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## BC CHECK-UP, EDITION 2002

The first *BC Check-Up* report, released in 1999, offered a comprehensive profile of British Columbia as a place in which to live, work, and invest. In order to provide a context in which to analyze BC's performance, the report was subsequently expanded to include comparisons with the provinces of Alberta and Ontario, and with the national average. The 2002 report builds on the previous reports by adding more statistical indicators, as well as perspectives on recent policy directions.

Conceived by a task force of the Chartered Accountants of British Columbia (ICABC), the *BC Check-Up* was designed in conjunction with consulting economists, who also compiled the data. As leaders in generating and validating information, CAs are often called upon by businesses, governments, and other organizations to provide independent, fair, and objective information to assist in decision-making. It's with this perspective that the CAs created the *BC Check-Up*.

The Chartered Accountants of BC will be basing its budget consultation submission on the findings of the *BC Check-Up, Edition 2002*. In addition, copies of the report will be provided to the BC Progress Board, an organization established by the provincial government to set benchmarks for BC's economic performance ([www.bcprogressboard.com](http://www.bcprogressboard.com)).

# LIVE WORK

**METHODOLOGY** The *BC Check-Up, Edition 2002* was designed to assess trends in British Columbia's economic and social health. Ontario and Alberta were selected for comparisons in previous years because they were considered the other "have" provinces in Canada. Ironically, BC slipped into the status of a "have-not" province in 1999/00. But for purposes of consistency, the provincial comparisons have remained the same. In addition, the national average of all provinces was selected to provide further information on the economic and social trends across the country.

To assess British Columbia as a place in which to live, work, and invest, core indicators had to be independent; available for BC, Alberta, Ontario, and the national average; and broad enough to reflect what's happening in each jurisdiction's economic or social life.

Data for the *BC Check-Up* is drawn from a number of sources, including: Statistics Canada; provincial government offices and analysts; and quarterly forecasts from sources such as the TD Bank economic reports. It is supplemented with interviews with a range of experts throughout Canada (including representatives of provincial health care associations, economic development offices, or analysts at Statistics Canada); and other published and Internet sources.

A more in-depth version of the *BC Check-Up* is available on the Internet at [www.bccheckup.com](http://www.bccheckup.com). The Web site version includes more detailed live, work, and invest sections, and more information on the report's methodology. This larger version of the report also includes comparisons with the provinces of Saskatchewan and Manitoba.

The data was compiled and evaluated by consulting economists from Marlyn Chisholm & Associates in association with Gold Island Consulting, Shirocco Consulting Ltd., and Pacific Analytics.

MINI-TITLE

invest 

# LIVE WORK INVEST




**INTRODUCTION** It wasn't supposed to be this way. After a dismal 1990s, many people expected British Columbia to re-emerge in the new millennium as an economic leader in Canada. Instead, 2001 brought a global economic slowdown, a trade dispute with the United States on softwood lumber, and the fallout from the terrorist attacks of September 11th.

These factors helped push BC into a recession in 2001, as real GDP fell in both the second and third quarters of the year by -0.6% and -0.3% respectively. The year ended with real GDP growth of just 0.9%, the province's worst economic performance since 1991. At the same time, spending pressures—particularly with regard to health care—resulted in a spike in overall government spending in 2002/03 and a record budget deficit.

Another serious challenge is the dramatic increase in BC's public debt levels over the past decade. To manage the transition from a deficit to a surplus, the province has embarked on a spending reduction program aimed at balancing the budget by 2004/05. While there's been some public controversy over the spending cuts, the fiscal reality is that BC's debt levels are now almost six times higher than Alberta's, creating the need for a long-term debt management plan and continued fiscal prudence once the BC budget is balanced.

From a fiscal perspective, it remains to be seen when the revenues lost from provincial income tax cuts will return to pre-tax cut levels. In the case of both Alberta and Ontario, a booming economy in the late 1990s attracted people and investment to the province, resulting in surging government revenues that more than made up for revenue losses from tax cuts. In the case of BC, dramatic personal income tax cuts were introduced in a recession, and revenue growth simply wasn't there. As the *BC Check-Up* shows, provincial revenues declined in BC in 2001/02, and are forecast to drop even further in 2002/03. The impact of personal tax cuts on economic growth and revenue is a question that can only be answered definitively in the years to come.



Yet despite the gloomy numbers, there appears to be an underlying sense of optimism about the province's future. For example, an Ipsos-Reid survey of chartered accountants earlier this year found that 91% of CAs in the province expect the BC economy will be stronger in five years, and 58% of CAs believe the province will be outperforming the rest of the country.<sup>1</sup>

To understand why CAs would be optimistic about BC in spite of the poor performance of the province's economy in the last decade, it's important to recognize three fundamental changes taking place in both BC's economy and its policy direction. Indeed, BC is currently in a transition phase—one that will dramatically impact the province as a place in which to live, work, and invest.

First, the transition from a high personal tax jurisdiction to a low personal tax jurisdiction should counteract BC's stagnating disposable income, and help manage the province's increasing reliance on service sector jobs, which, on average, pay less than jobs in manufacturing. As the *BC Check-Up* shows, at the end of 2001, the average British Columbian had \$2,000 less disposable income per year than the average Alberta resident, and \$1,500 less than someone living in Ontario. The situation would be worse without the personal tax cuts that came into effect in July 2001. It's perhaps not surprising then that 97% of the chartered accountants surveyed by Ipsos-Reid said personal tax cuts would have a positive impact on the provincial economy.

Second, the diversification of the economy as we shift from goods-producers to services-producers may buffer communities from downturns in commodity markets. As the report will show, the province's rural areas have seen a significant increase in consumer bankruptcies in the last five years relative to urban areas, reflecting the downturn in the forestry, agriculture, and mining sectors.<sup>2</sup>

Third, the transition towards a competitive business tax regime should also help the province retain and attract business investment. The *BC Check-Up* shows that, as the BC economy under-performed in the 1990s, investment lagged behind the other "have" provinces, and corporate income tax revenues deteriorated. Conversely, the stronger economies of Alberta and Ontario in the late 1990s reaped billions of dollars in growing revenues from corporations. If there's a lesson to be learned from the past decade, it's that new investment generates increased revenues for the provincial treasury. Corporate income tax cuts announced by the government did not come into effect until 2002, so are not reflected in these numbers. Fully 96% of CAs polled said that business tax cuts would be beneficial to the BC economy.

As 2002 draws to a close, there's optimism that the next decade will be far better for BC. BC's CAs hope the *BC Check-Up* report will stimulate key stakeholders to join in a dialogue about helping BC reach its potential as the best place in Canada in which to live, work, and invest.

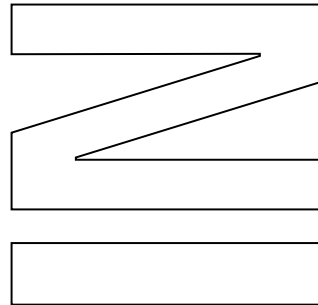
<sup>1</sup> Ipsos-Reid, CA Business Outlook, January 2002.

<sup>2</sup> A recent study by the Urban Futures Institute concluded that BC's economy is still driven by the resource sector, despite greater urbanization. The study found that only 21% of export income in BC came from the "new economy" over the past decade, while 79% came from the resource sector. See: "Resource Dependency: Spatial Origins of BC's Economic Base" at [www.urbanfutures.com](http://www.urbanfutures.com).

# LIVE BC

## 1.0 BC AS A PLACE TO LIVE

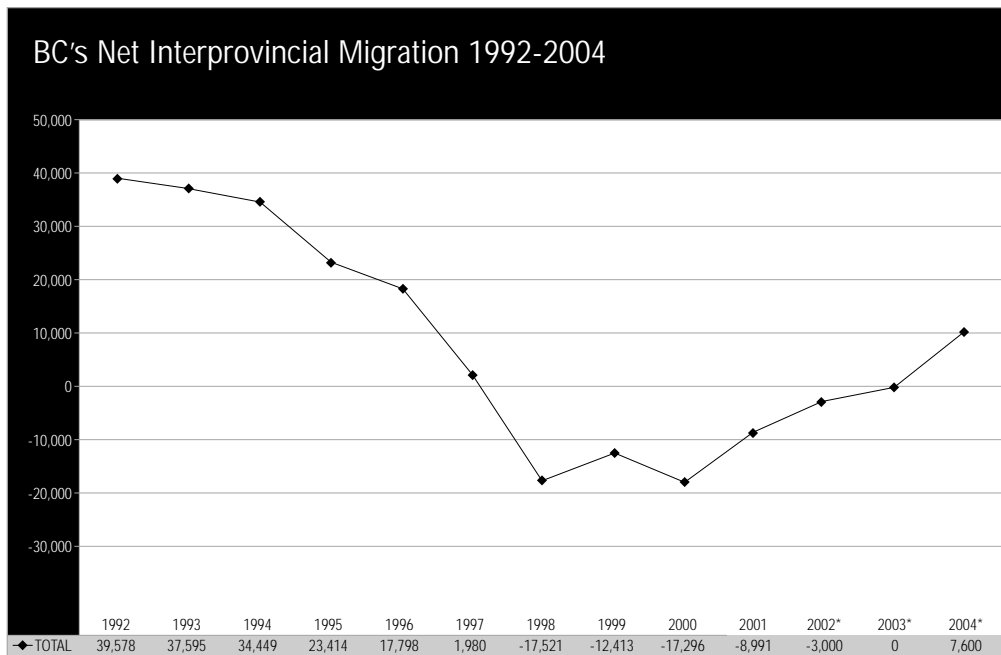
**1.1 OVERVIEW** British Columbia may be one of the world's most beautiful locations, but the 1990s demonstrated that economic opportunity is paramount to attracting people to BC and keeping them here. As the following graph shows, BC's interprovincial migration numbers followed a consistent declining trend throughout the decade as the province's economic fortunes deteriorated.



Between 1998 and 2001, BC had a net loss of 56,221 people to other provinces—with virtually all of the losses going to Alberta and Ontario. Fortunately, international immigration gains kept BC's population growing, and the interprovincial migration numbers are improving.<sup>3</sup> BC's interprovincial numbers hit bottom in 1998, and are forecast to gradually improve, with a net gain by 2004.

The following indicators help to put the interprovincial migration numbers in perspective and understand why British Columbians headed in large numbers to the other "have" provinces. BC's real personal disposable income stagnated between 1992 and 2001, as a slow economy and high tax levels took a toll on our wallets, and BC was the only jurisdiction to witness an increase in the number of families living in poverty between 1992 and 1999. Add to that a continued shortage of health care professionals, a low proportion of BC's young people attending post-secondary institutions, and a high crime rate and it's easier to understand why so many families left the province during this period.

The following sections provide more details on BC as a place to live.



\*Projected

Source: BC Stats, BC Ministry of Finance

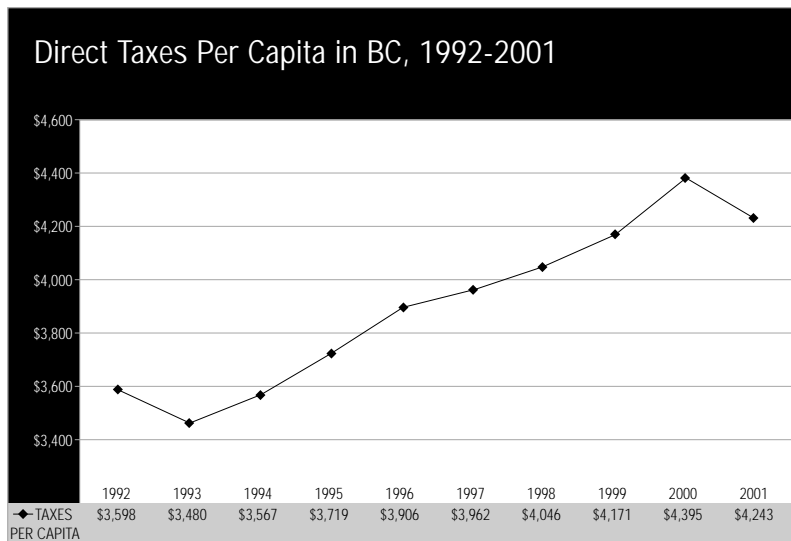
<sup>3</sup> Immigration to BC peaked in 1996 with a net gain of 49,322 people. International migration was the lowest in 1998 when BC gained only 28,340 people. In 2001, BC's international migration numbers improved to 32,179 people, but remain lower than peak levels in the mid-1990s.

**1.2 INCOME** Between 1992 and 2001, BC's real personal disposable income flat-lined (0.4%), while Alberta (10.6%), Ontario (3.0%), and the nation as a whole (6.4%) made gains. As a result, while Albertans and British Columbians had about the same amount of disposable income in 1992, by 2001, the average person in BC had \$2,000 less disposable income per year than the average Alberta resident and \$1,500 less than someone living in Ontario.

Jurisdiction	1992	2001	% change
Canada	\$18,395	\$19,568	6.4%
BC	\$19,194	\$19,266	0.4%
Alberta	\$19,225	\$21,265	10.6%
Ontario	\$20,225	\$20,824	3.0%

This lack of growth in disposable income has contributed to a five year, negative personal savings rate in the province, meaning that BC residents have been spending more than they earn for half a decade.<sup>4</sup>

British Columbians lost ground to the rest of the country over the last decade due to a combination of factors. Principal among them was that personal tax levels in BC were not in line with those in the rest of Canada. In fact, BC's slight increase in disposable income in 2001 was due to personal income tax cuts that were introduced mid-year.



Although high taxes are partly responsible for stagnating disposable income levels, so too is the gradual shift that has been occurring from high-paying resource sector jobs to lower-paying service sector jobs—a shift that's described in more detail in section 2.0.

**1.3 HEALTH** In recent years, an aging population, shortages of health care professionals, and unsustainable funding pressures have put the public health system in a dire situation. Health care is a top concern for British Columbians.<sup>5</sup> While many factors are important in assessing the quality of health care, a key concern in Canada has been the number of physicians and nurses per capita.

Jurisdiction	1992	2001	% change
Canada	190	188	-1.1%
BC	200	198	-1.0%
Alberta	169	168	-0.6%
Ontario	194	181	-6.7%

As Table 1.3 shows, all jurisdictions suffered a decline in the number of physicians per 100,000 population over the 1992 to 2001 period. However, BC has consistently had the highest ratio of doctors per capita (198), exceeding Alberta (168), Ontario (181), and the national average (188). Since 1992, Ontario had the greatest decline in doctors per capita, with a decline of almost 7%, compared to declines of 1.1% nationally, 1.0% in BC, and 0.6% in Alberta.

Despite having more physicians per capita than other jurisdictions, BC still requires an estimated 300 new physicians per year to maintain its current per capita ratio, and shortages of specialists are particularly problematic in the province's rural areas. While the BC government recently took measures to increase the number of medical school graduates, it will take up to ten years for the results to be felt. In 2002, the BC government also raised compensation for doctors by 20.6%—at a cost of \$392 million per year—to retain and attract doctors to the province.<sup>6</sup>

The nursing shortage is equally troubling. In 2001, BC had 668 nurses per 100,000 population, compared to 769 per 100,000 population ten years earlier—a decline of 13.1% in a decade. The BC government has attempted to address the problem by raising nurses' wages to be among the highest in Canada, and by expanding training positions. However, the Ministry of Health estimates there's a current shortage of 700 nurses in BC, and increased international and national recruitment will be needed to meet staffing shortages.

<sup>4</sup> BC Stats, "Have We Become a Spendthrift Society?", Infoline, August 23, 2002

<sup>5</sup> According to the service plan of the BC Ministry of Health Services, over the last decade, health spending in BC has increased from about 33% to 40% of the total provincial budget, as health care costs have been growing three times faster than the growth rate of the economy.

<sup>6</sup> The increased health care costs resulted in the BC government raising Medical Services Plan (MSP) premiums by 50%, and a 0.5% increase to the provincial sales tax.

**1.4 EDUCATION** In Canada, high educational levels have proven to be a powerful contributor to the country's standard of living and its growth opportunity. On average, high school graduates earn at least 25% more than those who did not complete high school, while university graduation raises earnings by more than 100%. For this reason, post-secondary participation among 18-24 year olds is an important factor in the province's health.

As Table 1.4 shows, all jurisdictions made steady gains in full-time post-secondary enrolment. But, while BC's enrolment increased by 10.3% over the decade, its participation rate remained substantially lower than rates in the other jurisdictions.<sup>7</sup>

Ontario enjoyed the largest increase in post-secondary participation (17.6%) over the decade, while Alberta was slightly below the national average (8.6%).

**1.5 POVERTY** While there is no accepted definition of poverty in Canada, there's no question that Statistics Canada's Low Income Cut-Offs (LICOs) measures families who are substantially worse off than the average. LICOs represent income levels at which 20% more family income is spent on basic necessities than the average Canadian family. For this reason, families falling below LICOs are commonly referred to as living in poverty.

As shown in Table 1.5, the trends in poverty are correlated to the relative strength of each jurisdiction's economy. BC was the only jurisdiction to have a higher percentage of families living in poverty in 1999 than in 1992 (16.1% compared to 15.5%). In addition, BC went from being better than the national average in 1992, to worse than the national average in 1999—a disturbing trend.

Ontario had the lowest percentage of families living in poverty of all the jurisdictions examined (13.1%), while Alberta saw the greatest improvement in families moving out of poverty. In 1999, 15.3% of Alberta families lived in poverty, compared to 19.5% in 1992.

The poverty statistics may also reflect BC's struggling resource sector in the second half of the 1990s and its impact on resource-dependent communities. For example, as the graph above indicates, consumer bankruptcies in rural areas of BC rose by 83.7% between 1997 and 2001, more than three times higher than in urban areas. It's probably no coincidence that BC's overall increase in consumer bankruptcies paralleled the province's negative personal savings rate over the same period.

**1.6 CRIME** Property and violent crime rates have declined substantially over the last decade. Across the country, property and violent crimes per 10,000 population declined by 27.9%, while Alberta and Ontario enjoyed even greater declines (33.7% and 32.9% respectively). While BC's crime rate declined by 25.9% over the last decade, it remained much higher than the national average and the other "have" provinces. BC had 767 property and violent crimes per 10,000 population in 2001, compared to 504 across the country, and just 430 in Ontario.

**Table 1.4 Full-Time Post Secondary Enrolment**  
(% of 18-24 year olds)

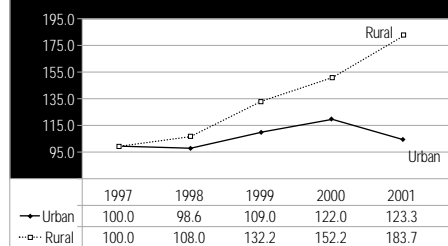
Jurisdiction	1991	2000	% change
Canada	31.3	34.4	9.9%
BC	22.3	24.6	10.3%
Alberta	26.8	29.1	8.6%
Ontario	30.6	36	17.6%

**Table 1.5 Families Living in Poverty**  
(% living below the low income cut-off)

Jurisdiction	1992	1999	% change
Canada	15.9	15.8	-0.6%
BC	15.5	16.1	3.9%
Alberta	19.5	15.3	-21.5%
Ontario	13.1	13.1	0.0%

Source BC Stats

**Urban vs Rural Consumer Bankruptcies, 1997-2001**  
(1997=100)

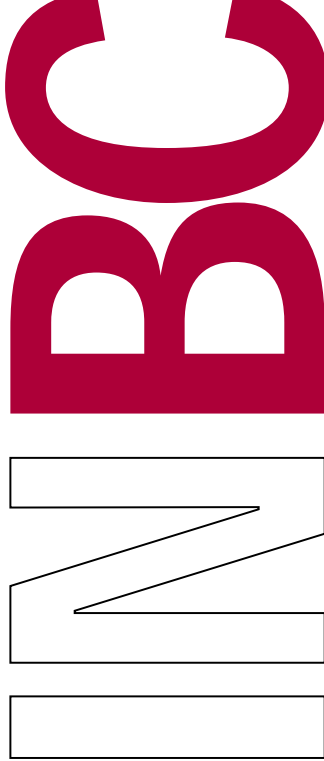


**Table 1.6 Property and Violent Crime per 10,000 Pop.**

Jurisdiction	1992	2001	% change
Canada	699	504	-27.9%
BC	1,035	767	-25.9%
Alberta	830	550	-33.7%
Ontario	641	430	-32.9%

<sup>7</sup> It is worth noting that each province calculates post-secondary enrolment somewhat differently, and BC's lower participation rate may be, at least partly, due to discrepancies in methodology.

# WORK



## 2.0 BC AS A PLACE TO WORK

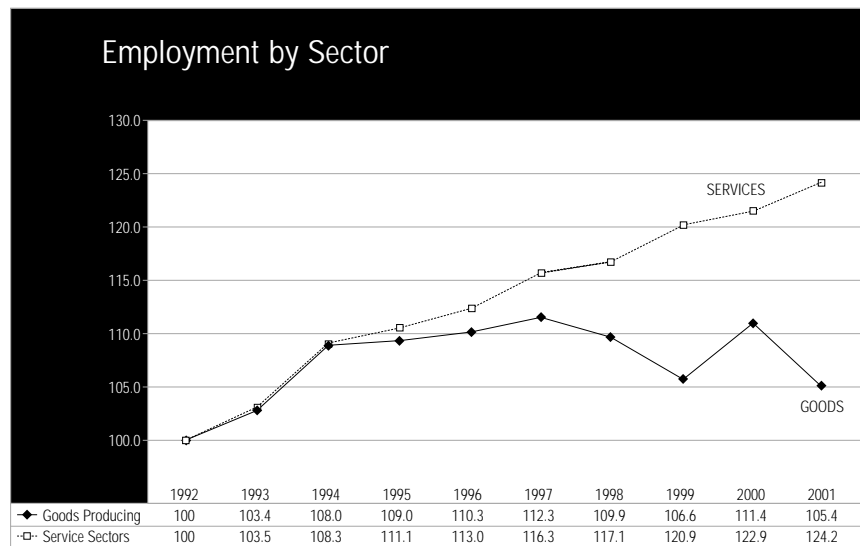
**2.1 OVERVIEW** British Columbia's economy has become more diversified and less resource-dependent. From 1992 to 2001, service sector jobs in BC grew by 24.2%, while jobs in the goods producing sector edged up by just 5.4%. Jobs have also been shifting: the goods producing sector employed 22,000 fewer people in 2001 than it did in 2000, and 9,600 less people than in 1994.

The transition towards a greater reliance on service sector industries has both positives and negatives for BC as a place in which to work. On the positive side, service sector industries are more stable than goods producing industries, and are not as prone to "boom and bust" periods. On the negative side, service sector jobs pay less on average than goods producing jobs and tend to be concentrated in the major urban centres of the province, creating disparities between regions.<sup>8</sup>

It also needs to be pointed out that despite the strong growth in service industries, the province is still heavily dependent on natural resources, particularly forestry, as the resource sector accounts for approximately one-quarter of all jobs in the province. The softwood lumber dispute with the US alone has resulted in an estimated 20,000 job losses since 2001.<sup>9</sup>

As shown on the following pages, there have been both positives and negatives for BC's working population. While BC workers have seen an improvement in the unemployment rate since 1992,

their wages remained flat, and on average, they're working fewer hours. On the positive side, female workers have made gains in pay relative to their male counterparts, and job stability has improved.



Source BC Stats

The following sections provide more details on BC as a place to work.

<sup>8</sup> To illustrate the varying degrees of dependency on the resource sector, Agriculture, Forestry, and Fishing firms account for 1.7% of all businesses in the Greater Vancouver regional district, compared to 23.2% in Bulkley-Nechako, 20.4% in the Cariboo, and 15.5% in Kitimat-Stikine.

<sup>9</sup> BC Stats, "The B.C. Forest Sector Workforce: Projected Impact of the Softwood Lumber Dispute," Infoline, June 14, 2002.

**2.2 EMPLOYMENT** Compared to 1992, all jurisdictions had lower unemployment rates in 2001. Nationally, the unemployment rate improved from 11.2% in 1992 to 7.2% in 2001, while BC's rate went from 10.2% to 7.7%. However, compared to 2000, only Alberta avoided a worsening employment situation last year as the global economic downturn and the terrorist attacks took a toll on employment rates across the country.

As Table 2.2 shows, BC's unemployment rate was lower than Ontario's and the national average in 1992. However, since 1998, BC has consistently had a higher unemployment rate than the other "have" provinces and the national average. While this trend has continued in 2002, BC's labour market surprised many economists by creating 88,000 jobs between January and August 2002. Whether this job growth continues throughout the rest of the year remains to be seen.

In addition, as Canada's largest exporter of softwood lumber to the US, the imposition of tariffs has had a greater impact on BC workers than on those in any other province. More than 50% of all Canadian softwood lumber exports to the US originate from BC, and tariffs have resulted in layoffs and mill closures.

**2.3 WAGES** When it comes to real average hourly wage rates, BC was the only jurisdiction to avoid a decline between 1992 and 2001. BC's hourly wage rate held its own over the period, increasing slightly in 2001 to \$18.59 from \$18.45 in 1992. While Ontario still enjoyed the highest average hourly wage in Canada at \$18.63 due to the province's high paying manufacturing sector, it declined 2.4% compared to 1992. Similarly, the nation's average hourly wage rate declined by 2.3% over the decade, while Alberta's declined by 1.7%.

Several factors contributed to the stagnating or declining real hourly wage rates, particularly the trend from goods sector jobs to service sector jobs,<sup>10</sup> and the fact that many wage increases in Canada were lower than the rate of inflation, resulting in a real decline in wage levels.

Interestingly, there's been a lot of literature about the upward pressure that will be placed on wages and benefits as baby boomers begin to retire and organizations compete for a smaller pool of skilled labour.<sup>11</sup>

**2.4 ACTUAL HOURS WORKED** In understanding BC as a place in which to work, an important indicator is the ratio of actual/potential hours worked by an employee.<sup>12</sup> For example, as shown in Table 2.4, BC was the only jurisdiction to have employees work less actual hours in 2001 than in 1992, reflecting overall weakness in the provincial economy. Once again, the drop in hours worked was influenced by the decline in the dominance of the resource sector, and the evolution of the service sector, which generates a lot of part-time jobs.

Table 2.2 Unemployment Rate

Jurisdiction	1992	2001	% change
Canada	11.2	7.2	-35.7%
BC	10.2	7.7	-24.5%
Alberta	9.4	4.6	-51.1%
Ontario	10.7	6.3	-41.1%

Table 2.3 Real Average Hourly Wage (pre-tax)

Jurisdiction	1992	2001	% change
Canada	\$18.21	\$17.80	-2.3%
BC	\$18.45	\$18.59	0.8%
Alberta	\$18.32	\$18.01	-1.7%
Ontario	\$19.09	\$18.63	-2.4%

Table 2.4 Actual/Potential Hours Worked

Jurisdiction	1992	2001	% change
Canada	0.89	0.90	1.1%
BC	0.88	0.86	-2.3%
Alberta	0.92	0.95	6.7%
Ontario	0.89	0.91	2.2%

<sup>10</sup> According to BC Stats, in 2001, the average weekly wage rate (pre-tax) in the goods sector was \$781.71, compared to \$612.24 in the service sector.

<sup>11</sup> BC Business Council, "Will Labour Shortages Derail the BC Economy?" February 2002.

<sup>12</sup> Potential hours worked is calculated as a maximum of 40 hours per week x 52 weeks, minus two weeks vacation.

**2.5 GENDER EQUITY** Between 1997 and 2001, the wage gap between full-time female and male workers in BC narrowed. In 1997, female workers in BC earned approximately 81% of the wage rate of their male counterparts. By 2001, the female/male wage gap in BC had closed to 83%—slightly better than the national average (82%), Ontario (82%), and Alberta (78%). BC was the only jurisdiction to have an improvement in the female/male wage ratio since 1997, while Ontario saw the largest decline, likely due to the predominance of men in the province's high-paying manufacturing sector.

While women made some wage gains relative to men in the last five years, income disparities still exist. In the year 2000, a higher proportion of women in BC earned less than \$25,000 per year (59.7% compared to 42.1% for men). Conversely, only 7.9% of women earned more than \$50,000 per year, compared to 25.3% of men. While only 6% of female workers were earning minimum wage in 2000, this percentage was still double that of males earning minimum wage.

**Table 2.5 Female/Male Wage Ratio**

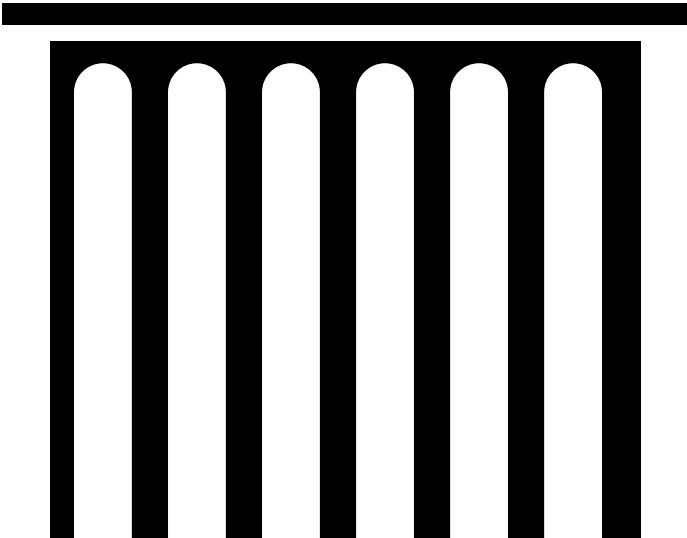
Jurisdiction	1997	2001	% change
Canada	0.83	0.82	-1.2%
BC	0.81	0.83	2.5%
Alberta	0.78	0.78	0.0%
Ontario	0.84	0.82	-2.4%

**2.6 JOB STABILITY** Job stability is measured by the average number of months a person has worked for their current employer. Longer average tenures are generally desirable from an employer's perspective, as the lower turnover rates mean fewer costs are incurred in recruiting and training new workers. From a worker's perspective, job tenure can reflect either greater job security or fewer opportunities to find other jobs.

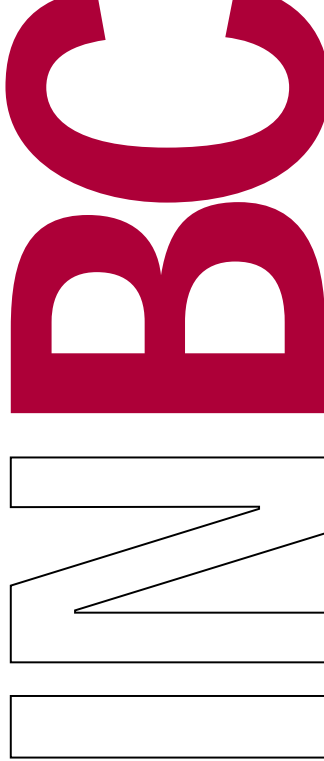
**Table 2.6 Average Job Tenure**

Jurisdiction	1992	2001	% change
Canada	92.0	95.6	3.9%
BC	78.3	88.7	13.3%
Alberta	84.6	82.6	-2.4%
Ontario	92.5	93.8	1.4%

As shown in Table 2.6, BC experienced the greatest improvement in job stability between 1992 and 2001 (13.3%), while Alberta had the largest decline (-2.4%). While many factors influence tenure, the results suggest that the relative strength of the economy played a role. In strong economies with a high demand for labour, employees may change jobs more often, whereas in weaker economies, workers remain in their jobs longer.



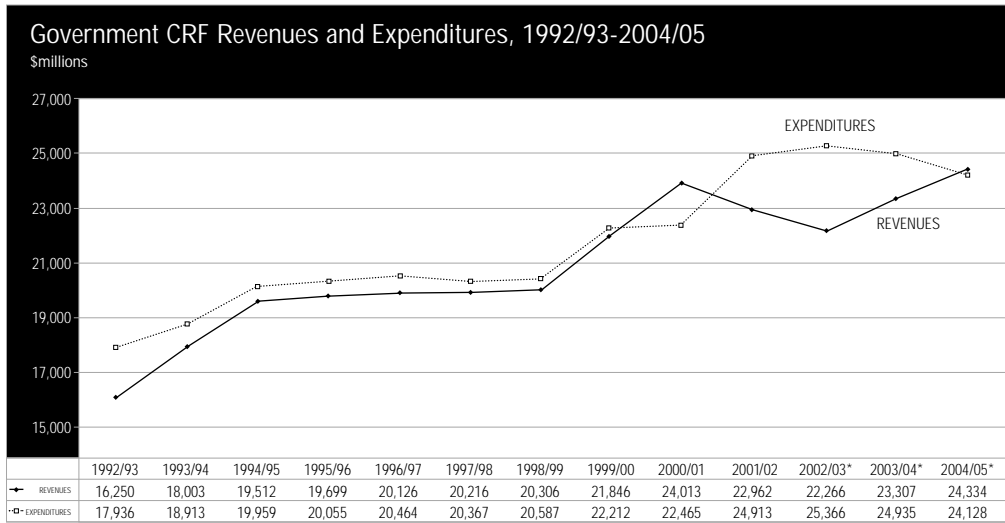
# INVEST



## 3.0 BC AS A PLACE TO INVEST

**3.1 OVERVIEW** BC's investment climate best exemplifies the transition the province is undergoing. Despite having had one of Canada's strongest economies in the late 1980s and early 1990s, BC earned the status of a "have-not" province in 1999/00—and became a net recipient of federal transfers—due to its economic decline in the last half of the 1990s.

As the graph indicates, revenues have continually lagged expenditures over the past decade, resulting in an unsustainable fiscal situation and a sharp increase in provincial debt. Gloomy corporate profits, rising construction costs, and deficit financing will deter new investors. However, an increasingly productive work force and strong export prices will encourage them to look at BC.



\*Projected

Source: BC Ministry of Finance

The decisions of investors may well be decided by the policy changes made by BC's Liberal government in its first year in office. During this period, they eliminated the sales tax on machinery and equipment, reduced the corporate income tax rate by 3%, raised the small business tax threshold by \$100,000, and eliminated the corporate capital tax. In addition, the government started to reduce unnecessary regulations, encourage public-private partnerships, and introduce modernized corporate legislation. These, and many other "business-friendly" initiatives, are aimed at stimulating investment and job creation, and generating increased revenues for the provincial treasury.

Because investment decisions are not made overnight, it will take time for these policy initiatives to have an impact on the provincial economy. In the meantime, the BC government has embarked on a program of spending reductions, amidst public controversy, as the province undergoes the transition from a deficit to a surplus position by 2004/05.

The following sections provide more details on BC as a place to invest.

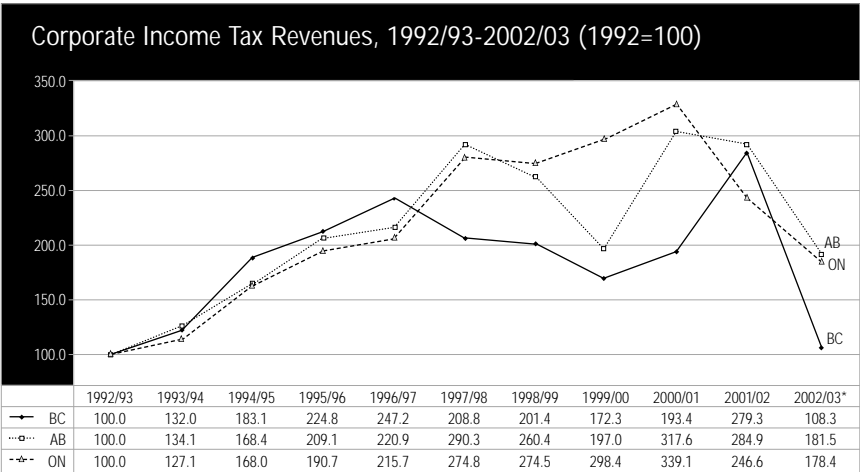
**3.2 AFTER-TAX CORPORATION PROFITS** The 1990s were not kind to corporate profits in BC. Corporations in BC have consistently earned lower after-tax profits as a percentage of GDP than their counterparts in Alberta and Ontario. This finding is hardly surprising given the province's poor economic performance in the last decade. In addition, BC's corporate tax levels were higher than those in Alberta and Ontario during this period, contributing to the lower profit ratio.

**Table 3.2 After-Tax Corporation Profits/GDP Ratio**

Jurisdiction	1992	2001	% change
Canada	3.50	9.16	161.7%
BC	2.38	7.12	199.2%
Alberta	4.54	19.75	335.0%
Ontario	4.03	8.53	111.7%

The poor showing of BC corporations in the past decade didn't just impact the bottom line of individual companies, it also had implications for the provincial treasury. As the graph below indicates, the provincial government's corporate income tax revenues deteriorated between 1996 and 2000, as the effects of the Asian economic crisis and the downturn in the resource sector took a toll on profits.

BC did have one bright spot, largely due to the energy sector, as the provincial treasury reaped \$1.5 billion in corporate income tax revenues in 2001/02—a \$468 million increase over the previous year. Unfortunately, as the graph shows, corporate income tax revenues are projected to plunge to just \$779 million in 2002/03, reflecting the recession of 2001 and the plummeting corporate profits that accompanied it.<sup>13</sup>



\*Projected

Source: Provincial budget documents

It's also worth noting that there's uncertainty about the economic impacts of the Kyoto Protocol on BC's economy. If ratified by the federal government, the Protocol would require Canada to reduce its greenhouse gas emissions to 6% below the levels of 1990 by 2012. Studies have suggested that BC would be harmed more than any other region of Canada by the Kyoto agreement because of our population growth since 1990 and our reliance on the resource sector.<sup>14</sup> Although BC's population growth slowed significantly in the late 1990s, largely due to interprovincial outflows, the province's population is still 21% larger than in 1990.

<sup>13</sup> Corporate income tax revenues are collected by the federal government and lag actual performance. For example, 2002/03 installments from the federal government are based on BC's share of the national tax base for the 2000 tax-year (assessed as of December 31, 2001) and a forecast of the 2002 national tax base.

<sup>14</sup> See Business Council of BC, "Submission to the BC Government on the Kyoto Protocol," September 2002.

**3.3 PROVINCIAL DEBT** Throughout the 1990s, the competitive advantage of a low debt level dwindled away as BC ran consecutive deficits. Figures compiled by the TD Bank show that between 1993/94 and 2002/03, BC was the only jurisdiction to see its taxpayer-supported debt-to-GDP ratio worsen.<sup>15</sup> As a result, 2002/03 projections see BC's debt ratio as virtually equal to the provincial average, and almost six times higher than Alberta's.

While the BC government introduced a long-term debt management plan in 1995, the targets were never met and the plan was eventually scrapped. BC currently has no long-term plan to deal with its debt levels.

Once again, the debt picture reflects the overall health of each jurisdiction's economy. Alberta's booming economy and its legislated commitments to debt reduction, helped lower its taxpayer-supported debt ratio to just 4.4%—the lowest in Canada by a wide margin. Ontario's debt load also improved as the province balanced its budget in 1999/00 and began running surpluses.

**3.4 REAL NON-RESIDENTIAL CONSTRUCTION COSTS** An increase in non-residential construction costs (the change in labour plus material costs, less inflation) suggests that the cost of constructing a plant (factory, warehouse, shopping centre etc.) is increasing faster than general prices in the economy.

As Table 3.4 shows, BC's non-residential construction costs have increased just slightly above the national average, but less than Ontario, in the past decade. However, the most dramatic change has occurred in Alberta, where real non-residential construction costs have declined by 11% during the same ten-year period.

Although the results suggest that all jurisdictions lost ground to Alberta over the past decade, BC's increase in construction costs was slightly less than the national average, and significantly less than in Ontario.

**3.5 UNIT LABOUR COSTS** An important factor driving investment decisions is the rate at which labour compensation is growing in comparison to labour productivity. Increasing real wage rates are not necessarily bad for business, as long as there's a corresponding increase in productivity. Therefore, in Table 3.5, an increase in private sector unit labour costs means that wages are rising faster than productivity, while a decline means that productivity gains outweigh wage gains.

All jurisdictions, except Ontario, have seen an improvement in private sector unit labour costs over the past decade, with Alberta registering the largest improvement (-10.2%). BC recorded the second largest decline in unit labour costs over the 1992-2001 period, with a 4.4% drop.

The results suggest that in terms of labour costs over the past decade, BC has become more competitive relative to Ontario and the national average, but has lost ground to Alberta.

Table 3.3 Taxpayer-Supported Debt-to-GDP Ratio

Jurisdiction	1993	2002	% change
Canada	29.0	23.9	-17.6%
BC	19.1	23.0	20.4%
Alberta	27.9	4.4	-84.2%
Ontario	27.4	24.1	-12.0%

Table 3.4 Non-Residential Construction Costs (1997=100)

Jurisdiction	1992	2001	% change
Canada	96.1	102.7	6.9%
BC	98.0	103.8	5.9%
Alberta	100.8	89.7	-11.0%
Ontario	92.9	107.0	15.2%

Table 3.5 Real Private Sector Unit Labour Costs (1997=100)

Jurisdiction	1992	2001	% change
Canada	104.4	102.4	-1.9%
BC	106.1	101.4	-4.4%
Alberta	105.6	94.8	-10.2%
Ontario	103.2	106.4	3.1%

<sup>15</sup> The debt figures for Canada represent the provincial total, and do not include the federal government.

**3.6 REAL EXPORT PRICES** Each province exports to different markets with different exchange rates. Based on each province's markets, Alberta enjoyed the greatest increase (24.9%) in its export prices since 1992, largely due to its petroleum exports to the US. While Alberta witnessed a decline in real dollar export prices in the middle of the 1990s, rising oil and gas prices caused substantive increases in 2000 and 2001.

BC's real export prices went up over the 1992 to 2001 period (13.8%), with a greater increase than the national average (10.3%), or Ontario (6.5%). BC's export prices peaked in 1995, then declined through 1998 before rising again in 1999.

Jurisdiction	1992	2001	% change
Canada	92.9	102.5	10.3%
BC	90.9	103.4	13.8%
Alberta	90.8	113.4	24.9%
Ontario	94.4	100.5	6.5%

**SUMMARY** The *BC Check-Up* report demonstrates how BC's economic decline in the 1990s resulted in stagnating incomes, declining corporate profits, an exodus of people, and a growing provincial debt, all of which led BC to officially become a "have-not" province in 1999/00.

The report also suggests that BC is a province in transition. Significant provincial income tax cuts helped to raise disposable income slightly in 2001 and should further boost it in 2002. Corporate tax reductions should also place BC in a better position to attract investment, particularly with the projected strengthening of the North American economy. The shift from a resource-based to a service-based economy will result in a more flexible economy that can better weather the type of economic difficulties we saw in 2001.

If the 1990s taught us anything, it's that a strong economy is the best way to generate government revenues, lower overall debt, and protect and enhance key programs and services. For BC, stimulating investment and economic activity is the only way the province is going to achieve its balanced budget, and the only way to make sure that BC comes through this transition period as a better place in which to live, work, and invest.

# TRANSITION

# *BC Check-Up*

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Any opinions expressed in the *BC Check-Up, Edition 2002* do not necessarily reflect the opinions of the Institute of Chartered Accountants of British Columbia or individual CAs.

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