

# The Importance of BC's Rural Economy

presented to

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**Securing the Future – 2010 and Beyond**

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# Topics Addressed

- Economic significance of BC's resource industries
- Recent trends in "rural" or "non-metropolitan" BC

# British Columbia's Regions

<u>Region</u>	<u>Composite Regional Districts</u>	<u>Region</u>	<u>Composite Regional Districts</u>
<b>NON-METROPOLITAN REGIONS:</b>			
<b>Kootenays</b>	East Kootenay Central Kootenay Kootenay Boundary	<b>South Coast and Island</b>	Mount Waddington Central Coast Comox-Strathcona Powell River Alberni-Clayoquot Cowichan Valley Nanaimo
<b>Okanagan Basin</b>	Okanagan-Similkameen Central Okanagan North Okanagan	<b>Nechako</b>	Stikine Region Bulkley-Nechako
<b>Sunshine to Rockies</b>	Sunshine Coast Squamish-Lillooet Thompson-Nicola Columbia-Shuswap	<b>Northeast</b>	Northern Rockies Peace River
<b>Cariboo</b>	Fraser-Fort George Cariboo	<b>METROPOLITAN REGIONS:</b>	
<b>North Coast</b>	Skeena-Queen Charlotte Kitimat-Stikine	<b>Lower Mainland</b>	Fraser Valley Greater Vancouver
		<b>Capital</b>	Capital

Source: BC Government; Urban Futures Institute.

## “Non-Metropolitan” BC

- All of BC excluding the Lower Mainland and the Capital Region:
  - » home to 1.4 million people, or one-third of BC’s population
  - » directly accounts for 706,000 jobs or 34% of all BC employment
  - » source of the majority of BC’s exports
  - » provides a key source of demand for many of the lower mainland’s service industries
- Although some diversification has occurred over time, resource production still dominates BC’s non-metropolitan economy

# **Economic Significance of BC's Resource Industries**

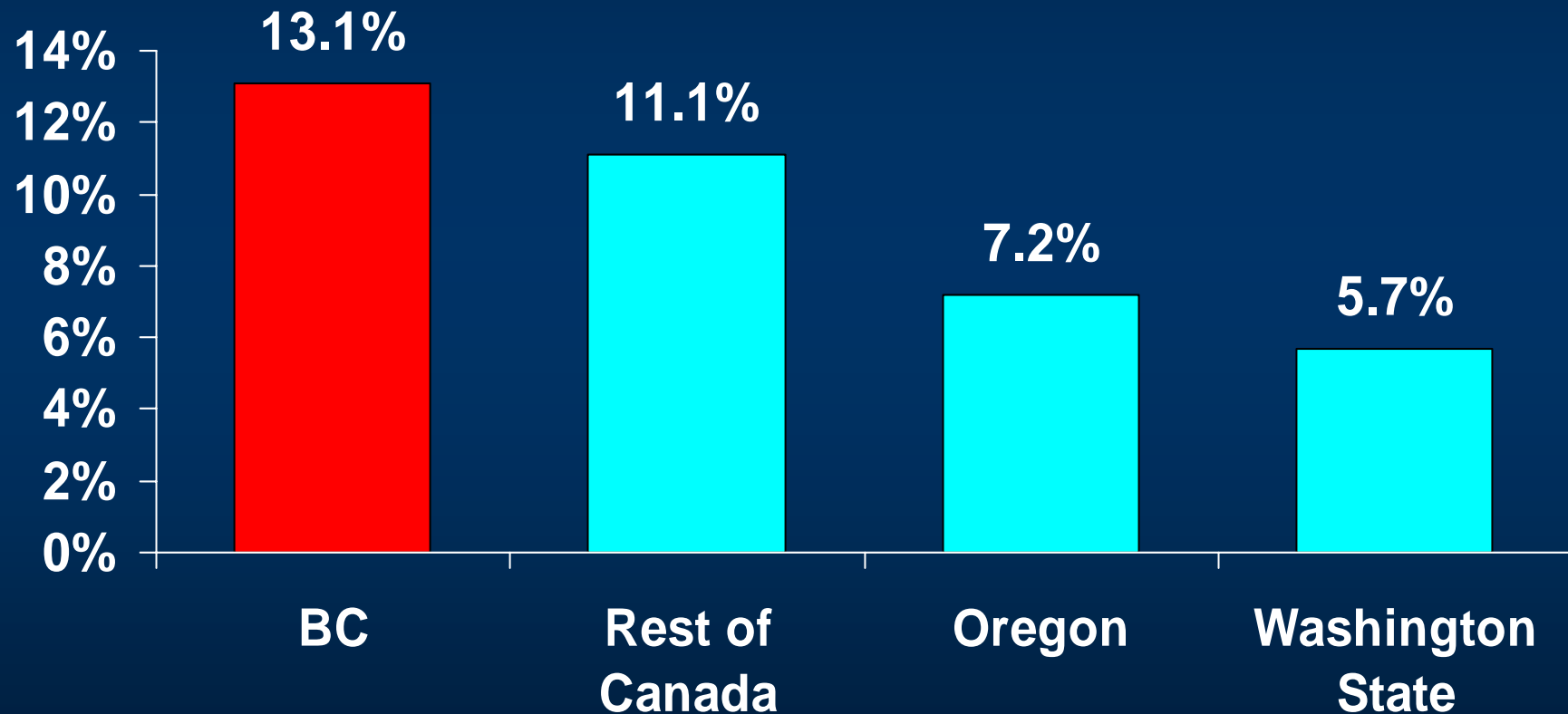
# BC's Resource Sector

For this presentation, it is defined as:

- » Forestry and related processing (logging, wood products manufacturing, pulp and paper)
- » Mining and related processing
- » Natural gas and oil
- » Petroleum and coal products manufacturing
- » Fishing/seafood products (and processing)
- » Agriculture and related processing

# BC's Resource Sector is Relatively Big

## Resource Sector's Share of GDP, 2002



*Note: Washington and Oregon are based on 2001 data*

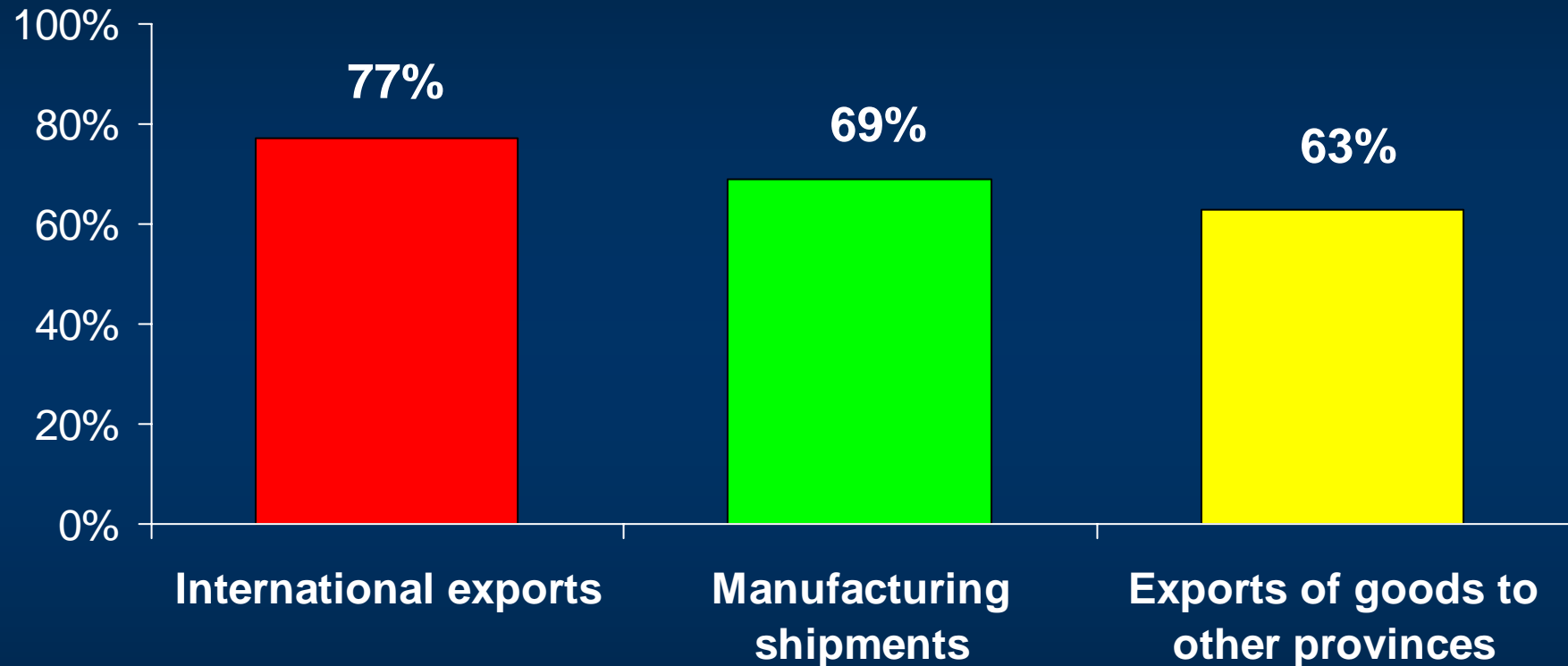
# Its Direct Share of the Economy Has Fallen

## BC Resource Sector's Share of GDP



Source: BC Stats and Business Council estimates

## But Resource Industries Remain Critical (resource-based products as a % of BC's ...)



- ❖ Resource-based products still dominate BC's exports and manufacturing shipments.

## Resource Sector a Significant Source of Direct Jobs

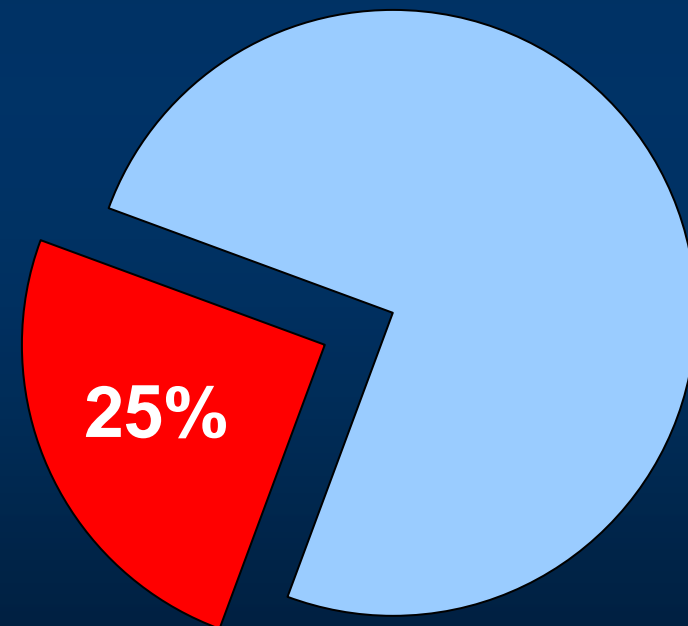
- BC's resource sector directly employs 185,000 people, up slightly from the early 1990s
- Even though the sector's share of employment has declined, it still accounts for almost 9% of all jobs (down from 12% in the early 1990s)
- Pay levels comfortably exceed the all-industry average
- Many resource activities are high-value/high productivity, so the sector directly accounts for a bigger share of economic output than of employment

# Resource Sector Responsible for a Sizable Share of BC Capital Investment

The resource sector has been a big investor in BC over the past few years.

Preliminary data for 2004 and forecasts for 2005 point to further significant increases in capital outlays.

## Resource Sector's Share of Total BC Non-residential Capital Expenditures (avg. 2003-2005)



# Resource Industries Matter to Urban Areas of the Province

- Head offices
  - » Of BC's top 100 companies, 28 are resource firms (most are headquartered in GVRD)
  - » Several significant non-resource companies depend heavily on BC's resource sector (e.g., Port of Vancouver, railways)
- Resource industries directly employ about 45,000 people = 4.5% of all jobs in the GVRD

## Resource Industries Matter to Urban Areas of the Province (cont'd)

- Indirect economic impacts also benefit GVRD
  - » Resource firms purchase of several billion dollars per year in business inputs from GVRD suppliers (engineering firms, legal + accounting, finance, advertising, executive search, etc.)
  - » Transportation services (port-rail system)
  - » Support to universities, colleges, culture
  - » Gov't revenue to support health, education etc.

# Why BC's Resource Industries Carry Disproportionate Economic Weight

- Strong export-orientation
- Relatively high wages (mining is #1 in BC; oil and gas, forestry, also pay well above average)
- Most business inputs used in resource extraction and processing are sourced domestically rather than imported (raw materials, energy, labour, transportation, business services)
  - » Import content of BC resource products is quite low
  - » Machinery/equipment is the main imported input

# Exports Key to BC's Prosperity

- BC is a small open economy, heavily dependent on external trade (total exports = 45% of GDP)
- Exports provide basic income for firms, suppliers, and employees in the province. Most forms of non-basic income involve recirculation of revenue
- Additional benefits of exporting:
  - » Gives BC companies access to much larger markets = higher volumes = lower unit costs
  - » Competing in the international marketplace is a powerful stimulus for greater efficiency and productivity

# Multiplier Analysis Often Used to Gauge Broader Impacts

- Direct contribution – each industry’s own activity
  - » Ignores inter-industry linkages/dependencies
- Multiplier analysis considers:
  - » Indirect – inputs into the industry (domestic suppliers that provide goods & services to the resource sector)
  - » Induced – impact from spending done by people employed in resource firms
  - » Capital expenditures – economic impact reallocated to businesses undertaking investment in or tied to resource sector
  - » Government expenditures – businesses that pay the taxes get “credit” for the public sector activity

# Resource Industry Vital to BC's Prosperity

## Range of Contributions to the BC Economy (GDP)

<b>Sector</b>	<b>Direct share*</b>	<b>Share after all other impacts</b>
Logging, Wood Products and Pulp & Paper	7.4% →	24.8%
Mining, Mineral processing, Oil and Gas	3.3% →	8.4%
Agriculture, Fishing, Food and Beverage	2.4% →	4.2%
<b>Resource Sector</b>	<b>13.1% →</b>	<b>37.4%</b>

Source: Gary Horne, "Sectoral Review of the British Columbia Economy: An Input-Output Approach, BC Stats (October 2001) \* updated by Business Council based on 2002 data from Statistics Canada.

# Multiplier Analysis: Some Caveats

- Estimates of an industry's total economic contributions are based on the structure of economic activity and inter-industry linkages at a particular point in time – a snapshot
- In a market economy, human and capital resources are mobile, and in the long term are re-allocated as individual industry sectors expand/contract
- Different multipliers may apply to different economic variables – employment, GDP, gov't revenues
- Despite these caveats, using multipliers is a valid and common technique for understanding what makes a regional economy “tick,” as well as for assessing the impact of specific projects

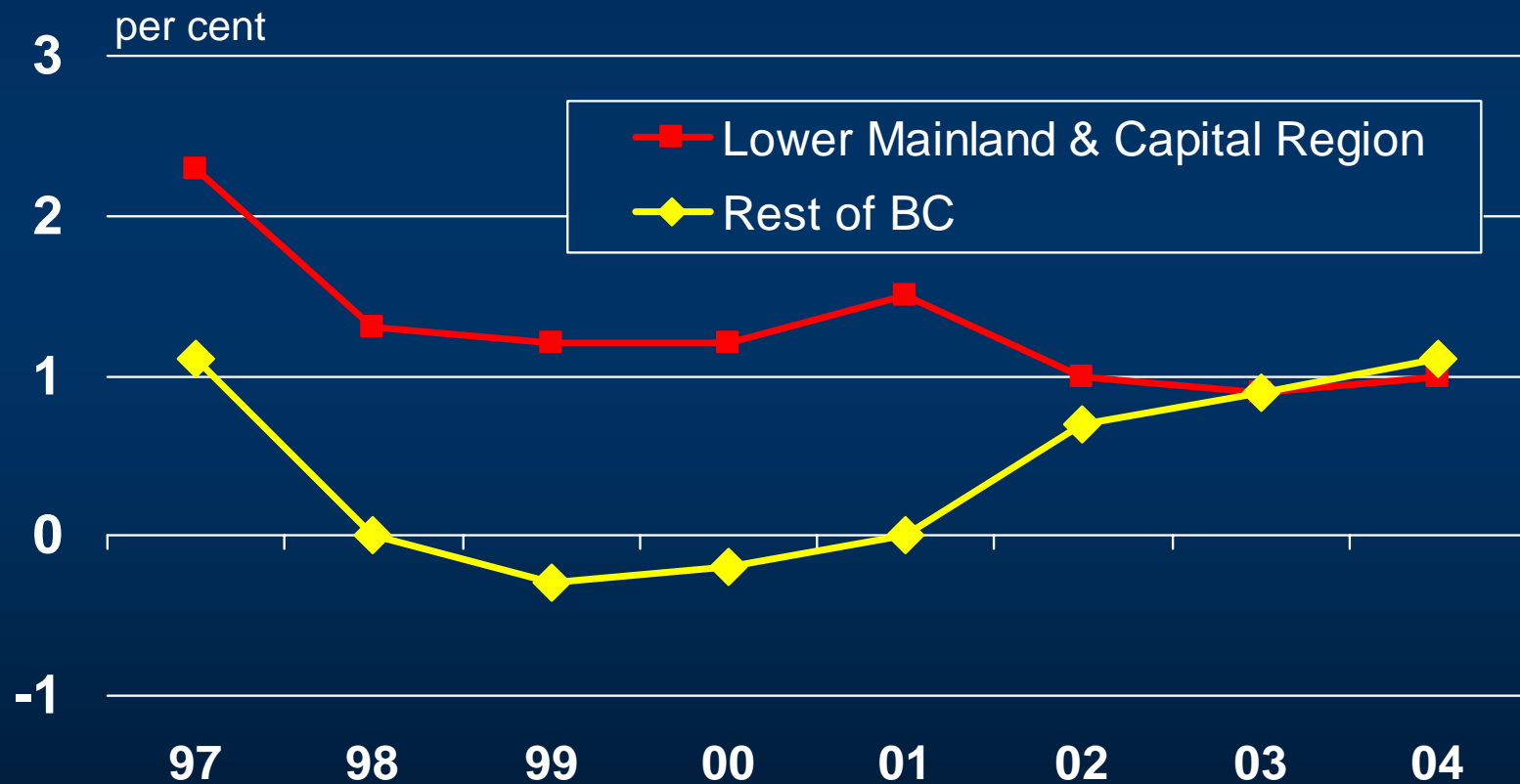
**Recent Trends in  
“Non-Metropolitan” BC**

# BC is Enjoying a Broadly-Based Economic Expansion

- Current economic upswing different from 1990s
  - » extends across most sectors and regions
- Revival in the resource/export sector
  - » forestry has been resilient, lumber prices are high, pulp sector benefiting from China
  - » oil and gas industry continues to boom
  - » recovery in mining, surge in exploration spending
- Areas outside metropolitan BC clearly benefiting
  - » consumer spending, housing sector, non-residential investment all showing strength; solid job gains

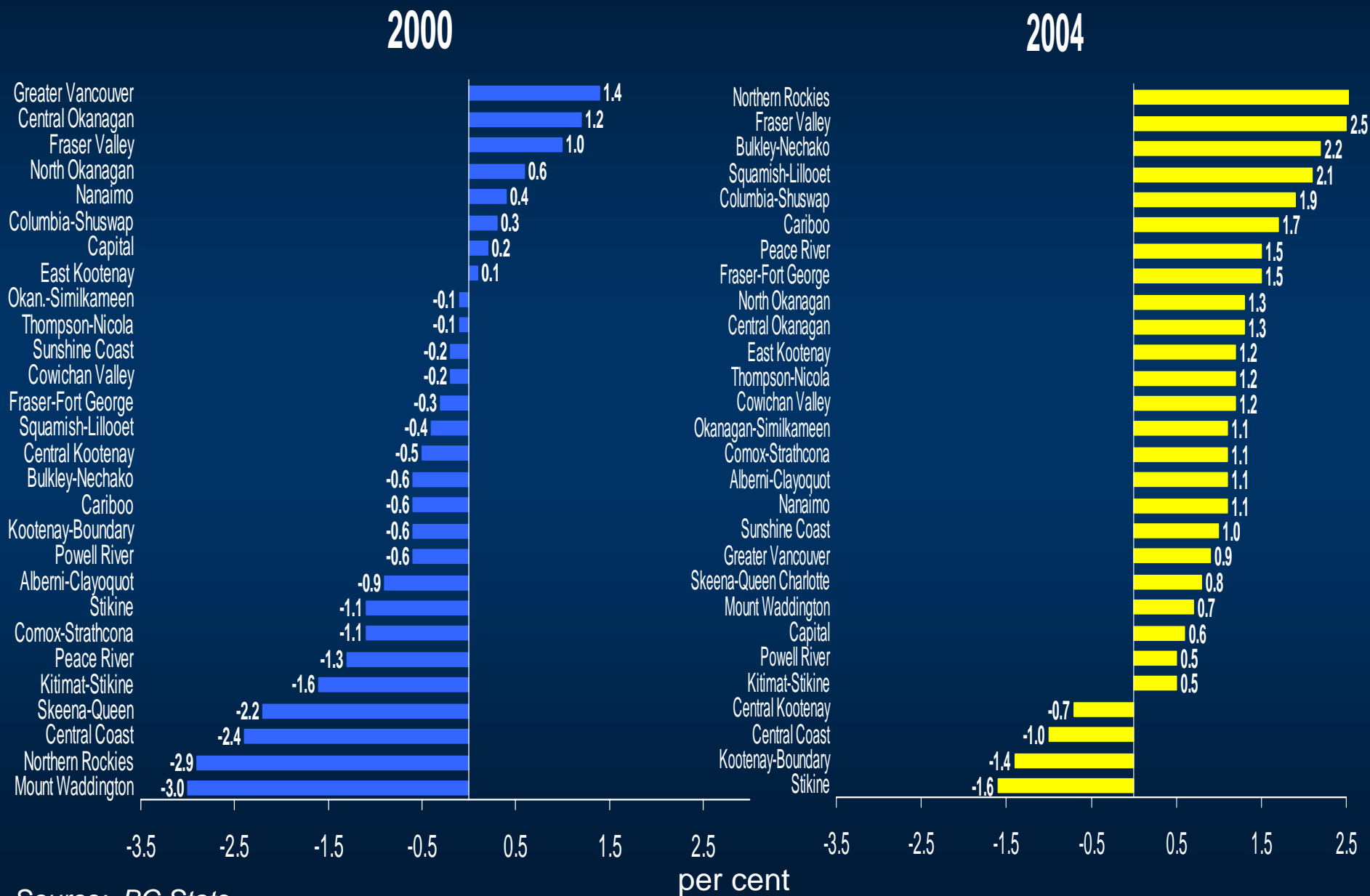
# Population Growth Recovers Outside of Urban BC

## Population Growth, Lower Mainland and Rest of BC



Source: BC Stats.

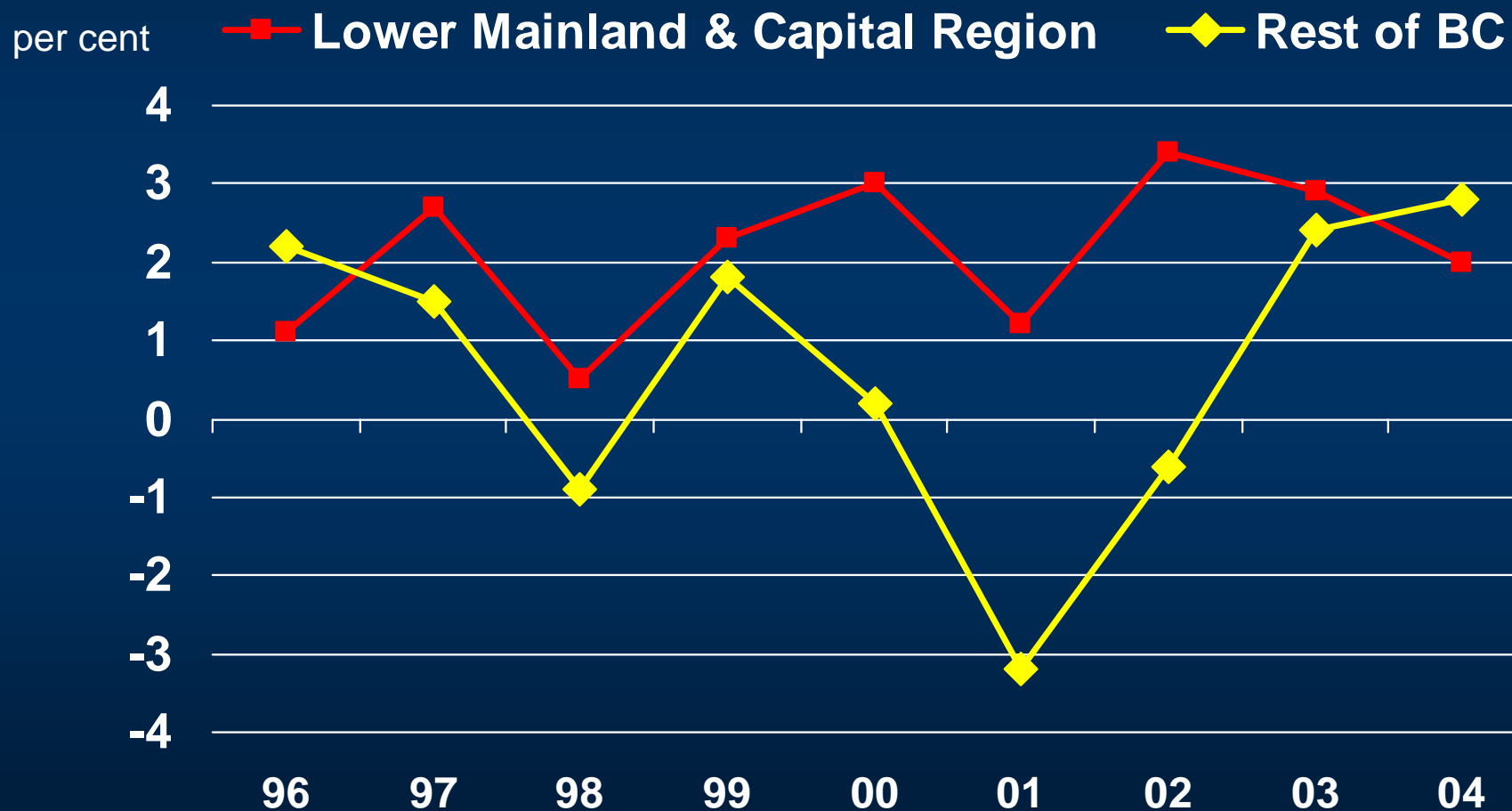
# Population Growth by Regional District



Source: BC Stats.

# Job Growth Accelerates in “Rural” BC

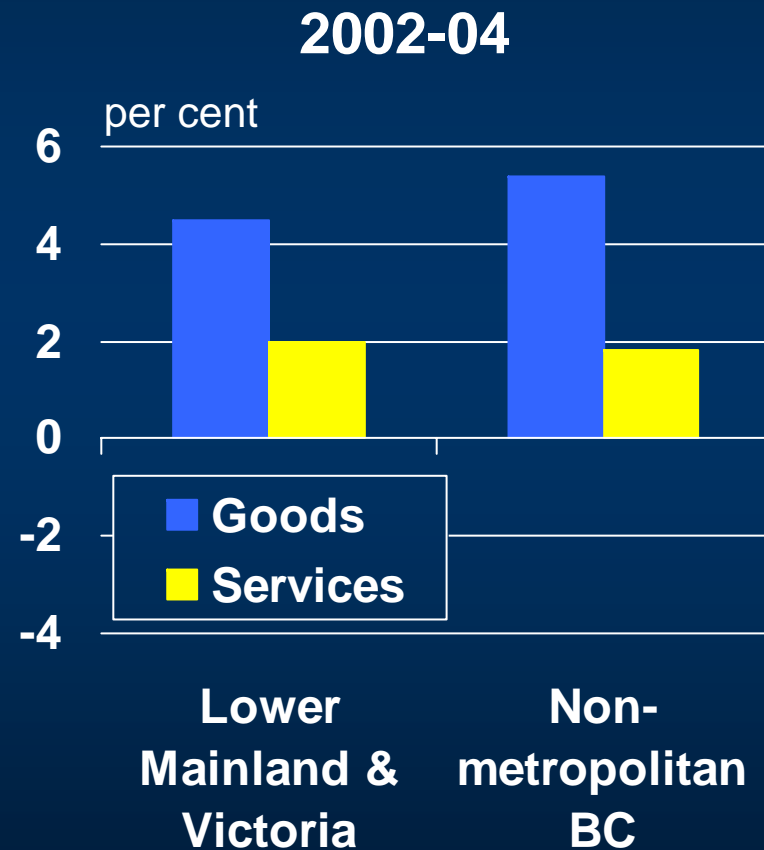
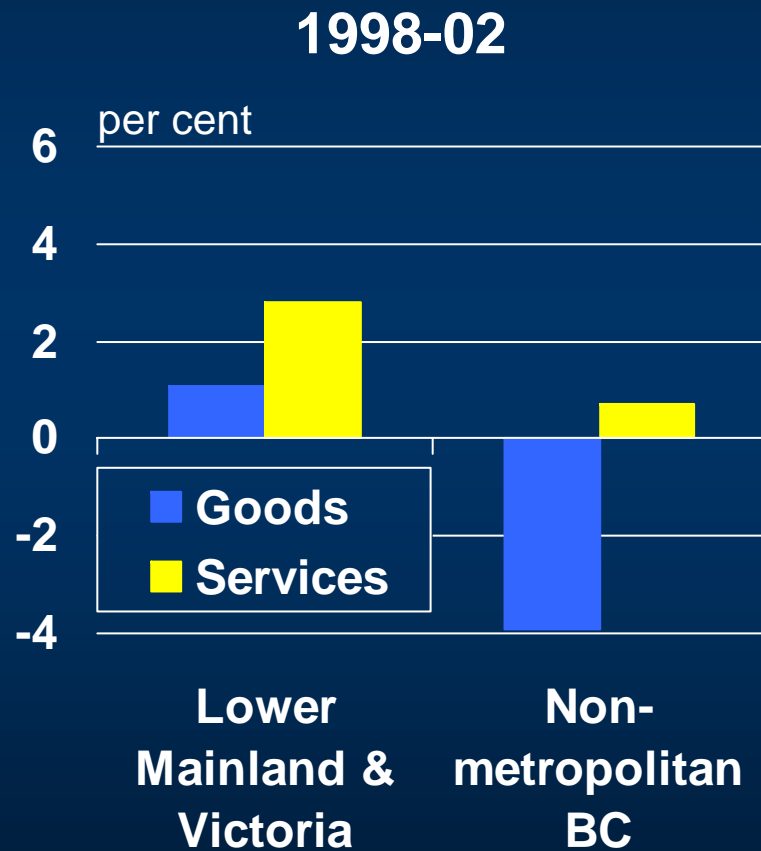
## Employment Growth



Source: BC Stats.

# Job Growth Healthy and More Balanced

## Average Annual Job Growth (over periods shown)



# Jobless Rates Down in all Regions

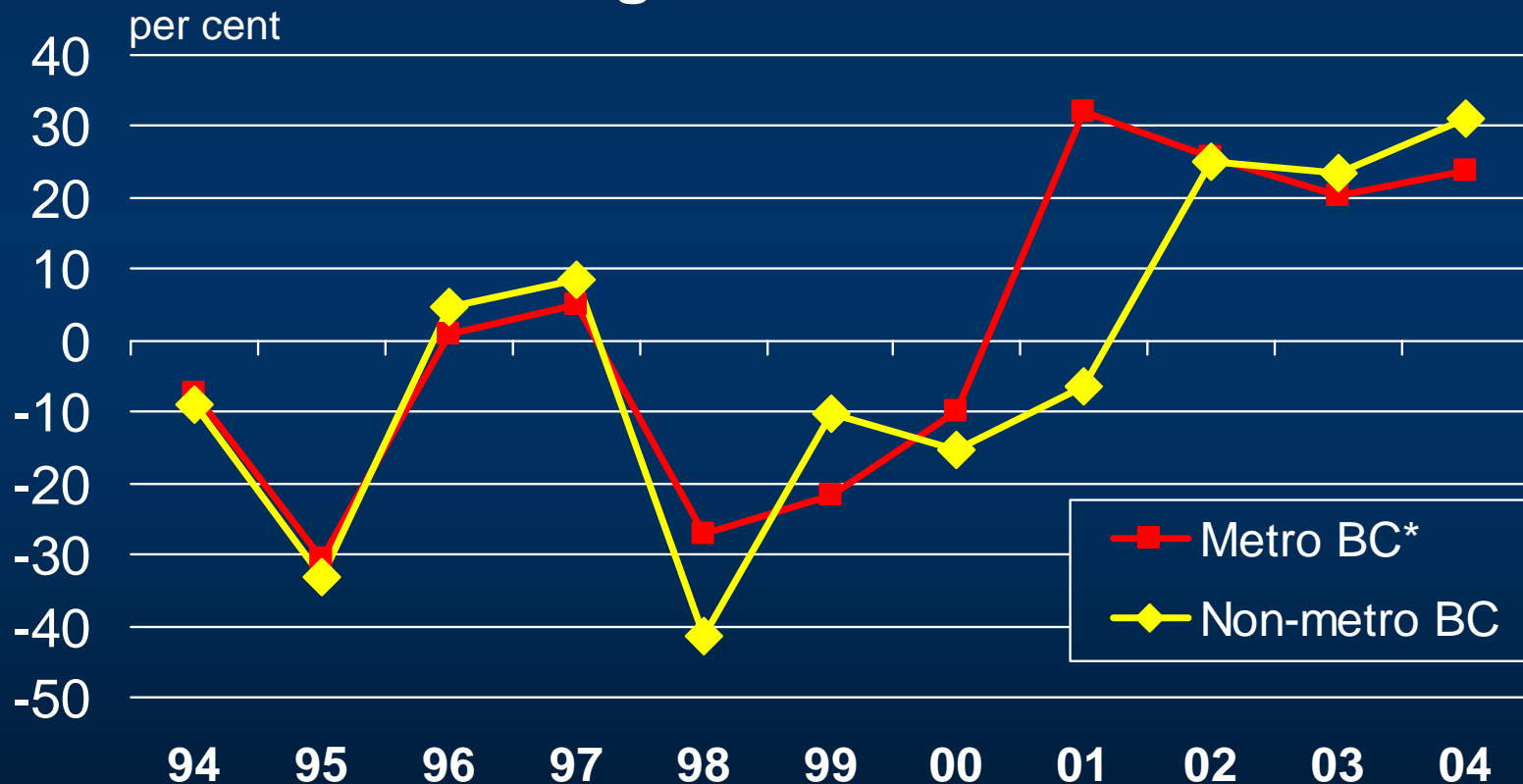
**Unemployment Rates – per cent**  
(annual averages except as noted)

<b>Region</b>	<b>1998</b>	<b>2002</b>	<b>2004</b>	<b>Q1 2005*</b>
1. Vancouver Island/Coast	9.8	8.8	7.9	7.1
2. Mainland/Southwest	8.2	7.8	6.7	6.3
3. Thompson-Okanagan	8.3	9.5	6.6	6.0
4. Kootenay	12.0	10.1	9.3	7.1
5. Cariboo	14.6	12.8	9.2	7.9
<b>6 &amp; 7. North Coast/Nechako</b>	9.8	12.8	11.8	10.1
8. Northeast	Na	9.0	5.4	4.8

Source: BC Stats \* seasonally adjusted (except Northeast).

# Housing Construction Now Stronger in “Non-metropolitan” BC

## Growth in Number of Housing Starts, Metro regions and Rest of BC

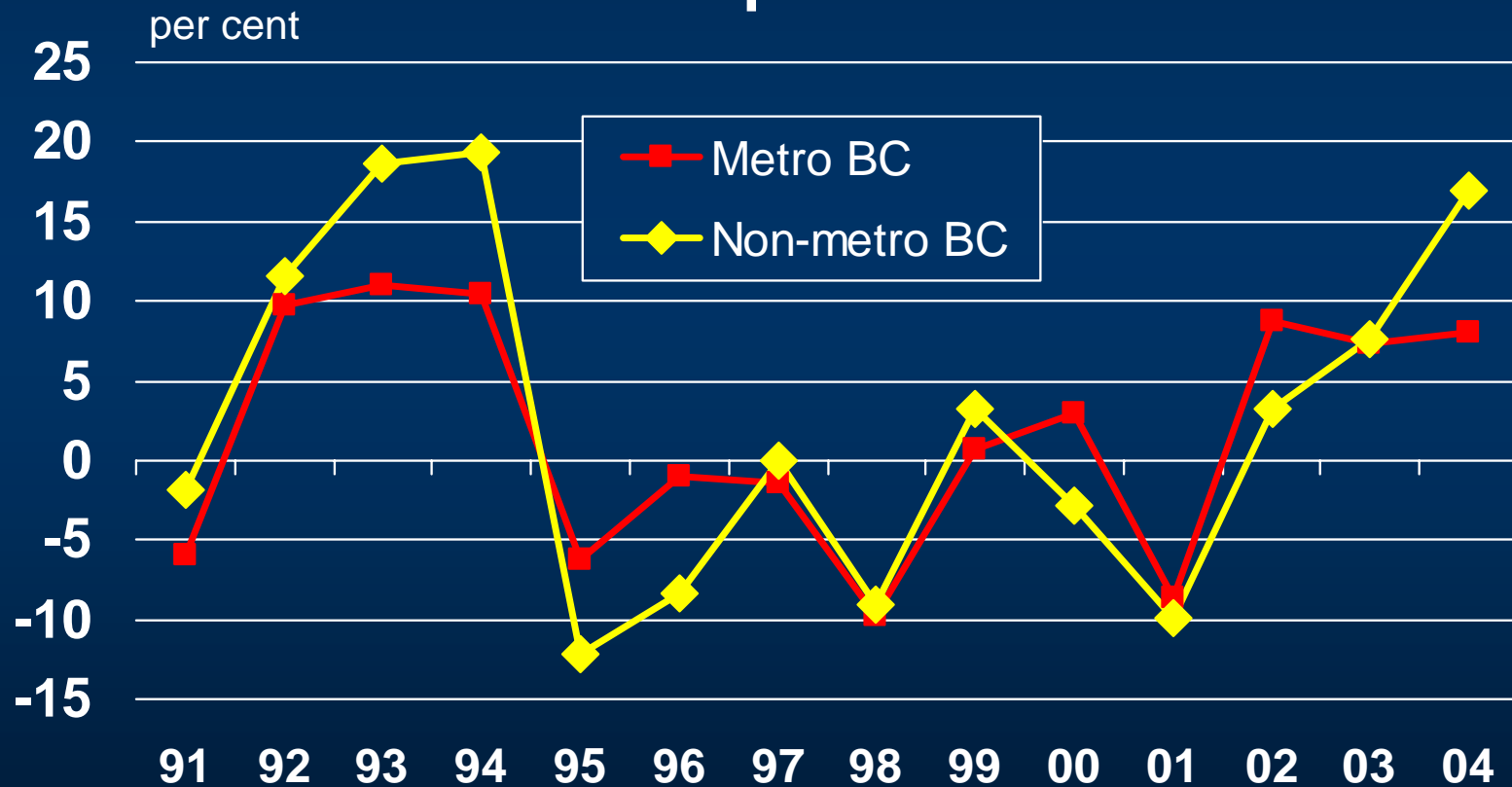


Source: BC Stats.

\* Lower mainland and Victoria CMA, non-metro BC equals all other areas

# Business Formation Accelerates in “Non-metropolitan” BC

## Growth in Number of Business Incorporations



Source: BC Stats.

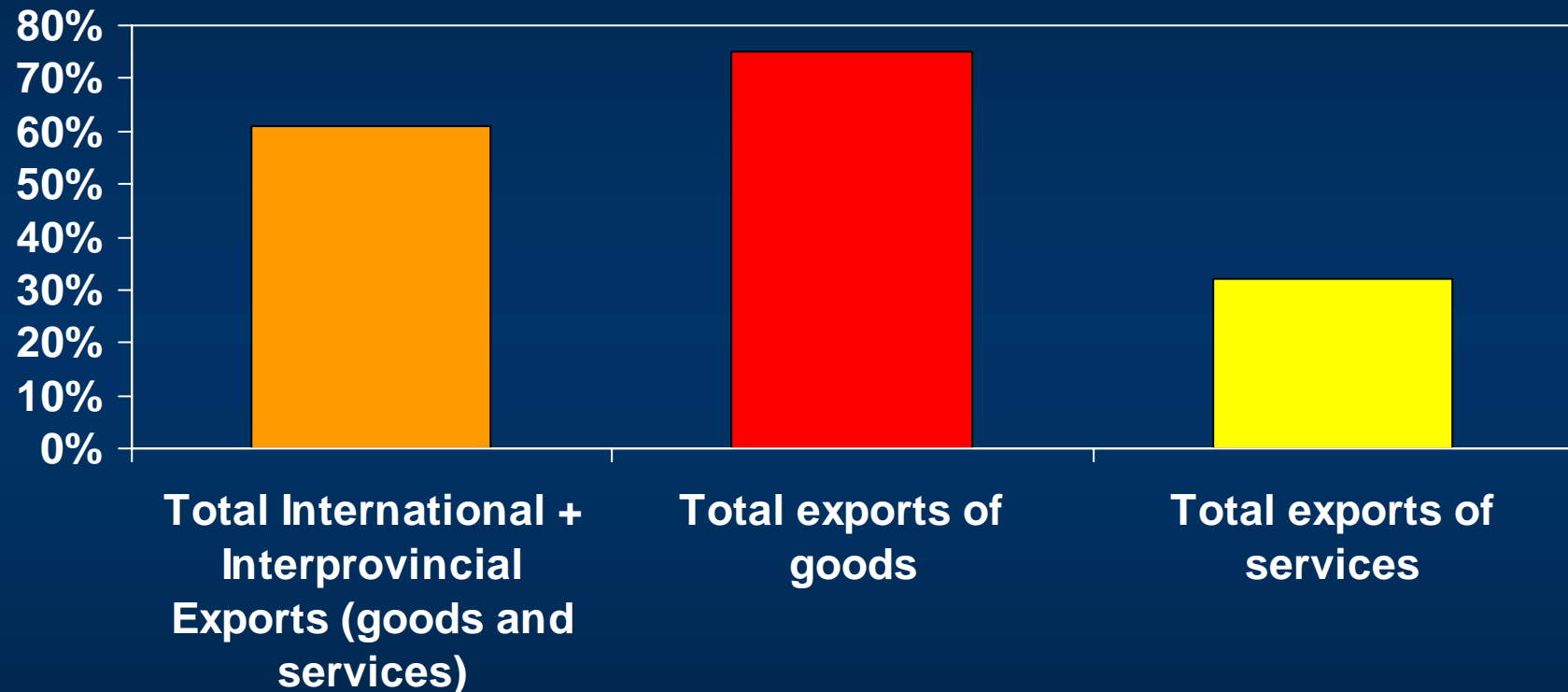
\* Lower mainland and Victoria CMA, Non-metro BC equals all other areas

# BC Business Investment is Reviving

- Capital spending is rising in BC – total non-residential investment up 9.9% in 2004, another 9.1% increase is expected this year
- Resource sector a principal reason behind the upturn
  - » M&E spending in resource industries (combined) up 30% in 2004 and projected to climb another 50% in 2005
  - » Construction spending down 3% in 2004 (after 2003 surge in oil and gas sector) but forecast to rise 7.4% this year
  - » 2005 investment in oil and gas slated to increase 6.3%
  - » Mining up 8% in 2005, following 30% jump in 2004
  - » Capital spending in wood products industry predicted to more than double in 2005 (121%)

# Non-Metropolitan Areas Dominate BC's Export Profile

(Non-metropolitan areas' share of major export categories )



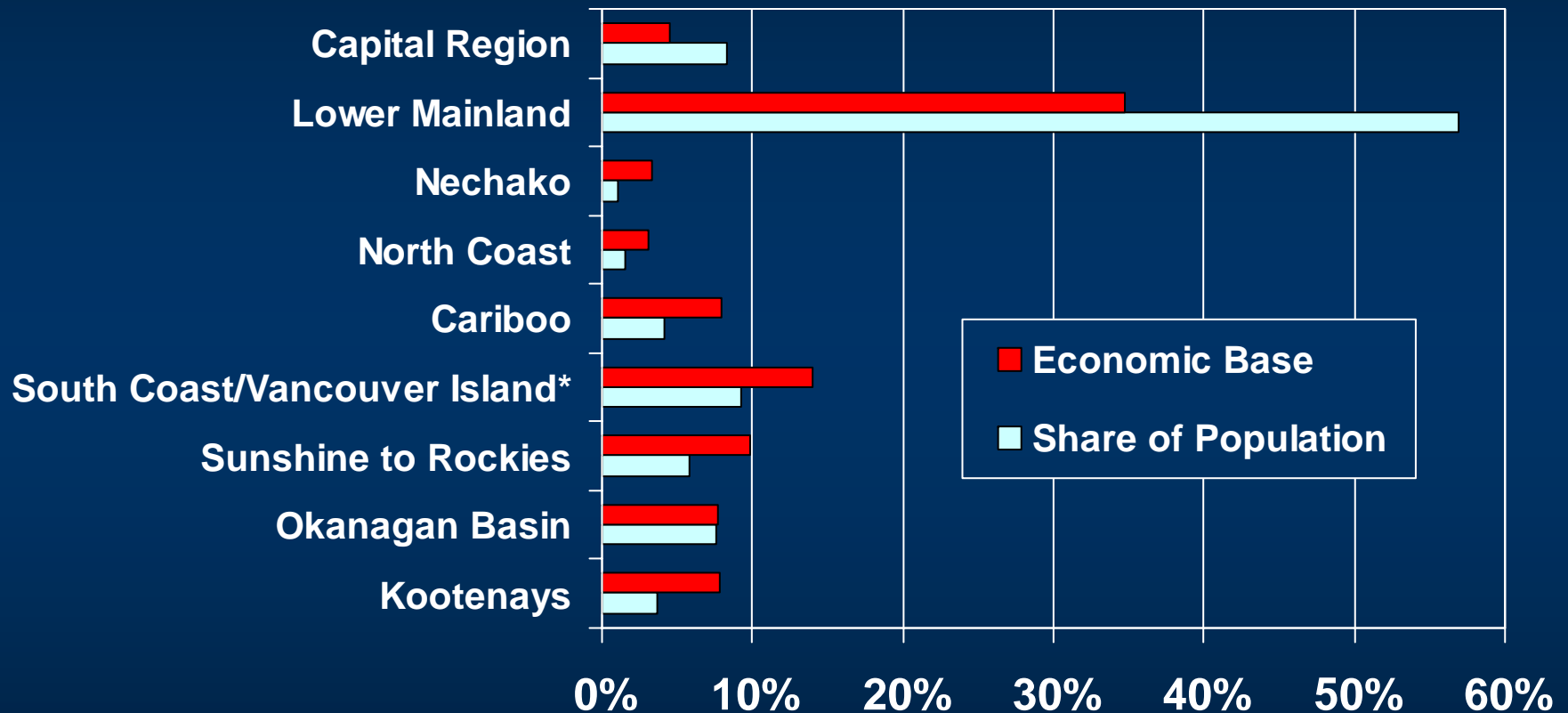
- ❖ An examination of the spatial allocation of BC's exports of goods and services to other countries and provinces highlights the predominant contribution of the non-metropolitan regions of the province.

# Regions' Contribution to BC's “Economic Base”

- A recent study by the Urban Futures Institute estimates regions' contributions to the province's “economic base”, recognizing the central role of exports in sustaining economic activity in small market jurisdictions such as British Columbia
- The report concluded:
  - » “British Columbia’s economic base has historically been, currently is, and likely will continue to be . . . predominantly dependent upon rural and resource activities such as forestry, fishing, farming, mining [and energy production].”
  - » “Metropolitan regions do play an important role in the province’s economic base, particularly with respect to the export of services . . . [But] resources play the dominant role in earning the money that ultimately pays for health care, education, and social services, as well as for lattes, tofu and chocolate.”

# Contributions to BC's Population and Economic Base by Region

(regions' share of BC's population and "economic base")



❖ Relative to their share of BC's population, most non-metropolitan regions make disproportionately large contributions to the province's economic base.

# Conclusion

- The current BC economic upswing is based to a significant extent on increased resource sector output coupled with higher commodity prices and solid growth in capital spending by most resource industries
- This underscores the continued importance of non-metropolitan BC to the province's overall prosperity and growth – mainly because of the dominant contribution of resource industries to provincial exports
- Although there has been some export diversification over time, non-metropolitan regions still account for more than three-fifths of total BC exports to other countries/provinces, and for around three-quarters of all exports of goods

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