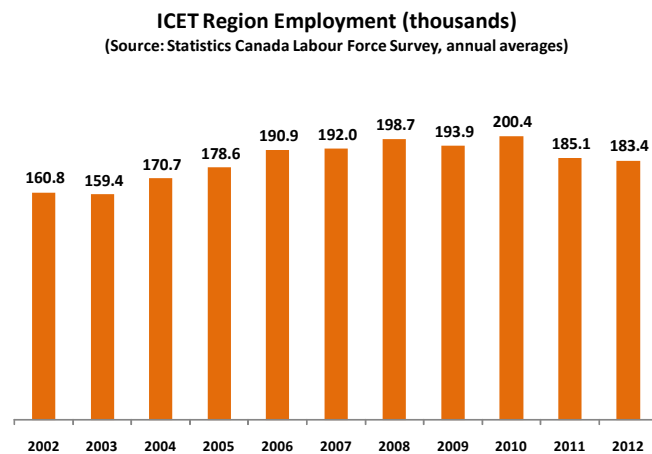


ECONOMIC UPDATE FOR ICET REGION - JUNE 2013

This document contains slides from a presentation delivered to the Island Coastal Economic Trust's Central South Island Regional Advisory Committee on June 7, 2013 in Ladysmith. An earlier version of the presentation was delivered to ICET's North Island - Sunshine Coast Regional Advisory Committee on May 10, 2013 in the Comox Valley.

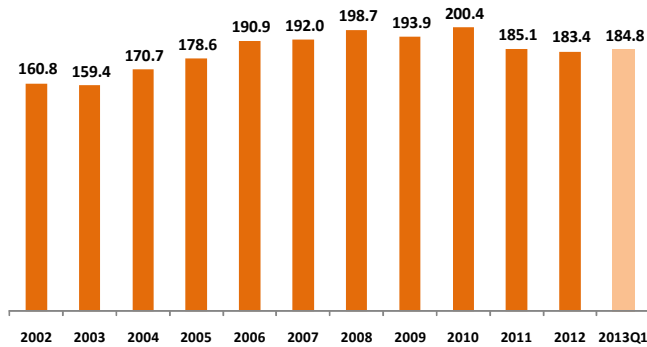


- The presentation is based on the annual regional economic update prepared by Jamie Vann Struth for ICET's Strategic Plan, as well as a presentation delivered to the ICET Board at their annual Strategic Planning session in January 2013.

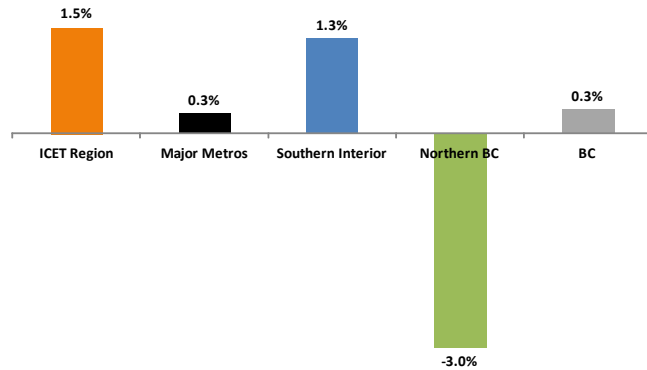


- Following the 2008-09 recession, the ICET region initially bounced back quickly with employment in 2010 reaching a new high of just over 200,000 jobs.
- Employment fell sharply in 2011, however, and remained depressed in 2012 at the lowest level since 2005.
- This data is based on Statistics Canada's monthly Labour Force Survey so there is a certain degree of random fluctuation in the year to year results. This might partly explain the strong results in 2010, but two consecutive years of poor employment figures in 2011 and 2012 strongly suggest employment challenges in the region.
- (Note this data set does not include the Sunshine Coast Regional District).

ICET Region Employment (thousands)
 (Source: Statistics Canada Labour Force Survey, annual averages)



Employment Growth, 2012-Q1 to 2013-Q1
 (Source: Statistics Canada)



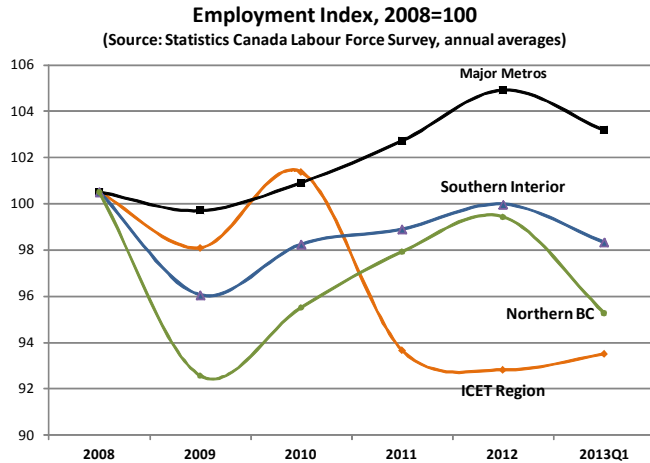
- Early results from the 1st quarter of 2013 provide hopeful signs of an employment recovery in the region.

- The recovery in the ICET region's employment over the last year is the strongest in the province, but the trend needs to be sustained over a longer period before there is definitive evidence of a recovery.

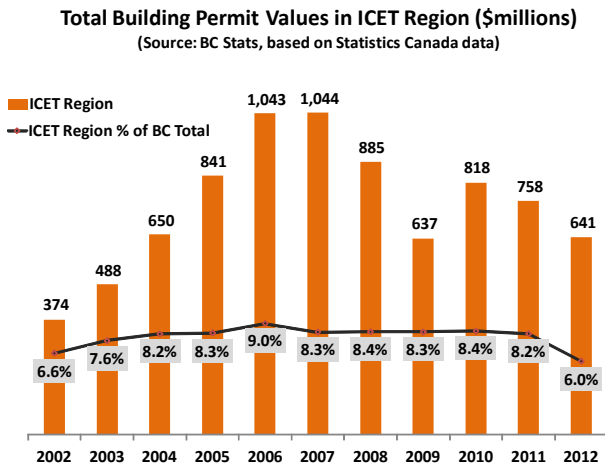
- Statistics for the ICET region are compared to other major BC regions throughout the presentation.

- **Major Metros** includes the Lower Mainland and Greater Victoria.
- **Southern Interior** is the Kootenay and Thompson/Okanagan regions while
- **Northern BC** is the North Coast, Nechako, Cariboo and Northeast regions.

(Note these boundaries vary somewhat depending on the data source).

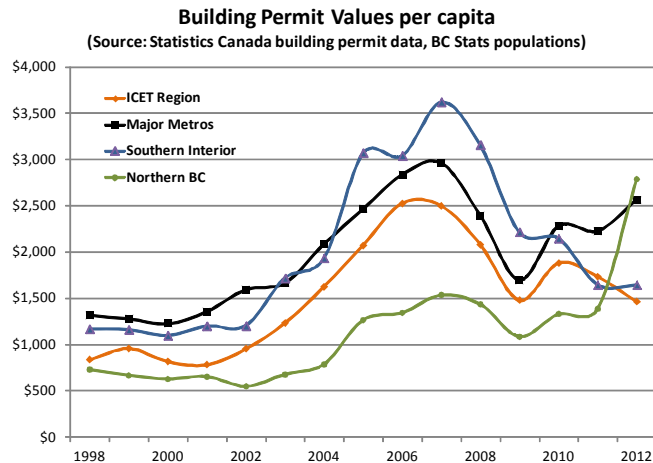


- The post-recession employment recovery in the ICET region in 2010 was stronger than any other region, but now employment is more than 6% below 2008 levels, worse than any other region.
- Only the Major Metros region currently has higher employment than in 2008 - the rest of the province is still recovering.

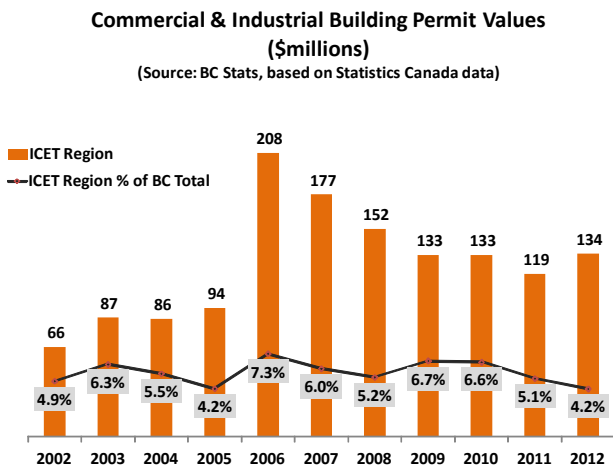


- Building permit values show a similar pattern as employment in the ICET region in the last few years. There was a sharp drop in the recession year of 2009, followed by a strong recovery in 2010 but then continued decline the last two years.
- The overall level of development is now significantly below the peak years of 2006 and 2007 when more than \$1 billion in building permits were issued in the region. The percentages shown in the chart are the ICET region's share of the BC total. The share was remarkably consistent between 8% and 9% for 8 consecutive years from 2004 to 2011 before dropping in 2012. (For reference, the ICET region's share of provincial population is just under 10%).

(This data set includes the Sunshine Coast).

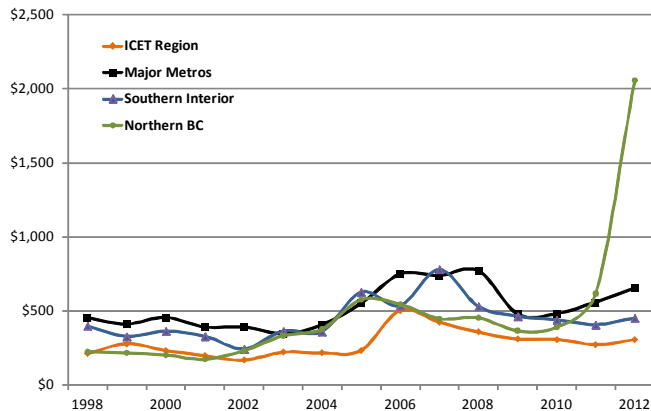


- Per capita data provides an easy way to compare across regions.
- All BC regions have followed a similar pattern over the last 15 years, with the ICET region consistently ranking 3rd behind the Major Metros and the Southern Interior but ahead of Northern BC.
- 2012 saw a significant spike in building permit values in Northern BC that relegated the ICET region to last place for the first time in at least 15 years.



- Focusing only on commercial and industrial investment, the 2006-2007 period is the high point over the last decade but the post-recession decline was gradual compared to the much sharper drop in residential development. Investment recovered in 2012 to its highest level since 2008.
- The ICET region has consistently had a lower share of BC's commercial and industrial investment than its share of residential investment. Even though the ICET region saw a healthy increase in commercial/industrial activity in 2012, its provincial share continued trending down due to the more significant investment growth happening elsewhere in the province.

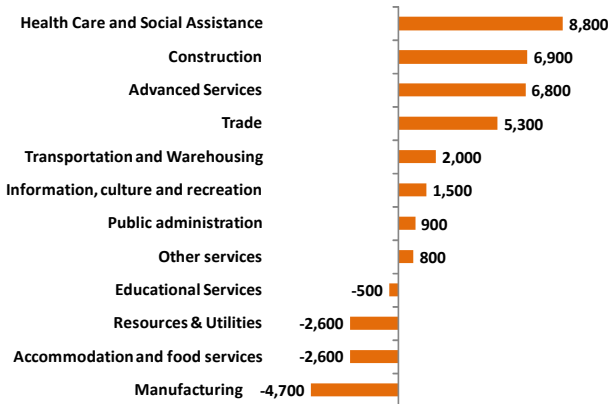
Commercial/Industrial Building Permits per capita
 (Source: Statistics Canada building permit data, BC Stats populations)



- The ICET region's share of BC's commercial and industrial building investment has consistently been the lowest of the four main regions.
- This chart shows the massive spike in investment in Northern BC in 2012.

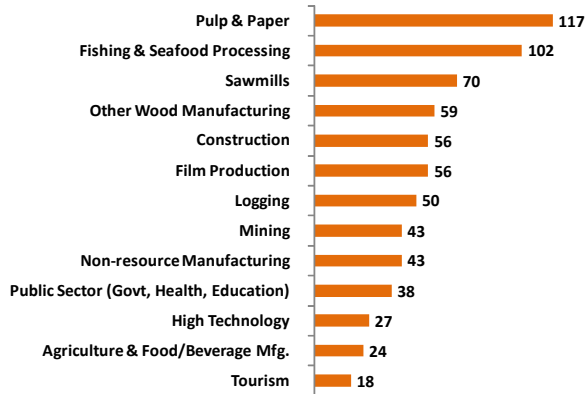
Employment Change in ICET Region, 2002-2012

(Source: Statistics Canada Labour Force Survey, annual averages)



- Regional employment was higher by 22,600 jobs in 2012 compared to a decade earlier.
- Health care and social assistance has the greatest increase, followed by construction and advanced services (which includes professional, scientific & technical services, as well as finance, insurance & real estate and building & other support services). Trade includes both retail and wholesale trade.
- Job losses have been concentrated in traditional resource industries like forestry and fishing; manufacturing (much of which is also related to resource industries, such as pulp mills, sawmills and fish processors); and the tourism-related accommodation and food services sector.

**Local Employment Multipliers (per 100 direct jobs),
Ladysmith Area, 2006 (Source: BC Stats)**

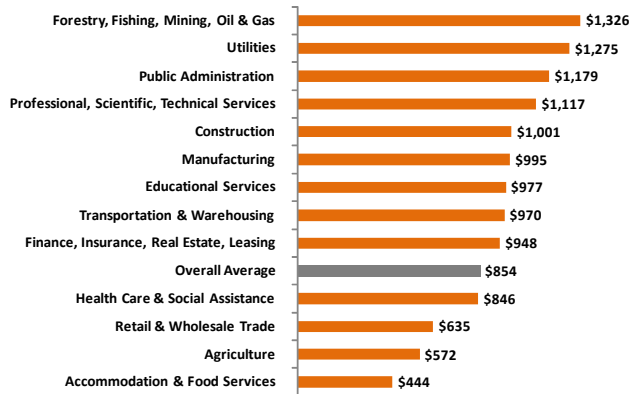


- Not all industries are created alike. This chart shows that job losses in traditional industries like pulp & paper, fish processing and wood manufacturing have a disproportionate impact on host communities and the broader region through the multiplier effect on supporting industries.
- Industries with larger multipliers also typically pay higher wages, which provides more local income to support shops and personal services. These industries have also been negatively impacted by job losses in traditional sectors.

(Note these multipliers are for the Ladysmith area, but they are similar for other communities in the region).

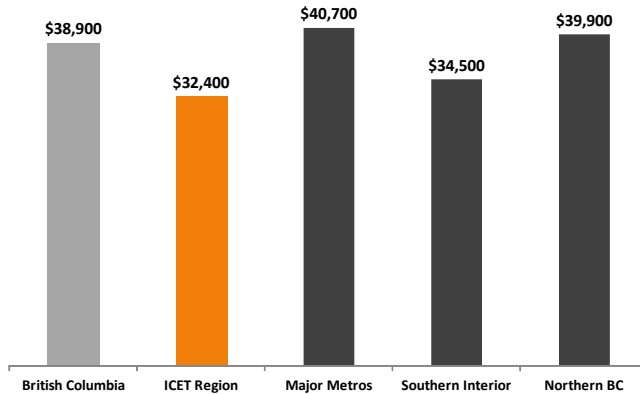
Average Weekly Wages by Sector in BC, 2012

(Source: Statistics Canada Labour Force Survey)



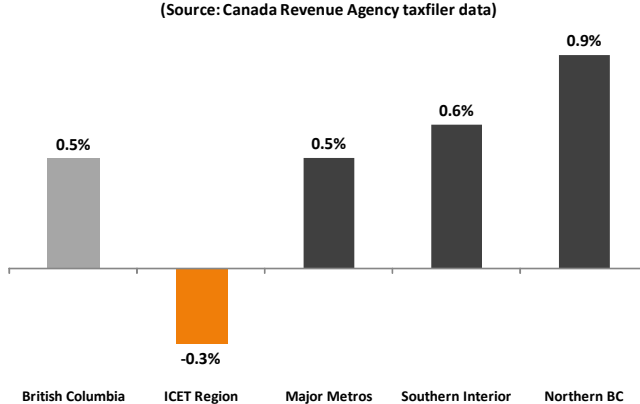
- Some of the sectors that have lost the most jobs in the region are also among the highest paying.

Average Employment Income, 2009
(Source: Canada Revenue Agency taxfiler data)



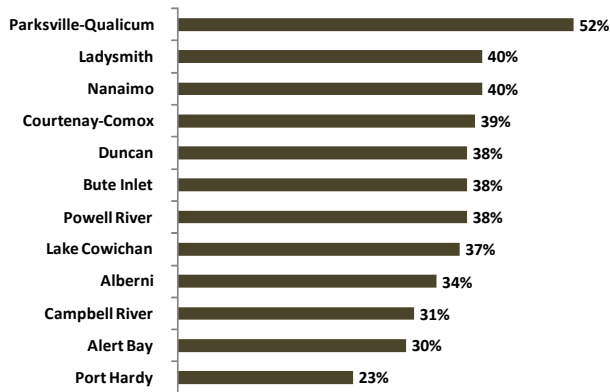
- Average employment incomes in the ICET region are significantly below the provincial average and lower than other BC regions.
- This data is based on actual income tax returns and covers all types of employment, including part-time and seasonal.

Annual Change in Average Real Employment Income, 2000-2009
(Source: Canada Revenue Agency taxfiler data)



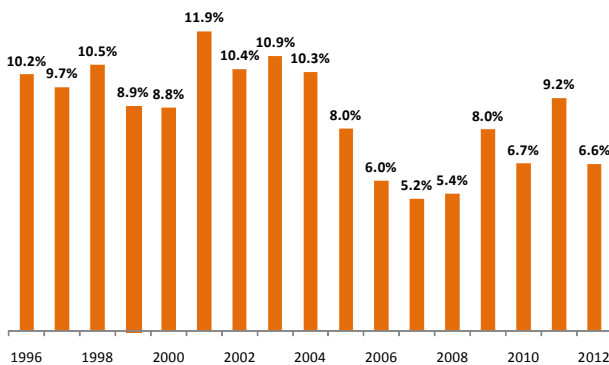
- The average employment income in the ICET region declined by an average of 0.3% *per year* from 2000 to 2009.
- This reflects the fact that most of the job losses sustained in the region were in higher-paying sectors while growth has occurred in lower-paying sectors.
- The Southern Interior and especially Northern BC have seen growth in high-paying resource sectors over the last decade, particularly mining and oil and gas. The ICET region has not benefited from a similar emerging high-wage sector to replace declining industries.

**Dependency on Non-Employment Income Sources,
2006 (Source: BC Stats)**



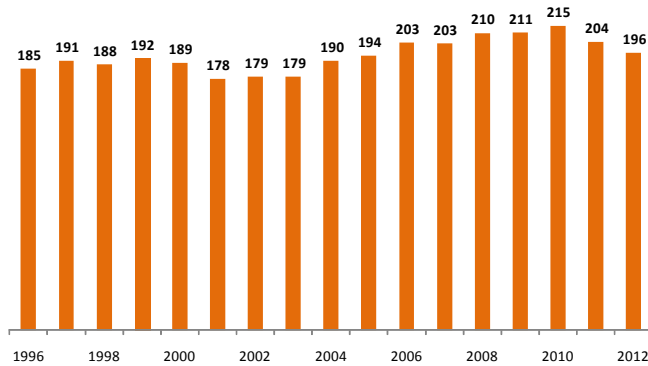
- Communities also benefit from non-employment income sources, such as pensions, investments and government transfers.
- The level of non-employment income is closely related to the retiree population, which explains why the Parksville-Qualicum area receives the majority of total community income from non-employment sources. Other mid-Island communities like Nanaimo, Duncan, Ladysmith and the Comox Valley also rank highly while smaller and more remote communities in the north of the region and west coast are more reliant on employment income.
- Note this data is from 2006 and the share of non-employment income has likely increased in most communities. (The data required to update this analysis is not released by Statistics Canada until August 2013).

**ICET Region Unemployment Rate
(Source: Statistics Canada Labour Force Survey, annual averages)**

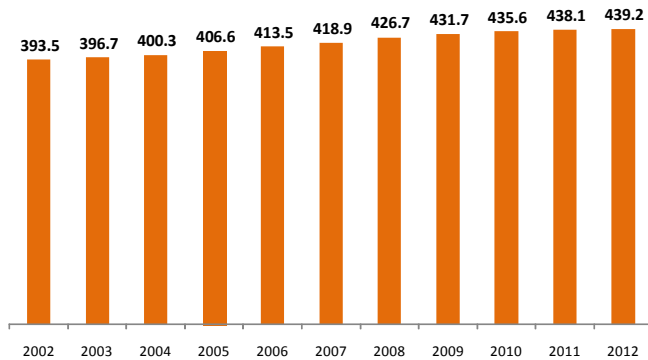


- Despite a small decline in regional employment in 2012, the unemployment rate in the ICET region dropped by 2.6 percentage points.
- This can occur only if the size of the regional labour force is shrinking.

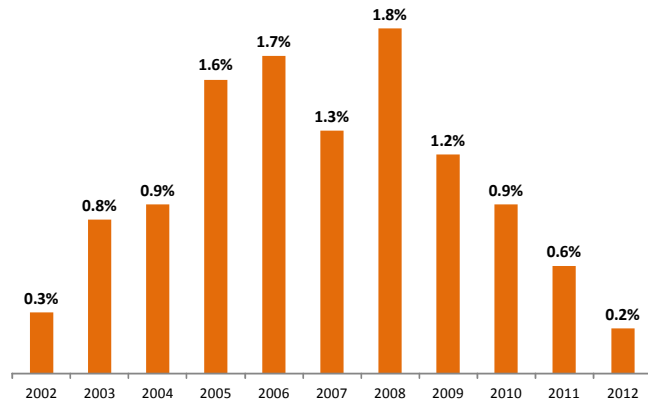
ICET Region Labour Force (thousands)
(Source: Statistics Canada Labour Force Survey, annual averages)



ICET Region Population Estimates (thousands)
(Source: BC Stats)



Estimated Population Growth in ICET Region
(Source: BC Stats)

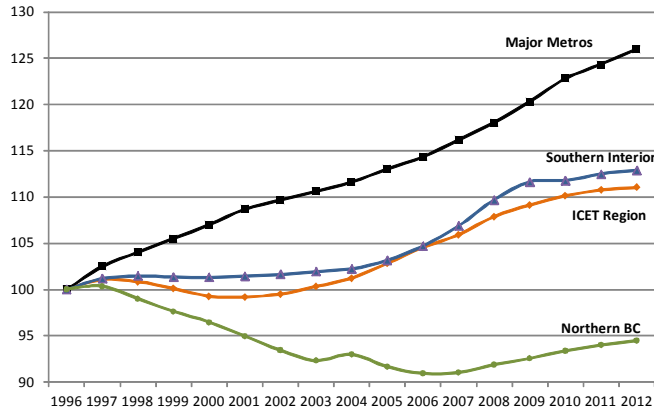


- From 2010 to 2012 nearly 20,000 people left the regional labour force (meaning they were not employed and were not seeking work).
- It is normal for the labour force to shrink during challenging economic conditions as some people will return to school or take early retirement or otherwise stay out of the labour force. But it may also indicate that working-age people are leaving the region to seek employment opportunities elsewhere.

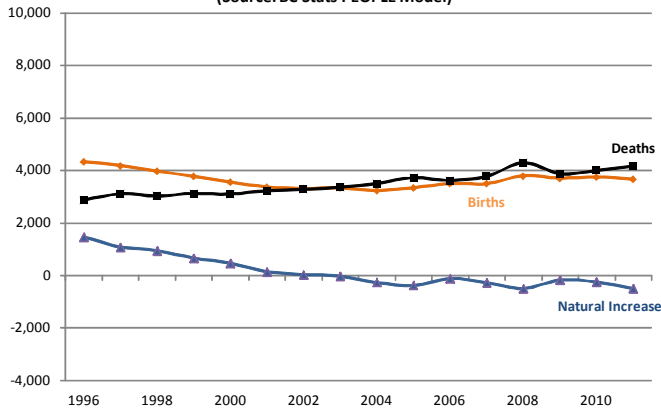
- The regional population is continuing to grow, according to BC Stats estimates, but the rate of growth is declining (see next slide).

- The rate of regional population growth declined in 2012 for the 4th consecutive year.
- The declining growth rate is probably related, at least in part, to the economic challenges in the region. With fewer quality job opportunities, fewer people will move into the region and more existing residents will move elsewhere.

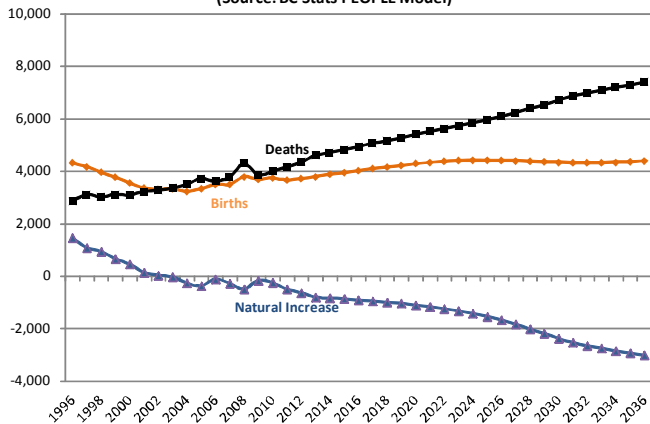
Population Estimate Index, 1996=100
(Source: BC Stats)



Components of Population Change, ICET Region
(Source: BC Stats PEOPLE Model)



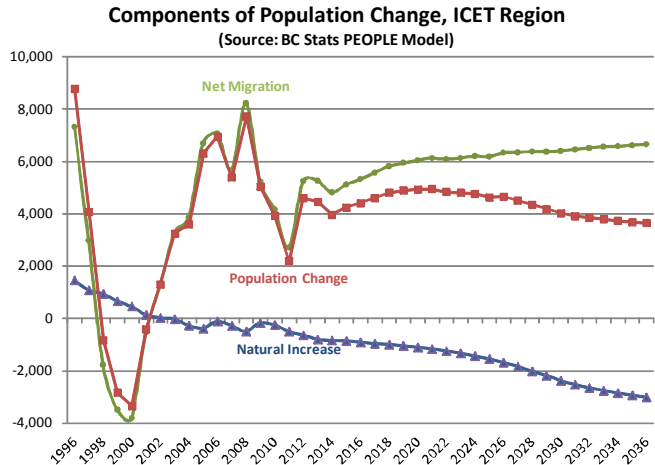
Components of Population Change, ICET Region
(Source: BC Stats PEOPLE Model)



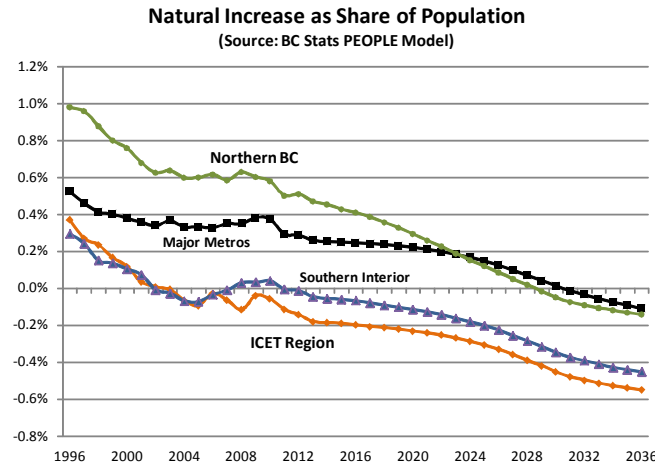
- Going all the way back to 1996, the pattern of population growth in the ICET region has tracked the Southern Interior quite closely.
- Long-term population decline in Northern BC has reversed over the last 5-6 years in response to emerging opportunities in that region.

- Natural increase is the difference between the number of births and the number of deaths and in the absence of migration, it determines whether a population is growing or shrinking.
- Natural increase turned negative in the ICET region in 2003 as the aging population caused an upward trend in the number of deaths relative to the number of births.
- This chart varies significantly across different parts of the region as some communities still have positive natural increase while others have been negative for decades.

- Continuing from the previous slide, this chart shows BC Stats projections for natural increase in the region through 2036.
- The number of births are expected to stay roughly constant at just over 4,000, but the number of deaths will continue to trend higher and consequently natural increase will continue declining to about -3,000 by 2036.

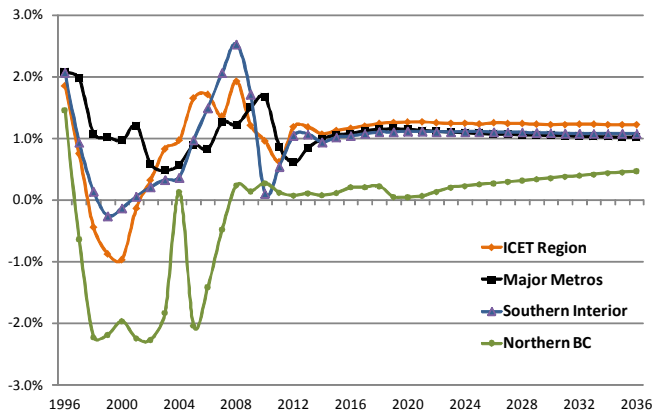


- With negative natural increase, the only way for the region to sustain or expand its population is through positive net migration.
- Other than a four-year period from 1998 to 2001, the ICET region has consistently had positive net migration that more than compensates for declining natural increase.
- This is projected to continue into the future, but there is no guarantee. The earlier discussion of employment challenges and declining population growth in the region confirms the importance of a healthy economy to ensure people in their prime working years (and prime child-rearing years) are attracted and retained in the region.



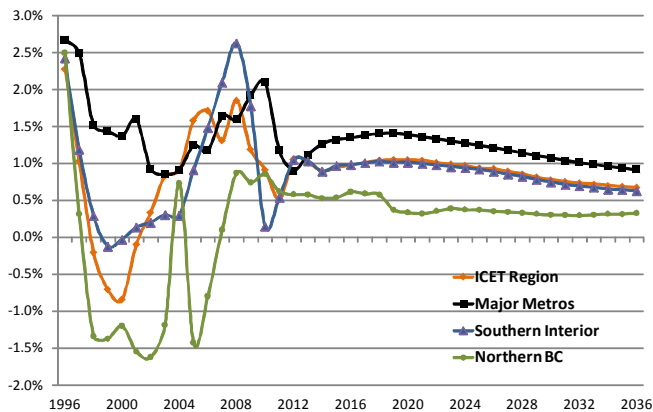
- Due to its older age profile, natural increase in the ICET region has been the lowest in the province for nearly a decade and is projected to remain the lowest.
- Younger populations in Northern BC and the Major Metros still have positive natural increase, but they are also aging and natural increase will eventually turn negative there as well.

Net Migration as Share of Population
(Source: BC Stats PEOPLE Model)



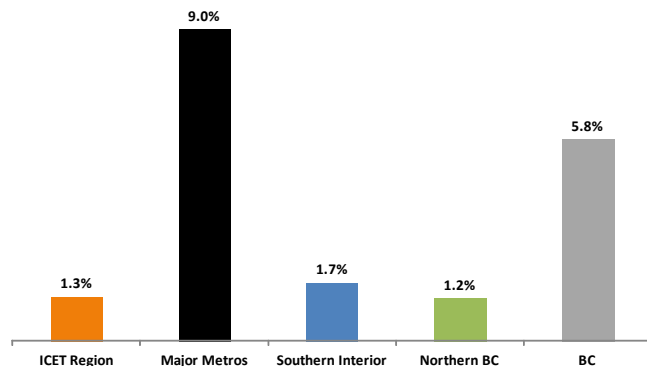
- As a share of the population, the ICET region has occasionally had the highest rate of net migration in the province and is projected by BC Stats to have the highest rate in the future.

Estimated and Projected Population Growth
(Source: BC Stats PEOPLE Model)



- The combination of the lowest natural increase and the highest net migration puts the ICET region in the mid-range of projected population growth in BC.

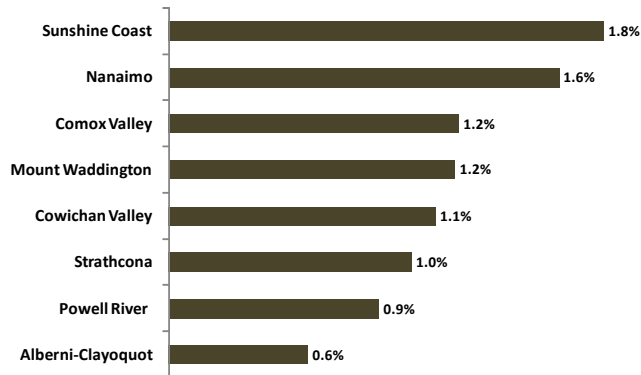
Immigrants in 2006-2011 as Share of 18+ Population, 2011
(Source: Statistics Canada)



- 5% of the BC adult population in 2011 were recent immigrants (since 2006), but international immigration is overwhelmingly concentrated in the Major Metros.
- Only 1.3% of the adult population in the ICET region were recent immigrants.
- Migration from elsewhere in Canada and elsewhere in BC is much more important for population growth in the ICET region. Data on these trends comes from Statistics Canada's National Household Survey and will be released in late June.

Immigrants in 2006-2011 as Share of 18+ Population, 2011

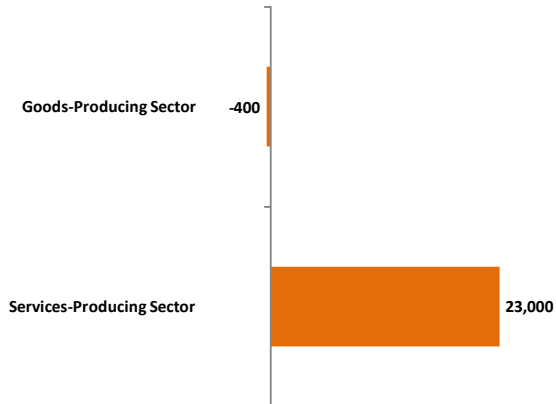
(Source: Statistics Canada)



- The Sunshine Coast and Nanaimo Regional Districts have a higher population share who are recent immigrants compared to other parts of the ICET region.

Employment Change in ICET Region, 2002-2012

(Source: Statistics Canada Labour Force Survey, annual averages)



- Returning to the issue of employment change, all of the growth in regional employment in the last decade has been in services.
- Goods-producing sectors include those suffering major job losses (resource industries and manufacturing) as well as strong growth in construction.
- The final few slides provide some commentary on the currently outlook for some of the region's major sectors.
- The forest sector is unlikely to ever provide the mass employment of years past, but there are positive trends that suggest better performance over the next decade.

Forest Sector

- Encouraging growth in Asian exports
- Poised to benefit from continued Asian growth & US housing recovery
- Specialty products (higher value) increasingly the focus
- Labour shortage a potential constraint

Tourism

- US market down
- Asian market a challenge outside Vancouver/Victoria/Whistler
- Regional market is lower-spending, transportation challenges to Island
- Remains key strength of regional economy, even if mostly lower-paying

- Tourism has also faced a series of challenges over the last decade, but it remains one of the core strengths of the regional economy.
- Transportation challenges remain significant, particularly ferry service not just to Vancouver Island but also the many Gulf Islands and the Sunshine Coast and Powell River areas.

Agrifood

- Growing interest in Island-produced food
- Farm production lags rest of BC/Canada
- Significant value creation requires more “business” farming, less “hobby” farming
- Also significant growth potential for seafood products

- Agrifood, including food processing, beverage manufacturing (distilleries, wineries, craft breweries) and seafood, is a growing sector.
- Like most growth sectors, it will not be a major employer in most cases, but there is significant potential to increase the intensity of food production on the land base and create very high-quality, high-value products for Island consumption and exporting.

Construction / Real Estate

- Building permits down
- Recreational market relatively expensive (compared to Arizona, for example)
- Amenities should attract people, but need strong economy too

- Construction has been one of the bright spots in the regional economy in the last decade.
- Building permits have declined most severely in the residential category and the outlook over the next 3-5 years is not very promising given tepid population growth and competition in the recreational/retirement market. Over the longer term the natural attributes of the region should continue to support a strong construction/real estate sector.