



# Economic Overview

**Jock Finlayson**

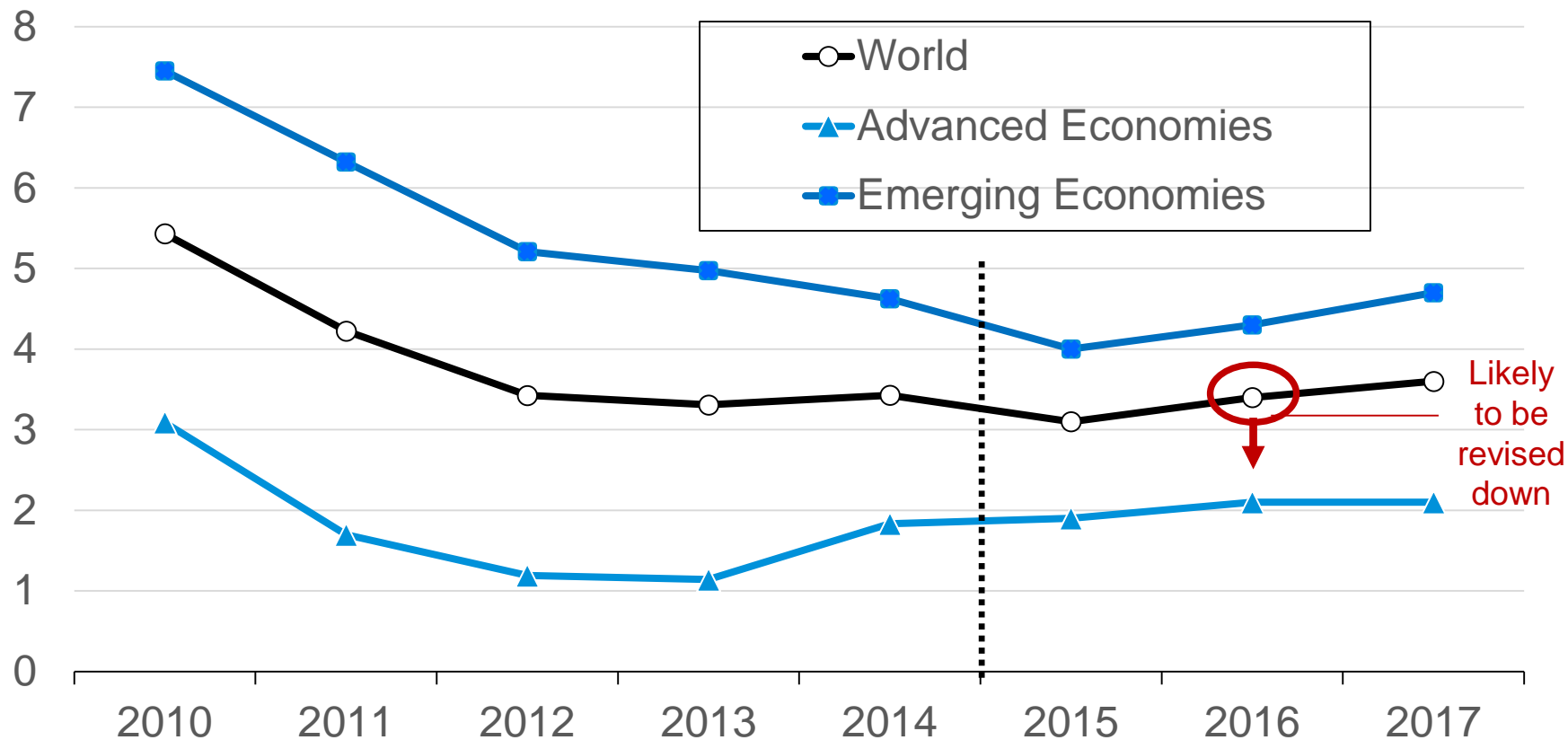
# What Do Business Leaders Think of Economists?

**“Any company  
that has an economist  
on staff certainly has  
one employee too many”**

**Warren Buffett**

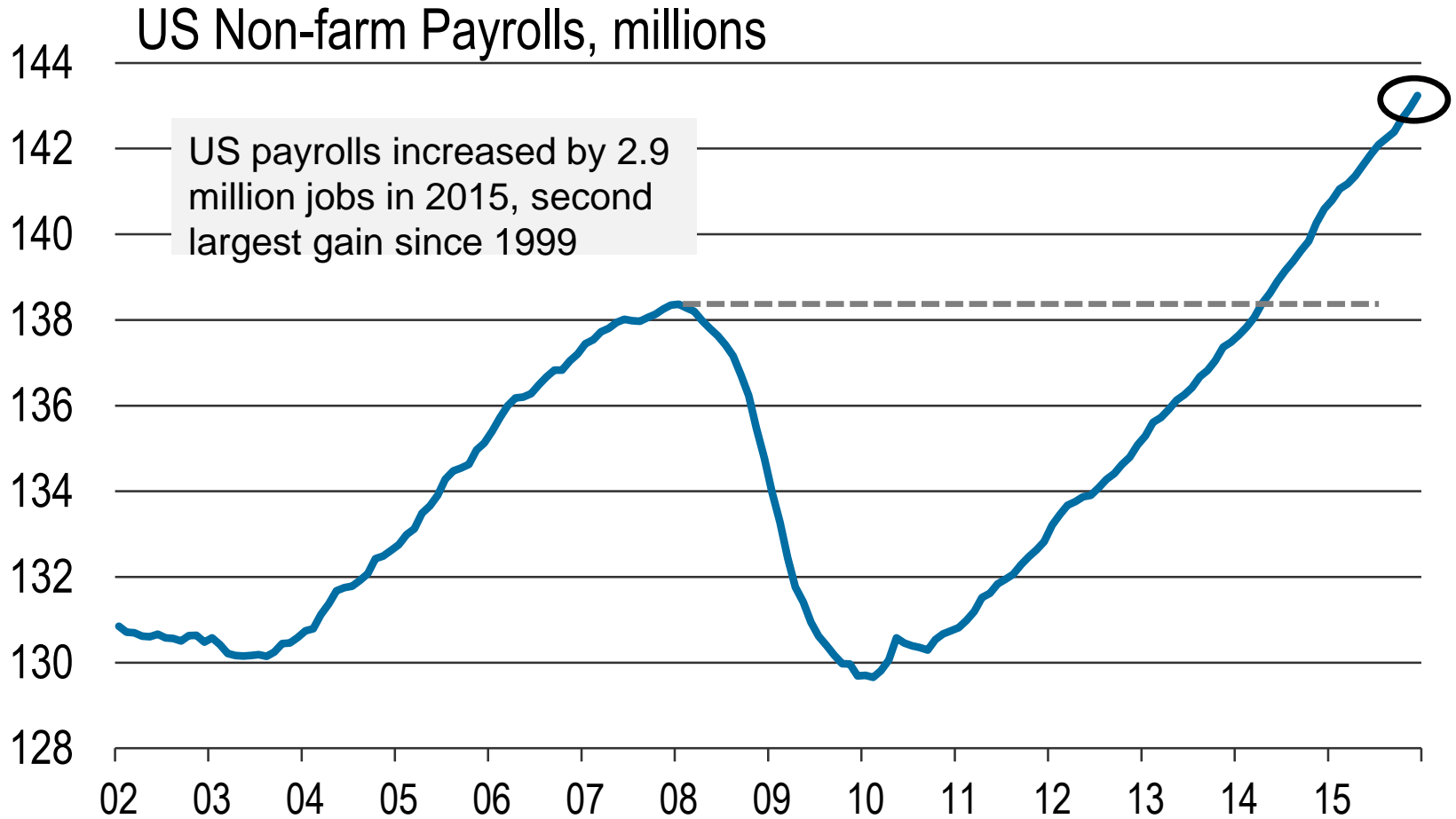
# Global Economy Lost Momentum Post-2010

## World Growth Outlook, real GDP % change



Source: IMF World Economic Outlook, January 2016 and Historical Database.

# US Employment Surges



Source: US Bureau of Economic Analysis.

Latest: January 2016.

# Increase in US Households: History and Forecasts

(average annual increase in number of households, over the period shown)

## History

2004-2007	1,216,859
2007-2010	802,066
2010-2013	965,918

## Forecasts for 2015-2025

Low estimate	1,160,000
Middle estimate	1,240,000
High estimate	1,320,000

Sources: Harvard University Center for Housing Studies, Working Paper 15-5; projections from the US Population Survey Annual Social and Economic Supplement.

# America's Huge Economy Still Matters!

**Estimated US\$18 trillion of GDP this year; equals 22% of global output (market exchange rates)**

**US consumer spending = 18% of world total at market exchange rates**

**Consider the size of these US metro areas, in terms of annual output/GDP:**

**Metro New York > Australia**

**LA/Long Beach > Netherlands**

**Metro Chicago > Nigeria**

**Greater Houston\* > Taiwan**

**Dallas-Fort Worth > Norway**

**Washington/Arlington > Austria**

**San Francisco/Oakland > Ireland**

**Boston/Cambridge > Colombia**

**Greater Atlanta > Malaysia**

**Seattle/Tacoma/Bellevue > Singapore**

**Miami/Fort Lauderdale > Israel**

**Greater Detroit > Greece**

**Metro Minneapolis > Portugal**

**Denver/Aurora > Vietnam**

**Portland/Vancouver WA > Hungary**

Source: American Enterprise Institute, September 23, 2015.

\*Also 2.5X bigger than the BC economy!

# Factors Shaping Canada's Economic Performance in 2016-17

## Negative impact

**Largely tapped out and increasingly indebted consumers – pointing to weaker growth in consumer spending going forward**

**Anticipated slowdown in housing-related investment**

**Weak/declining business capital spending**

**Sluggish commodity markets (note: natural resource products = 50% of Canada's merchandise exports)**

## Positive impact

**Federal government economic stimulus**

**Continued moderate US economic expansion**

**Gains in non-energy exports**

**Low interest rates and low(ish) Canadian dollar**

# Top Global Oil Producers

	Crude Oil (mmbpd)	
Top Producers <sup>1</sup>	2014	1993-2013 Average
<b>US</b>	<b>11.7</b>	<b>8.1</b>
Russia	10.4	8.2
Saudi Arabia	9.7	7.8
<b>Canada</b>	<b>4.3</b>	<b>3.0</b>
China	4.1	3.5
Iraq	3.3	1.8
Iran	2.8	3.3
UAE	2.8	2.1
Kuwait	2.8	2.1
Mexico	2.8	3.3

Source: International Energy Agency.

<sup>1</sup> includes products

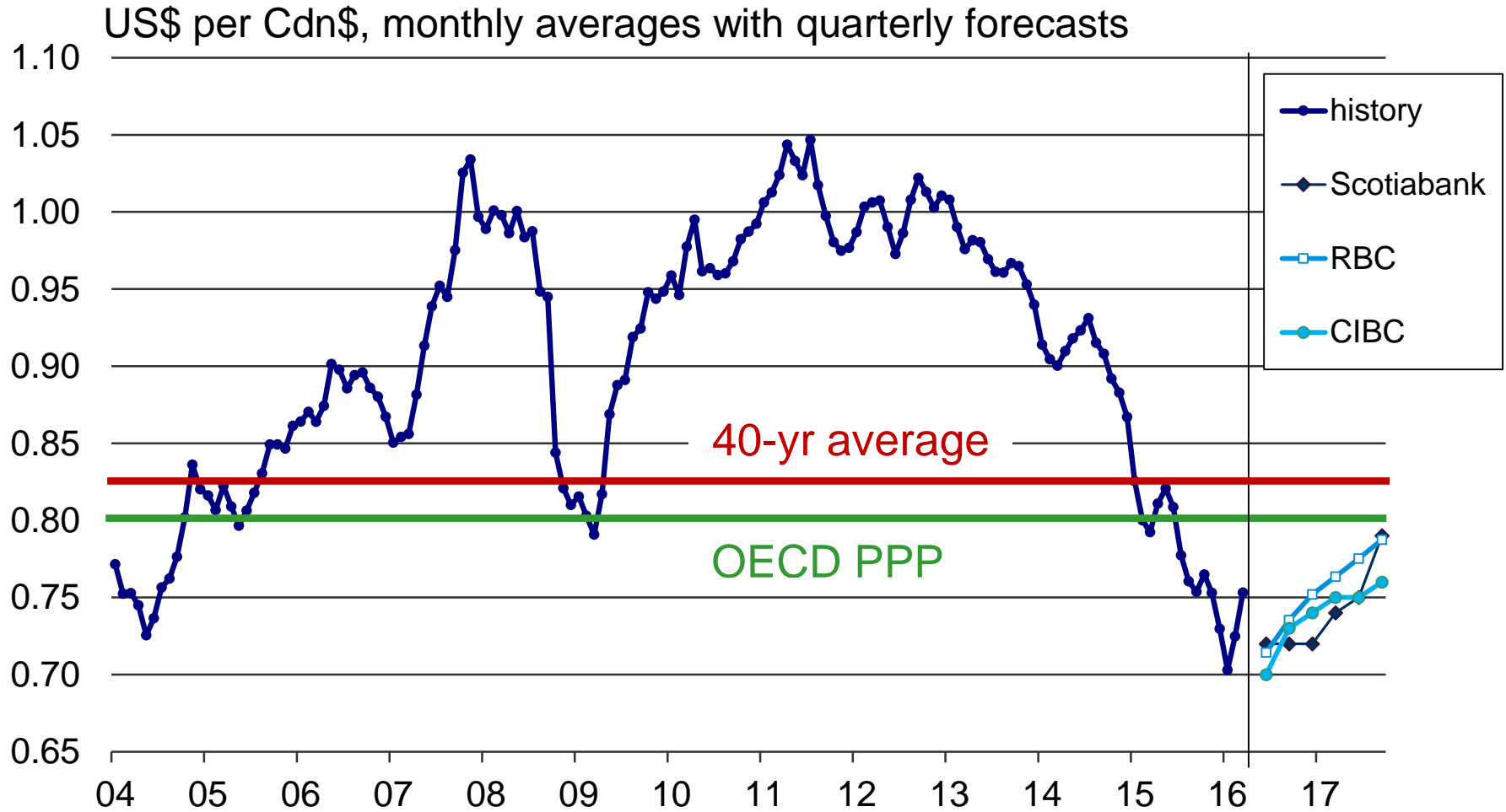


## U.S. Dollar Prices for Selected Commodity Prices (annual average)

	2013	2015	2016	2017
Oil (bbl)	<b>\$104</b>	\$51	<b>\$37</b>	\$48
Natural gas (US, mmbtu)	<b>\$3.73</b>	\$2.61	<b>\$2.50</b>	\$3.00
Iron ore (mt)	<b>\$135.4</b>	\$55.8	<b>\$42.0</b>	\$44.1
Aluminum (mt)	<b>\$1,847</b>	\$1,665	<b>\$1,550</b>	\$1,612
Copper (mt)	<b>\$7,332</b>	\$5,510	<b>\$5,000</b>	\$5,190
Nickel (mt)	<b>\$15,032</b>	\$11,863	<b>\$10,000</b>	\$10,801
Wheat (mt)	<b>\$312</b>	\$203	<b>\$185</b>	\$193
Phosphate (mt)	<b>\$148</b>	\$117	<b>\$120</b>	\$119

bbl = barrel; mmbtu = one million British thermal units; mt = metric ton.  
 Source: World Bank, Commodity Market Outlook, January 2016.

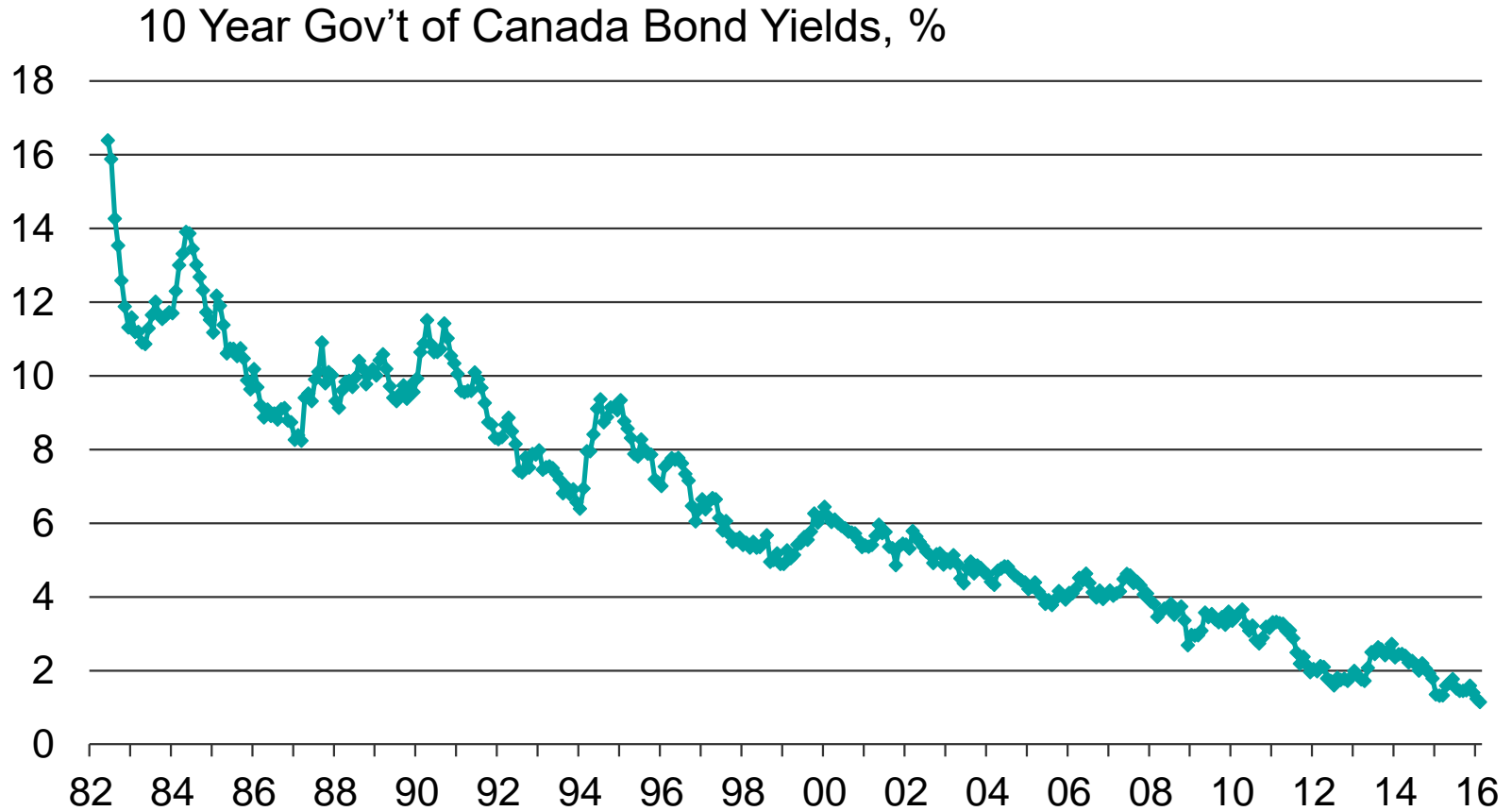
# A Bumpy Ride for the Canadian Dollar



Source: Bank of Canada, noon rate.

Latest: March (1<sup>st</sup> to 21<sup>st</sup>) 2016

# Canadian Bond Yields Fall to Record Lows



Source: Statistics Canada.

Latest: February 2016.

# Budget 2016: Some Key Themes

**A return to sizable budget deficits to spur economic growth and deliver on Liberal campaign commitments – against the backdrop of a sluggish global economy and weak commodity prices**

**The federal government's economic footprint (spending/GDP) expands by the equivalent of 1.5% of GDP over three years (relative to 2014-15)**

**No major tax changes...other than revamped system of child benefits...**

**A ten-year infrastructure plan totalling \$120 billion, but only \$12 billion of new spending in the initial phase one of the plan**

**A significant commitment to improve quality of life and education for First Nations people**

**A stepped up focus on innovation, science/technology, and skills development – but with most of the details still to come**

**A high political priority to growing the “clean tech” sector and facilitating the shift to a low-carbon economy**

## Economic Assumptions for Canada

	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Real GDP Growth (%)</b>	1.2%	1.4%	2.2%
<b>Nominal GDP Growth (%)</b>	<b>0.7%</b>	<b>2.4%</b>	<b>4.6%</b>
<b>Level of Nominal GDP (\$)</b>	\$1.98 tril	\$1.99 tril	\$2.09 tril
<b>Unemployment rate</b>	6.9%	7.1%	6.9%
<b>3-month T-bill rate</b>	0.5%	0.5%	0.7%
<b>10-yr gov't bond rate</b>	1.5%	1.6%	2.3%
<b>Oil prices, WTI (US\$)</b>	\$49	\$40	\$52

Source: Federal Budget 2016.

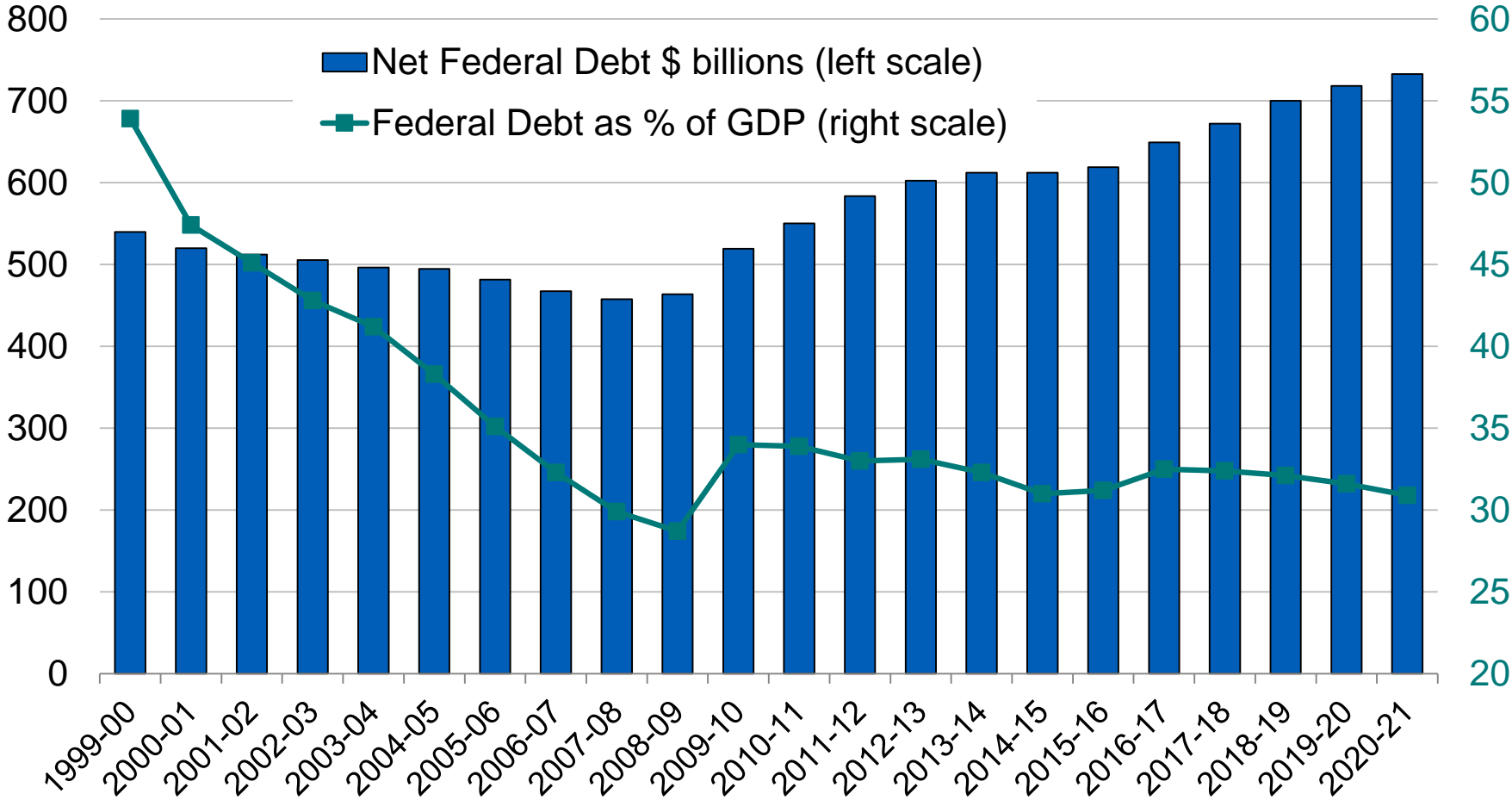
## Updated Federal Fiscal Plan (C\$ billions)

	2014/15	2015/16	2016/17	2017/18
<b>Revenues</b>	<b>282.3</b>	<b>291.2</b>	<b>287.7</b>	<b>302.0</b>
<b>Expenditures</b>	<b>280.4</b>	<b>296.6</b>	<b>317.1</b>	<b>331.0</b>
Program Spending	<b>253.8</b>	<b>270.9</b>	<b>291.4</b>	<b>304.6</b>
Public Debt Charges	<b>26.6</b>	<b>25.7</b>	<b>25.7</b>	<b>26.4</b>
<b>Budgetary Balance</b>	<b>1.9</b>	<b>-5.4</b>	<b>-29.4</b>	<b>-29.0</b>
<b>Net Federal Debt*</b>	<b>612</b>	<b>619</b>	<b>649</b>	<b>678</b>

Source: Federal Budget 2016.

\* Rounded to nearest whole number.

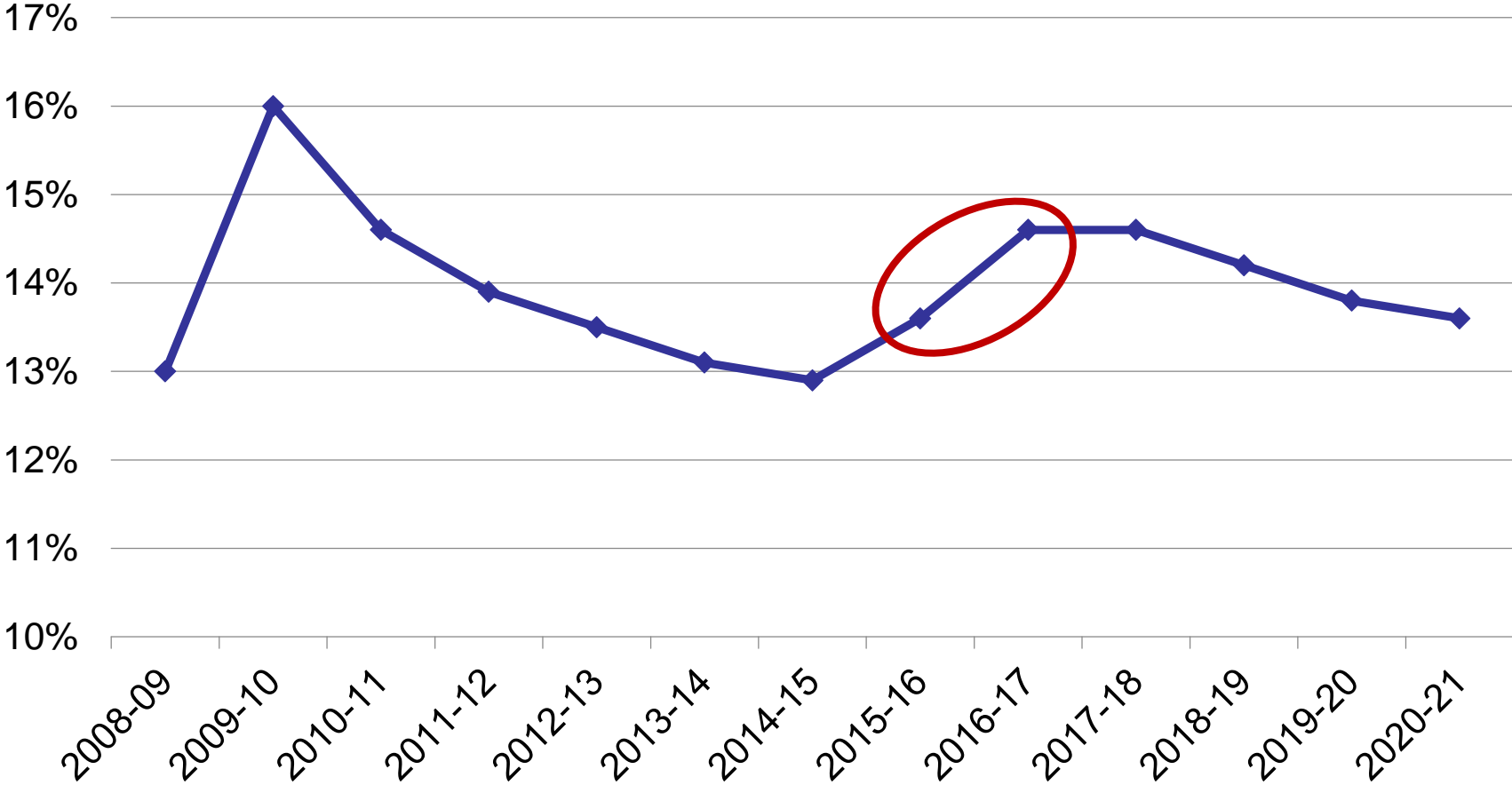
# Federal Debt Burden Moves Higher



Source: Department of Finance and Budget 2016.



# Federal Program Spending as Share of GDP



Source: Federal Budget 2016.



# A Few Budget Measures of Note for BC

**\$2 billion over three years to improve infrastructure and research/training facilities at Canadian post-secondary institutions**

**\$32 million for the Centre for Drug Research and Development to support commercialization of innovative health products**

**\$1 billion over four years to spur clean technology development**

**BC will receive a portion of \$11.9 billion in additional infrastructure spending over the next five years**

- **\$3.4 billion for public transit – BC stands to receive ~\$460 million**
- **\$5 billion for water/wastewater infrastructure – BC should get ~\$600 million**

**Increased federal funding for First Nations communities will benefit BC**

**\$800 million over four years to support “innovation networks and clusters”**

**\$50 million boost to tourism marketing will help the industry’s continued growth in BC**

# Other Comments on Budget 2016

**Cautious economic assumptions and large contingency reserves suggest the government will comfortably beat its fiscal targets – possibly eliminating the deficit by the end of its mandate**

**Beyond the short-term, Canada faces the challenge of achieving sustained economic growth amid headwinds stemming from...**

- **population aging**
- **slower labour force growth (shrinking working age populations in some provinces)**
- **lower-for-longer energy prices...plus infrastructure bottlenecks**
- **outmigration of manufacturing investment and production to the United States and Mexico in past dozen years, and**
- **chronically weak business innovation**

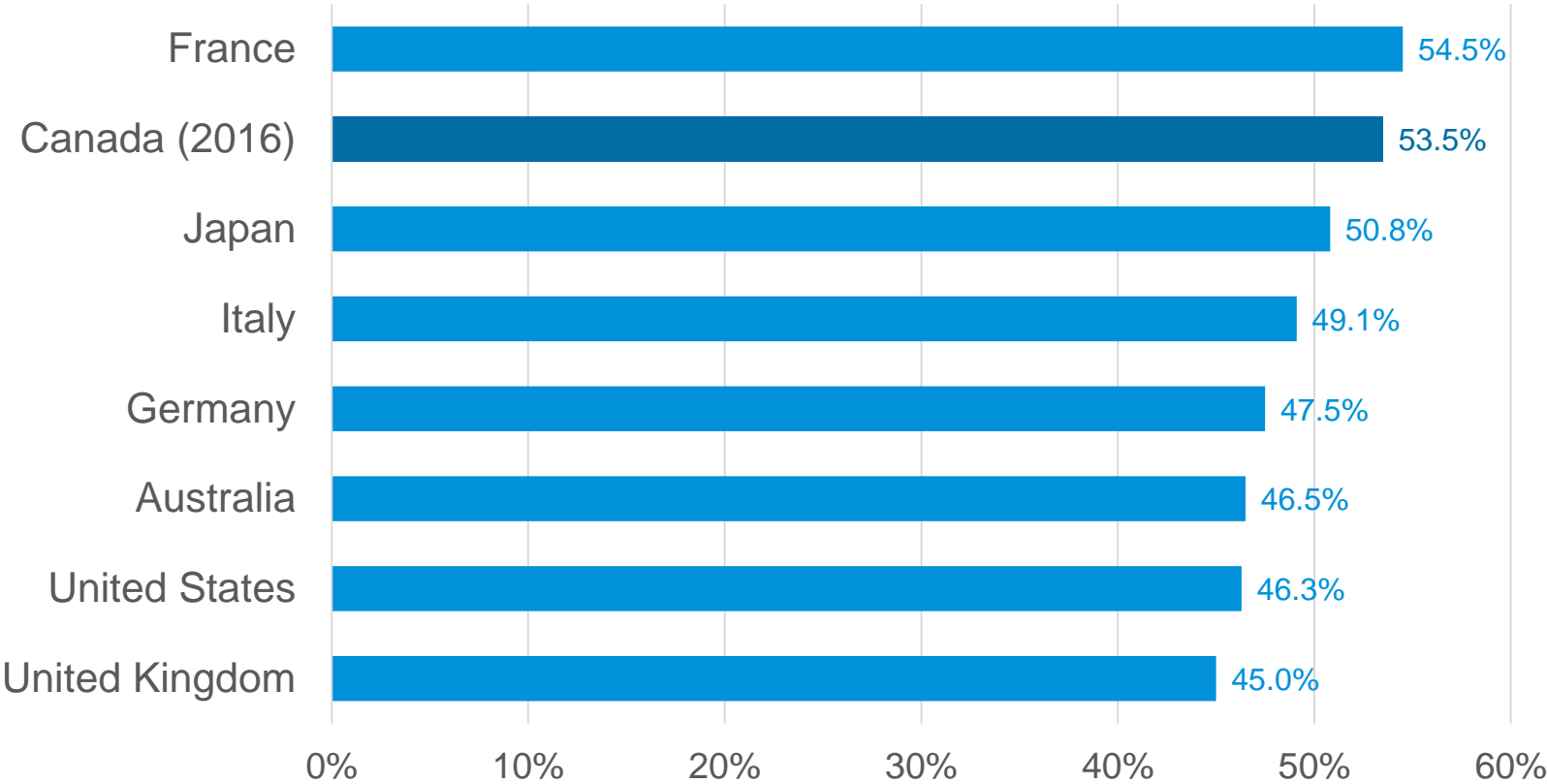
# Other Comments on Budget 2016

**How will Ottawa reconcile political commitments to a “low carbon” economy with the hard realities of Canada’s energy and resource-dependent industrial structure and export base**

**Still to come over the rest of 2016 and into next year...**

- **A re-tooled federal government innovation strategy**
- **The results of a promised in depth review of “tax expenditures and tax preferences” affecting both individuals and businesses (p. 211 of Budget)**
- **Recommendations from the newly appointed Advisory Council on Economic Growth**
- **Consultations on possible expansion of Canada Pension Plan**

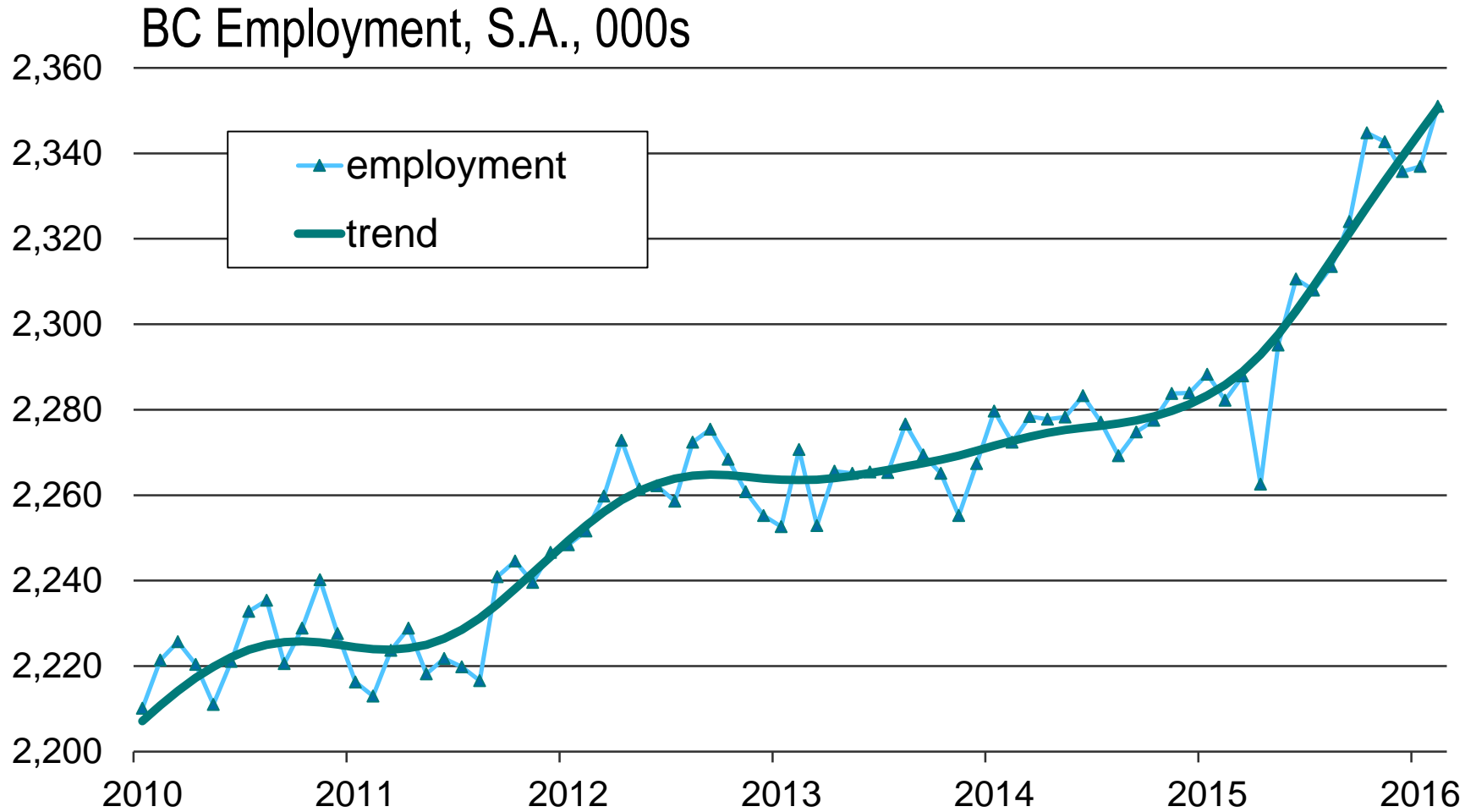
# Top Combined Personal Income-Tax Rates in Canada (2016), G7 Countries and Australia (2014)



Source: Fraser Institute.



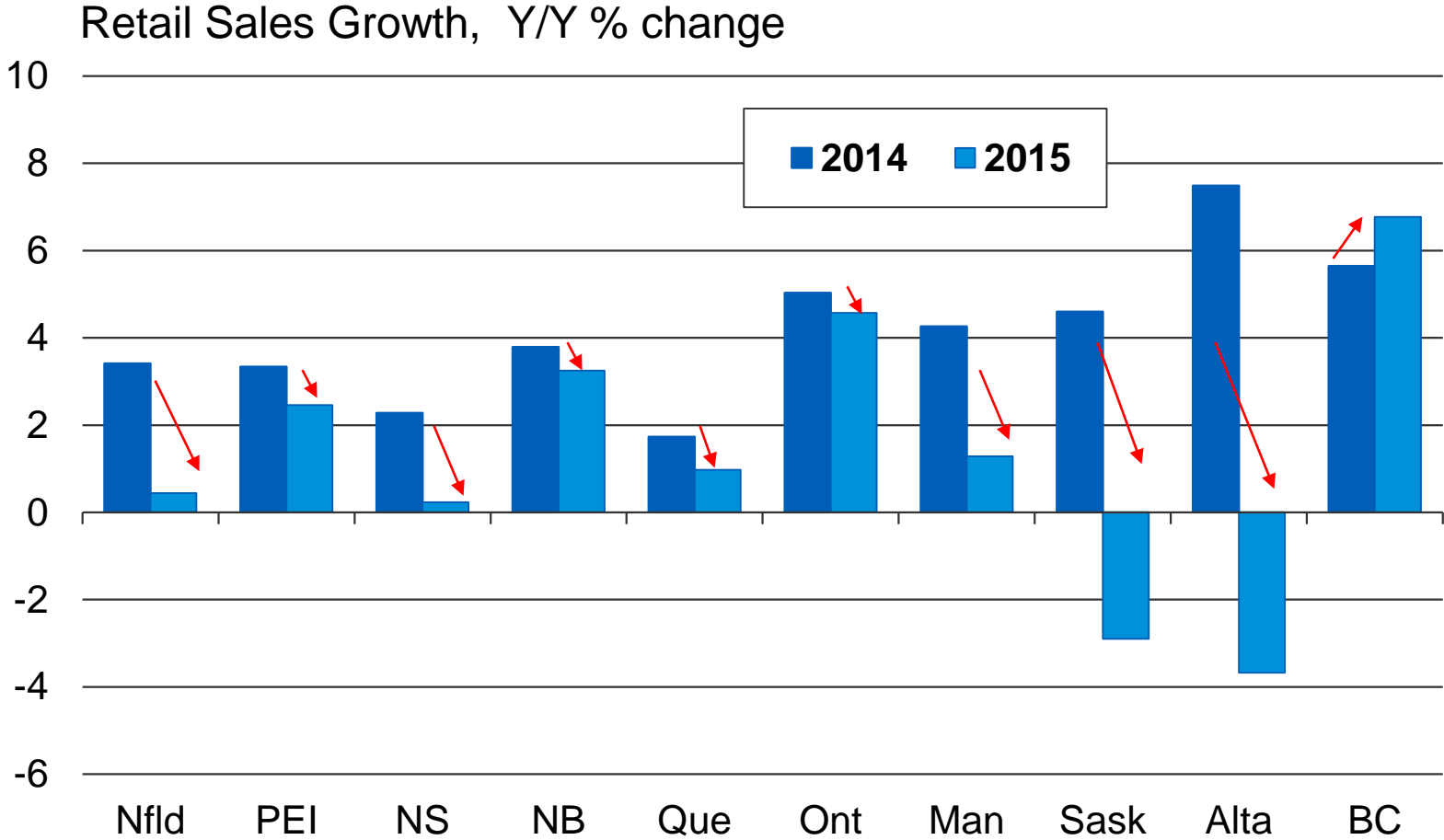
# A Rebound in BC Employment



Source: Statistics Canada. SA = seasonally adjusted.

Latest: February 2016

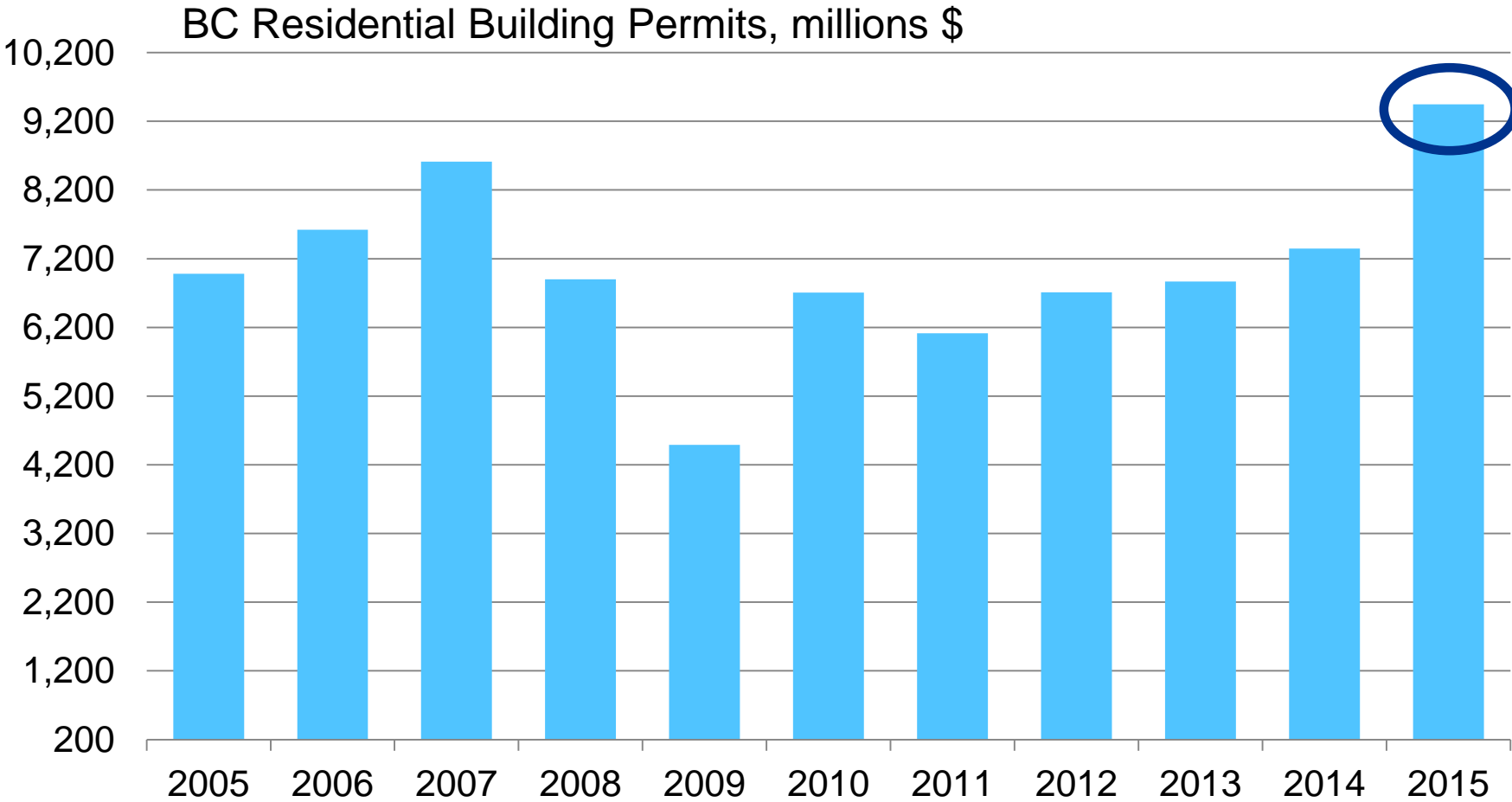
# BC Stands Out Among the Provinces in Consumer Spending



Source: Statistics Canada.



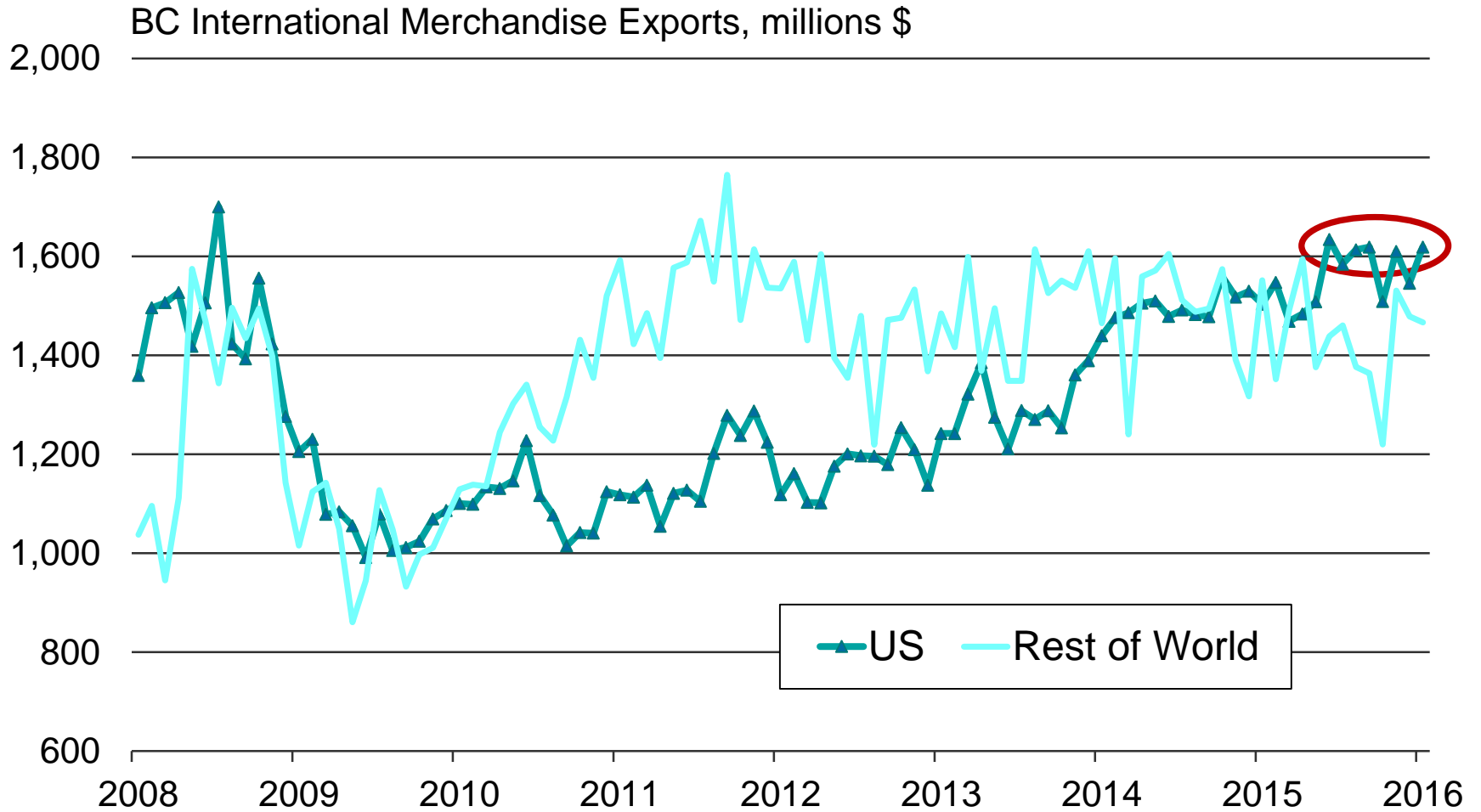
# Residential Building Permits Reach New Highs



Source: BC Stats.



# US is Now Driving BC Export Gains



Source: Statistics Canada.

Latest: January 2016



# BC Economic Forecast

	2014	2015	2016f	2017f
Real GDP	3.2	2.6e	2.8	3.0
Employment	0.6	1.2	1.3	1.3
Unemploy. rate (%)	6.1	6.2	5.8	5.7
Housing starts – all areas (units)	28,400	31,400	30,200	30,000
Retail sales	5.5	6.5	6.0	5.0
All-items CPI	1.2	1.1	1.5	1.6

Source: Statistics Canada and BC Stats; Business Council for forecasts.

e – estimate f – forecast