



# **Economic Review and Outlook 2000**

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## ***ECONOMIC REVIEW AND OUTLOOK***

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## ECONOMIC REVIEW AND OUTLOOK

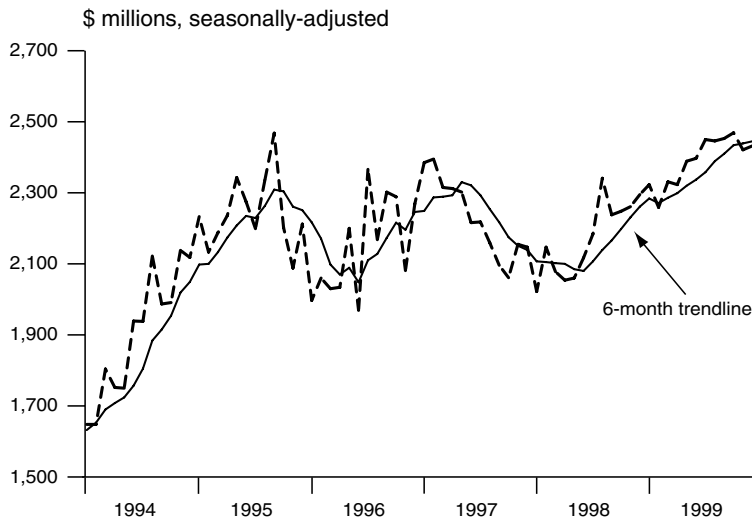
### Overview<sup>1</sup>

The British Columbia economy grew an estimated 1.4 per cent in 1999, a much-improved performance from 1998. Exports and manufacturing shipments grew strongly early in the year, recovering along with some of the Asian economies, but driven mainly by a red-hot economy in the United States.

*The British Columbia economy recovered in 1999*

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Chart A1  
British Columbia Exports



Consumer spending and housing activity were slow through mid-1999, but began to pick up during the second half. Employment grew little until the fourth quarter. Nevertheless, the average level of employment was 1.9 per cent higher in 1999 than the year before. As a result, the unemployment rate fell from 8.8 per cent to 8.3 per cent. Net in-migration from the rest of Canada turned positive in the third quarter.

Business conditions were mixed overall, but improved during the year. The forest industry staged a strong recovery and rapid growth occurred in the high-technology, information and service sectors. Corporate profits and business investment appear to have picked up as the year progressed. Wage and price inflation increased from 1998, but remained low.

*Business conditions improved*

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<sup>1</sup> This report incorporates information available as of March 17, 2000. All annual and quarterly references are for the calendar year.

*Faster growth is expected in 2000 and 2001*

In 2000, the economy is expected to grow 2.2 per cent, faster than 1999's pace. In 2001, growth of 2.7 per cent is forecast. The resumption of in-migration flows from other provinces and continuing export growth should underpin higher growth in consumer spending and housing activity.

Higher interest rates, a sharper-than-expected rise in the Canada-U.S. exchange rate and economic developments in the U.S. are the main risks to the British Columbia outlook.

## The British Columbia Economy: 1999 Performance

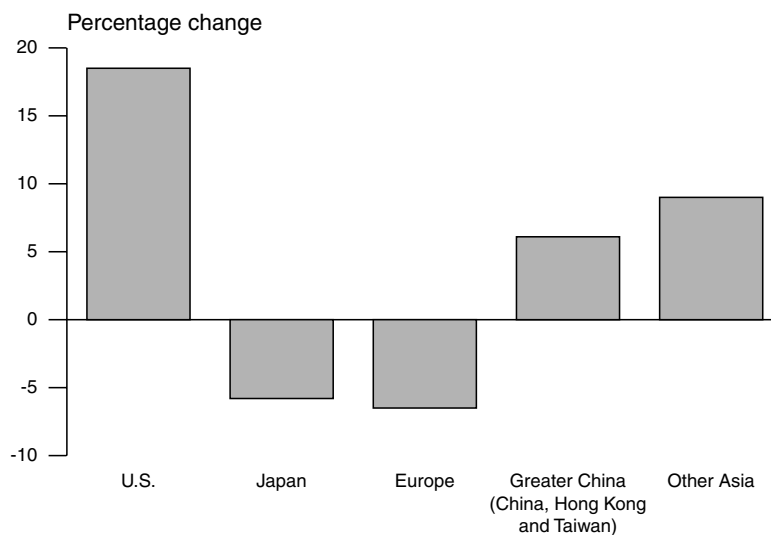
Last year, the economy began to recover from a year of virtually no growth in 1998. The economy is estimated to have grown 1.4 per cent in 1999.

Chart A1 shows that export activity was strong for most of the year. Chart A2 presents export growth rates by market.

*Exports to the U.S. grew strongly in 1999*

- The value of exports rose 10.2 per cent. Exports to the United States accounted for most of the gain, rising almost 20 per cent. Exports to Japan fell 6 per cent.
- The value of manufacturing shipments rose 9.2 per cent, led by forest products.
- Most of the gains in the value of merchandise exports and manufacturing shipments were due to higher prices. Merchandise export volumes are estimated to have increased about 4 per cent.
- Production volumes of lumber rose 5.3 per cent, pulp and paper 12.8 per cent and natural gas 2.3 per cent. Coal production fell 4.5 per cent. Copper output dropped 38.6 per cent due to the shutdown of the Endako and Gibraltar mines and the six-month shutdown of Highland Valley Copper.

Chart A2  
British Columbia Exports by Country, 1999



Sources: Statistics Canada, BC Stats

- Cargo tonnage handled by the Port of Vancouver fell 1 per cent, reflecting still-weak demand in Asia for commodities. In-bound container traffic increased 27 per cent to a record level.
- Air freight traffic through the Vancouver International Airport rose 12.7 per cent.

Consumer demand remained sluggish until late in 1999, when there were some signs of improvement.

*Consumer demand picked up in the second half of the year*

- Retail sales rose 1.8 per cent in 1999. Sales picked up toward year-end as the British Columbia component of the Conference Board's Index of Consumer Attitudes rose 5 per cent in the final quarter of 1999.
- The dollar value of auto sales was up 11 per cent.
- Wholesale trade increased 2.9 per cent.
- Sales tax collections rose 4.3 per cent (the tax applies to business purchases as well as consumer goods).
- The number of overnight visitors to British Columbia increased 6.2 per cent. Passengers travelling through the Vancouver International Airport rose 2.4 per cent, led by a rebound in Asia-Pacific and European traffic. The number of cruise ship passengers sailing through the Port of Vancouver rose 9 per cent.
- However, restaurant, caterer and tavern revenues for the year fell 3.7 per cent.
- Housing starts fell 18.2 per cent. Multiple Listing Service residential sales rose almost 10 per cent, and average sales prices were slightly higher.

*Housing starts fell, but sales rose*

Business conditions were generally better than anticipated:

- Business non-residential investment rose 4.8 per cent in 1999, led by machinery and equipment purchases. The value of non-residential building permits was up 4 per cent.
- In its first quarter 2000 survey of business conditions, Statistics Canada found a significant increase in the balance between manufacturers who planned higher and lower levels of production in the next six months.
- Bloomberg's index of the stock prices of British Columbia-headquartered public companies languished through 1999, but rose sharply in the first quarter of 2000, driven largely by high-tech companies.

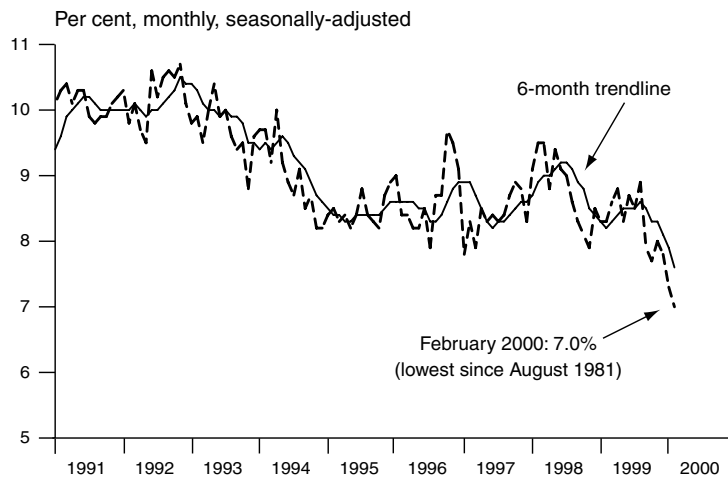
*Business investment was up, reflecting improved conditions*

In the labour market:

- The unemployment rate fell from 8.8 per cent in 1998 to 8.3 per cent in 1999. It hit a 19-year low of 7 per cent in February 2000 (see Chart A3).
- Employment, as measured by the number of jobs, rose 1.9 per cent.
- Full-time paid employment accounted for most of the job gains in 1999, in contrast to 1998 when part-time jobs and self-employment were the sources of growth (see Chart A4).
- Employment fell 3 per cent in goods-producing industries, while it rose 3.3 per cent in the service sector.

The unemployment rate hit a 19-year low in February 2000 . . .

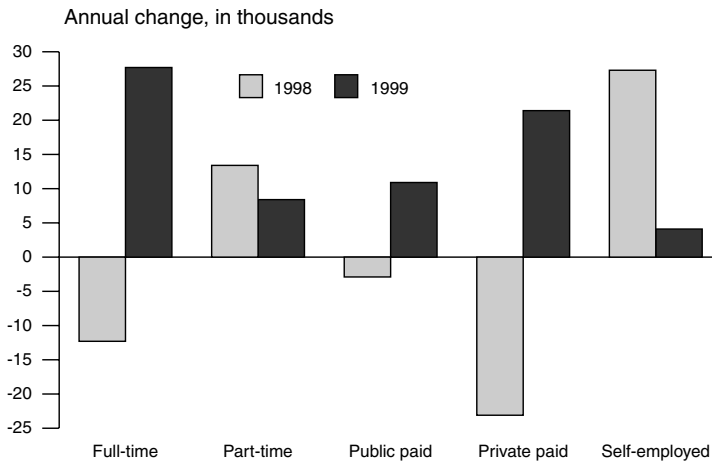
Chart A3  
British Columbia Unemployment Rate



Source: Statistics Canada

- The labour force grew 1.4 per cent, while the participation rate (the percentage of people 15 years of age and over in the labour force) increased from 64.9 per cent to 65.1 per cent, ending a decline from the recent peak of 67.2 per cent in 1994.

Chart A4  
Employment in British Columbia



Source: Statistics Canada

. . . and labour income rose 2.2 per cent

- Net in-migration in 1999 is estimated at 22,540 persons, up from 7,355 persons in 1998. British Columbia's population grew less than 1 per cent over this period.
- Labour income grew 2.2 per cent, with the largest gains in the service sector. Wage settlements in collective agreements involving 500 or more employees averaged 0.8 per cent, about half the national average.

## British Columbia Economic Outlook<sup>2</sup>

The recovery that emerged in 1999 is expected to broaden and deepen in 2000 and 2001. This is premised on a slight moderation of growth in the North American economy and a relatively small increase in interest rates and appreciation of the Canadian dollar. The forecast incorporates the effects of federal and provincial tax measures introduced in fiscal year 2000/01 budgets.

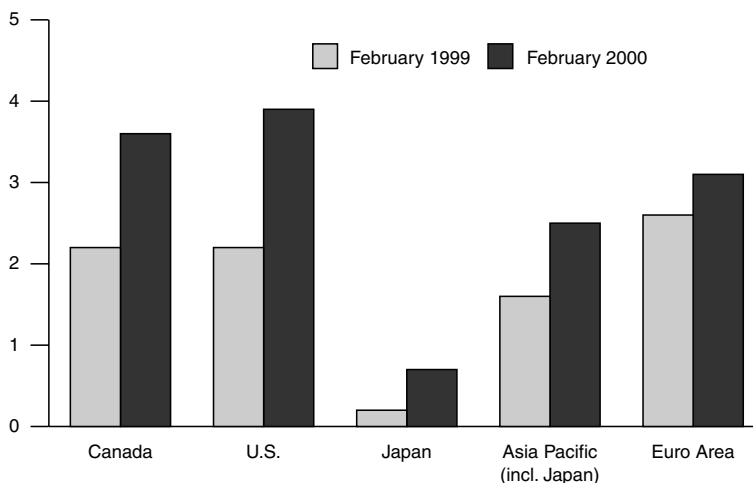
*British Columbia's economic recovery is forecast to continue into 2000 and 2001*

### ● External Conditions and Influences

As shown in Chart A5, world growth prospects have increased significantly over the last year as Asia recovered more quickly than expected and fears of a global financial crisis faded.

**Chart A5**  
**World Growth Prospects Improve**

Consensus outlook for 2000 real GDP growth (per cent)



Source: Consensus Economics, Inc.

*The global outlook is improving*

**North America** — British Columbia was fortunate that the rest of the North American economy was operating at a high level during the recent downturn in Asia. Strong growth in the U.S. and other parts of Canada in 1998 and 1999 helped moderate the effects of the loss of exports to markets such as Japan. As well, the Asian recession reduced import prices in North America, minimizing the interest rate increases that might have accompanied the rapid expansion in North America.

The key questions for the near-term outlook are:

- Will the U.S. and Canadian expansions continue unabated?
- Or, will interest rates have to rise to moderate an overheating economy (with the risk of turning a boom to bust if the U.S. stock market turns down)?
- Will the large U.S. current account deficit cause the U.S. dollar to depreciate significantly, adding to interest rate pressures?

<sup>2</sup> A description of the Ministry of Finance and Corporate Relations' economic forecasting process, methodology and econometric model can be found in *The British Columbia Macroeconomic Model*. This 1999 working paper is available in the "Reports and Publications" section of the ministry's Web site: [www.fin.gov.bc.ca](http://www.fin.gov.bc.ca) or by writing to the Communications Branch, Ministry of Finance and Corporate Relations, P.O. Box 9417, STN PROV GOVT, Victoria, British Columbia, V8W 9V1.

*North American economic expansion to continue*

The assumption in this forecast is that the U.S. and Canadian expansions will continue over the next year, with both economies growing nearly 3.5 per cent on an annual average basis. Growth is expected to moderate during the year, with the year-over-year gain in real GDP at about 3 per cent in the fourth quarter of 2000, close to recent estimates of potential non-inflationary growth. Similarly in 2001, real GDP is forecast to increase 2.8 per cent in Canada and 3 per cent in the United States.

*European economic growth to pick up . . .*

**Europe** — The forecast assumes that the European economies will grow 2.8 per cent in 2000 and 2.7 per cent next year. This improvement from estimated growth of 2.1 per cent in 1999 results mainly from the stronger performance of Germany, France and the United Kingdom.

*. . . but Japan is still weak*

**Asia** — Japan's economy grew only 0.3 per cent in 1999. Signs of recovery in the first half of the year faded in the second half as real GDP contracted 4.8 per cent (annualized). The economy is assumed to remain sluggish over the next year, held back by weak domestic spending and investment, and the lagged effects of an appreciation of the yen against the U.S. dollar since the autumn of 1998. Recently, the yen has depreciated but the path of the yen/U.S. dollar exchange rate over the next year or two remains a major question mark for Japan's economy. From a policy standpoint, the weakness of the domestic economy calls for yen depreciation, while the outlook for capital and trade flows suggest that appreciation is more likely.

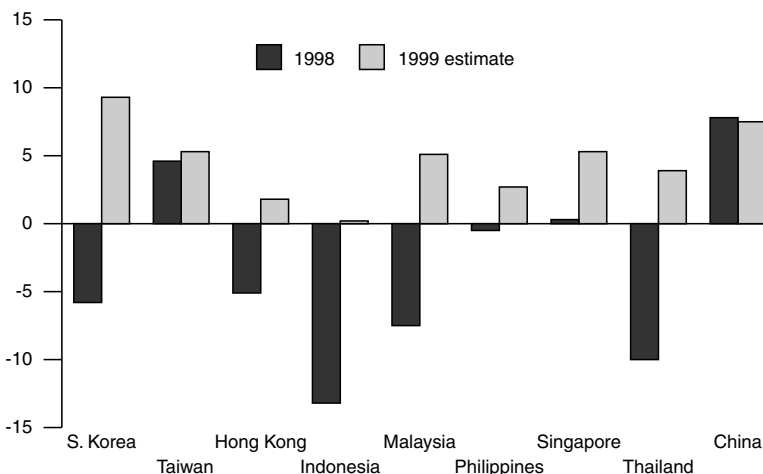
The Japanese economy is expected to grow 0.5 per cent in 2000 and 1.3 per cent in 2001, not much above the 0.3 per cent in 1999.

*Other Asian economies will expand*

The recovery in other Asian economies that began in 1999 (see Chart A6) is expected to continue over the next couple of years with growth in the 3 to 5 per cent range expected in the region. China's economy is expected to grow in the 7 per cent range. With the currency tied to the U.S. dollar, a sliding greenback in coming months would amount to a de facto devaluation of China's yuan against the Japanese yen and other major currencies.

**Chart A6**  
**Asian Recovery in 1999**

Real GDP Growth (per cent)



Source: Nomura Research Institute



**Interest and Exchange Rates** — Based on the global outlook discussed above, North American interest rates are forecast to continue rising through the third quarter of 2000. They are expected to stabilize and begin declining in 2001 as both Canadian and U.S. growth moderate in response.

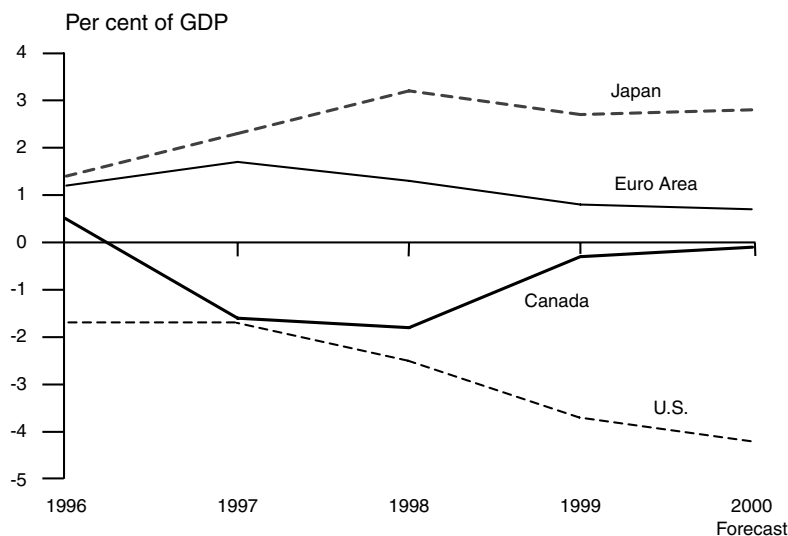
*Interest rates are forecast to rise in 2000 . . .*

Consistent with the consensus outlook, the Canadian dollar is expected to appreciate against its U.S. counterpart over the next two years, averaging 69.4 U.S. cents in 2000 and 71.4 U.S. cents in 2001.

*. . . and the Canadian dollar will appreciate*

As Chart A7 shows, the strong U.S. expansion relative to the rest of the world has caused global trade imbalances to widen. As a result, the U.S. has drawn in capital from other countries, helping to hold down U.S. interest rates. Should the attractiveness of investing in the U.S. wane, the greenback could decline against other major currencies and U.S. interest rates might rise as a result. With Canada's external trade position improving recently, the Canadian dollar could appreciate more than expected in such a scenario.

**Chart A7**  
**Current Account Balances**



**• British Columbia Real GDP Outlook**

Real GDP is forecast to increase 2.2 per cent in 2000 and 2.7 per cent in 2001. This is generally in line with the consensus view of the Minister of Finance and Corporate Relations' Economic Forecast Council (see Topic Box for details).

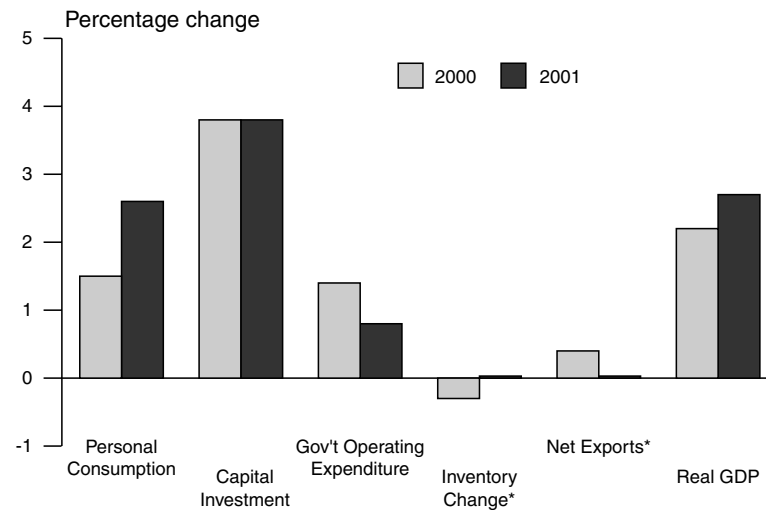
*Real GDP growth of 2.2 per cent is expected in 2000*

**• External Trade Outlook**

Export prices are generally expected to rise in 2000 and 2001, although prospects vary widely for individual commodities. The outlook for forest products appears good, but coal and some metal prices are expected to languish. Goods and services export prices are forecast to rise 2.5 per cent this year and 1.8 per cent in 2001.

*Export prices will be higher*

**Chart A8**  
**Real GDP Outlook by Component**



\* Change as a percentage of 1999 and 2000 real GDP  
 Source: Ministry of Finance and Corporate Relations

The appreciation of the Canadian dollar should moderate import price inflation. With export prices advancing faster than import prices, another improvement in British Columbia's terms of trade<sup>3</sup> is expected this year.

*Export volumes are forecast to rise 4.3 per cent in 2000*

Goods and service export volumes are expected to increase 4.3 per cent in 2000 and 4.1 per cent in 2001, largely due to the continued strength of the U.S. economy. While growth in forest product exports is expected to slow, non-resource manufactured exports are forecast to increase rapidly, continuing the pattern of the last few years.

Import volumes are expected to rise 2.6 per cent in 2000 and 3.3 per cent next year. With export growth exceeding import growth, the province's net export deficit is expected to shrink from 9.8 per cent of GDP in 1999 to 9.3 per cent in 2001.

• **Employment and Income Outlook**

The rise in export volumes and prices in 2000 and 2001 is expected to translate into stronger growth in employment and income.

*Employment is forecast to grow 2.3 per cent in 2000 . . .*

Employment is expected to increase 2.3 per cent in 2000 and 2.9 per cent in 2001, up from 1.9 per cent in 1999. The unemployment rate is forecast to fall from 8.3 per cent in 1999 to 8.2 per cent this year and 7.5 per cent in 2001. Since the unemployment rate was just 7.0 per cent in February 2000, this forecast may prove to be too pessimistic.

*. . . supporting labour income growth*

Labour income (wages, salaries and benefits) is expected to rise 3.7 per cent in 2000 and 4.4 per cent in 2001, well above the 1999 growth rate of 2.2 per cent (although preliminary income tax data suggests upward revisions will be made to the 1998 and 1999 labour income figures).

<sup>3</sup> The "terms of trade" is the ratio of export prices to import prices.

Stronger exports are also forecast to boost corporate pre-tax profits by 15 per cent in 2000 and another 5 per cent in 2001. This elevates their share of provincial GDP from an estimated 6.2 per cent in 1999 to 7 per cent in 2001.

*Stronger exports will boost profits*

As a result of the stronger growth in export earnings and corporate profits, nominal GDP is expected to increase 3.8 per cent in 2000 and 4 per cent in 2001.

#### • **Consumer Expenditure Outlook**

Consumer spending appears to have grown very slowly in 1999, partly due to depressed consumer confidence.

*Consumer expenditure growth of 1.5 per cent is forecast for 2000*

The Conference Board's Index of Consumer Attitudes for British Columbia began to recover midway through 1999. As well, employment and income growth are expected to accelerate in 2000. Recently-announced federal tax cuts, provincial tax cuts in *Budget 2000*, and the continued phase-in of previous provincial tax reductions will raise personal disposable income. Interprovincial in-migration is also expected to be a more positive factor in 2000 and 2001, compared to 1998 and 1999.

All these factors should boost consumer spending. However, rising interest rates, a low personal savings rate and a relatively low level of housing starts are expected to limit consumer spending growth to 1.5 per cent in real terms in 2000 and 2.6 per cent in 2001 (see Chart A8). Retail sales in current dollars are forecast to increase 2.8 per cent this year and 4.8 per cent in 2001.

Higher mortgage interest rates and consumer concerns about the quality of multiple-unit dwellings will also restrain housing construction. Housing starts are forecast at 18,000 units in 2000 and 22,000 units in 2001, mainly reflecting pent-up demand and higher in-migration. The Canada Mortgage and Housing Corporation is projecting a 4.9 per cent rise in home sales to 59,800 in 2000 and a further 3.7 per cent increase to 62,000 sales in 2001. The agency expects the average British Columbia home price to rise from \$212,000 in 1999 to \$213,000 by 2001.

*Housing starts are forecast to total 18,000 units in 2000*

#### • **Capital Investment Outlook**

Business non-residential investment is forecast to rise significantly in 2000. This reflects the strong projected growth in corporate profits and export earnings, and a continuing decline in capital goods prices combined with the expected appreciation of the Canadian dollar.

The investment picture will continue to vary widely across industries. Rising prices and profitability in the forest sector should lead to more investment. However, no major capacity expansions are expected. Conditions remain difficult in the mining sector, although the strengthening global economy has boosted the prices of some metals, such as copper. Production capacity is growing rapidly in countries such as Chile, where copper output rose 18 per cent in 1999. Combined with mergers and consolidation in the North American industry, the investment outlook in base metals remains poor. Investment in natural gas development and related pipeline construction has been very strong in recent years. Although the end of the current phase of pipeline expansion is on the horizon, natural gas development is expected to continue.

*Investment will vary across industries*

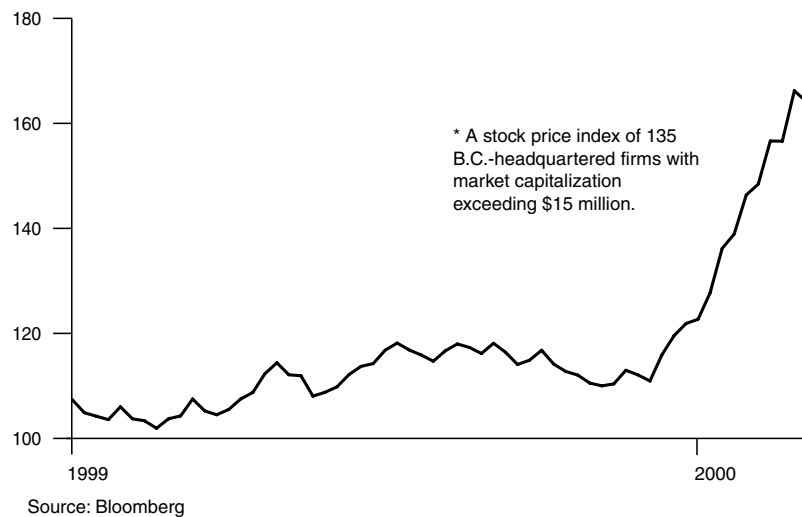
*British Columbia high-tech sector expected to grow*

Outside the resource sector, investment continues to rise in manufacturing and the service sector. In addition, the enormous pool of U.S. venture capital has begun searching out opportunities in Canada, resulting in several high-profile direct investments in British Columbia companies. In March 2000, Ventures West, a Vancouver venture capital firm, announced the formation of a large fund targeted at early stage Canadian technology companies. As well, stock offerings by British Columbia firms have attracted substantial amounts of capital to these new industries. A recent report by the B.C. Technology Industries Association noted that the market value of the largest 20 public technology companies totalled \$74 billion at the end of February 2000, up from \$6 billion only two years ago. Interest in such companies has fuelled stock prices (see Chart A9).

**Chart A9**

**Bloomberg B.C. Stock Index\***

December 30, 1994 = 100, weekly close



All of this is expected to help fuel continued rapid growth in investment in the Internet and related communications technology, as well as other areas of the technology sector, including bio-technology.

*Total investment will grow 3.8 per cent in 2000*

Business inventories are expected to be drawn down in line with the pickup in economic activity in 2000 and 2001 (this forecast is subject to considerable uncertainty as no aggregate information on 1999 inventory levels is yet available).

Following strong growth in 1998 and 1999, public sector capital expenditures are assumed to level off in 2000 and 2001.

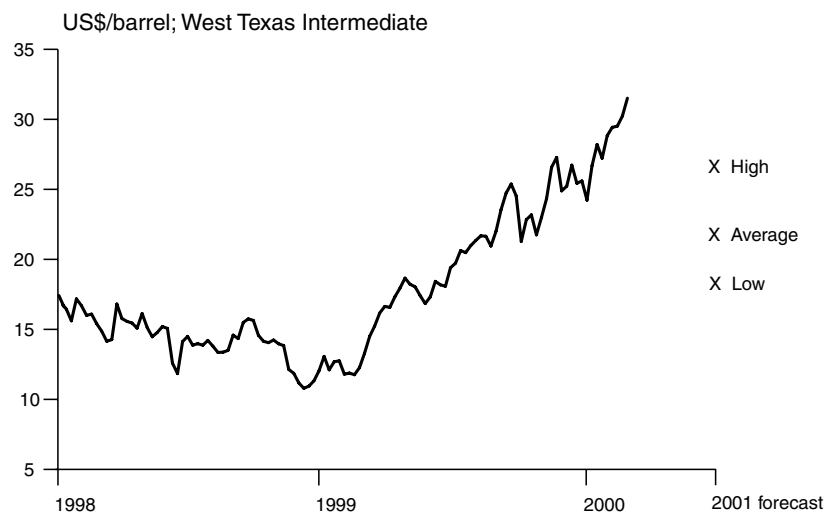
**• Government Operating Expenditure Outlook**

Spending by all levels of government in British Columbia is estimated to have increased 2.4 per cent in real terms in 1999 after two consecutive years of decline. The forecast assumes a slower rate of growth in inflation-adjusted expenditures over the next two years.

## • **Inflation Outlook**

Sharply higher oil prices have boosted the headline inflation rate in recent months (see Chart A10). However, British Columbia's inflation rate is expected to continue to lag the nation's in 2000. With energy prices expected to moderate and housing prices unchanged, British Columbia consumer price inflation is forecast to average 1.3 per cent, up slightly from 1999.

**Chart A10**  
**Oil Prices**



Source: Ministry of Energy and Mines; *Consensus Economics, Inc.* forecast

## • **Risks to the 2000 and 2001 Forecast**

There are several risks to the forecast that could reduce or increase economic growth from projected levels.

Upside risks to the economic outlook include:

- *Higher-than-forecast export prices.* Commodity prices staged a rally in 1999. Rising oil prices and stronger-than-anticipated world growth could be the catalysts for further gains in commodity prices. If so, British Columbia export prices could increase more than the 2.5 per cent forecast in 2000. This would lead to higher export revenues, profits, employment, domestic spending and investment, and overall economic growth.
- *In-migration.* Net in-migration to British Columbia could be stronger than forecast, boosting consumer spending, housing sales and starts.
- *Lower-than-forecast interest rates.* Accelerating productivity gains in Canada could head off core inflation pressures and limit the anticipated rise in interest rates this year. This would lead to higher-than-forecast consumer spending, housing activity and business investment.
- *Stronger consumer and business confidence.* Consumer confidence rose in the fourth quarter of 1999 and recent surveys suggest business sentiment has improved. Tax cuts may also help raise confidence and spending more than is anticipated in the forecast.

*Forecast risks include interest rates, the Canada-U.S. exchange rate, U.S. demand and migration patterns*

Downside risks include:

- *Higher-than-expected interest rates.* In recent testimony to the U.S. Congress, Federal Reserve Chairman Alan Greenspan hinted that interest rates may rise more than markets anticipate. While it is unclear whether the Bank of Canada would follow future U.S. interest rate increases, economic growth has been well above forecasts in Canada. If this pattern continues, Canadian interest rates could be higher than assumed in the forecast. This could reduce consumer outlays and business investment.
- *The U.S. stock market.* Early in 2000, stock markets rose to historically high levels and outsized valuations, based on conventional indicators such as price-earnings ratios. The stock market's rise has been fuelled by technology stocks, principally Internet ("dot.com") and communications-related issues. The increasingly narrow focus of the market's advance raises the concern of a major correction, followed by a decline in consumer expenditures. On the other hand, evidence continues to build that the new technologies are truly boosting productivity, which may help extend the current expansion.
- *Continued weakness in Japan.* Consumer spending remains weak, and bank lending continues to decline. The government's room for further fiscal stimulus is limited — the public debt-to-GDP ratio has soared and Moody's Investors Service recently warned of a possible credit rating downgrade. There are some signs of a recovery in private-sector investment. However, real GDP declined in the second half of 1999, suggesting that the economy may have slipped back into recession. If so, growth could be lower than the 0.5 per cent assumed for 2000.
- *Rising oil prices.* Early in 2000, oil prices rose sharply, raising fears of higher inflation and lower economic growth. However, the world economy is less dependent on oil than it was during the energy crises in the 1970s. As well, some oil-producing nations have recently said that they plan to raise output. As a result, consensus forecasts show oil prices falling from above US\$30/barrel to an average of about \$22 a year from now (see Chart A10). Parts of British Columbia's economy will benefit from higher oil prices, although consumers will be worse off.
- *A stronger Canadian dollar.* Large international trade imbalances could result in major exchange rate shifts. A larger-than-expected appreciation of the Canadian dollar could reduce British Columbia export growth in the near term.

TABLE A1  
BRITISH COLUMBIA ECONOMIC OUTLOOK

	Budget Forecast	Actual/ Estimate	Forecast	
		1999	2000	2001
Gross Domestic Product (current dollars; percentage change).....	1.1	3.2 <sup>1</sup>	3.8	4.0
<b>Real Gross Domestic Product (Ministry of Finance and Corporate Relations; percentage change).....</b>	<b>0.5</b>	<b>1.4<sup>1</sup></b>	<b>2.2</b>	<b>2.7</b>
Consumer Expenditure.....	1.8	1.4	1.5	2.6
Capital Investment.....	-0.9	1.0	3.8	3.8
Government Expenditure.....	0.9	2.4	1.4	0.8
Exports of Goods and Services.....	1.8	3.5	4.3	4.1
Imports of Goods and Services.....	1.9	2.6	2.6	3.3
Inventory Investment (change in billions of 1992 dollars).....	-0.5	-0.3	-0.3	0.0
<b>Real Gross Domestic Product (Minister's Forecast Council; percentage change).....</b>	<b>0.0</b>	<b>1.2</b>	<b>2.2</b>	<b>2.5</b>
Population July 1; (percentage change).....	0.9	0.6	1.1	1.3
Net In-migration.....	25,900	22,540	36,800	41,900
Interprovincial.....	(7,400)	(11,721)	7,700	12,500
International.....	33,300	34,261 <sup>2</sup>	29,100	29,400
Labour Force (thousands).....	2,089	2,079 <sup>3</sup>	2,123	2,170
(percentage change).....	2.3	1.4	2.1	2.2
Employment (thousands).....	1,918	1,906 <sup>3</sup>	1,949	2,007
(percentage change).....	3.1	1.9	2.3	2.9
Unemployment Rate (per cent).....	8.2	8.3 <sup>3</sup>	8.2	7.5
Retail Sales (millions of current dollars).....	34,080	33,653	34,600	36,260
(percentage change).....	2.5	1.8	2.8	4.8
Labour Income <sup>4</sup> (millions of current dollars).....	63,480	62,250	64,550	67,390
(percentage change).....	3.0	2.2	3.7	4.4
Corporate Pre-tax Profits (millions of current dollars).....	5,035	7,150 <sup>1</sup>	8,225	8,635
(percentage change).....	-5.0	11.5	15.0	5.0
Housing Starts (units).....	18,000	16,309	18,000	22,000
(percentage change).....	-9.7	-18.2	10.4	22.2
Consumer Price Index (1992=100).....	110.6	111.2	112.6	114.1
(percentage change).....	0.5	1.1	1.3	1.3

<sup>1</sup> Ministry of Finance and Corporate Relations estimates.

<sup>2</sup> Levels are not comparable to 1999 budget forecast due to definition change.

<sup>3</sup> Levels are not comparable to 1999 budget forecast due to Statistics Canada data revisions.

<sup>4</sup> Wages, salaries and supplementary labour income.



TABLE A1

BRITISH COLUMBIA ECONOMIC OUTLOOK — *Continued*

	Budget Forecast	Actual/ Estimate	Forecast	
		1999	2000	2001
<b>Key Assumptions:</b>				
Economic Growth (per cent)				
Canada.....	2.4	4.2	3.4	2.8
United States.....	3.0	4.1	3.5	3.0
Japan.....	-1.3	0.3	0.5	1.3
Europe.....	2.1	2.1 <sup>1</sup>	2.8	2.7
Housing Starts (annual percentage change)				
Canada.....	1.9	8.1	4.3	2.6
United States.....	-4.7	3.3	-8.3	-2.0
Japan.....	0.2	1.7	0.8	0.9
Industrial Production (annual percentage change)				
United States.....	2.0	3.6	3.7	3.3
Japan.....	-3.0	0.4	3.0	3.2
Consumer Prices (annual percentage change)				
Canada.....	1.3	1.7	2.2	2.1
United States.....	2.0	2.7	2.6	2.5
Canadian Interest Rates (per cent; annual average)				
3-month Treasury Bills .....	4.7	4.7	5.4	5.4
10-year and over Government of Canada bonds .....	5.4	5.7	6.7	6.4
United States Interest Rates (per cent; annual average)				
3-month Treasury Bills .....	4.5	4.7	6.2	6.4
10-year and over U.S. Government bonds .....	5.2	5.9	7.1	6.8
U.S. cents/Canadian dollar .....	66.6	67.3	69.4	71.4
Commodity Prices				
BC Goods and Services Export Prices (Cdn \$; percentage change).....	0.8	2.3	2.5	1.8
Spruce-Pine-Fir Lumber (U.S. \$/1,000 board feet) .....	295	341	323	315
Pulp (U.S. \$/tonne) .....	484	522	650	711
Newsprint (U.S. \$/tonne) .....	536	514	541	575
Copper (U.S. \$/lb.) .....	0.63	0.72	0.85	0.90
Lead (U.S. \$/lb.) .....	0.25	0.23	0.23	0.26
Zinc (U.S. \$/lb.) .....	0.49	0.49	0.57	0.60
Gold (U.S. \$/oz.) .....	310	279	285	300
Aluminum (U.S. \$/lb.) .....	0.56	0.62	0.62	0.62
Natural Gas (U.S. \$/gigajoule) .....	1.09	1.95	1.99	2.03
Coal (U.S. \$/tonne) <sup>2</sup> .....	43	40	40	44

<sup>1</sup> Ministry of Finance and Corporate Relations estimates.<sup>2</sup> Weighted average of metallurgical and thermal coal prices.



## THE REGIONAL ECONOMIES

The modest recovery of the provincial economy in 1999 was led by the two major metropolitan regions. However, regions outside southwest British Columbia experienced a mixed performance. A booming U.S. economy, faster-than-expected Asian recovery, and rising commodity prices benefited parts of the resource sector, but restructuring and cost cutting took their toll on employment in some regions. Housing markets showed signs of improvement, but starts fell below last year's levels due to slow population growth in most regions and fragile consumer confidence. Retail spending grew slowly across B.C. Meanwhile, a small but fast-growing non-resource based new economy is emerging in different sizes and shapes in the regions.

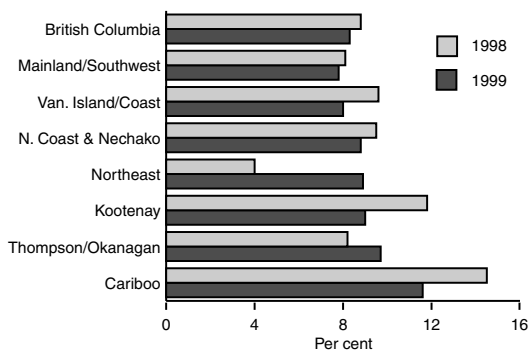
### Population

British Columbia's population grew an estimated 0.6 per cent in 1999. The slow population growth was mainly due to lower levels of net in-migration from other provinces. All regions experienced some population growth, although there was virtually no growth in the Vancouver Island/Coast, Cariboo and North Coast/Nechako regions. The Mainland/Southwest led all regions. Among smaller local areas, population grew the fastest in the East Kootenay and Squamish-Lillooet regional districts (which encompasses the booming town of Whistler).

### Employment and Labour Markets

In 1999, the Vancouver Island/Coast and Mainland/Southwest regions accounted for most of the province's employment growth. Employment declined in all other regions, perhaps reflecting the delayed impact of the downturn in the resource sector in 1998.

### REGIONAL UNEMPLOYMENT RATES



The Northeast region experienced the largest decline in employment, as difficulties in the agricultural sector offset a boom in the energy industry.

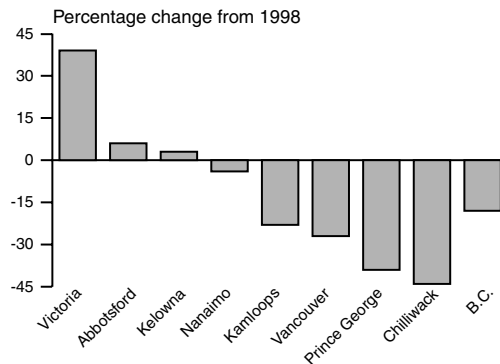
Despite declines in employment, the unemployment rate fell in the North Coast/Nechako and two Interior regions (see chart). This reflects a shrinking labour force, possibly caused by out-migration and early retirement.

### Housing Markets and Construction

The net outflow of people to other provinces and low levels of consumer confidence contributed to generally weak housing markets across the province. Housing starts declined in most urban centres (see chart).

Although provincial housing starts were weak, existing home sales rose 9.8 per cent in 1999. Greater Vancouver topped the province with a 17 per cent rise, followed by a 13 per cent increase in the north Okanagan. The Chilliwack area was the only region that experienced a significant decline in sales. Existing home prices rose 1.5 per cent on average across the province, with six of eleven regional real estate boards reporting increases.

### URBAN HOUSING STARTS IN 1999



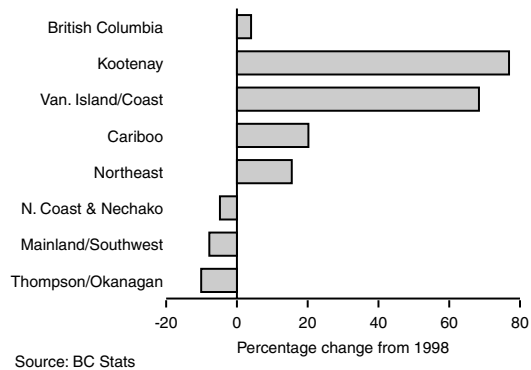
The value of non-residential building permits rose 4 per cent in British Columbia in 1999. The Kootenay region recorded the largest percentage gain (see chart), related to development of ski resorts and recreational facilities. The Vancouver Island/Coast region was close behind with major projects such as the construction of the Island cogeneration project in Campbell River, the West Coast General Hospital in Port Alberni and the Reef Point Resort in Ucluelet boosting construction.

Major projects currently underway in various regions include:

- the \$500-million Predator Ridge golf resort development near Vernon;
- a \$258-million expenditure on three Louisiana Pacific wood product mills in Dawson Creek and Chetwynd;

- the \$200-million Sierra-Ekwan gas plant and expansion east of Fort Nelson;
- the \$200-million Big White ski resort expansion near Kelowna;
- the \$200-million Furry Creek recreation/residential project near Squamish;
- the \$150-million Golden Peaks ski resort near Golden;
- the \$25-million Hotel Grand Pacific expansion in Victoria;
- a \$23-million recreation complex in Cranbrook; and
- the Alliance Pipeline project from Fort St. John to the Alberta border.

#### NON-RESIDENTIAL BUILDING PERMITS, 1999



#### Regional Resource Sector Developments

For the resource sector, 1999 was a year of restructuring and recovery, although conditions varied widely from industry to industry.

A robust U.S. housing market and rising lumber and pulp prices helped the forest industry rebound in 1999. After a combined loss of \$1 billion in 1998, publicly-traded British Columbia forest companies earned \$600 million in 1999. Timber harvest and lumber production levels soared from depressed 1998 levels in the Interior and on the Coast.

In contrast to the forest industry, mining output declined in 1999 as a result of the lengthy labour dispute at the Highland Valley Mine in Logan Lake, and the closure of the Blackdome mine at 100 Mile House, the Snip mine near Smithers and the Parson mine near Golden. On March 1, 2000, Teck Corporation announced that it would permanently close the Quintette coal mine at Tumbler Ridge on August 31 due to low prices and high production costs. The mine accounted for about 10 per cent of the province's production of metallurgical coal in 1999.

Strong economic growth and rising energy demand in North America contributed to strong growth in oil and

gas activity in the Northeast. Sales of Crown drilling rights almost doubled in 1999, and the value of natural gas production rose 24 per cent. During the first 10 months of 1999, 522 wells were drilled, close to 1998's record levels. The Northeast's agriculture sector suffered from low grain prices, offsetting the boom in the oil and gas sector.

Coastal regions dependent on the fishery continued to face challenges due to harvesting restrictions and capacity reductions. However, fishing employment rose last year after bottoming out in 1998, and the value of fish exports rose almost 5 per cent.

In 1999, British Columbia farm cash receipts rose 7.4 per cent, well above the national increase of 2.2 per cent. Areas of strength included poultry and other livestock, berries and grapes, floriculture and nursery products. Cash receipts from canola, barley, oats and tree fruit declined.

#### Development of More Diversified Regional Economies

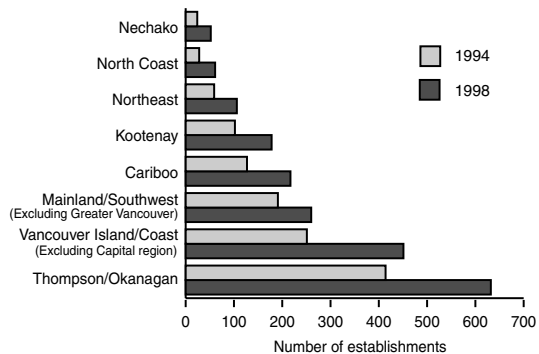
Regional economies continued to diversify into non-resource activities in 1999, ranging from new high-tech ventures to expansion of value-added manufacturing and food processing, and new industries such as "nutraceuticals" (natural health products). For example, Western Star Trucks expanded the production capacity of its Kelowna facility.

#### High-tech industries

The British Columbia high-tech sector continues to grow at a rapid rate compared to the rest of the economy.

Although the Greater Vancouver and Victoria areas remain the main location of British Columbia's high-tech sector, every region has several success stories. The number of high-tech establishments outside Greater Vancouver and Victoria increased 62 per cent between 1994 and 1998 (see chart). Regional centres such as Prince George and Kelowna are beginning to develop clusters of high-tech start-up companies.

#### HIGH-TECH GROWS IN B.C.'s REGIONS



● **Agri-food sector**

Several small but fast-growing new product areas contributed to a more diversified agri-food sector: expanded hothouse and organic farming and nutraceuticals. In addition, the province's wine industry expanded.

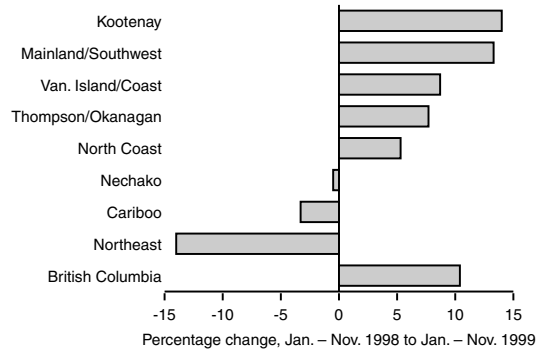
Fuelled by demand from the U.S., production of hot-house vegetables in the Fraser Valley and Delta areas grew rapidly in 1999. As well, organic produce is grown in all regions of the province and the number of certified organic farmers doubled last year.

A notable new industry was the fast-growing nutraceuticals sector. The Ministry of Agriculture, Food and Fisheries estimates that retail sales of these products in British Columbia totalled \$200 million in 1999. As in any new, fast-growing industry, numerous firms have entered the market and overcapacity for some products has resulted. Recently, Langley-based Chai-Na-Ta Corporation, North America's biggest ginseng producer, filed for court protection from its creditors. Ginseng prices peaked at nearly US\$50/pound in the 1990s and are now less than \$10/pound, due to reduced demand from China and increased supply in North America.

● **Tourism**

In 1999, the number of international visitors to the province rose 5.4 per cent. As a result, tourism room revenue was up 10.4 per cent through November 1999. Room revenue grew in five of eight regions (see chart).

**ROOM REVENUE BY REGION**



Source: BC Stats

## THE ECONOMIC FORECAST COUNCIL

### Background

The Economic Forecast Council (the Council) was established by legislation last year as part of the government's commitment to implement recommendations of the Auditor General's report, *A Review of the Estimates Process in British Columbia*. The Council is the successor to the economic forecasting conferences held in the previous three years. The Honourable Paul Ramsey, Minister of Finance and Corporate Relations, appointed the 18 members of the Forecast Council by ministerial order. The Council members were chosen based on their expert knowledge of the British Columbia, Canadian and world economies, their economic forecasting experience, and familiarity with current economic developments. Council members were asked to submit a forecast survey prior to the inaugural meeting on January 27, 2000. Seventeen participants tabled forecasts for the economy. The results are summarized in the table at the end of this Topic Box.

As in the preceding economic forecast conferences, the Council members discussed their views of the province's economic outlook for the near term, as well as factors affecting the province's longer-term outlook.

### Report on Forecast Council Meeting

The general view of the Council was that the British Columbia economy will post stronger growth in 2000 and 2001, although there is a risk that higher interest rates could derail a recovery in the interest-sensitive housing and consumer goods sectors. Most participants agreed that economic growth in the United States has played a significant role in the province's recovery to date and the Council expected slower growth south of the border to result in lower exports. Asian growth is expected to pick up although participants expressed concerns about the longer-term prospects for Japan, a key market for British Columbia goods.

### International Developments

Participants agreed that the United States economic expansion would slow in 2000 and 2001. There were two views about the extent of the slowdown. Most Council members expected the U.S. Federal Reserve ("the Fed") to raise interest rates moderately during the next six months, slowing the U.S. economy and keeping inflation under control. However, other participants warned that the Fed could act more aggressively to curb emerging inflation, raising interest rates more than expected. This could lead to a stock market correction that would then feed back into lower consumer spending as investors see their wealth decline. In either case, the British Columbia economy would be faced with slower growth of its major trading partner.

On balance, participants agreed that for 2000, growth in the U.S. would stay in the 3 to 4 per cent range because it would take some time for higher interest

rates to have an impact and they expected the U.S. economy to end 1999 at a high level.

Overseas, the outlook was positive but the Council still had reservations about the Japanese economic recovery. Participants agreed that the recovery in Japan's economy is not yet on solid footing but that British Columbia was well positioned to benefit from any improvements. The future of other Asian countries is also tied to economic developments in China. One participant who had recently visited several Asian countries noted the building momentum in these economies. The European economies were expected to post stronger growth in 2000 than in 1999.

Continued growth in the U.S., Asia and Europe was expected to support commodity prices in the short-term.

### The Canadian Economy

The Council expected the Canadian economy to grow at a slower but still respectable pace during the next two years alongside the slowdown in the U.S. economy. The consensus was that Canadian economic growth in 2000 would average 3.3 per cent; forecasts ranged from 2.8 per cent to 3.9 per cent.

### Financial Markets

Council members expected that the Bank of Canada would raise short-term interest rates in 2000. Although inflation in Canada was likely to be lower than in the United States, the Council felt that the Canadian economy was operating close to potential and some hike in interest rates would be needed to keep inflation in the 1 to 3 per cent target range. Short-term interest rates were expected to rise to an average of 5.25 per cent in 2000, up from 4.68 per cent in 1999. Long-term interest rates were also expected to rise from 1999 levels.

With strong global growth contributing to demand for commodities and higher commodity prices, the Council forecast that the Canadian dollar would appreciate to 69.9 cents U.S. on average in 2000 and 71.2 cents in 2001, up from 67.3 cents in 1999. Only one Council member forecast that the Canadian dollar would depreciate in the next two years.

### British Columbia

Participants on average expected real GDP growth of 2.2 per cent in 2000, following average estimated growth of 1.2 per cent in 1999. The current-year forecast range was much narrower this year than last. Forecasts ranged from 1.7 per cent to 2.8 per cent in 2000, compared to -2.0 per cent to 2.0 per cent last year. Anticipated sources of growth included continued increases in exports and manufacturing shipments as well as a broadening of the recovery to the domestic side of the British Columbia economy.

### External Developments

British Columbia exports were expected to continue to contribute to economic growth in the province, with the U.S. remaining the dominant market. The gradual improvement in the Japanese economy was expected to lead to growth in Japan's share of the province's exports as the U.S. economy slows.

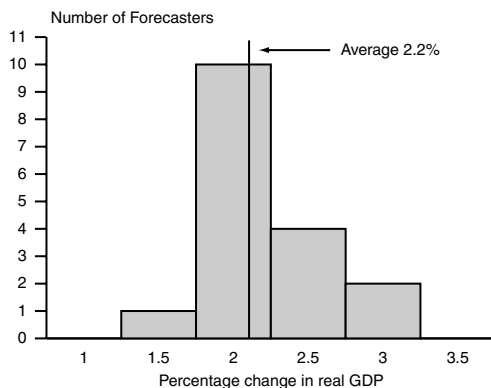
Most participants noted that commodity prices would rise in 2000, but this would be partly offset by an appreciating Canadian dollar. It was also noted that price trends would vary widely by commodity. Metals and pulp prices were expected to rise as demand increased. However, lumber prices would be stable or decline as U.S. housing starts were expected to slow.

### Domestic Developments

Consumer spending growth was expected to increase in 2000, reflecting recent employment and income gains. Employment, on average, was expected to rise at the same pace as in 1999, adding about 34,200 jobs. Most participants anticipated a decline in the unemployment rate in 2000. On average, the unemployment rate was expected to be 8.0 per cent, down from 8.3 per cent in 1999.

Along with employment growth of 1.9 per cent, total wage and salary income was expected to increase 2.6 per cent on average in 2000, up from 2.2 per cent in 1999. One participant anticipated that British Columbia's real personal disposable income per person would rise in 2000 following several years of decline, citing rising employment and wages, and federal and provincial income tax cuts.

### ECONOMIC GROWTH FORECASTS, 2000



Most participants anticipated higher growth in retail sales. On average, Council members expected retail sales to increase 3.0 per cent in 2000, a significant improvement from the 1.8 per cent growth posted in 1999. Pent-up demand and growth in total wage and salary income should contribute to the stronger growth in income spending. A recovery in the housing sector was also expected to flow through to higher sales of household-related goods, including furnishings and appliances.

Housing starts were expected to grow 12.2 per cent on average to 18,300 units in 2000, up from 16,309 units in 1999. The outlook for residential construction depends on interest rates, population growth and household formation. One participant noted that the range in the housing outlook — from a 3.0 per cent decline to a 34.9 per cent increase — was related to different assumptions on changes in the province's population. One Council member said that if inter-provincial net migration does not increase significantly from 1999, housing starts could decline in 2000. Another participant noted that declining existing home sales during the second half of 1999 could indicate a slowdown in the housing sector and lead to reduced housing starts this year.

Profits in the forest sector were up significantly during 1999 following losses in 1998. Business investment was expected to pick up on average as corporate profits improve. One participant noted that there was an apparent failure of some businesses to take an objective read of the provincial economy in making business investment decisions.

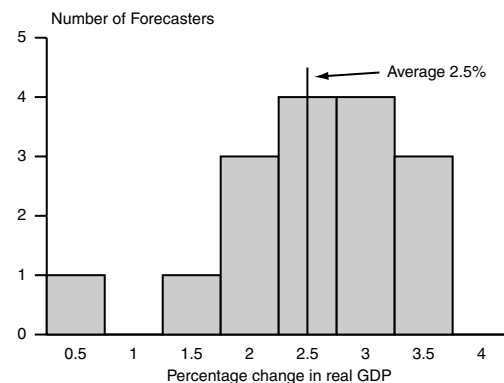
In total, 17 Council members submitted forecasts for real GDP. However, forecasts for some variables including total wage and salary income, profits, business investment and goods and services export prices were omitted by several members.

### Outlook for 2001

The range of real GDP forecasts was wider for 2001, from 0.5 per cent to 3.7 per cent. Most Council members expected stronger growth than in 2000 but three participants expected growth to slow. On average, real GDP in British Columbia was expected to increase 2.5 per cent in 2001.

One of the Council members who predicted slower growth expected stronger-than-expected interest rate hikes by the U.S. Federal Reserve that would dramatically slow economic growth in the United States. Others anticipated less of a lift in commodity prices than in 2000.

### ECONOMIC GROWTH FORECASTS, 2001



### **Risks to the Outlook**

The Council discussed upside and downside risks facing the British Columbia economy during the next two years.

On the upside, risks included:

- stronger than anticipated U.S. growth; and
- higher commodity prices along with stronger global growth.

On the downside, risks included:

- a stock market correction of greater than 10 per cent in the U.S.;
- higher short- and long-term interest rates; and
- a U.S. recession.

Most participants anticipated a one-half to three-quarter percentage point increase in short-term interest rates to 6.25 per cent would be enough to bring about a “soft-landing” in the United States. However, a couple of Council members noted the risk of a significant depreciation of the U.S. currency leading to higher inflation and a more aggressive 1 percentage point or greater increase. Interest rate increases of this magnitude could derail a recovery in British Columbia’s housing sector. They could also cause a sharp slowdown in U.S. housing starts and British Columbia lumber exports.

A major stock market correction in the U.S. was not expected to pose a significant risk to British Columbia. Participants noted the wealth effect (decrease in wealth leading to lower spending) has been smaller historically than the real estate effect (decrease/increase in wealth from real estate holdings leading to lower/higher consumer spending). Others noted the October 1987 stock market correction did not appear to have affected the British Columbia economy (although economic conditions now are different). One participant noted that the U.S. stock market run-up may turn out to benefit the British Columbia economy as more people hold investments in funds that include U.S. equities. A contrary point was made by another Council member who argued that Canadian investors were jumping into U.S. equity mutual funds at just the wrong time (i.e., at a U.S. market peak).

### **Policy Discussion**

Council members discussed fiscal policy options with the Minister of Finance and Corporate Relations during the January 27th meeting. There was a wide range of opinion among the Council members about the appropriate direction of fiscal policy. Some Council members advocated tax cuts as a higher priority than

balancing the budget. Others stressed the importance of eliminating the deficit first. One participant suggested that British Columbia’s higher marginal tax rate was a premium some people were willing to pay to live in this province, but with taxes falling in other jurisdictions, British Columbia would have to follow suit. Others said that the province’s attractiveness was not enough to make up for the higher marginal tax rate.

Several Council members also cautioned government about the pitfalls of supporting specific industries using targeted financial support, rather than levelling the playing field by removing general impediments to business.

The Ministry of Finance and Corporate Relations would like to thank all the participants in the inaugural meeting of the Economic Forecast Council.

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### *Economic Forecast Council Members/Delegates\*:*

Rod Dobell (Moderator) ..	University of Victoria
Paul Darby* .....	Conference Board of Canada
Carl Sonnen .....	Informetrica Ltd.
Teresa Courchene* .....	Toronto Dominion Bank
Alister Smith* .....	Canadian Imperial Bank of Commerce
John McCallum .....	Royal Bank
Tim O’Neill .....	Bank of Montreal
Mary Webb* .....	Scotiabank
Jock Finlayson .....	Business Council of British Columbia
Dave Park .....	Vancouver Board of Trade
George Pedersson .....	G.A. Pedersson & Associates
Ernie Stokes .....	Stokes Economic Consulting
John de Wolf .....	CCG Consulting
William Tharp .....	M. Murenbeeld & Associates
Ken Peacock* .....	Credit Union Central of British Columbia
Dale Orr .....	WEFA Canada
John Helliwell .....	University of British Columbia
Michael Goldberg .....	University of British Columbia
Paul Bowles .....	University of Northern British Columbia

<b>Forecast Survey</b>				
All figures are based on annual averages	<b>2000 Range of Participants' Opinions</b>	<b>2000 Average of Participants' Opinions<sup>1</sup></b>	<b>2001 Range of Participants' Opinions</b>	<b>2001 Average of Participants' Opinions<sup>1</sup></b>
<b>Canada</b>				
— Real GDP (% change) ....	2.8-3.9	3.3 (17)	1.0-3.6	2.8 (17)
— 3-month interest rates (%) .....	4.80-5.68	5.25 (16)	4.20-6.25	5.16 (16)
— 10-year (+ over) interest rates (%) .....	5.80-7.10	6.40 (15)	5.40-7.30	6.16 (15)
— Exchange rate (US¢/Can.\$) .....	68.80-72.00	69.86 (15)	65.00-75.00	71.23 (15)
<b>British Columbia</b>				
— Real GDP (% change) ....	1.7-2.8	2.2 (17)	0.5-3.7	2.5 (16)
— Employment (% change)	0.8-3.0	1.9 (15)	0.5-3.2	2.0 (14)
— Unemployment rate (%)	7.0-8.8	8.0 (15)	6.9-9.2	8.0 (14)
— Total wage and salary income (% change) .....	1.0-4.4	2.6 (9)	0.0-6.0	2.9 (9)
— Corporate pre-tax profits (% change) .....	-4.9-20.0	7.4 (6)	1.1-15.0	6.3 (6)
— Real business non-residential investment (% change) .....	1.5-8.0	3.9 (6)	2.5-15.0	5.6 (6)
— Goods and services export price deflator (% change) .....	1.2-5.0	2.5 (5)	0.0-10.0	3.1 (5)
— Housing starts (% change) .....	-3.0-34.9	12.2 (14)	-5.0-50.0	13.4 (14)
— Retail sales (% change)	1.0-4.5	3.0 (13)	1.0-7.0	3.2 (12)
<sup>1</sup> Based on responses from participants providing forecasts. The number of respondents is shown in parentheses.				

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# *Budget 2000*

## British Columbia Economic Review and Outlook Five-Year Forecast Tables

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### **1. GROSS DOMESTIC PRODUCT — BRITISH COLUMBIA AND CANADA**

Gross Domestic Product, Current and Constant Dollars  
Real GDP Per Capita  
Real GDP Per Employed Person  
Unit Labour Cost

### **2. COMPONENTS OF B.C. REAL GDP AT MARKET PRICES**

Personal Expenditures  
Government Expenditures  
Investment in Fixed Capital  
Final Domestic Demand and Net Exports

### **3. INCOME AND EXPENDITURE**

Average Weekly Earnings  
Labour Income  
Personal Income  
Corporate Profits  
Retail Sales  
Housing Starts  
Residential Investment  
Consumer Price Index

### **4. LABOUR MARKET INDICATORS**

Population, Migration, Participation Rate  
Labour Force, Employment, Unemployment Rate  
Real GDP Per Employed Person

### **5. BRITISH COLUMBIA EMPLOYMENT BY SECTOR**

Goods Sector  
Service Sector

### **6. ECONOMIC ASSUMPTIONS**

Real GDP (Canada, United States, Japan, Germany, Europe)  
Housing Starts (Canada, United States)  
Consumer Price Index (Canada, United States)

### **7. FINANCIAL MARKETS**

Canadian Interest Rates  
United States Interest Rates  
Real Interest Rates  
Canada/U.S. Exchange Rate

### **8. SELECTED GROWTH RATES**

British Columbia  
Canada  
United States



**Table 1: GROSS DOMESTIC PRODUCT - BRITISH COLUMBIA AND CANADA**

March 2000

	ACTUAL			FORECAST				
	1997	1998	1999	2000	2001	2002	2003	2004
<b>BRITISH COLUMBIA:</b>								
GROSS DOMESTIC PRODUCT AT MARKET PRICES:								
- CURRENT DOLLAR (\$ million)	111,126	110,948	114,480 e	118,820	123,610	128,960	133,730	138,780
(% change)	2.9	-0.2	3.2	3.8	4.0	4.3	3.7	3.8
- REAL (1992 \$ million)	99,467	99,708	101,090 e	103,270	106,050	109,110	111,920	114,770
(% change)	1.7	0.2	1.4	2.2	2.7	2.9	2.6	2.5
- GDP DEFLATOR	111.7	111.3	113.2 e	115.1	116.6	118.2	119.5	120.9
(% change)	1.1	-0.4	1.8	1.6	1.3	1.4	1.1	1.2
REAL GDP PER CAPITA (1992 \$)	25,120	24,938	25,127 e	25,379	25,737	26,123	26,414	26,692
(% change)	0.0	-0.7	0.8	1.0	1.4	1.5	1.1	1.1
REAL GDP PER EMPLOYED PERSON (% change)	-0.9	0.2	-0.5	-0.6	-0.2	-0.1	-0.1	0.0
UNIT LABOUR COST* (% change)	1.8	0.4	0.8	2.3	1.7	1.8	1.7	1.3
<b>CANADA:</b>								
GROSS DOMESTIC PRODUCT AT MARKET PRICES:								
- CURRENT DOLLAR (\$ million)	873,947	895,704	949,400	997,340	1,042,700	1,088,010	1,135,280	1,190,390
(% change)	4.8	2.5	6.0	5.0	4.5	4.3	4.3	4.9
- REAL (1992 \$ million)	813,031	838,265	873,374	903,070	928,360	951,570	975,360	1,004,620
(% change)	4.0	3.1	4.2	3.4	2.8	2.5	2.5	3.0
- GDP DEFLATOR INDEX (1992 = 100)	107.5	106.9	108.7	110.4	112.3	114.3	116.4	118.5
(% change)	0.7	-0.6	1.7	1.6	1.7	1.8	1.8	1.8
REAL GDP PER CAPITA (1992 \$)	27,113	27,714	28,643	29,353	29,876	30,320	30,770	31,380
(% change)	2.9	2.2	3.4	2.5	1.8	1.5	1.5	2.0
REAL GDP PER EMPLOYED PERSON (% change)	2.0	1.6	1.4	2.8	1.0	0.7	0.8	1.5

e: British Columbia GDP figures for 1999 are Ministry of Finance and Corporate Relations estimates.

\* Unit labour cost is the nominal cost of labour incurred to produce one unit of real output.

**Table 2: COMPONENTS OF BRITISH COLUMBIA REAL GDP AT MARKET PRICES**

March 2000

	ACTUAL			FORECAST				
	1997	1998	1999 e	2000	2001	2002	2003	2004
PERSONAL EXPENDITURE ON GOODS AND SERVICES (1992 \$ billion)	65.9	66.5	67.5	68.5	70.3	72.1	74.1	75.9
(% change)	4.2	0.9	1.4	1.5	2.6	2.6	2.7	2.6
- Goods (1992 \$ billion)	29.0	29.0	29.3	29.7	30.7	31.7	32.8	33.7
(% change)	3.9	0.1	1.1	1.3	3.3	3.3	3.3	3.0
- Services (1992 \$ billion)	37.0	37.5	38.1	38.7	39.6	40.4	41.3	42.2
(% change)	4.4	1.5	1.6	1.6	2.1	2.2	2.2	2.2
GOVERNMENT CURRENT EXPENDITURES ON GOODS AND SERVICES (1992 \$ billion)	19.6	19.6	20.1	20.3	20.5	20.7	20.8	21.0
(% change)	-0.3	-0.2	2.4	1.4	0.8	0.8	0.8	0.8
INVESTMENT IN FIXED CAPITAL (1992 \$ billion)	22.4	21.2	21.4	22.2	23.0	24.1	25.0	25.9
(% change)	9.2	-5.6	1.0	3.8	3.8	4.5	4.0	3.7
<b>FINAL DOMESTIC DEMAND* (1992 \$ billion)</b>	<b>108.0</b>	<b>107.3</b>	<b>108.9</b>	<b>111.0</b>	<b>113.8</b>	<b>116.8</b>	<b>119.9</b>	<b>122.9</b>
(% change)	4.4	-0.6	1.5	1.9	2.5	2.7	2.6	2.5
NET EXPORTS OF GOODS AND SERVICES (1992 \$ billion)	-10.0	-9.9	-9.8	-9.4	-9.3	-9.5	-9.8	-10.0
- Exports of Goods and Services (1992 \$ billion)	38.7	39.7	41.1	42.8	44.6	46.2	47.7	49.3
(% change)	-0.6	2.4	3.5	4.3	4.1	3.7	3.2	3.3
- Imports of Goods and Services (1992 \$ billion)	48.7	49.5	50.8	52.2	53.9	55.7	57.5	59.2
(% change)	8.6	1.7	2.6	2.6	3.3	3.4	3.2	3.0
INVENTORY CHANGE (1992 \$ billion)	0.9	1.1	0.8	0.5	0.5	0.6	0.7	0.7
STATISTICAL DISCREPANCY (1992 \$ billion)	0.6	1.1	1.1	1.1	1.1	1.1	1.1	1.1
<b>REAL GDP AT MARKET PRICES** (1992 \$ billion)</b>	<b>99.5</b>	<b>99.7</b>	<b>101.1</b>	<b>103.3</b>	<b>106.1</b>	<b>109.1</b>	<b>111.9</b>	<b>114.8</b>
(% change)	1.7	0.2	1.4	2.2	2.7	2.9	2.6	2.5

e: British Columbia GDP figures for 1999 are Ministry of Finance and Corporate Relations estimates.

\* Final domestic demand is the sum of personal expenditures, government expenditures and investment in fixed capital.

\*\* Real Gross Domestic Product at Market Prices is the sum of final domestic demand, net exports, inventory changes and statistical discrepancy.

**Table 3: INCOME AND EXPENDITURE**

March 2000

	ACTUAL			FORECAST				
	1997	1998	1999	2000	2001	2002	2003	2004
AVERAGE WEEKLY WAGE RATE* (\$)	611	618	625	635	643	654	664	674
(% change)	0.5	1.3	1.1	1.5	1.4	1.7	1.5	1.4
LABOUR INCOME ** (\$ million)	60,505	60,903	62,250	64,550	67,390	70,560	73,590	76,460
(% change)	3.6	0.7	2.2	3.7	4.4	4.7	4.3	3.9
PERSONAL INCOME (\$ million)	94,085	95,575	97,091 e	100,200	103,810	107,860	111,740	115,650
(% change)	2.7	1.6	1.6	3.2	3.6	3.9	3.6	3.5
CORPORATE PROFITS BEFORE TAXES (\$ million)	7,041	6,412	7,150 e	8,225	8,635	8,630	8,200	8,280
(% change)	0.1	-8.9	11.5	15.0	5.0	0.0	-5.0	1.0
RETAIL SALES (\$ million)	33,736	33,045	33,653	34,600	36,260	37,960	39,820	41,650
(% change)	5.2	-2.0	1.8	2.8	4.8	4.7	4.9	4.6
HOUSING STARTS (000's)	29.4	19.9	16.3	18.0	22.0	24.0	25.3	26.0
(% change)	6.2	-32.1	-18.2	10.4	22.2	9.1	5.4	2.8
RESIDENTIAL INVESTMENT *** (\$ million)	8,924	7,865	7,227	7,370	7,830	8,490	8,980	9,450
(% change)	5.7	-11.9	-8.1	2.0	6.2	8.4	5.8	5.2
<b>CONSTANT DOLLAR GROWTH RATES:</b>								
AVERAGE WEEKLY EARNINGS	-0.3	1.0	0.0	0.2	0.1	0.3	0.0	-0.1
LABOUR INCOME	2.8	0.4	1.1	2.4	3.1	3.3	2.8	2.4
PERSONAL INCOME	1.9	1.3	0.5	1.9	2.3	2.5	2.1	2.0
CORPORATE PROFITS	-0.7	-9.1	10.3	13.6	3.6	-1.4	-6.4	-0.5
RETAIL SALES	4.4	-2.3	0.7	1.5	3.5	3.3	3.3	3.1
RESIDENTIAL INVESTMENT	7.2	-10.3	-8.8	-0.3	5.1	6.5	4.2	3.7
B.C. CONSUMER PRICE INDEX (1992 = 100)	109.7	110.0	111.2	112.6	114.1	115.7	117.4	119.2
(% change)	0.8	0.2	1.1	1.3	1.3	1.4	1.5	1.5

e: Ministry of Finance and Corporate Relations estimate.

\* Includes overtime.

\*\* Domestic basis; wages, salaries and supplementary labour income.

\*\*\* Includes renovations and improvements.

**Table 4: LABOUR MARKET INDICATORS**

March 2000

	ACTUAL			FORECAST				
	1997	1998	1999	2000	2001	2002	2003	2004
POPULATION (on July 1) (000's)	3,960	3,998	4,023	4,069	4,121	4,177	4,237	4,300
(% change)	2.0	1.0	0.6	1.1	1.3	1.4	1.4	1.5
LABOUR FORCE POPULATION, 15+ YEARS (000's)	3,112	3,159	3,193 e	3,244	3,299	3,359	3,419	3,484
(% change)	2.5	1.5	1.1	1.6	1.7	1.8	1.8	1.9
NET IN-MIGRATION								
- INTERNATIONAL**	42,651	28,339	34,261 e	29,100	29,400	31,400	33,500	34,200
- INTERPROVINCIAL	1,980	-20,984	-11,721 e	7,700	12,500	15,600	17,900	18,500
- TOTAL	44,631	7,355	22,540 e	36,800	41,900	47,000	51,400	52,700
PARTICIPATION RATE* (%)	65.6	64.9	65.1	65.4	65.8	66.3	66.7	67.1
LABOUR FORCE (000's)	2,040	2,051	2,079	2,123	2,170	2,225	2,281	2,338
(% change)	2.3	0.5	1.4	2.1	2.2	2.6	2.5	2.5
EMPLOYMENT (000's)	1,869	1,870	1,906	1,949	2,007	2,066	2,122	2,175
(% change)	2.6	0.1	1.9	2.3	2.9	3.0	2.7	2.5
UNEMPLOYMENT RATE (%)	8.4	8.8	8.3	8.2	7.5	7.1	7.0	7.0
REAL GDP PER EMPLOYED PERSON (% change)	-0.9	0.2	-0.5	-0.6	-0.2	-0.1	-0.1	0.0

e: Ministry of Finance and Corporate Relations estimate.

\* Percentage of the population 15 years of age and over in the labour force.

\*\* International includes net non-permanent residents and returning emigrants less net temporary abroad

**Table 5: BRITISH COLUMBIA EMPLOYMENT BY SECTOR**

March 2000

GOODS SECTOR	ACTUAL		FORECAST		SERVICE SECTOR	ACTUAL		FORECAST	
	1998	1999	2000	2001		1998	1999	2000	2001
FORESTRY & LOGGING	26	24	24	25	TRANSPORTATION & COMMUNICATION	106	118	115	122
OTHER PRIMARY	53	44	46	48	TRADE	294	309	319	329
MANUFACTURING	195	193	197	206	FINANCE, INSURANCE & REAL ESTATE	123	120	120	121
- Wood Products	44	42	41	41	COMMUNITY, BUSINESS & PERSONAL SERVICES	846	873	900	925
- Paper & Allied	21	20	22	23	PUBLIC ADMINISTRATION	93	90	91	91
- Other Mfg.	130	131	134	142					
CONSTRUCTION	122	123	125	127	<b>TOTAL SERVICE INDUSTRIES</b>	1,462	1,510	1,545	1,588
UTILITIES	13	12	13	13	(% change)	0.8	3.3	2.3	2.8
<b>TOTAL GOODS INDUSTRIES</b>	408	396	405	419	<b>TOTAL EMPLOYMENT</b>	1,871	1,906	1,949	2,007
(% change)	-2.1	-3.0	2.1	3.6	(% change)	0.1	1.9	2.2	2.9

**Table 6: ECONOMIC ASSUMPTIONS**

March 2000

	ACTUAL			FORECAST				
	1997	1998	1999	2000	2001	2002	2003	2004
<b>REAL GDP (billions)</b>								
CANADA (1992 \$)	813.0	838.3	873.4	903.1	928.4	951.6	975.4	1004.6
(% change)	4.0	3.1	4.2	3.4	2.8	2.5	2.5	3.0
U.S.A. (1992 U.S.\$; chain-weighted)	8,165	8,516	8,867	9,177	9,453	9,689	9,931	10,229
(% change)	4.5	4.3	4.1	3.5	3.0	2.5	2.5	3.0
JAPAN (1990 Yen)	492,954	480,587	481,865	484,300	490,600	500,400	510,400	520,600
(% change)	1.6	-2.5	0.3	0.5	1.3	2.0	2.0	2.0
GERMANY (1995 DM)	3,601	3,679	3,728	3,829	3,932	4,035	4,123	4,214
(% change)	1.5	2.2	1.4	2.7	2.7	2.6	2.2	2.2
EUROPE* (% change)	2.5	2.7	2.1 e	2.8	2.7	2.4	2.4	2.5
<b>HOUSING STARTS (000's)**</b>								
CANADA	148	139	150	156	160	160	160	160
(% change)	20.2	-6.5	8.1	4.3	2.6	0.0	0.0	0.0
U.S.A.	1,475	1,621	1,674	1,535	1,505	1,500	1,500	1,500
(% change)	-0.2	9.9	3.3	-8.3	-2.0	-0.3	0.0	0.0
JAPAN	1,387	1,198	1,219	1,230	1,240	1,240	1,250	1,250
(% change)	-15.6	-13.6	1.7	0.8	0.9	0.0	0.9	0.0
<b>CONSUMER PRICE INDEX</b>								
CANADA (1992=100)	107.6	108.6	110.5	112.9	115.3	117.6	120.0	122.4
(% change)	1.6	1.0	1.7	2.2	2.1	2.0	2.0	2.0
U.S.A. (1982-1984=100)	160.5	163.0	167.4	171.8	176.0	180.1	184.6	189.2
(% change)	2.3	1.6	2.7	2.6	2.5	2.3	2.5	2.5

\* European Union less Luxembourg, plus Austria, Finland, Iceland, Norway, Sweden, Switzerland, Turkey, and former Yugoslavia.

\*\* British Columbia housing starts appear in Table 3.

e: Ministry of Finance and Corporate Relations estimate.

**Table 7: FINANCIAL MARKETS**

March 2000

	ACTUAL			FORECAST		
	1997	1998	1999	2000	2001	2002-2004
<b>CANADIAN INTEREST RATES (%)</b>						
3-MONTH TREASURY BILLS	3.2	4.7	4.7	5.4	5.4	5.2
LONG-TERM GOVERNMENT BONDS (10 years and over)	6.4	5.6	5.7	6.7	6.4	6.2
<b>UNITED STATES INTEREST RATES (%)</b>						
3-MONTH TREASURY BILLS	5.1	4.8	4.7	6.2	6.4	5.5
LONG-TERM GOVERNMENT BONDS (10 years and over)	6.7	5.7	5.9	7.1	6.8	6.3
<b>REAL INTEREST RATES* (%)</b>						
CANADIAN TREASURY BILLS	1.6	3.7	3.0	3.8	3.8	3.6
U.S. TREASURY BILLS	2.8	3.2	2.0	4.0	4.2	3.3
CANADIAN LONG-TERM BONDS	4.7	4.6	4.0	5.1	4.8	4.6
U.S. LONG-TERM BONDS	4.4	4.1	3.2	4.9	4.6	4.1
<b>EXCHANGE RATE (U.S. cents / Canadian \$)</b>	72.2	67.4	67.3	69.4	71.4	73.8

\* Real interest rates are nominal interest rates minus expected inflation. The real interest rates in this table are based on actual and forecast inflation rates shown in Table 6.

**Table 8: SELECTED GROWTH RATES**

March 2000

	ACTUAL			FORECAST				
	1997	1998	1999	2000	2001	2002	2003	2004
<b>BRITISH COLUMBIA (%)</b>								
REAL GDP	1.7	0.2	1.4 e	2.2	2.7	2.9	2.6	2.5
CONSUMER PRICE INDEX	0.8	0.2	1.1	1.3	1.3	1.4	1.5	1.5
LABOUR FORCE	2.3	0.5	1.4	2.1	2.2	2.6	2.5	2.5
EMPLOYMENT	2.6	0.1	1.9	2.3	2.9	3.0	2.7	2.5
UNEMPLOYMENT RATE (level)	8.4	8.8	8.3	8.2	7.5	7.1	7.0	7.0
AVERAGE WEEKLY EARNINGS	0.5	1.3	1.1	1.5	1.4	1.7	1.5	1.4
PERSONAL INCOME	2.7	1.6	1.6 e	3.2	3.6	3.9	3.6	3.5
RETAIL SALES	5.2	-2.0	1.8	2.8	4.8	4.7	4.9	4.6
CORPORATE PROFITS	0.1	-8.9	11.5	15.0	5.0	0.0	-5.0	1.0
<b>CANADA (%)</b>								
REAL GDP	4.0	3.1	4.2	3.4	2.8	2.5	2.5	3.0
CONSUMER PRICE INDEX	1.6	1.0	1.7	2.2	2.1	2.0	2.0	2.0
EMPLOYMENT	1.9	1.5	2.8	2.0	2.0	1.8	1.7	1.5
POPULATION (on July 1)	1.1	0.9	0.9	0.9	1.0	1.0	1.0	1.0
LABOUR INCOME	5.8	4.0	4.5 e	6.0	5.9	5.6	5.3	5.3
<b>U.S.A. (%)</b>								
REAL GDP	4.5	4.3	4.1	3.5	3.0	2.5	2.5	3.0
CONSUMER PRICE INDEX	2.3	1.6	2.7	2.6	2.5	2.3	2.5	2.5

e: Ministry of Finance and Corporate Relations estimate.