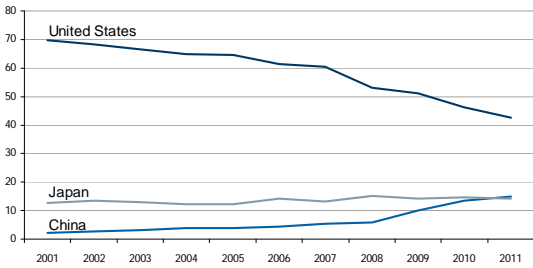
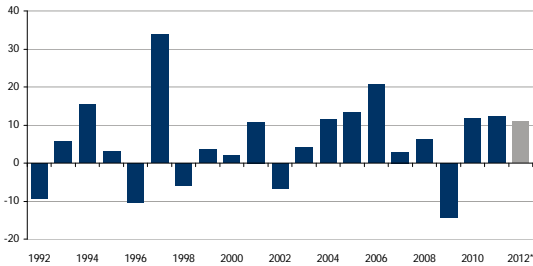


B.C. export shares by country of destination
% of total merchandise exports



Source: B.C. Stats., RBC Economics Research

B.C. private non-residential capital expenditures
% change, year-over-year



Source: Statistics Canada, RBC Economics Research
*Intentions.

British Columbia forecast at a glance

% change unless otherwise indicated

	2010	2011F	2012F	2013F
Real GDP	3.0	2.4	2.6	2.9
Employment	1.7	0.8	1.4	1.5
Unemployment rate (%)	7.6	7.5	6.7	6.6
Retail sales	5.3	2.3	4.2	4.4
Housing starts (units)	26,479	26,400	26,800	27,000
Consumer price index	1.4	2.3	1.6	1.3

Economic performance heading in the right direction

We expect a modest improvement in British Columbia’s economic performance in 2012. The provincial economy will build on export gains that it made in fast-growing Asian markets last year and will welcome the onset of work on two new major projects: the large order for non-combat ships from the federal government and modernization of the aluminum smelter in Kitimat. We expect these factors will boost growth slightly to 2.6% in 2012 from an estimated 2.4% in 2011. The benefits will be felt more fully in 2013, however, when we project growth to climb to 2.9%.

Building on gains in the Chinese markets

As noted in previous editions of *Provincial Outlook*, a key development in British Columbia’s economy last year has been the significant inroads by B.C. exporters (principally softwood lumber producers) into the fast-growing Chinese and South Korean markets. The success has been such that China surpassed Japan as the number two export destination in 2011 and further narrowed the gap with the United States. Although progress in exports to China has been somewhat uneven in the latter part of the year—in part due to uncertainty in the Chinese housing market—there remains tremendous potential to be tapped for B.C. producers of wood and, potentially, other products. We expect the province to make further headway this year and next. The encouraging signs that have started to surface in the U.S. economy also bode well for the B.C. exporters. Over the forecast, housing starts in the U.S. are expected to trend significantly higher in both 2012 and 2013.

Getting ready for the shipbuilding bonanza

It may not have been the marquis frigate contract (which went to the Irving shipyard in Halifax), but North Vancouver-based Seaspan Marine did very well last fall in being awarded the federal government’s \$8 billion order for seven non-combat ships. This order will represent a significant boost to shipbuilding activity in the province with work on Coast Guard and other vessels expected to start late this year or early in 2013 and take place during an eight-year period. There will be some benefits felt this year, as Seaspan Marine plans to spend \$160 million on readying its shipyard infrastructure in Vancouver and Victoria.

Large investment in aluminum production capacity

Another recently confirmed major project is the modernization of Rio Tinto Alcan’s aluminum smelter in Kitimat. The company plans to spend \$3.3 billion to improve the facility and to boost its capacity by 40% by 2014. This project is reflected in the large \$870 million increase (a 227% surge) in capital spending intentions by the primary metals industry shown in Statistics Canada’s P&PI report. This industry is among several others (including oil and gas, mining, and utilities) that plan further notable boosts to their capital expenditures in 2012. According to the report, total non-residential investment in the province is scheduled to rise by a solid 11.2%, which would be just a tad lower than the very strong 12.3% increase in 2011.

Fiscal restraint and moderating housing market to hold growth back

While British Columbia’s economy will get a lift from stronger exports and major projects, its overall growth will be held back by factors such as fiscal restraint and moderating housing market activity that will exert an opposing force.

Robert Hogue
Senior Economist

