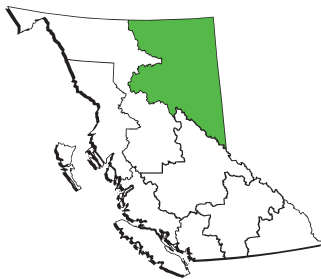




Northeast Development Region



The Northeast Development Region (NEDR) comprises 202,502 km² of land, and extends from the Rocky Mountains in the east, to the Yukon and Northwest Territories in the north and Alberta in the west. Last year, the NEDR continued to be the fastest-growing Development Region in BC. Between 2012 and 2013, it recorded a population growth rate of 1.9%, and grew by 4.0% between 2008 and 2013. These figures exclude a sizeable non-local workforce that lives within the NEDR, either for short or long term, in industry camps, hotels, and motels.

The Peace River Regional District (PRRD) is the mostly heavily populated regional district, with just over 91% of the NEDR population in 2013. This includes the communities of Fort St. John, Dawson Creek, Chetwynd, Taylor, Hudson's Hope, and Tumbler Ridge. In the more remote Northern Rockies Regional Municipality, Fort Nelson is the primary community.

Last year, BC's economic performance was lackluster for the second year in a row, with GDP growth remaining at 1.5%. While the value of BC's exports rose, both consumer spending and job creation rates were flat. Growth in retail sales in BC never exceeded 1.6%, and declined to 1.1% in the fourth quarter of 2013. Although industrial activity in the NEDR still appears to be brisk, there were signs in 2013 that this was also slowing down. There was a net loss in the number of jobs — particularly in the mining, and oil and gas extraction industries — and an uptick in the unemployment rate.

Because the NEDR economy is driven by the export market, its fortunes are attuned to resource prices. Natural gas exploration and development in the NEDR has dominated the region's economy during the past several years, creating many new high-paying jobs in the sector, and boosting demand for goods and services across all other industries, both within the NEDR and elsewhere in BC. While natural gas fetches much higher prices in Asia, prices are comparatively low in North America. After bottoming out in 2012, natural gas prices languished through 2013, until a cold North American winter boosted demand for Canadian natural gas in the US, with a resulting price spike.

After peaking in 2011, world coal prices also declined, forcing Walter Energy to limit production at its NEDR facilities, the Willow Creek mine in 2013 and, to suspend operations at its Wolverine and Brule operations in April 2014. Suppressed coal prices also slowed exploration and investment in the Northeast, as some companies slowed their pace and took other cost-cutting measures. In contrast, US demand for NEDR lumber products strengthened throughout 2013, with a positive effect on prices, and a continued optimistic outlook.

The NEDR now finds itself in a state of expectancy. There are presently 12 proposed LNG projects in northern BC, representing billions in investment dollars, although as of spring 2014, no companies have yet decided to proceed. The northeast gas sector is quiet as of May 2014, due to seasonal shutdown, and also as operators await a decision on whether some or all of these projects will go ahead. Much of the decision will hinge on the price premium in Asian markets and the growing competition there, whether the projects can satisfy provincial and federal regulatory requirements, and garner First Nation acceptance.

WORK Indicators

Job Creation

Job creation is defined as the gain or loss in jobs between one year and the next, and is an important indicator of economic conditions. The NEDR saw a slight net loss of jobs in 2013, with a total decline of 800. This was the first downturn in employment in the NEDR in four years.

Last year, total employment in the NEDR's goods-producing sector declined to 10,800, a decrease of 1,100 jobs from the previous year's total. The greatest losses occurred in the forestry, mining, and oil and gas industries, where 500 jobs were lost. Part of this was due to the closure of the Willow Creek coal mine in April as a result of lower coal prices. This affected 250 workers, with several transferred to Brule mine. The mineral industry tightened its spending due to depressed prices, which translated into the loss of jobs in both operations and exploration for local workers, as well as workers from outside the region which is not captured in Northeast job statistics.¹ While natural gas exploration and drilling continued in the NEDR in 2013, this too was at a slower pace, with less corresponding employment. A slowdown in construction also accounted for the disappearance of another 200 positions.

Total employment in the services-producing sector grew by a scant 300 jobs in 2013. This was the smallest year-to-year gain since 2007. The largest increases were in fire, insurance and real estate (+700 jobs), accommodation and food (+800 jobs), and transportation and warehousing (+400 jobs) industries. Partially offsetting this were losses of 800 jobs in trade (primarily retail) and 400 jobs in professional, scientific, and technical industries, reflecting the slowdown in resource industries.

¹ Statistics Canada's estimates of employment by industry are derived from sample surveys and users are cautioned that while the reliability of the survey is adequate at the provincial level, margin of error increases in smaller sub-groups.

Only four of BC's Development Regions saw positive job creation in 2013. Top-ranked was Kootenay, with a one-year job growth rate of 4.1%. This was driven by activity in the manufacturing and trade industries. The Northwest Region (encompassing the Nechako and North Coast) took second spot with a job creation rate of 1.5%. Vancouver Island/Coast was third with a growth rate of 0.5%, while the Mainland/Southwest was fourth at 0.1%. The number of jobs declined in all other remaining Development Regions, with the Cariboo placing last with a decline of 4.6%.

Table 1-1: Employment, Northeast Development Region, 2008 to 2013²

							Job Creation (000)	
	2008	2009	2010	2011	2012	2013	5-Year 2008-13	1-Year 2012-13
TOTAL EMPLOYMENT (000)	37.7	35.8	37.0	37.2	39.7	38.9	+1.2	-0.8
Goods-Producing Sector (000)	14.9	12.5	12.5	10.6	11.9	10.8	-4.1	-1.1
Agriculture	x	x	x	x	x	x	n/a	n/a
Forestry, fishing, mining, oil and gas	7.7	6.6	6.1	4.0	4.3	3.8	-3.9	-0.5
Utilities	x	x	X	x	x	x	n/a	n/a
Construction	4.3	3.8	4.1	3.5	4.9	4.7	+0.4	-0.2
Manufacturing	x	x	1.7	2.1	2.1	x	n/a	n/a
Services-Producing Sector (000)	22.8	23.2	24.6	26.5	27.8	28.1	+5.3	+0.3
Trade	4.9	4.8	5.9	6.0	6.3	5.5	+0.6	-0.8
Transportation & warehousing	2.1	3.0	2.5	3.1	2.8	3.2	+1.1	+0.4
Finance, insurance, real estate & leasing	x	x	1.8	1.8	1.8	2.5	n/a	+0.7
Professional, scientific & technical services	1.8	2.5	2.1	2.5	2.3	1.9	+0.1	-0.4
Business, building & other support services	x	x	x	x	1.7	x	n/a	n/a
Educational services	2.4	1.6	2.0	2.6	2.9	3.0	+0.6	+0.1
Health care & social assistance	3.3	2.8	3.3	3.0	3.0	3.0	-0.3	0.0
Information, culture & recreation	X	x	X	x	x	x	n/a	n/a
Accommodation & food services	2.3	2.8	1.9	1.8	1.8	2.6	+0.3	+0.8
Other services	2.1	1.7	2.6	2.7	2.7	2.9	+0.8	+0.2
Public administration	X	x	x	x	1.7	x	n/a	n/a

Source: Statistics Canada, Labour Force Survey Historical Review

²Industries with "x" 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.

Unemployment Rate

The unemployment rate, defined as the number of people actively looking for a job as a percentage of the labour force, is a key economic indicator in all countries. In 2013, the unemployment rate in the NEDR increased by 0.8 percentage points (ppt) to 4.9%. This was its first increase in three years. In comparison, the provincial unemployment rate in 2013 rose slightly to 6.6%. Despite the uptick, the NEDR still enjoys the lowest unemployment rate in the province.

In 2013, the NEDR labour force declined by 600, to 40,800. Given the net interprovincial population outflow was approximately the same magnitude, it is reasonable to expect a good share of these workers moved to Alberta where employment prospects were better. In the same year, the number of unemployed workers in the NEDR still rose by 300, driving up the unemployment rate. The NEDR also saw an increase of 1,000 residents who left the labour force. This can be attributed to a myriad of reasons including workers who choose to leave work to go to school, choose to stay at home with children, or the “discouraged worker” effect.

BC’s overall unemployment rate was 6.6% in 2013. Among the Development Regions, Northeast BC continued to have the lowest unemployment rate of 4.9%, while Kootenay’s rate of 5.2% was second lowest. In third place was Cariboo at 5.7%. While the Mainland/Southwest ranked in sixth place with a rate of 6.7%, the Thompson-Okanagan was in last place with a rate of 7.1%. This year’s results show that the resource-dependent Development Regions (with the exception of the Northeast, Thompson-Okanagan, and Vancouver Island/Coast) generally enjoyed lower unemployment rates than in 2012, as a result of improved export markets and recovering demand in the US.

Table 1-2: Unemployment Rate (%), Northeast Development Region, 2008 to 2013

Region	2008	2009	2010	2011	2012	2013	Percentage Point (ppt) Change	
							5-Year 2008-13	1-Year 2012-13
Northeast	4.8%	7.0%	6.8%	4.9%	4.1%	4.9%	+0.1 ppt	+0.8 ppt
British Columbia	4.6%	7.7%	7.6%	7.5%	6.7%	6.6%	+2.0 ppt	-0.1 ppt

Source: Statistics Canada

In 2013, youth unemployment saw an improvement over the previous year, with the rate declining from 7.3% in 2012 to 6.3% in 2013. This was significantly lower than the BC average of 10.5%, showing that employment opportunities are better for young workers in the Northeast’s economy.

Youth unemployment rates in BC ranged from 6.3% in the Northeast Development Region, where the resource and service industries continue to generate a lot of employment for young workers, to as high as 13.3% on the North Coast, where unemployment rates for young workers are chronically high.

Table 1-3: Youth (age 19 to 24 years) Unemployment Rate (%), Northeast Development Region, 2008 to 2013

Region	2008	2009	2010	2011	2012	2013	Percentage Point (ppt) Change	
							5-Year 2008-13	1-Year 2012-13
Northeast*	10.6%	8.8%	8.0%	4.7%	7.3%	6.3%	-4.3 ppt	-1.0 ppt
British Columbia	6.8%	11.1%	11.3%	11.5%	10.9%	10.5%	+3.7 ppt	-0.4 ppt

Source: Statistics Canada, Labour Force Survey, Custom Table

*Unemployment rate calculated by author.

Business and Investment Activity

Capital investment in non-residential structures, machinery, and equipment adds to a region's stock of industry and public infrastructure. This boosts productivity, particularly in capital-intensive industries, such as mining and forestry, spurs job creation, and ensures BC remains competitive with producers in other provinces and countries. The private sector accounts for approximately 90% of total capital investment in BC.

Preliminary estimates show that total capital investment in BC declined 0.3% to \$32.4 billion in 2013.³ While non-residential investment in BC grew by 2.6% to reach \$21.6 billion, this was eclipsed by a 5.5% decline in spending on machinery and equipment investment. A second year of lackluster economic growth and consumer demand, as well as stagnant prices for minerals and energy dampened provincial investor confidence.

The resource industry of the Northeast Development Region has attracted tremendous amounts of capital investment during the past few years, and if at least a few of the proposed major projects in this region proceed, this number will swell, with corresponding local and province-wide economic benefits. At the end of December 2013, the total value of the NEDR's major projects either proposed, underway, completed, or on hold, rose to \$29.2 billion. This was a 17% increase over December 2012 (\$24.9 billion).⁴

At the end of 2013, there were 50 major projects in the NEDR. Of these, 37 were in the proposal stage (valued at \$26.2 billion), 11 had already begun construction (valued at \$2.9 billion), one was completed, and one was on hold (valued at \$30 million).⁵ The majority of these projects were in utilities, mining, or oil & gas.

The most notable new projects either proposed or underway in the NEDR in 2013 include the following:

- There are over one dozen liquid natural gas (LNG) and pipeline projects proposed in northeastern and northwest BC as of early 2014, with capital value in the billions of dollars, all at different stages of regulatory approval. This includes two major natural gas pipelines that would carry LNG from the NEDR to

³ This is non-residential construction and machinery and equipment. Statistics Canada, 2014: *Public and Private Intentions in Canada – 2014 (intentions)*, Table 2 Capital spending, non residential construction and machinery and equipment, provinces and territories, Statistics, Catalogue no. 61-205-X <http://www.statcan.gc.ca/daily-quotidien/140226/t140226a002-eng.htm> Reviewed March 2014.

⁴ BC Ministry of Economic Development, *BC Major Projects inventory*, December 2013.

⁵ Ibid.

coastal BC. The Petronas/Progress Energy Canada pipeline would run to Prince Rupert, and the Chevron/Apache pipeline would extend to Kitimat. If the Northern LNG sector opens up, the primary market for BC gas exports would be Asia, where LNG commands a higher price than in North America. But no project proponents have yet announced a “go ahead” as they continue working to meet environmental, First Nation, and provincial government tax requirements.

- The Site C Clean Energy Project near Fort St. John, valued at \$7.9 billion, could start in 2014 if it receives environmental approval, and be complete by 2023.
- There are at least eight wind power projects proposed near Chetwynd and Tumbler Ridge, ranging in value from \$125 million to \$1.5 billion.
- Eight new coal mines are proposed in the vicinity of Tumbler Ridge, with capital values ranging from \$30 million to \$400 million. Given the current low prices of coal, and recent mine closures, at least of some of these could be delayed until market conditions improve.
- The Casino copper-gold-molybdenum project in the Yukon, with an estimated capital cost of \$2.5 billion, submitted its proposal to the Yukon Environmental and Socio-economic Assessment Board on January 3, 2014. This project would generate tremendous economic benefits in the northern portion of the Development Region, as it would run on LNG delivered from Fort Nelson.
- The Chetwynd Clean Methanol Plant would have a capital value of \$1 billion, but no starting date has been set.

Project feasibility in the next few years will depend on market developments for coal, natural gas and electricity, and the nature of the BC investment climate.

Business Bankruptcies

The business bankruptcies indicator captures the results of economic changes, investment climate, and the corresponding business failure rates of previous years, and has a direct bearing on present entrepreneurial and investor confidence.⁶ There were three business bankruptcies in 2013, which was the same as the previous year. The total number of business bankruptcies in the NEDR declined from nine in 2008, to three in 2013.

The fact that last year’s business bankruptcy rate in the NEDR stayed at its lowest level in at least eight years suggests a higher success rate for new businesses, and that the NEDR investment climate has improved since 2008. In fact, data from the Office of the Superintendent of Bankruptcy Canada shows that this has been the general trend for Canada. A comparison by the Organization for Economic Cooperation and Development (OECD) in 2012 shows that Canada’s bankruptcy rate has declined compared to most other OECD countries since before the 2008/2009 financial crisis.⁷

⁶ In previous years, we have also included an indicator of business incorporations, but this data is no longer provided by BC Stats.

⁷ OECD (2012), “Recent Trends in New Firm Creations and Bankruptcies”, in *Entrepreneurship at a Glance 2012*, OECD Publishing. It should be noted that different insolvency procedures and regulatory environments between countries can distort comparisons.

The North Coast, Kootenay, and Cariboo Development Regions recorded the largest percentage declines in their bankruptcy rates in 2013. The North Coast led with a 100% decline (going from two to zero in 2013), with the Kootenays and Cariboo ranked second and third, with respective rates of -54.5% and 50%. The Northeast is tied for fifth place with the Nechako. At the other end of the spectrum, only the Thompson-Okanagan and Vancouver Island/Coast saw an increase in bankruptcies, at 25.6% and 73.9% respectively.

Table 1-4: Business Bankruptcies, Northeast Development Region, 2008 to 2013

	2008	2009	2010	2011	2012	2013	Percentage Change	
							5-Year 2008-13	1-Year 2012-13
Business Bankruptcies	9	4	5	4	3	3	-66.7%	0.0%

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

LIVE Indicators

Educational Attainment

Productivity and long term prosperity are tied to the educational attainment of the labour force. In 2013, almost 55% of the NEDR's labour force, aged 25 to 54, had a post-secondary certificate/diploma or higher, a 2.1 ppt increase over the previous year. This was region's highest level of educational attainment since 2008, but was still well below the provincial average of 68.1%.

The largest absolute gains occurred among workers with a university degree. The number of workers with a bachelor's degree or higher rose by 1,500 in 2013, while the number of those holding post-secondary certificates or diplomas declined by 900. The uptick in educational attainment likely coincided with employment growth in the finance, insurance and real estate industry, education, or health care.

Comparing data between the NEDR and BC shows that 10% of the labour force in the former had "some high school education," compared to only 5% for BC. Approximately 40% of the NEDR labour force has a post-secondary certificate or diploma, compared to 35% for BC as a whole. Most notable is the fact that only 11.4% of the NEDR labour force had a university degree, compared with the provincial average of 32.8% (or the Mainland/Southwest Development Region's 39%). These statistics underscore the great difference in labour requirements between communities that are resource-based and urban settings like the Mainland/Southwest. Moreover, high salaries for both skilled and unskilled workers also attract young workers either before or after they have completed high school. While resource industry workers with lower educational attainment enjoy excellent incomes during busy times, they are generally the most at risk during the time of economic downturns.

Table 1-5: Percent of Labour Force Age 25 to 54 with a Post-Secondary Certificate/ Diploma or Higher, Northeast Development Region, 2008 to 2013

Region	2008	2009	2010	2011	2012	2013	Percentage Point Change	
							5-Year 2008-13	1-Year 2012-13
Northeast	53.9%	53.8%	49.6%	48.5%	52.8%	54.9%	+1.0 ppt	+ 2.1ppt
British Columbia	62.6%	63.0%	64.4%	65.9%	66.6%	68.1%	+5.5 ppt	+1.5 ppt

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

Consumer Insolvencies

The consumer insolvency rate, defined as the number of personal insolvencies per 1,000 adult population, is an indicator that reflects the collective outcome of economic change, consumer behaviour, or credit market developments, such as a hike in interest rates. In previous years, we have focused only on bankruptcy data, but due to provincial growth in the number of consumer proposals, we now include both indicators in our discussion of insolvency. A consumer proposal is an alternative to bankruptcy whereby the indebted consumer negotiates to repay only a part of his/her debt.⁸

In 2013, consumer insolvencies in the Northeast Development Region declined for the third year in a row. After peaking at 4.4 in 2010, NEDR consumer insolvencies declined to 1.7 last year, one of the lowest rates in BC, and a 29.2% decline from 2012.

With the exception of a spike in 2010, the trend in bankruptcies in the NEDR has been one of decline, attributable to the low unemployment rate, low interest rate, and superior earnings in this region. The number of proposals per 1,000 adult population has been fairly static (with the exception of 2010), in contrast to regions such as the Mainland/Southwest, where this indicator has been rising. The results in the NEDR reflect a buoyant local economy and relaxed credit conditions.

Among the Development Regions, the North Coast ranked in top place in 2013, when it enjoyed a 40.9% decline in insolvencies from the previous year. Number two was the Northeast. The Mainland/Southwest ranked in seventh place, with a 3.6% increase in insolvencies (primarily proposals), while the Nechako was ranked last with an 11.1% increase in this indicator.

⁸ This allows the debtor to keep their assets as long as they continue to make payments on any loans secured by those assets, such as a home mortgage.

Table 1-6: Annual Consumer Insolvency Rates per 1,000 Population Aged 18 Years and Older, Northeast Development Region, 2008 to 2013

Rate		2008	2009	2010	2011	2012	2013	Percentage Change	
								5-Year 2008-13	1-Year 2012-13
Northeast	Insolvency	2.2	3.0	4.4	2.2	2.4	1.7	-22.7%	-29.2%
	Bankruptcy	1.6	2.5	3.4	1.8	2.0	1.1	-31.3%	-45.0%
	Proposal	0.5	0.5	0.9	0.5	0.5	0.6	+20.0%	+20.0%
BC	Insolvency	2.5	3.7	3.5	3.2	3.2	3.2	+28.0%	0.0%

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

Conclusions

The past decade of steady growth and strong earnings has made the NEDR a good place to live. NEDR continues to enjoy the lowest unemployment rate in BC and a reputation as a regional economic powerhouse. Its population grew for the third year in a row in 2013, this year at 1.9%, reflecting the inflow of new residents attracted by economic opportunity. Labour force educational attainment has risen, and the NEDR has the second-lowest rate of consumer insolvencies in BC, due to higher earnings in the resource industries, as well as the regional service sector.

Nevertheless, 2013 was a year of mixed results for the NEDR economy. The number of jobs in the NEDR declined by 800, the first downturn in four years, with most of this in the resource industries.

Capital investment continues to flow into the NEDR, with some major new projects underway. But several of the largest projects are still on the books as “proposed” or “on hold,” and there are signs that the economy may be slowing down. In 2013, the NEDR unemployment rate rose for the first time in four years, to 4.9%. This was still the lowest rate in the province, and well below the 2008 level of 7%, nevertheless it signalled a change in the labour market. On a positive note, the youth unemployment rate outperformed that of the general population, declining 1% from the previous year.

The most recent seasonally adjusted labour market indicators show total employment in the NEDR for the first quarter of 2014 tapering off to 38,300 by March. The number of jobs in the goods producing sector reached 10,500, while the number of jobs in the service sector dropped to 27,800 in March 2014, with trade one of the hardest-hit industries. The unemployment rate in the NEDR rose to reach 8.6% in March 2014.⁹ This was higher than the first quarter of 2013, when the March unemployment rate was 6.7%.

The outlook for 2014 will be strongly influenced by the fortunes of the NEDR’s resources. The coal sector is in for a tough year, as a chronic decline in coal prices have forced NEDR producers to suspend operations and lay off workers at three mines. The outlook for forest product manufacturers, on the other hand, will continue to be buoyed by strong demand in the US.

⁹ Statistics Canada, *Labour force survey estimates (LFS), by provinces and economic regions based on 2006 Census boundaries*, 3-month moving average, unadjusted for seasonality, Table 282-0054.

The LNG sector has the greatest potential of all. The prospects for natural gas during the next year have improved with the recent upturn in North American prices, but the question remains—when will the first LNG project proceed. Business operators in the NEDR are concerned that if the proposed Kitimat and Prince Rupert LNG plants do not go ahead by fall 2014, the northern economy will slow considerably. If even a small number of those proposed do go ahead, they will inject enormous amounts of capital into the regional and provincial economies, create thousands of new jobs, help government revenues well into the black, and have untold indirect economic effects. These investments represent once-in-a-generation economic opportunities for the communities of northern and interior BC.

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.