

---

**Chapter 2: BRITISH COLUMBIA ECONOMIC REVIEW AND OUTLOOK**


---

## Overview<sup>1</sup>

The U.S. economy is expected to recover in 2002 and Canada is assumed to follow, although there are still questions about the strength of the North American near-term recovery. In 2003 and beyond, the U.S. and Canadian economies are forecast to lead global economic growth.

**TABLE 2.1**  
**BRITISH COLUMBIA ECONOMIC OUTLOOK**

	2001	2002	2003	2004	2005	2006
	Per cent change in real GDP					
Ministry of Finance Economic Forecast...	0.7 <sup>e</sup>	0.6	2.8	3.1	3.0	3.1
Economic Forecast Council <sup>1</sup> .....	0.7	0.7	3.0	3.3	3.3	na

e: Ministry of Finance estimate

<sup>1</sup> The Economic Forecast Council is an average of the sixteen members' forecasts. The Council provided an average forecast for 2004 and 2005 and did not provide a forecast for 2006.

---

Based on these and other external growth assumptions of the province's major trading partners, the most likely outcome for the British Columbia economy is to grow 0.6 per cent in 2002 then pick up to 2.8 per cent in 2003. The average forecast of the British Columbia Economic Forecast Council was slightly higher, expecting growth of 0.7 per cent in 2002 and 3.0 per cent in 2003 (see topic box). In 2004 through 2006, the British Columbia economy is expected to grow about 3.0 per cent per year reflecting stronger economic growth in the province's trading partners, higher commodity prices and stronger consumer and business sectors. Over the medium-term, investment in the province is forecast to increase as tax cuts contribute to improved business confidence and opportunities.

As with all forecasts, the economic outlook presented here has risks attached to it, both on the upside and downside. These risks may affect the near-term, the medium-term, or both. Some of these risks include the global recovery, the war on terrorism and financial crises in Japan and Argentina. Given these risks, a number of possible paths exist for the North American and world economies, and these suggest a range of possibilities for the British Columbia economy as well.

---

<sup>1</sup> This report incorporates information available as of February 6, 2002. All annual and quarterly references are for the calendar year.

The Ministry of Finance budget forecast is the most likely outcome based on current knowledge and judgement, and a consistent set of assumptions about how the global economy will evolve. An assessment of the forecast risks needs to take account of the range of possibilities.

To illustrate the possibilities surrounding the budget forecast, two other economic scenarios are presented, one that assumes slower growth, and the other based on a quick rebound in the North American economy. Although events will inevitably vary somewhat, the budget outlook reflects the most likely forecast.

**TABLE 2.2**  
**BRITISH COLUMBIA ECONOMIC OUTLOOK SCENARIOS**

	2001	2002	2003	2004	2005	2006
	Per cent change in real GDP					
Slow Recovery Scenario.....	0.7 <sup>e</sup>	0.1	2.0	2.1	2.1	2.2
Rebound and Recovery Scenario.....	0.7 <sup>e</sup>	1.6	3.8	3.7	3.6	3.6

<sup>e</sup>: Ministry of Finance estimate

## The Outlook for the External Environment

During the last six months of 2001, global growth estimates for 2001 and forecasts for 2002 were continually revised downward. The Organization for Economic Cooperation and Development recently reported that the global economy slipped into its first recession in 20 years, with output shrinking in the last two quarters of 2001 and likely remaining weak in the first half of 2002. While an upswing in the global economy is not expected until 2003, the U.S. economy is expected to recover in 2002.

The National Bureau of Economic Research estimated that the U.S. economy entered a recession in March 2001. The U.S. economy (British Columbia's largest trading partner) contracted at a 1.3 per cent annual rate in the third quarter. Preliminary results indicate that the U.S. economy grew at a 0.2 per cent annual rate in the fourth quarter, with consumer and government spending contributing to growth, and partly offsetting a drawdown of inventories.

The U.S. recession in 2001 was largely due to a decline in business investment. There was considerable slack in the manufacturing sector as unused production capacity reached historical highs. However, the consumer sector continued to spend, aided in part by deep discounting by motor vehicle dealers and low mortgage rates which supported the housing sector. This effectively moved forward some consumer spending so that coming out of the recession, the economy may not have the typical amount of pent-up consumer demand to help drive economic growth. This should result in a slower economic recovery this year.

While low interest rates boosted consumer spending, fiscal policy was also aimed at improving the U.S. economy. The U.S. government reduced taxes by \$70 billion, effective January 1, 2002, to help the economy over the medium-term.

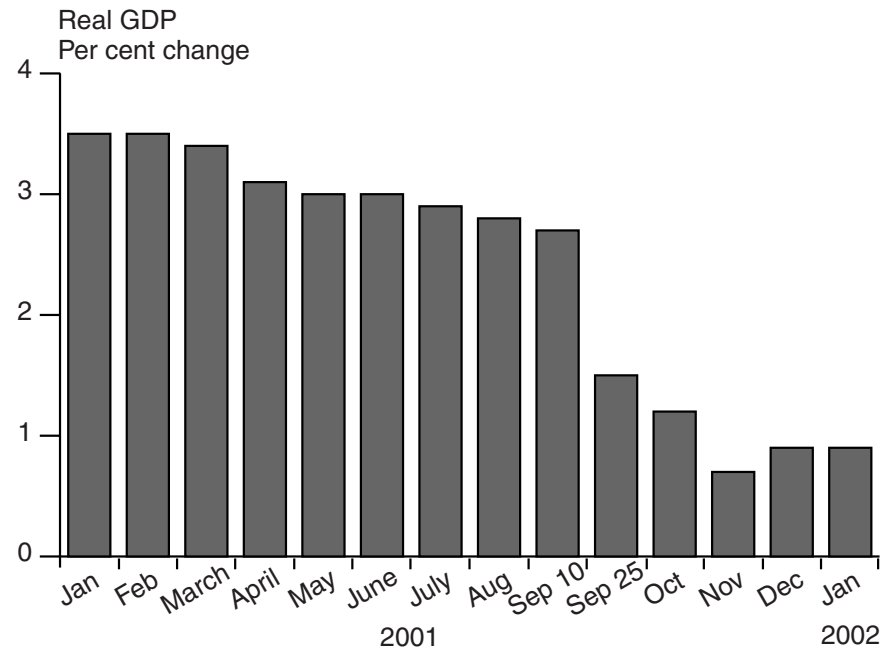
The Canadian economy (British Columbia's second largest trading partner) followed the U.S. economy into the slowdown, although the data suggests the downturn in Canada could be shorter, and not as deep. Consumer and business confidence in Canada was not impacted by the events of September 11th to the same extent as in the U.S. Canadian real GDP contracted at a 0.8 per cent annual rate in the third quarter. While fourth quarter data will not be available until February 28th, retail sales and housing data indicate growth is expected to be in line with the final quarter in the U.S. Retail sales and housing starts were strong through the end of 2001, although incentive-driven motor vehicle sales inflated November's retail sales data.

Overseas, Japan continues to struggle with chronic structural problems in its financial sector, and combined with the U.S.-led global slowdown, the economy entered its fourth recession in a decade. Real GDP in Japan contracted at a 2.2 per cent annual rate in the third quarter. In 2001, the economy shrank an estimated 0.4 per cent. The share of British Columbia's merchandise trade with Japan has fallen during the past decade as the Japanese economy has floundered. In 2000, 14.3 per cent of British Columbia's goods exports were destined for Japan, compared with 27.8 per cent ten years earlier.

The German economy, Europe's traditional growth engine, grew only 0.6 per cent in 2001 as the global slowdown hurt exports and hampered investment. The economy stalled in mid-2001 and continued to slow for the rest of the year, aggravated by the fallout from the September 11th attacks in the U.S. Retail sales and the key business leading indicator were up strongly in November.

**Outlook:** As evidence of the U.S. slowdown in 2001 emerged, forecasters revised down their outlook for the world's largest economy in 2002 (see Chart 2.1), tumbling from 3.5 per cent in January to 0.7 per cent in November. The consensus growth forecast has now stabilized at 0.9 per cent.

Chart 2.1: U.S. economic growth forecasts for 2002 stabilize



Source: Consensus Economics, Inc.

The chart above represents forecasts for real GDP growth in 2002 as polled on specific dates. For example, forecasters surveyed on September 10, 2001 had an average U.S. growth forecast of 2.7 per cent. On September 25, 2001 these forecasters had revised down their outlook to an average of 1.5 per cent.

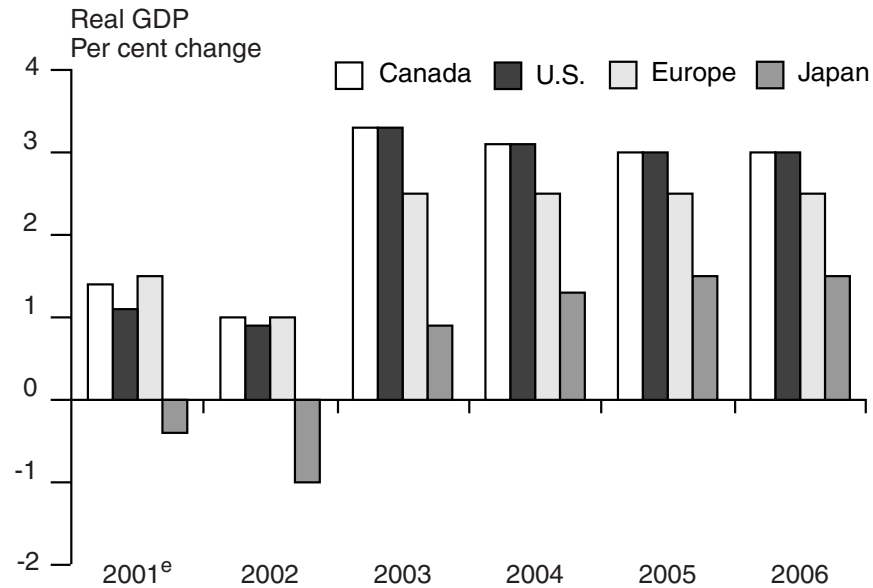
*“Our projection of output growth for the next decade, however, is only 3.34 per cent per year, compared with the 1995-2000 average of 4.60 per cent”*  
 Dale Jorgenson,  
 Harvard University,  
 December 31, 2001

A turnaround in the U.S. is expected to lead a global recovery in 2002. The U.S. Federal Reserve has cut interest rates dramatically and the U.S. government has adopted fiscal policies that should stimulate the economy. Real GDP is expected to grow 0.9 per cent in 2002 then 3.3 per cent in 2003. (See Chart 2.2.) Over the medium-term, economic growth in the United States is assumed to average 3.0 per cent per year. This is close to current estimates of potential output growth (the change in the level of output that the economy generates when people and capital equipment are fully-utilized).

Between 1995 and 2000, the U.S. economy posted annual growth rates in excess of 4.0 per cent, stronger than the annual rates recorded in the 1970's and 1980's. This stronger growth was believed to be due to increased productivity in the U.S. economy that allowed it to grow faster without running into bottlenecks in production and rising prices.

However, with the recession in 2001 prompting closer examination of this issue, new research suggests the U.S. economy may not have undergone as profound a “productivity miracle” as previously believed, and potential economic growth is expected to return to around 3.0 per cent.

Chart 2.2:  
U.S. and Canada growth expected to lead the global economy



<sup>e</sup>: Ministry of Finance estimate  
Source: Ministry of Finance

*“Thus, the pace of economic activity in Canada is still expected to be above potential growth in the second half of the year — in the range of 3 to 4 per cent.” Bank of Canada, Monetary Policy Report Update, January 2002*

The Canadian economy is expected to grow 1.0 per cent in 2002, then pick up to 3.3 per cent in 2003. Employment is a lagging indicator of economic activity and as such, is expected to decline in the first part of 2002 then increase in the second half of the year. Over the medium-term, economic growth is assumed to mirror the performance of the U.S., growing in line with the Bank of Canada’s estimates of potential growth.

TABLE 2.3  
KEY ASSUMPTIONS  
MINISTRY OF FINANCE ECONOMIC FORECAST

	Actual/ Estimate	Forecast				
		2001	2002	2003	2004	2005
Per cent change unless otherwise noted						
Canada real GDP .....	1.4 <sup>e</sup>	1.0	3.3	3.1	3.0	3.0
U.S. real GDP .....	1.1	0.9	3.3	3.1	3.0	3.0
Japan real GDP .....	-0.4 <sup>e</sup>	-1.0	0.9	1.3	1.5	1.5
Europe real GDP .....	1.5 <sup>e</sup>	1.0	2.5	2.5	2.5	2.5
Short-term interest rates <sup>1</sup> .....	3.8	2.4	3.8	4.5	4.8	5.0
Long-term interest rates <sup>2</sup> .....	5.8	5.7	5.9	6.4	6.8	6.8
U.S. cents/Cdn \$ .....	64.6	63.5	64.5	66.5	67.2	67.5

<sup>e</sup>: Ministry of Finance estimate

<sup>1</sup> Canada 3-month treasury bills.

<sup>2</sup> Government of Canada Long-term (30-year) bonds.

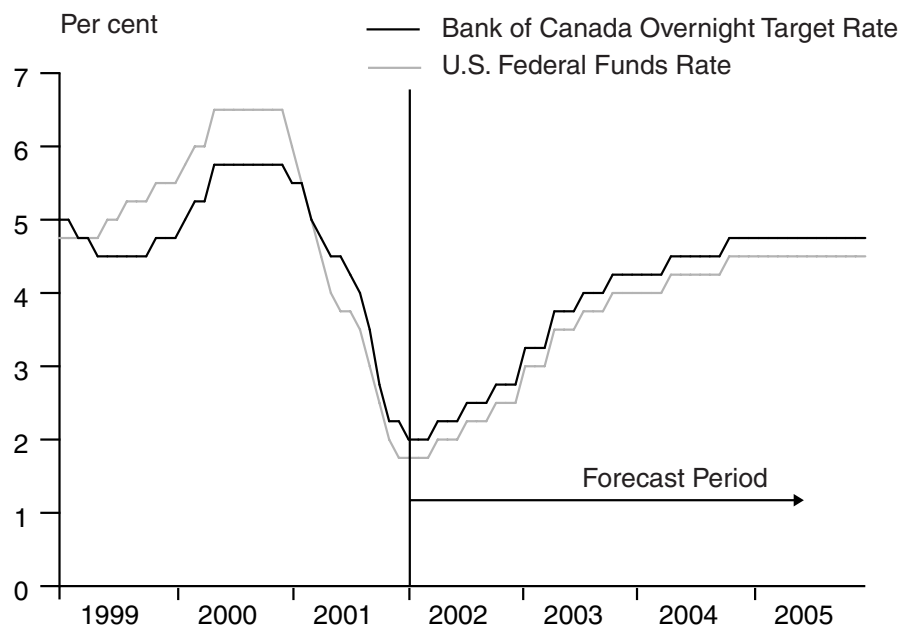
Japan's economy is expected to contract 1.0 per cent in 2002 following a decline in 2001. Japan's economic outlook hinges on government reforms since its key short-term interest rate is already near zero. With significant financial reforms needed, and still three to five years away, growth prospects over the forecast period are weak.

The outlook for Europe depends on the U.S. as one-fifth of its exports are destined for the U.S. The European Central Bank also cut interest rates in 2001 but not to the same extent as other central banks. As a result, interest rates are relatively high and are expected to be less of a boost to growth.

## Financial Markets

Since easing by the central banks began in early 2001, the U.S. Federal Reserve cut short-term interest rates 11 times in an effort to add liquidity and maintain spending. Similarly, the Bank of Canada lowered short-term interest rates nine times in 2001, lowering the key overnight interest rate from 5.5 per cent in January to 2.25 per cent in December.

Chart 2.3: Central Bank easing ends in early 2002



Sources: Bank of Canada, U.S. Federal Reserve actuals, and Ministry of Finance forecast

Although the Canadian dollar started 2001 near 67 cents U.S., it traded between 62.5 and 64 cents for most of the second half of the year, reflecting falling commodity prices. At the beginning of 2002, the Canadian dollar fell against its U.S. counterpart, as the U.S. dollar strengthened against most currencies. The falling Canadian dollar did not reflect economic developments in Canada but rather a flight to quality by international investors. In times of uncertainty, the U.S. is often viewed as a safe haven for financial investments.

**Outlook:** The forecast includes the Bank of Canada's January 15th 25 basis point cut in the target overnight rate. North American short-term interest rates are expected to rise gradually in 2002. As a result, inflation pressures are expected to remain in line with the established inflation target of two per cent over the medium term in Canada, and at an acceptable level in the U.S. As economic growth picks up in 2003, the forecast assumes more frequent increases in short-term interest rates to ensure inflation remains under control. By the end of the forecast period, short-term interest rates are expected to be in the range of 4.5 to 5.0 per cent, but still below their 2000 level (see Chart 2.3).

Rising commodity prices should support a gradual rise in the Canadian dollar. The British Columbia Ministry of Finance expects the Canadian dollar to appreciate from 63.5 cents U.S. in 2002 to 67.5 cents U.S. in 2006.

## Commodity Markets

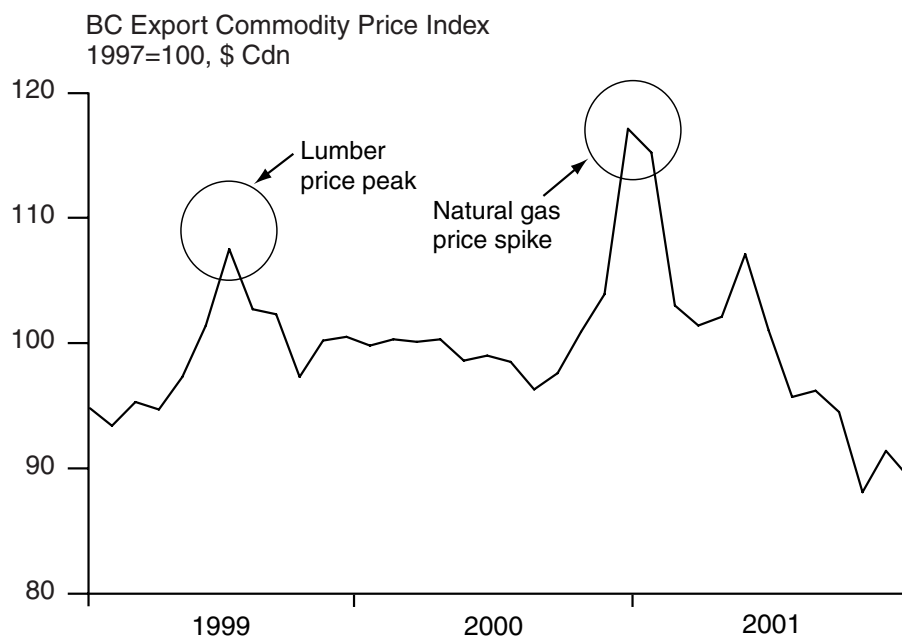
Prices of most natural resource commodities fell in 2001 reflecting the global industrial slowdown. Metal and mineral prices fell steadily through the year. Lumber prices started low then rose during the spring and early summer on stronger-than-expected U.S. housing, but have fallen off since.

The Ministry of Finance Export Commodity Price Index, a weighted average of key commodity prices, fell 2.2 per cent in 2001. Chart 2.4 shows the effect on the index of the natural gas price spike in December 2000 and the lumber price peak in July 1999. The lower commodity prices combined with lower export volumes to reduce the value of the province's exports. As a result, trade contributed less to overall economic growth in 2001 than in 2000.

The Canada-U.S. softwood lumber agreement governing softwood lumber exports to the U.S. expired on March 31, 2001. On August 9th, the U.S. imposed a 19.3 per cent preliminary countervailing duty (CVD) on softwood lumber shipments from Canada, and in October 2001 added a preliminary anti-dumping duty of close to 13 per cent. The provisional nature of the CVD on exports to the U.S. meant that it could only be in effect for 120 days. At the time of writing, British Columbia softwood lumber exporters were continuing to post bonds to cover the anti-dumping duty, but CVD bonding or cash deposits were not required for entries made between December 15, 2001 and mid-May 2002. If

talks between Canada and the U.S. do not reach an agreement, the Department of Commerce will rule on the final value for these two duties on March 21st. Canada has instigated a World Trade Organization challenge of the CVD preliminary determination and a panel was appointed this month.

**Chart 2.4: Commodity prices fell in response to weaker demand**



Source: Ministry of Finance

The general impact of a duty is to raise the cost to Canadian producers, and as a result reduce Canadian producers' ability to compete in the U.S. market, forcing higher-cost sawmills to close. In the longer term, the tariff reduces the profitability of Canadian sawmills relative to U.S. mills and leads to proportionately less investment in the sector and a decrease in relative competitiveness.

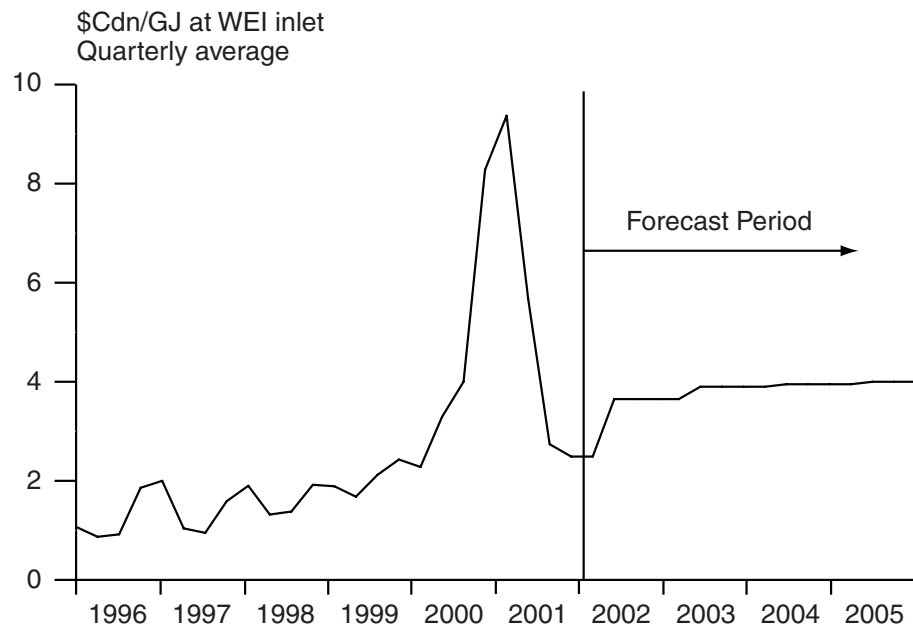
U.S.-Canada discussions have been taking place over the last few months to determine whether possible policy changes could lead to a durable resolution of the softwood lumber trade dispute. The B.C. government has been engaged in these talks, along with the federal and other provincial governments. In December, the governments of British Columbia, Alberta, Ontario and Quebec tabled written proposals for policy changes. B.C.'s proposal includes changes to stumpage, forest tenure and regulatory requirements. In early February, talks were on hold while Canada awaited a counter-proposal from the U.S. side. Talks were scheduled to resume the third week of February.

The forecast assumes that whatever the outcome of the softwood lumber dispute, the forest industry will be under continued pressure to reduce costs in order to remain competitive. This will result in a major restructuring of the

British Columbia forest industry, particularly on the coast. Initially there will be a decline in capital employed in the forest industry as less productive sawmills close and some consolidation occurs. Further into the forecast period, investment should increase as companies make capital investments to achieve higher productivity.

**Outlook:** The average price of British Columbia goods and services exports is expected to fall 0.6 per cent in 2002 then rise 2.9 per cent in 2003. The increase should be broad-based, with most commodity prices rising moderately. Benchmark spruce-pine-fir prices are expected to rise to \$275 U.S. per thousand board feet in 2003 and remain at that level through the forecast period (see Table 2.8.5). Pulp and newsprint prices are expected to increase as demand for those products picks up. Natural gas prices are expected to be below 2001's average due to price spikes early last year that are not expected to be repeated in 2002. Over the forecast period, natural gas prices are assumed to remain higher than their historical average, reflecting an increase in industrial demand.

Chart 2.5: Natural gas price resumes trend

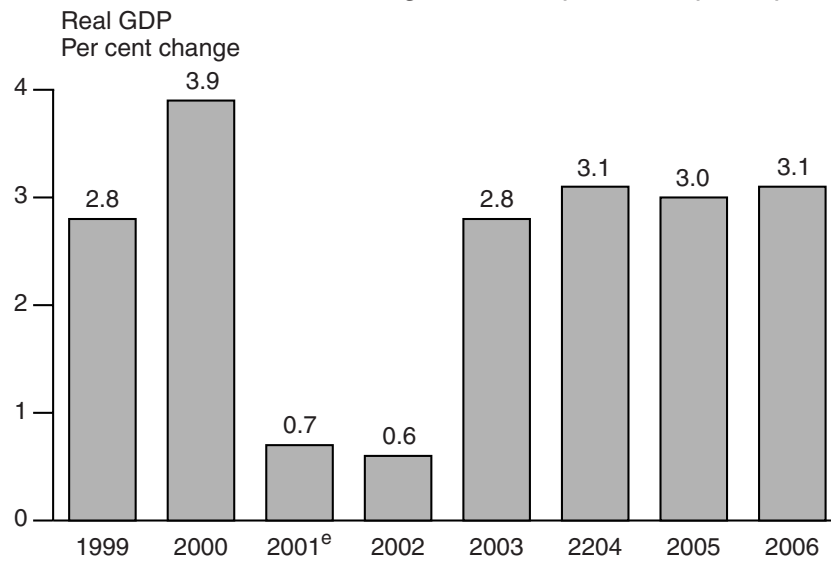


Source: Ministry of Energy and Mines

## British Columbia Economic Forecast

The British Columbia economy is expected to begin a recovery in mid 2002. As growth in the province's key trading partners picks up in 2003, so should growth in British Columbia. Between 2004 and 2006, the economy is forecast to grow just over 3.0 per cent annually.

Chart 2.6:  
British Columbia's economic growth is expected to pick up



e: Ministry of Finance estimate  
Source: Ministry of Finance, Statistics Canada

TABLE 2.4  
KEY INDICATORS  
MINISTRY OF FINANCE ECONOMIC FORECAST

British Columbia Indicator	Actual/ Estimate	Forecast				
	2001	2002	2003	2004	2005	2006
		Percentage change unless otherwise noted				
Real GDP.....	0.7 <sup>e</sup>	0.6	2.8	3.1	3.0	3.1
Nominal GDP.....	1.0 <sup>e</sup>	1.0	4.2	4.7	4.8	4.8
Employment.....	-0.3	-0.2	1.8	2.3	2.2	2.1
Unemployment Rate.....	7.7	8.7	8.3	7.3	7.3	7.2
Net In-migration (thousands of persons).....	24.8 <sup>e</sup>	28.8	34.2	42.1	44.9	47.9
Personal Income.....	2.2 <sup>e</sup>	2.0	3.6	4.0	4.5	4.5
Corporate Pre-tax Profits.....	-15.0 <sup>e</sup>	-7.5	7.5	7.5	5.0	5.0
Housing Starts (thousands of units).....	17.2	18.2	19.8	21.7	22.8	23.9
Retail Sales.....	5.8 <sup>e</sup>	2.9	4.8	5.2	5.2	5.2
Inflation Rate.....	1.7	1.4	1.7	1.8	2.0	2.0

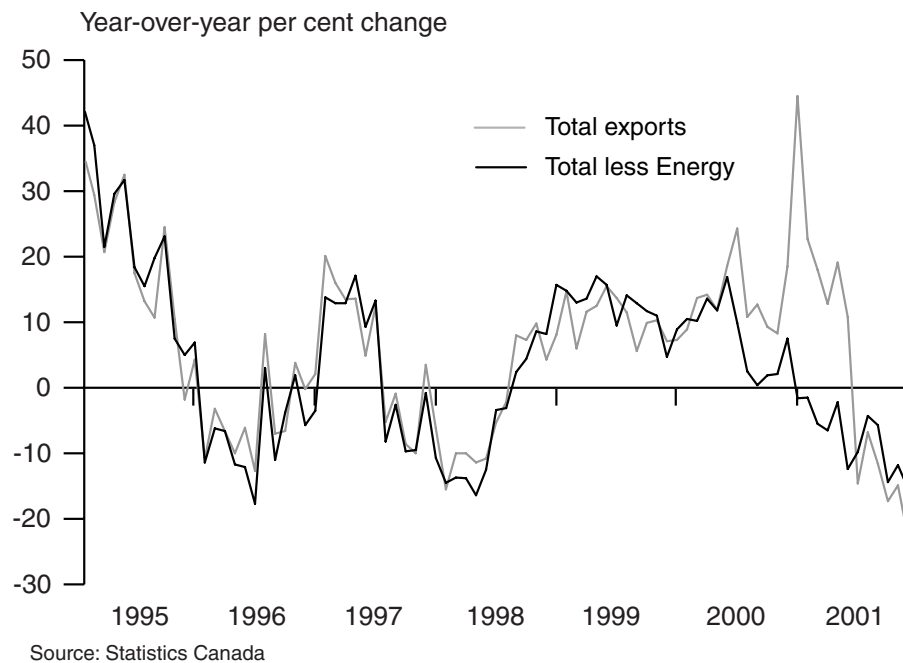
e: Ministry of Finance estimate  
Source: Ministry of Finance, Statistics Canada

## External Trade

The British Columbia economy trades goods and services in a competitive world market. The U.S. is the province's most important trading partner with almost two-thirds of British Columbia merchandise exports going south of the Canadian border. The province's domestic sector is relatively smaller than that of the U.S. or Canada and as such, trade developments including growth in the province's trading partners or commodity price changes, have a greater impact on British Columbia.

British Columbia exports started 2001 at record high levels, due to a spike in energy exports, then fell during the rest of the year. As a result, exports were down 1.0 per cent year-to-date through November, but were 22.8 per cent below last November's levels (see Chart 2.7). Excluding energy products, provincial exports were down 15.4 per cent in November, led by a decline in the value of forestry-related goods.

Chart 2.7: Merchandise exports declined due to global slowdown



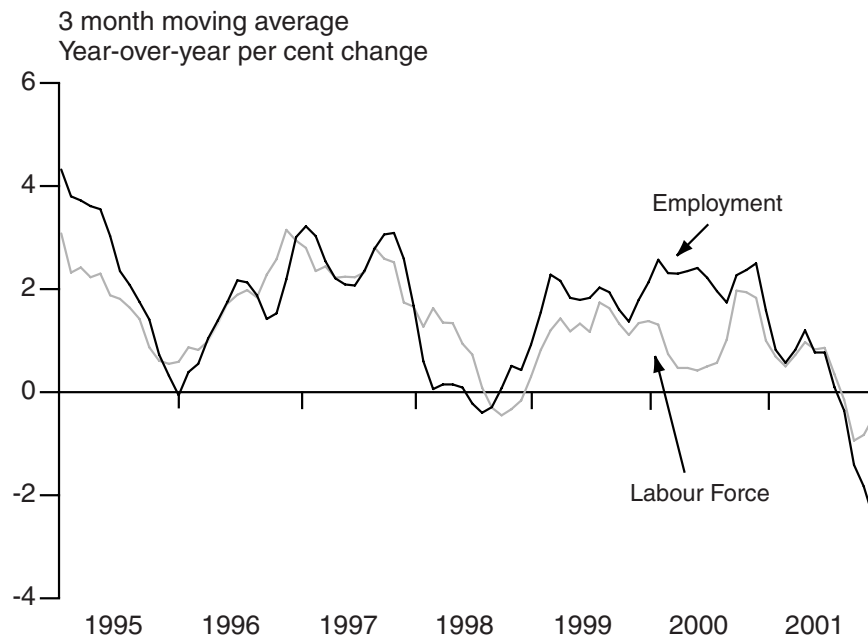
**Outlook:** Exports of wood products continue to be hurt by the preliminary countervailing and anti-dumping duties levied on softwood lumber. The reduced activity in the lumber sector, weak global industrial demand and falling demand for energy products could lead to reduced international exports in 2002. In 2003, as the U.S. and global economies turn around, increased demand and firmer prices should boost goods exports. Service exports are forecast to improve in 2003 alongside stronger U.S. and Canadian economic growth.

### The Labour Market

Total employment fell 0.3 per cent for 2001. Employment peaked in March 2001 and declined steadily through the last half of the year. In addition to the overall decline in the number of jobs, there was a shift from full-time to part-time employment and a reduction in hours worked, developments typically seen in an economic slowdown. Chart 2.8 shows employment ended the year 3.1 per cent below its December 2000 level.

The unemployment rate averaged 7.7 per cent in 2001, ending the year at 9.7 per cent.

Chart 2.8: Employment and the labour force contracted



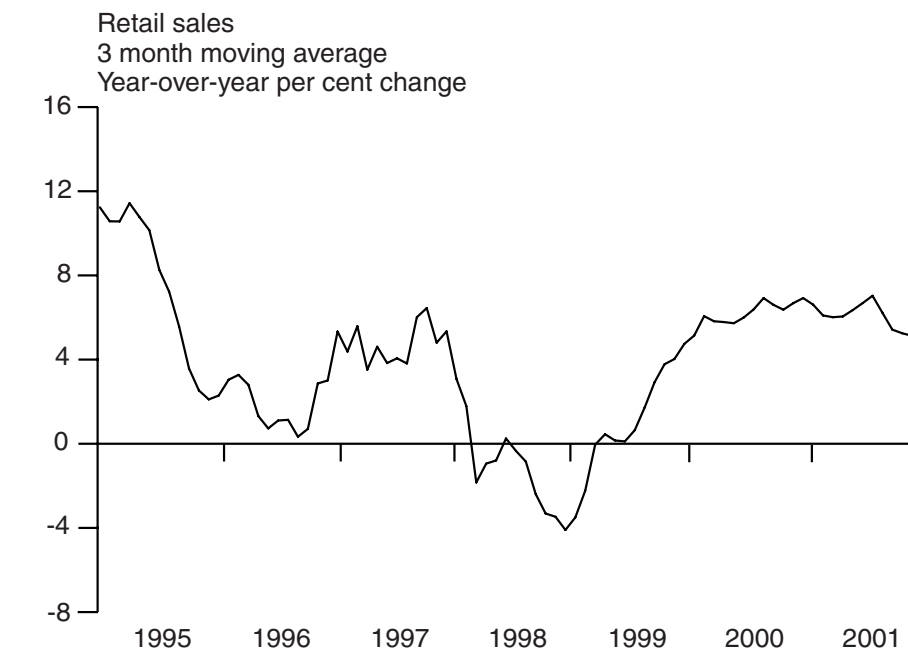
**Outlook:** Total employment is expected to decline 0.2 per cent for 2002, as the economy works to replace the jobs lost in 2001. Employment is expected to rise during 2002, but the low level at the beginning of the year results in the annual average being lower than in 2001. The unemployment rate is expected to average 8.7 per cent in 2002, improving to 8.3 per cent in 2003.

Over the medium-term, employment growth is expected to pick up, adding an average of 45,000 jobs per year through 2006, to total 2.1 million in 2006. Growth of the province's labour force is forecast to pick up in 2005 and 2006 reflecting increased interprovincial migration. However, employment growth exceeds labour force growth and, as a result, the unemployment rate improves to 7.2 per cent in 2006.

## Domestic Demand

**Consumer Spending and Housing:** Consumer spending accounts for about two-thirds of the provincial economy. British Columbia consumers, like their Canadian and U.S. counterparts, continued to spend during the economic slowdown. The value of provincial retail sales remained well above year earlier levels through to November (see Chart 2.9), helped by a surge in new motor vehicle sales in the final few months of the year due to low interest rates and deep discounting of new motor vehicle prices. In addition, a robust housing sector boosted sales of furniture and appliances in the first three quarters of the year.

Chart 2.9: Consumer spending remained robust



Source: Statistics Canada

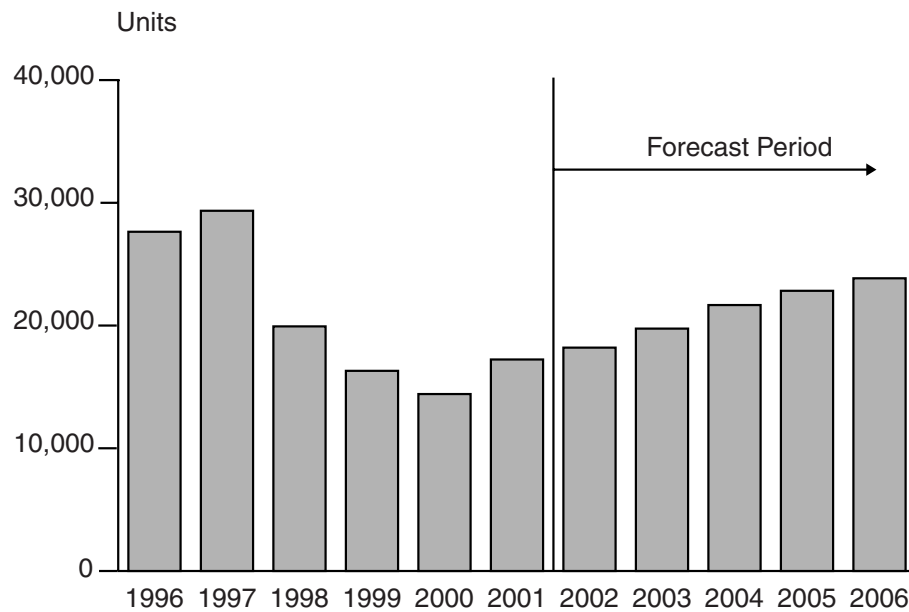
Lower mortgage rates helped the recovery in the housing market in 2001. Housing starts were up 19.5 per cent. Existing home sales were up 28.2 per cent in 2001 and existing house prices stabilized.

**Outlook:** Consumer confidence and spending is expected to be affected somewhat by the declining employment in the second half of last year. This could be partly offset by low consumer interest rates and signs of recovery in the first quarter of 2002. After adjusting for inflation, consumption of goods and services is expected to increase 1.9 per cent in 2002 and 3.2 per cent in 2003.

Over the medium-term, spending on goods and services is forecast to average about 2.6 per cent a year.

Housing starts are forecast to total 18,200 units in 2002 and 19,750 units in 2003 as the lagged effect of low interest rates continues to support demand for housing. The level of residential construction is expected to reflect stronger population growth in 2004 to 2006, with housing starts reaching around 24,000 units in 2006.

Chart 2.10: Housing starts to improve



Sources: Statistics Canada and Ministry of Finance forecast

**Business and Government Activity:** The North American recession was accompanied by reduced business investment. In British Columbia, corporate profits and investment were further reduced by developments in the province's forest sector. Business investment in machinery and equipment, non-residential structures and inventories accounts for just over ten per cent of economic activity. The government sector accounts for between ten and fifteen per cent. While total building permits were up 11.8 per cent in 2001, non-residential building permits trended downward in the fourth quarter.

**Outlook:** With an uncertain outlook for the forest sector in the near term, corporate pre-tax profits are expected to decline 7.5 per cent in 2002 before turning around to post growth of 7.5 per cent in 2003. Inflation-adjusted investment in fixed capital is expected to increase 2.3 per cent in 2002 and 4.6 per cent in 2003. Real investment is forecast to average about 5 per cent per year through 2006, reflecting the impact of lower corporate income tax rates and the tax exemption provided for production machinery and equipment, in addition to an improved business outlook. Over the medium-term, business investment in machinery and equipment is expected to increase alongside growth in corporate profits. Non-residential construction investment is also forecast to improve during the next five years.

Inflation-adjusted expenditures for all levels of government (including federal, provincial and local governments) are forecast to decline 1.4 per cent in 2002 and 3.4 per cent in 2003. The provincial government accounts for about one-half of current government spending, with the federal government making up the second largest share at just under 40 per cent. Over the medium-term, total government expenditures are expected to continue to decline, mainly reflecting the provincial government's announced spending reductions.

**Inflation:** Inflation, the rate of change in consumer prices, averaged 1.7 per cent in 2001. The change was due to higher prices for food, health and personal care, alcohol and tobacco as well as heating oil and natural gas in 2001. Electricity prices were lower in 2001, largely due to one-time rebates by BC Hydro.

**Outlook:** Inflation is expected to remain modest, averaging 1.4 per cent in 2002 and 1.7 per cent in 2003. As demand picks up, prices are forecast to rise by 2.0 per cent in 2005 and 2006.

## Risks to the Forecast

*“The major uncertainty for the outlook is the timing and strength of the recovery in global business investment.”*  
Bank of Canada,  
Monetary Policy  
Report Update,  
January 2002

As with all forecasts, the economic outlook presented here has risks attached to it, both on the upside and the downside. These risks may affect the near-term, the medium-term, or both. While geopolitical events have evolved positively since the fall of 2001, and consumer confidence has improved, some risks remain. These include the global recovery, the war on terrorism and financial crises in Japan and Argentina. The most important risk to the British Columbia economic outlook is the timing and strength of the U.S. economic recovery, which hinges on a turnaround in business investment.

The most opportunistic risks to the British Columbia economy are:

1. Canada and the U.S. may return to the high productivity fuelled growth recorded in the late 1990s, generating stronger demand for goods and services.
2. A resolution of the softwood lumber dispute, alongside growing U.S. demand, will provide an opportunity for growth in British Columbia's forestry industry.
3. If British Columbia business confidence and investment pick up, this would provide a base for stronger economic growth in the province.
4. A turnaround in net in-migration in British Columbia would generate demand for goods and services and boost economic growth.

Alternatively, downside risks include:

1. It is possible that the North American economies grow slowly until excess capacity is worked off. Then in the medium-term, they may return to the

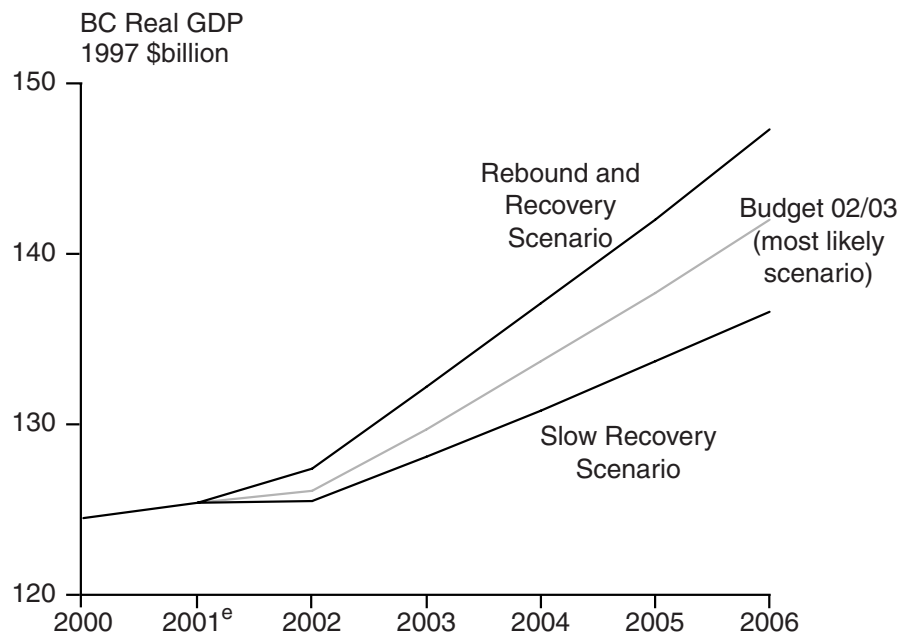
weak productivity and output growth that characterized the 1970s and 1980s. This would result in weaker demand for British Columbia goods and services.

2. If the global industrial pick up is weak and fails to generate demand for commodities, key commodity prices could fall, hurting British Columbia exports and the emerging oil and gas sector. Continuation of the softwood lumber dispute with the U.S. could also reduce growth in British Columbia.
3. Business and consumer confidence could weaken for a variety of reasons, such as a delay in the expected economic recovery, or economic weakness in rural areas affected by the U.S. lumber dispute.
4. Japan's huge debt and dire economic conditions are threatening global financial stability. If events in Japan trigger a financial crisis, British Columbia could be hurt through the province's trade links to Japan and the other Asian countries that could be affected, in addition to the global ramifications of a Japanese financial crisis.

## Scenarios Around the Budget Forecast

Given these risks, a number of possible paths exist for the North American economies, both in the near-term and in the medium-term. To reflect this, two possible scenarios were developed with more optimistic and more conservative assumptions. These indicate a range of possibilities around the budget economic forecast.

Chart 2.11: Scenarios identify probable forecast range



e: Ministry of Finance estimate

Sources: Statistics Canada 2000 actual and Ministry of Finance forecast

The reality is that the future may not unfold exactly as set out in any of these scenarios. While by 2004/05, the budget forecast provides the most likely outcome, the scenarios provide a range of probable outcomes, with there being slightly more risk that things might improve as opposed to the risk that they might deteriorate further.

For the near-term, the U.S. economy may rebound quickly or continue with slow annual growth of 0.5 per cent or less in 2002. Similarly, numerous outcomes exist for the medium-term. After a quick rebound in 2002, the U.S. economy may continue to have the very strong increases in productivity, and hence real GDP growth, that characterized the late 1990s. This combination of a quick bounce back in 2002 and a strong medium-term productivity performance is referred to as the “rebound and recovery” scenario. This scenario relies on the current monetary and fiscal stimulus in North America to boost economic growth.

Or, after slow and hesitant growth in 2002, the U.S. economy may return to the weak productivity and output growth that characterized the 1970s and 1980s. This is referred to as the “slow recovery” scenario. In this scenario, high levels of consumer debt in the U.S. and the large U.S. current account deficit hold back growth. These different growth paths mean different levels of economic prosperity for British Columbia.

If the U.S. and Canadian economies follow the slow recovery scenario, British Columbia real GDP is expected to post almost no growth in 2002 and average 2.1 per cent annually in 2003 through 2006 (see Table 2.5). In this scenario, consumer spending is weak, reflecting job losses in 2002. The unemployment rate peaks at 9.1 per cent in 2002 then falls gradually over the medium-term as employment conditions improve. Residential and business investment grow slowly in the first two years. Commodity prices are flat then rise slowly, and combined with a gradual increase in global industrial activity, generate modest increases in British Columbia exports. Business investment is expected to increase 1.6 per cent in 2002 then picks up to average 3.6 per cent per year. Over the medium-term, the effect of tax cuts is muted somewhat by relatively weak consumer and business confidence.

TABLE 2.5  
KEY INDICATORS AND ASSUMPTIONS  
SLOW RECOVERY SCENARIO

	Actual/ Estimate	Forecast				
	2001	2002	2003	2004	2005	2006
Per cent change unless otherwise noted						
<b>British Columbia Indicators:</b>						
Real GDP.....	0.7 <sup>e</sup>	0.1	2.0	2.1	2.1	2.2
Nominal GDP.....	1.0 <sup>e</sup>	-0.8	2.9	3.6	4.2	4.0
Employment.....	-0.3	-0.7	1.3	1.6	1.5	1.6
Unemployment Rate.....	7.7	9.1	8.8	8.0	7.7	7.6
Net In-migration (thousands of persons).....	24.8 <sup>e</sup>	21.8	29.2	32.1	36.6	39.7
Personal Income.....	2.2	1.6	2.9	3.3	3.7	3.7
Corporate Pre-tax Profits.....	-15.0 <sup>e</sup>	-32.7	-8.6	-0.1	5.0	0.5
Housing Starts (thousands of units).....	17.2	17.9	18.8	20.7	21.7	22.8
Retail Sales.....	5.8 <sup>e</sup>	1.1	3.5	4.2	4.6	4.5
Inflation Rate.....	1.7	1.2	1.2	1.3	1.7	1.7
<b>Key Assumptions:</b>						
Canada Real GDP.....	1.4 <sup>e</sup>	0.3	1.9	2.0	2.3	2.5
U.S. Real GDP.....	1.1	0.2	1.9	2.0	2.3	2.5
Short-term interest rates <sup>1</sup> .....	3.8	1.7	1.9	3.1	3.8	4.0
Long-term interest rates <sup>2</sup> .....	5.8	4.9	4.9	5.5	5.7	5.9
U.S. cents/Cdn \$.....	64.6	61.7	62.0	63.5	64.5	64.5
<sup>e</sup> : Ministry of Finance estimate <sup>1</sup> Canada 3-month treasury bills. <sup>2</sup> Government of Canada Long-term (30 year) bonds. Source: Ministry of Finance, Statistics Canada.						

On the other hand, if the U.S. and Canadian economies respond to the monetary and fiscal stimulus already in place with strong growth in 2002 and beyond (the rebound and recovery scenario), the British Columbia economy could grow 1.6 per cent in 2002 and average 3.7 per cent per year in 2003 through 2006 (see Table 2.6). In this environment, the British Columbia economy adds 245,000 new jobs, or about 11 per cent of total employment by 2006. Over the medium-term, residential and business machinery and equipment investment contribute to the faster pace of growth as tax cuts encourage investment.

TABLE 2.6  
KEY INDICATORS AND ASSUMPTIONS  
REBOUND AND RECOVERY SCENARIO

	Actual/ Estimate	Forecast				
	2001	2002	2003	2004	2005	2006
Per cent change unless otherwise noted						
<b>British Columbia Indicators:</b>						
Real GDP.....	0.7 <sup>e</sup>	1.6	3.8	3.7	3.6	3.6
Nominal GDP.....	1.0 <sup>e</sup>	3.6	5.8	5.5	5.4	5.2
Employment.....	-0.3	0.6	2.8	3.0	3.0	3.2
Unemployment Rate.....	7.7	8.2	7.2	6.7	6.5	6.5
Net In-migration (thousands of persons).....	24.8 <sup>e</sup>	35.2	42.3	48.3	51.2	52.6
Personal Income.....	2.2	2.5	4.5	5.0	5.0	5.0
Corporate Pre-tax Profits.....	-15.0 <sup>e</sup>	22.4	12.2	7.3	5.0	5.0
Housing Starts (thousands of units).....	17.2	18.5	20.6	22.7	23.5	24.6
Retail Sales.....	5.8 <sup>e</sup>	5.5	6.4	6.1	5.8	5.7
Inflation Rate.....	1.7	1.7	2.5	2.4	2.5	2.6
<b>Key Assumptions:</b>						
Canada Real GDP.....	1.4 <sup>e</sup>	2.0	4.2	4.0	4.0	4.0
U.S. Real GDP.....	1.1	2.0	4.2	4.0	4.0	4.0
Short-term interest rates <sup>1</sup> .....	3.8	2.8	4.9	5.8	5.8	5.8
Long-term interest rates <sup>2</sup> .....	5.8	6.3	7.4	8.0	8.0	8.0
U.S. cents/Cdn \$.....	64.6	64.5	65.5	67.5	68.3	68.5

<sup>e</sup>: Ministry of Finance estimate  
<sup>1</sup> Canada 3-month treasury bills.  
<sup>2</sup> Government of Canada Long-term (30 year) bonds.  
Source: Ministry of Finance, Statistics Canada.

These two scenarios provide a range around the budget forecast. Although events will inevitably vary somewhat, the budget outlook reflects the most likely forecast.

In any event, the two scenarios should not be taken to represent absolute upper and lower bounds to the forecast. Rather, they represent a reasonable range in which the actual outcome is likely to occur.

TABLE 2.7  
BRITISH COLUMBIA ECONOMIC OUTLOOK

	July 30	Actual/ Estimate	Forecast	
	Forecast		2002	2003
	2001			
Gross Domestic Product (current dollars; percentage change).....	3.6	1.0 <sup>1</sup>	1.0	4.2
<b>Real Gross Domestic Product (percentage change).....</b>	<b>2.2</b>	<b>0.7<sup>1</sup></b>	<b>0.6</b>	<b>2.8</b>
Consumer Expenditure.....	2.4	2.2	1.9	3.2
Capital Investment.....	3.3	2.1	2.3	4.6
Government Expenditure.....	1.6	1.9	-1.4	-3.4
Exports of Goods and Services.....	1.4	-2.1	-0.6	3.3
Imports of Goods and Services.....	2.3	1.5	1.2	1.9
Inventory Investment (change in billions of 1997 dollars).....	0.3 <sup>2</sup>	0.1	0.1	-0.2
<b>B.C. Economic Forecast Council — Real GDP growth.....</b>	<b>2.1</b>	<b>0.7</b>	<b>0.7</b>	<b>3.0</b>
Population July 1 (percentage change).....	0.9	0.9	0.8	1.0
Net In-migration.....	26,900	24,800 <sup>1</sup>	28,800	34,200
Interprovincial.....	-8,600	-9,000 <sup>1</sup>	-3,000	0
International.....	35,500	33,800 <sup>1</sup>	31,800	34,200
Labour Force (thousands).....	2,132	2,103	2,123	2,153
(percentage change).....	1.5	0.2	0.9	1.4
Employment (thousands).....	1,978	1,942	1,939	1,975
(percentage change).....	1.5	-0.3	-0.2	1.8
Unemployment Rate (per cent).....	7.2	7.7	8.7	8.3
Retail Sales (millions of current dollars).....	37,250	37,900 <sup>1</sup>	39,000	40,870
(percentage change).....	4.0	5.8	2.9	4.8
Labour Income <sup>3</sup> (millions of current dollars).....	69,720	69,100 <sup>1</sup>	69,860	72,470
(percentage change).....	3.3	1.9	1.1	3.7
Corporate Pre-tax Profits (millions of current dollars).....	9,610	8,740 <sup>1</sup>	8,080	8,690
(percentage change).....	5.0	-15.0	-7.5	7.5
Housing Starts (units).....	15,600	17,234	18,200	19,750
(percentage change).....	8.2	19.5	5.6	8.5
Consumer Price Index (1992=100).....	115.5	115.2	116.8	118.8
(percentage change).....	2.0	1.7	1.4	1.7

<sup>1</sup> Ministry of Finance estimates.

<sup>2</sup> Change in billions of 1992 dollars.

<sup>3</sup> Wages, salaries and supplementary labour income.



TABLE 2.7  
BRITISH COLUMBIA ECONOMIC OUTLOOK — *Continued*

	July 30	Actual/	Forecast	
	Forecast	Estimate	2002	2003
	2001			
<b>Key Assumptions:</b>				
Economic Growth (per cent)				
Canada .....	2.0	1.4 <sup>1</sup>	1.0	3.3
United States .....	1.5	1.1	0.9	3.3
Japan .....	-0.5	-0.4 <sup>1</sup>	-1.0	0.9
Europe .....	2.5	1.5 <sup>1</sup>	1.0	2.5
Housing Starts (percentage change)				
Canada .....	4.6	7.3	-3.5	1.0
United States .....	0.8	2.2	-4.4	1.3
Japan .....	-3.2	-4.6	-1.7	0.9
Industrial Production (percentage change)				
United States .....	0.0	-3.7	-1.8	3.3
Japan .....	-1.0	-7.6	-4.5	1.3
Consumer Prices (percentage change)				
Canada .....	2.9	2.5	1.6	2.0
United States .....	3.1	2.8	1.6	2.5
Canadian Interest Rates (per cent; annual average)				
3-month Treasury Bills .....	4.4	3.8	2.4	3.8
Government of Canada Long-term bonds .....	NA	5.8	5.7	5.9
United States Interest Rates (per cent; annual average)				
3-month Treasury Bills .....	3.6	3.4	2.1	3.5
U.S. Government Long-term bonds .....	NA	5.5	5.6	5.8
U.S. cents/Canadian dollar .....	65.5	64.6	63.5	64.5
Commodity Prices				
BC Goods and Services Export Prices (Cdn \$; percentage change) .....				
	3.0	1.3 <sup>1</sup>	-0.6	2.9
Spruce-Pine-Fir Lumber (U.S. \$ / 1,000 board feet) .....				
	260	248	250	275
Pulp (U.S. \$ / tonne) .....	563	541	500	550
Newsprint (U.S. \$ / tonne) .....	608	588	538	588
Copper (U.S. \$ / lb.) .....	0.79	0.72	0.70	0.84
Lead (U.S. \$ / lb.) .....	0.21	0.22	0.23	0.23
Zinc (U.S. \$ / lb.) .....	0.46	0.40	0.40	0.54
Gold (U.S. \$ / oz.) .....	270	271	294	300
Natural Gas (Cdn\$ / gigajoule.) .....	6.79	5.07	3.36	3.84
Coal (U.S. \$ / tonne) <sup>2</sup> .....	37	42	40	40

<sup>1</sup> Ministry of Finance estimates.

<sup>2</sup> Weighted average of metallurgical and thermal coal prices.

TABLE 2.8.1  
GROSS DOMESTIC PRODUCT — BRITISH COLUMBIA AND CANADA

	Actual		Forecast				
	2000	2001 <sup>e</sup>	2002	2003	2004	2005	2006
<b>BRITISH COLUMBIA:</b>							
Gross Domestic Product at Market Prices							
— CURRENT DOLLAR (\$ million).....	127,564	128,840	130,100	135,570	141,890	148,690	155,840
(% change).....	5.8	1.0	1.0	4.2	4.7	4.8	4.8
— Real (1997 \$ million).....	124,464	125,380	126,120	129,640	133,650	137,650	141,920
(% change).....	3.9	0.7	0.6	2.8	3.1	3.0	3.1
— GDP Price Deflator (1997 = 100).....	102.5	102.8	103.2	104.6	106.2	108.0	109.8
(% change).....	1.8	0.2	0.4	1.4	1.5	1.7	1.7
Real GDP Per Capita (1997 \$ per person).....	30,663	30,611	30,555	31,082	31,674	32,214	32,784
(% change).....	3.1	-0.2	-0.2	1.7	1.9	1.7	1.8
Real GDP Per Employed Person							
(% change).....	1.6	1.1	0.7	0.9	0.8	0.8	1.0
Unit Labour Cost <sup>1</sup> (% change).....	1.8	1.1	0.5	0.9	1.5	1.6	1.6
<b>CANADA:</b>							
Gross Domestic Product at Market Prices:							
— Current Dollar (\$ billion).....	1,056	1,087	1,098	1,152	1,208	1,266	1,331
(% change).....	8.3	3.0	1.0	4.9	4.8	4.8	5.1
— Real (1997 \$ billion).....	1,009	1,023	1,033	1,066	1,100	1,133	1,167
(% change).....	4.4	1.4	1.0	3.3	3.1	3.0	3.0
— GDP Price Deflator (1997 = 100).....	104.6	106.3	106.3	108.0	109.8	111.8	114.0
(% change).....	3.7	1.6	0.0	1.6	1.7	1.8	2.0
Real GDP Per Capita (1997 \$ per person).....	32,798	32,909	32,950	33,757	34,537	35,317	36,121
(% change).....	3.5	0.3	0.1	2.4	2.3	2.3	2.3
Real GDP Per Employed Person							
(% change).....	1.8	0.2	1.2	1.4	1.5	1.4	1.4

<sup>e</sup>: British Columbia GDP figures for 2001 are Ministry of Finance estimates.

<sup>1</sup> Unit labour cost is the nominal cost of labour incurred to produce one unit of real output.

TABLE 2.8.2  
COMPONENTS OF BRITISH COLUMBIA REAL GDP AT MARKET PRICES

	Actual		Forecast				
	2000	2001 <sup>e</sup>	2002	2003	2004	2005	2006
Personal Expenditure on							
Goods and Services (1997 \$ billion) .....	78.3	80.1	81.6	84.1	86.6	88.7	90.9
(% change) .....	3.5	2.2	1.9	3.2	3.0	2.4	2.4
— Goods (1997 \$ billion) .....	33.3	34.3	34.7	35.9	37.0	37.7	38.5
(% change) .....	3.2	2.7	1.2	3.5	3.0	1.9	2.0
— Services (1997 \$ billion) .....	45.0	45.8	46.9	48.2	49.7	51.0	52.4
(% change) .....	3.8	1.8	2.3	2.9	2.9	2.7	2.7
Government Current Expenditures							
on Goods and Services (1997 \$ billion) .....	24.1	24.6	24.2	23.4	22.5	22.3	22.4
(% change) .....	2.6	1.9	-1.4	-3.4	-3.8	-0.8	0.1
Investment in Fixed Capital (1997 \$ billion) .....	24.5	25.0	25.6	26.8	28.1	29.5	30.9
(% change) .....	5.1	2.1	2.3	4.6	5.1	4.9	4.7
<b>Final Domestic Demand<sup>1</sup> (1997 \$ billion) .....</b>	<b>126.9</b>	<b>129.6</b>	<b>131.4</b>	<b>134.3</b>	<b>137.3</b>	<b>140.6</b>	<b>144.1</b>
(% change) .....	3.7	2.1	1.4	2.2	2.2	2.4	2.5
Net Exports of Goods .....	-4.2	-6.3	-7.4	-6.7	-5.5	-4.6	-3.8
— Exports of Goods and Services							
(1997 \$ billion) .....	58.6	57.4	57.0	58.9	61.7	64.2	66.8
(% change) .....	7.0	-2.1	-0.6	3.3	4.6	4.1	4.0
— Imports of Goods and Services							
(1997 \$ billion) .....	62.7	63.7	64.4	65.6	67.2	68.8	70.6
(% change) .....	8.0	1.5	1.2	1.9	2.5	2.5	2.6
Inventory Change (1997 \$ billion) .....	1.3	1.4	1.5	1.3	1.2	1.1	0.9
Statistical Discrepancy (1997 \$ billion) .....	0.4	0.6	0.6	0.6	0.6	0.6	0.6
<b>Real GDP at Market Prices<sup>2</sup> (1997 \$ billion) .....</b>	<b>124.5</b>	<b>125.4</b>	<b>126.1</b>	<b>129.6</b>	<b>133.7</b>	<b>137.7</b>	<b>141.9</b>
(% change) .....	3.9	0.7	0.6	2.8	3.1	3.0	3.1

<sup>e</sup>: Figures for 2001 are Ministry of Finance estimates.

<sup>1</sup> Final domestic demand is the sum of personal expenditures, government current expenditures and investment in fixed capital.

<sup>2</sup> Real Gross Domestic Product at Market Prices is the sum of final domestic demand, net exports, inventory changes and statistical discrepancy.

TABLE 2.8.3  
COMPONENTS OF NOMINAL INCOME AND EXPENDITURE

	Actual		Forecast				
	2000	2001	2002	2003	2004	2005	2006
Labour Income <sup>1</sup> (\$ million).....	67,828	69,100 <sup>e</sup>	69,860	72,470	75,800	79,340	83,070
(% change) .....	5.7	1.9	1.1	3.7	4.6	4.7	4.7
Personal Income (\$ million).....	106,149	108,470 <sup>e</sup>	110,640	114,650	119,290	124,620	130,210
(% change) .....	5.2	2.2	2.0	3.6	4.0	4.5	4.5
Corporate Profits Before Taxes (\$ million).....	10,287	8,740 <sup>e</sup>	8,080	8,690	9,340	9,800	10,290
(% change) .....	12.7	-15.0	-7.5	7.5	7.5	5.0	5.0
Retail Sales (\$ million).....	35,821	37,900 <sup>e</sup>	39,000	40,870	42,990	45,230	47,580
(% change) .....	6.3	5.8	2.9	4.8	5.2	5.2	5.2
Housing Starts .....	14,418	17,234	18,200	19,750	21,670	22,830	23,850
(% change) .....	-11.6	19.5	5.6	8.5	9.7	5.4	4.5
Residential Investment <sup>2</sup> (\$ million).....	6,707	7,216 <sup>e</sup>	7,632	7,970	8,351	8,665	8,974
(% change) .....	-1.1	7.6	5.8	4.4	4.8	3.8	3.6
B.C. Consumer Price Index (1992 = 100) .....	113.3	115.2	116.8	118.8	120.9	123.3	125.8
(% change) .....	1.8	1.7	1.4	1.7	1.8	2.0	2.0

<sup>e</sup>: Ministry of Finance estimates.

<sup>1</sup> Domestic basis; wages, salaries and supplementary labour income.

<sup>2</sup> Includes renovations and improvements.

TABLE 2.8.4  
LABOUR MARKET INDICATORS

	Actual		Forecast				
	2000	2001	2002	2003	2004	2005	2006
Population (on July 1) (000's).....	4,059	4,096	4,128	4,171	4,220	4,273	4,329
(% change).....	0.8	0.9	0.8	1.0	1.2	1.3	1.3
Labour Force Population, 15+ Years (000's).....	3,237	3,280	3,324	3,376	3,433	3,494	3,556
(% change).....	1.4	1.3	1.3	1.6	1.7	1.8	1.8
Net In-Migration							
— International <sup>1</sup> .....	31,845	33,800 <sup>e</sup>	31,800	34,200	34,500	35,100	35,600
— Interprovincial.....	-17,296	-9,000 <sup>e</sup>	-3,000	0	7,600	9,900	12,300
— TOTAL <sup>2</sup> .....	14,549	24,800 <sup>e</sup>	28,800	34,200	42,100	44,900	47,900
Participation Rate <sup>3</sup> (%).....	64.9	64.1	63.9	63.8	63.5	63.7	63.9
Labour Force (000's).....	2,100	2,103	2,123	2,153	2,181	2,227	2,273
(% change).....	1.0	0.2	0.9	1.4	1.3	2.1	2.1
Employment (000's).....	1,949	1,942	1,939	1,975	2,021	2,065	2,109
(% change).....	2.2	-0.3	-0.2	1.8	2.3	2.2	2.1
— Goods Sector Employment (000's).....	414	392	376	380	384	388	393
(% change).....	4.5	-5.4	-3.9	0.8	1.1	1.0	1.3
— Service Sector Employment (000's).....	1,535	1,550	1,563	1,595	1,637	1,677	1,716
(% change).....	1.6	1.0	0.8	2.1	2.6	2.5	2.3
Unemployment Rate (%).....	7.2	7.7	8.7	8.3	7.3	7.3	7.2

<sup>e</sup>: Ministry of Finance estimate.

<sup>1</sup> International migration includes net non-permanent residents and returning emigrants less net temporary abroad.

<sup>2</sup> Total may not add due to rounding.

<sup>3</sup> Percentage of the population 15 years of age and over in the labour force.

TABLE 2.8.5  
MAJOR ECONOMIC ASSUMPTIONS

	Actual		Forecast				
	2000	2001	2002	2003	2004	2005	2006
<b>REAL GDP (billions)</b>							
Canada (1997 \$) .....	1,009	1,023 <sup>e</sup>	1,033	1,066	1,100	1,133	1,167
(% change) .....	4.4	1.4	1.0	3.3	3.1	3.0	3.0
U.S.A. (1996 U.S.\$; chain-weighted) .....	9,224	9,326 <sup>e</sup>	9,409	9,724	10,026	10,322	10,635
(% change) .....	4.1	1.1	0.9	3.3	3.1	3.0	3.0
Japan (1990 Yen) .....	534,047	532,167 <sup>e</sup>	526,607	531,280	538,358	546,504	554,859
(% change) .....	2.2	-0.4	-1.0	0.9	1.3	1.5	1.5
Europe <sup>1</sup> (% change) .....	3.5	1.5 <sup>e</sup>	1.0	2.5	2.5	2.5	2.5
<b>Housing Starts (000's)<sup>2</sup></b>							
Canada .....	152	163	157	159	161	164	164
(% change) .....	1.1	7.3	-3.5	1.0	1.6	1.6	0.0
U.S.A. .....	1,569	1,603	1,533	1,552	1,578	1,600	1,600
(% change) .....	-4.4	2.2	-4.4	1.3	1.6	1.4	0.0
Japan .....	1,230	1,174	1,154	1,164	1,175	1,175	1,175
(% change) .....	1.3	-4.6	-1.7	0.9	0.9	0.0	0.0
<b>Consumer Price Index</b>							
Canada (1997 = 100) .....	113.5	116.4	118.3	120.6	123.0	125.5	128.0
(% change) .....	2.7	2.5	1.6	2.0	2.0	2.0	2.0
U.S.A. (1982-1984 = 100) .....	172.2	177.1	179.9	184.4	189.0	193.7	198.6
(% change) .....	3.4	2.8	1.6	2.5	2.5	2.5	2.5
<b>Canadian Interest Rates (%)</b>							
3-Month Treasury Bills .....	5.5	3.8	2.4	3.8	4.5	4.8	5.0
Long-Term Government Bonds .....	5.7	5.8	5.7	5.9	6.4	6.8	6.8
<b>United States Interest Rates (%)</b>							
3-Month Treasury Bills .....	5.8	3.4	2.1	3.5	4.3	4.5	4.5
Long-Term Government Bonds (30 years) .....	5.9	5.5	5.6	5.8	6.3	6.7	6.7
<b>Exchange Rate (U.S. cents / Canadian \$) .....</b>							
	67.3	64.6	63.5	64.5	66.5	67.2	67.5
<b>Commodity Prices</b>							
Spruce-Pine-Fir Lumber (U.S. \$/1,000 board feet) .....	255	248	250	275	275	275	275
Pulp (U.S. \$/tonne) .....	681	541	500	550	594	600	600
Newsprint (U.S. \$/tonne) .....	565	588	538	588	600	600	600
Copper (U.S. \$/lb.) .....	0.82	0.72	0.70	0.84	0.90	0.95	0.95
Natural Gas (Cdn. \$/gigajoule at WEI inlet) .....	4.46	5.07	3.36	3.84	3.94	3.99	4.04

<sup>e</sup>: Ministry of Finance estimate.

<sup>1</sup> European Union less Luxembourg, plus Austria, Finland, Iceland, Norway, Sweden, Switzerland, Turkey, and former Yugoslavia.

<sup>2</sup> British Columbia housing starts appear in Table 2.8.3.

TABLE 2.9  
CURRENT ECONOMIC STATISTICS

	Latest Period	Year-to-Date Average			Change
		2000	2001		
<b>BRITISH COLUMBIA</b>					
<b>LABOUR MARKET</b>					
Employment (s.a., thousands).....	Dec-01	1,913.0	1,949.1	1,942.4	-0.3%
Unemployment rate (s.a., per cent).....	Dec-01	9.7	7.2	7.7	0.5
In-migration.....	Q3-01	3,198	4,059	6,778	2,719
Interprovincial (persons).....	Q3-01	(1,833)	(4,445)	(2,364)	2,081
International (persons).....	Q3-01	5,031	8,504	9,142	638
Wages, salaries and supplementary labour income (s.a. \$millions).....	Sep-01	5,760	5,622	5,774	2.7%
Average weekly wage rate.....	Dec-01	643.7	636.9	645.7	1.4%
<b>CONSUMER SECTOR</b>					
Retail sales (s.a., \$ million).....	Nov-01	3,218	2,974	3,150	5.9%
Car and truck sales (s.a., units).....	Nov-01	15,998	13,936	14,296	2.6%
Housing starts (all areas, s.a., annual rate).....	Dec-01	16,100	14,418	17,234	19.5%
Existing home sales (s.a.).....	Dec-01	7,132	4,515	5,786	28.2%
Building permits (s.a., \$ thousands).....	Dec-01	354	374	418	11.8%
British Columbia consumer price index (annual per cent change).....	Dec-01	0.4	1.8	1.7	-0.1
<b>INDUSTRIAL ACTIVITY</b>					
Foreign merchandise exports (s.a., \$ million).....	Nov-01	2,225	2,715	2,687	-1.0%
Manufacturing shipments (s.a., \$ million).....	Nov-01	2,685	3,148	2,864	-9.0%
Lumber production (thousand cubic metres).....	Nov-01	2,302	2,715	2,572	-5.3%
Pulp and paper production (thousand tonnes).....	Dec-01	538	702	618	-12.0%
Coal production (thousand tonnes).....	Nov-01	2,452	2,120	2,293	8.2%
Natural gas production (million cubic metres).....	Aug-01	2,615	2,063	2,327	12.8%
Copper production (million kg).....	Nov-01	19.7	22.3	22.8	2.2%
<b>TOURISM</b>					
Entries of U.S. and overseas residents (thousands).....	Nov-01	390	721	709	-1.6%
B.C. Ferry passengers to/from Vancouver Island (thousands).....	Dec-01	781	927	919	-0.9%
<b>COMMODITY PRICES</b>					
Lumber (U.S.\$/thousand board feet).....	Jan-02	234	255	248	-2.6%
Pulp (U.S. \$/tonne).....	Jan-02	468	681	541	-20.5%
Newsprint (U.S.\$/tonne).....	Jan-02	501	565	588	4.0%
Copper (U.S.\$/lb.).....	Jan-02	0.68	0.82	0.72	-12.2%
B.C. export commodity price index (Cdn. \$ Index:1997=100).....	Dec-01	89.5	101.0	98.8	-2.2%
<b>FINANCIAL DATA</b>					
Canadian dollar (U.S. cents).....	Jan-02	62.4	67.3	64.6	-2.7
Canadian prime rate (per cent).....	Jan-02	3.88	7.25	5.99	-1.26
Canadian 3-month treasury bills (per cent).....	Jan-02	1.90	5.45	3.87	-1.58
Treasury bill spread — Canada minus U.S. (per cent).....	Jan-02	0.26	-0.37	0.49	0.86

s.a. — seasonally adjusted.

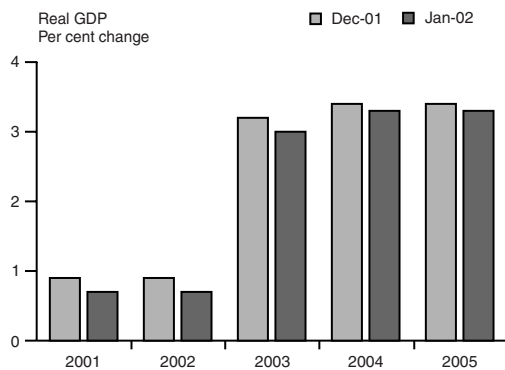
## THE ECONOMIC FORECAST COUNCIL, 2002

### Introduction

Prior to the annual budget, the Minister of Finance seeks the advice of the Economic Forecast Council (the Council) on the outlook for the provincial economy and presents their forecasts with the budget. This consultation process is laid out in the *Budget Transparency and Accountability Act*.

The Minister met with the Council on December 11, 2001, to discuss the economic outlook. Council members were asked to submit a forecast prior to the meeting. These forecasts were publicly released December 11, 2001. Subsequently, several participants submitted new forecasts in mid-January. The detailed results are summarized in the table at the end of the topic box.

Economic Forecast Council Outlook for  
British Columbia Economy



As with previous Council meetings, Council members presented their views on the province's near-term economic outlook, as well as factors affecting the province's medium-term outlook. Council members were also briefed on the government's economic policy including the provincial tax cuts already in place and the reductions in provincial government spending planned over the next three

years. This was followed by a discussion of the impact of fiscal policy and other issues facing the British Columbia economy.

### Overview

The general view of the Council was that the British Columbia economy would continue to post modest growth in 2002 then pick up in 2003 through 2005. The Canadian economy would outpace the United States in the next four years.

An emerging North American economic recovery in 2002 was evident in most participants' forecasts and the discussion. Growth in Europe was expected to lag the U.S. recovery. The Asian economies were expected to continue growing although participants expressed doubts about the prospect of an economic recovery in Japan, a key market for British Columbia. Japan is not expected to improve until it restructures key sectors and this could take another three to five years.

### International Developments

Council members expected the U.S. and Canadian economies to enter a recovery in mid-2002 and post stronger growth in 2003, 2004 and 2005. On average, the U.S. economy was expected to grow 1.1 per cent in 2002 and 3.5 per cent in 2003. By 2004 and 2005<sup>1</sup> real GDP was projected to increase 3.3 per cent annually. Council discussions focused on the timing and strength of the U.S. economic recovery.

Although there was consensus that the U.S. economy would pull out of recession in 2002, there were two views about the timing and strength of the recovery. Most Council members expected the U.S. economy to recover gradually beginning in the second quarter of 2002, but this was conditional on monetary and fiscal stimulus in the U.S. The pace of recovery could be slower than in past

<sup>1</sup> Council members provided an average forecast for 2004 and 2005.

recoveries because consumer spending has remained relatively strong through the slow-down, particularly in auto sales and housing starts. This means that consumer spending would not provide as much of a lift when the economy turns the corner. In addition, capital spending could be slow to rebound because of low corporate profits in the near term and current high levels of unused production capacity.

However, a minority believed the economy would come back more quickly and sooner. U.S. inventories were very low and rebuilding them would add to growth. A rebound in consumer and business confidence would contribute to a strong recovery in economic growth.

Council members generally agreed that economic growth in Europe and Asia would lag the U.S. recovery, although the Japanese outlook remains highly uncertain.

### **The Canadian Economy**

The Council expected that the Canadian economy would grow at a faster pace than the U.S. in the next two years. Business and consumer confidence in Canada were not affected to the same extent by the events of September 11th. In addition, tax cuts were in place earlier in Canada than in the U.S. The average forecast of economic growth was 1.3 per cent in 2002 and 3.6 per cent in 2003. The Canadian economy was expected to grow 3.4 per cent in 2004 and 2005.

Some participants said that lower interest rates, as well as federal and provincial tax cuts, would encourage consumer spending and business investment in Canada. Others pointed out that provincial governments were heading towards deficits and this would limit their ability to reduce taxes further to encourage economic growth.

### **Financial Markets**

Most participants expected the U.S. Federal Reserve (the Fed) to cut short-term interest rates one more time in early 2002. (Subsequent to the EFC meeting, the U.S. Federal Reserve did not cut short-term interest rates.)

With low capacity utilization levels in the manufacturing sector and mild inflationary pressures, the Fed was then expected to keep rates unchanged until mid-2002. Over the medium-term, interest rates would rise as economic growth picked up, but remain below pre-easing levels.

The Bank of Canada would likely follow the Fed moves as economic conditions in Canada were expected to follow the U.S. recovery. Canadian short-term interest rates would be higher, on average, than those in the U.S. in the next four years.

In addition, most participants felt the Canadian dollar would be weak in 2002 due to soft commodity prices stemming from a weak global economy. The value of the Canadian dollar would rise over the forecast period but would remain low by historical standards, averaging 66.8 cents U.S. in 2004 and 2005. One Council participant noted that another view on the currency outlook was that the Canadian dollar would continue to fall with respect to the U.S. dollar reaching 59 cents U.S. by 2004/05.

### **British Columbia**

On average, participants expected British Columbia's economy to grow 0.7 per cent in 2002 and 3.0 per cent in 2003, based on the latest survey results<sup>2</sup>. Opinions for 2002 real GDP growth ranged from minus 0.5 to plus 2.0 per cent. Two participants believed that provincial growth would be less than zero in 2002, due in part to restructuring in the province's forest sector and reduced activity in the tourism sector, or spending cuts by the provincial government.

While most participants were positive about the province's economic outlook, Council members believed that the British Columbia economy would underperform the national average due to restructuring in the forest sector (and more immediately, the impact of the softwood lumber dispute), reduced tourism activity and provincial fiscal restraint during the next two years.

<sup>2</sup> The average of the December council meeting was 0.9 per cent in 2002 and 3.2 per cent in 2003.

**British Columbia Economic Forecast Council: Summary of Forecasts  
as at January 14, 2002**

Participant	Organization	2001	2002	2003	2004/2005 Average
Percentage change in Real GDP					
<i>Paul Bowles</i>	UNBC	1.1	1.2	3.0	na
<i>Don Drummond</i>	TD Bank	0.8	0.9	2.9	2.8
<i>Mario Lefebvre</i>	Conference Board	0.7	0.5	3.4	3.7
<i>John DeWolf</i>	CCG Consulting	0.5	2.0	2.8	3.2
<i>Jock Finlayson</i>	BC Business Council	1.0	1.0	3.6	3.6
<i>Warren Jestin</i>	Scotiabank	0.9	0.5	2.6	3.4
<i>John Helliwell</i>	UBC	1.0	0.5	2.0	na
<i>Craig Wright</i>	RBC Financial Group	0.9	0.7	3.0	na
<i>Paul Ferley</i>	Bank of Montreal	0.7	0.5	3.0	3.0
<i>Robert Hoffman</i>	DRI-WEFA Canada	0.8	0.8	2.7	2.9
<i>Helmut Pastrick</i>	Credit Union Central of BC	0.9	0.6	2.8	3.5
<i>George Pedersson</i>	G.A. Pedersson & Associates	-0.5	-0.5	3.0	4.0
<i>Alister Smith</i>	CIBC	0.8	1.0	3.0	na
<i>Carl Sonnen</i>	Informetrica	-0.6	-0.3	3.0	3.3
<i>Ernie Stokes</i>	Stokes Economic Consulting	1.0	1.5	3.5	3.5
<i>William Tharp</i>	M. Murenbeeld & Associates	1.1	0.6	4.0	3.1
<i>Dave Park</i>	Vancouver Board of Trade	na	na	na	na
<b>Average</b>		<b>0.7</b>	<b>0.7</b>	<b>3.0</b>	<b>3.3</b>

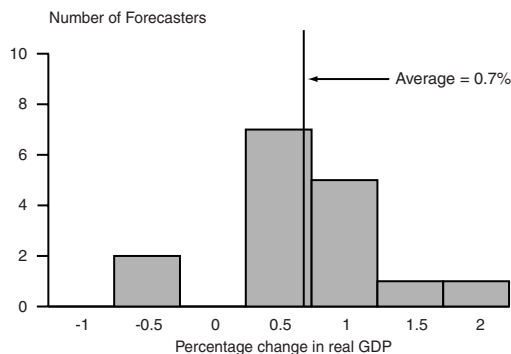
na: did not provide a forecast

Michael Goldberg, University of British Columbia was unable to attend.

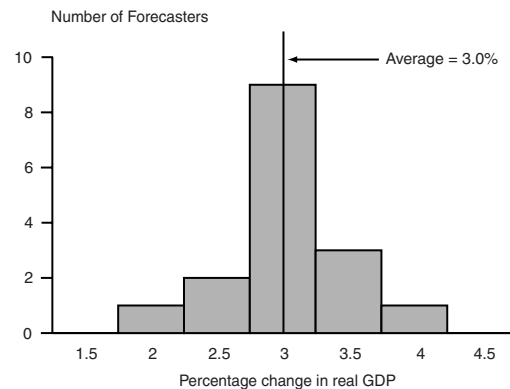
### External Developments

Most Council members cited the softwood lumber dispute with the U.S. as the biggest factor affecting the outlook for the British Columbia economy. The countervailing and anti-dumping duties, combined with lower lumber prices, have devastated the forest industry in the province. Several suggested that the softwood lumber dispute would be difficult to resolve favourably for British Columbia.

Economic Growth Forecasts, 2002



Economic Growth Forecasts, 2003



A number of participants forecast a broad-based commodity price rise in 2003, 2004 and 2005, alongside a rebound in global industrial production. This could lead to rising profits for resource companies in the province. Participants noted that resource industries remain an important contributor to British Columbia's economy and a significant driver of provincial revenue.

### **Domestic Developments**

Most participants believed that provincial employment would be flat in 2002 as a result of restructuring in the forestry sector, and slow growth in high tech and tourism-related industries. In 2003, employment growth would pick up and the unemployment rate would decline to average 8.0 per cent. Personal disposable income was expected to rise faster than labour income due to tax cuts, leading to higher consumer spending. Others thought the continued job losses would delay a recovery in consumer confidence.

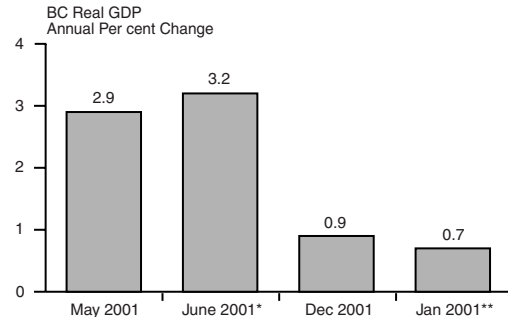
Most Council members expected a turnaround in net interprovincial migration by 2003. As a result, the pace of population growth was expected to pick up. Demand for housing in the province should improve significantly in 2003, 2004 and 2005. Many noted that the information technology sector would be a source of strength for the provincial economy.

A few participants were skeptical that faster growth in population and housing starts would occur. They also felt that consumer debt levels would constrain growth in consumer spending.

### **Government**

Most Council members agreed that to meet the legislated balanced budget target by 2004/05 without a strong recovery of the provincial economy, substantial cuts to government spending would be required. While reduced government spending will have an impact across the province, this would set the British Columbia economy up for stronger growth later on. Some Council members noted that cutting government spending during a recession could exacerbate the effects of an economic downturn. In addition, some participants noted the federal and provincial tax cuts would benefit the economy over the medium-term.

2002 Forecast Developments, Economic Forecast Council



\* The average of the forecast council was 3.2%. Nine Council members revised their forecasts following announced personal income tax cuts. Their average forecast was 3.5 per cent.  
 \*\* Six Council members revised their forecasts in January. Their average forecast was 0.7 per cent.

### **Risks to the Outlook**

The Council generally believed that although a turnaround in the U.S. economy, low interest rates and recent tax cuts would contribute to economic growth in the province during the next four years, risks to the outlook remain. British Columbia's economy is more linked to the U.S. economy than a decade ago, so a delayed pick up there is more likely to affect the province. There is also a risk that the U.S. Federal Reserve may raise interest rates too quickly, choking off growth.

**Forecast Survey — Participants' Opinions**  
(number of respondents shown in parenthesis)

All figures are based on annual averages	2002		2003		2004/2005 <sup>2</sup>	
	Range	Average <sup>1</sup>	Range	Average <sup>1</sup>	Range	Average <sup>1</sup>
<b>United States</b>						
— Real GDP (% change)	0.4 – 2.2	1.1 (16)	2.6 – 4.5	3.5 (15)	2.8 – 3.6	3.3 (13)
— Intended Federal Funds rate (%)	1.5 – 3.5	2.3 (13)	2.4 – 5.2	4.1 (13)	3.5 – 5.8	4.9 (12)
— Housing starts (% change)	–7.1 – 10.0	–2.5 (13)	–4.3 – 8.1	2.9 (12)	–3.0 – 5.0	1.0 (10)
<b>Canada</b>						
— Real GDP (% change)	0.6 – 2.5	1.3 (16)	2.7 – 4.5	3.6 (16)	2.7 – 4.0	3.4 (13)
— Bank of Canada Overnight Target rate (%)	1.8 – 4.3	2.7 (11)	2.4 – 6.1	4.3 (11)	3.3 – 6.7	5.0 (11)
— Exchange rate (US cent/C \$)	61.2 – 66.0	64.1 (13)	60.3 – 70.4	65.6 (12)	59.0 – 72.0	66.8 (12)
<b>British Columbia<sup>3</sup></b>						
— Real GDP (% change) <sup>4</sup>	–0.5 – 2.0	0.7 (16)	2.0 – 4.0	3.0 (16)	2.8 – 4.0	3.3 (12)
— Nominal GDP (% change)	0.5 – 2.4	1.4 (12)	2.7 – 5.7	4.5 (11)	4.0 – 7.0	5.1 (9)
— GDP Deflator (% change)	–0.4 – 1.5	0.6 (12)	0 – 2.7	1.4 (10)	1.0 – 3.0	1.8 (9)
— Personal Income (% change)	1.5 – 2.2	1.8 (8)	3.3 – 4.8	4.1 (8)	4.3 – 5.8	5.1 (6)
— Employment (% change)	–1.3 – 1.5	–0.1 (13)	0.4 – 3.0	1.8 (12)	0.8 – 3.5	2.3 (11)
— Unemployment rate (%)	7.8 – 9.9	8.5 (14)	7.2 – 9.3	8.0 (13)	6.2 – 9.0	7.4 (12)
— Corporate pre-tax profits (% change)	–8.0 – 20.0	2.6 (6)	9.0 – 15.0	12.0 (6)	5.0 – 15.0	10.5 (6)
— Housing starts (% change)	–5.8 – 29.4	8.0 (14)	–1.0 – 50.0	14.4 (13)	0.5 – 21.0	8.7 (11)
— Retail sales (% change)	–2.3 – 4.5	2.6 (12)	3.2 – 7.0	5.1 (11)	3.8 – 8.0	5.5 (9)

<sup>1</sup> Based on responses from participants providing forecasts.

<sup>2</sup> Participants provided an average forecast for 2004 and 2005.

<sup>3</sup> Council members were surveyed on their outlook for net in-migration. While some members provided total net in-migration forecasts, others provided only the interprovincial component. Because of the inconsistency in the responses, the net in-migration figures are not reported.

<sup>4</sup> Two Council members provided British Columbia real GDP forecasts at basic prices, rather than market prices. For simplicity, these forecasts were averaged in with the others.