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BC ECONOMIC BACK DROP AND DEMOGRAPHICS

PRESENTED TO

THE BC FINANCIAL HEALTHCARE PROFESSIONALS SOCIETY CONFERENCE

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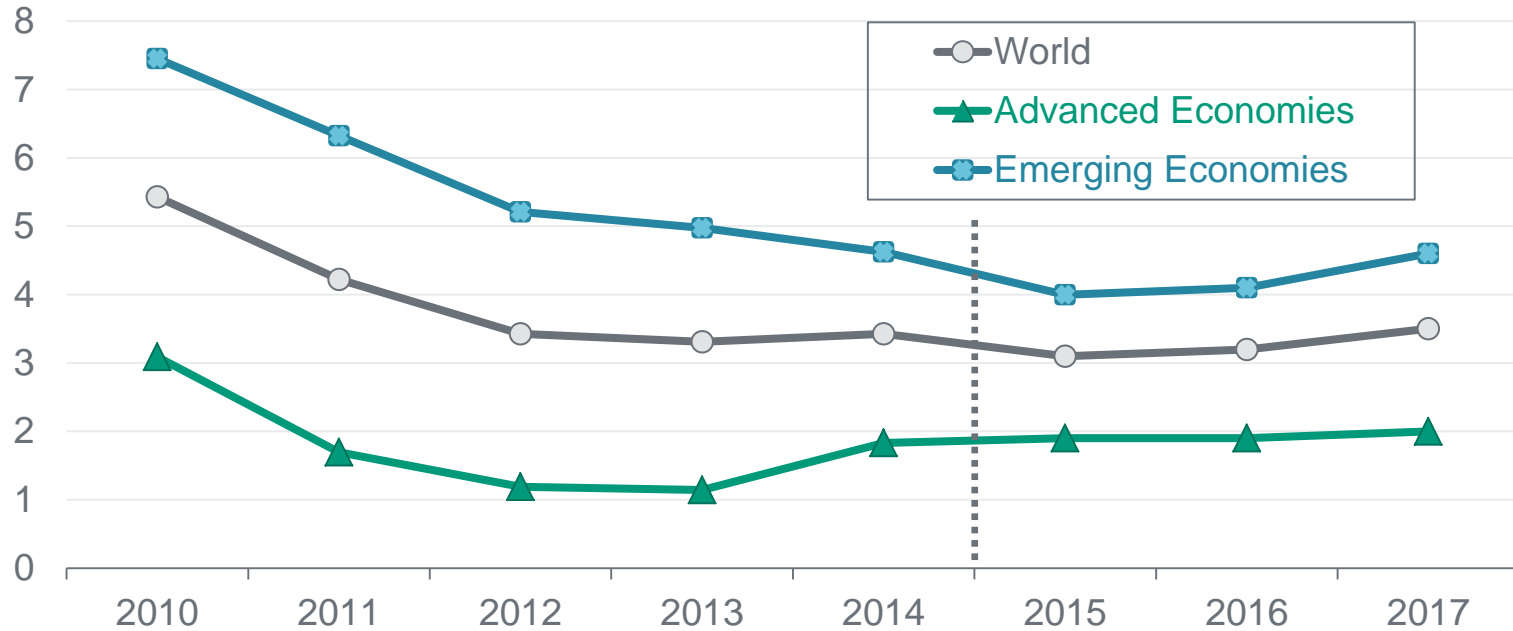


2016: SHAPING UP TO BE ANOTHER DIFFICULT YEAR (ECONOMICALLY SPEAKING)!

- Global economic forecasts are revised down...**twice since January 2016**
- Five central banks have set 'negative' policy rates (ECB, Japan, Denmark, Sweden and Switzerland)
- Bond yields hover near all-time lows in many advanced economies...more than US\$12 trillion in sovereign debt is trading at negative nominal yields!
- The UK votes to leave the EU; could others follow?
- China's equity market struggles, capital outflows accelerate, debt mounts, and doubts persist whether the country can avoid a 'hard landing'
- Mixed economic data spark episodic concern about the (lengthy) American economic expansion
- Donald Trump secures the Republican Party nomination for President, promising radical changes to US trade, foreign and immigration policies if he wins

GLOBAL ECONOMY LOST MOMENTUM POST-2010

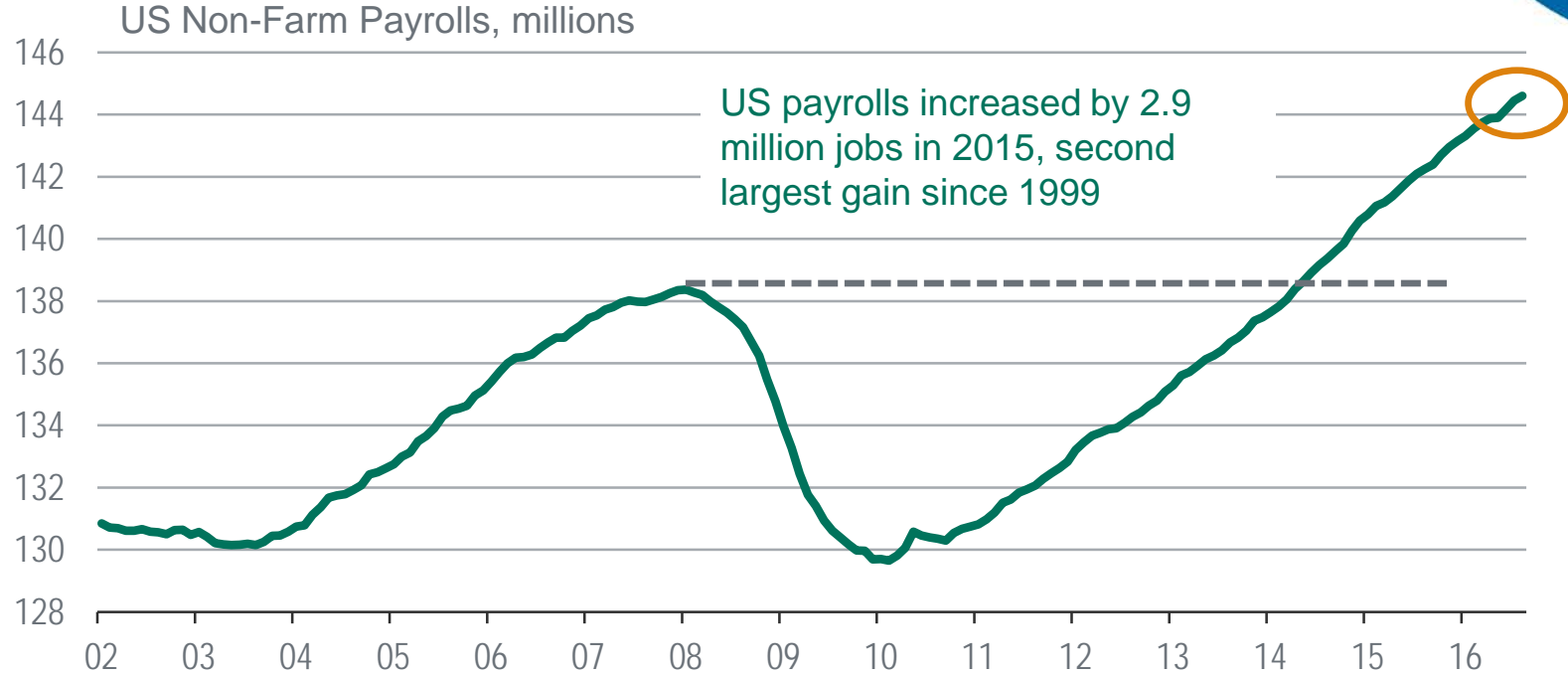
World Growth Outlook, real GDP % change



BUT AT LEAST THE US ECONOMY IS STILL EXPANDING

- Real GDP grew 2.4% in 2015, the same as 2014
- But growth eased to just ~1% (annualized) in the first half of 2016, reflecting the strong US dollar, soft global economy and plunging investment in the oil and gas sector
- However...
 - 78 consecutive months of employment gains
 - consumption spending is trending higher
 - housing starts slowly climbing, should reach ~1.2 million this year
 - lower energy prices are a (net) economic plus for the US...in the medium-term
 - fiscal drag is diminishing as state/local government budget positions improve
- Recent forecasts suggest the US economy will grow by 1.5 - 2.1% (after-inflation) in 2016/17
- Interest rate hikes by the Federal Reserve will be slow to come in the next 2 years

US EMPLOYMENT SURGES



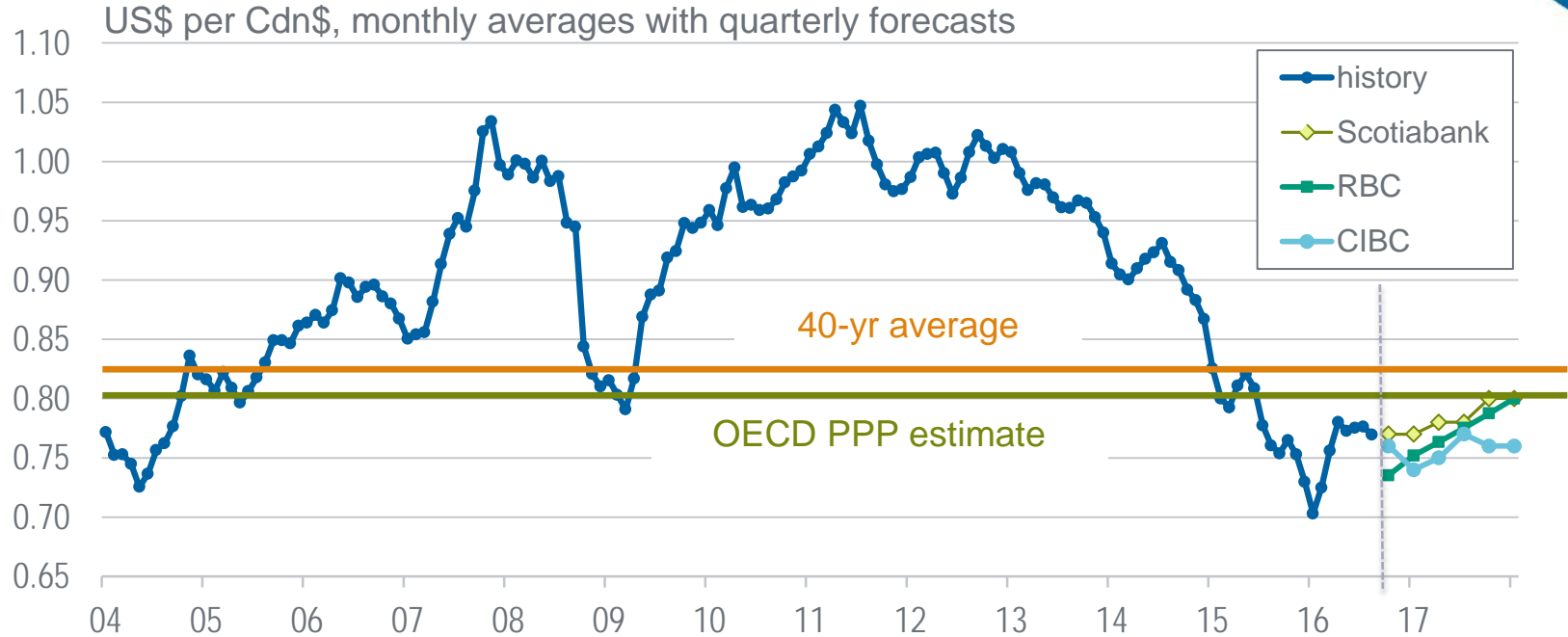
HOUSING STARTS CONTINUE TO GRIND HIGHER



CANADIAN BOND YIELDS PLUMB THE DEPTHS



A BUMPY RIDE FOR THE CANADIAN DOLLAR



FACTORS SHAPING CANADA'S ECONOMIC PERFORMANCE IN 2016-17

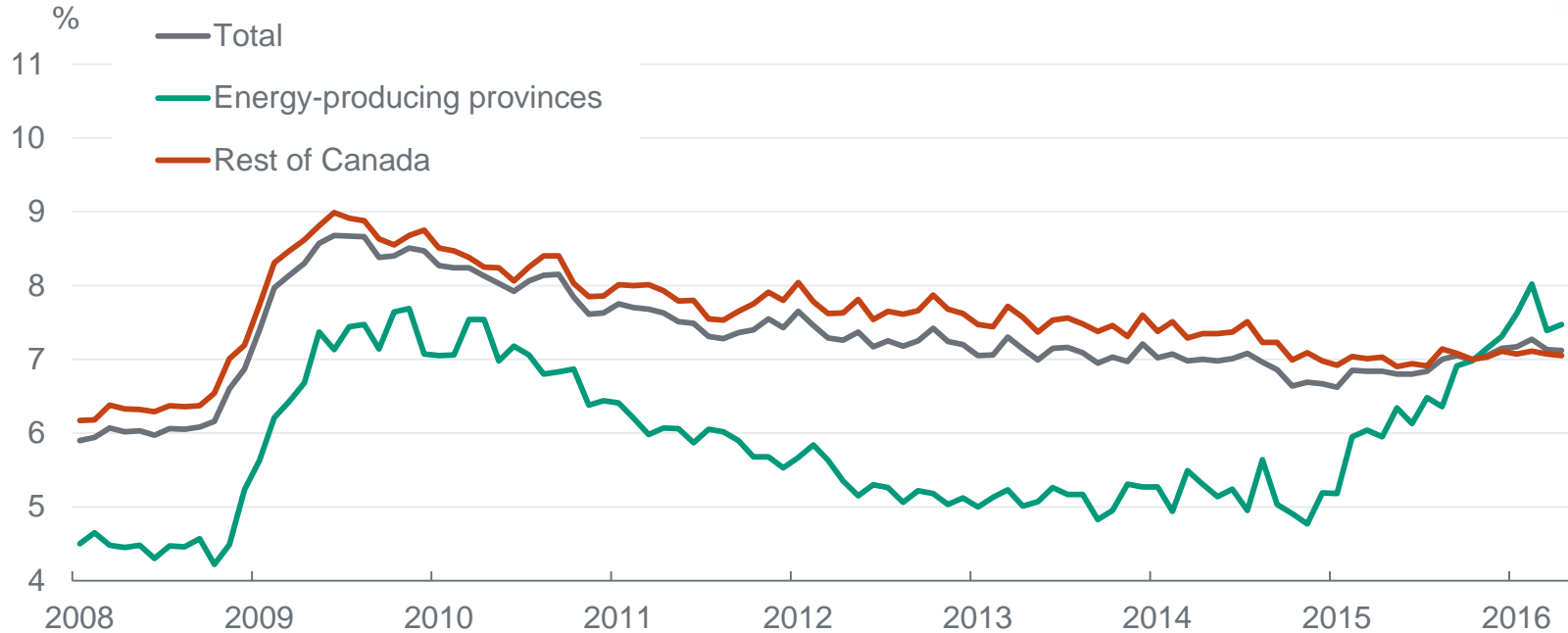
Negative impact

- Largely tapped out and increasingly indebted consumers – pointing to weaker growth in consumer spending going forward
- Anticipated slowdown in housing-related investment
- Weak/declining business capital spending
- Still sluggish commodity markets (natural resources = 50% of Canada's merchandise exports)

Positive impact

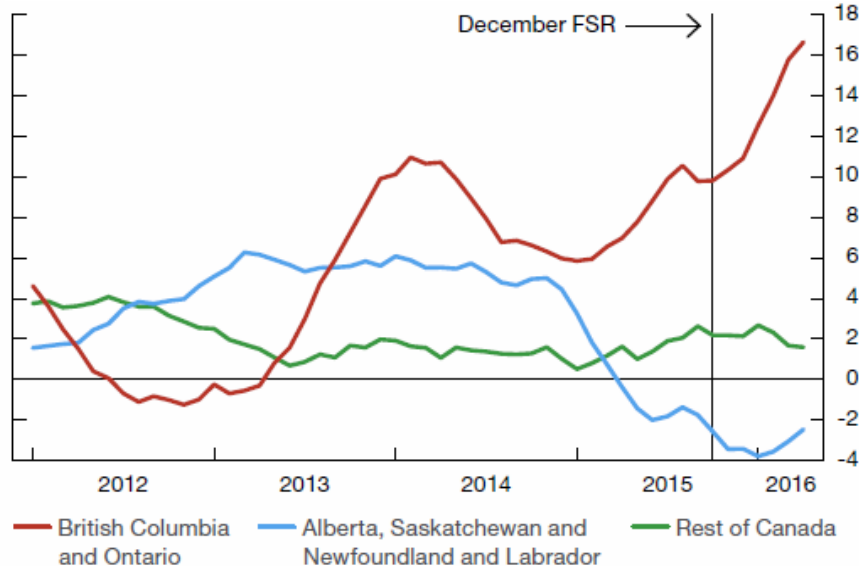
- Federal government budget deficit will provide some near-term support to aggregate demand
- Moderate US economic expansion
- (Some) gains in non-energy exports
- Continued low interest rates and low Canadian dollar

CANADIAN ECONOMIC ROTATION – UNEMPLOYMENT RATES BY BROAD REGION¹



TRIFURCATION OF CANADIAN HOUSING MARKETS

y/y growth in average prices* %

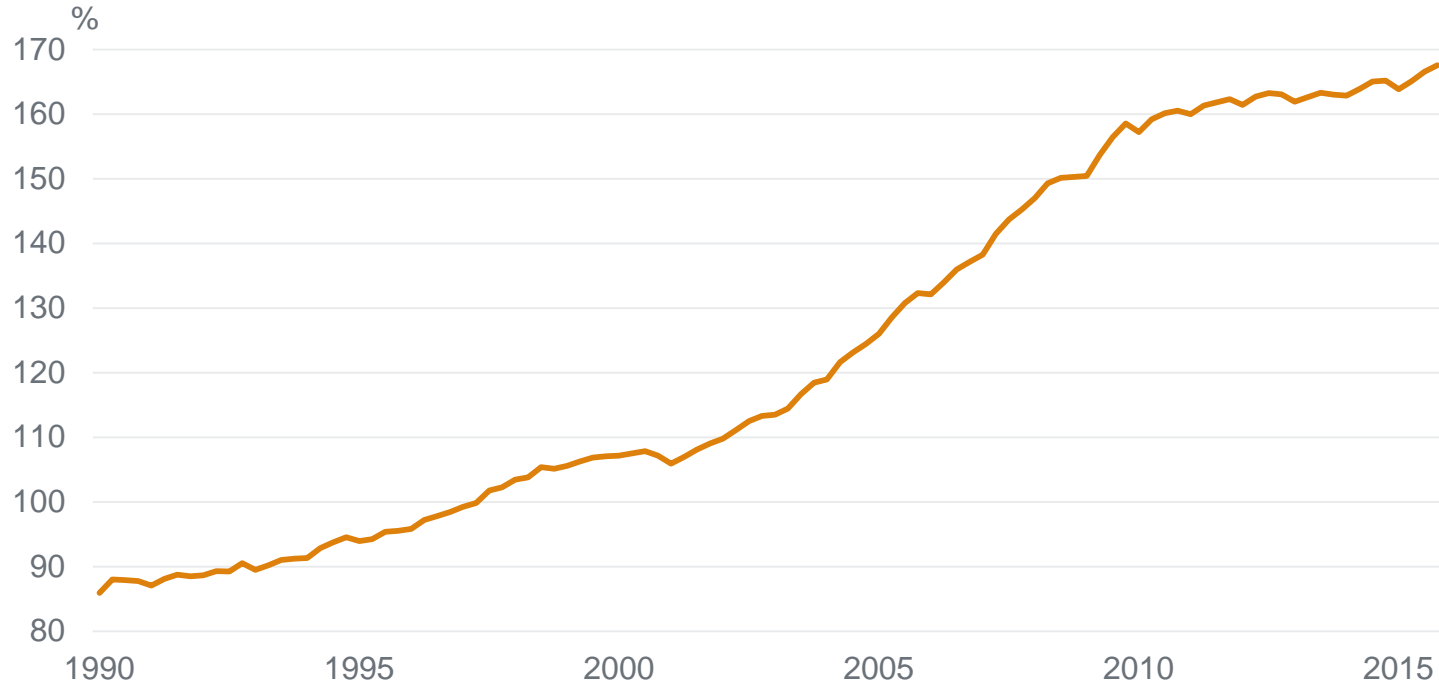


- Nationally, home resales reached new highs in the first half of 2016
- Strength in national market masks regional divergence
- Greater Vancouver house prices climbed 30% in the year to June 2016...but have fallen recently
- Housing markets in Vancouver and Toronto supported by in-migration, foreign capital inflows, and robust job growth

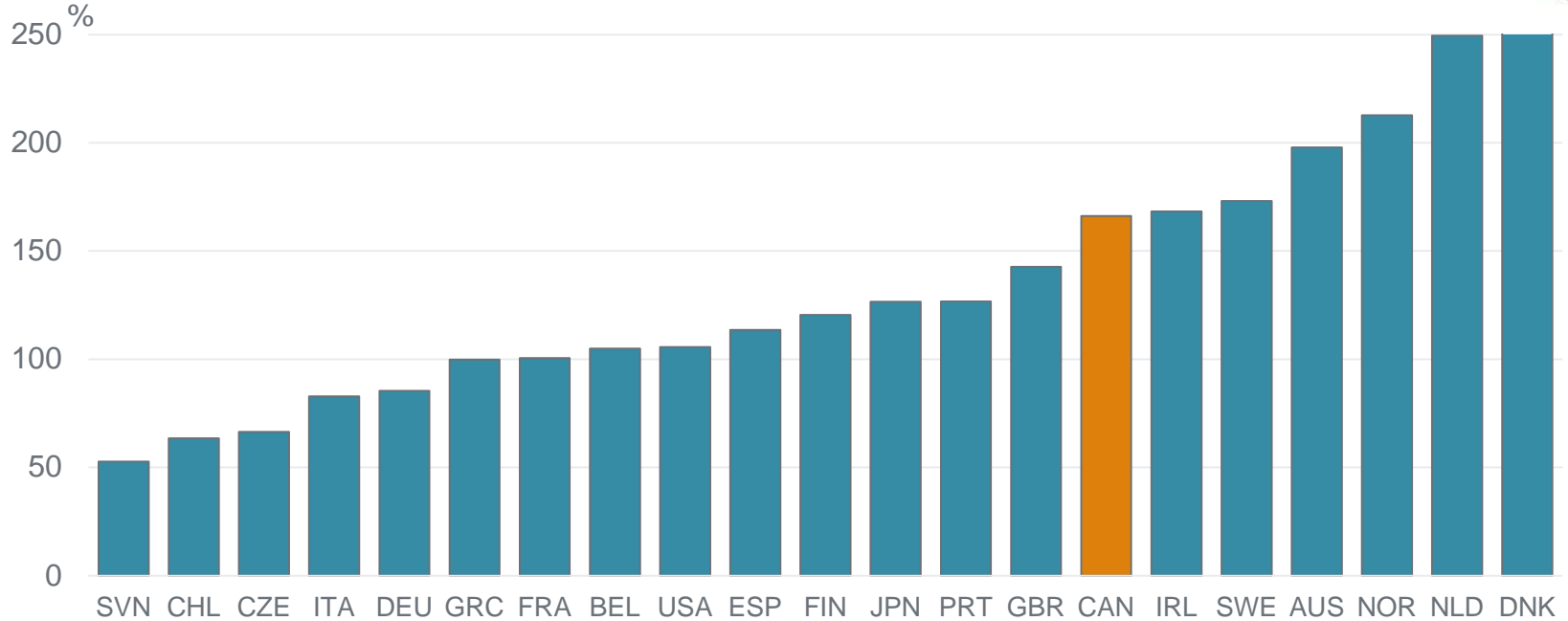
AN UPDATED ECONOMIC FORECAST FOR CANADA

	2015	2016	2017
Real GDP Growth (% change)	1.1	1.2	2.0
Real consumer spending (% change)	1.9	2.0	1.5
Real business investment (% change)	-10.6	-7.5	1.6
Unemployment rate (%)	6.9	7.0	6.9
Current account balance (% of GDP)	-3.2	-3.3	-2.4
Housing starts (000)	194	195	190
Corporate profits (% change, pre-tax)	-24	-24	+11

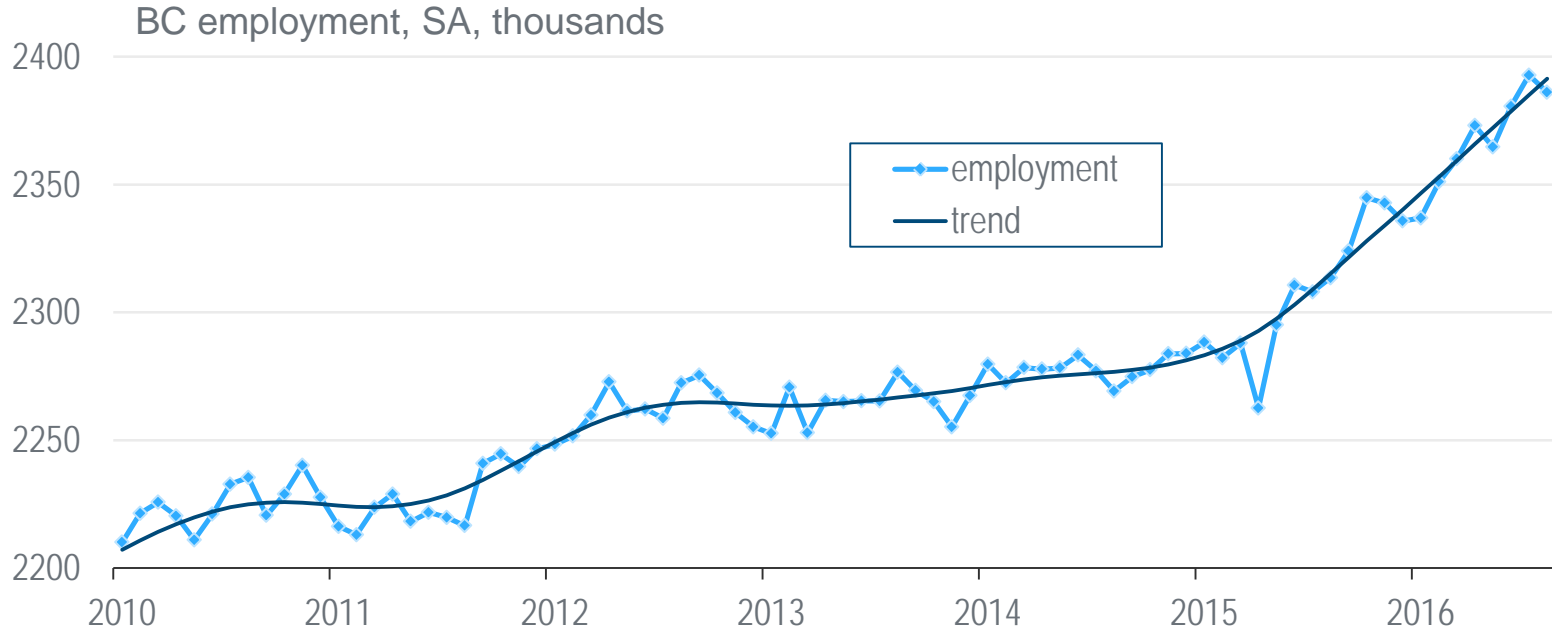
CANADIAN HOUSEHOLD DEBT TO DISPOSABLE INCOME



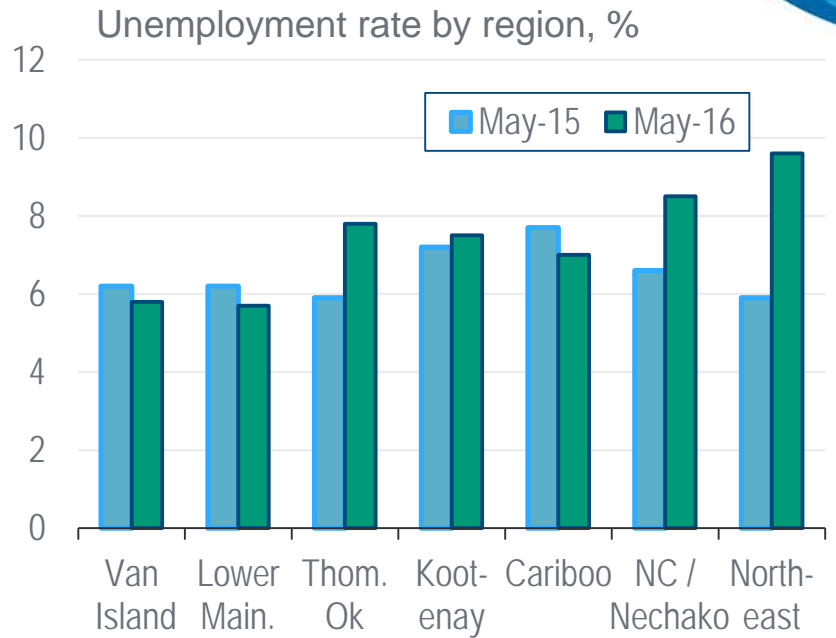
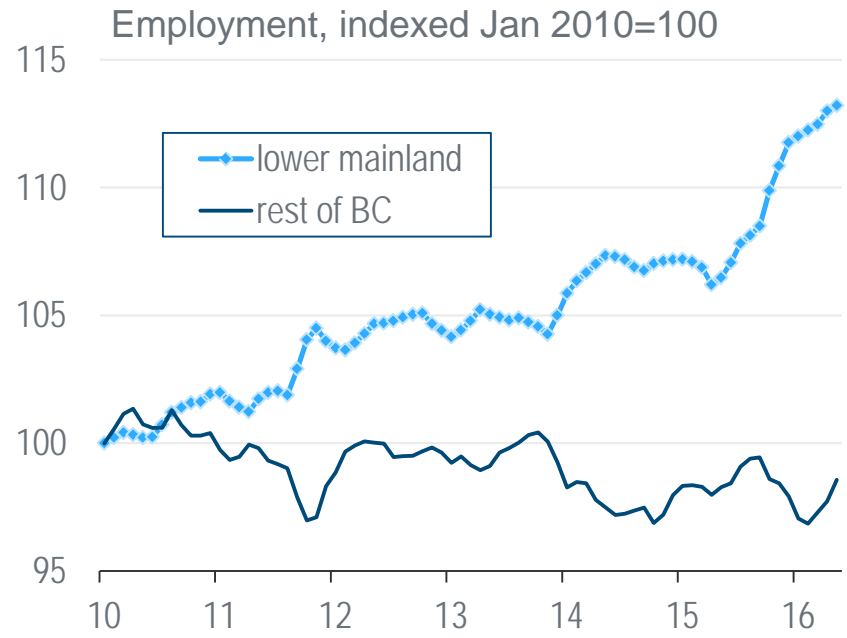
HOUSEHOLD INDEBTEDNESS RATIO, CANADA VS OTHER OECD COUNTRIES, Q4 2015¹



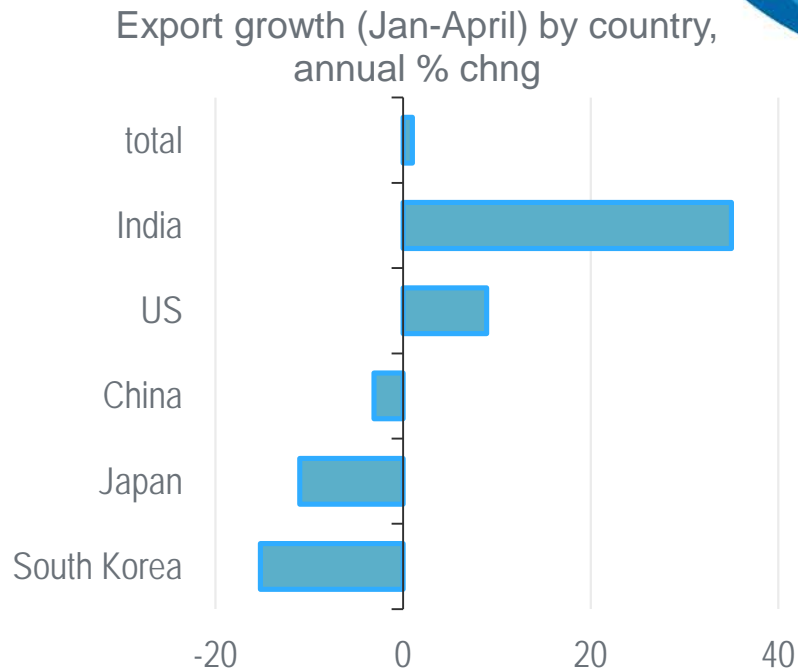
THE BC JOB MARKET HAS DEFINITELY PICKED UP



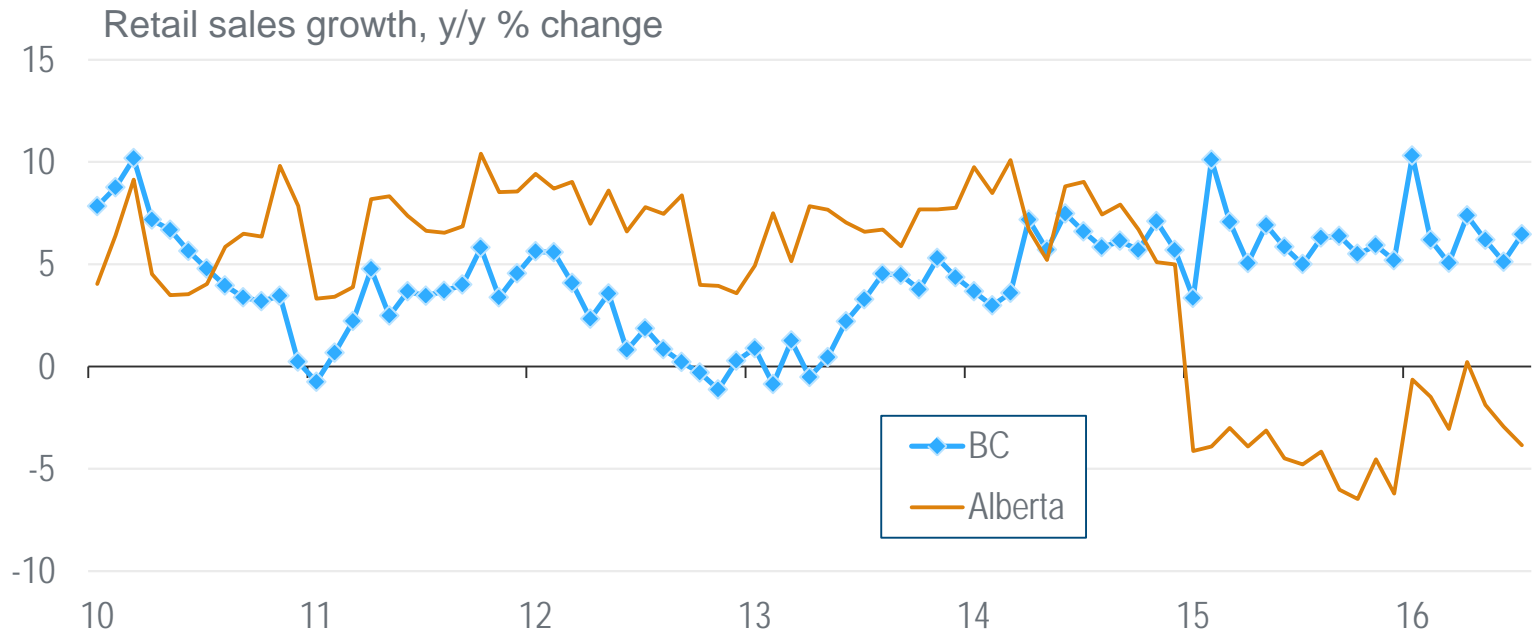
BUT...ALL JOB GROWTH HAS BEEN CONCENTRATED IN THE LOWER MAINLAND



US ACCOUNTS FOR RECENT BC EXPORT GAINS



BC CONSUMERS ARE SPENDING



BC ECONOMIC OUTLOOK

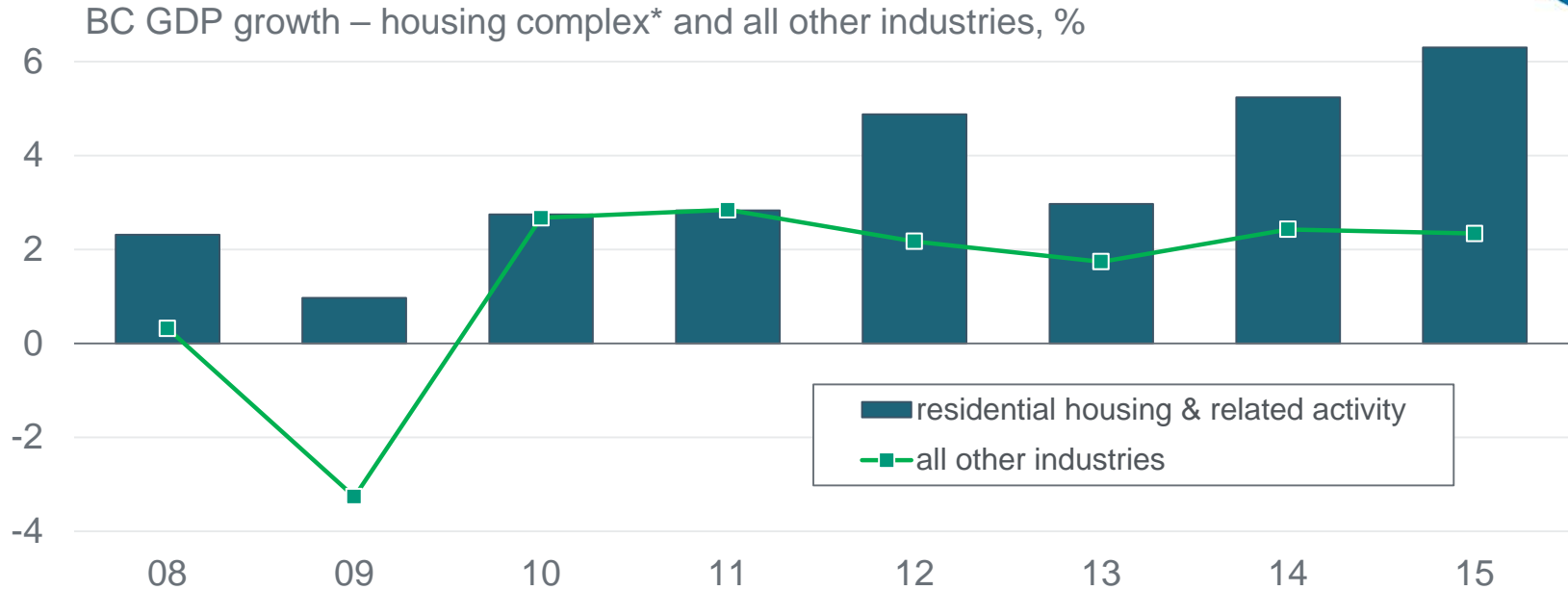
(ANNUAL % CHANGE UNLESS OTHERWISE INDICATED)

	2014	2015e	2016f	2017f
Real GDP	3.2	3.0	2.7	2.6
Employment	0.6	1.2	3.0	1.5
Unemployment rate (%)	6.1	6.2	6.1	5.9
Housing starts (000 units)	28.4	31.4	39.0	38.0
Retail sales	5.5	6.5	6.5	5.5
BC CPI	1.2	1.1	1.6	1.6

WHY IS BC OUT-PERFORMING CANADA... DESPITE SLUGGISH COMMODITY MARKETS

- Population growth (fed by in-migration) = greater demand for domestic goods/services
- Housing sector (residential investment + prices + the impact of 'foreign' money + wealth effects)
- Competitive benefits of, and inward investment fueled by, a cheap Canadian currency
- Low interest rate environment (with a high debt burden, this especially helps BC)
- Plus...BC has an increasingly diverse industrial and economic base, which strengthens resilience and limits the impact of downturns in particular sectors:
 - Forest products cluster (logging, wood products mfg, pulp/paper), 35-40% of merchandise exports
 - Tourism (5% of GDP)
 - Advanced technology (7% of GDP)...plus film/t.v. production/digital animation
 - Mining and energy
 - The various components of the 'gateway' economy
 - Education sector (now a source of significant 'export' earnings for BC)
 - Clean tech/green economy/environmental services cluster
 - Tradable services (scientific, technical, engineering, design, finance, and professional services)

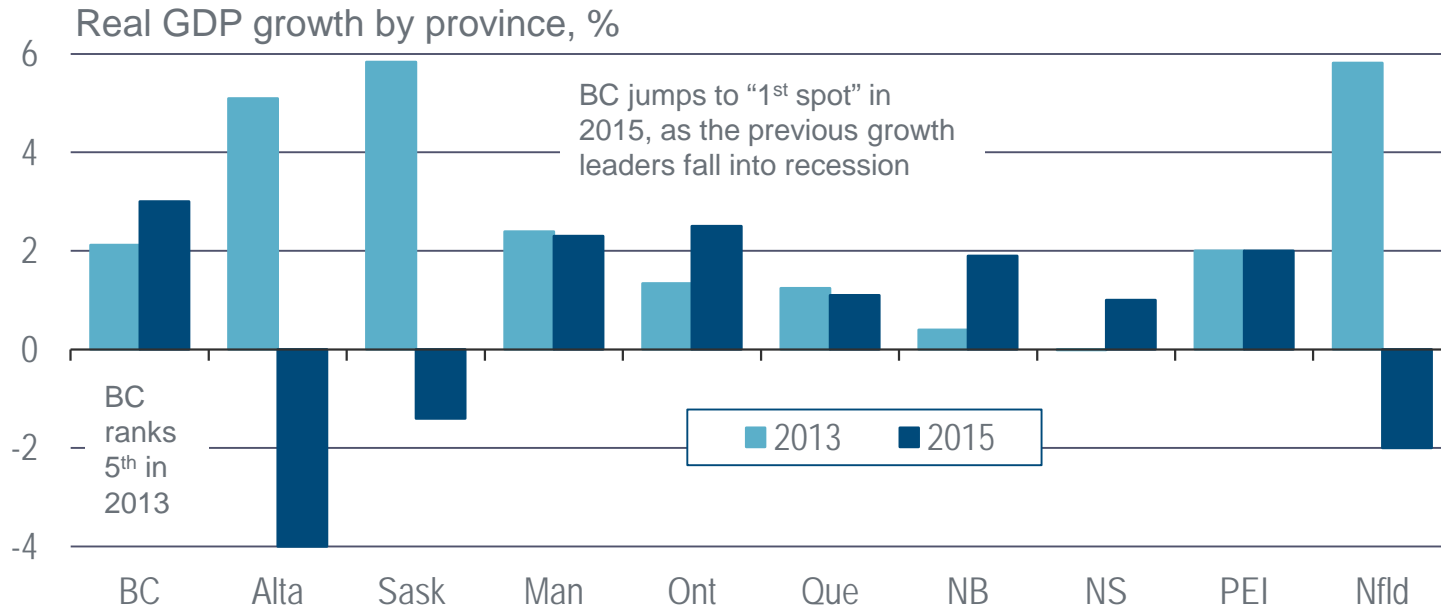
HOUSING IS PROVIDING A BIG ECONOMIC LIFT FOR BC



* Includes residential construction, offices of real estate agents and related, and imputed rent.

Source: Source: Statistics Canada, CANSIM table 384-0038, data released November 10, 2015..
BC Ministry of Finance, Budget and Fiscal Plan for forecasts

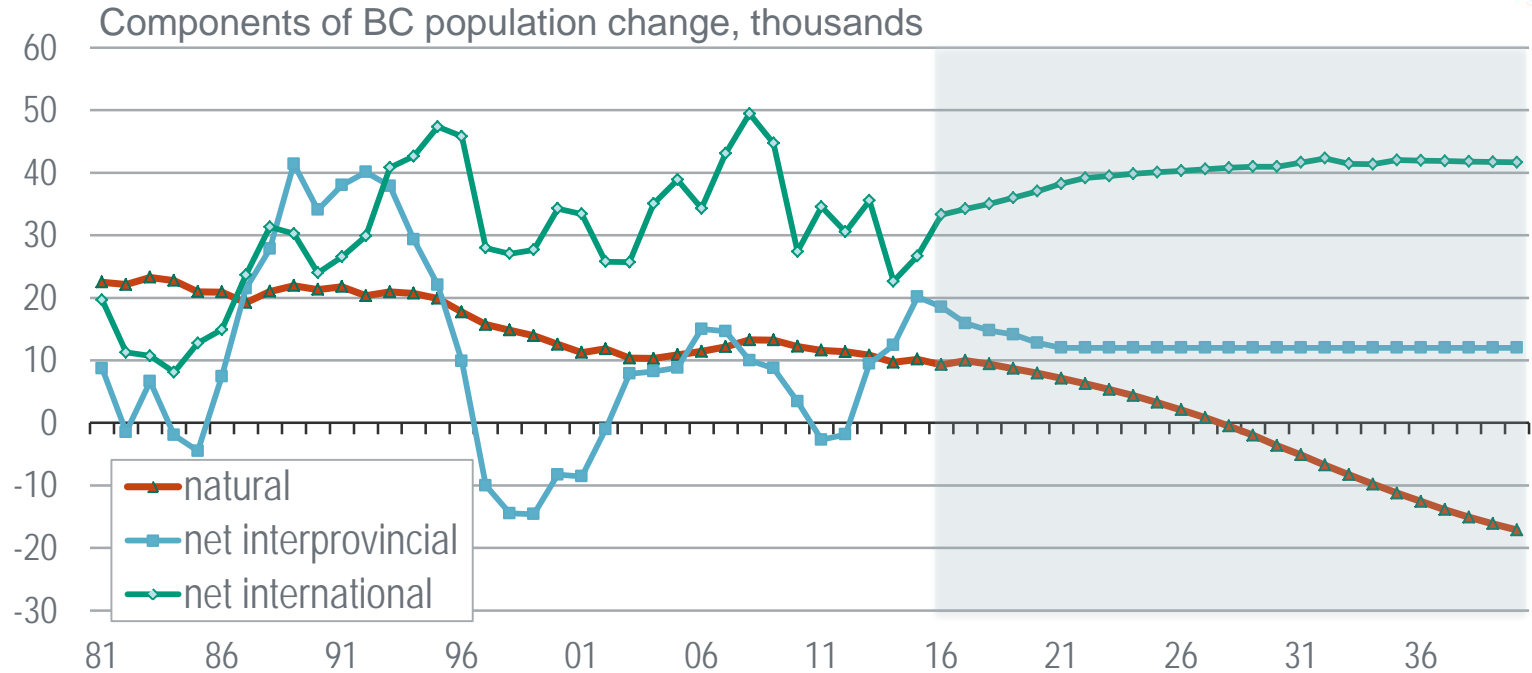
BC'S RELATIVE ECONOMIC POSITION DEPENDS ON HOW OTHER PROVINCES PERFORM



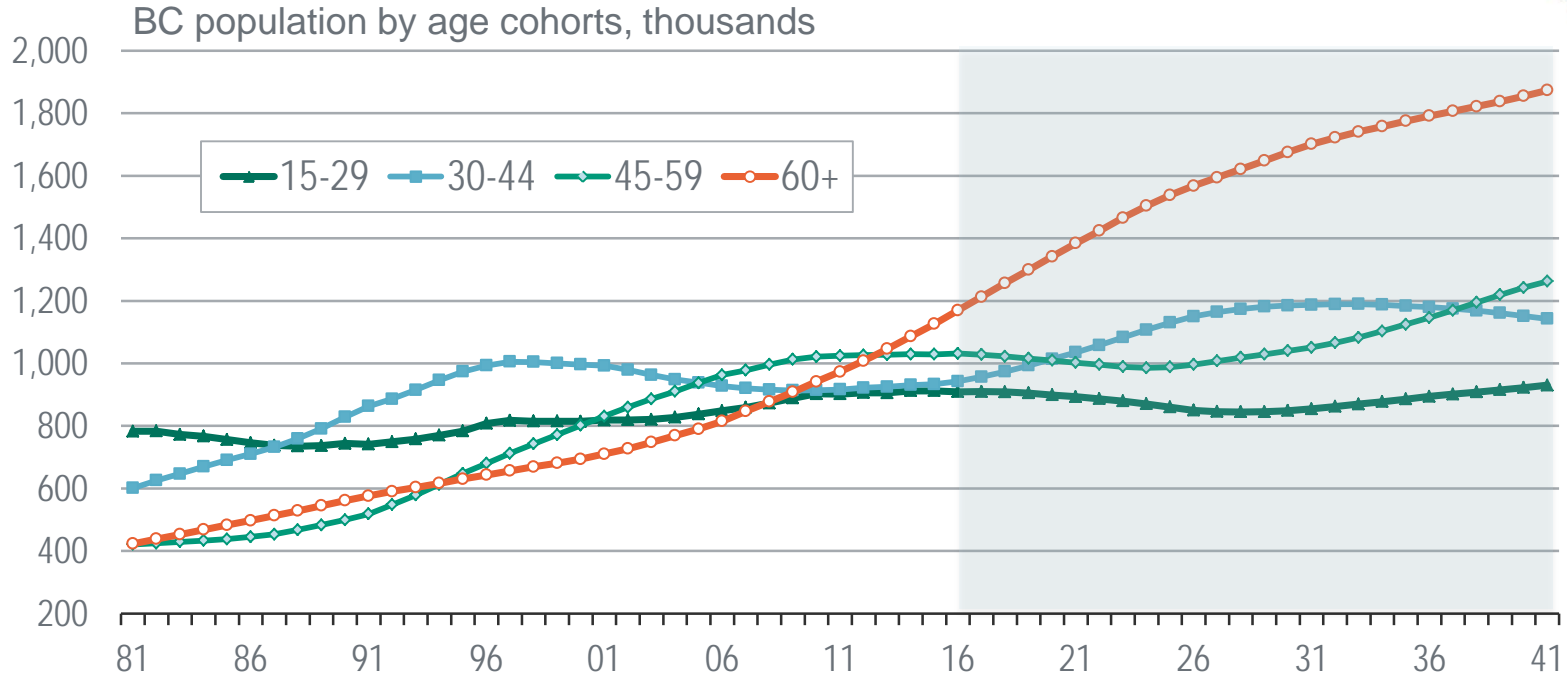
BC POPULATION GROWTH SLOWING



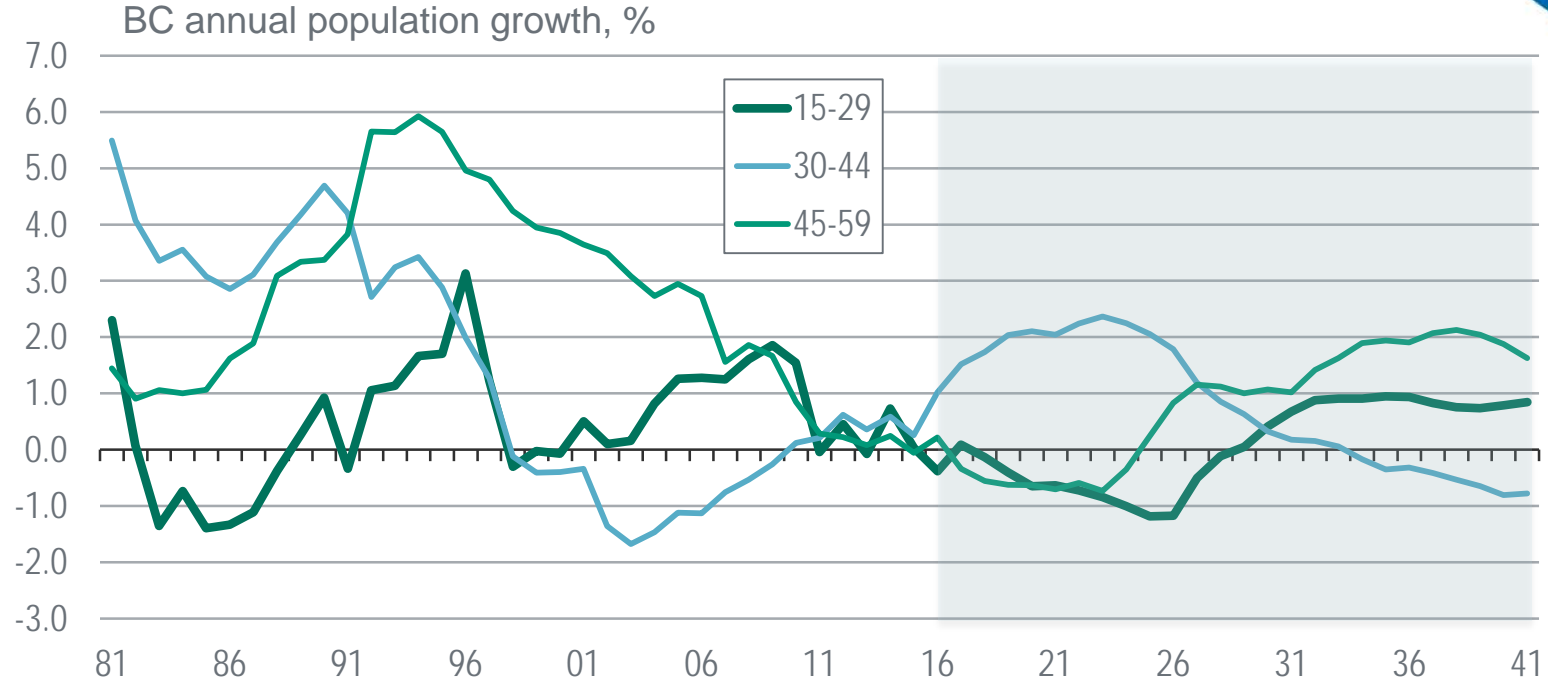
BC POPULATION GROWS MOSTLY DUE TO IMMIGRATION



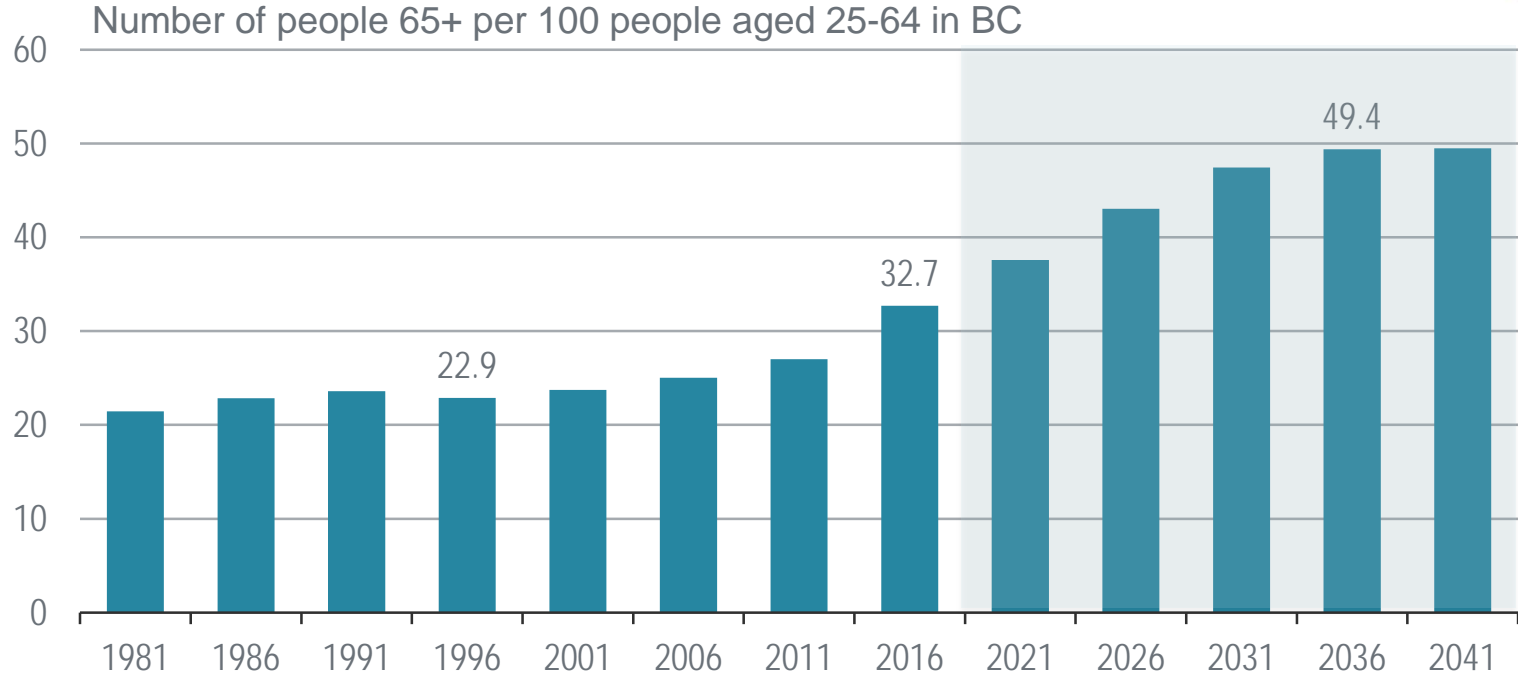
NUMBER OF PEOPLE OVER 60 IS THE COHORT THAT WILL GROW



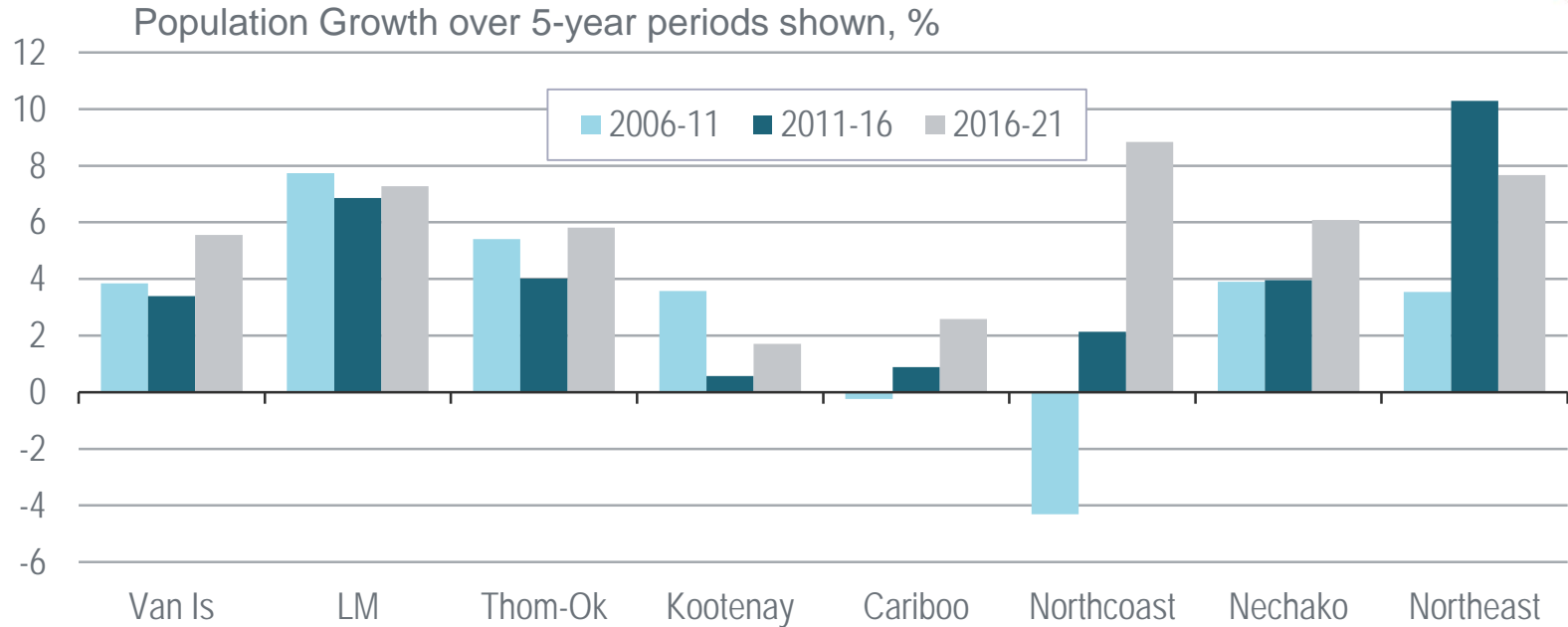
GROWTH IN WORKING AGE POPULATION REALLY SLOWING



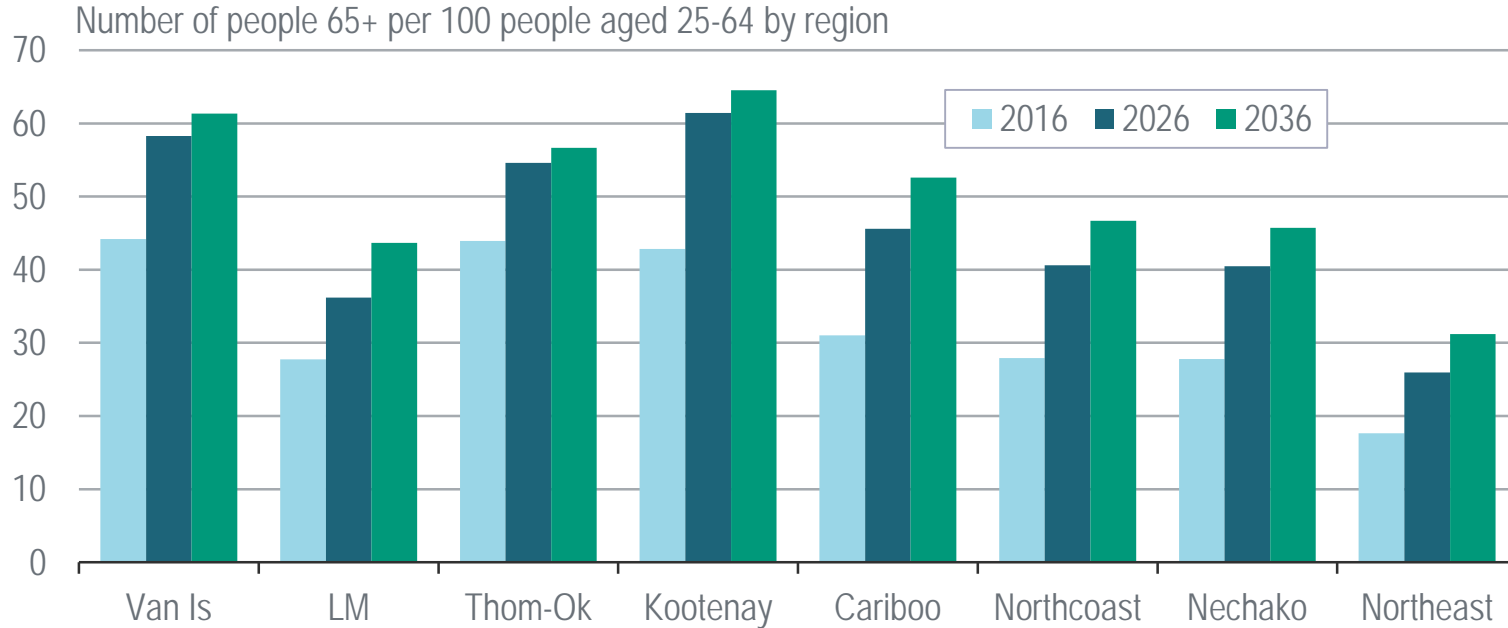
HEADING FOR ONE 'RETIREE' FOR EVERY TWO WORKING AGE PEOPLE



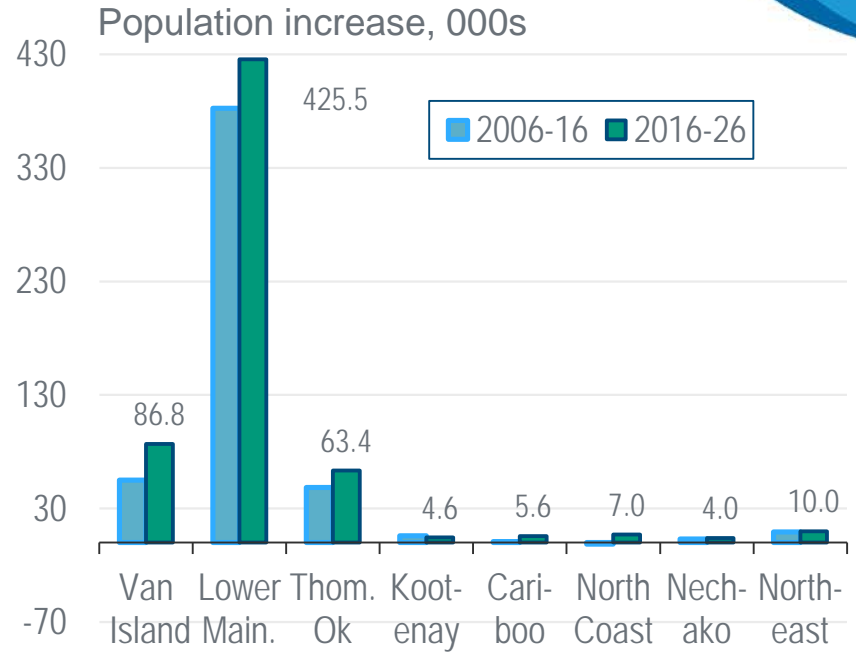
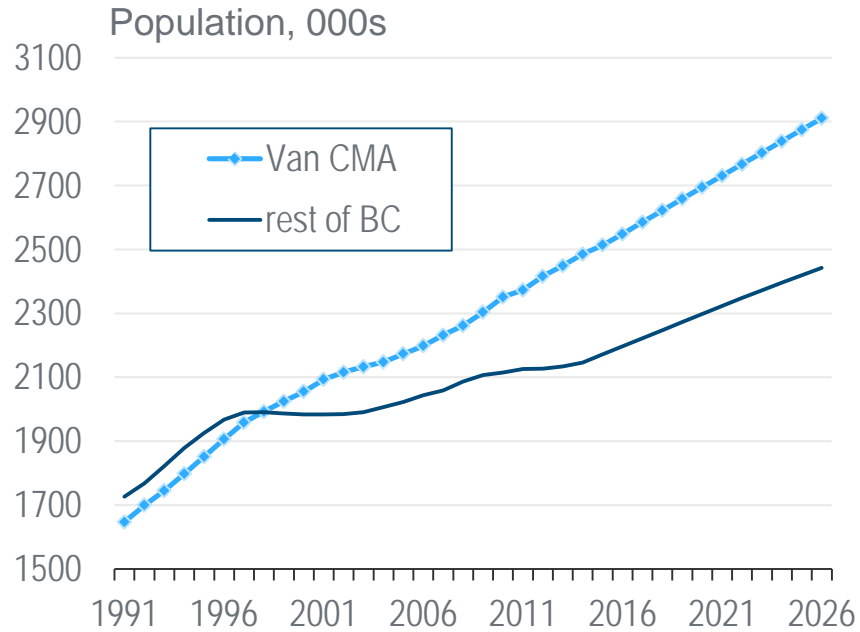
POPULATION GROWTH CONCENTRATED IN SOUTHWEST



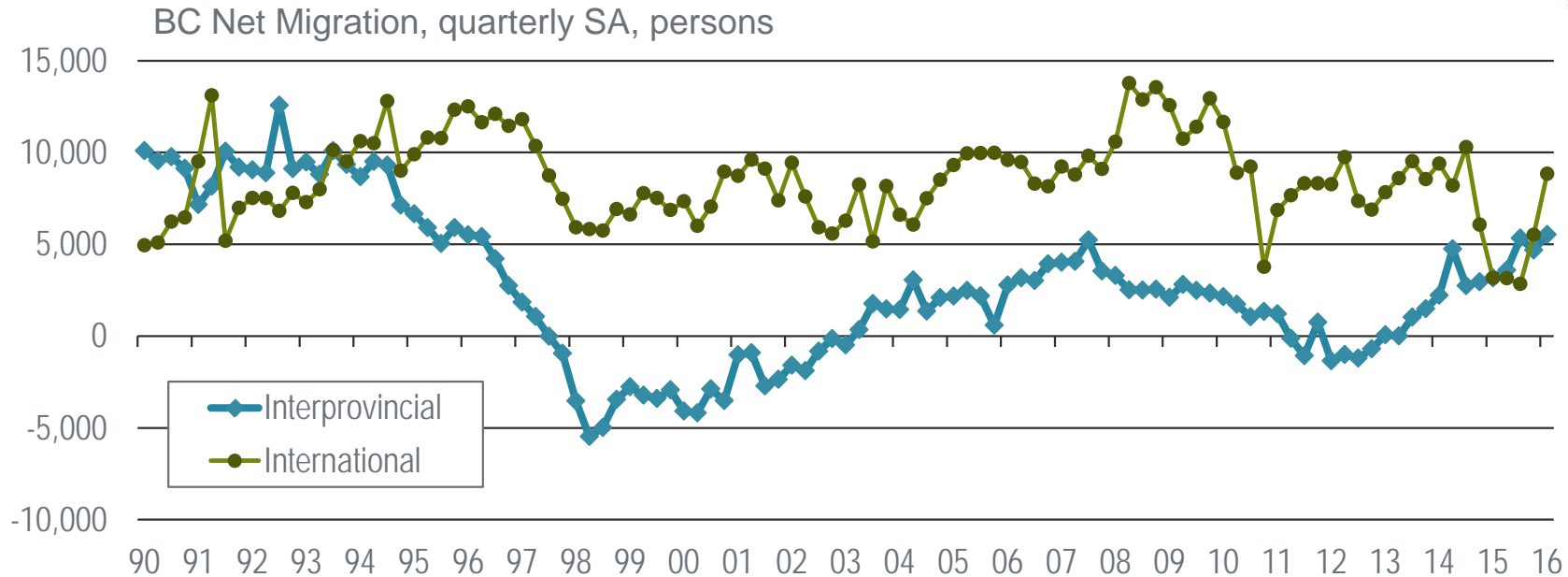
AGING POPULATION MORE PRONOUNCED IN SMALLER COMMUNITIES



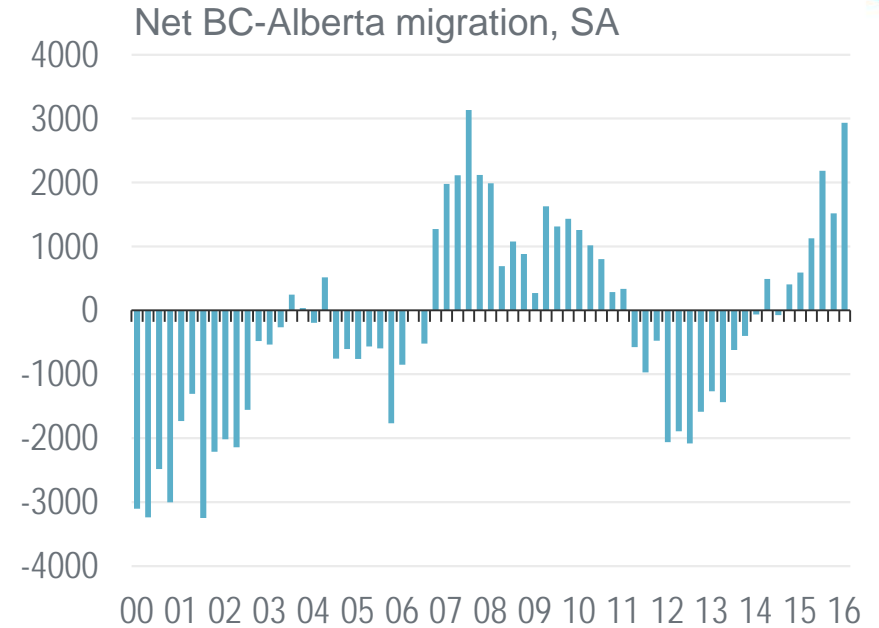
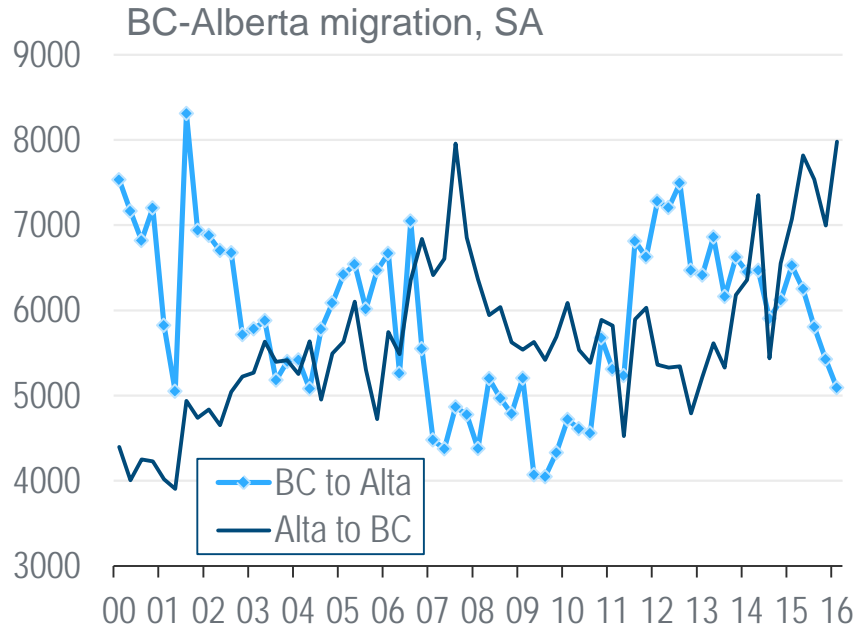
POPULATION GROWTH CONCENTRATED SOUTHWEST



INTERPROVINCIAL MIGRATION LIFTS POPULATION GROWTH



NET INFLOW FROM ALBERTA PICKS UP



RECAP

- Subdued and choppy global economy will continue through 2016...and perhaps beyond
- A generally uninspiring near-term outlook for Canada, with hopes largely riding on US expansion
- Interest rates will remain low and rate hikes in Canada will lag the US
- BC should comfortably outpace Canada in GDP and job growth in 2016-17
- Growth in working age population continues to slow over coming decade
- BC's population and labour force grows essentially because of in-migration
- Interprovincial migration a source of workers over the next few years
- Population steadily aging with rural parts of the province facing the biggest demographic challenges