

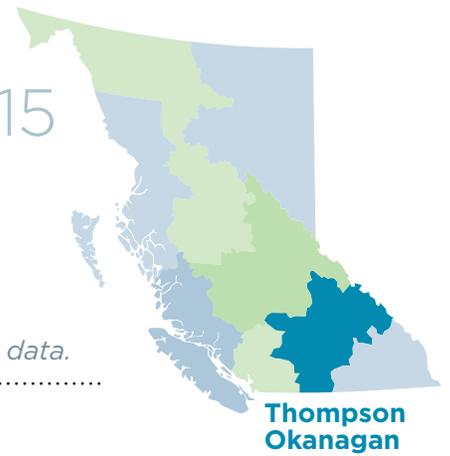
REGIONAL CHECK-UP 2015

Thompson-Okanagan Development Region



CPABC Regional Check-Up 2015

Thompson-Okanagan Development Region



All numbers are from 2014. Increases/decreases are in comparison to 2013 data.

DEMOGRAPHICS:



Population:
539,747 residents

3rd largest

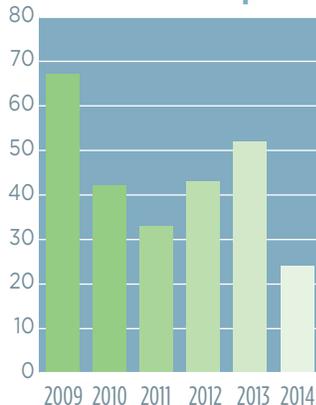
population after Southwest BC
and Vancouver Island/Coast

INVESTING:



Kelowna
non-residential
construction: **+14.5%**

Business Bankruptcies



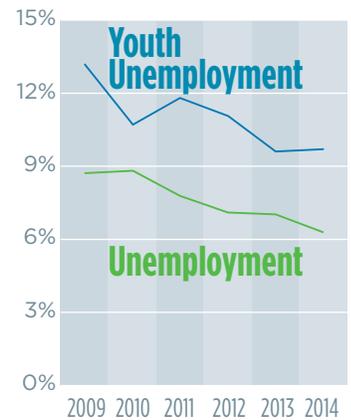
WORKING:



Jobs:
+2,400 (1.0%)

Goods:
-300 (-0.5%)

Services:
+2,700 (+1.5%)



LIVING:



Educational Attainment:

62.9% of labour force
has a post-secondary
certificate/diploma
or higher (-0.9 ppt)

Consumer Insolvencies:

3.4 per
1,000 adult
population, or **-8.1%**



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Thompson-Okanagan Development Region

Situated in south central BC, the Thompson-Okanagan Development Region (TODR) encompasses 94,199¹ square kilometres of land between the Cascade Mountains in the west and the Monashee Mountains and Alberta border in the east. The region has the third-largest population in the province after the Mainland/Southwest and Vancouver Island/Coast Development Regions.

In 2014, the TODR's population grew to 539,747 residents, which represents an annual increase of 1.4% – a growth rate that exceeded all but the Northeast Development Region, which recorded a population increase of 2.6%.² Virtually all of the TODR's population growth was due to migrants from other provinces or parts of BC, as natural increase was negative and international migration was relatively small (+655 persons).³

The TODR's economy has evolved over the years from a dependence on forestry, mining, and agriculture to a diverse mix of these traditional industries along with an assortment of manufacturing, world-renowned viticulture and wine production, and emerging high-tech businesses. It is also a burgeoning centre for post-secondary education. Together, the Thompson River University, Okanagan College, and UBC Okanagan, attract over 21,000 students annually.⁴ Due to its favourable climate and scenic appeal, the region is also a popular retirement and

tourism destination, which has stimulated construction and development as well as increased demand for services over many years.

Overall, the TODR's economy improved in 2014, as a result of population growth, increased tourism, continued strength of forestry and wood products manufacturing, and the improved US economy.

In 2014, the influx of new residents to the TODR almost equalled the total number of new residents in the previous four years, and was a welcome sign of recovery from the recent recession. Housing sales were up by 8.7%, while average sale prices⁵ increased, as existing inventories declined. Together, these factors stimulated new housing starts, which increased by 25.4% in 2014.⁶

The tourism industry also improved in 2014. Hotel occupancy, regional airport passenger arrivals, and highway traffic volumes all recorded higher numbers than in 2013.⁷ Wood products manufacturing benefitted as exports swelled in response to a revival of US residential construction. Mines in the TODR also managed to weather the challenges of declining demand and lower prices as a result of China's slower economic growth and global oversupply. The net result of these factors was that the region's labour market stabilized, unemployment went down, and total employment increased.

¹ Statistics Canada, *Census 2011*.

² Statistics Canada, *Estimates of population by economic region, sex and age group for July 1, based on the Standard Geographical Classification (SGC) 2011*, CANSIM Table 051-0059. *Note*: Population numbers are based on preliminary data; these estimates are revised each year as more accurate data becomes available.

³ Statistics Canada, *Annual Demographic Estimates: Subprovincial Areas 2014*, Statistics Canada Catalogue no. 91-214-X. www.statcan.gc.ca/pub/91-214-x/2015000/tbl/tbl213-eng.htm (accessed March 2015). Annual.

⁴ BC Ministry of Post-Secondary Education, *Student Full-Time Enrolments at BC Public Post-Secondary Institutions*, October 2014; and, UBC Okanagan, *Enrolment Statistics 2014/15*, November 2014.

⁵ BC Real Estate Association, *Housing Forecast Update*, First Quarter-February 2015.

⁶ CMHC, *Housing Market Outlook: BC Region Highlights*, First Quarter 2015.

⁷ Destination BC, *Provincial Tourism Indicators*, December 2014.

WORK Indicators

Job Creation

Job creation is an important indicator of a region's economic health and shifts in its economy. Provincially, job growth has steadily increased since 2009 but has been tumultuous in the TODR. In 2014, employment increased over the summer but then declined and remained flat throughout the fall. Nevertheless, the annual average employment was up 2,400 jobs – an increase of 1.0% compared to 2013.

The region's employment increase resulted from the addition of 2,700 service sector jobs that offset a minimal reduction of 300 jobs in goods-producing sector employment. Across the service-producing sector, employment trends were mixed, with five out of eleven industries reporting increases.

The largest gain occurred in the accommodation and food services industry (+5,400 jobs) followed by the transportation and warehousing, health care, other services, and trade industries (+2,300, +1,600, +200, and +100 jobs respectively). Improved tourism and population increase explain most of the new jobs that were created, with the exception of the gains in the health care industry, where employment fluctuates from year to year.

In 2014, the finance, insurance, real estate and leasing industry took a hit and lost 2,900 jobs, while the business, building and other support services industry reported a loss of 2,200 jobs. These cuts reversed the gains that were made in 2013 and largely reflected the region's still recovering development and housing markets.

The professional, scientific and technical services industry saw a net loss of 600 jobs last year. This was due to 3,200 job cuts in legal, management and other professional services sub-industries that outstripped the addition of 2,400 jobs in the computer system design services and the architectural, engineering and design services sub-industries.

The information, culture and recreation industry posted a loss of 500 jobs last year, as the contraction of employment in the arts, entertainment and recreation sub-industry exceeded gains in the more tourist-oriented information and cultural services sub-industry. The TODR's educational services industry also contracted last year by 800 jobs.

Losses in the goods-producing sector were reported in the construction, agriculture, forestry, and utilities industries (-1400, -1,100, -700, and -200 jobs respectively), which outstripped hiring in the manufacturing and mining industries (+1,900 and +1,400 jobs respectively). The net result was a loss of 300 jobs in the goods-producing sector.

The decline in the number of construction jobs in the TODR may reflect lower investment and the slow recovery of the regional housing market last year. It may also have been caused by lay-offs in Alberta's oil patch, where many BC residents have been commuting to work in recent years.

⁸ Statistics Canada, *Annual Area, Production and Farm Gate Value of Fresh and Processed Fruits by Province*, CANSIM Table 001-0009.

Job losses in agriculture and forestry are perplexing. Hot, sunny weather in the TODR translated into record grape and apple harvests last year.⁸ Demand for wood was high but labour and contractor shortages in logging were also reported, which may explain last year's forestry job losses.⁹ Retirement, competition from higher paying industries, and both high costs and uncertainty in the forest products industry were cited as reasons for these job shortages. It is also possible that this was an early indication of expected log shortages as accelerated harvesting due to pine beetle infestation comes to an end.¹⁰

Last year's increase of 1,900 jobs in the manufacturing industry was spread across both the wood products and food and beverage manufacturing sub-industries. The increase of 1,400 jobs in woods product manufacturing reflected high export demand to the US, which absorbed 50.8% of softwood lumber production from the Interior.¹¹ There was also a small job increase of 500 new jobs in food and beverage manufacturing, most likely in response to last year's higher fruit yields.

Mining employment also increased by 1,400 jobs despite last year's commodity market conditions. This gain may be explained by activities related to the opening of the new Ajax mine near Kamloops and employment resilience at existing mines as a result of recent capital investments, including the \$575 million modernization of Highland Valley Copper.

The TODR was one of three Development Regions to record job gains last year - the others were the Mainland/Southwest and Cariboo Development Regions (at 2.0% and 3.7% respectively). This contrasted with employment losses in the other Development Regions that ranged from 2.8% in the Vancouver Island/Coast to 11.8% in the Kootenay Development Region.

The TODR was one of three Development Regions to record job gains last year - the others were the Mainland/Southwest and Cariboo Development Regions.

⁹ BC Truck Loggers Association, "Tough Decisions Facing Logging Sector", *Truck Logger BC Magazine*, Winter 2015.

¹⁰ J. Girvan et al., "BC Pine Mountain Beetle Epidemic: Big Industry Changes Expected by Mid-decade", *Wood Business Magazine*, August 2012.

¹¹ BC Lumber Trade Council, *Softwood Lumber Indicators*, 4th Quarter, 2014.

Table 1-1: Employment, TODR, 2009 to 2014¹²

	2009	2010	2011	2012	2013	2014	Job Creation (000)	
							5-Year 09-14	1-Year 13-14
TOTAL EMPLOYMENT (000)	246.6	253.0	250.0	252.7	246.6	249.0	+2.4	+2.4
Goods-Producing Sector (000)	64.1	63.0	57.3	54.6	60.6	60.3	-3.8	-0.3
Agriculture	9.1	6.8	5.7	5.0	6.1	5.0	-4.1	-1.1
Forestry, fishing, mining, oil and gas	5.5	7.8	5.4	6.7	8.0	8.6	+3.1	+0.6
Utilities	-	1.7	2.5	-	1.7	1.5	n/a	-0.2
Construction	30.4	27.3	24.0	25.4	26.2	24.8	-5.6	-1.4
Manufacturing	17.7	19.4	19.7	16.7	18.6	20.5	+2.8	+1.9
Services-Producing Sector (000)	182.5	190.1	192.7	198.1	186.0	188.7	+6.2	+2.7
Trade	38.3	42.5	41.8	39.3	40.5	40.6	+2.3	+0.1
Transportation & warehousing	10.1	12.3	10.3	10.8	8.3	10.6	+0.5	+2.3
Finance, insurance, real estate & leasing	13.2	14.0	12.3	13.6	14.2	11.3	-1.9	-2.9
Professional, scientific & technical services	13.3	15.0	13.7	16.2	14.8	14.2	+0.9	-0.6
Business, building & other support services	10.3	7.5	8.4	9.6	10.5	8.3	-2.0	-2.2
Educational services	13.7	14.4	15.1	16.8	15.9	15.1	+1.4	-0.8
Health care & social assistance	33.7	29.8	34.9	34.3	31.8	33.4	-0.3	+1.6
Information, culture & recreation	10.7	13.1	10.7	11.0	11.6	11.1	+0.4	-0.5
Accommodation & food services	19.5	19.3	22.3	25.5	20.6	26.0	+6.5	+5.4
Other services	10.0	11.1	12.8	12.2	10.0	10.2	+0.2	+0.2
Public administration	9.8	11.1	10.3	8.8	7.9	7.9	-1.9	0.0

Source: Statistics Canada, Labour Force Survey Historical Review

¹² 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 cannot be calculated.

Unemployment Rate

The **unemployment rate** is another important measure of regional economic health, as it reveals the balance between job supply and available labour force. Overall, the province has seen a steady decline in this indicator since 2009 as has the TODR since 2011. In 2014, the TODR unemployment rate fell from a high of 8.6% in February to 5.3% at year end.¹³

The resulting annual average of 6.3% was a 0.7 ppt improvement over 2013 and the lowest annual rate since 2008. The TODR's unemployment rate decline tied the Mainland/Southwest for the best improvement among Development Regions. Nevertheless, the TODR had the third-highest unemployment rate after the Northwest and Kootenay Develop-

ment Regions (at 8.0% and 9.6% respectively).

Last year's decrease in the unemployment rate resulted entirely from the addition of 2,900 new part-time jobs, well above the number of full-time positions lost (-500 jobs) and the TODR's labour force expansion (+800 persons).¹⁴

The increase in part-time positions corresponds with last year's growth in the accommodation and food services industry. Individuals opting out of the labour force also declined for the first time in four years (-300 persons), which suggests renewed optimism, if not strengthening in the region's economy.

Table 1-2: Unemployment Rate, TODR, 2009 to 2014

Region	2009	2010	2011	2012	2013	2014	Percentage Point (ppt) Change	
							5-Year 09-14	1-Year 13-14
Thompson-Okanagan	8.7%	8.8%	7.8%	7.1%	7.0%	6.3%	-2.4 ppt	-0.7 ppt
British Columbia	7.7	7.6	7.5	6.8	6.6	6.1	-1.6 ppt	-0.5 ppt

Source: Statistics Canada

¹³ Employment and Social Development Canada, *Labour Force Bulletins*, January to December 2014.

¹⁴ Statistics Canada, *Labour Force Survey Estimates, by Provinces, Territories and Economic Regions*, Annual, CANSIM Table 282-0123.

Contrary to last year's decline in the overall unemployment rate, the unemployment rate among young workers in the TODR rose slightly by 1.0 ppt.¹⁵ This resulted primarily from significant growth in the youth labour force (16.1%), which outweighed career opportunities for this demographic.

This scenario contrasted sharply with most other Development Regions with only the Northeast and Mainland/Southwest reporting both growth in youth labour force (11.1% and 1.9% respectively) and higher youth employment (10.2% and 3.8% respectively).

Regardless, the TODR's 2014 youth unemployment rate was the second-highest after that of the Cariboo Development Region (10.1%).

Table 1-3: Youth (age 19 to 24 years) Unemployment Rate, TODR, 2009 to 2014

Region	2009	2010	2011	2012	2013	2014	Percentage Point (ppt) Change	
							5-Year 09-14	1-Year 13-14
Thompson-Okanagan*	13.2%	10.7%	11.8%	11.1%	9.6%	9.7%	-3.5 ppt	0.1 ppt
British Columbia	11.7	11.3	11.8	11.3	10.7	9.2	-2.5 ppt	-1.5 ppt

Source: Statistics Canada *Unemployment rate calculated by author

¹⁵ Statistics Canada, *Labour Force Survey*, Custom Tabulation.

INVEST Indicators

Business & Investment Activity

Capital investment in industrial, commercial, and institutional infrastructure construction makes an important economic contribution by creating jobs and boosting productivity, which helps BC stay competitive with other provinces and countries.

Total capital investment in the TODR fell by 1.4% between the third quarter 2013 and third quarter 2014.¹⁶ By September 2014, the region's inventory of major projects proposed, under construction, or on hold totalled \$24.1 billion, which was \$350 million less than one year prior and the lowest investment level in seven years. Not surprisingly, both the value of new project proposals and projects starting construction during the 12 month period ending in September 2014 were down 28.4% and 29.0% respectively compared to the 12 month period prior to September 2013.

As of the third quarter of 2014, there were 115 major projects on the books in the TODR. Of these, 52 projects valued at \$6.9 billion were at the proposal stage, another 52 projects valued at \$16.3 billion were under construction and 11 projects valued at \$880 million were on hold. Most of these projects (53.9%) were residential/commercial development, including several multi-year projects that have been underway for some time.

New projects starting construction in the TODR within the first three quarters of 2014 were:

- Royal Inland Hospital, Clinical Services building upgrade (\$80 million) in Kamloops; started Spring 2014; due to be finished in 2016.
- Manteo resort expansion (\$130 million) in Kelowna; started in Spring 2014; due to be finished in 2023.
- Okanagan Correction Facility (\$193 million) in Oliver; started Summer 2014; due to be finished in 2016.
- Skaha Hills Development (\$200 million) in Penticton; started Summer 2014; due to be finished in 2018.



Venture capital investment in BC, although small in comparison to infrastructure investment, has grown significantly in recent years. After more than doubling in 2013, it increased by 15.9% to \$554 million.¹⁷ Although most start-up high-tech companies requiring venture capital are located in the Mainland/Southwest, the TODR has the second-largest cluster of digital media companies in the province. It is also the site of the soon-to-be opened Okanagan Innovation Centre, a facility intended to incubate high-tech companies.

¹⁶ BC Ministry of Economic Development, *BC Major Projects Inventory*, September 2014. In all previous years we have used December MPI data, but this was not available at the time of writing.

¹⁷ Canadian Venture Capital and Private Equity Association, "2014 Canadian Venture Capital Market Overview".

Bankruptcies

Business bankruptcies happen for many reasons but occur most often in hard economic times and fall off when the economy improves.

In 2014, business bankruptcies in the TODR fell from 52 to 24, a decline of 53.8%. This is the lowest number in more than five years. The reduction is not surprising given the region’s population growth, tourism gains, and labour market improvement in 2014.

The TODR’s reduction in the number of business bankruptcies in 2014 was the highest in both absolute and percentage terms amongst the Development Regions. The Kootenay, Northeast, and Vancouver Island/Coast Development Regions also saw reductions in this indicator (-50%, -33.3%, and -2.5% respectively).

The Nechako and Northwest were unchanged. However, bankruptcies rose by one report in the Cariboo and 44 reports in the Mainland/Southwest Development Regions (+100.0% and +51.2% respectively).

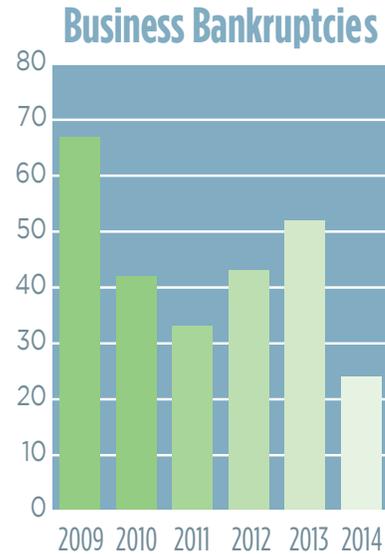


Table 1-4: Business Bankruptcies, TODR, 2009 to 2014

Region	2009	2010	2011	2012	2013	2014	Percentage Change	
							5-Year 09-14	1-Year 13-14
Business Bankruptcies	67	42	33	43	52	24	-64.2%	-53.8%

Source: Office of the Superintendent of Bankruptcy Canada

LIVE Indicators

Educational Attainment

Productivity, employment resilience, and term long income potential are tied to labour force educational attainment. In 2014, the percentage of the TODR's labour force aged 25 to 54 with post-secondary credentials slipped by -0.9 ppt, the first decline in the region in four years.

This decrease in educational attainment in the TODR reflects the addition of 2,600 persons with some or only high school accreditation to its labour force and the loss of 2,300 persons with post-secondary qualifications due to retirement or other reasons. The TODR's job growth last year, which was mostly part-time and in industries that do not require advanced education—accommodation and food services, sales and transportation and warehousing—likely explains the addition of workers without post-secondary credentials.

However, a recent study¹⁸ determined that two-thirds of new hires over the next six years in the TODR will require some form of post-secondary education. Given the current education profile of residents,

employers will experience difficulty in finding qualified employees within the TODR.

Last year's decrease of 0.9 ppt in the TODR contrasted sharply with that of the Kootenay Development Region, where educational attainment went up 11.4 ppt to 69.0%. This significant improvement displaced both the Vancouver Island/Coast (67.6%) and the Thompson-Okanagan Development Regions (62.9%) from their long-standing second and third place rankings in this indicator, after the Mainland/Southwest Development Region (70.1%).

The Cariboo and Vancouver Island/Coast Development Regions also posted increases last year (+4.2 ppt and +2.0 ppt respectively), resulting in a provincial average gain of 2.0 ppt. The TODR's decrease was the third-largest after the Northeast and Northwest Development Regions (-2.3 ppt and -1.8 ppt respectively). It was only slightly more than the Mainland/Southwest (-0.8 ppt), the only other region to see a decline.

Table 1-5: Percent of Labour Force Age 25 to 54 with a Post-Secondary Certificate/Diploma or Higher, TODR, 2009 to 2014

Region							Percentage Point (ppt)	
	2009	2010	2011	2012	2013	2014	5-Year 09-14	1-Year 13-14
Thompson-Okanagan	61.2%	59.5%	61.4%	62.6%	63.8%	62.9%	+1.7 ppt	-0.9 ppt
British Columbia	63.0%	64.3%	65.9%	66.5%	67.9%	68.1%	+5.1 ppt	+0.2 ppt

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

¹⁸ Central Okanagan Development Commission, *Growing in the Okanagan: 2020 Labour Market Outlook*, June 14, 2014.

Consumer Insolvencies

Consumer insolvency happens for many reasons, including business failure, unemployment, low savings, poor money management, etc. When facing insolvency, individuals can either declare personal bankruptcy or seek a **consumer proposal**, which represents a negotiated arrangement with creditors to repay a portion of one's debt and retain ownership of one's assets.

Consumer proposals have been on the rise in recent years and now make up more than 40% of insolvencies in BC. This increase results from changes in the Bankruptcy Insolvency Act (BIA) in 2008, which increased the qualifying allowable amount of non-mortgage debt for a pro-

posal from \$75,000 to \$250,000.¹⁹

In 2014, the rate of consumer insolvency in the TODR fell for the fourth consecutive year, dropping by 8.1% to 3.4 per 1,000 adult population. Both bankruptcies and consumer proposals were down compared to 2013 (-13.6% and -6.3% respectively). This decrease was the third-largest among the Development Regions after the Kootenay and North Coast Development Regions (-9.1% and -8.3% respectively).

Despite the improvement, the TODR's consumer insolvency rate was the third-highest after those of the Cariboo and Vancouver Island/Coast Development Regions (3.9 and 3.8 respectively).

Table 1-6: Annual Consumer Insolvency Rate per 1,000 Population Aged 18 Years and Older, TODR, 2009 to 2014

Rate		2009	2010	2011	2012	2013	2014	Percentage Point (ppt) Change	
								5-Year 09-14	1-Year 13-14
Thompson-Okanagan	Insolvency	4.4	4.5	4.2	4.0	3.7	3.4	-22.7%	-8.1%
	Bankruptcy	3.7	3.2	2.7	2.6	2.2	1.9	-48.6%	-13.6%
	Proposal	0.8	1.2	1.4	1.5	1.6	1.5	+87.5%	-6.3%
BC	Insolvency	3.7	3.5	3.2	3.2	3.2	3.0	-18.9%	-6.3%

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

¹⁹ Benjamin Tal, CIBC, *The Bankruptcy Report: The Changing Composition of Insolvencies*, August 12, 2013

CONCLUSION

2014 was a good year for the TODR. Population growth and tourism, which are two of the region's chief economic engines, revived. This translated into service industry job growth, in particular part-time and summer positions that benefitted young workers. US demand for wood products pushed up employment in manufacturing, although forestry jobs declined somewhat. Mining employment also increased despite unfavourable market conditions.

As a result, unemployment fell to its lowest level since 2008 and both business bankruptcies and consumer insolvencies were significantly reduced. Nevertheless, capital investment fell to its lowest level in seven years.

The outlook for 2015 appears cautiously optimistic for the TODR. Last year's rebound in population growth was encouraging. Reduced housing inventories and price increases have stimulated residential construction. Whether 2015 can replicate or improve on this growth remains to be seen.

A slower economy in Alberta, which is a major source of both second-home buyers and retirees to the region, will be a factor. The lower Canadian dollar and oil prices should help the tourism sector and both wood products and mineral exports, although expected reductions in log supply and continuing low mineral prices will challenge local businesses.

Glossary of Definitions

Consumer proposals: A viable alternative to bankruptcy for those struggling with too much debt. In a consumer proposal, the debtor makes a legally binding debt settlement arrangement with their creditors to pay a portion of their outstanding debt over a period of up to five years. The greatest advantage of a proposal over a bankruptcy is the ability of the debtor to keep their assets as long as they are able to continue to make payments on any loans secured by those assets (like a house mortgage).

Job creation: Change in number of employed individuals between two given years.

Unemployment rate: Share of employable labour force looking for work but unable to find it.

Venture capital: Is defined as financial capital provided to start-up companies (usually in the IT sector) in either the inception phase or a period of early growth, and is generally characterized by high risk.

CPABC Regional Check-Up - Thompson-Okanagan

As leaders in analysing and validating information, CPAs 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 Professional Accountants of BC prepare the *CPABC Regional Check-Up and CPABC Check-Up* reports each year. It is our hope that the reports 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 *CPABC Regional Check-Up and CPABC Check-Up* reports, as well as related information, are available online at www.bccheckup.com.

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Opinions expressed in the *CPABC Regional Check-Up - Thompson-Okanagan* do not necessarily reflect those of individual chartered professional accountants.

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