

Regional Economic Analysis

Vancouver Island and Central/Sunshine Coasts: Executive Summary

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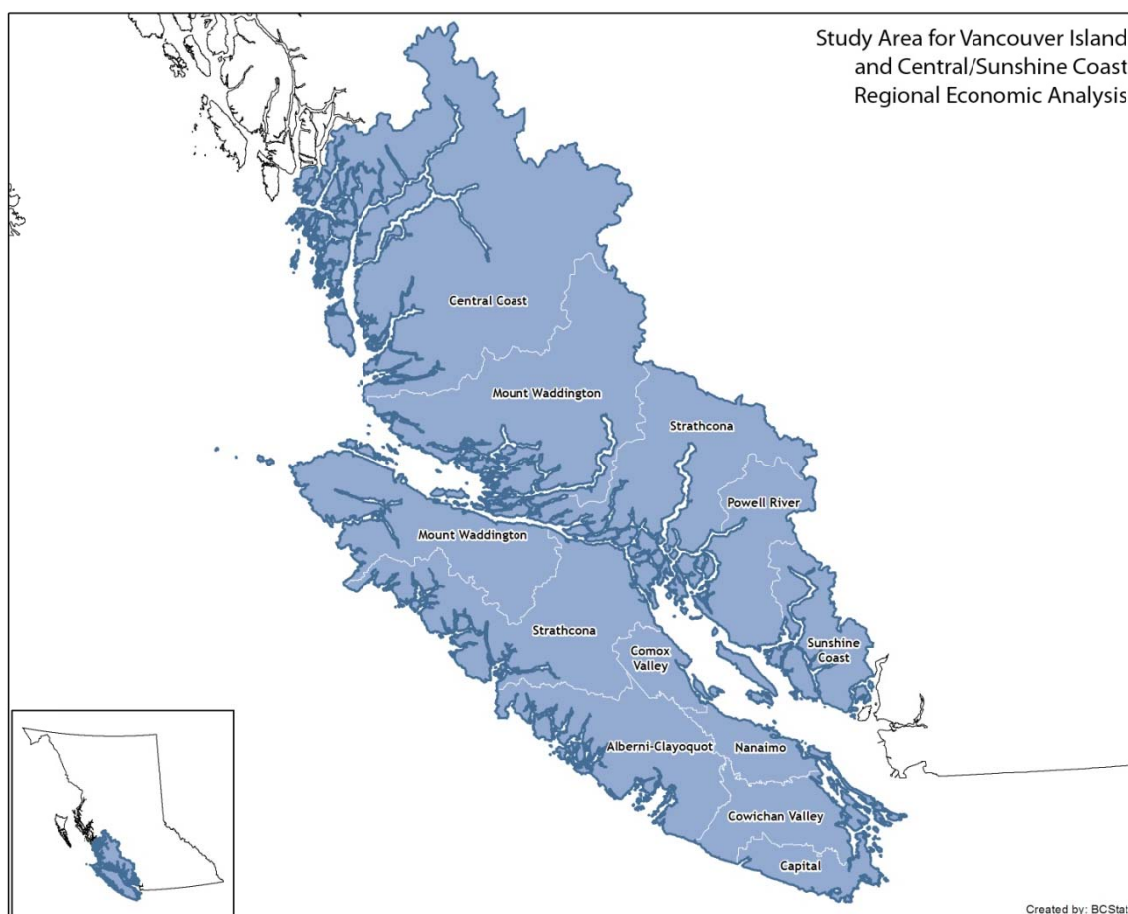
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BC Ministry of Housing and Social Development
Island Coastal Economic Trust**

EXECUTIVE SUMMARY

This report is a comprehensive examination of the economy of Vancouver Island and the Central and Sunshine Coasts of British Columbia. It profiles the main areas of economic activity in the region, the people who reside and work there, key trends that have occurred over the last 20+ years, and the key economic challenges and opportunities facing the region and its communities. Despite the financial crisis in the world economy that began in the fall of 2008, the ensuing recession will be temporary and will not fundamentally alter the long-run trends that are driving change in the regional economy.

OVERVIEW

The region accounts for nearly 10% of British Columbia's total land area and is incredibly diverse, ranging from the highly urbanized Victoria metropolitan area to the remote mountains and deep inlets of the central coast of the provincial mainland. It had a population of 755,181 in the 2006 Census, making it the second most populous of BC's eight regions. Population grew by 6% from 2001 to 2006, slightly above the provincial growth rate of 5%.



ECONOMIC TRENDS SUMMARY

- **Resumption of growth, but not equally distributed.** Over the last decade the Island/Coast region has recovered from the slow growth of the mid to late 1990s, but the growth performance of the 10 regional districts (RDs) in the study area varies significantly. The more urban and diversified southern areas (Capital, Cowichan Valley, Nanaimo, Comox Valley, Sunshine Coast) have grown more prosperous with higher levels of development, income and employment growth and each RD's population grew faster than the provincial average. The rest of the region is more remote and resource-dependent and has had either slow or negative population growth.
- **Continued aging.** The region is continuing to age more rapidly than the province as a whole, contributing to declining labour force participation rates and difficulties finding high quality labour.
- **(Slight) declining status within BC.** The Island/Coast region has experienced slight but consistent slippage relative to other regions in the province. On most measures of growth, including population, employment and building permits, the region's provincial ranking is lower in the most recent time period than in the 1980s. Much of the Island/Coast's relative slippage in the provincial rankings has been due to the ascendancy of the Thompson/Okanagan region.
- **Continued strength in education.** More residents continue to acquire some form of post-secondary accreditation and the region remains ranked 2nd on this important measure.
- **Unemployment and social assistance rates down.** The unemployment rate and the percentage of the population receiving Employment Insurance benefits have both declined in absolute terms and relative to other parts of the province. The percentage of the population receiving Social Assistance has declined precipitously since the mid 1990s, largely due to an improving.

ECONOMIC DEVELOPMENT CHALLENGES

Based on analysis of the region's major economic sectors, 12 issues were identified that are pervasive across multiple sectors. They are not ranked as their importance varies based on sector and location.

- **Labour Shortages.** This is already a challenge for most sectors and the projected aging of the population is likely to make the problem even worse in the future. It affects not just the workforce, but also business owners who want to retire and have no one to take over their business. The problem is heightened by the migration of young adults away from non-urban parts of the region, a trend that will be difficult to reverse due to the lure of better employment and post-secondary opportunities in larger centres.
- **Population Diversity.** Not only is the population aging, but most population growth comes from people migrating to the region from elsewhere in BC, from across Canada and from locations around the world. This fact changes consumer preferences for everything from retail products to arts and culture activities, and requires employers to integrate workers from diverse backgrounds.
- **Housing Costs.** Housing costs are closely related to labour shortages as the high cost of housing is often a major barrier to the attraction of skilled workers and also affects the attraction of retirees.
- **Transportation Costs and Accessibility.** The geographic fact of the region is that it is separated from the mainland of North America by water and/or mountains, meaning sea and air travel are the only alternatives for moving people and goods into and out of the region.
- **Climate Change.** Increasing public concern about the effects of climate change is a factor driving changes in everything from demand for new consumer products to interest in locally produced food to the development of new, cleaner sources of energy. This issue creates both challenges and opportunities.

- **Innovation.** Continued improvements in standard of living are possible only if workers become more productive, meaning they produce greater economic value on a per-person basis. Minor improvement can be achieved by working harder, but most of the improvement comes from working smarter and with better tools. Yet Canada’s investment in machinery and equipment per worker is about 20% lower than the G7 average and BC’s investment is 15% lower than the Canadian average. The ultimate result is that Canadian workers earn less than American workers, BC workers earn less than Canadian workers, and Island/Coast workers earn less than average BC workers. Island/Coast workers have fewer productivity-enhancing tools at their disposal, or work in industries and locations that are, on average, less productive than elsewhere in North America.
- **Scale.** This is a common challenge for companies in many sectors of the regional economy as they are too small to effectively sell into export markets, have fewer resources to train their staff, are unlikely to possess expertise in all aspects of running a business (e.g., operations, sales, marketing), and have fewer resources to invest in productivity-enhancing machinery and equipment.
- **Land Use Conflicts.** A resource-rich and spectacular natural environment is the bedrock of many of the region’s economic opportunities. This can lead to conflicts, particularly between resource users (logging companies, mining companies, aquaculture operators, run of river power developers) and those who use the land for tourism or recreation and would prefer to see it left in pristine, natural condition.
- **Policy Issues.** The policy issues that create challenges for the region’s future economic development are mostly specific to individual sectors and are especially common in the resource sectors, including forestry, fishing and aquaculture. The challenge is getting the right policies in place to assist economic development while at the same time ensuring other social values (e.g., environmental) are upheld.
- **Export Markets and Market Access.** The economic base sectors in the study region (e.g., forest sector, fishing and aquaculture, mining, manufacturing, high technology) are largely export-oriented. They require open access to international markets, especially the United States, and benefit from a favourable exchange rate that makes Canadian products relatively cheaper than competing international products.
- **Health Care and Education.** Health care and education are large economic sectors and employ tens of thousands of people in the region. But they also play a vital role in supporting other economic sectors and ensuring that communities remain viable locations for business investment.
- **Quality of Life.** Entrepreneurs in a wide variety of sectors, from small manufacturers to professionals, choose to operate their businesses in the region due to the quality of life. Preserving the attractiveness and affordability of this lifestyle is therefore an ongoing concern for economic development.

IMPLICATIONS AND FORECASTS

Based on recent trends and competitive analysis, the forecasted growth of each sector is summarized below.

POTENTIAL FOR FAST GROWTH

- **High Technology** is likely to continue its recent history of rapid growth.
- **Professional, Scientific and Technical Services** has also grown quickly, driven in part by the influx of “lone wolves”, who are pre-retirees with a professional background who continue working on their own terms.

SLOW TO AVERAGE GROWTH

- **Tourism and Arts and Culture** are likely to see slow growth as their fortunes are related to the strength of the North American economy overall.

- **Transportation and Warehousing** should have at least some growth from the expected increase in visitors, combined with significant planned investments in airports and harbours.
- **Health Care and Social Assistance** expansion will be driven by a growing and aging population.
- **Public Administration** will also continue to grow along with population.
- **Retirement Living** will be the source of much of the expected increase in population.
- **Agriculture and Food** has strong growth potential from consumer demand for quality, locally-grown food.
- **Fishing and Aquaculture** also meets local food demand and the commercial fishery is successfully diversifying into new species and value-added products.
- **Retail and Wholesale Trade** should expand along with population growth, but the sector has already shown significant growth in recent years and may therefore be relatively flat in short-term job growth.
- **Finance, Insurance, Real Estate, Management & Administration** will likely lose some jobs in real estate from the slowdown in housing development, but there will be expansion in population-serving businesses like banks and insurance agents.

HOLDING STEADY

- **Education** is likely to see continued shrinkage in primary/secondary school employment as enrollments decline, but post-secondary education is poised for more growth in the years to come.
- **Mining** has some growth potential through new mines and expansion of production at existing mine sites, but the slowdown in the global economy has dampened market demand and there remain significant obstacles to new mine development, including public sentiment and environmental approvals.

UNCERTAIN PROGNOSIS

- **Utilities** is highly uncertain – there could be significant growth in the development of independent power projects (e.g., wind power, biomass, run of river, tidal), or relatively few projects could come to fruition in the next five years.
- **Non-Resource Manufacturing** is a very diverse collection of activities and is therefore difficult to evaluate. It should be sensitive to the downturn in the economy but it is driven by committed entrepreneurs and small business owners who may have secure clientele and will continue to expand.

DECLINING (AT LEAST IN THE SHORT TERM)

- **Construction** will decline from the record highs achieved across much of the region in recent years. It is a cyclical sector and with the downturn in the housing market and the economy generally will have lower levels of employment and economic activity in the next few years.

FOREST SECTOR

The forest sector is a special case due to its importance to the regional economy. The long-term trend is for declining employment and there have been significant recent job losses from mill closures and the loss of logging contractors. The sector's prognosis in the next five years is uncertain, but over time, there will be a transition to a permanently smaller forest sector.

The coastal forest sector has a viable future, but it will not provide significant employment dispersed in communities throughout the region. It will likely be divided into (1) fewer, larger and super-efficient mills producing commodity products with relatively few workers and likely located in larger, more centralized locations in the region, and (2) smaller, more entrepreneurial wood products manufacturers, located in communities anywhere in the region, that produce higher-value products for sale to markets around the world, and also employ relatively few workers. The biggest threat to this future is that conditions never sufficiently improve for the badly needed investment in mills, which at their current rate of reinvestment will become totally obsolete in the foreseeable future.