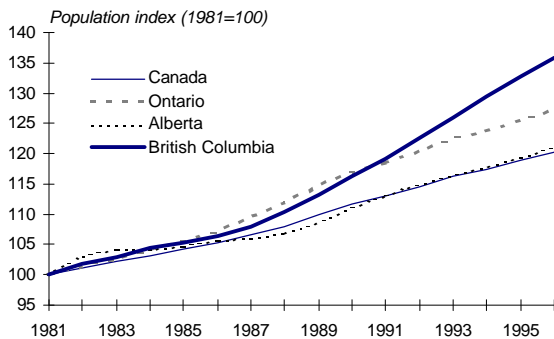


## Business Indicators ♦ January 1998

### Long-term Trends in BC's Economy

#### ***BC's population has increased more than a third since 1981...***

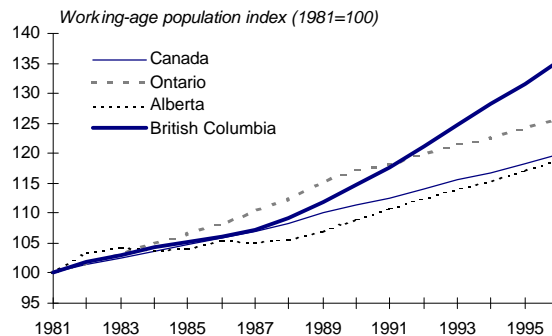


BC's economy has been viewed as one of the top performers in the Canadian confederation. The province has had the fastest population growth in the country in recent years, sustained by migration from other countries and from other parts of Canada. Thirteen percent of Canadians now live in British Columbia, and largely as a result of gains made since the late 1980s, BC's population in 1996 was 36% higher than in 1981. No other province recorded a similarly large increase in its population (Ontario, with a 27% increase, was ranked second among the provinces). Canada's population grew 20% during the period from 1981 to 1996.

The population of seniors (65 and older) in BC increased 63% during this period, more than any other age group. However, population growth has not been confined to seniors. Between 1981 and 1996, BC's working-age population grew at about the same rate (35%) as the

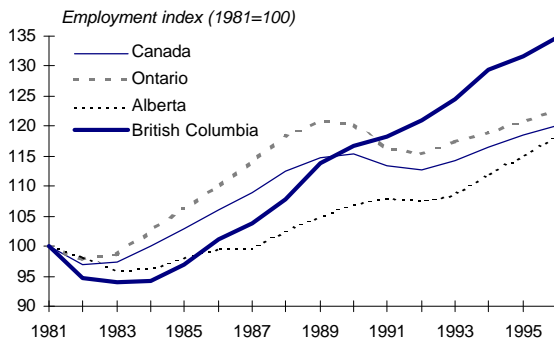
general population. The potential supply of workers did not increase nearly as much in other provinces. Nationally, the number of people aged 15 to 64 was only 20% higher than in 1981.

#### ***and the province's working-age population (15 to 64) has grown at about the same rate***

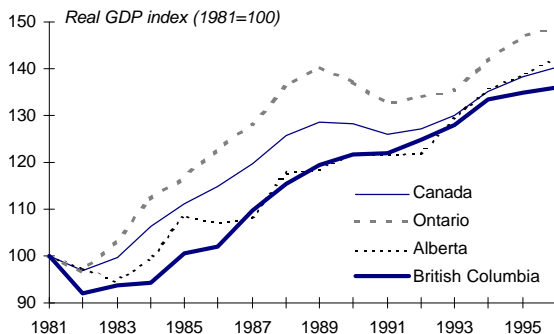


Strong population growth, especially among those of working age, has been an important factor contributing to employment gains in BC. The number of people with jobs in the province rose more than a third during the last decade and a half. This was well in excess of employment gains in the rest of the country, but consistent with the growth in the number of working-age people living in the province. Nationally, employment growth also kept pace with population increases in the 15-to-64 age group.

**BC has had the best job growth record in the country during the 1990s**



**However, real GDP has increased less than in other parts of the country**



Despite strong population and employment growth, BC's real gross domestic product—the unduplicated value of goods and services produced in the economy—has not increased as much as in other parts of Canada. Total GDP growth of 36% from 1981 to 1996 was below the national average (40%), and lower than in both Alberta (42%) and Ontario (49%).

One reason for the lower-than-average GDP growth over the entire period is that BC was particularly hard-hit by the recession of the early 1980s. The economy shrank 8% between 1981 and 1982, compared to a 3% decline nationally. It did not recover to its pre-recession level until 1985, two years after the Canadian economy was back on track.

Despite a strong recovery in the latter half of the 1980s, with an economy that grew faster than Canada's in every year from 1987 to 1994, Brit-

ish Columbia's cumulative economic growth since 1981 has remained below the national average. Alberta was in the same position, but strong growth in the last two years has improved that province's overall performance. In BC, slower growth during 1995 and 1996, at a time when the Canadian economy was continuing to expand, has exacerbated the situation.

This seems puzzling: how is it possible that a province which has successfully attracted people from other regions and has had the best job growth record in the country has not succeeded equally well in terms of its overall economic growth? The deep contraction in the early 1980s is certainly part of the answer, but it does not explain the recent period of slower growth which contrasts with the national experience. It is particularly curious given that much of the rapid expansion in the province's population and the number of jobs has occurred since the end of the 1980s—the same period in which BC's economic growth advantage over the country as a whole has been steadily eroded.

While it is not possible to explain this phenomenon definitively, there are some factors which appear to have contributed to this apparent anomaly.

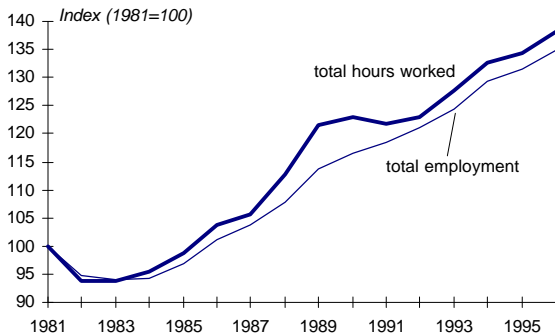
**Is part-time work the explanation?**

The shift from full-time to part-time employment has been suggested as a possible explanation for slower growth, since workers who put in fewer hours on the job cannot be expected to produce the same output as those who work full time. Part-time employment has become an increasingly important factor in the BC job market. Between 1981 and 1996, part-time employment grew faster than full-time employment, and as a result, the percentage of workers in BC who were employed part-time increased from 17% to 20%. This compares to 19% of workers who were employed part-time at the national level, up from 15% in 1981.

A significant percentage (28%) of part-time workers in BC said they had part-time jobs be-

cause they could not find full-time employment. This was up from 14% in 1981. At the national level, the proportion also doubled, from 16% in 1981 to 32% in 1996.

**The average number of hours worked each week has increased more than the number of jobs**



Despite the increase in part-time employment, the actual total hours worked in the province has increased faster than the number of jobs since 1981. This is because, while part-time employment has become more common, more part-timers are working longer hours. At the same time, a growing number of full-time workers (15% of all employees, up from 11% in 1981) are putting in at least 50 hours each week. This has resulted in the average number of hours actually worked each week increasing from 33.1 in 1981 to 33.9 in 1996.

Even though the number of hours worked each week has increased, BC workers have more leisure time, on average, than their fellow Canadians. They spent less time at work than employees in any other province except Quebec (also at 33.9 hours). This was an hour less than the national average (34.9 hours), and 3 hours less than in Alberta.

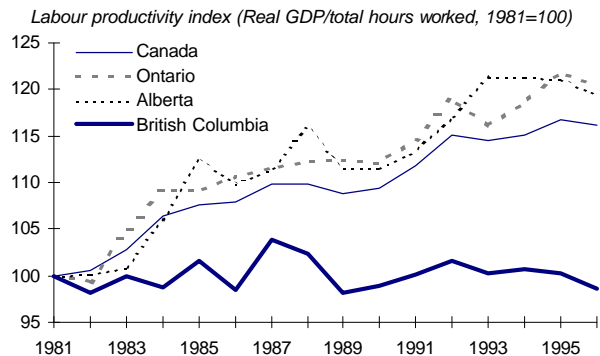
This suggests that a shorter-than-average work week for both full-time and part-time employees in the province is a more likely explanation of the discrepancy between job growth and economic growth in BC *vis-a-vis* the rest of Canada than the shift to part-time employment. All other things being equal, a shorter work week means

that more job growth would be required to produce the same increase in output as in a region where workers typically spend more time on the job each week.

**Trends in labour productivity**

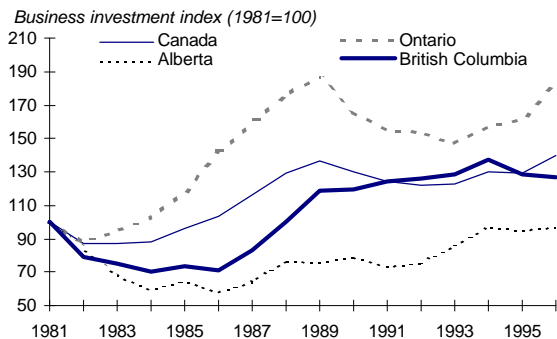
A comparison of real GDP growth over time to the amount of labour input (measured by total hours worked rather than the number of workers) highlights the difference between the factors contributing to economic growth in this province and those underlying the growth that has occurred in the rest of the country. Since 1981, labour productivity in the province has remained more or less constant. In the rest of Canada, the output per hour worked has increased fairly steadily during the last decade and a half.

**Labour productivity in the province has remained virtually unchanged since 1981**



Labour productivity is only a rough measure of productivity change. It tends to overstate the contribution of labour to total output, as economic growth can also result from technology change or improvements resulting from investment in capital stock. These influences may be reflected in changes in labour productivity. (A more accurate, but more difficult to measure, estimate of productivity change is total factor productivity, which takes into account the effects of changes in both labour and capital inputs.)

## **Business investment in fixed capital has grown at about the same rate as in the rest of Canada**



Some of the productivity growth in the rest of Canada might be explained by increased capitalization. However, business capital investment in BC has increased at almost the same rate as in the rest of the country since 1981. In Alberta, business investment in capital has remained below the level it was at in 1981. The levelling off of investment seen in BC during the last few years is very similar to what has happened nationally. Thus, it appears that lower capital investment is not likely to be the major reason for differences between productivity growth in BC and in the rest of the country.

### **The Role of the Service Sector**

It is tempting to look at the service orientation of the economy as a possible factor explaining the province's relatively lower labour productivity growth. BC's service sector accounts for a larger share of its total GDP than in most other provinces (Nova Scotia and Newfoundland being the only exceptions), with just under three-quarters (73.5%) of total GDP originating in services in 1996. Nationally, services accounted for 66.0% of total GDP, and in Alberta (the least service-sector oriented economy in Canada), 56.7% of total GDP was produced by service industries.

Service industries have been providing the impetus for much of BC's economic growth in recent years. The relative size of BC's service sector has grown more since 1984 than in most other parts of the country. In 1984, service in-

dustries produced only 69.1% of BC's GDP. Nationally, service industries grew from 63.6% of the economy in 1984 to 66.0% in 1996. Service sector growth in Alberta has lagged behind that in the goods industries.

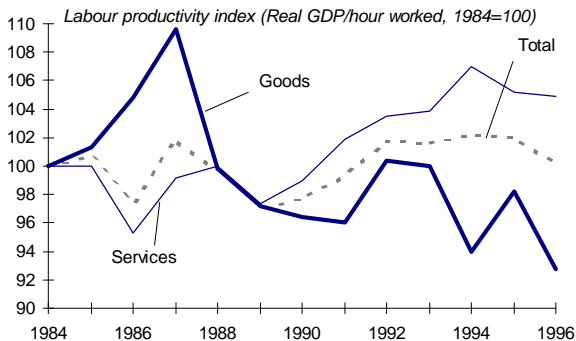
It should be noted that some service industries have close ties to the goods sector, as they provide transportation, accounting or other business services to industries which are producing goods. Increased contracting out of services by the goods industries has undoubtedly been a factor in the growth of the service sector during the last fifteen years.

Three out of every four (76.2%) jobs in the province were in the service sector in 1996. This compares to 73.1% of all jobs nationally. In Alberta, service-sector workers made up 71.7% of the workforce in 1996.

Workers in service industries are usually paid less than those who are employed in the goods sector. In 1996, the average wage of a service-sector worker in BC was \$564 per week, compared to earnings of \$782 weekly in the goods sector. This difference in relative wages affects GDP because the value of the output of many service industries is difficult to measure, so GDP estimates are often closely related to the remuneration received by workers in the service industries. Thus, it is reasonable to suppose that service sector growth might explain the low productivity growth in the province.

However, using data on total hours worked by industry, it appears that labour productivity in the service sector has actually been increasing since 1984, the first year for which GDP by industry estimates are available for all provinces. In contrast, the productivity of workers in the goods sector has been declining. In other words, it would appear that BC's service sector growth has helped boost the province's overall productivity.

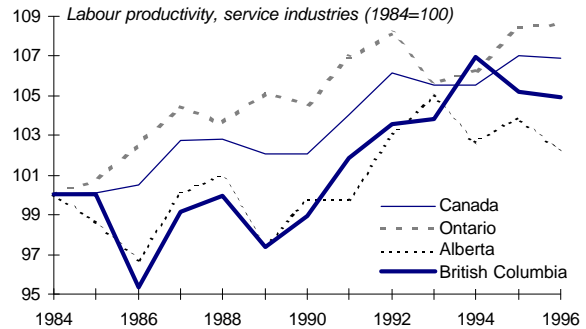
**Productivity growth in the service sector may have shored up overall productivity in the province**



A comparison of productivity growth in the goods and service sectors for BC and other provinces illustrates this effect. The province's below-average productivity growth during the last fifteen years appears to be mainly due to declining productivity in the goods sector. Service-sector productivity growth has more or less kept pace with productivity improvements in the rest of the country.

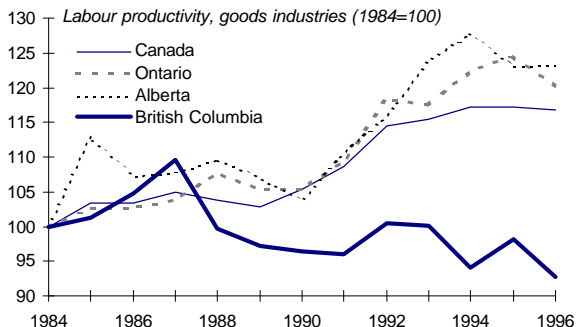
The decline in productivity in the goods sector since 1984 appears to be concentrated mainly in the logging and manufacturing industries. Productivity in the agriculture and mining sectors has increased more than at the national level.

**more or less kept pace with the rest of Canada**



Perhaps what differentiates BC's economic situation from that in the rest of the country is its position as an economy in transition. The province's primary industries have been forced to restructure in the face of changing world demand and fluctuating prices for BC's forest and mining-dominated resource sector. As the economy continues to adapt to a new reality, a growing and vibrant service sector can help sustain economic growth and make the adjustment period smoother.

**Labour productivity in BC's goods sector has been declining...**



**while at the same time, productivity growth in the service industries has**