

## Regional District of Fraser Fort George

### *The Economic Climate*

The economy within the Regional District of Fraser Fort George begins this fiscal year with a sense of cautious strength.

- Unemployment is a relatively low 5.0%,<sup>1</sup> oil & gas production in the nearby Peace region and Alberta presents strong options for many industrial service providers. Land resource management firms face strong options in exploration from both mining and oil & gas. Tourism in the Canoe-Robson Valley continues its steady development. Health care has been a particularly bright point, as a new cancer clinic and an increase in health science and supply causes much of the economic activity in this field to be repatriated to the region. Transportation is poised for a major surge, as the development of an inland port and international airport create the potential for structural growth beyond a resource-extraction driver. The expansion of broadband and cellular telephone service in McBride and Valemount, coupled with initiatives to grow the infrastructure in Prince George, has increased an awareness of the interconnection with the global economy, and opportunities arising from this connection.
- At the same time, forestry (the mainstay of the region) has been heavily affected by low lumber prices and a decline in the traditionally dominant U.S. housing market, and all resource industries are feeling the impact of falling prices due to the rapid rise in the Canadian dollar against most world currencies. The current concern over a potential global recession adds a cautionary note to the next year's outlook.

The region has likewise had mixed results among its communities. The forestry-dependent towns of Mackenzie and McBride have experienced significant layoffs as the sector adjusts to market forces. At the same time, tourism has been growing quickly in both, with McBride snowmobiling activity being particularly strong and Mackenzie seeing gains in touring traffic (strengthened by the work of a full-time tourism coordinator). Bio-energy is a widely-pursued option with optimism about its long-term potential. Nevertheless, the current situation in both communities is that of decline in a dominant, well-paying economic sector.

While Valemount has also experienced declines in its forestry employment in the last decade, the community is benefiting from substantial increases in tourism. Investment continues to be strong, and the business climate is buoyed by the opening of new accommodations facilities and proposal of high-end projects.

Confidence and optimism in Prince George continues to be high, assisted by significant expansions in several highly visible sectors. Sustained construction activity is driven by increased housing starts, commercial growth with the arrival or expansion of national retailers, and the current construction of a downtown community gaming centre. Mining exploration

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<sup>1</sup> Source: Service Canada, BC/Yukon Region, Labour Force Survey (December 2007)

continues to benefit the regional service hub. The announcement of a \$100 million cancer clinic (to be opened by 2012), the \$42 million Campus of Care and the \$32 million replacement of Duchess Park Secondary School all follow the completion of the Northern Sports Centre and the John Brink Trades & Technical Training facility.

Aboriginal treaty settlements likewise present both opportunity and challenge. Negotiated treaties are vital to the region's long-term economic health, as they offer the promise of access to resources as well as ownership and cost certainty that business needs to operate. They currently present a significant uncertainty, and the difficulties inherent in reaching settlement are illustrated by the recent rejection of a proposed treaty with the Lheidli T'enneh First nation in the Prince George area.

Aboriginal communities (urban and rural) also represent an important supply of labour, provided that industry, communities and government do the things they need to do in order to realize this potential. Capacity in Aboriginal communities, especially increased literacy and business skills becomes an even more pressing issue as these factors linger.

The pine beetle infestation is a major issue, with the Ministry of Forests forecasting average reductions in long-term timber supply of 25% overall, and up to 60% in some areas once trees infected by the beetle are no longer suitable for existing uses.

UNBC and CNC are both facing increased competition for enrolments from two new universities in the interior of BC, and many would-be students are opting to work in a strong economy. The lack of skilled trades in many niches is aggravated by retirement, competition from Alberta, and the draw to "Olympic" opportunities in the BC Lower Mainland.

The rising Canadian dollar presents a particular challenge to the resource industry that dominates the region, as well as to related activities such as transportation. The rapid rise in the dollar's value against most major currencies – the only notable exception is the Euro – has caused Canadian goods and services to become more expensive, or else reduced the return to firms for their international sales. Given that the entire Northern BC region is a major exporter of commodities to the world, this has had a highly significant negative impact.

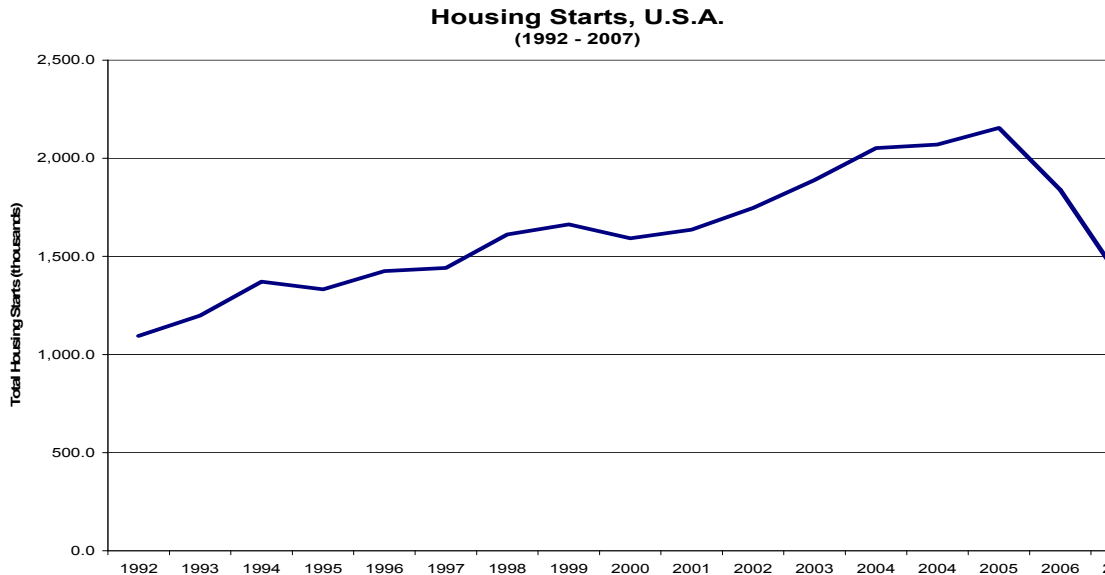
## ***Economic Sectors***

### **A. Forestry**

Forestry is the main driver in this region. The sector has been in the midst of major restructuring since the mid-1990s, driven by environmental regulation, countervailing duties to the US market, and a weakening competitive position due to the rising Canadian dollar. Most recently, a significant downturn in the U.S. housing market has slowed demand and reduced prices further.

These challenges have spurred the development of new technologies in resource management and production efficiency, which has enabled Northern BC to increase its share of this economic sector in BC. Between 1998 and 2006, production of dimension lumber in Canada rose by

22%, but the Northern Interior grew by 33.6%. Northern BC pulp and paper mills also increased their production, growing to 30% of provincial output, up from 20% of output in the mid-1990s.<sup>2</sup>



Source: U.S. Census Bureau, "New Privately Owned Housing Units Authorized by Building Permits in Permit-Issuing Places",

During the softwood lumber dispute, Northern producers looked to new markets for their product. However, challenges with a rising Canadian dollar, and increasing harvests have resulted in an excess of supply of both wood and fibre that now threaten the profitability of regional mills despite major technology investments that have reduced costs.

The Mountain Pine Beetle epidemic in the Interior of British Columbia is no longer just a forestry concern.<sup>3</sup> As much as 80% of the merchantable supply of pine in the province's central and southern interior could be killed by 2013 and well over half that pine could be dead by the summer of 2007.<sup>4</sup> The short-term remedy has been to significantly increase the allowable annual cut over the next decade.

Opportunities exist to grow the secondary industry and produce, promote and showcase quality finished wood products. One specific opportunity is an Oriented Strand Board (OSB) plant, which would fit well with the existing configuration and increase the range of products made in the area. Other opportunities exist in non-commodity areas such as furniture components, paneling and flooring. The provincial government is focusing on this area through initiatives

<sup>2</sup> Statistics Canada Publication 35-002

<sup>3</sup> Mountain Pine Beetle Action Plan [www.gov.bc.ca/pinebeetle](http://www.gov.bc.ca/pinebeetle)

<sup>4</sup> BC Ministry of Forests

such as the “BC Heartlands Economic Strategy”. This effort seeks to reduce or remove inefficient regulations, and increase critical areas such as access to timber, markets and certainty. This will in turn attract investment and enhance sustainable forest practices.

## B. Energy

Northern BC has benefited from rising demand for energy (especially electricity) in North America. Global economic growth and more stringent regulation around emissions have increased demand for natural gas to create electricity. Natural gas is the primary hydrocarbon resource in Northeastern BC (Chetwynd through Fort Nelson), and there is development potential and opportunity in the northern interior, especially the Bowser and Nechako basins. Increased capacity in this sector is constrained by the costs of development, which are primarily due to a shortage of available labour with the specialized skills required, the terrain that must be traversed, and the rising cost of steel for pipelines (due to Asian development).

The provincial response has been to promote and facilitate exploration of inland and coastal reserves, while local development offices have focused on expanding related services. There are coal bed methane deposits in the Central Interior and potential for small hydro, tidal, wind, and geothermal and solar generation. The established forestry base presents opportunities in fibre-based bio-energy projects which are developing in several BC communities with current output of about 900,000 tonnes annually. Increased capacity in this sector is constrained at least in part by current Crown land use policy that allows multiple tenures to users whose needs are often conflicting.

One response to labour shortages has been to increase the contracting of services from related resource development centres such as Fraser Fort George. As local firms become more linked to oil & gas and mining exploration and production, they increase their ability to develop opportunities in the interior areas of BC.

The exploration of oil and gas in the interior basins offers tremendous economic potential. Several areas with strong potential for development lie within and at the boundaries of the Fraser Fort George region. Exploration and increased activity in adjacent areas in the coming years is expected as demand for natural gas increases.

Environmental, engineering and land field work has been re-engaged to support the proposed development of two new pipelines that would transport oil and condensate between Strathcona County, Alberta and Kitimat, British Columbia.<sup>5</sup> The construction and support of the pipeline would bring significant economic benefits to the Northern region.

Growing global demand for energy has also driven a response from bio-energy. The primary fuel for bio-energy in our region is wood wastes which, given the large forestry production base, represents a significant opportunity. This has led to co-generation plants in Prince George and Mackenzie, as well as four pellet fuel mills in Northern BC.<sup>6</sup> While pellet mills must overcome significant transportation factors, the sector continues to experience rapid expansion in markets and employment.

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<sup>5</sup> [www.enbridge.com/gateway](http://www.enbridge.com/gateway)

<sup>6</sup> The pellet mills are in Vanderhoof, Prince George, Quesnel and Williams Lake.

### C. Agriculture

While relatively small in contribution to the regional economy, agriculture is nonetheless an important component, especially in the dairy farming areas within the Robson Valley.

Recent signs suggest a difficult future for BC ranchers. Rising oil & gas prices have directly and indirectly driven up costs, while hoped-for price increases due to greater Canadian consumption of domestic beef has not materialized. New export markets are slow in coming, and the sector remains highly dependent on the USA.

### D. Mining

Mining has made a dramatic rebound, driven by global economic growth (especially in China) and a restructuring of the provincial regulatory environment. Currently, 10 mines are being advanced (up from 1 in 2001), and two mines re-opened just south of the region in 2005. While the long development processes impede growth, the long-term outlook predicts a significant increase from the levels of the 1990's.

Five major mines in the area employ more than 1,300 people. The largest of these, Kemess, injected \$3.8 million in payroll into the Prince George economy and paid Prince George suppliers over \$27 million and Mackenzie suppliers over \$25 million in 2005. While a Stage Two expansion of the Kemess Mine is being met with much resistance, however, it would create further economic and employment opportunities if approved.

The sector's rosy potential is muted somewhat by the lack of certainty around the regulatory regime. Within the region, the Greymount limestone quarry – and the 40-60 long-term jobs it represents – was put on hold until any potential changes to emissions standards around the provincial government's new environmental focus are clarified.

The sector also requires the electrification of Highway 37 in order for the mines in that area to proceed. The anticipated 5 year delay of the Galore Creek has caused the province to shelve their plans to extend electrical access along the highway. This is a sizeable hurdle for mine development in the region, which represent a huge potential demand for service providers in our area.

In partnership with industry, communities and First Nations, the province is committed to reinvigorating mineral exploration and building a thriving mining industry.

### E. Tourism

Tourism continues its repositioning throughout Northern BC to better suit the changing demographic trends that favor soft adventure and culture-based tourism. The progress being made was reflected in improving trends, with both Prince George and Mackenzie seeing significant increases after several years of stagnancy. The Canoe-Robson Valley saw continued growth as well, with Valemount continuing to receive strong investment interest and activity from high-end tourism firms, and McBride experiencing a strong snowmobiling sector.

Tourism is undergoing fundamental structural change.<sup>7</sup> Northern BC has developed a range of tourism experiences to enhance its appeal to visitors and create year-round traffic. The trends in this sector can be encapsulated as follows:

- Expanded products – Traditional activities such as camping, fishing and hiking have been augmented by the development of more extreme adventure activities like heli-skiing and snowmobiling, and by the development or restoration of historical sites.
- Year-round traffic – Several communities that primarily attracted only seasonal tourism traffic have now developed off-season offerings to the point that they now enjoy year-round tourism related economic activity. This will increase with time as international (direct) flights provide new growth opportunities for tourism in this region
- Canada has received “approved destination” status for tourism by the Chinese government.<sup>8</sup> This is expected to result in an increase in Chinese visitors to BC.
- Diversified markets – European and Asian visitors are now significant segments, and are poised to grow as expanded winter offerings allow the region to reach travelers that had previously only come during the summer.
- Mega-trends – Demographic shifts and greater environmental awareness are driving a large upswing in eco-tourism and soft-adventure tourism worldwide. The diverse geography and upscale tourism products makes our region well positioned to capitalize on these trends.

Regional / structural response to these trends can be seen in the rail, air and cruise ship segments. The PG Airport’s \$36 million runway expansion is underway to add International Arrivals & Departures and Customs facilities to accommodate international and long-haul flights. As a result, approx. 3,000 acres of land is being proposed for light-industrial development around the airport, which will assist in further transportation-oriented development. International capability will significantly increase the ability of destination lodges to attract customers from Europe, Asia and the eastern USA.

Port of Prince Rupert experienced strong uptake for its cruise ship calls in the 2007 season, and plans continue to draw new ships, as well as extending the length of their stay.<sup>9</sup> The improved access to the northern region will positively impact the potential to develop new tourist markets. Several new products are developing around this new infrastructure. The Valemount area has three large projects being developed: a hot springs/golf course, a gondola/golf course complex, and a chalet facility within the town on the 5<sup>th</sup> Avenue which is the main strip. Coupled with the significant accommodation and restaurant development of the last several years, Valemount is

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<sup>7</sup> Source: Prince George Airport Authority Marketing Plan, February 2004.

<sup>8</sup> Finlayson, Jock A (ed). "Ten Key Trends that will Shape the BC Economy Through 2010." Business Council of British Columbia 12, no. 4 (2005): 2.

<sup>9</sup> [www.rupertport.com](http://www.rupertport.com) – press release October 24, 2006

well on its way to becoming a true tourism destination. McBride, too, is beginning to capitalize on the increased tourism activity, especially in snowmobiling.

Prince George is likewise developing new products and capabilities. On the facilities side, the Northern Sports Centre, and expanded cross-country ski facilities are expected to draw opportunities for training and tourism. The strong presence of local delegates at the recent 2006 (Torino) games and the future 2010 (Whistler) Winter Olympics is hoped to create global awareness of these and other facilities in the region. A new destination casino / hotel complex was completed in 2004 and brings travellers to the region.

Finally, initiatives to promote three circle tours through Northern BC present the opportunity to link comparable experiences in neighbouring communities. This likewise has the potential to significantly increase the length that visitors stay in the area and enhance the economic benefit to our communities.

#### **F. Retail / Service Sector**

Service sector growth has been of key importance in the ability of communities to attract and retain residents, whether seniors, professionals or young families.

Prince George has become the retail “draw” for the entire region and beyond. The growth in this sector is evident with several new “big box retailers” such as Wal-Mart, Canadian Tire, Home Depot, Princess Auto, The Brick and others either expanding and/or locating in the city. The growth in retail indicates economic and investor confidence that seems to have been lacking in recent years. The City of Prince George has embarked upon a downtown revitalization project that will encourage consumers to increase their patronage to the downtown core. In 2005 a major development project was announced that will integrate downtown living space (multi unit dwellings) with new retail and services space in the heart of downtown Prince George and construction is currently underway on a new downtown gaming facility that will also include condominium units.

Valemount’s expansion in retail, while smaller, is nevertheless significant for the community. The dining opportunities have increased as the accommodations facilities have expanded, including construction of the community’s first franchise restaurant (A&W). Shopping outlets have also grown with the newly constructed Fields and Pharmasave stores complimenting incremental retail increases in existing sites.

#### **G. Education**

Successful cities that attract young, highly-skilled workers are centres for innovation and entrepreneurship and are competitive locations for global and regional headquarters. The proximity of universities to research and production facilities means cities are where new products are developed and commercialized.<sup>10</sup> A first-rate comprehensive education system and local governance that fosters competitiveness with information and transportation links

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<sup>10</sup> Organization for Economic Co-operation and Development, Nov 2006

between universities, researchers, technicians, and manufacturers is a precious seed and driver for sound local economic development.<sup>11</sup>

Post-secondary education has grown to become the significant economic catalyst it was predicted to be. UNBC's Northern Medical Program is attracting new students to the region and will enable the north to retain existing students, and graduates. Increased medical personnel in the area will reinforce Prince George's position as a regional nucleus for a developing "medical" industry. The regional cancer clinic currently being built is scheduled for opening in 2012, which will dramatically increase opportunities for University researchers, technology and business service and supply firms. This will in turn strengthen the education and service clusters.

At the College of New Caledonia, student numbers and government resources have increased in targeted fields such as trades, health technologies and health sciences, and Aboriginal programs and services. However, with no increase to overall base funding, the College will likely reduce service deliveries in some areas, despite community and industry requests for increased training and education.

UNBC and CNC both face increased competition from an expanded advanced education presence in the BC Interior. The arrival of two new universities in Kamloops and Kelowna will increase the competition for students and faculty in the near and distant future. One response has been to create new competitive advantages, including specialized programs such as the MBA and Northern Medical Programs, enhanced facilities such as the Northern Sports Centre, and targeted trades training in the resource sector.

## **H. Information, Innovation and the New Economy**

Advanced education has greatly enhanced the ability of the city and the Regional District to participate in the new economy. College and university students see the opportunities while they are still students, and upon graduation join or start companies to take advantage of them.

There are more than 170 high technology knowledge-based companies operating in the region. The sector has evolved with a need for increased competitiveness by the resource sector. Technologies include software development, advanced manufacturing, engineering and GPS mapping and planning tools.

Advanced manufacturing now represents over 50% of the manufacturing activity in B.C., and the last two decades have seen the rapid growth of companies into areas such as machinery equipment, computers and electronics, plastics, furniture and fabricated metals.

## **I. Construction**

Construction continues to prosper with significant residential, commercial and industrial projects, which are picking up where the recent public projects have left off. The development of a new mall in Prince George (with another on the way), continuing development of resort facilities and

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<sup>11</sup> PG Citizen, January 2007

twinning of an oil pipeline in the Canoe-Robson Valley, and forestry mill upgrades throughout the region, all have combined to significantly enhance this sector.

The assessed value of most homes and commercial properties in the city of Prince George increased again in 2007. Real Estate is experiencing positive and encouraging movement in the marketplace compared to the past few years, yet continues to rate very high on the measure of affordability, which according to the BC Real Estate Association, is the most important factor influencing the decision for many families on where they choose to live.

Construction is facing demand from a variety of areas. In Prince George, the softening in activity related to industry was offset by transportation and bio-energy projects, the announced cancer clinic, and the development of new retail facilities. Other commercial activity is spread over several moderate-sized projects. Residential housing starts across the regional district are up significantly from previous years. The substantially higher activity has resulted in rising costs.

## J. Transportation

Transportation has always been key to Northern BC's economy. Recent years have seen improvements in that infrastructure, which in turn enhance the region's ability to thrive in the emerging global economy.

Prince George is a principal gateway between Northern B.C. and key economic regions of Western Canada and is located at the junction of Highway 16 (Yellowhead) and Highway 97, key transport and tourism routes within the Northwest Transportation Corridor. The Corridor spans almost one-half of Canada and handles over \$14 billion of exports annually.<sup>12</sup> The addition of a new weigh scale (a \$27 million investment) will further enhance the sector by increasing efficiency, and therefore decreasing operating costs.

Opportunities exist for the improvement of existing routes as well as the development of new and improved transportation links that can accommodate current and future realities:

- The Port of Prince Rupert added container capacity by 2007, and has already begun the process to expand this investment to allow it to handle the forecasted 2.0 million TEUs (up from the current 0.5 million TEUs) well ahead of 2011. Likewise, it is considering several options for a cruise ship terminal that would create entirely new tourism offerings.
- A \$20 million Inland Container Handling facility was added to Prince George, becoming operational in October of 2007. It is expected to deliver significant direct and indirect economic benefit to the region, once firms adjust their operations to take advantage of the new opportunities.

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<sup>12</sup> Initiatives Prince George, "Business Prince George"

- The Prince George Airport is in the midst of a \$36 million expansion and revitalization to enable it to accommodate larger cargo and passenger aircraft. Combined with the upgrades to handle international traffic, this should be a major driver.
- A \$200 million highway improvement project to increase the capacity of Highway 97 between Prince George and Cache Creek (dubbed the “Cariboo Connector”) is now mid-way through construction. When completed in 2009, it will handle the increased industrial traffic in the area, as well as the growth of the past five years. There is increasing pressure to make similar improvements to Highway 16 between Prince Rupert and Prince George, and eventually further eastward through to the Robson Valley. Increases to commercial traffic on Highway 16 have been substantial in recent years and are expected to continue due to increased beetle-wood harvesting and expansion of the Port of Prince Rupert. Without improvements the East-West highway could become the major stumbling block to moving goods to and from the Port of Prince Rupert.
- The province’s \$135 million Northern Development Initiative began activity in 2006. The fund has considerable flexibility, and could spur significant improvement and development throughout the region.

### ***The Employment Climate***

The combination of these positive developments has pushed unemployment in the region to the very low level of 5.0%, compared with 5.5% in 2006, and well below the levels of two or more years ago.<sup>13</sup>

Income assistance provided by the provincial government continues its steady downward slide. Provincially since 1995, the number of income support beneficiaries has declined by 44% with declines in all categories of recipients other than those receiving disability benefits

The employment climate coming into fiscal year 2008/09 is more cautious than that of the previous four years. The dramatic rise in the Canadian dollar against all major currencies except the Euro, a sustained slowdown in the U.S. housing market, and rising transportation costs due to fuel prices, have all placed significant pressure on the forest industry. The resulting layoffs in the last three months of 2007 saw a growing awareness of the challenges facing the industry, and tempered the heady enthusiasm that had built in the region as a result of sustained economic upswing.

A serious challenge will be the ability of employers to supply the number of skilled trades people required to keep our industries thriving. The average age of people in the trades mirrors the leading edge of the baby boom - as they begin to retire our northern economy will be challenged to recruit and/or train sufficient replacements. The region is also experiencing a drain on supply due to demand in Northeast BC and Alberta, as well as projects in the BC Lower Mainland area related to the 2010 Winter Olympics. While Olympic-oriented pressure is expected to ease in 2009 as venues near completion, the sustained expansion in oil & gas and mining should

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<sup>13</sup> Source: Service Canada, BC/Yukon Region, Labour Force Survey (December 2007)

continue to keep demand for skilled labour relatively high. This adds to the challenges faced by the forest sector, as displaced workers are quickly courted by alternate resource firms.

### ***The Entrepreneurial Climate***

Entrepreneurship is a major driver of economic growth, and is a primary consideration in virtually any evaluation of overall community health. Japan and Singapore bear eloquent witness to the ability of entrepreneurship to create advanced, wealthy societies without abundant local resources, while dying rural Canadian communities warn of the dire consequences of its lack, even when surrounded by minerals and forests. Given its vital link to economic growth and innovation, the fostering of an entrepreneurial spirit has rightly been a policy priority as a key to helping ensure the economic health of small communities.

Entrepreneurship during poor economic times tends to be motivated out of necessity, while robust conditions will tend to see the primary driver being the pursuit of opportunity. Local commercial lenders note that the opportunity-seeking entrepreneurs are the prevailing trend, which reflects the general economic improvement. However, the willingness of entrepreneurs to continue to invest even given the current difficulties in forestry, and to continue to invest in the region as times improve, is the strongest testimony to the underlying health of the area, and a strong reason for overall confidence in the future.

Evidence suggests that the sustained implementation of this policy is paying dividends both provincially and regionally:

- Nationally, BC led Canada in small business growth over the last decade, with small firms accounting for approx. 26% of GDP annually.<sup>14</sup> The number of small businesses operating in the province increased for the fourth consecutive year, up 1.7% compared to 2004. Business Services recorded by far the largest small business growth (22%), with other (unclassified) businesses (15%), construction businesses (13%), skilled trades businesses (12%) and health care businesses (9%) rounding out the top five.
- Provincially, 98% of the businesses in BC are small businesses, and 84% are micro-businesses (fewer than 5 employees) according to the 2006 Small Business Profile. BC Small businesses account for approximately 57% of all private sector jobs, and 26% of British Columbia's Gross Domestic Product. Nearly 33% (\$11.5 billion) of BC exports are attributable to small business. The Northeast region of BC has recorded the highest growth rate with an average increase of 3.8% over the past 5 years.
- Regionally, strong entrepreneurial attitudes have fostered over 170 high technology firms regionally that are currently developing "the next generation of measuring, medical & controlling devices, navigational & guidance instruments and software publishers".<sup>15</sup> The pursuit of efficiency in resource extraction has spurred the growth of specialized service firms, which are now developing markets globally for their made-in-Northern-BC products.

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<sup>14</sup> All data from BC Stats, Small Business Profile, 2007

<sup>15</sup> Innovation Resource Centre