

BUSINESS ALERT



Business Council of
British Columbia
Est. 1966

MAY 2019

TIES THAT BIND: ECONOMIC INTERDEPENDENCE BETWEEN B.C. AND ALBERTA

HIGHLIGHTS

- The economies of B.C. and Alberta are arguably the most interdependent of any two provinces.
- Integration between the two provinces is particularly evident in migration patterns and labour mobility.
- Trade between the two provinces is significant: B.C. exports more goods to Alberta than to China; similarly, the value of Alberta's merchandise exports to B.C. exceeds its goods exports to all of Asia.
- The value of trade in goods and services between B.C. and Alberta exceeds \$30 billion.
- The value of service exports between B.C. and Alberta exceeds the value of trade in goods between the two provinces.
- The Gateway plays a large and steadily growing role in B.C.'s profile of service exports and also affects the pattern of trade with Alberta.
- Trade, capital flows, migration, and interprovincial employment between Alberta and B.C. strengthen economic growth and prosperity for both provinces. These linkages and economic benefits have been enhanced by the New West Partnership Agreement.

Canada is a federation made up of provinces and territories that possess a significant amount of sub-national autonomy. The provinces are responsible for delivering healthcare and education, for example. They also have jurisdiction over employment standards and many regulations governing the education and qualifications of skilled workers. The provinces/territories control Crown land and regulate the operations of resource-based industries. Although independent, the provinces also cooperate and are integrated and interdependent with each other in an economic sense. Interprovincial flows of goods, services, capital and people are fundamental to Canada's economy, with many provinces trading almost

as much within Canada as they do internationally.

The two western-most provinces, B.C. and Alberta, have especially deep and extensive economic connections and exhibit a high degree of economic interdependence. One important element of this relationship is the extent of trade between them. Alberta also depends on B.C.'s Gateway infrastructure to ship its products to Asian markets and to obtain a wide array of imported goods. British Columbia benefits in many ways from the income and jobs that two-way trade with Alberta creates. A large share of the fossil fuel energy products consumed in B.C. is supplied by Alberta. Another key aspect of the two provinces' interdependence is

the movement of people. Differing labour market conditions have long motivated people to migrate between them. Indeed, labour mobility across Canada, but particularly between B.C. and Alberta, is a notable feature of the functioning of labour markets in western Canada.

A couple of years ago the Business Council [examined these interprovincial linkages and connections](#) and concluded that B.C. and Alberta are the most inter-dependent provinces in the federation. In this short paper, we take an updated look at these interconnections and the economic and demographic data that help to highlight the economic ties between the two provinces.

ECONOMIC GROWTH

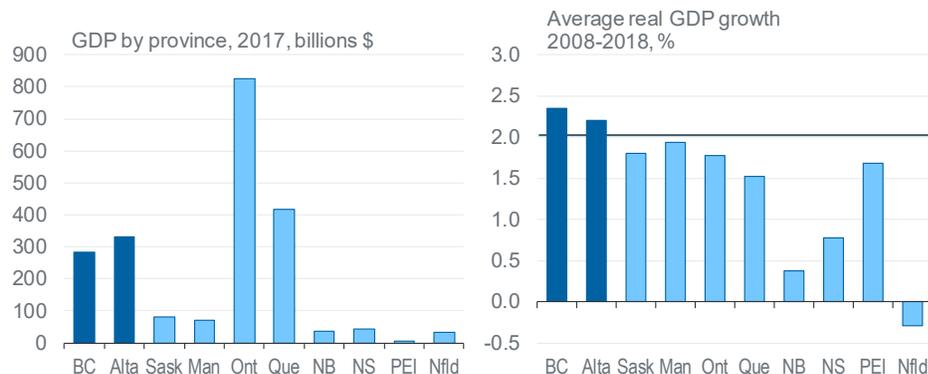
B.C. and Alberta differ in some respects: for example, Alberta's economy is dominated by energy and agricultural products, while in B.C. forest and energy/mining products are the leading industries in the province's export base. The Gateway is a significant feature of B.C.'s economy and tourism in B.C. is much larger than it is in Alberta.

However, the two provinces are also similar in many respects. Most fundamentally, their economies are quite similar in overall size. In current dollars, total economic output (GDP) in Alberta was an estimated \$332 billion in 2017, while in B.C. it was around \$282 billion.¹ Given the different economic bases and the significant role of energy production in Alberta, the year-to-year growth profile of the two economies sometimes differs. The collapse in oil prices, for example, led to a sharp contraction in economic activity in Alberta in 2015-16 while B.C.'s economy, boosted by a real estate boom, continued to grow at a healthy clip. Despite these differences, the two provinces can often be found at or near the top of the provincial growth rankings. Indeed, when economic growth is averaged over the past decade, B.C. and Alberta stand out as the only two provinces where average GDP growth exceeds 2% (2.4% in B.C. and 2.2% in Alberta).

POPULATION AND MIGRATION

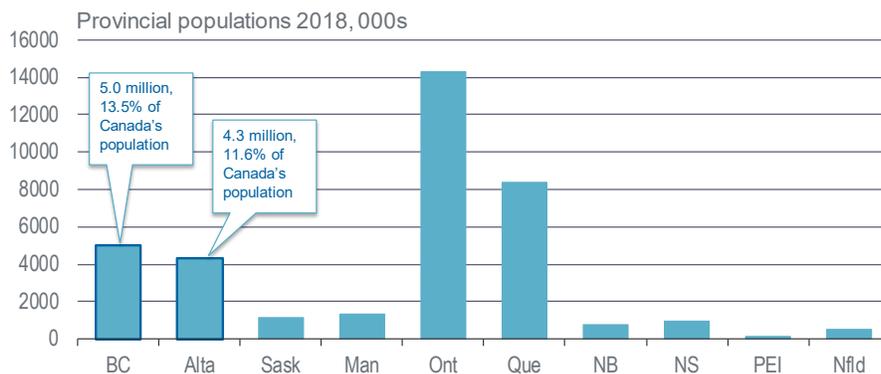
Although Alberta's economy is somewhat larger, B.C. is home to a somewhat bigger population.

FIGURE 1: **B.C. AND ALBERTA - SIMILAR SIZE ECONOMIES AND BOTH GROWTH LEADERS**



Source: Statistics Canada, Table 36-10-0222-01 for 2017 nominal GDP and Table 36-10-0402-01 for average growth based on real chained 2012 dollars.

FIGURE 2: **B.C. AND ALBERTA POPULATIONS ARE SIMILAR**



Source: Statistics Canada.

B.C. and Alberta each account for 12-13% of Canada's population. Having a larger economy and a somewhat smaller population means Alberta is "richer" than B.C. on a per person basis: using the above figures, GDP per capita (in current dollars) in Alberta is \$78,200, while in B.C. it stands at \$57,300. Still, B.C. and Alberta are among the most prosperous provinces in the federation.

By Canadian standards, the economies of B.C. and Alberta

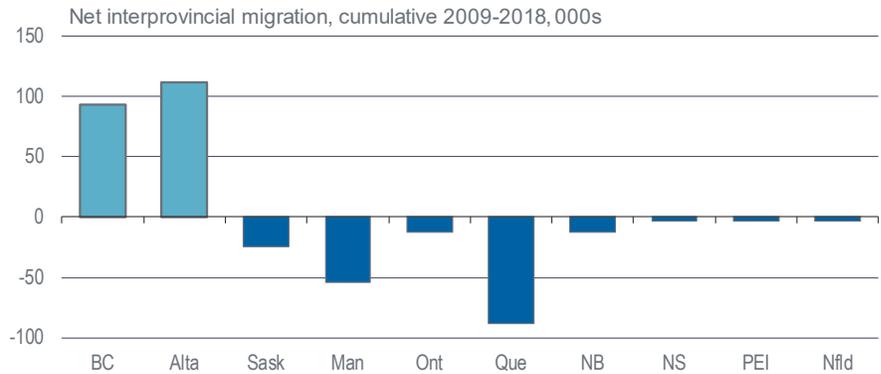
have been comparatively strong for some time, albeit with bumps along the way. As noted above, B.C. has led the country in average annual economic growth over the past decade, followed closely by Alberta (Manitoba ranks third). Job opportunities that accompany the west's comparatively robust economic growth have long attracted migrants from other parts of Canada. Looking through inevitable short-term shifts in migration patterns, B.C. and Alberta

¹ Statistics Canada, Table 36-10-0222-01 (measured in current dollars).

are the only two provinces that have consistently (that is over longer-time periods) recorded net inflows of people from other parts of Canada. Although the crash in oil prices and the accompanying recession resulted in net outmigration between 2015 and 2017, Alberta usually receives a solid inflow of people from other provinces. In the second half of 2018, B.C. experienced a net outflow of interprovincial migrants. However, the usual picture is that the population of both provinces is boosted by an inflow of people from other jurisdictions. Over the past decade, only B.C. and Alberta have recorded positive interprovincial migration; all other provinces in the country have experienced net outflows. Cumulatively, over the past 10 years, more than 111,000 (net) individuals have relocated to Alberta. In B.C., the cumulative net inflow over the same period is ~94,000.

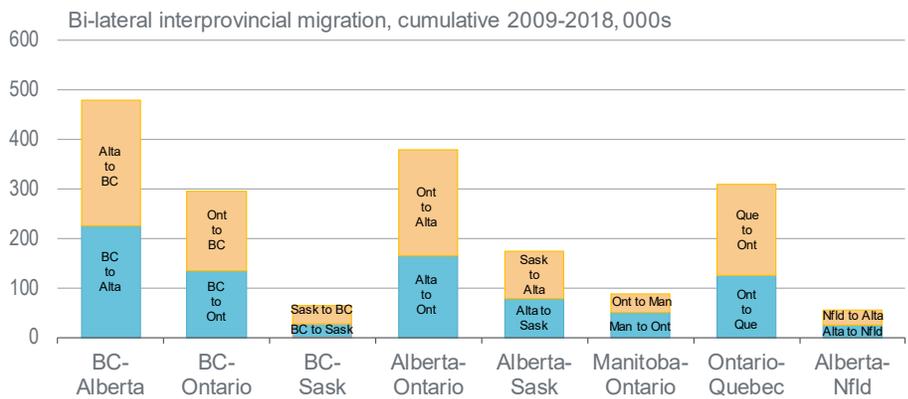
In addition to being the only two provinces with net in-migration from other parts of Canada, B.C. and Alberta also have the highest levels of bilateral migration of any two provinces. In other words, there is a high degree of mobility between B.C. and Alberta, more so than with any other provincial pairings. Much of this movement is motivated by employment opportunities and differing labour market environments, but housing costs, lifestyle choices, companies transferring employees and family considerations are also factors that influence interprovincial flows. Given these factors and the geography of the country, it is not surprising that there are sizable numbers of people moving between the two most western provinces. But it is interesting to observe that more interprovincial migration

FIGURE 3: ONLY B.C. AND ALBERTA HAVE POSITIVE NET INTERPROVINCIAL MIGRATION OVER THE LONGER-TERM



Source: Statistics Canada, table 17-10-0020-01.

FIGURE 4: B.C. AND ALBERTA HAVE THE HIGHEST LEVEL OF BILATERAL INTERPROVINCIAL MIGRATION



Source: Statistics Canada, Table 17-10-0020-01.

occurs between B.C. and Alberta than between Ontario — with more than three times the population — and any other Canadian province. Given Ontario's outsized share of Canada's population, one could reasonably expect that the greatest interprovincial migration flows would be between Ontario and Alberta or Ontario and B.C. Although language inhibits mobility to some extent, one might also expect substantial migration between Ontario and Quebec, the two most populous provinces. Yet, because of the extent

of economic linkages and integrated labour markets, B.C. and Alberta stand out as the two provinces with the largest absolute bilateral movement of people.

Over the past ten years, more than 225,000 British Columbians relocated to Alberta, while approximately 253,000 Albertans moved to B.C. So, in total, the two-way movement of people between the two provinces adds up to almost half a million people over the past decade. For Ontario and Alberta,

the two-way migration flow over the same period was close to 380,000. Between Ontario and Quebec, it was roughly 310,000.

INTERPROVINCIAL EMPLOYMENT

In many respects, the B.C. and Alberta labour markets function as a broader western Canadian labour market. Much of the interprovincial migration reflects people moving for employment and career reasons. One dimension of a “western Canadian labour market” is the pattern of interprovincial employment. This occurs when individuals work and earn income in one province but continue to reside in their “home” province. The quintessential example is a B.C. resident who “commutes” to Alberta to work in the energy sector. Prior to the downturn in oil prices in 2015, tens of thousands of British Columbians worked in Alberta across a mix of industry sectors. One estimate indicated that back in 2011,² more than 64,000 B.C. residents were earning some or all of their income in other provinces. For Alberta, the comparable figure was 54,000. That B.C. and Alberta have close economic linkages is underscored by the fact that fully 60% of all interprovincial employment income received by British Columbians was earned in Alberta. For Alberta, B.C. was the source of one-third of interprovincial employment income (followed by 27% from Saskatchewan).³

These figures are somewhat dated, and labour market conditions have since softened significantly in Alberta,

so these “interprovincial employment” figures have undoubtedly dropped off. But they still speak to the fact that workers in one province often fill jobs in the other when skill and talent shortages arise and labour demand conditions differ across the two provinces. Looking ahead, when the construction of LNG Canada’s liquefied natural gas facility in Kitimat and the related pipeline is in full swing, B.C. is likely to tap into Alberta’s labour supply.

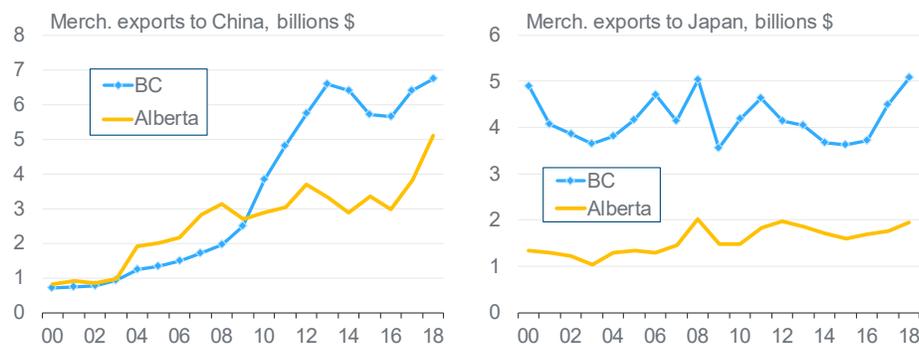
ROLE OF THE ASIA-PACIFIC GATEWAY

All Canadian provinces and territories are part of a single national economy and polity. As such, they have a shared interest in facilitating international trade — not just individually, but collectively. This helps to explain why, constitutionally, the federal government has jurisdiction over transportation, as well as international trade and interprovincial infrastructure. It is also why the federal government has invested billions of dollars into

transportation infrastructure in the Gateway to enable Canadian industries, businesses, farmers and consumers to connect with markets in the Asia Pacific region.

Alberta benefits greatly from Canada’s transportation linkages to Asia. Last year, it exported more than \$5 billion in goods to China, \$2 billion to Japan, and another ~\$1 billion to other Asian countries. Nearly all of these Alberta goods destined for offshore markets are shipped through British Columbia ports. Many consumer and industrial goods imported by Alberta also come via the B.C. Gateway. While B.C.’s Gateway connections to Asia are essential to Alberta’s economy, the associated economic gains for B.C. are also substantial. Shipping Alberta’s exports and facilitating its imports through the Gateway generate earnings for B.C. in the form of transportation and related services (discussed further below), which in turn support tens of thousands of jobs in this province.

FIGURE 5: EXPORTS TO CHINA CONTINUE TO RISE



Source: BC Stats.

² Unfortunately, Statistics Canada only intermittently reports data on interprovincial employment, so the most recent numbers are for 2011.

³ René Morissette and Hanqing Qiu, “Interprovincial Employment in Canada 2002-2011”, Statistics Canada (June 2015).

B.C.-ALBERTA TRADE

Unsurprisingly, the B.C.-Alberta trading relationship is extensive and complex. Data on interprovincial trade are limited and the figures are tabulated and reported by Statistics Canada with a lengthy delay. Still, even information that is a few years old provides useful insights into the role and relative size of interprovincial trade flows.

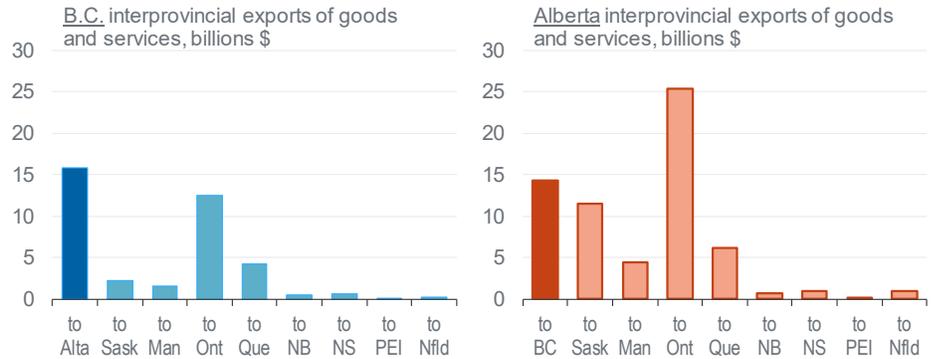
In 2015, B.C. exported almost \$16 billion worth of goods and services to Alberta. As it happens, this is more than B.C. sold to any other province. The second biggest provincial market for B.C. is Ontario, where exports amounted to \$12.5 billion in 2015. Geography clearly is a factor here, but it is noteworthy that **even though Ontario's economy is two and a half times as large as Alberta's (and its population is more than three times bigger), the value of B.C.'s exports to Alberta is 1.3 times greater than the value of its exports to Ontario.**

Interprovincial trade tends to attract little attention, beyond sporadic discussions around the need to break down interprovincial barriers in sectors like the beer industry. Some additional details and context for the B.C.-Alberta trading relationship help to highlight the diversity and resilience of the B.C. economy, as well as to the underappreciated economic importance of interprovincial trade.

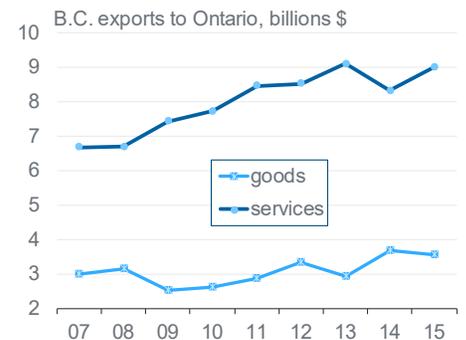
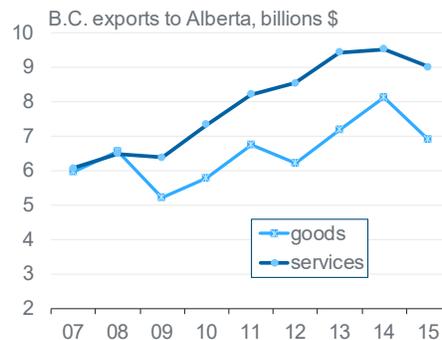
In 2015, the breakdown of B.C.'s exports of goods and services to Alberta was as follows:

- We exported \$9.0 billion worth of services to Alberta and \$6.9 billion of goods. This means B.C.'s merchandise exports to Alberta

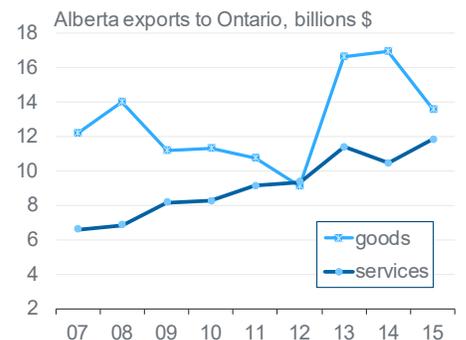
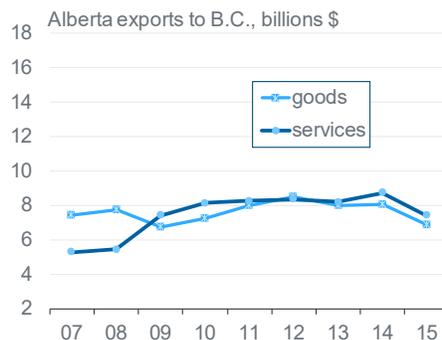
FIGURE 6: **STRONG TRADE LINKAGES BETWEEN B.C. AND ALBERTA**



Source: Statistics Canada, Table 12-10-0088-01. 2015 data..



Source: Statistics Canada, Table 12-10-0088-01.



Source: Statistics Canada, Table 12-10-0088-01.

Ties That Bind: Top 25 Export Categories

Interprovincial trade is an important part of B.C.'s and Alberta's export base. The table below summarizes the top 25 product exports for each province. The columns on the left show B.C.'s largest export categories of goods and services destined for the Alberta market. In total in 2015 (the most recent available data) B.C. exported almost \$16 billion of goods and services to Alberta. For B.C., the value of service exports exceeds the total value of goods exports. The table also shows the share of all B.C.'s interprovincial exports (in each category) that Alberta accounts for. Alberta looms large in B.C.'s exports and overall prosperity as it accounts for almost 41% of all B.C.'s interprovincial exports. B.C.'s top export category to Alberta is natural gas (note Alberta accounts for -95% of all B.C.'s interprovincial natural gas exports). The second largest category is transportation services, underscoring B.C.'s role as a Gateway connecting Alberta to the Asia Pacific. Professional services rank third. Travellers and tourism activity from Alberta are an important export for B.C., with accommodation and food services generating more than \$1 billion in export earnings.

B.C. plays a somewhat smaller, but still oversized, role in Alberta's export base. Recall that B.C. accounts for just 13% of Canada's population but purchases almost 22% of all of Alberta's interprovincial exports. The largest product export to B.C. is refined petroleum products. Food and beverage products are the second most valuable export. Interestingly, as with B.C., professional services is one of the top exports for Alberta, which speaks to the linkages between the two provinces.

B.C. Exports to Alberta				Alberta Exports to B.C.		
	Product	2015 (\$millions)	share of all B.C.'s interprovincial exports (%)		2015 (\$ millions)	share of all Alberta's interprovincial exports (%)
	Total products (goods & services)	15,897.7	40.7	Total products (goods & services)	14,268.90	21.6
	Total goods	6,894.9	51.7	Total goods	6,878.10	20.1
	Total services	9,002.8	35.0	Total services	7,390.80	23.1
1	Mineral fuels (natural gas)	2,218.6	94.7	Refined petroleum products	2,657.2	45.4
2	Transportation & related services	2,062.2	33.7	Food and non-alcoholic beverages	1,447.1	24.5
3	Prof. services (ex. software and R&D)	1,460.2	42.2	Mineral support services	1,360.4	56.8
4	Accommodation and food services	1,018.4	40.8	Transportation and related services	1,074.0	25.0
5	Admin. & support, head office, waste mgmt & remediation services	1,003.3	47.1	Professional services (except software and R&D)	931.8	25.4
6	Food and non-alcoholic beverages	815.8	27.0	Admin. & support, head office, waste mgmt & remediation services	760.6	19.2
7	Other finance and insurance	464.7	36.5	Wood products	419	45.0
8	Wood products	442.8	41.7	Accommodation and food services	347.8	18.2
9	Transportation equipment	409.6	90.4	Chemical products	310.1	13.4
10	Other farm products	397.5	99.8	Mineral fuels	289.5	2.3
11	Fabricated metallic products	336.8	54.9	Fabricated metallic products	280.8	29.1
12	Industrial machinery	280.9	47.7	Industrial machinery	245.4	24.9
13	Live animals	269.3	97.6	Other services	210.0	8.8
14	Primary metallic products	237.2	26.4	Other farm products	193.1	68.7
15	Depository credit intermediation	228.3	20.8	Non-metallic mineral products	192.7	31.4
16	Other services	222.7	24.5	Grains and other crop products	181.5	33.1
17	Non-metallic mineral products	214.6	55.5	Non-metallic minerals	180.1	53.7
18	Plastic and rubber products	201.2	54.8	Depository credit intermediation	174.2	18.5
19	Information and cultural services	187.8	17.2	Other finance and insurance	163.8	10.4
20	Arts, entertain. & recreation services	180.4	29.3	Plastic and rubber products	134.2	29.3
21	Wood pulp, paper & paper products	136.2	41.7	information and cultural services	128.5	12.2
22	Alcoholic bev & tobacco products	134.4	41.6	Arts, entertain. & recreation services	110.0	34.3
23	Furniture and related products	116.8	69.6	Telecommunications	104.2	11.2
24	Other manufactured products	116.5	20.3	Primary metallic products	66.4	34.7
25	Health and social assistance services	109.3	67.8	Health and social assistance services	64.3	37.8

Source: Statistics Canada Table: 12-10-0088-01.

exceeded the value of its goods exports to China (\$5.7 billion) in the same year.⁴

Alberta's situation is a bit different. British Columbia ranks as Alberta's second largest provincial export market, after Ontario. However, Alberta's exports to Ontario, in dollar terms, are just 1.7 times its exports to B.C., even though the Ontario economy is roughly three times bigger than the B.C. economy.

- In 2015, Alberta exported \$6.9 billion worth of goods to B.C. Its exports of services to B.C. amounted to \$7.4 billion in the same year. As such, Alberta's goods exports to B.C. significantly exceeded its goods exports to all of Asia in 2015.

CONCLUDING THOUGHTS AND POLICY IMPLICATIONS

The economic connections between provinces are important sources of economic activity and economic growth across Canada. Arguably, these linkages are most extensive between B.C. and Alberta. The trading of goods and services between provinces clearly underscores the degree of economic integration. The functioning of labour markets and interprovincial migration flows also suggest B.C. and Alberta share the closest economic ties of any two provinces in the country. Policy-makers in both provinces need to keep this in mind and work to further expand and facilitate trade, labour mobility and business connections generally.

Finally, we would note that the economic ties between B.C. and Alberta have been strengthened by

the Trade, Investment and Labour Mobility Agreement and further reinforced by the successor New West Partnership Agreement that includes Saskatchewan and Manitoba. The New West Partnership Trade Agreement (NWPTA) is an accord between the Governments of British Columbia, Alberta and Saskatchewan, and subsequently Manitoba. It came into effect for Manitoba on January 1, 2017, while it has applied to the other three provinces since January 1, 2010. The NWPTA establishes the largest, barrier-free, interprovincial market in Canada. Under the Agreement, the four provinces are committed to fully reconciling the rules affecting trade, investment and labour mobility by eliminating barriers to the free movement of goods, trade in services, interprovincial investment, and the movement of people between the four provinces.

By signing the Agreement, the four western provinces committed to:

- avoiding measures that restrict or impair trade between or through their territory, investment, or labour mobility.
- treating businesses, investors and workers of the other two provinces at least as favourably as they treat their own or those of another jurisdiction.
- reconciling unnecessary differences in standards and regulations.
- having an enforceable dispute resolution mechanism that is accessible by governments, businesses, workers and investors in order to ensure that each province lives up to its commitments.

It should not be overlooked that B.C. and Alberta pioneered the elimination of internal trade barriers and the establishment a single interprovincial market with the predecessor Trade, Investment and Labour Mobility Agreement (TILMA). This ground-breaking accord established the framework for barrier free markets between the two provinces and laid the path to include Saskatchewan and Manitoba as part of the single internal market under the NWPTA.

AUTHORED BY

Ken Peacock
Chief Economist
and Vice President

⁴ BC's exports of goods to Japan in 2015 were valued at \$3.6 billion.