



## Mid-Year Update: BC Economy Slows in 2013, Rebounds in 2014

### Highlights

The global economy remains unsettled and exhibited little forward momentum over the first half of 2013. Europe is still mired in recession, growth remains weak in the United States, and China's economy appears to be losing a step.

British Columbia's exports have been resilient, showing modest growth year-to-date despite the sluggish global economy and generally falling commodity prices. BC's exports of lumber and of natural gas have risen, but this has been largely offset by declines in other export-oriented sectors.

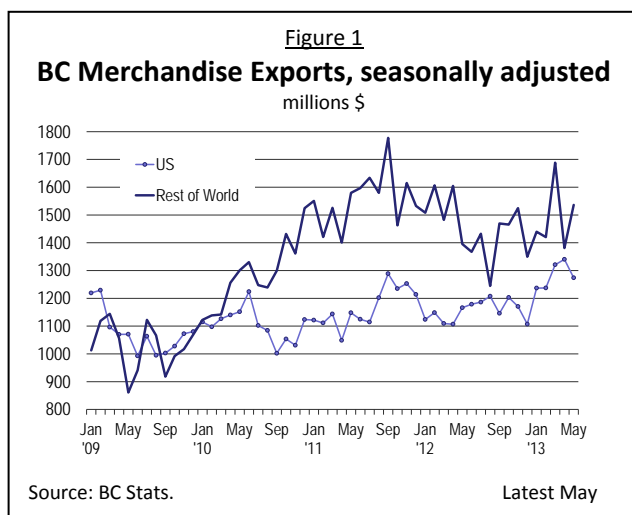
So far in 2013, the province's economy has been held back by a subdued job market, weak retail sales, and declining housing market activity. We expect some improvement in these areas by the end of the year and into 2014.

For 2013, the Business Council now projects that real (inflation-adjusted) gross domestic product in British Columbia will expand by 1.6%, down from 1.9% last year. For 2014 we forecast stronger growth in the range of 2.5%.

Against a subdued global backdrop and fairly soft domestic economic conditions, the near-term growth outlook for BC has been trimmed. We now expect real GDP to increase by a sub-par 1.6% in 2013, which is still a bit better than the BC government's 1.4% projection in its recently tabled budget. At the start of the year we thought that a mid-year pick up in exports and some additional investment spending would lift the province's GDP growth rate above the 2% mark. While an improved external economic setting will eventually translate into stronger growth for BC, the timing for this positive turn has been pushed back.

Of importance to a small trade-dependent jurisdiction like BC, the global economy has failed to gain momentum this year. The IMF's most recent forecast suggests world output is on track to increase by 3.1% in 2013. This is unchanged from last year, and marks a reduction of four-tenths of a percentage point

from the agency's January projection. Europe remains mired in recession. Economic growth in the United States is now pegged at 1.7% in 2013, which is down from last year, although there are signs that the \$15 trillion American economy will soon begin posting better growth numbers. In China output is expected to expand by 7.8% in 2013, which is also less than the IMF assumed a few months ago. Of interest, many private sector forecasters are more pessimistic on China's outlook than the IMF. The Chinese government's own growth target this year is 7.5%. And recent data showing that China's exports fell 3.1% in June has prompted speculation that its growth rate could slip below 7%, which would rank among the country's weakest showings in 20 years. So far BC's exports to China are holding up quite well, but a slower Chinese economy will dampen demand for BC export goods and perhaps further temper global commodity prices.



On a more positive note, the Japanese economy has perked up due to a change in the macroeconomic setting following the recent adoption of more expansionary fiscal and monetary policies.

The outlook for interest rates is becoming more relevant to the economic forecast, as medium- and long-term bond yields have started to move higher in several jurisdictions. In part this reflects a sense in financial markets that central banks, at least in the US and Canada, will take initial steps to adjust their highly accommodative policy stances by late 2014. With the American job market strengthening, the prospect of the US unemployment rate falling to a level where the Federal Reserve will begin to “taper” its unprecedented bond-buying program and raise its short-term policy rate is becoming more real. Although central bank policy rates are not likely to move much in the next 12-18 months, we are at a point in the recovery where higher interest rates increasingly will be influencing forward-looking decisions of businesses, investors and households.

In line with the sluggish global economy, the value of BC’s exports slipped in 2012. While there was some improvement in early 2013, a clear upward trend has yet to emerge. The rebound in US homebuilding has lifted wood product exports

and will continue to benefit BC’s forest sector in 2014 and beyond. Somewhat higher natural gas prices have also helped, with BC’s gas exports up more than 40% year-to-date. These gains, however, have been largely offset by decreases in coal and pulp exports and lower metal prices. Over the first five months of 2013, the total value of BC’s international merchandise exports was 4.8% higher than in the same period last year.

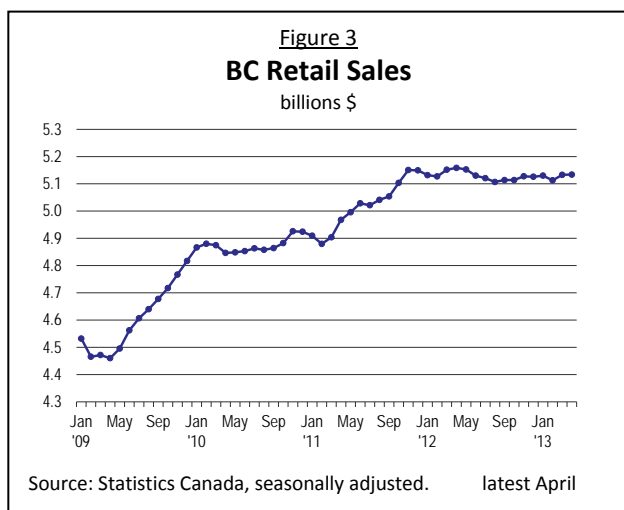
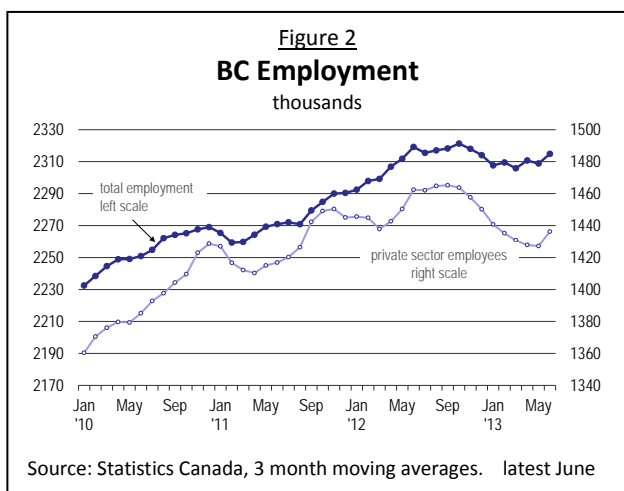
Broad indicators of BC tourism activity edged lower in the early months of 2013. The total number of international visitor entries was down slightly. The province-wide hotel occupancy rate is also off compared to last year.

Also in the realm of service exports, the transportation and logistics industry remains an important economic engine for the province. In 2012 Port Metro Vancouver had a record year in both the container and bulk segments. Through the first quarter of this year container traffic is up slightly while bulk has registered a 15% advance. The Port of Prince Rupert also saw new highs for container and bulk traffic last year. So far in 2013 container traffic at Rupert has edged down a bit and total bulk cargo is up by a modest 4%.

**Table 1**  
**World Economic Forecast**  
(per cent change in real GDP)

	2011	2012	2013f	2014f
US	1.8	2.2	1.7	2.7
Canada	2.5	1.7	1.7	2.2
Euro area	1.5	-0.6	-0.6	0.9
Germany	3.1	0.9	0.3	1.3
France	2.0	0.0	-0.2	0.8
Italy	0.4	-2.4	-1.8	0.7
Spain	0.4	-1.4	-1.6	0.0
UK	1.0	0.3	0.9	1.5
Japan	-0.6	1.9	2.0	1.2
China	9.3	7.8	7.8	7.7
World	3.9	3.1	3.1	3.8

Source: IMF, World Economic Update (July 2013)  
f = forecast



While BC’s export sector is showing some resilience, the province’s economic expansion is being hobbled by generally soft domestic conditions. To take one key example: the job market. Total employment in BC has barely budged over the past year. And the picture is even more problematic if one looks just at the private sector, where the average number of employees over the first half of 2013 was roughly 1% lower than in the first half of 2012. We expect employment to pick up later in 2013 and into next year.

So far this year retail spending has been quite soft in British Columbia. Weak job growth, the rebuilding of household balance sheets, a generally cautious consumer, and rising cross-

border shopping are all weighing on retail activity. In fact, total retail sales have essentially been flat since early 2012. Over the first four months of this year, BC retailers saw spending fall 0.3% compared to the same period in 2012. A similar decline is evident in Ontario, but the other Western provinces have all registered notable gains, with Alberta enjoying a 6% jump in retail spending over the first half of 2013.

The provincial housing market is also acting as a drag on economic growth, as most measures of activity slowed throughout 2012. Year-to-date home sales (through May) are down 10%. Over the past few months, however, home sales have trended higher, and prices in the lower mainland have started to firm. Real estate and home construction typically contribute to BC’s economic expansion, but this year home building is poised to fall from last year’s pace. A small increase in housing starts is possible in 2014 (although our forecast calls for starts to remain basically flat).

**Table 2**  
**BC Economic Outlook**  
(annual per cent change unless otherwise indicated)

	2012e	2013f	2014f
Real GDP	1.9	1.6	2.5
Employment	1.7	0.7	1.9
Unemployment rate (%)	6.7	6.4	6.2
Housing starts – all areas (000 units)	27.0	24.0	24.0
Retail sales	2.8	3.0	4.0
BC CPI	1.1	1.0	1.5

a – actual f – forecast e – estimate  
Sources: Statistics Canada and BC Stats; BCBC for forecasts.

Non-residential building was a bright spot in the provincial economy in 2011 and for most of 2012. But the upward trend in permit values has reversed and now signals at least a temporary retrenchment in building activity. Fortunately, there are still a large number of major projects

under construction – and many more proposed – across the province. Resource industry projects, new infrastructure development, and expansions of some existing infrastructure assets are all providing positive support to aggregate non-residential construction. Transportation and energy are key sectors of strength for capital spending and new project investment. Several liquefied natural gas projects and related pipelines have been proposed in BC, but these are well outside the current forecast horizon.

Another factor that is tempering top line economic growth is demographics. Due largely to net outflows of people to other provinces, BC’s annual population growth rate has slipped below 1%. If it persists, this trend will weigh on gains in output and employment going forward.

Fiscal policy is also impinging on near-term economic conditions. The federal and provincial governments are both working to eliminate deficits, mainly by restraining spending. To be clear, government spending will still rise in nominal terms, but at a slower pace than in previous years. With its June budget update, the BC government reconfirmed its commitment to balance the operating budget. Tight fiscal management will position the province favourably from a longer-term economic and competitive perspective, but it means less robust growth in the near-term.

Apart from some gains in international exports, most of the key BC indicators tracked by economic forecasters are advancing modestly or are stagnant/declining. This tells us the economy as a whole is struggling. We expect that domestic conditions will gradually improve in the latter part of this year and into 2014. On an annual average basis, real GDP growth is projected to come in at a tepid 1.6% in 2013, slightly higher than the revised 1.4% forecast incorporated into the 2013 budget update presented by the BC government in June.

Looking to next year, the economy should slowly gain momentum, with real GDP rising by around 2.5%. But the prospect of higher interest rates, a still fragile global economy, slower domestic population growth, and the record high level of household debt in BC will pose challenges as the province works to return to a sustainable growth trajectory.

\*\*\*\*\*

Jock Finlayson  
([jock.finlayson@bccbc.com](mailto:jock.finlayson@bccbc.com))

Ken Peacock  
([ken.peacock@bccbc.com](mailto:ken.peacock@bccbc.com))

