BUSINESS ALERT

Business Council of British Columbia
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THREE CHEERS FOR B.C.'S LARGE CAPITAL PROJECTS!

Absent the economic lift from large capital projects, the provincial economy would have come close to stalling in 2019.

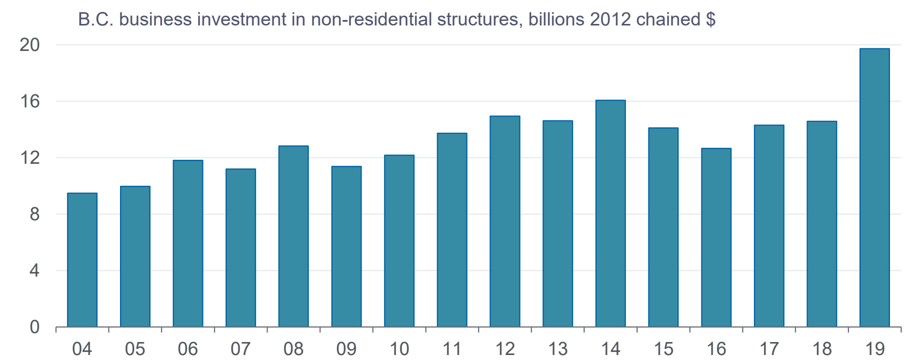
Okay "stalling" is perhaps a slight overstatement. But provincial growth would have been closer to a meagre 1% pace rather than the respectable 2.7% expansion recorded last year if not for the economic activity flowing from several large projects in the province. By comparison, Canadian GDP grew by only 1.9% in 2019, mostly on the back of population and labour input growth.

The combination of LNG Canada's massive Kitimat facility, the coastal gas link and other related structures and activities getting underway, and the construction of several large office towers in downtown Vancouver propelled capital spending on non-residential structures to a record high in 2019.[1] It's this activity that kept B.C.'s economy on a healthy growth path.

The release of the Provincial Economic Accounts last week did not garner much attention, overshadowed by the never-ending COVID-19 crisis. But it is also the case that Statistics Canada previously released estimates of GDP based on tabulating economic output across all industries in the province, which reflected B.C.'s 2.7% expansion. The Provincial Economic Accounts are also backward looking. Most people are more interested in the near- and medium-term outlook, especially in the current unsettled environment. For economists, however, understanding what drove economic activity and job growth helps inform our forecasts and expectations of what lies ahead. For the Business Council, understanding recent growth dynamics is also essential to shaping constructive policy advice.

The just-released Provincial Economic Accounts measure GDP using a different economic accounting method. Rather than tracking output by industry (excluding taxes and subsidies on production and imports) and summing these up to arrive at an estimate of total output in the economy, the Provincial Accounts measure all spending in the economy. Expenditures are assigned to different categories. These include household spending (consumption) on goods and services, business consumption, business investment in structures, intellectual property products and machinery and equipment, government spending (both consumption and investment), and net exports (the value of exports

FIGURE 1: **RECORD INVESTMENT IN NON-RESIDENTIAL STRUCTURES**



Source: Statistics Canada, Table 36-10-0222-01. *Chained 2012 $.

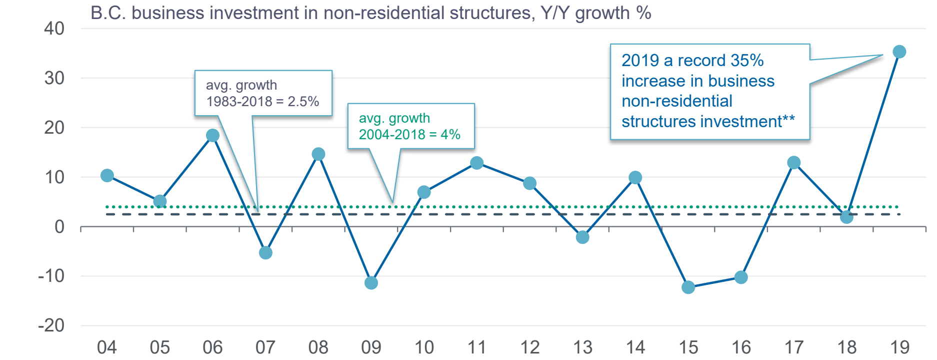
[1] To the extent spending on the Site C Hydo electric megaproject accelerated in 2019 this would have added to growth. This investment spending, however, is captured in "general government capital investment" rather than in the business investment category. Similarly, the Trans Mountain expansion project is also providing a big lift to economic activity, but it is now publicly-owned and reflected in government capital investment. Of interest, the combination of Site C, Transmountain and several new hospitals and schools propelled general government capital investment rose to record highs in 2018 and 2019.

less the value of imports). Tracking expenditures in this manner makes it possible to determine growth rates of the different segments and their respective contributions to total economic growth.

Figure 1 shows business expenditures on investment in non-residential structures. This includes all non-residential buildings as well as large engineering projects. Investments in machinery and equipment and intellectual products are also part of business investment. But as indicated above they are recorded and tabulated separately. In 2019 capital investment in all types of structures jumped to a record level of nearly $20 billion (in inflation adjusted dollars). In recent years business investment in structures has typically run in the $12 to $14 billion range. A glance at the figure also shows non-residential investment spending in 2014 as being well above trend at $16 billion. Large capital investments played a key role in this previous record as this was the year construction of Rio Tinto's aluminum smelter megaproject got underway.

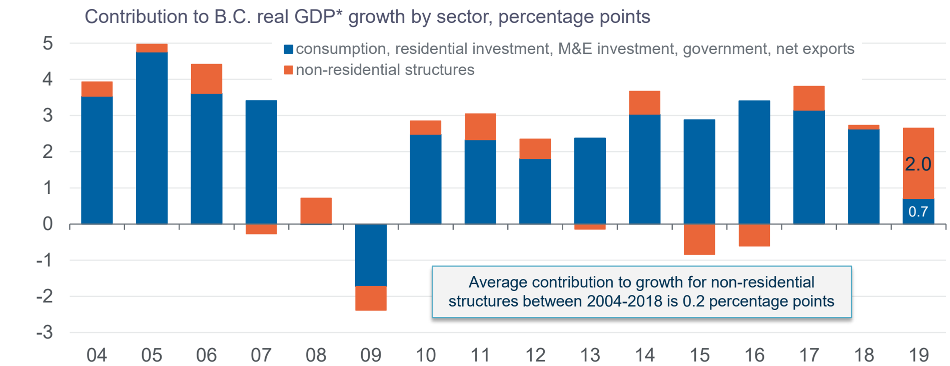
Figure 2 plots annual growth rates of the above series – private sector investment in non-residential structures. The 35% increase in 2019 is a record and is far above longer-term averages. In some years, non-residential investment spending falls but in most years it rises. Between 2004 and 2018, growth in non-residential investment spending averaged just 4%. The fact that such investment increased at a record pace in 2019, from an already elevated level, further underscores its over-sized role in B.C.'s 2019 economic growth performance.

FIGURE 2: **... AND RECORD GROWTH IN NON-RESIDENTIAL STRUCTURES INVESTMENT**



Source: Statistics Canada, Table 36-10-0222-01. *Chained 2012 $. **Consistent data back to 1982.

FIGURE 3: **PROVINCIAL ECONOMY CLOSE TO "STALLING" IN 2019 IF NOT FOR MAJOR CAPITAL PROJECTS (LNG, PIPELINES, SITE C)**



Source: Statistics Canada, Table 36-10-0222-01. *Chained 2012 $.

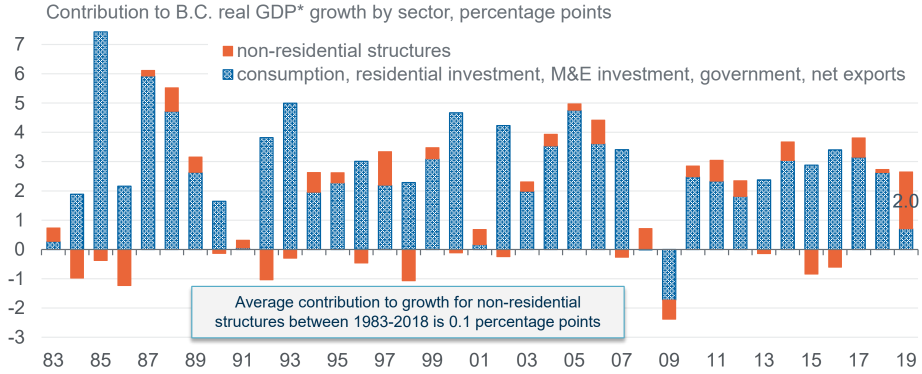
Figure 3 shows this "oversized role". It depicts the contribution to GDP growth by the different expenditure segments. For simplicity, this chart displays just two categories of expenditures: investment spending on non-residential structures (shown in the dark orange columns) and the contributions from all other expenditures (blue columns). **In 2019 investment in non-residential structures contributed two full percentage points of GDP growth.** Expenditures in all other categories combined (household consumptions, investment in machinery and equipment, government spending and investment, and net exports) accounted for the other seven-tenths of a percentage point of growth.

The large capital projects, of course, do not account for all non-residential investment activity. In an economy the size of B.C.'s, thousands of non-residential structures are built (and modified) every year. Between 2004 and 2018 spending on non-residential structures averaged $13 billion. The average contribution to growth over the same period is 0.2 percentage points. Taking only the years when non-residential investment expanded, the average contribution to growth is 0.5 percentage points.

So, for 2019 it is reasonable to assume "typical" investment in non-residential structures would have added at least 0.2 percentage points to GDP growth and more likely closer to 0.5 percentage points or a bit more. But whatever the precise contribution from this "ongoing" or regular non-residential spending, the huge LNG Canada investment and other once-in-a-generation big capital projects added approximately one and a half percentage points to provincial growth in 2019. This is massive. As the final figure shows it is a record contribution going back at least until 1983 when consistent data begin. The next largest contribution to growth from investment in non-residential structures was in 1997 at 1.1 percentage points.

As a final point it is worth underscoring this contribution to growth reflects only direct economic activity. It is basically an accounting exercise – adding up the value of all investment spending and other spending in the economy. But the additional investment in non-residential structures also creates substantial secondary benefits. The projects generate tens of thousands of jobs directly and thousands more through procurement of inputs and services within B.C. The additional income from these jobs supports additional household consumption – spending that is accounted for in the "household consumption of goods and services" segment of the Provincial Accounts. This additional spending further increases the full "economic impact" of these large projects. The secondary benefits flow across the province but are especially significant in the local communities and areas surrounding or supplying these projects.

FIGURE 4: **RECORD CONTRIBUTION FROM CAPITAL INVESTMENT IN LARGE PROJECTS (LNG, PIPELINES, SITE C)**



Source: Statistics Canada, Table 36-10-0222-01. *Chained 2012 $.

In the summer, the Business Council published a plan to support the recovery and spur stronger economic growth in the province. One of the priority recommendations contained in the plan is to "[a]ccelerate capital spending, infrastructure development, and private sector investment to kick-start economic recovery." As the economy struggles recover from the deepest downturn in the past 100 years, government policy makers would be wise to take note of the economic lift large capital projects provided in 2019. Government should double down on efforts to reduce impediments to private sector project investment and accelerate all related decision making and approval processes. A pipeline of major private sector capital projects lined up across the next decade would significantly aid B.C.'s recovery from the deepest recession since the 1930s.

AUTHORED BY

Ken Peacock
Chief Economist
and Vice President