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This Week...

Economic Growth
Consumer Savings
Interprovincial Migration
R&D Spending in the Post-Secondary
Education Sector
Construction Price Indices



Economic Growth By Doug Elliott, Editor

Preliminary estimates for economic growth in 2010 have been released by Statistics Canada. They show

that the western Canadian economy (the four provinces combined) grew by 3.2% to recover all of the ground lost during the 2009 recession when real GDP¹ declined by 3.1%.

Figure 1 shows that the fastest rate of growth in 2010 was in Saskatchewan but over the two-year period, Manitoba outperformed the other three provinces because the contraction in 2009 was smaller. Alberta's 2009 decline was the largest among the four; the 3.3% increase in 2010 was not enough to return real GDP to the 2008 level.

Consumer spending was a contributor to the growth in each of the four provinces with a 3.5%

increase from 2009 to 2010 compared with a decline in the previous year. The main reason for the strong recovery, however, was the 8.0% increase in business investment and the 5.7% increase in the value of international exports.

Consumer Savings

The savings rate for western consumers dipped to near zero in the mid-2000s before households began to curtail their spending to put their balance sheets on a more solid footing. The aggregate savings rate (net savings as a percentage of disposable income) was 6.4% in 2010 compared with 2.1% five years earlier.

Figure 2 shows that this higher level of savings is evident in all four western provinces but that the savings rate in Alberta is much higher than in the other provinces. The higher savings rate in Alberta arises because strong growth in earnings was

coupled with lower tax rates and below-average increases in spending.

Interprovincial Migration

There is a good deal of interprovincial migration among the four western provinces but the aggregate population in the West is affected by flows from other parts of Canada.

Ignoring flows within the four western provinces, Figure 3 shows that interprovincial migration to the West rose sharply in the mid-2000s before declining in the subsequent years. At the peak in 2006-07, more than 88,000 people moved to the West compared with 52,000 in 2003-04. The decline in the subsequent three years put interprovincial migration flows back to where they were before the boom.

The 2010-11 figures are only preliminary estimates but if accurate they show that flows to the West are increasing again. In the twelve months ending in June 2011, flows to the West

Figure 1: Annual Change in Real GDP, 2009 and 2010

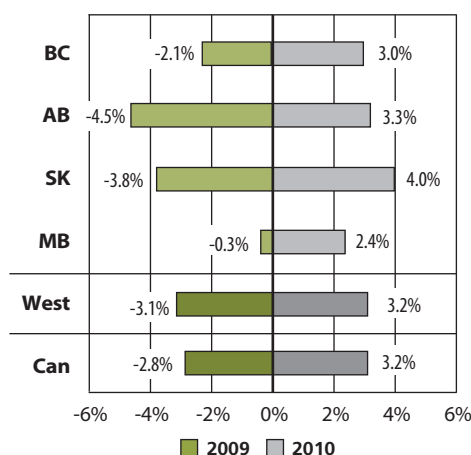


Figure 2: Personal Savings as a Percentage of Disposable Income

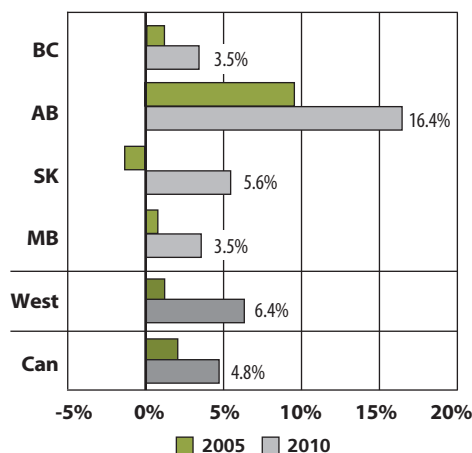
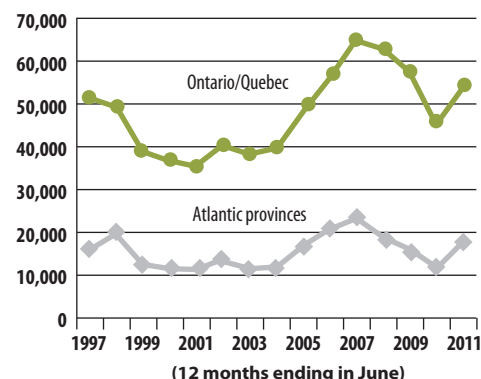


Figure 3: Interprovincial Flows into Western Canada



¹ Real GDP is gross domestic product measured in chained \$2002.

increased by 25% to 72,000 with the strongest growth in Manitoba (37%) and B.C. (32%).

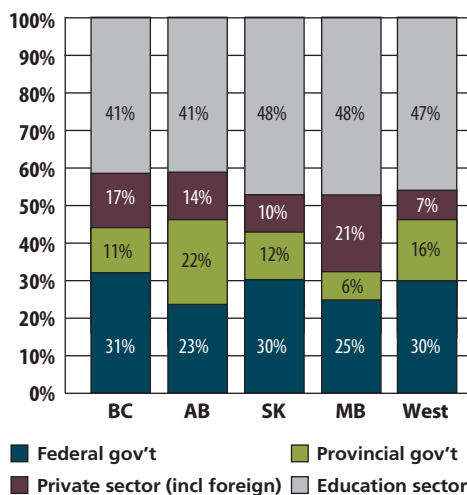
R&D Spending in the Post-Secondary Education Sector

The post-secondary education sector² in the West spent \$3.0 billion on research and development (R&D) in 2009-10. This represents about a quarter of the \$11.1 billion of R&D spending by the post-secondary sector in Canada as a whole and just under one half of R&D spending by all sectors. Four out of five R&D dollars was directed to natural sciences and engineering with the remaining dollar directed to social sciences and humanities.

Averaged over the past three years, Figure 4 shows the four sources of funding for R&D spending by the post-secondary education sector. Self-generated funds account for 47% of the total with approximately the same proportion (46%) provided by governments. The private sector provides 6% of funding with the bulk of this coming from non-profit organizations rather than from businesses.

With some exceptions, the split in spending is similar across the four provinces. One of the noticeable exceptions is the large role of the provincial government in Alberta and the small role in Manitoba.

Figure 4: Sources of Funding for R&D Spending by the Post-Secondary Education Sector, 2007-08 to 2009-10 Average



Capital Construction Cost Indices

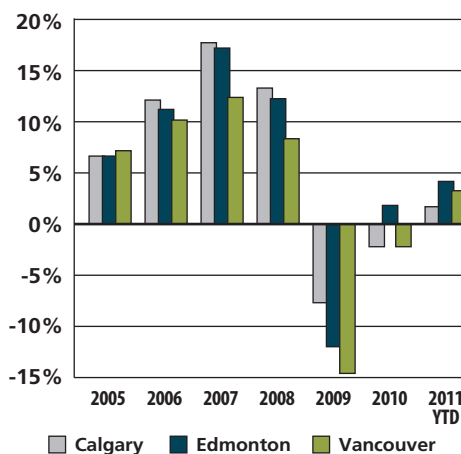
The term "inflation" is often used as if there was only one kind of inflation. However, there are many different kinds of inflation besides the "consumer price inflation" most are familiar with. One example is the rate of inflation in the cost of capital construction in general and non-residential construction in particular. The cost of building a typical office tower or school will change over time because of changes in the cost of labour and materials. Unfortunately, we have relatively poor data to measure this kind of inflation.

Statistics Canada collects information about material prices and labour costs but they only do this for seven cities in Canada. The western ones are Calgary, Edmonton, and Vancouver, effectively eliminating Manitoba and Saskatchewan. One suspects that the material costs would be similar in other western cities but labour costs are probably different.

Figure 5 shows that this inflation rate was near double digits during the economic boom from 2006 to 2008. Construction prices fell in 2009, were stable in 2010, and have increased only slightly during the first half of 2011. The bottom line is that a building that would have cost \$1 million to build in 2005 would, in the first half of 2011, cost:

- \$1.16 million in Vancouver;
- \$1.39 million in Calgary; and
- \$1.36 million in Edmonton.

Figure 5: Annual Inflation Rate for Non-Residential Building Construction



Upcoming Releases

In the next two weeks Statistics Canada will be releasing data describing:

- September manufacturing sales on November 15;
- September sales of new motor vehicles on November 15;
- September employment insurance recipients on November 17;
- October consumer price index on November 18;
- September retail sales on November 22;
- 2010 farm incomes on November 24; and
- September earnings, payrolls, and hours on November 24.

Sources:

The figures are adapted from the following sources:

Economic Growth: Statistics Canada, Provincial and Territorial Economic Accounts, 13-018

Consumer Savings: Statistics Canada, Provincial and Territorial Economic Accounts, 13-018

Interprovincial Migration: Statistics Canada CANSIM Table 051-0019

R&D Spending in the Post-Secondary Education Sector: Statistics Canada 88-001-X

Capital Construction Cost Inflation: Statistics Canada, Capital Expenditure Price Statistics, 62-007

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² This sector includes universities, technical schools, affiliated research hospitals, experimental stations and clinics.