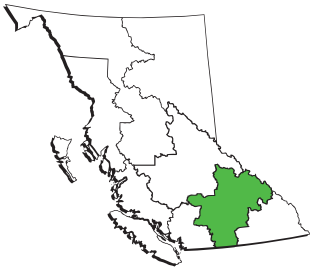


2013 Regional Check-Up

LIVE
WORK
INVEST
IN BC

Thompson-Okanagan Development Region



The Thompson-Okanagan Development Region (TODR) is situated in south-central BC and is bound by the Cascade Mountains in the west, and Monashee Mountains and Alberta border on the east. The Development Region encompasses 94,308 km², or 10.2% of BC's total land area. In 2012, it was home to 531,657 residents¹ – a 0.3% increase from 2011. Although last year's population growth was the TODR's lowest since 2001, it nevertheless tied the Vancouver Island/Coast as the third-highest growth rate in BC, after the Northeast (2.2%) and Mainland/Southwest (1.4%).

The TODR's economy enjoys a diversified mix of industries, while traditional sectors, including forestry, agriculture, and mining, remain important. Manufacturing has expanded beyond lumber and fruit processing to include wine and a variety of high-tech products. The region's favourable climate has made it a popular tourist and recreation destination, as well as a draw for retirees, who have made up almost all of the TODR's population growth this century.² This, in turn, has stimulated significant on-going investment, development, and construction, as well as an expansion in service sector employment - in particular in health care, and accommodation and food services. It is also a centre for post-secondary education, including Thompson River University, UBC Okanagan and Okanagan College.

The TODR showed modest signs of economic recovery last year. The region's forest industry benefitted from a recovering US economy, and growing Asian demand for lumber. Despite last year's drop in mineral prices, investments were made to both expand production in the region's existing mines, and develop new mines within the area. Tourism measured by room revenues was up slightly (3.2%), as were air passenger volumes at Kelowna, Kamloops, and Penticton airports (3.7%, 4.6% and

¹ Statistics Canada, *Population Estimates as of July 1st*, CANSIM Table 051-0049. *Note:* Population numbers are based on preliminary data; these estimates are revised each year as more accurate data becomes available.
² Centra 1 Credit Union, *Economic Analysis of British Columbia*, March 2012.

3.5%).³ Although population growth dipped to an eleven year low, and housing starts and residential building permits were down from 2011 (-7.8%⁴ and -46.5%), real estate sales were up 6% and prices remained steady.⁵ However, real estate analysts report that delayed retirement and the withdrawal of second home and resort buyers are a result of the recession, and this on-going trend is expected to continue to dampen the market.⁶

WORK Indicators

Job Creation

Job creation provides a good indication of a region's economic health and labour market trends. In 2012, employment in the TODR increased slightly (2,000 new jobs), recovering the majority of 2011's job losses (-2,500 jobs). However, the region's job growth rate last year (0.8%) trailed all other Development Regions save the Vancouver Island/Coast (0.7%) and Nechako (-9.2%). This rate was also well below the provincial average growth rate of 1.7%.

Table 1-1: Employment, Thompson-Okanagan Development Region, 2007 to 2012⁷

							Job Creation (000)	
	2007	2008	2009	2010	2011	2012	5-Year 2007-12	1-Year 2011-12
TOTAL EMPLOYMENT (000)	250.4	256.6	248.0	257.2	254.7	256.7	6.3	2.0
Goods-Producing Sector (000)	65.1	69.1	63.5	64.5	60.3	57.4	-7.7	-2.9
Agriculture	7.1	6.6	9.0	7.3	5.9	5.9	-1.2	0.0
Forestry, fishing, mining, oil and gas	6.6	7.6	5.7	8.0	5.4	7.4	0.8	2.0
Utilities	-	1.8	1.6	1.8	2.8	-	n/a	n/a
Construction	25.6	30.8	28.1	26.7	25.4	25.5	-0.1	0.1
Manufacturing	24.7	22.4	19.1	20.6	20.9	17.3	-7.4	-3.6
Services-Producing Sector (000)	185.4	187.4	184.5	192.7	194.4	199.3	13.9	4.9
Trade	43.8	40.5	38.3	42.0	41.4	40.1	-3.7	-1.3
Transportation & warehousing	9.5	11.0	10.0	12.2	10.5	11.0	1.5	0.5
Finance, insurance, real estate & leasing	14.6	11.3	13.5	14.3	11.7	14.1	-0.5	2.4
Professional, scientific & technical services	13.0	11.9	13.8	16.1	14.2	16.3	3.3	2.1
Business, building & other support services	10.0	10.8	9.4	7.1	8.6	9.5	-0.5	0.9
Educational services	15.2	16.1	15.0	16.3	16.0	17.6	2.4	1.6
Health care & social assistance	29.6	34.3	34.0	29.7	34.3	34.4	4.8	0.1
Information, culture & recreation	9.6	11.7	10.5	13.3	10.7	11.6	2.0	0.9
Accommodation & food services	20.8	21.7	19.4	18.7	22.2	23.0	2.2	0.8
Other services	10.8	9.6	10.7	11.6	14.2	12.6	1.8	-1.6
Public administration	8.5	8.6	9.8	11.4	10.7	8.9	0.4	-1.8

Source: Statistics Canada, Labour Force Survey Historical Review

³ BC Ministry of Jobs, Tourism and Training.

⁴ CMHC, *Housing Statistics*, January 2013. For Kelowna, Kamloops and Vernon.

⁵ BC Real Estate Association.

⁶ Ibid.

⁷ Industries with "-" are estimated to have less than 1,500 employed at that particular point in time, thus the numbers presented in the table may not add up to total sector figures, and job creation statistics can not be calculated.

The service sector was entirely responsible for the TODR's employment growth last year, adding 4,900 jobs, which more than made up for 2,900 jobs lost in goods production. All service industries except for trade, other services, and public administration posted job increases. The largest gains were in finance, insurance, real estate and leasing (2,400 new jobs), and professional, scientific and technical services (2,100 new jobs). Most of these new jobs were in real estate (1,600 new jobs), likely as a result of renewed sales activity, and computer design (1,000 new jobs), for which there continues to be a growing demand.

The third significant area of employment growth last year was in education; more specifically, post-secondary and other educational services (2,600 new jobs), as jobs in primary and secondary education (-900 jobs) both decreased last year. This growth is not surprising given the ongoing expansion of UBC Okanagan and Thompson Rivers University. Smaller job gains in transportation and warehousing (500 new jobs), business, building and other support services (900 new jobs), information, culture and recreation (900 new jobs), and accommodation and food services (800 new jobs) were a result of the pick-up in the local economy.

Job losses in trade (-3,200 jobs) primarily occurred at the retail level, while those in other services (-1,600 jobs) were mostly in repair and maintenance. These losses suggest a lag in renewed demand for these services. Reduced employment in public administration (-1,800 jobs) occurred in the federal and regional government, a likely reflection of on-going fiscal restraint.

Goods sector employment declined by 2,900 jobs last year, primarily because of jobs losses in manufacturing (-3,600 jobs), a figure that could not be offset by gains in mining (1,100 new jobs), forestry (900 new jobs), and construction (100 new jobs).⁸ Renewed US and growing Asian demand for lumber and pulp, as well as expanded operations at Highland Valley, Copper Mountain, and Max Molybdenum drove job gains in forestry, wood manufacturing, and mining. Non-durable manufacturing (-4,500 jobs), in particular food and beverage, was the hardest hit industry in the TODR. This is not surprising given the recent decline in grape and apple harvests, as well as wine production. These job losses eclipsed job gains in fabricated metals (1,600 new jobs) and wood products (500 new jobs).

Unemployment Rate

The unemployment rate is another important measure of regional economic health as it reveals the balance between job supply and the available labour force. In 2012, the unemployment rate in the TODR peaked in March at 9.5%, then fell to a low of 4.7% in August, before increasing to 5.7% in November and December. This resulted in an annual average of 6.9%, which ranked fourth behind the Northeast (4.1%), Vancouver Island/Coast (6%), and Mainland/Southwest (6.8%). Compared to 2011, this represented a 1 percentage point (ppt) reduction and was the second-largest decrease after the Vancouver Island/Coast (-1.7 ppt) last year. Within the TODR, unemployment was lowest in Kelowna (6.8%) and higher in both Kamloops (7.2%) and Vernon (8.8%).



⁸ 1,400 job losses are unidentified in the labour force survey but may result from survey sampling that did not include reporting for utilities.

Table 1-2: Unemployment Rate, Thompson-Okanagan Development Region, 2007 to 2012

Region	2007	2008	2009	2010	2011	2012	Percentage Point (ppt) Change	
							5-Year 2007-12	1-Year 2011-12
Thompson-Okanagan	4.4%	5.5%	8.8%	8.6%	7.9%	6.9%	2.5 ppt	-1.0 ppt
British Columbia	4.3%	4.6%	7.7%	7.6%	7.5%	6.7%	2.4 ppt	-0.8 ppt

Source: Statistics Canada

Although job creation largely deserves the credit for this improvement, the TODR's labour force also contracted slightly (-700 persons) last year. This decrease was most likely a result of people of working age moving either elsewhere in the province, or out-of-province in search of job opportunities.

Youth unemployment in the TODR also declined last year by 1.3 ppt, falling to 11%. The region's rate tied the Mainland/Southwest in fourth place after the Northeast (7.3%), Vancouver Island/Coast (10.2%), and Kootenay (10.4%). Last year's reduction in youth unemployment was the second-highest after the Vancouver Island/Coast (-2.4 ppt). The TODR was also one of only three Development Regions to lower youth unemployment; the third being the Mainland/Southwest (-0.5 ppt). This accomplishment is even more impressive given that the youth labour force increased by 8.7% last year, whereas in the Mainland/Southwest it grew by only 4.7% and in Vancouver Island/Coast it declined by 13%. All of which suggests that many of the jobs created last year may have been either entry level or low skill.

Table 1-3: Youth (age 19 to 24 years) Unemployment Rate, Thompson-Okanagan Development Region, 2007 to 2012

Region	2007	2008	2009	2010	2011	2012	Percentage Point (ppt) Change	
							5-Year 2007-12	1-Year 2011-12
Thompson-Okanagan	7.1%	9.1%	13.1%	10.6%	12.3%	11.0%	3.9 ppt	-1.3 ppt
British Columbia	6.1%	6.8%	11.1%	11.3%	11.5%	10.9%	4.8 ppt	-0.6 ppt

Source: Statistics Canada, Labour Force Survey, Custom Table

INVEST Indicators

Business and Investment Activity

Capital investment in non-residential structures and machinery and equipment fuels economic growth and enables BC to stay competitive with producers in other provinces and countries. In so doing, it boosts productivity and job creation. In recent years, BC's private sector has accounted for approximately 90% of total capital investment, with the public sector providing the rest.

In 2012, capital investment activity in BC fell short of what was initially forecast. Preliminary estimates show that last year's non-residential investment grew by only 6.8%, to reach \$20 billion; this was much lower than the predicted growth rate of 14.8%.⁹ Investment in machinery and equipment grew by 9.6% during the same period (reaching \$11.9 billion), slightly ahead of a predicted 8.3% increase. Slower economic growth, lower export numbers, and fears of the US fiscal cliff are suggested reasons for this underperformance.

Despite moderated overall investment growth, venture capital investment, a small but dynamic element of private sector investment, surged in 2012. Venture capital is defined as financial capital provided to startup companies (usually IT sector) in their inception or early growth phase, and is generally characterized as high risk. A report to the Canadian Venture Capital and Private Equity Association shows that venture capital investment in BC rose by 71% in the second quarter of 2012, compared with the same quarter of 2011.¹⁰

In 2012, capital investment and development of infrastructure in the TODR reached new lows due to financial insecurity, slow population growth, weak tourism activity, and a large drop in second home buyer demand. The value of building permits was down 24.8% compared to 2011.¹¹ Both the number and value of new projects proposed or starting construction declined 54.8% and 72.3% respectively. According to the *BC Major Projects Inventory*, at year-end, the total value of projects proposed, under construction, or on hold totalled \$25.2 billion - a six-year low that was 26.1% lower than its pre-recession peak, and 10.9% lower than 2011.

Proposed projects totalled \$6.5 billion in December 2012, down 52.3% compared to one-year prior. Over half (56%) of this investment was for non-residential/commercial projects, of which \$1.7 billion were for three new mines that are currently in the Environmental Assessment Process; \$1.4 billion for power and energy transmission projects; \$105 million in transportation facilities; and \$450 million for schools, hospital and civic services. Proposed residential/commercial development totalled \$2.9 billion. Eight of 21 projects were valued at more than \$100 million, with the largest being the \$1 billion Shelter Bay development in West Kelowna, which is at the negotiation stage. However, of the six new projects proposed in 2012, only one, the Telus Data Centre in Kamloops, was valued over \$100 million.

Projects under construction at year-end totalled \$16.4 billion, which was 3.1% less than in December 2011. In contrast to proposed projects, the bulk of this inventory (78% or \$12.9 billion) was residential/commercial developments. This included ten resort/residential projects valued over \$500 million that have been under construction for several years. Industrial, institutional, and government-funded projects totalled \$3.6 billion. Power projects comprised \$1.3 billion of the total inventory, transportation facilities \$1.2 billion, schools, hospitals and civic services \$539 million, the Highland Copper mine modernization \$475 million, and the Telus Data centre \$100 million.

Incorporations and Bankruptcies

Business incorporations and bankruptcies are principal indicators of commercial success or failure, both of which have a direct bearing on entrepreneurial and investor confidence. After a setback in 2011, business incorporations in the TODR increased last year by 6.4%, to reach a four-year high. This increase was well above the provincial average of 0.7%. Moreover, the TODR was one of only three regions last year where business incorporations increased; the others were the Nechako (32.3%) and Cariboo (8.6%). This upswing appears to signal renewed entrepreneur and investor optimism in the local economy.

⁹ 2012: *Public and Private Intentions in Canada – 2012*, Statistics Canada – Catalogue no. 61-205-X <http://www.statcan.gc.ca/pub/61-205-x/61-205-x2012000-eng.pdf> text table 2; *Public and Private Intentions in Canada – 2013*, text table 2. <http://www.statcan.gc.ca/pub/61-205-x/61-205-x2013000-eng.pdf> Note that these are preliminary estimates for 2012, as of March 2013.

¹⁰ Thomson Reuters, *Canada's Venture Capital Market in 2Q 2012*, prepared for the Canadian Venture Capital and Private Equity Association <http://canadavc.com/files/Q22012EnglishOverview.pdf>

¹¹ BC Ministry of Jobs, Tourism and Skills Training, *Major Project Inventory*, December 2012.

Table 1-4: Business Incorporations and Bankruptcies, Thompson-Okanagan Development Region, 2007 to 2012

	2007	2008	2009	2010	2011	2012	Percentage Change	
							5-Year 2007-12	1-Year 2011-12
Business Incorporations	3,446	3,124	2,375	2,577	2,476	2,635	-23.5%	6.4%
Business Bankruptcies	90	86	67	42	33	43	-52.2%	30.3%

Source: BC Stats and Office of the Superintendent of Bankruptcy Canada

In contrast to incorporations, business bankruptcies increased by 30.3% last year in the TODR, after four consecutive years of decline. Apart from the Kootenay (51.7%), this increase ran contrary to the rest of the province, where bankruptcy rates either decreased or remained consistent. The reasons for this upswing are unclear given that for the most part, the local economy showed some early signs of improvement last year. However, after four years of economic hardship, it is possible that financial reserves and resolve had run out for some entrepreneurs.

LIVE Indicators

Educational Attainment

Educational attainment has been associated with long-term growth in labour productivity and disposable incomes. Last year, the educational attainment of the TODR's labour force aged 25 to 54 increased for the third consecutive year, to reach a record high of 62.2%. Last year's increase of 0.7 ppt was on par with the provincial average, but ranked fourth among the Development Regions after the Cariboo (4.5%), Northeast (4.3%), and Vancouver Island/Coast (1.6%). The TODR continued to have the third-highest educational attainment in the province after the Mainland/Southwest (69%) and Vancouver Island/Coast (65.6%).

Table 1-5: Percent of Labour Force Age 25 to 54 With a Post-Secondary Certificate/Diploma or Higher, Thompson-Okanagan Development Region, 2007 to 2012

Region	2007	2008	2009	2010	2011	2012	Percentage Point Change	
							5-Year 2007-12	1-Year 2011-12
Thompson-Okanagan	58.7%	57.5%	60.7%	59.6%	61.5%	62.2%	3.5 ppt	0.7 ppt
British Columbia	61.7%	62.6%	63.0%	64.4%	65.9%	66.6%	4.9 ppt	0.7 ppt

Source: Statistics Canada, Labour Force Survey, Custom Table.

While the TODR's increase in educational attainment last year seems positive, the improvement is somewhat deceptive, as the actual number of workers with post-secondary accreditation decreased by 1,300 people. However, this loss made up only 30% of the region's total labour force loss (-4,300 people), which suggests that job retention and opportunities in the region are better for those with post secondary accreditation.

Dependency on the Social Safety Net

Regardless of the strength of the economy, there is always a fairly consistent percentage of the population who are dependent on income assistance for reasons of health or inability to work. This indicator rises with the unemployment rate, as people lose their EI benefits or choose to leave the labour force.

Between September 2011 and 2012, dependence on social assistance in the TODR dropped 0.5 ppt, falling to 2%. This decrease tied the Cariboo for the second-highest reduction in dependency last year, after the North Coast (-0.6 ppt). Last year's dependency rate in the TODR (2%) matched the Vancouver Island/Coast and Nechako, and ranked fourth in the province behind the Northeast (1.1%), Mainland/Southwest (1.5%), and Kootenay (1.8%). Nevertheless, this was the second consecutive year in which the rate decreased, and it fell to the lowest rate since the 2009 recession.

Decreases in dependency were recorded across all Regional Districts within the TODR, a result of continuing strength in mining and forestry, and improved tourism. The largest declines were in the Central and North Okanagan Regional Districts (-0.6 ppt), followed closely by the Thompson-Nicola, and Columbia-Shuswap (-0.5 ppt). The Okanagan-Similkameen Regional District, whose economy is predominated by agriculture and tourism, showed the weakest improvement (-0.2 ppt).

Table 1-6: Basic Income Assistance Recipients as a Percent of the Population, Age 19 to 64, Thompson-Okanagan Development Region, 2007 to 2012¹²

Region	2007	2008	2009	2010	2011	2012	Percentage Point (ppt) Change	
							5-Year 2007-12	1-Year 2011-12
Okanagan-Similkameen	1.4	1.5	2.5	2.7	2.5	2.3	0.9 ppt	-0.2 ppt
Thompson-Nicola	1.6	1.9	2.8	2.9	2.7	2.2	0.6 ppt	-0.5 ppt
Central Okanagan	1.2	1.4	2.3	2.6	2.5	1.9	0.7 ppt	-0.6 ppt
North Okanagan	1.2	1.5	2.3	2.4	2.5	1.9	0.7 ppt	-0.6 ppt
Columbia-Shuswap	1.4	1.5	2.1	2.1	2.1	1.6	0.2 ppt	-0.5 ppt
Development Region Total	1.4	1.6	2.4	2.6	2.5	2.0	0.6 ppt	-0.5 ppt
British Columbia	1.4	1.5	1.9	2.0	2.0	1.7	0.3 ppt	-0.3 ppt

Source: BC Stats



¹² Rates are as of September for each year. Data unavailable for years prior to 2008. These figures include those on Temporary Assistance, but exclude those on Continuous Assistance (Disabled or with persistent multiple barriers to employment), Children in the Home of a Relative, and OAS/Seniors and aboriginal people living on reserve.

Consumer Bankruptcies

Consumer bankruptcy is linked to economic trends (wages, unemployment, savings rates, etc) and offers information on the outcome of today's borrowing practices in the context of credit market developments. It also provides timely insight into personal financial solvency given BC's high debt to income ratio.

Bankruptcy rates have risen steadily throughout Canada since the recession of 1982, although BC's rate is generally lower than the national average.¹³ According to the Office of the Superintendent of Bankruptcy, the ten top reasons for consumer bankruptcy are over-extension of credit (22%), seasonal employment (15%), job loss (13%), medical problems (11%), relationship breakdown (10%), money mismanagement (9%), failed business (9%), failure to pay taxes (4%), gambling (2%), and inadequate pension (1.4%).

The rate of consumer bankruptcies in the TODR declined for the third consecutive year in 2012, and was down 6.4% compared to 2011. This region was one of five to see a decrease in consumer bankruptcies last year, ranking fifth in this group after the Nechako (-30.8%), Cariboo (-11%), Vancouver Island/Coast (9.5%), and Mainland/Southwest (7.7%). However, in absolute terms, the TODR's 2012 consumer bankruptcy rate ranked 7 out of 8 Development Regions and was 0.6 higher than the provincial average.

Table 1-7: Annual Consumer Bankruptcy Rates per 1,000 Population Aged 18 Years and Older, Thompson-Okanagan Development Region, 2007 to 2012

Region	2007	2008	2009	2010	2011	2012	Percentage Change	
							5-Year 2007-12	1-Year 2011-12
Thompson-Okanagan	2.1	2.4	3.7	3.2	2.7	2.6	21.2%	-6.4%
British Columbia	1.9	2.1	2.9	2.6	2.2	2.0	3.9%	-7.2%

Source: Office of the Superintendent of Bankruptcy Canada and Statistics Canada

Given the most common reasons for personal bankruptcy, it is not surprising that the TODR's rate, along with the province as a whole, peaked in 2009 in response to the recession, and has since declined. However, the region's consumer bankruptcy rate has consistently been higher than the provincial average, and its five-year average rate, along with the Vancouver Island/Coast (3.3 per 1,000 persons), is the second-highest after the Cariboo (3.9 per 1,000 persons). The reasons for this are unclear. High real estate values in both the TODR and Vancouver Island/Coast, along with reduced employment in high paying resource industries may be contributing factors.



¹³ Office of the Superintendent of Bankruptcy Canada.

Conclusions

The economy of the TODR showed modest signs of recovery in 2012, although some of the effects of the 2009 recession were still evident. Population growth, which has driven economic growth over many years, was the slowest since 2001. As a result, housing starts, total building permit value, and the number and value of new capital projects proposed were down. The total value of major capital projects proposed, under-construction, or on hold also hit a six-year low. Much of this decline is due to withdrawal of both retiree and recreational buyers. Business bankruptcies also increased after four years of decline.

On the positive side, there was a modest improvement in tourism, accompanied by small job gains in accommodation/food services and other related services.¹⁴ Renewed US, and growing Asian demand for lumber and pulp, as well as mine expansion, and new mine development translated into job gains in forestry, mining, and wood manufacturing. Housing sales also reported a small growth, and median prices remained stable. Total employment increased slightly, thanks to job growth in virtually all service industries. As a result, unemployment declined, although this was aided by a decrease in the total labour force. Youth unemployment also declined, even though the number of young workers in the region increased. The percentage of the labour force with post-secondary accreditation also rose, but only due to the fact that labour force loss was higher among those without these credentials. Business incorporations increased, consumer bankruptcies went down, and dependency on social assistance reached a four-year low.

The outlook for 2013 in the TODR is promising but not without challenges. Demand for lumber and minerals is expected to remain strong, which should stimulate job gains in wood manufacturing and mining. Tourism is also predicted to see some growth, although numbers may be tempered by a high Canadian dollar, competition from the US, and reduced disposable incomes. As a result, modest employment gains in the TODR are foreseen. Population growth is predicted to continue at a slow rate. Housing sales are anticipated to increase slightly this year, however prolonged uncertainty around retirees and recreation home buyers, coupled with high housing inventories may result in price reductions.

Glossary of Definitions

- **Job creation:** Change in number of employed individuals between two given years.
- **Social safety net:** Transfers to unemployed individuals and families from the federal and provincial governments under the auspices of the Income Assistance and Employment Insurance programs.
- **Unemployment rate:** Share of employable labour force looking for work but unable to find it.



¹⁴ eg., information, culture and recreation services.