

Island Coastal



Synopsis of Key Economic Conditions in the ICET Region

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This report has been prepared as background material for a strategic planning session of the Island Coastal Economic Trust (ICET) in January 2011. It highlights some of the key economic trends affecting the region covered by ICET.

In addition, several of the key sectors that will be discussed by the ICET Board are addressed in an appendix that contains excerpts from the 2009 Regional Economic Analysis report¹.

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¹ Vann Struth Consulting Group Inc. (February 2009), *Regional Economic Analysis: Vancouver Island and Central/Sunshine Coasts – Final Report*, prepared for Vancouver Island Economic Alliance.

Statistics measuring the economic performance of the ICET region in 2010 are still being released, but based on data that is available as of January 2011, some of the key trends include:

- Employment increased by 7,000 jobs across the ICET region² in 2010, more than recovering the 5,300 jobs lost in 2009. The 3.5% growth in employment exceeded provincial job growth of 2.0% (which did not completely recover all jobs lost in the province in 2009).
- The regional unemployment rate declined to 6.6% in 2010, down from 7.8% in 2009. The unemployment rate remains higher than its level from 2006 to 2008, however. The provincial unemployment rate remained stuck at 7.6% in 2010, meaning the ICET region's unemployment rate was lower than the provincial rate for the first time since at least the mid-1990s (BC Stats only reports data back to 1995).
- Regional population growth was an estimated 0.9% from mid-year 2009 to mid-year 2010, somewhat lower than the provincial growth rate of 1.6%. In the last four years the estimated population in the ICET region has increased by 5.4% to nearly 436,000. This is also a bit less than provincial growth of 6.8% over the same time period.
- Population growth rates vary considerably within the ICET region. The table below ranks each Regional District by estimated total population growth from 2006 to 2010, and also shows estimated growth in the last year.

Regional District	Estimated 2010 Population	Growth 2006-2010	Growth 2009-2010
Sunshine Coast	29,984	7.2%	1.3%
Comox Valley	64,642	7.0%	0.7%
Nanaimo	149,686	6.0%	1.1%
Cowichan Valley	82,871	5.6%	1.3%
Strathcona	44,386	3.9%	0.3%
Powell River	20,455	3.9%	1.1%
Alberni-Clayoquot	31,635	1.8%	0.2%
Mount Waddington	12,057	0.8%	0.0%
ICET Region Total	435,716	5.4%	0.9%
<i>British Columbia</i>	<i>4,530,960</i>	<i>6.8%</i>	<i>1.6%</i>

Source: BC Stats population estimates.

- One area that has not recovered as quickly in the ICET region is the rate of new business formation. Business incorporations in 2010 increased by only 0.3% over 2009 and remain

² Employment statistics do not include the Sunshine Coast Regional District (SCRD) because it is part of the Mainland/Southwest Development Region and data is not reported for individual RDs.

considerably lower than the years 2005 to 2008. Incorporations rebounded significantly in BC in 2010, rising 15% over 2009.

Overall, economic conditions in the ICET region appear quite favourable compared to the rest of BC (although not yet back to the generally positive conditions in the years leading up to the 2008-2009 recession). There remain, of course, areas within the ICET region that are experiencing greater economic challenges.

COMMUNITY-LEVEL DATA

With respect to the economic conditions in individual communities, population estimates and building permit value data is summarized in the table below. In order to best capture the impact of the recent recession, estimated population growth is shown from mid-year 2008 to mid-year 2010. Changes in the value of building permits are shown by comparing total values in 2009 and 2010 to total values in 2007 and 2008.

Municipality	Growth Rates		Ranks		
	Population, 2008 – 2010	Building Permit Values, 2007/2008 – 2009/2010*	Population Growth	Building Permit Growth	Average Rank
Cumberland	6.8%	63%	1	3	2
Lake Cowichan	5.3%	105%	3	1	2
Tofino	4.5%	48%	4	5	4.5
Sechelt	5.3%	-24%	2	10	6
Comox	2.9%	5%	6	7	6.5
Ladysmith	2.2%	-12%	8	9	8.5
Ucluelet	1.8%	59%	13	4	8.5
Nanaimo	3.3%	-31%	5	14	9.5
Courtenay	2.5%	-31%	7	14	10.5
North Cowichan	2.0%	-25%	10	11	10.5
Port McNeill	1.7%	0%	14	8	11
Powell River	2.2%	-30%	9	13	11
Port Alberni	0.4%	18%	18	6	12
Campbell River	1.9%	-50%	11	17	14
Gold River	-1.0%	70%	24	2	13
Port Hardy	0.4%	-25%	17	11	14
Parksville	1.9%	-54%	12	18	15
Sayward	1.5%	n/a	15		15
Gibson	1.3%	-69%	16	20	18
Duncan	-0.2%	-47%	21	16	18.5
Port Alice	0.0%	n/a	19		19

Municipality	Growth Rates		Ranks		
	Population, 2008 – 2010	Building Permit Values, 2007/2008 – 2009/2010*	Population Growth	Building Permit Growth	Average Rank
Tahsis	0.0%	n/a	19		19
Qualicum Beach	-0.3%	-63%	23	19	21
Alert Bay	-0.2%	n/a	22		22
Lantzville	-1.5%	n/a	25		25
Zeballos	-4.6%	n/a	26		26
ICET Region	2.1%	-26%			
<i>British Columbia</i>	<i>3.4%</i>	<i>-27%</i>			

*Building permit data for 2010 is through November only.

Sources: BC Stats population estimates, Statistics Canada building permit data (summarized by BC Stats)

Communities are shown in the order of their average rank in population growth and building permit growth. The order is generally consistent with prior research on economic conditions in different parts of the region, with a few exceptions. Qualicum Beach, Parksville and Gibsons rank lower than in previous studies as all had middling to poor population growth combined with significantly lower building permit values in the last two years compared to 2007/2008. Some of the communities that are significantly higher on this list than in previous studies include Lake Cowichan, Ladysmith, Port McNeill, Powell River, Port Alberni and Port Hardy.

It would be premature to draw definitive conclusions from these results, however, particularly since building permit values can vary significantly from year to year depending on the timing of large development projects. A community that had little development activity in 2007/2008 may show growth in the last two years, but still have an overall level of development lower than some other areas.

ECONOMIC CONTEXT

Important economic trends and developments in the ICET region always occur within the context of the broader provincial, national and global economies.

- Following the severe financial crisis in the fall of 2008, the year 2009 was characterized by recession and the beginnings of recovery in the latter half of the year. The recovery continued in 2010, but unevenly and with some economic trouble spots remaining.
- Canada's economic recovery has been stronger than in the United States, where relatively few of the jobs lost in the recession have been recovered. Household debt issues, while also a concern in Canada, were worse in the United States and are hampering economic recovery.
- Globally, growth continues to be led by Asia, particularly China and India, as well as some Latin American countries like Brazil. Sustained global demand for western Canada's natural resources,

including coal and metals, has benefited the provincial economy (although mining is not a significant factor in most of the ICET region). There are also some encouraging signs of BC forest products penetrating new markets in China, but overall forestry and forest products continue to face a very challenging business environment.

- The Canadian dollar is likely to remain strong, and may even move consistently higher than par with the US dollar in the next few years. This will continue to suppress tourist visits from the United States (which are down in recent years), and makes manufacturing products less competitive. It does, however, make it more affordable for Canadian firms to invest in vital productivity-enhancing machinery and equipment.
- The oldest baby boomers turn 65 this year. An extended period of growth in retirement-related services and housing is just beginning.

Some of the specific sectors being discussed by ICET were profiled in detail in the 2009 Regional Economic Analysis report, completed by Vann Struth Consulting Group for the Vancouver Island Economic Alliance (VIEA) and supported in part by ICET funding. While this report is now two years old, much of the longer-term trend and forecast information for each sector remains valid.

Excerpts from that report, lightly edited in some cases to maintain current relevance, are found below. Significant additional information, including detailed employment and labour force profiles and a regional breakdown of each sector, can be found in the full report (available through the Resources section of the ICET website).

UTILITIES (INCLUDING ENERGY)

TRENDS

Vancouver Island produces only about one-third of the electricity it consumes. The rest is transmitted to the Island through two sets of undersea cables that connect to the mainland power grid.

A significant upgrade of the southern set of transmission cables (called the Vancouver Island Transmission Reinforcement) was completed in late 2008. Some additional transmission capacity was installed but requires regulatory approval to be operated. In the meantime power demand is projected by the BC Transmission Corporation (BCTC) to increase by up to 45% over the next 20 years.

These facts have created a strong desire to increase the Island's self-sufficiency in energy generation. Increased environmental awareness and higher oil prices in recent years have also encouraged pursuit of a wide variety of "green" energy generation projects. Most have not yet proven their financial viability, but that is normal in the early years of a technology's development and only through time and continued innovation will the best alternative energy sources be found.

Some of these projects are underway – such as the development of a series of run-of-river hydroelectric projects by Plutonic Power in the Powell River RD. These projects divert part of a natural flowing stream into a penstock which uses gravity to drop the water to drive a turbine and generate electricity, at which point the diverted water is returned to the stream. Other projects, like several proposed wind power development in the RD of Mount Waddington, remain in the assessment and planning stages.

COMPETITIVE ANALYSIS

The utilities sector is a minor employer in the region but is essential infrastructure for the rest of the economy. It is therefore imperative that Vancouver Island's long-term power needs are met. This can be

done through supporting and expanding existing infrastructure, including connections to the mainland power grid, or by supplying more power from Island sources, or more likely a combination of both approaches.

In addition to the upgrading of the southern set of transmission cables (from Tsawwassen on the mainland to a site near Duncan), other upgrades are planned. BC Transmission Corporation is planning an upgrade to power lines in the Nanaimo/Qualicum Beach area that are at or exceeding capacity. New lines are likely to be required throughout the Island as overall power demand increases and to ensure that new energy sources can be connected to the grid.

Even though there are a variety of possible technologies and “green” energy projects being planned, they are face similar constraints in identifying productive sites, gaining approval from local and regional governments to use the sites, accommodating the interests of First Nations in the area, receiving environmental approvals, securing financing for capital equipment and possibly transmission lines, and securing a power purchase agreement from BC Hydro that allows for financial success and may, depending on the nature of the project, qualify for “green power” credits.

- In addition to the issue of power generation, quite a number of communities have identified the deterioration of their basic infrastructure, such as water and sewer systems, as a challenge for the future. These are rarely viewed as significant sources of economic growth but in addition to providing essential services they can also help generate economic activity and environmental solutions. The huge new Wastewater Treatment Facility being constructed in the Capital Regional District will use new technologies to capture waste heat and use it to provide hot water and space heating in the facility itself and adjacent buildings. A small turbine will also be installed at the water outfall to generate electricity. In this case, the development of basic infrastructure is being leveraged to meet other environmental and economic goals.

OPPORTUNITIES

1. Independent electricity generation projects.

- There are a wide variety of projects and technologies planned for sites throughout the region.
- Many of the projects have yet to prove their commercial viability, but the competition between technologies to lower costs and satisfy environmental and community concerns may ultimately lead to a smaller number of clearly superior technologies.
- Examples of the types of projects currently underway or planned include run-of-river power, other small hydro-electric generation, wind power, wave power, biomass (using inputs such as wood waste, agricultural residue and municipal wastes), and tidal power.

Opportunities for growth in this sector will ultimately be determined by the specific energy-generation projects that are being pursued in each RD. There are believed to be opportunities in all parts of the region, including run-of-river power in the Powell River RD, wind and run-of-river power in Mount Waddington, tidal power in Strathcona, wave power in Alberni-Clayoquot, and biomass proposals throughout the region.

TRENDS

Of the nearly 3,000 reporting farms in the study region, nearly 90% are clustered in southeastern Vancouver Island from the Capital RD north to the Comox Valley. The average farm size in the region is 19 hectares (ha), which is only 13% of the average farm size of 143 ha in BC (although the provincial numbers are inflated somewhat by massive ranches in the Thompson-Nicola and Cariboo RDs).

The region's farmers are able to use their land more intensively than elsewhere in the province. Measured by average revenue per hectare, the study region is generating more than \$3,000 per ha compared to less than \$1,000 per ha provincially (based on 2006 Census of Agriculture data). The Capital and Cowichan Valley RDs generated the most revenue with more than \$4,000 per ha, while the Nanaimo and Comox Valley RDs had \$2,600 per ha.

There are no dominant crops or animal types produced in the region. The sector is best described as being very diverse with many smaller farms producing a huge variety of vegetables, fruits, animals and dairy products. The processing sector is also comprised mainly of smaller firms, many located on or near farms producing all manner of food and beverage products, including a growing number of wineries, breweries and distilleries.

One major change that has occurred since the 2006 Census is the introduction of new meat slaughtering rules that require the use of a federally licensed facility. This has virtually eliminated the raising of poultry and livestock in some of the more remote parts of the region (e.g. Powell River RD) because it costs too much to transport live animals to the abattoir and then meat back again.

And one other trend that is influencing consumer behaviour, and therefore the market for the region's food products, is the increased interest in eating locally and more healthily. Locally-produced food is believed to be, on average, higher quality than food grown for mass consumption at the lowest possible price. Rising fuel prices also call into question the financial and environmental sustainability of transporting food over long distance.

COMPETITIVE ANALYSIS

The key factors affecting the future competitiveness of the agricultural and food sector are discussed below, in no particular order.

GROWING CONDITIONS

Like the other primary industries, agriculture starts with the quality of the natural environment. Southeastern Vancouver Island from the Saanich Peninsula north to the Comox Valley is an area of fertile soil, abundant fresh water and a favourable climate featuring the longest growing season in

Canada. Other smaller pockets of good growing conditions exist in the Alberni Valley and in coastal areas of the Powell River and Sunshine Coast RDs.

DEMOGRAPHICS AND LABOUR SHORTAGES

There are two sides to this issue. The age profile of the agriculture and food workforce showed a median age of 43.3 years, which is one of the youngest of any of the sectors profiled in this report. But this includes all farm workers and food processing employees. The age of farm operators is much older, averaging nearly 55 years according to the 2006 Census of Agriculture (this figure is remarkably consistent across the region, with the average age in each regional district falling in the 53 to 55 range).

This clearly indicates a looming problem with farm succession as the challenges of farming may not attract younger people willing to take over farm operations. Partly for this reason, the Comox Valley has been actively attempting to attract people from Europe to purchase farms there.

There are also challenges with farm labour. It is generally low-paid, seasonal and physically challenging so attracting workers in a general environment of worker shortages is very difficult. Attracting seasonal workers from Latin America or the Caribbean is one possible solution used by some farming regions.

COSTS

Like all goods-producing industries, farmers and food processors are not often able to compete on the basis of price alone. The study region is a high-cost operating environment, requiring the production of higher-value goods in order to stay financially viable.

Even compared to other Canadian or BC locations, there are some cost disadvantages in the study region. Transportation costs are higher if goods are transported long distances or across water, a problem that was exacerbated by high fuel costs in recent years. Transportation infrastructure within the region is limited as most of the population and growing areas are arranged linearly along one major highway with limited alternative transportation options.

The enduring popularity of the region for retirement and recreation, particularly in areas where growing conditions are best, creates pressure on land costs. Even if land is in the Agricultural Land Reserve (ALR) and therefore cannot be developed for non-agricultural purposes, urban encroachment onto adjacent land and/or speculation that the land could be removed from the ALR will cause land prices to increase to a level far beyond what can be justified by its agricultural potential alone. This is a serious barrier to entry for new and young farmers, exacerbating the farm succession issues discussed above.

LAND USE

It is estimated that only about one-half of land that is protected in the Agricultural Land Reserve is currently being used for agricultural purposes. This is due to the many challenges in operating a viable farming business, as well as the desire of some people to live “in the country” without actually farming.

Some of these people will work enough of the land or maintain sufficient animals to ensure their property remains assessed as a farm, meaning it qualifies for much lower property tax rates.

The flip side of the issue is that agricultural land is significantly under-utilized in the region and production could be vastly increased if profitable opportunities are identified and capitalized upon.

AGRICULTURAL POLICY

In addition to the meat slaughtering regulatory issue discussed above under Trends, one other regulatory issue has been consistently raised on Vancouver Island for many years and for many different types of producers. For agricultural commodities that are regulated under a supply management system, such as a marketing board, Island farmers have not been able to access production quota that would allow them to profitably expand their operations.

There are some perverse consequences of this issue, such as the fact that Island chicken farmers only have quota for 20% of the chickens consumed on the Island. Marketing boards exist to ensure an orderly supply of key agricultural commodities at steady prices, but the main beneficiaries of such a system are the fortunate holders of quota - other producers, value-added processors and ultimately consumers all suffer from reduced supply and higher prices.

SMALL SIZE

Most farms in the study region are small, and many are operated only on a part-time basis, creating several challenges for the growth of the sector. First, it is difficult for either farmers or food processors to achieve economies of scale, which makes them less competitive relative to larger and more efficient competitors. Second, small farmers are like small business owners in other fields – they often lack the specialized skills in marketing and other business topics that would lead to greater success, simply because it is rare for one or two person operations to have expertise in every area that affects their business.

Small companies also struggle to coordinate efforts on initiatives that would benefit them, such as marketing or sales efforts to increase consumption of locally produced food. Or they lack the capital to undertake solo investments in productive machinery and facilities.

OPPORTUNITIES

The common theme for all opportunities in the agriculture and food sector is that producing commodities for mass consumption is simply not viable, especially for the smaller farm operators that predominate in the study region. There are many opportunities relating to the production of higher-value agricultural goods, whether through production methods that increase value (e.g., organic production) or through value-added processing.

There is significant scope for expanding sales to the local market as the vast majority of food consumed in the region is imported from elsewhere, although some of the region's high-value products are exported around the world.

There are many specific growth opportunities, but they can generally be simplified to two opportunities:

1. Expanded agricultural production.

- Emphasis in particular on expanding production of niche, high-value products, such as organic products or grapes for winemaking, that can be differentiated in a competitive food products market.
- There are also multiple avenues that farmers may consider to increase on-farm revenue to support the viability of their operations. These alternative revenue sources include agri-tourism (such as on-farm attractions and games, markets, tours, bed and breakfasts, farm work vacations, etc) and agroforestry, which is the integration of forestry and agriculture that provides additional revenue through berries, fruit, or wood.

2. Expanded food and beverage manufacturing.

- The region has growing niches in a huge variety of food and beverage products.
- Much of the production is small-scale and based on the farm, with sales to the local market. Some other operators are larger and consolidate inputs from multiple locations in the region (and beyond). Some of these products are exported around the world.

There is significant scope to expand agricultural production with on-farm or local processing for sale to local markets throughout the study region. Although the majority of agricultural land in the region is on southern and eastern Vancouver Island (Capital, Cowichan Valley, Nanaimo and Comox Valley RDs), there is some production in all parts of the region and the potential for modest growth of this type.

For larger processing operations, they are more likely to be located either in close proximity to significant supply of raw inputs, or near major transportation nodes that can aggregate inputs from growers throughout the region and distribute products widely. These factors clearly favour the Capital, Cowichan Valley, Nanaimo and Comox Valley RDs.

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 (including Energy)** 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.