

Business Indicators ♦ November 1998

British Columbia's Changing Industrial Structure

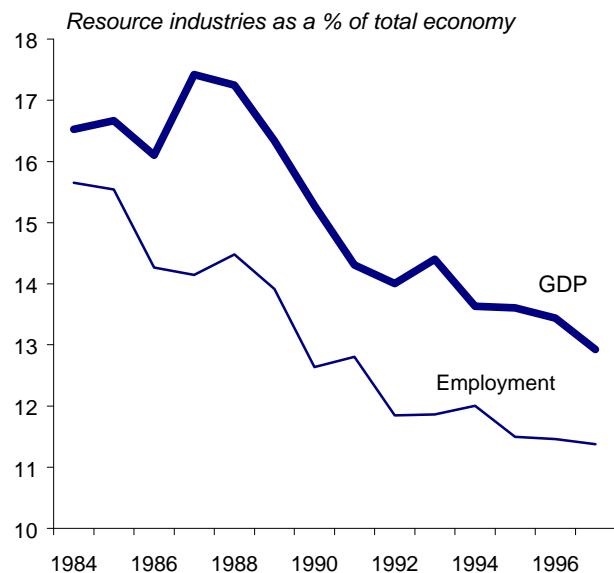
Natural resource extraction and processing industries provided the foundation upon which British Columbia's economy was first built, and are still the dominant industries in many rural areas and smaller centres of the province. However, in the larger urban centres, these industries have become less prominent, giving way to an increasingly important service sector and some fast-growing manufacturing industries which have no direct connection with natural resources.

A more liberal continental trading environment under the North America Free Trade Agreement (NAFTA) has encouraged the diversification of the British Columbia economy, as have the low Canadian exchange rate and a rapidly expanding domestic market and labour pool within the province. These forces have brought with them a greater degree of urbanization, as new manufacturing and service employment is being created in urban centres faster than forestry, mining, fishing or agricultural jobs are becoming available in the rest of the province.

This diversification indicates that the economy is maturing into a more broadly-based structure, less vulnerable to changes in international markets for natural resource commodities. However, the process still has a long way to go before the economy can be considered truly diversified. Despite a shift to other types of manufacturing, wood, pulp and paper production continue to dominate the manufacturing sector, and more than half (53%) of its total gross domestic product (GDP) is derived from forest and mineral products. This is twice the national average. Manufacturers in the other large provinces (Ontario, Quebec and Alberta) are not nearly as dependent on the processing of natural resources as BC manufacturers.

Lumber, pulp and coal are still the province's three main exports, but there has been a considerable diversification of the export mix in the 1990s. In 1997, forestry, fishing, mineral and energy products together accounted for 77% of total exports, down from 85% in 1990.

Industries which extract and process natural resources no longer dominate BC's economy

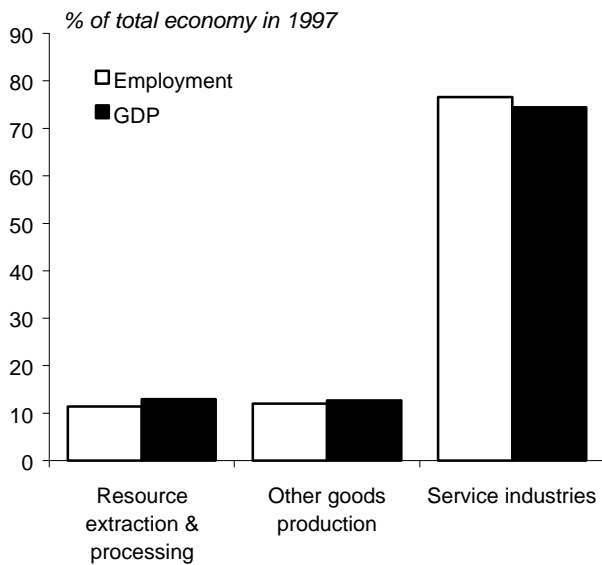


Although its manufacturing sector is still concentrated on resource-based products, British Columbia can no longer be characterized as a resource economy. In 1997, only 13% of the province's GDP¹ originated in industries in-

¹ These figures only measure the direct impact of an industry. They do not measure the indirect effect that industries have on firms supplying them with the goods and services used as inputs to production.

involved in the extraction and processing of natural resources (agriculture, fishing, forestry, mining, and related manufacturing activities), and these industries employed² just 11% of the workforce. This compares to 17% of GDP, and 16% of employment, in 1984.

Three-quarters of British Columbia's GDP, and a similar percentage of its workforce, are in the service sector...



The decline in the relative size of the resource sector has been accompanied by growth in other types of goods-producing industries. These industries employed more British Columbians (221,000, compared to 209,000) than the resource sector in 1997, and they made as great a contribution (13%) to the province's GDP. This represents a significant gain for the non-resource-based goods industries, which employed 50% fewer workers than the resource sector in 1984. Not even the fast-growing service sector has recorded as strong job growth during this period. However, despite the strong

All GDP figures are expressed in constant (1992) dollars

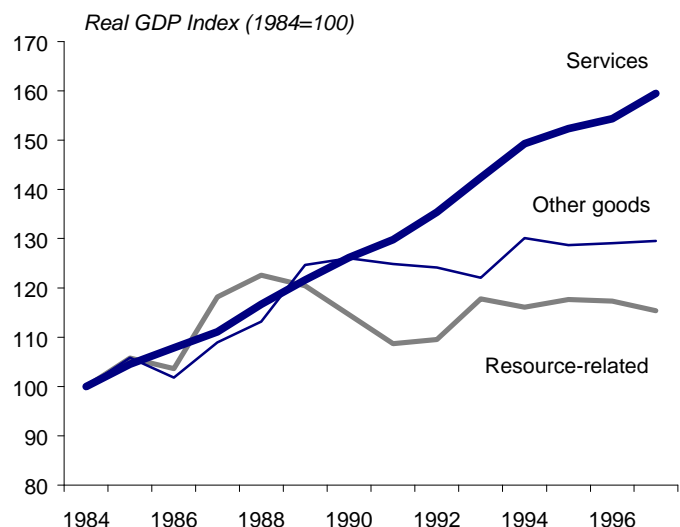
² Employment figures do not differentiate between full-time and part-time workers. At least some of the employment growth during the period since 1984 is the result of an increase in part-time employment.

employment gains, the GDP produced by these industries has not increased as much as that of the service sector.

British Columbia's growing service-sector orientation is evident in the contribution made by service industries to total GDP. In 1997, just under three-quarters (74%) of the province's GDP originated in the service sector. This compares to 69% ten years earlier. BC's service sector is the second largest in the country, after Nova Scotia (where 77% of GDP originates in service-producing industries). Nationally, the contribution of the service sector to total GDP has held fairly steady at about 67% during the last ten years.

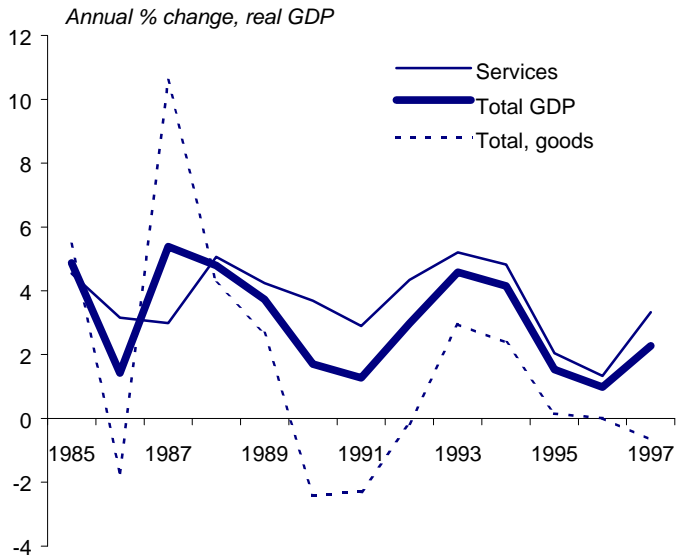
Service industries are also the main employers of British Columbians. Three out of every four workers in the province have jobs in service industries. Although wages in the service sector are sometimes lower than those in the goods industry, these workers earned just under three-quarters (73%) of all the wages and salaries in the province in 1997.

...which is now the primary engine of economic growth



Gains in the service sector have more

than offset recent weakness in goods-producing industries



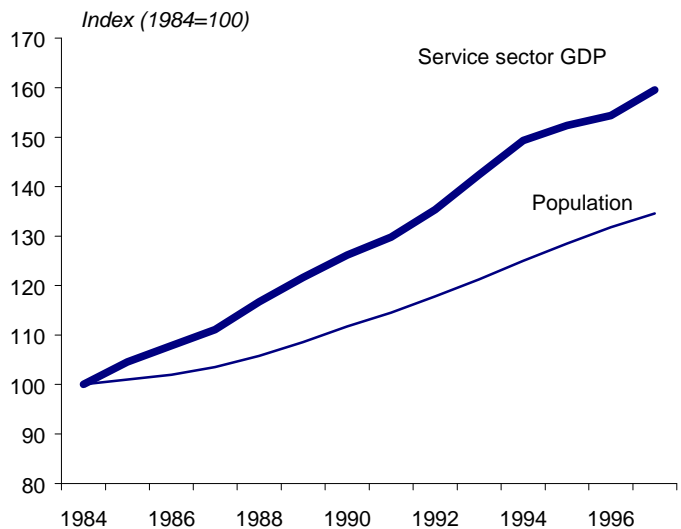
The service sector, which has grown steadily since 1984, is now the primary growth engine in British Columbia's economy. GDP growth in the service-producing industries has outpaced that in the goods-producing sector in every year since 1988. Service industries have bolstered British Columbia's economic performance at times when the goods sector has been weak, such as in the period of slower economic growth at the beginning of this decade. More recently, the service sector has advanced even though the goods sector has slowed. As a result, the province's economy has continued to expand despite three consecutive years of little or no growth in the goods-producing industries. It is likely that services will continue to provide much of the impetus for future growth in British Columbia.

A growing population has contributed to the strength of BC's service sector, which has been buoyed by an influx of people from other provinces and from the rest of the world. Industries which are most likely to be affected by population growth include those providing education, health care and government services, as well as retailing, financial, real estate, personal and recreation services. This list is not exhaustive, but these industries generated almost half of British Columbia's total GDP in 1997.

However, the expansion of the service sector during the last thirteen years has been well in excess of the population increase. The rising prominence of the service sector in British Columbia can be attributed to a variety of other factors in addition to population growth.

Contracting out by firms of some services previously done in-house (such as engineering, legal services, computer services, accounting and personnel management) has undoubtedly contributed to the gains in the service sector. Some of the industries showing the strongest growth during the period from 1984 to 1997 are in this group. Other contributing factors include changes in consumer preferences and lifestyle changes, which have led to the development of new types of service industries in areas such as tourism, physical fitness and recreation. Rising labour force participation rates for women have created a need for services such as child care or house cleaning. In addition, the emergence

Population growth by itself does not account for the rapid gains in the province's service sector



of new high-technology industries has boosted the activity of some service-sector companies. Many other industries in the "new" economy also have a high service-sector orientation.

Growth in some service industries is related to developments in the goods-producing sector. For example, some transportation services are highly dependent on the movement of forest and mineral products to foreign markets, while business services such as customs brokerage facilitate export flows. Similarly, a new construction project could generate work for firms in a wide variety of service industries: architects and engineering consulting firms (business services), wholesalers (wholesale trade), retailers (retail trade) and trucking firms (transportation).

Despite the fact that BC's service sector dominates the overall size and growth of the economy, the goods-producing sector still plays an important role in generating growth. However, given the increasing importance of the "new economy", it is likely that service industries will provide much of the impetus for BC's future economic development.