



FEBRUARY 28, 2019

ECONOMIC UPDATE...AND A FEW REFLECTIONS ON THE
B.C. TOURISM SECTOR

PRESENTED TO THE
B.C. TOURISM INDUSTRY CONFERENCE

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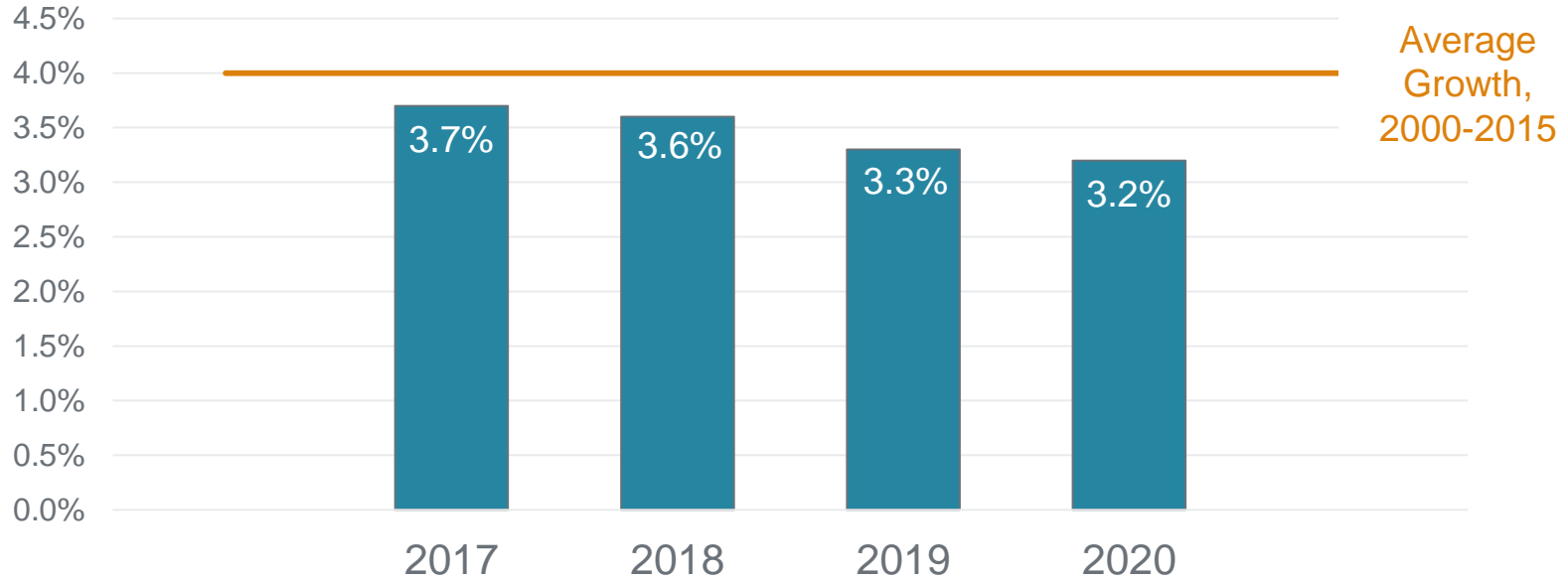
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MACRO AND CANADIAN ECONOMIC OUTLOOK: MAIN THEMES

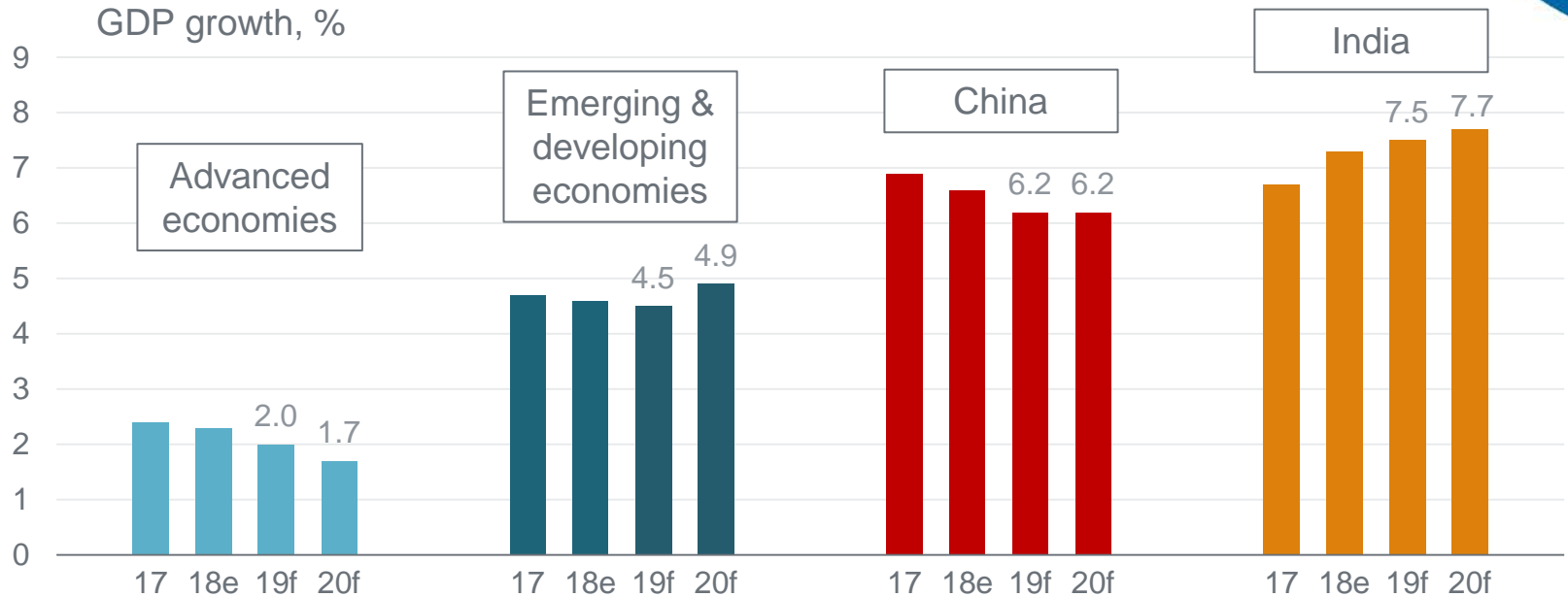
- Overall global economic growth is softening, including in U.S./Canada
- Further interest rate increases in U.S./Canada are likely to be (very) muted
- Weaker housing markets, eroding competitiveness, energy sector woes, high levels of household debt...are headwinds for Canada/B.C.
- Demographic growth, tight labour markets, low interest rates, a low dollar, and expanding tech economy are positives for Canada/B.C.
- We expect B.C. to be near the top of the Canadian growth charts in the next 2-3 years, provided the \$40 billion LNG Canada project moves forward

GLOBAL ECONOMY IS COOLING

Growth in Total Output



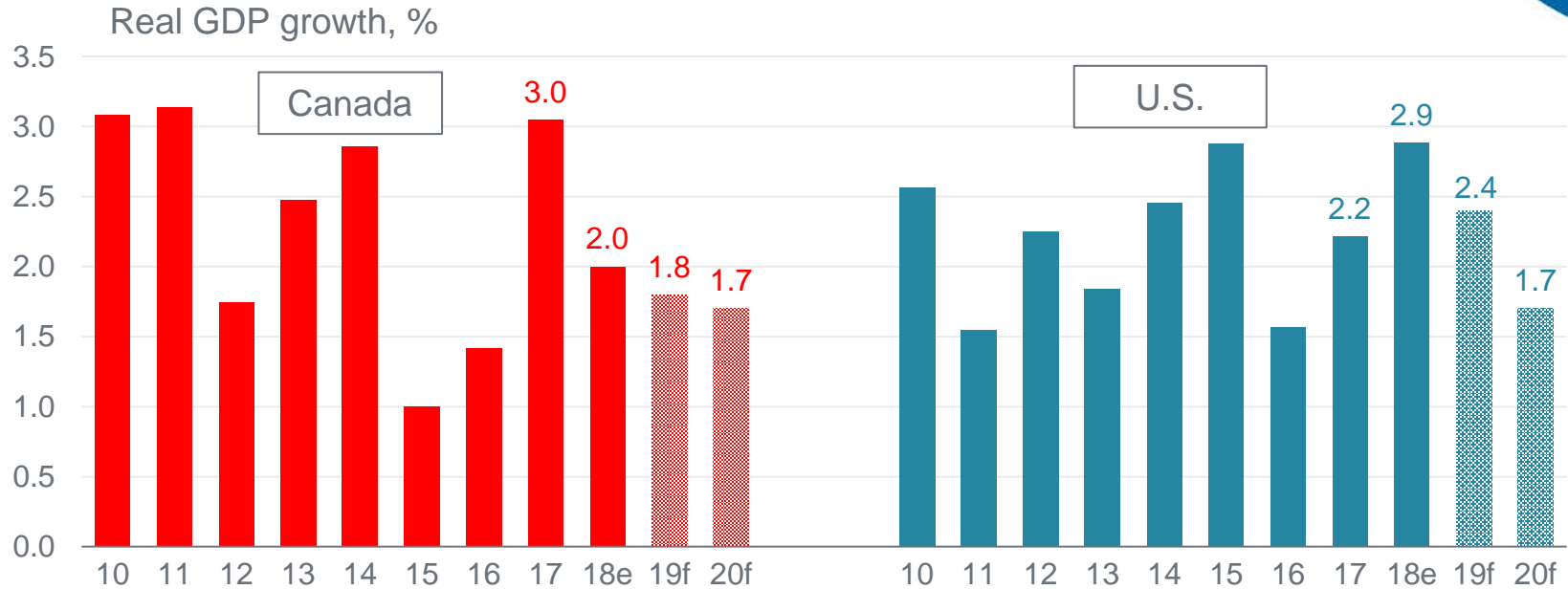
ADVANCED ECONOMIES LOSE MOMENTUM



e=estimate f=forecast

Source: IMF World Economic Outlook.

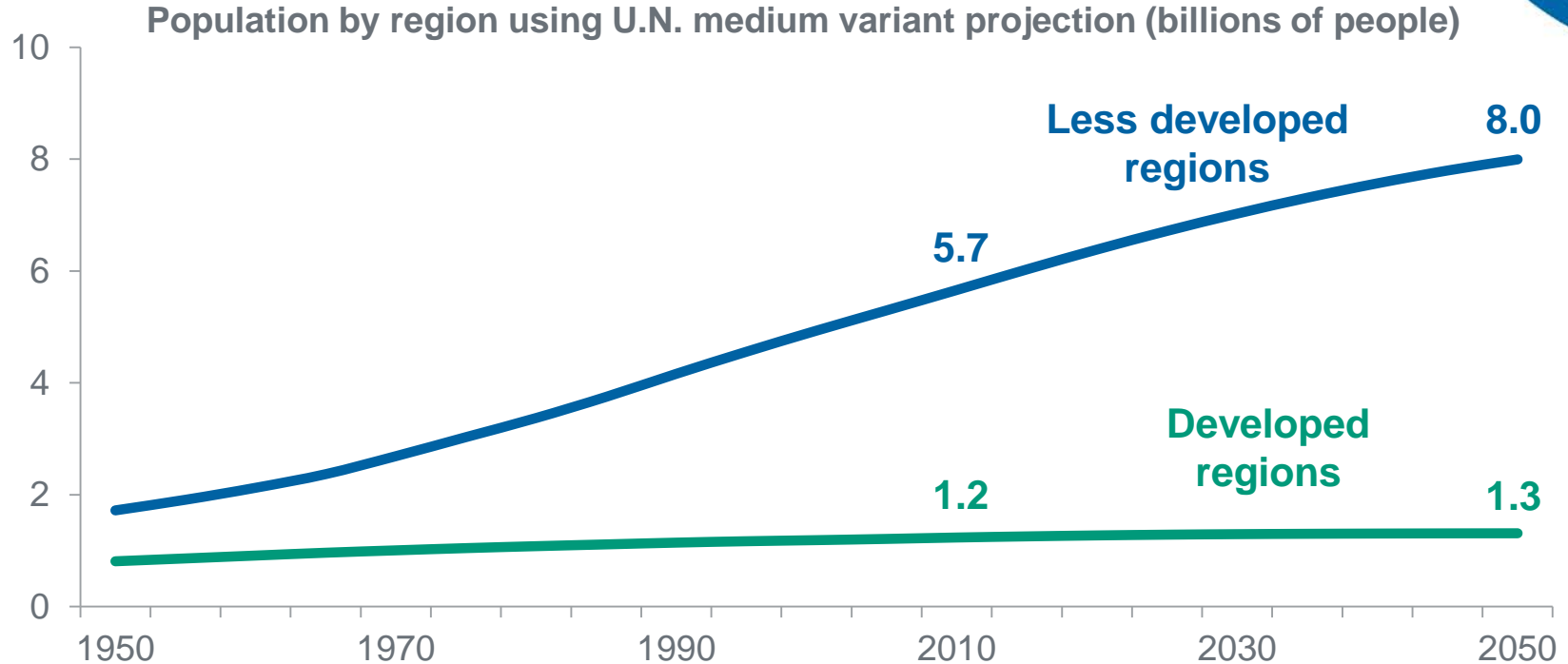
GROWTH MODERATING IN CANADA AND U.S.



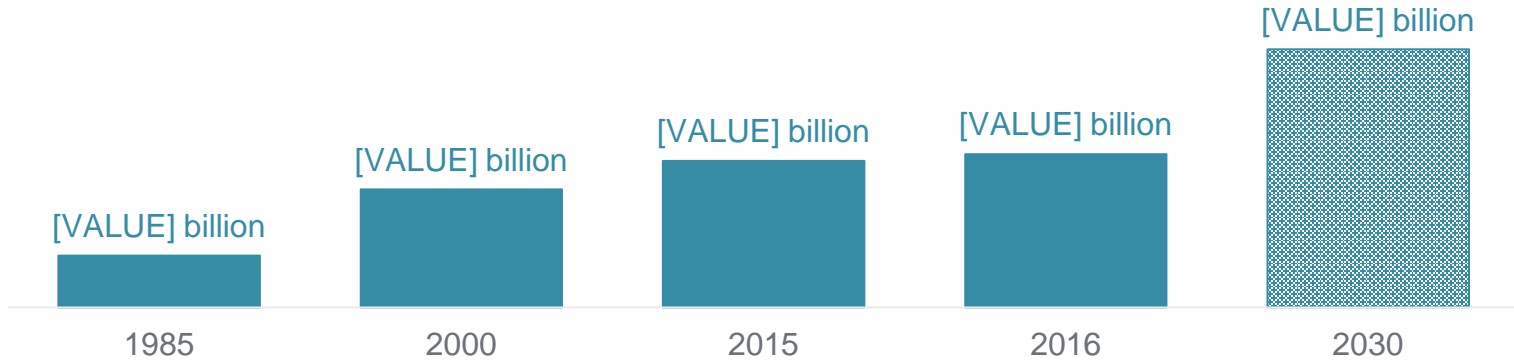
e=estimate f=forecast

Source: IMF World Economic database for history, BMO for forecasts.

POPULATION PROJECTIONS HIGHLIGHT INCREASED IMPORTANCE OF EMERGING MARKETS



DRAMATIC EXPANSION OF THE GLOBAL 'MIDDLE CLASS' POPULATION

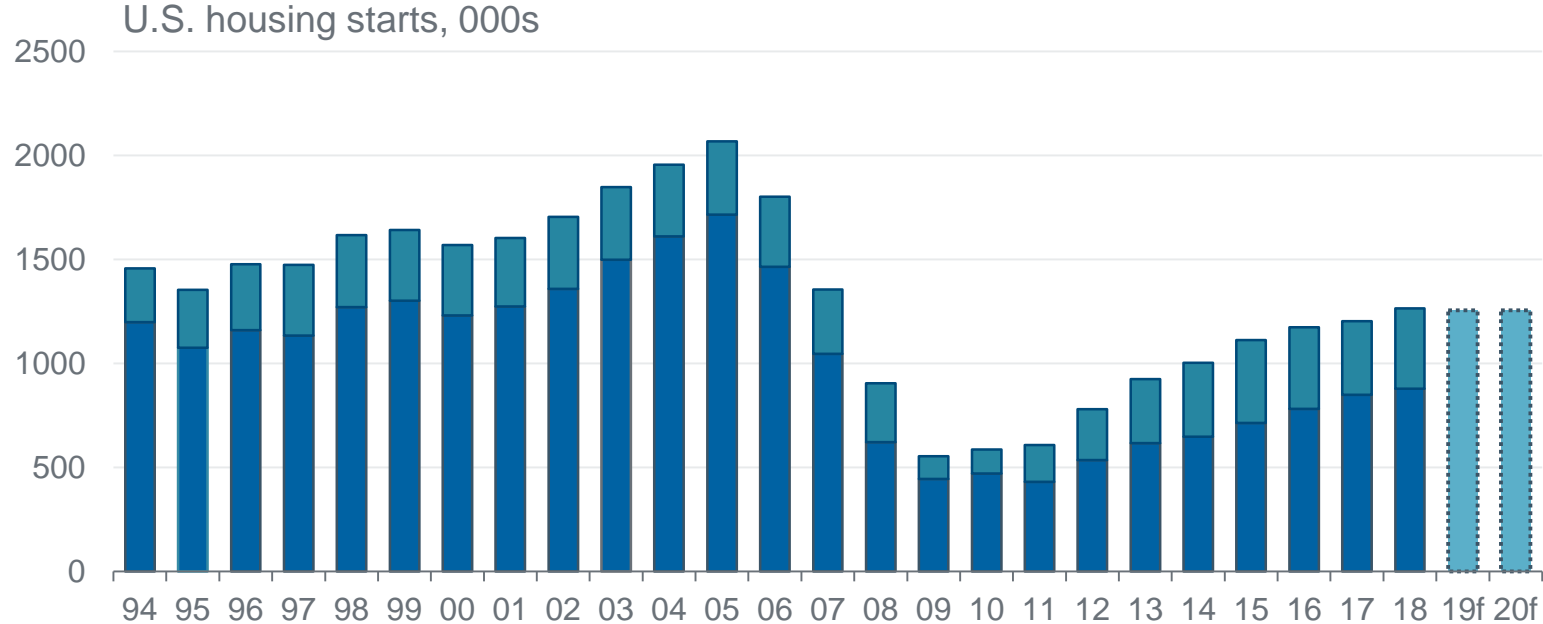


- 'Middle class': households with a U.S. dollar equivalent income of \$11 to \$110 *per person per day*, using 2011 PPP exchange rates
- Approx. 150 million people have been joining the global middle class each year; by 2022, the figure is expected to rise to 170-180 million a year
- More than 85% of 'new' middle class households are located in Asia

U.S. ECONOMY HEALTHY, BUT SET TO SLOW IN 2019-2020

- GDP growth projected at ~2.4% this year, down from ~3% in 2018
 - current expansion is the 2nd longest on record
 - economy benefitted from temporary 'sugar high' provided by tax cuts and increased gov't spending
- Employment continues to climb... as the labour market tightens and unemployment reaches a record low
- Housing starts have been choppy, amid higher prices and escalating building costs; likely to peak near 1.25 million in 2019
- Business investment is rising, but gains are modest
- The Federal Reserve has modified its stance, suggesting perhaps only 1-2 additional interest rate hikes over 2019-20

HOUSING STARTS STILL WELL BELOW 1997-2006 LEVELS



f=forecast

Source: U.S. Census Bureau, Department of Housing and Urban Development, average of forecasts from BMO, CIBC, TD, RBC & Scotiabank for projections.

FACTORS INFLUENCING CANADIAN ECONOMIC PERFORMANCE IN 2019-2020

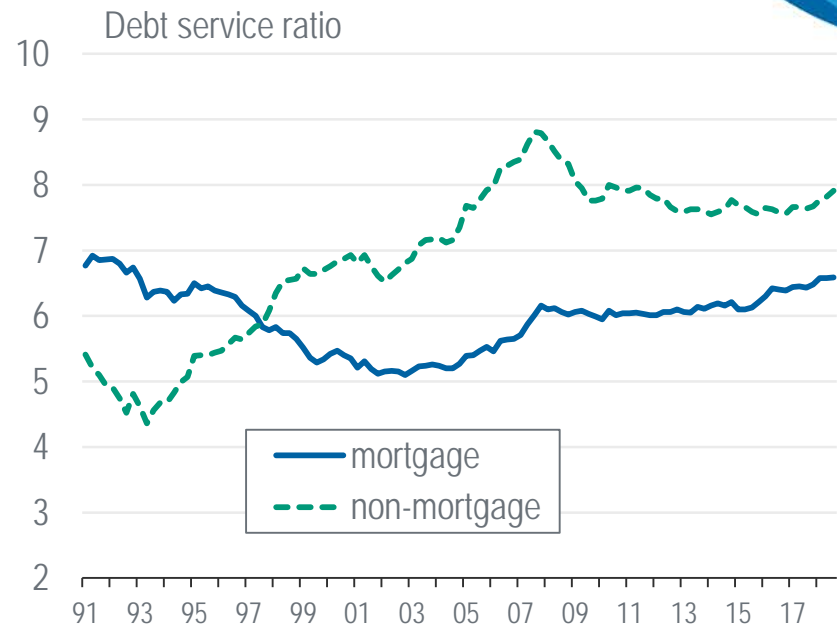
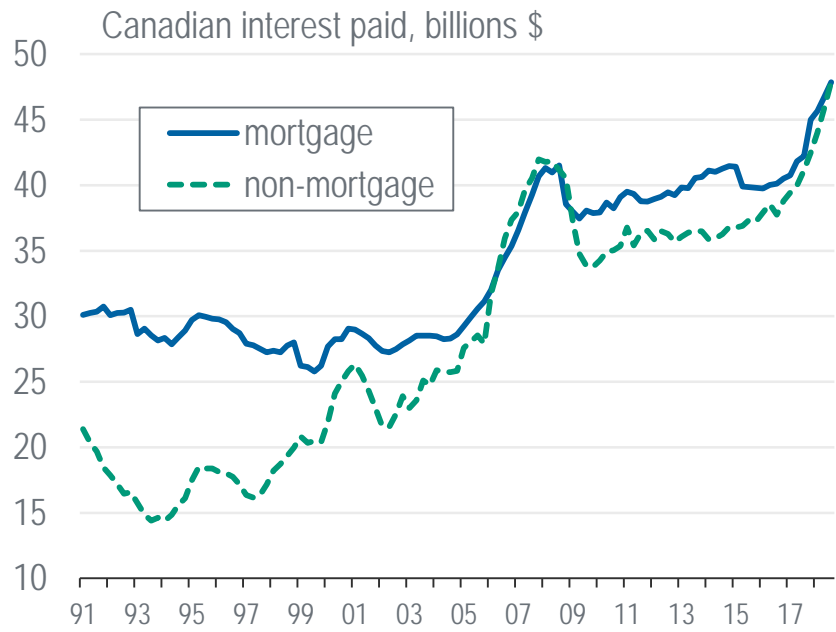
Negative impact

- Weaker global economy
- Increasingly indebted Canadian consumers, slowdown in housing investment/sales
- Continued softness in business capital spending
- Significant competitiveness problems in the energy sector and parts of manufacturing

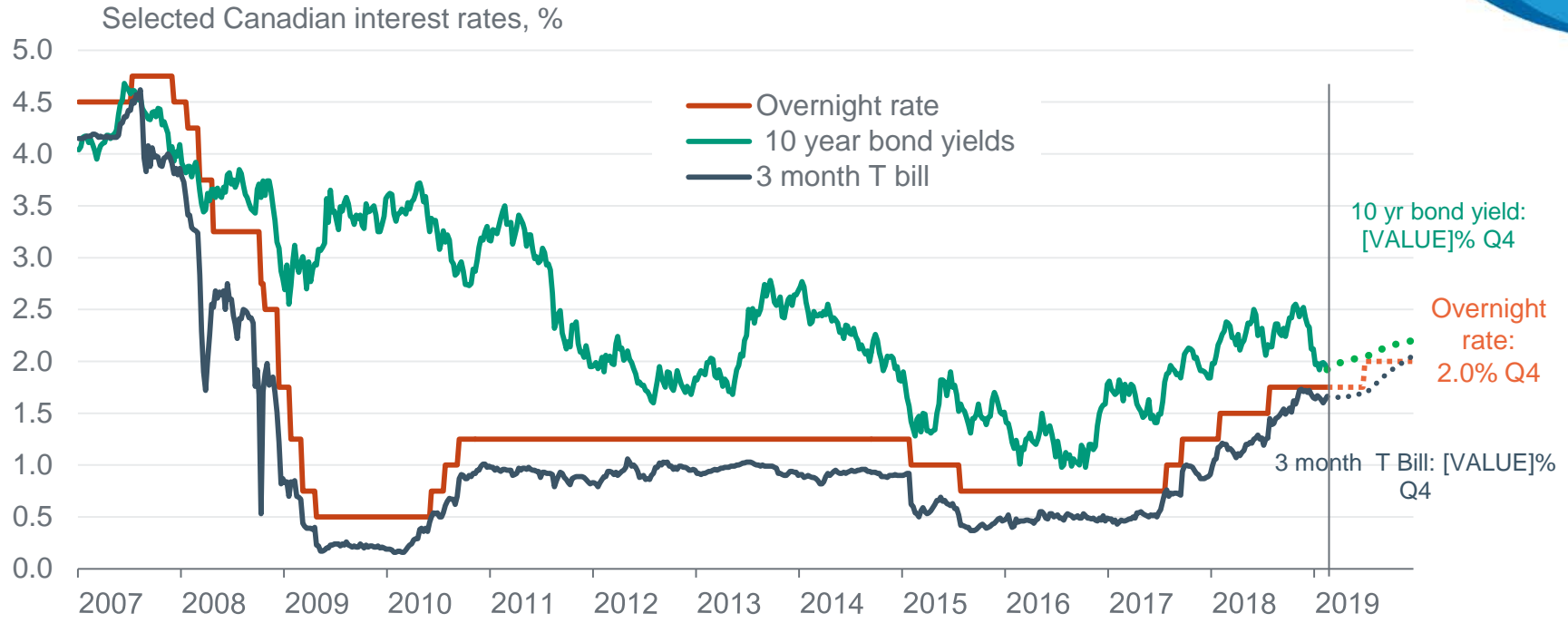
Positive impact

- Relatively low interest rates and low Canadian dollar
- Demographic growth in urban areas
- Strength in tourism, high tech, the digital economy, and exportable services
- Benefits from Canada's participation in new trade agreements (CETA, CPTPP)

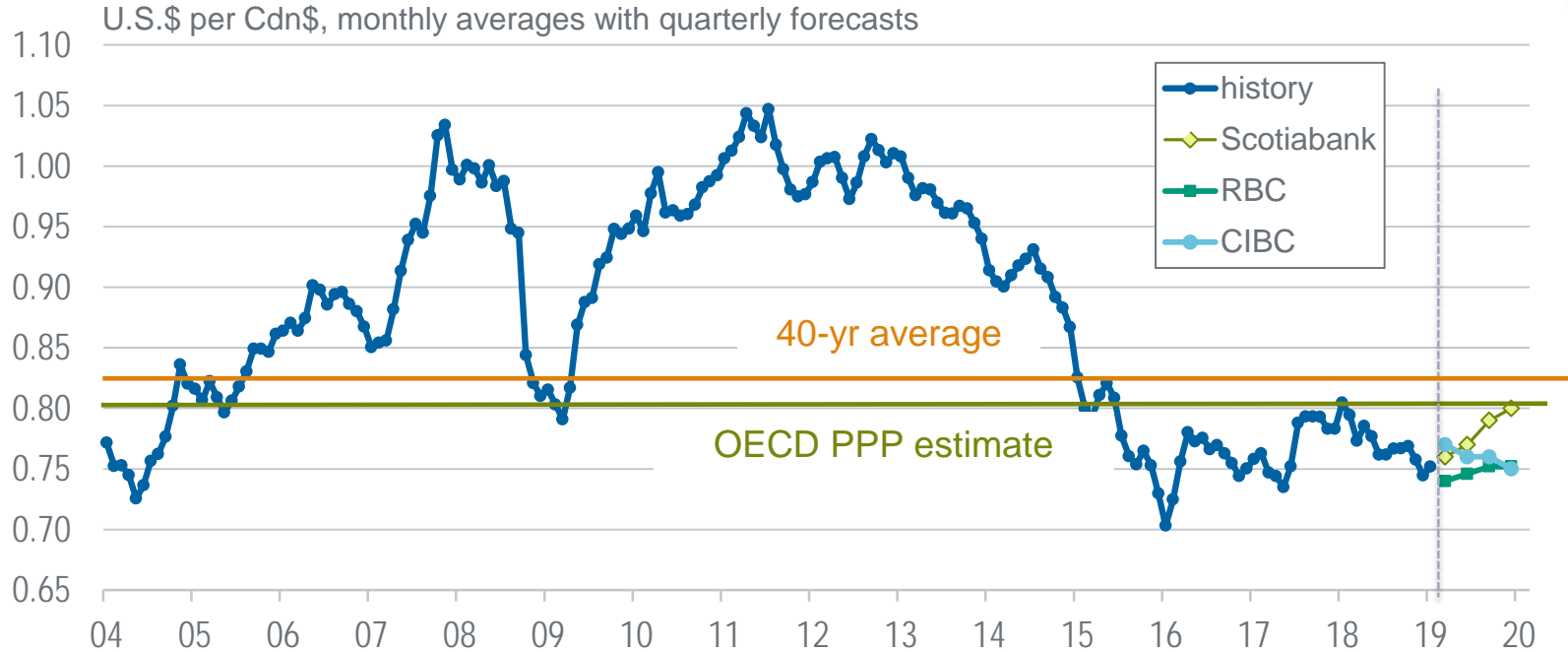
EVEN WITH RECORD HOUSEHOLD DEBT, *DEBT-SERVICE RATIOS* IN CANADA LOOK MANAGEABLE



CANADIAN INTEREST RATES INCH HIGHER



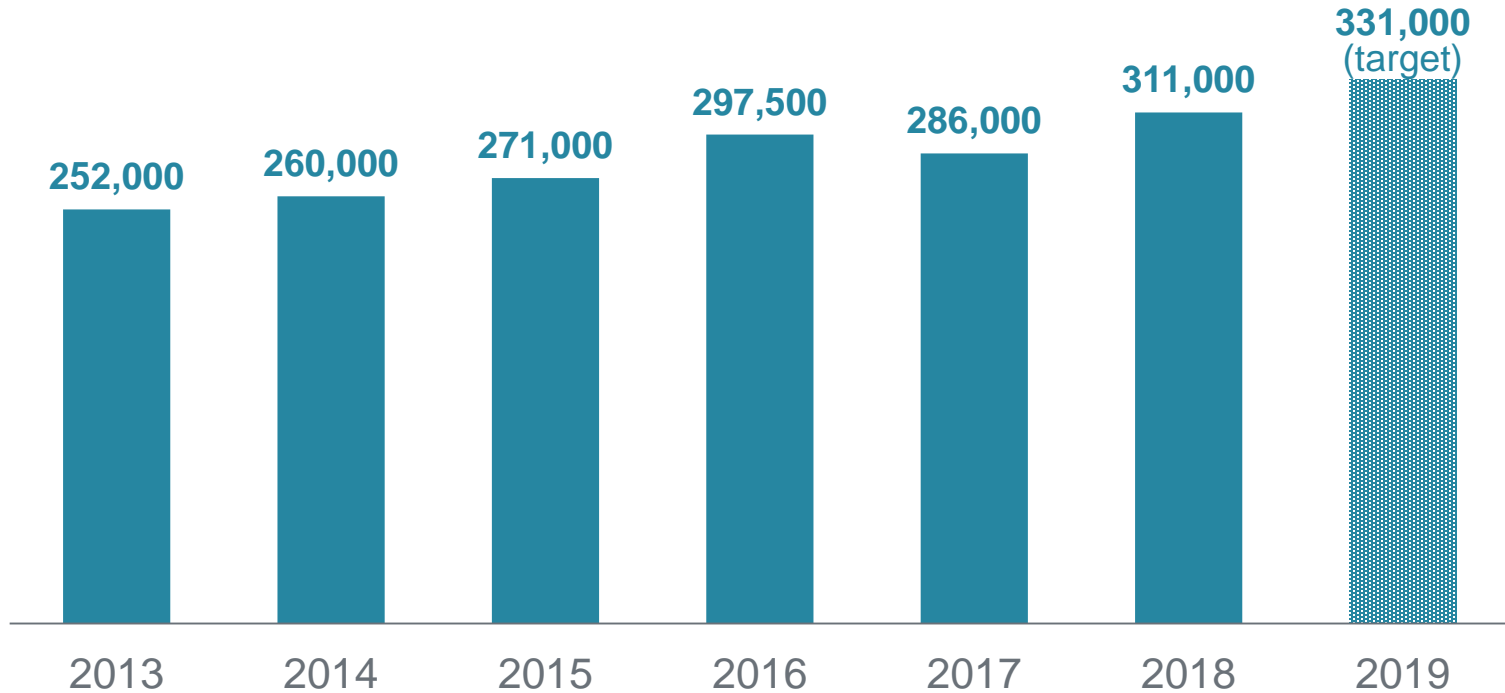
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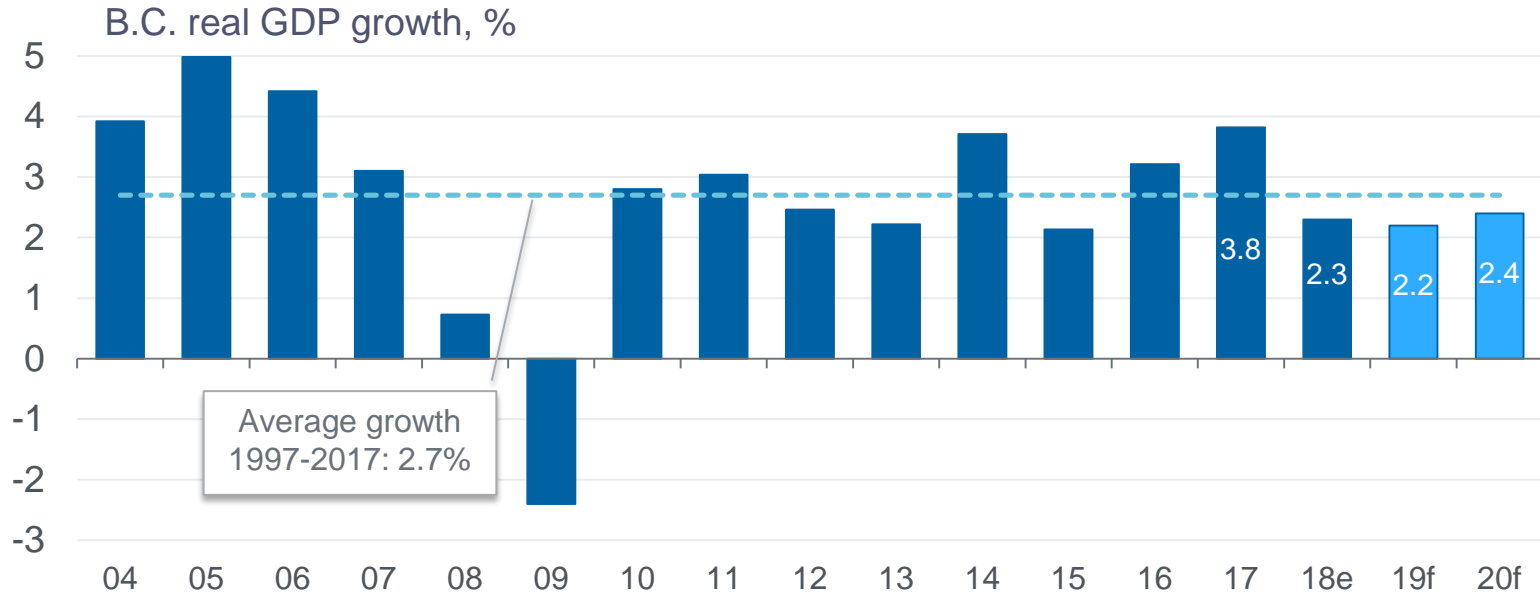
Latest: January 2019

Source: Bank of Canada, noon rate.

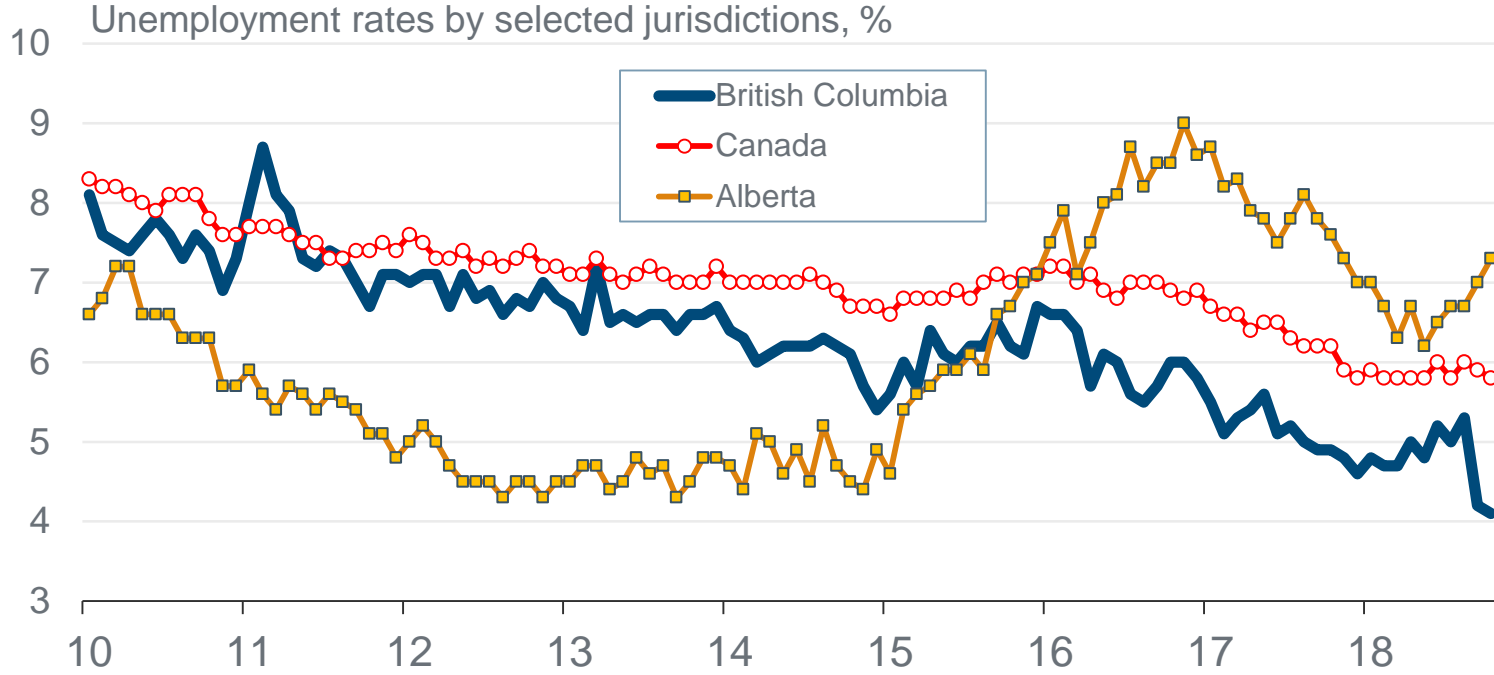
CANADA: IMMIGRANT ARRIVALS*





DOWNSHIFT EXPECTED IN B.C. FOLLOWING A PERIOD OF STRONG ECONOMIC GROWTH



B.C. HAS THE COUNTRY'S LOWEST UNEMPLOYMENT RATE





“The only function of economic forecasting is to make astrology look respectable”

John Kenneth Galbraith

B.C. ECONOMIC OUTLOOK (BCBC FORECAST)

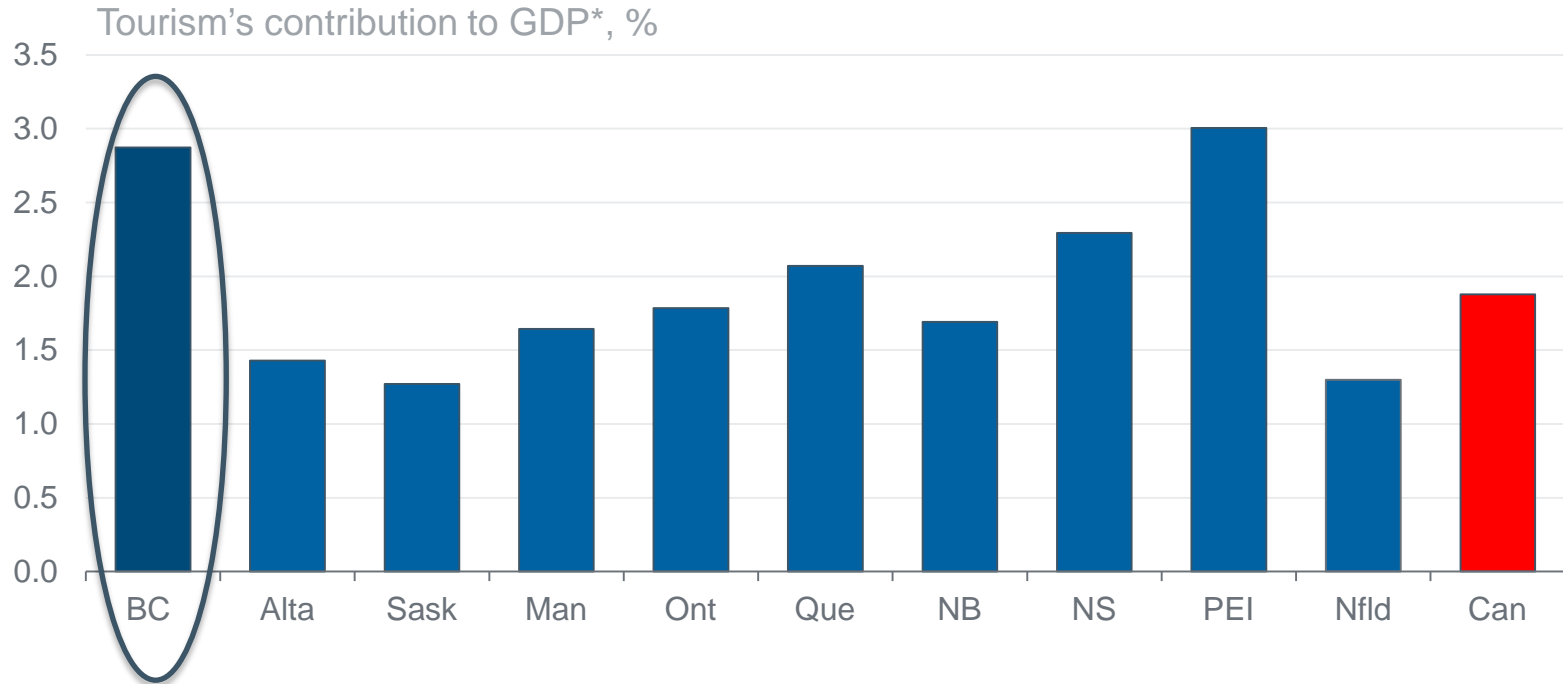
(ANNUAL % CHANGE UNLESS OTHERWISE INDICATED)

	2017	2018	2019f	2020f
Real GDP	3.8	2.3e	2.2	2.4
Employment	3.7	1.1	1.2	1.0
Unemployment rate (%)	5.1	4.7	4.4	4.6
Housing starts (000 units)	40.1	41.0	36.0	37.0
Retail sales	9.0	2.4	4.0	3.9
B.C. CPI	1.7	2.7	2.3	2.2

e – estimate f – forecast

Source: Statistics Canada and BC Stats; Business Council for forecasts.

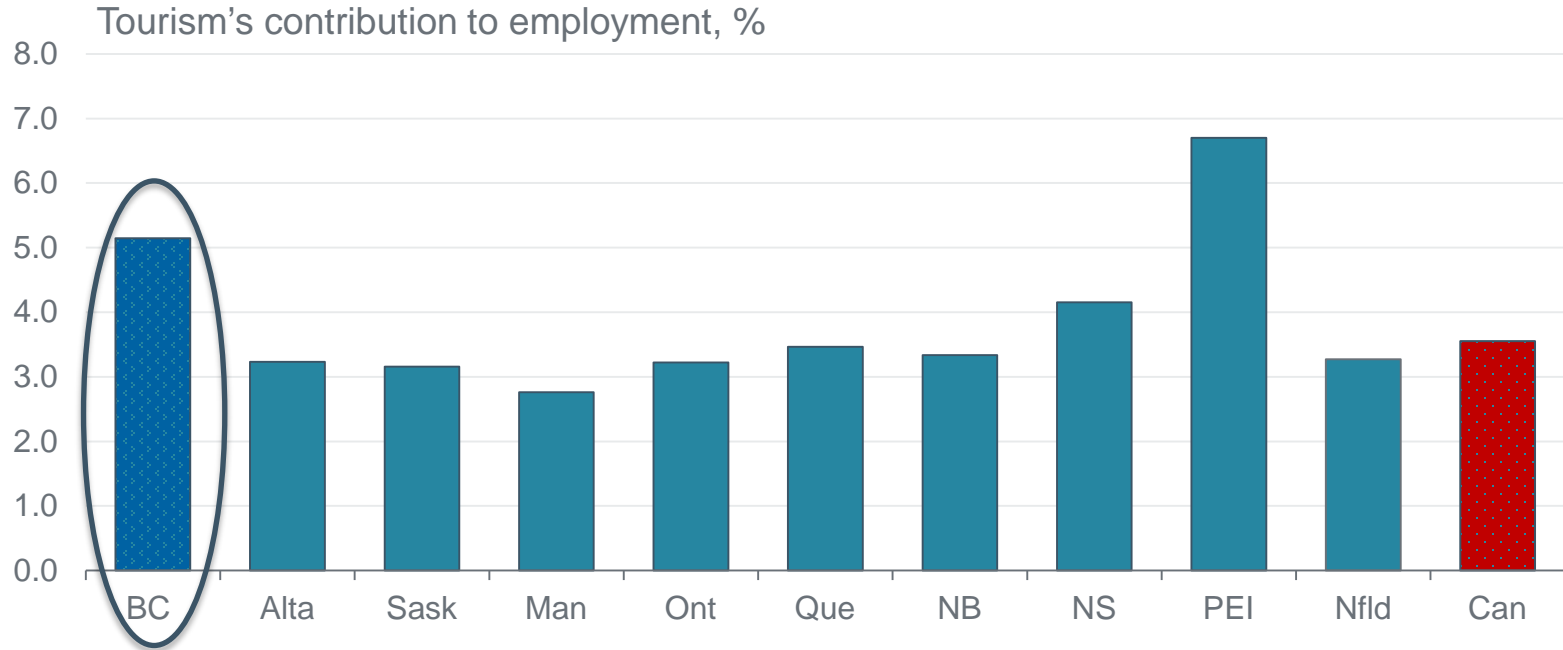
TOURISM MORE IMPORTANT IN B.C. -- GDP



Source: Statistics Canada, Provincial and Territory Tourism Satellite Account.

*2014 contributions.

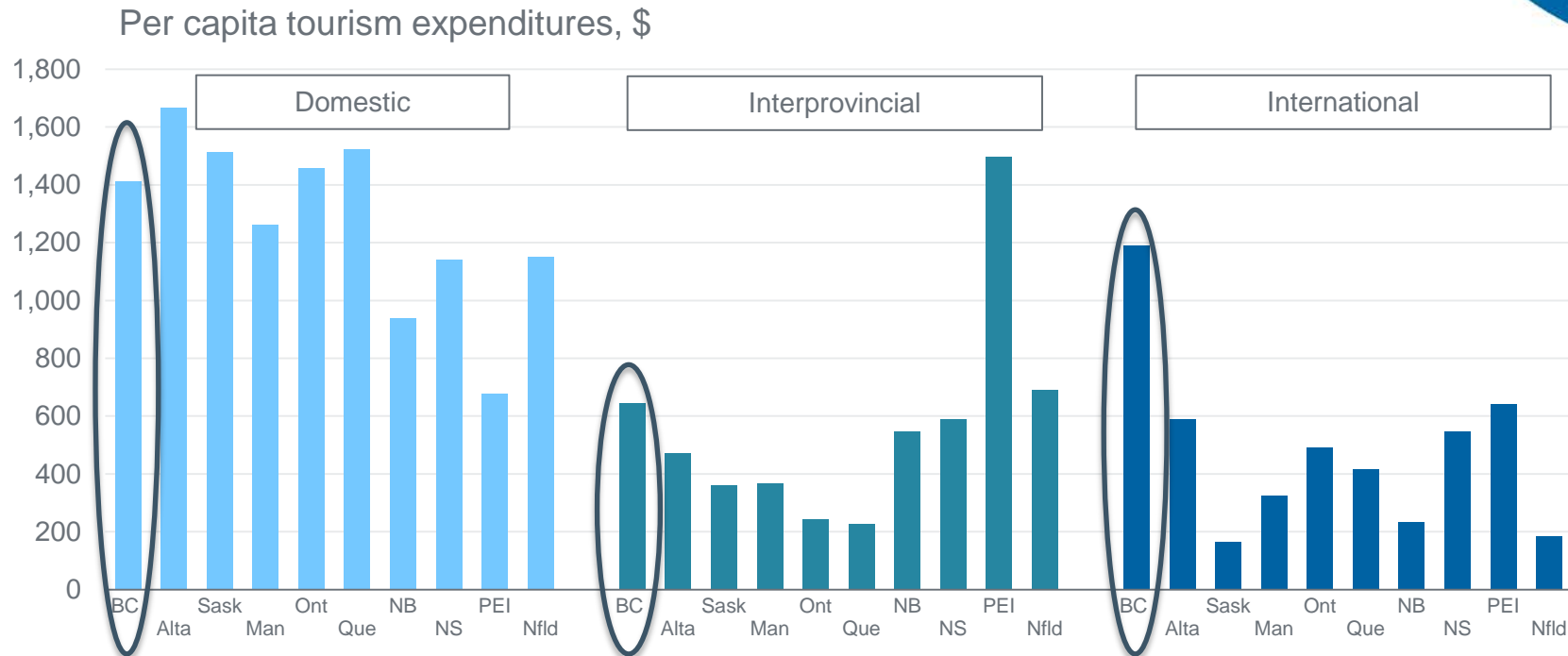
TOURISM MORE IMPORTANT IN B.C. – EMPLOYMENT



Source: Statistics Canada, Provincial and Territory Tourism Satellite Account.

*2014 contributions.

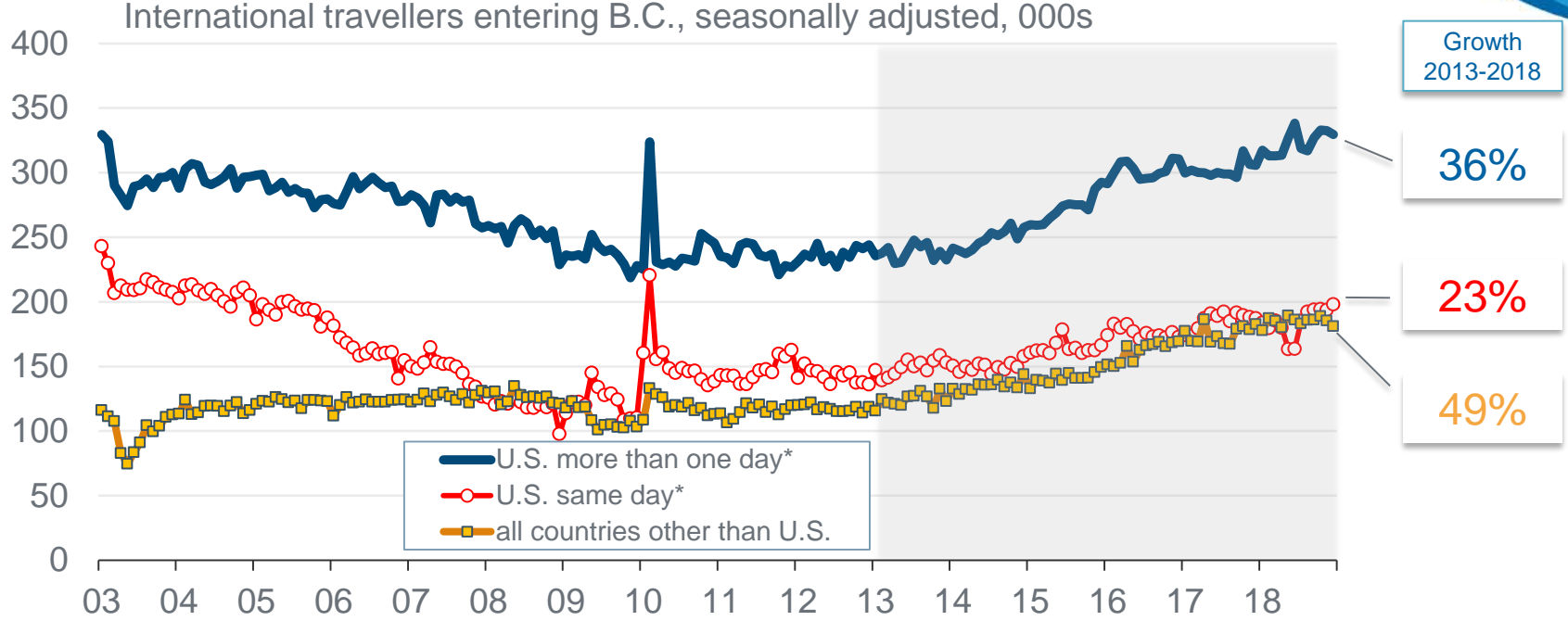
INTERNATIONAL TOURISM A BIG CONTRIBUTOR FOR B.C.



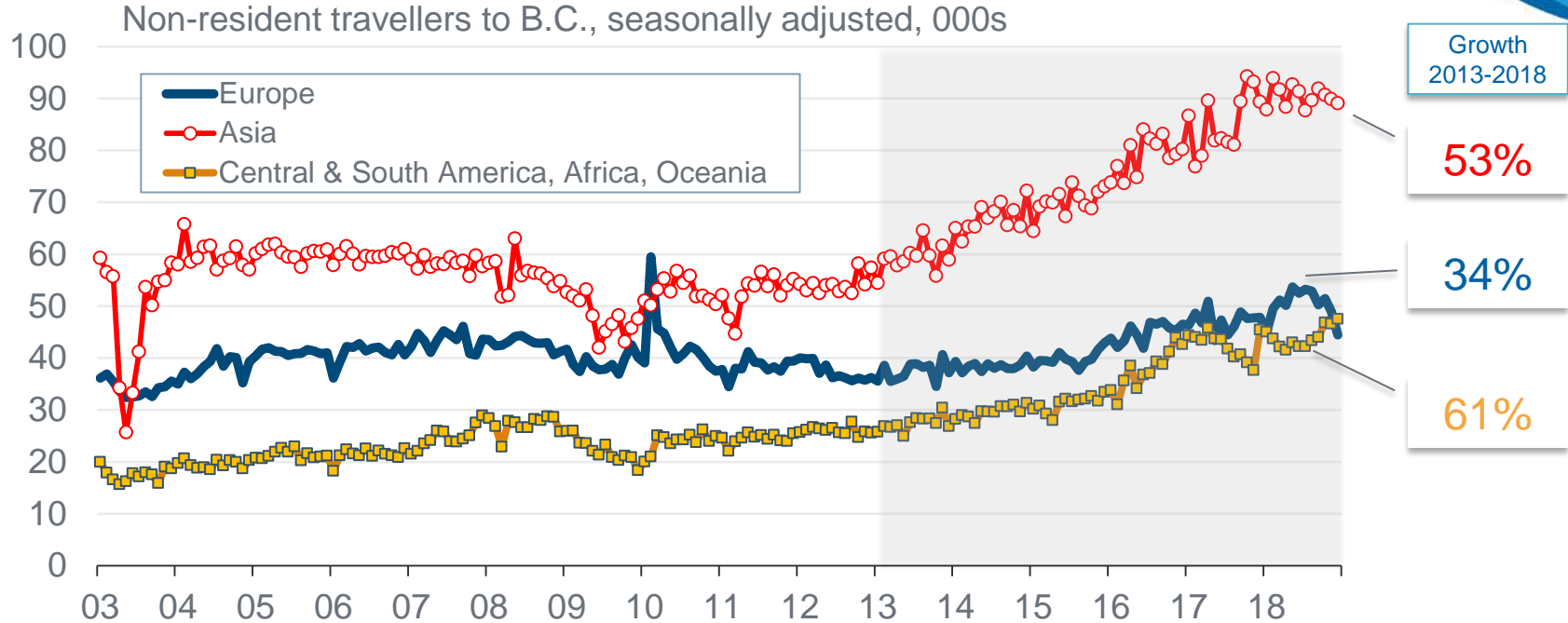
Source: Statistics Canada, Table 24-10-0004-01.

Note 2014 estimates

LOTS MORE INTERNATIONAL VISITORS



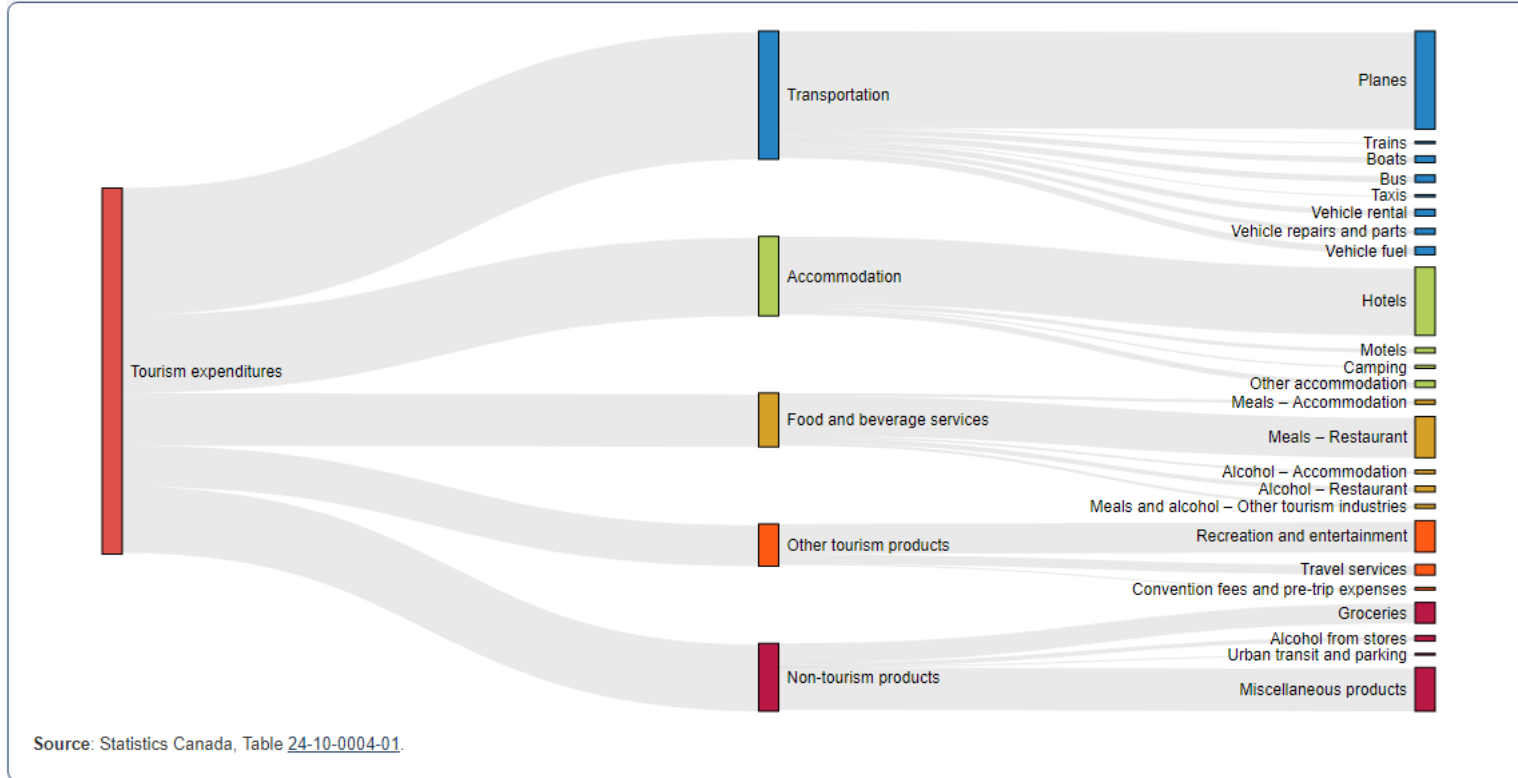
LOTS MORE INTERNATIONAL VISITORS (CON'T)



Latest: December 2018.

Source: Statistics Canada, Table: 24-10-0006-01.

A CLOSER LOOK AT INTERNATIONAL TOURISM EXPENDITURES IN B.C.



BUSINESS AND POLICY CHALLENGES FACING THE TOURISM SECTOR

- Attracting/retaining workers amid a tight labour market – one that's expected to remain tight going forward
- Escalating government-determined costs imposed on B.C. businesses (corporate income tax, property tax, the new Employer Health Tax, carbon tax, rising CPP premiums, higher statutory minimum wage, etc.)
- The impact of the ongoing Canada-China diplomatic and political spat as well as the threat of escalating US-China commercial and geopolitical tensions