

Provincial Pulse

December 5, 2005

British Columbia Profile — Economic View

The beat goes on

B.C.'s impressive economic expansion shows few signs of letting up. We expect that provincial real GDP growth will average around 3.8% in 2006, in line with the solid advances of the prior two years. This places the province well above the national average, though slightly behind Alberta's lead. The B.C. economy's consistently strong performance is being supported by continued strength in a number of key sectors such as construction, mining, including energy development and extraction, forestry, its strong trade ties to Asia, as well as its significant preparations for the 2010 Olympic Games.

'Olympic' construction boom to persist

The B.C. housing market remains in high gear. Starts through October were running slightly ahead of last year's 10-year peak, driven by a boom in multi-unit condo developments. Meanwhile, resale activity is up 9% this year to a new record. Home construction and sales are expected to remain buoyant in 2006, supported by continued solid job growth and net inter-provincial migration. Still, some moderation is likely ahead alongside rising cost pressures and reduced affordability. Average home prices in the province, already the highest in the country, are still rising at a double-digit annual rate amid tight supply conditions.

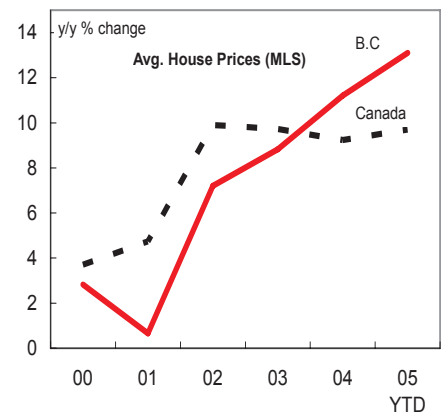
At the same time, non-residential construction activity is heating up. Falling vacancy rates, combined with an influx of firms associated with the upcoming 2010 Olympic games, are bolstering office market activity. The province's role as an important gateway to the Pacific Rim is fuelling distribution-related demand for storage, warehousing and transportation facilities. In addition, a number of significant infrastructure projects are under way.

Waiting for the games to begin

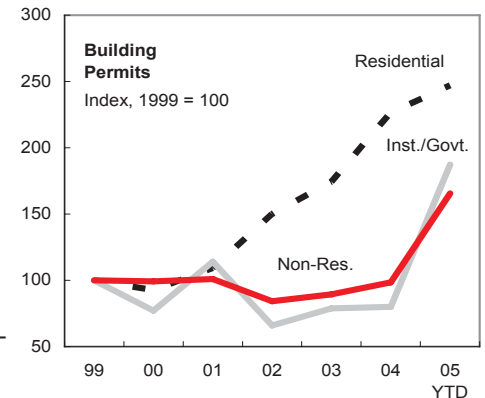
As the 2010 Olympics approaches, British Columbia's profile as a desirable tourist destination should steadily rebound. The marked slowdown in U.S. visitors to the province, a development felt across Canada alongside high gasoline prices and a weaker Canada/U.S. exchange rate, could persist as the U.S. imposes stricter border controls at the end of next year. However, not only is B.C. less dependant on U.S. tourists than other provinces, its tourism operators are in an enviable position to benefit from a potential ramping up of Chinese tourist arrivals in the coming years, with the expected granting of 'approved destination status' for Canada and the recent signing of a broadened bilateral air pact between the two countries. Cruise traffic is down in the province, in part due to increased competition from Seattle, but passenger levels should pick up significantly as larger Alaska-bound vessels dock in Vancouver in 2006, and the industry continues to expand.

British Columbia			
Population 2004:	4.2 mn (+1.1% y/y)		
Nom. GDP 2004:	\$157 bn (12% of national)		
Economic Outlook			
y/y % change unless otherwise noted			
British Columbia			
	04	05f	06f
Real GDP	4.0	3.8	3.8
Employment	2.3	3.2	2.4
Unemployment Rate (%)	7.2	6.0	5.6
Housing Starts (000s)	33	33	32
Canada			
Real GDP	2.9	2.9	2.8
Employment	1.8	1.4	1.3
Unemployment Rate (%)	7.2	6.8	6.6
Housing Starts (000s)	233	222	196

Housing gets more expensive



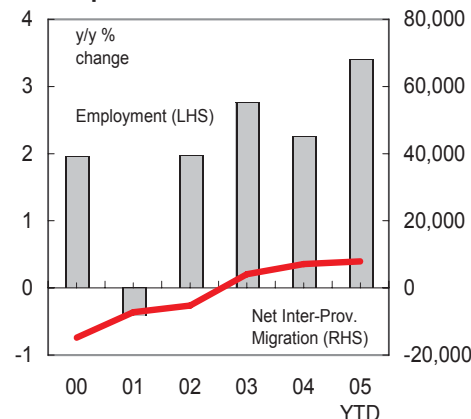
Construction is king



Too many jobs, not enough workers

Consumer spending in the province has lagged the extraordinary gains witnessed by its Western counterparts, with the 6% year-over-year increase in retail sales through September essentially tracking the national trend. Overall momentum should improve in 2006, supported by favourable demographics, the consistent strength of employment growth, and increasing wage gains. Provincial payrolls have increased close to 3½% in 2005, more than double the national advance. Hiring gains are being led by construction payrolls that have grown by an average of 4.5% a year since 2000. On the downside, this booming sector is contributing to the province's shortage of skilled labour, a development that will likely persist as the province embarks on a host of major infrastructure projects in the run-up to the 2010 Olympics. B.C. has experienced a steady net inflow of inter-provincial migrants since mid-2003 as Canadians increasingly head West in search of economic opportunity, but not enough to meet its labour needs. The province's unemployment rate has been trending steadily lower over the past two years, falling to a three-decade low of 4.9% in November.

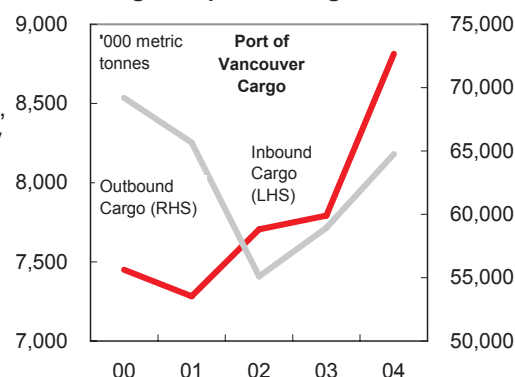
Help wanted



Gateway to the Far East

In 2000, trade with China made up barely 2% of the value of B.C.'s exports, but this has increased to over 4% by 2004 — still relatively modest, but nonetheless a two-fold increase in only four years. Tonnage at the Port of Vancouver, B.C.'s largest port, has been steadily increasing since 2002, mostly due to a sharp uptick in outbound traffic. Underpinned by strong global demand for commodities, B.C.'s exports rose 7% through the first three quarters of 2005, an advance likely depressed somewhat by a short lived strike at the Port of Vancouver in July. Year-to-date, energy exports are up 60%, while shipments of metals and minerals have climbed by more than 20%. Exports of coal have been especially hot, having risen by 90% over the past nine months. Two new coal mines are scheduled to open in early 2006, and the reserve estimate for the Wolverine Coal Mine, scheduled to begin production in mid-2006, has been pushed up by more than 10 million tonnes.

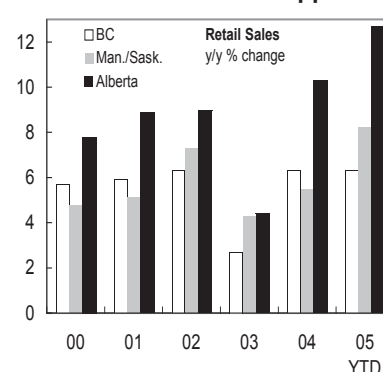
Cargo keeps climbing



Strength in forestry, for now

Forestry exports are down marginally this year, but should improve in 2006. While Quebec has trimmed cutting to conserve its forests, British Columbia is increasing its harvest to record levels in an effort to salvage over 7 million hectares of forest that has been infested by the Mountain Pine Beetle. Harvests will increase sharply in the short- to medium-term, but these levels will not be sustainable, and harvests are projected to fall subsequently. Although the industry's fundamentals are stronger in Western Canada than in the East, the industry is still exposed to a number of risks going forward, including a slowdown in U.S. housing construction, and the ongoing softwood lumber dispute with the U.S.

Where are all the shoppers?



Risks to the outlook

There are a number of risks to the outlook despite B.C.'s favourable prospects. These include rising interest rates, the continued appreciation of the Canadian dollar, and the prospect of a weaker U.S. economic performance. The potential for greater labour/skill shortages, with further upward pressure on costs and wages, also represents an important challenge, especially with the energy-fuelled investment boom in Alberta and Saskatchewan adding to capacity constraints in Western Canada.

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