

March 29, 2006

## **BRITISH COLUMBIA'S GOLDEN DECADE: CAN THIS PERIOD OF PROSPERITY TAKE ON A LONGER LIFE?**

- B.C.'s economy is firing on all cylinders and the momentum will continue through the 2010 Winter Olympics.
- B.C.'s Golden Decade will have to go into over time to erase the scars of the long period of relative stagnation from 1981 until the current recovery began
- From 1981 to 2004 B.C. slipped from a 17 per cent edge over the Canadian average in real output per capita to being 6 per cent behind.
- B.C. will need to overcome its Achilles heel of this period – weak productivity – and manage some new storm clouds forming on the horizon.
- Fortunately, all of the players in the B.C. economy have found their footing and with persistent effort can turn B.C.'s Golden Decade into a Golden Century.

BRITISH COLUMBIA – In recent years the B.C. economy has convincingly shaken off the cobwebs of a long period of relative stagnation. Output, employment and investment are growing strongly, the unemployment rate is plumbing the depths of its lowest level in three decades and housing is booming. To restore B.C.'s economy to a position that matches the province's enviable overall quality of life, persistent effort must be applied to extend the recent economic successes and in particular overcome some looming challenges. Fortunately, the B.C. economy has a number of comparative strengths it can springboard off to succeed.

In a report entitled, "British Columbia's Golden Decade: "Can this Period of Prosperity Take on a Longer Life?", authors Derek Burleton and Sebastien Lavoie of TD Economics praise the teamwork of the B.C. Government, corporations and individuals in lifting the B.C. economy from a long period of relative stagnation and preparing the province for future risks. The report is available online at [www.td.com/economics](http://www.td.com/economics).

The report is the fourth study of TD Economics into the role that cities, regions and provinces play in the challenge of raising Canada's standard of living. Five years have passed since the TD Bank Financial Group set the challenge of surpassing the U.S. standard of living within 15 years. Unfortunately, the gap has gone the wrong way in the meantime. TD Economics' first report addressed the role of urban economies in general in raising Canada's standard of living. Subsequent reports focused on the Greater Toronto Area and the Calgary-Edmonton corridor.

TD Economics has been anxious to analyse the B.C. economy because previous reports identified flagging productivity as the main culprit in holding Canada's standard of living back. And British Columbia has had one of the worst performances in Canada. "Much ink has been spilt lamenting the disgraceful Canadian productivity record since 1981. British Columbia's productivity growth has been a full percentage point per annum

behind the Canadian average,” said Don Drummond, SVP & Chief Economist of TDBFG.

Derek Burleton, AVP and Senior Economist at TDBFG noted that “the common explanation for B.C.’s poor productivity performance is the shift from highly-paid, productive resource jobs to lower value-added service sector employment. Yet productivity growth in almost all sectors lagged the Canadian average and the gap with the U.S. has been even wider. Clearly broader forces have been at play and fundamental change was required to overcome past economic weakness.”

The TD Economics report finds that fundamental changes have been made to the B.C. economy. While a commodity price boom and low interest rates are playing a part, the following are also noteworthy:

- The B.C. Government bolstered competitiveness by restoring fiscal balance, cutting taxes and streamlining regulation;
- The B.C. corporate sector has worked hard to overcome a succession of shocks including the need to diversify trade around the stagnating Japanese economy; the higher value of the Canadian dollar and tariffs on exports of softwood lumber;
- Individuals have embraced the “knowledge-based economy” by investing in themselves. B.C. has the highest portion in Canada of people with some post-secondary education and the lowest high school drop-out rate.

TD Economics predicts that the current momentum will carry the B.C. economy with strong growth through the 2010 Winter Olympics. But even then the scars from past economic stagnation will not have completely healed. In 1981 B.C. enjoyed a 17 per cent advantage over Canada as a whole in real output per capita. By 2004 B.C. had slipped into a 6 per cent disadvantage relative to the Canadian average and even with strong growth over the remainder of this decade that gap will not close. “B.C. desperately needs to force its “Golden Decade” into overtime” said Derek Burleton “but several new obstacles to growth are forming.”

Some of the growth challenges B.C. will face are common across most jurisdictions. However, even in the case of the ageing baby boomers there is a particular B.C. angle because its median age is rising faster than in the rest of Canada. Some particular B.C. growth challenges post-2010 will be:

- A slowdown in construction and tourism post-Olympics;
- Inevitability that the current red hot construction boom will simmer down. Construction has accounted for one of every 4 jobs created in the province in the past 4 years;
- A beetle-related decline in harvesting and timber processing activity after 2012;
- Persistent competitive pressure from the booming Alberta economy. There is already a substantial Alberta tax advantage and it could get wider. Alberta is also pouring money into the foundations for future growth, such as the education system.

Fortunately, the players in the B.C. economy have found the right paths in recent years. But they will have to play hard and long to keep the strong expansion going. Some particular recommendations in the TD Economics report include:

1. **Government Tax and Regulatory Policy.** The B.C. Government will need to lower the tax burden over time. It is unrealistic to think it can close the overall gap with Alberta. Therefore, attention should be focused on the taxes that impair capital formation because they most hinder growth. Last week's Alberta Budget opened a 2 percentage point general corporate income tax rate edge in Alberta's favour relative to the 12 per cent B.C. rate. The ensuing drain from B.C.'s business base would be exacerbated if Alberta ever achieves its goal of an 8 per cent general corporate tax rate. The remaining business inputs should be removed from the sales tax base. And the special and extraordinarily punitive capital tax on financial institutions will need to be removed if the shrinking presence of that important sector is to be reversed. Finally, the goal should be to reduce the regulatory burden rather than simply prevent it from rising.
2. **Business Sector Investments.** For 2 decades business investment in B.C. has lagged the pace in Canada overall. Businesses must seize the opportunities to invest in B.C., not just in physical capital but in the B.C. labour force as well.
3. **Human Capital Formation.** As is the case with other jurisdictions, B.C. must continue to invest in education as it will be the key to future economic growth. B.C. can take advantage of the fact that it has higher-than-average portions of First Nations people, recent immigrants and older workers in its labour force. Raising the relatively low participation rates of these groups would go a long way to offsetting the demographically-driven slowing labour force growth.
4. **Location, Location, Location.** Alberta may represent a competitive threat. But it could also be a powerful economic partner for B.C. by strengthening trade and economic cooperation. To the west, British Columbia has the opportunity to be the true Gateway for Asia – not just to Japan this time but as well the rapidly developing economies. The federal and provincial governments are increasing investments in order to bolster the required infrastructure. Time is of the essence and the opportunity is now.

“The goal should be nothing short of restoring B.C. to its place as one of the highest income jurisdictions in the world with a quality of life that is second to none” said Derek Burleton. “By leveraging their relative strengths, keeping their eyes squarely focused on competition outside its borders, and thinking big on building the province as a Gateway for Asia, the public and private sectors in British Columbia can transform the Golden Decade into a Golden Century.

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