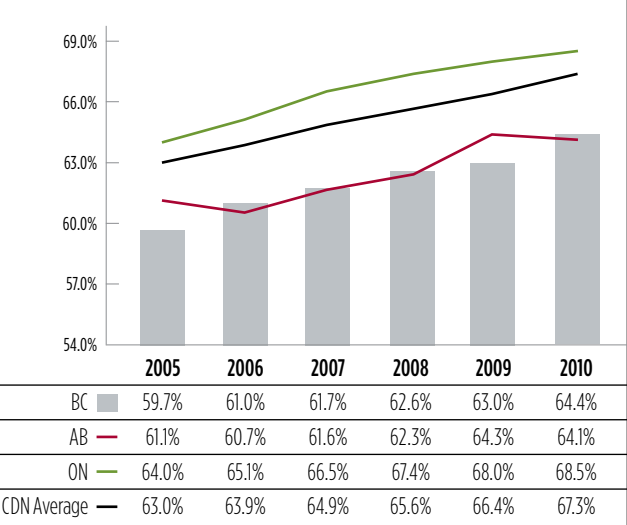
In 2010, BC's real annual labour compensation per employee increased by 0.5%, to \$46,215; Alberta's rose by 4.6%, to \$64,420, the highest level in the country; the Canadian average rose by 1%, to \$49,857 (no doubt buoyed by Alberta); and Ontario's declined by 0.1%, to \$51,177.

For the past five years, real labour compensation per worker in BC stagnated. Between 2005 and 2010, the province's total labour compensation (not adjusted for inflation) grew at a slower rate than the national average. There are several possible explanations for this. One is the long-term loss of high-paying jobs in the manufacturing sector, in contrast to the rise in the number of low-paying service sector jobs. Another is the impact of strong gains and high level seen in Alberta on the national average.

In 2010, BC also reported the highest proportion of part-time workers (22.4%), when compared to the national average (19.4%), or Alberta (17.6%). Overall, the province's trend in compensation points to the more fundamental problem of slow productivity growth in our province.

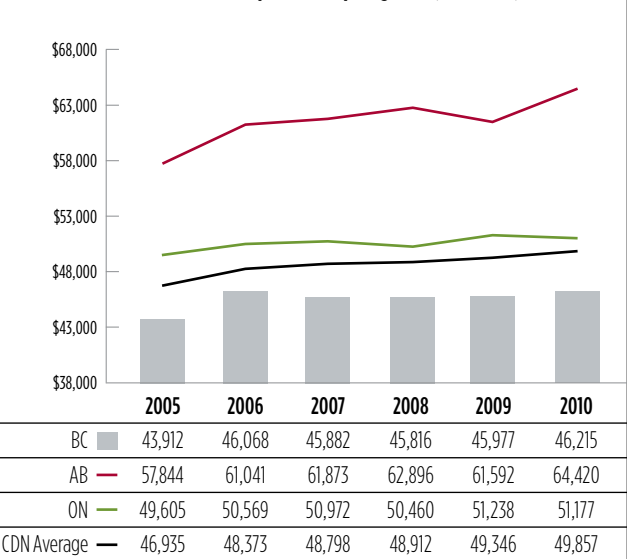
Although BC enjoyed a lower inflation rate than the other jurisdictions in the past five years, faster growth in labour compensation in these jurisdictions eclipsed inflation effects, and gave BC no advantage in terms of real compensation. With high housing prices and comparatively lower purchasing power, it is little wonder that BC consumers have the highest debt per capita of all jurisdictions.

**Percent of Labour Force Age 25-54 With a Post-Secondary Certificate/Diploma or Higher**



Source: Statistics Canada, *Labour Force Survey*

**Real Labour Income per Employee (2010\$)**



Source: Statistics Canada

<sup>40</sup> Supplementary income includes employer contributions to employee welfare, pensions, workers compensation and employment insurance.

<sup>41</sup> Includes full and part time workers.

# invest

BC's investment climate saw significant improvement in 2010, as all four indicators had positive results. BC was second only to Alberta in productivity growth (1.9% vs. 2.9% respectively) and ranked second to Ontario for growth in value of exports per worker (13.5% vs. 14.9% respectively). BC experienced marginal improvement in employment in the sciences and its government net debt to GDP ratio was the second lowest increase in the comparison.

While progress was made last year, BC had a large gap to close and ranked last in the comparison in three of four indicators—the exception being government net debt to GDP ratio—where BC's was significantly below both Ontario and the national average. The table below shows how BC compared with Alberta, Ontario, and the national average on our four key indicators over one and five-year periods.

## Summary of INVEST Key Indicators<sup>42</sup>

	BC	AB	ON	CAN
Productivity	<b>39.8</b>	49.3	41.8	41.8
Employment in the Sciences	<b>6.6%</b>	7.8%	7.9%	7.4%
Value of Exports per Worker	<b>\$11,854</b>	\$36,210	\$20,185	\$20,201
Government Net Debt as a % of GDP <sup>1</sup>	<b>16.5%</b>	-6.2%	35.4%	34.0%

2010 Value

Productivity	<b>1.9%</b>	2.9%	1.0%	1.3%
Employment in the Sciences	<b>0.6%</b>	-0.4%	0.5%	0.3%
Value of Exports per Worker	<b>13.5%</b>	12.2%	14.9%	10.7%
Government Net Debt as a % of GDP	<b>1.8 ppt</b>	3.4 ppt	1.9 ppt	0.0 ppt

2009-10 % Change

Productivity	<b>3.3%</b>	0.9%	1.6%	3.1%
Employment in the Sciences	<b>0.2%</b>	0.1%	0.6%	0.6%
Value of Exports per Worker	<b>-22.9%</b>	-9.8%	-23.6%	-14.5%
Government Net Debt as a % of GDP	<b>3.8 ppt</b>	6.5 ppt	7.9 ppt	1.8 ppt

2005-10 % Change

<sup>42</sup> An increase in the value of these indicators (except for government net debt as a % of GDP where a decrease indicates improvement) means an improvement in the quality of the province's INVEST environment.

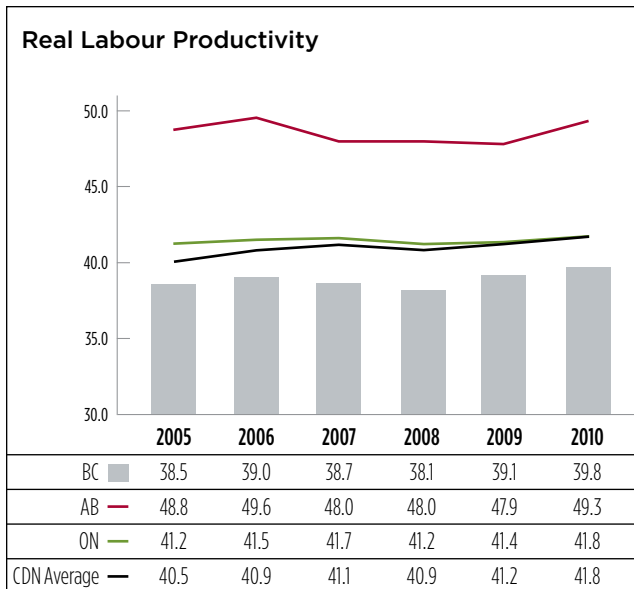
## Productivity

Real labour productivity measures the efficiency of the workforce, or the amount of real GDP per hour worked.<sup>43</sup> A gain in productivity means that more output is being produced with a finite amount of labour and capital. Jurisdictions that make significant productivity gains improve their competitiveness and attract investment.

In 2010, BC's labour productivity grew by 1.9%. After significant job losses in 2008-2009, BC saw renewed employment growth in 2010, with real output growing at a faster rate than the total number of hours worked. The outcome was a growth in labour productivity.

Last year, BC's productivity gain (1.9%) was greater than the national average (1.3%), but lagged behind Alberta (2.9%); Ontario's (1%) was the lowest of all comparison jurisdictions.

BC's five-year productivity growth rate (3.3%) outstripped Alberta (0.9%), Ontario (1.6%), and the national average (3.1%). Two reasons for BC's improvement in this area were the rising educational attainment of its labour force and the enhancement in the productivity of workers through increased capital investment.

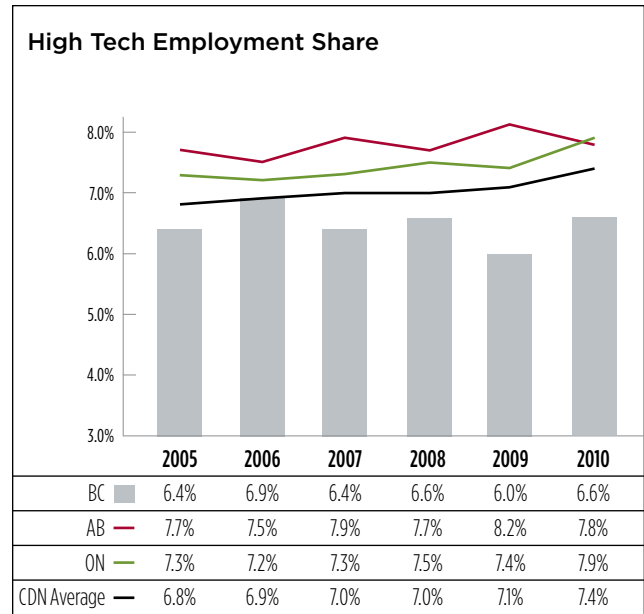


Source: Statistics Canada

## Employment in the Sciences

The labour market share of workers in the natural and applied sciences reflects the extent that technical knowledge is effectively disseminated throughout the workforce. An increase in this indicator means that more scientific and technical workers are finding jobs in their fields of expertise.<sup>44</sup> In absolute terms, BC had the lowest proportion of workers in the sciences of all comparison jurisdictions in 2010; 6.6% of BC's workers were employed in the sciences, compared to the national average of 7.4%.

Last year, BC's employment in the sciences rose by 0.6%, which corresponded with the increase in the province's labour force educational attainment. The national average saw an increase of 0.3% in this indicator, Ontario's share of employment in the sciences rose by 0.5%, while Alberta's declined by 0.4%.



Source: Statistics Canada

<sup>43</sup> Ideally, a productivity measure should account for both labour and capital inputs used in production, but this is difficult, and labour productivity is generally used as a proxy measure for total change in productivity.

<sup>44</sup> Natural and applied sciences include professional occupations in physical and life sciences, engineering, architecture, planning, and a range of related technical occupations.

## Exports per Worker

Exports of goods and services to other provinces and international markets comprise over 40% of BC's GDP. This makes our economy sensitive to global economic shocks, particularly in our primary markets of the US, Japan, and China.<sup>45</sup> A rise in the value of exports per worker reflects higher product prices and economic growth in BC, which can in turn boost to the province's investment climate.

In 2010, BC exported \$11,854 of goods per worker. This was a 13.5% increase from 2009, but the value of this indicator was still well below the annual levels attained between 2001 and 2008. This indicator rose in all the comparison jurisdictions, reflecting a country-wide period of economic recovery last year; Ontario saw an increase of 14.9% to \$20,185, Alberta's rose by 12.2% to \$36,210, while the national increase was 10.7% to \$20,201.

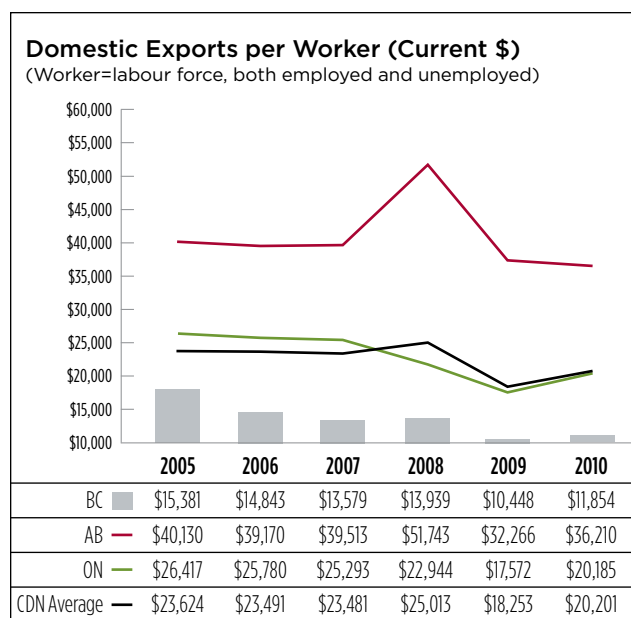
One explanation for the declining value of BC's exports per worker is our province's lower value-added export mix. Resource commodities constitute a significant share of BC's goods exports. Comparing BC's overall export value with those of provinces like Alberta (which exports energy) and Ontario (which has a well developed manufacturing sector) highlights how much BC falls behind in this indicator.

BC's export growth in 2010 was led by forest products, which accounted for 32% of total exports; energy exports comprised 27% of the total; and industrial goods were 19%.<sup>46</sup> Despite an upturn in US housing starts and a slight strengthening of the US economy, BC's exports of softwood lumber to the US have not recovered to previously recorded levels and the overall trend is one of decline. The prospect of a renewed recession in the US suggests that exports of lumber to this market will not recover to their former level for some time.

Between 2005 and 2009, BC's commodity shipments to the US declined by 41.6%.<sup>47</sup> During this same time period, demand swelled in new markets such as the Pacific Rim, which includes China. A rise in demand from these markets helped offset the loss of BC export demand in the US.

The share of BC's exports to China has grown seven-fold in the last decade, from just over 2% in 2001, to 14% in 2010. China's need for resources to fuel its massive manufacturing sector boosted BC's exports of coal and metallic minerals in 2010, as well as market pulp and softwood lumber.<sup>48</sup>

BC continues to lag behind the other jurisdictions in terms of exports per worker, and the value of this indicator has declined in the past five years. The reversal of this trend will depend, at least partly, on the diversification of the province's traditional export base; higher value-added products and new markets are keys to closing the export value divide that currently exists between BC and other jurisdictions. As such, increased diversification of BC's markets and its proximity to the booming Asian market has put BC in an improved export position. BC's exports are projected to grow at the fastest rate in Canada in 2011 and 2012, based on the assumption of ongoing Chinese demand and continued economic recovery in the US.<sup>49</sup> Recent economic developments in the US throw the robustness of its recovery into question, but the outlook for BC shipments is nevertheless optimistic.



Source: BC Stats and Stats Can LFS

<sup>45</sup> Our analysis of exports focuses on the value of physical movement of tangible goods, calculated with Customs Canada data. Customs data does not capture trade in services or interprovincial trade.

<sup>46</sup> BC Stats, *BC Origin Exports to All Countries*, March 2011.

<sup>47</sup> BC Stats, *Exports*, January 2011.

<sup>48</sup> Ibid.

<sup>49</sup> Export Development Canada, *The Diversification Dividend: Global Export Forecast*, Spring 2011.

### Government Debt as Percentage of GDP

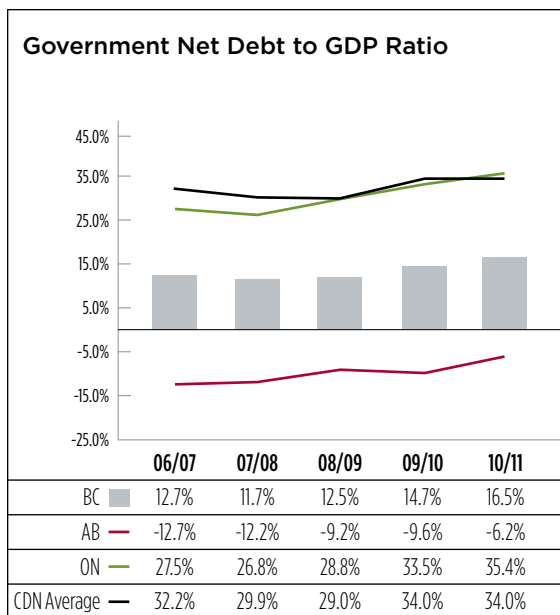
When a government incurs budget deficits over several consecutive years, its debt grows. As evidenced in Greece earlier this year, an excessively large government debt load can ultimately decimate the investment climate, and hobble economic growth.

After five years of budget surpluses, poor economic conditions put the BC government into deficit spending in 2009/10; the provincial deficit was \$1.8 billion that year, declining to \$1.3 billion in 2010/11. Nevertheless, continued government capital spending combined with the ongoing deficit has boosted the 2010/11 provincial debt to \$33.4 billion.

As a result, BC's net debt to GDP ratio rose by 1.8 ppt in 2010/11, to reach 16.5%. This remains one of the lowest debt/GDP ratios in Canada. Two more years of smaller deficits and a small surplus in 2013/14 are projected, which will stabilize BC's provincial debt.<sup>50</sup>

In Ontario, the government net debt to GDP ratio rose by 1.9 ppt, to 35.4% in 2010/11. While Alberta still enjoys the best fiscal climate in Canada, Alberta took on new debt in 2010/11, eroding its net provincial savings (negative net debt to GDP) 3.4 ppt, to -6.2%. The Canadian debt to GDP ratio remained stable at 34%.

Although three out of four jurisdictions have seen their debt burden grow in the wake of the 2008/2009 downturn, it is worth noting that Canada and the provinces performed well against many other countries in this indicator. In 2010, the US government debt/GDP ratio was 61%, and in the UK it was 85%. Austria's debt/GDP ratio was 66%, while Greece's was 148%.<sup>51</sup> Canada enjoys a solid reputation worldwide for its fiscal prudence and reasonable debt level.



Source: Royal Bank Economics

<sup>50</sup> Royal Bank Economics, *BC Budget 2011*, February 16, 2011.

<sup>51</sup> OECD, *Central Government Debt*, 2010. [http://stats.oecd.org/Index.aspx?datasetcode=GOV\\_DEBT](http://stats.oecd.org/Index.aspx?datasetcode=GOV_DEBT)

In 2010, BC again received the second highest rating on the Health Consumer Index, which ranks health care delivery in every province, and health care expenditures per capita rose 4.4%—the largest increase among the comparison jurisdictions.

However, the number of youth at risk increased marginally, and while BC's increase in consumer debt was the lowest in the comparison, in real terms it was still the highest at \$40,977. The table below shows how BC compared on our three key indicators with Alberta, Ontario, and the national average over one and five-year periods.

## Summary of LIVE Key Indicators<sup>52</sup>

	BC	AB	ON	CAN	
Consumer Debt per Capita	<b>\$40,977</b>	\$34,939	\$31,185	\$32,845	2010 Value
Youth at Risk	<b>8.1%</b>	11.6%	8.3%	9.8%	
Provincial Gov't Health Expenditures per Capita	<b>\$3,557</b>	\$4,303	\$3,542	\$3,674	
Consumer Debt per Capita	<b>4.5%</b>	5.1%	7.0%	6.1%	2009-10 % Change
Youth at Risk	<b>0.8 ppt</b>	1.3 ppt	-0.2 ppt	-0.2 ppt	
Provincial Gov't Health Expenditures per Capita	<b>4.4%</b>	3.8%	1.2%	3.1%	
Consumer Debt per Capita	<b>39.7%</b>	58.5%	27.3%	37.7%	2005-10 % Change
Youth at Risk	<b>-1.2 ppt</b>	-0.4 ppt	-2.3 ppt	-1.7 ppt	
Provincial Gov't Health Expenditures per Capita	<b>22.8%</b>	35.6%	25.5%	29.0%	

<sup>52</sup> A decrease in the value of the consumer debt and youth at risk indicators means an improvement in the quality of the province's LIVE environment.

### Consumer Debt

Consumer debt includes both personal and mortgage debt.<sup>53</sup> Between 2005 and 2010, levels of consumer debt per capita have skyrocketed in BC, rising 39.7%, to an average of \$40,977. This is the highest ratio of consumer debt per capita in Canada.

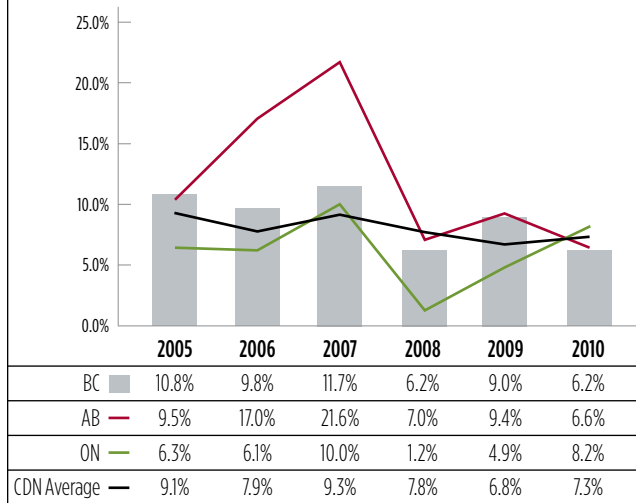
By several metrics, BC consistently demonstrates the greatest degree of financial vulnerability in the country, which is largely related to its high housing prices. Our province's total debt to income ratio was 160.5% in 2010, with an average debt service ratio of 22%, both significantly higher than the national average with a debt to income ratio of 127%, and an average debt service ratio of 18.6%.<sup>54</sup>

In 2010, BC's consumer debt per capita grew 4.5%, reflecting a growth in consumer demand in the wake of the recession, and a corresponding rise in loans. Given that mortgage debt constitutes 68.7% of total consumer debt in BC, any increases in the interest rate will increase the debt level per capita and push more families—particularly those in the low-income bracket—into financial distress. While very strong housing prices do represent greater asset value, there is always a concern that housing prices will not remain stable.

In comparison to BC, Ontario posted the greatest increase in consumer debt per capita in 2010, with a growth rate of 7%. Consumers in Ontario are borrowing more for home renovations and other forms of consumer consumption; overall, mortgage share of consumer debt in Ontario has declined in the past two years to 58%, down from 70% a decade ago.<sup>55</sup> The national average growth rate in consumer debt per capita was 6.1% in 2010, while Alberta's was 5.1%. Of all jurisdictions, BC's rise in consumer debt was the slowest at 4.5%.

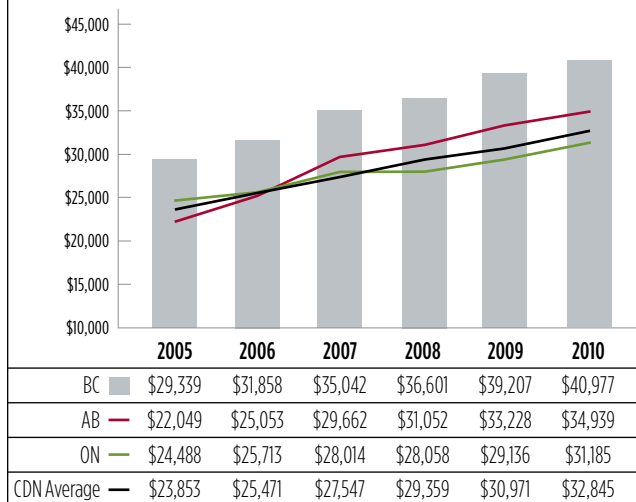
Across Canada, attitudes towards borrowing have changed. Living on borrowed money is now a widely accepted choice, at the individual, family, and government level. Easy and unimpeded access to credit is a strong enticement for many consumers to carry debt from month to month, or to leave debt growth levels unchecked. This is in contrast to other parts of the world, including the US, where household debt reduction has become a major priority since the 2008 financial crisis.

**Growth in Total Consumer Debt**



Sources: Statistics Canada; Credit Union Central of BC, Alberta and Manitoba; Insurance Deposit Corporation of Ontario; and SaskCentral

**Total Consumer Debt per Capita**



Sources: Statistics Canada; Credit Union Central of BC, Alberta and Manitoba; Insurance Deposit Corporation of Ontario; and SaskCentral

<sup>53</sup> Credit card debt, personal loans and other debt.

<sup>54</sup> TD Economics, *Assessing the Financial Vulnerability of Households Across Canadian Regions*, February 9, 2011. Includes first three quarters of 2010 for households with debt.

<sup>55</sup> CANSIM for chartered banks, and Central Credit Unions for each province.

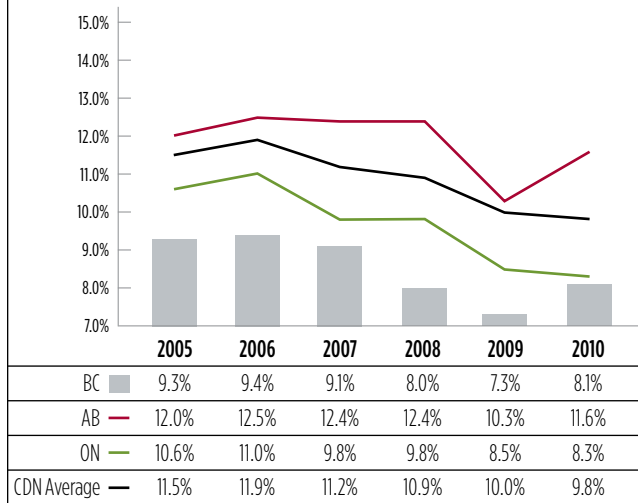
### Youth at Risk

The percentage of the workforce, aged 19 to 24, who have not completed high school reflects the portion of the youth population with limited long term employment and earning prospects. Historical records indicate that high school drop-outs are more likely to require a form of economic or social support in their lifetime. For the past decade, BC has reported the lowest percentage of youth at risk out of all comparison jurisdictions. Although this indicator rose in 2010 by 0.8 ppt, to 8.1%, BC continued to maintain a level well below other jurisdictions.

Over the past five years, the percentage of the young workforce without high school completion has generally improved across Canada. However, 2010 saw a rise in this indicator in some jurisdictions: BC's youth at risk grew by 0.8 ppt and Alberta's rose by 1.3 ppt, to 11.6%. Ontario saw its youth at risk rates decline by 0.2 ppt, to 8.3%, and the national average rate also dropped 0.2 ppt, to reach 9.8%.

Despite its comparatively good record, BC, along with other jurisdictions, needs to implement region-specific strategies to encourage more students to complete high school and enrol in post-secondary or vocational education. For example, since 2001, the community-based program Pathways to Education has succeeded in ensuring economically disadvantaged children finish high school and register in post-secondary institutions. An approach that focuses on marginalized students is required to achieve future, permanent reductions in high school dropout rates, and improve employment prospects for young at-risk workers.

**Percent of Labour Force Between Ages of 19 and 24 With Less Than High School Education**



Sources: Statistics Canada, LFS, Custom Table

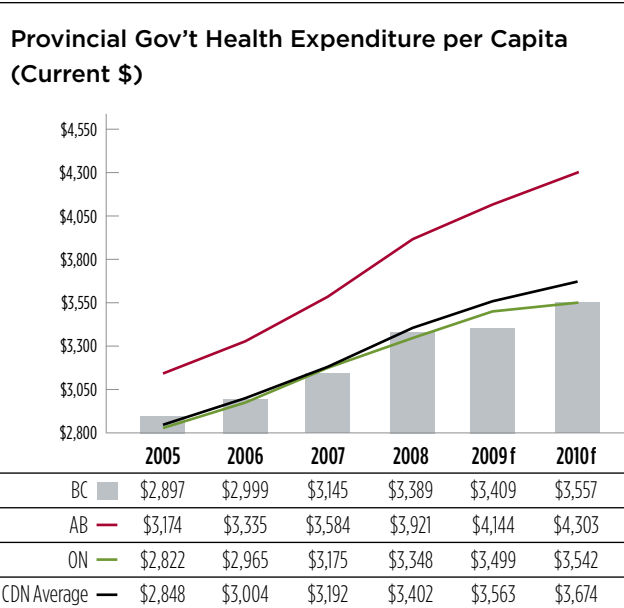


### Health Expenditures Per Capita

BC's provincial government health care expenditures per capita have grown annually over the past five years, but at the slowest rate of all jurisdictions. In 2010, this indicator grew by 4.4%, to reach \$3,557.<sup>56</sup> This was the second-lowest level of per capita expenditures out of all comparison jurisdictions: marginally ahead of Ontario at \$3,542, and below the national average of \$3,674.

Across Canada, increases in this indicator are being driven by a number of factors, such as inflation, expensive technologies, such as imaging and diagnostics, rising pharmaceutical costs, and an aging population. Despite these factors, the health care share of GDP has been fairly constant in BC for the past decade, and declined slightly to 11.9% in 2010<sup>57</sup>; when looking at the comparison jurisdictions, Alberta's was 8.2%, the national average was 11.7%, and Ontario's was 12.2%.

The Canadian Consumer Health Index evaluates provincial health care delivery based on patient outcomes, waiting time for treatment, primary care, patient rights, and range of services.<sup>58</sup> A comparison of the Health Consumer Index rankings shows that BC had one of the lowest expenditures per capita of all jurisdictions in 2010, and had the second highest index value of all provinces. This was the same ranking as last year. BC' strengths lie in its shorter wait times and patient outcomes, as well as its user-friendly medication formulary.



Sources: CIHI

Health Consumer Index National Ranking in 2010 <sup>59</sup>										
Health Consumer Index National Ranking <sup>60</sup>	BC	AB	SK	MB	ON	QC	NB	NS	PE.	NL
	2	7	6	4	1	5	3	8	9	10

Source: Canadian Consumer Health Index 2010

<sup>56</sup> Canada Institute for Health Information, Data Tables, 2010, <https://secure.cihi.ca/estore/productFamily.htm?pf=PFC1556&lang=en&media=0>.

<sup>57</sup> Ibid.

<sup>58</sup> This was developed by the Frontier Centre for Public Policy and Health Consumer Powerhouse. The methodology has been developed and used by the Health Consumer Powerhouse, Europe's leading independent provider of consumer information, whose work has initiated improvement in healthcare systems in Europe.

<sup>59</sup> Eisen, Ben, 2010 *Canada Health Consumer Index*, Presented by Frontier Centre for Public Policy and Health Consumer Powerhouse.

<sup>60</sup> Ranking across all provinces; territories are excluded.

## **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 each year. 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.

The *BC Check-Up*, *Regional Check-Up*, and related information are available online at [www.bccheckup.com](http://www.bccheckup.com).

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Opinions expressed in the BC Check-Up, 2011 do not necessarily reflect those of individual CAs.

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