

ECONOMIC UPDATE

August 2010



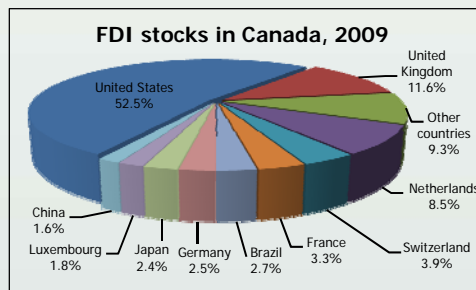
Foreign direct investment (FDI) from China has increased in importance in the global economy over the past decade. Corresponding with growth in Chinese outward investment, Canada has seen an increasing proportion of its inward FDI coming from China in recent years.

Following China's official decision to 'Go Global' a decade ago, the level of Chinese outward direct foreign investment (OFDI) flows has increased significantly, expanding the stock of Chinese FDI in countries across the globe. In the years between 1995 and 1999, Chinese OFDI flows averaged only \$2.2B (USD) per year; between 2000 and 2009, the annual average increased to \$17.5B, with most of the growth occurring after 2004.^{1,2} By 2009, China's OFDI flows ranked 6th among the world's economies, up from 32nd in 2000. Although Chinese OFDI accounted for only 1.2% of the world's OFDI stock in 2009, this is a significant increase from 0.3% in 2000, and gives China the 3rd highest OFDI stock among developing countries.

Although Canada currently is the destination for a relatively small proportion of Chinese outward investment stock, Chinese OFDI flows into Canada have been increasing in recent years. In

2009, Canada was the location of \$8.9B in OFDI from China, about 3.9% of China's total OFDI stock. However, Canada attracted 7.5% of China's outward investment flows in 2009, up from only 4.4% of total flows between 2004 and 2008.³

Chinese OFDI accounted for 1.6% of FDI stocks in Canada in 2009, up from 1.0% in 2008 and a dramatic increase from less than 0.1% in 2000. China now ranks 10th among all countries as a source of FDI in Canada, up from 28th in 2000. Chinese OFDI stocks in Canada increased 69.0% in 2009, while world FDI stocks into Canada grew only 1.6% overall.



Canada's rich natural resources have been one of the main attractants of Chinese OFDI, as China looks to secure access to the resources necessary for continued economic growth and expansion into new markets. Over the

last three years, natural resource investments have made up the majority of new Chinese ventures in Canada, with a significant increase in the number of natural resource investments in 2009, relative to past years. Canada attracted 13 of China's 97 foreign investment ventures (13.4%) last year, 12 of which were investments in resources, up from only 6 of 130 (4.6%) ventures in 2007 and 2008. During the first six months of this year, there were 7 Chinese venture deals completed in Canada, 5 of which were in natural resources.⁴

British Columbia's abundance of forestry, mining and natural gas resources has positioned the province to attract a significant amount of Chinese OFDI. In 2008-09 alone, there were a number of mining investments in the province worth nearly \$2B, which accounted for a significant proportion of Chinese FDI inflows to Canada in those years.

Continued marketing efforts will help to attract more foreign investment into BC. September's trade investment delegation to China, led by Initiatives Prince George, will define investment opportunities in sectors including transportation & logistics, education, and tourism, all of which are becoming increasingly important for attracting future Chinese OFDI to Northern BC.

¹ United Nations Conference on Trade and Development (UNCTAD), World Investment Report 2010.

² Between 2005 and 2009, Chinese OFDI flows averaged \$31.2B annually; the stock of China's OFDI increased by 39.2% per year, on average, over this period.

³ Department of Foreign Affairs and International Trade Canada; Statistics Canada.

⁴ Asia Pacific Foundation of Canada.

ECONOMIC UPDATE

Economic Statistics

Employment

Employment in Prince George declined slightly in July, with 200 fewer (0.4%) persons employed than in the previous month. Provincially, employment increased slightly (0.7%) while national employment declined by 0.1%. Despite the decrease last month, the employment level in the city was up over the same month in both 2009 and 2008 (7.3% and 2.6% higher, respectively). An 800 person (1.6%) increase in the city's labour force, combined with the drop in employment, resulted in a 29.7% increase in the number of unemployed persons. Subsequently, the rate of unemployment increased 2.0% to 9.3% in July. Comparatively, the provincial labour force increased by 0.4% and the number of unemployed persons decreased by 3.3%; across Canada, the labour force was unchanged and the number of unemployed persons increased by 1.2%. As a result, the unemployment rate decreased 0.3% (to 7.5%) in BC and increased 0.1% (to 8.0%) in Canada. Prince George's employment rate decreased 0.3% to 69.2% in July; the rate increased 0.3% in BC and decreased by 0.2% in Canada.

(Source: Statistics Canada Labour Force Survey)



Real Estate

There were 56 single family homes sold in Prince George in July, significantly less than the 93 homes sold in July 2009, with

an average price of \$222,454 (4.1% lower than in the same month last year). Despite the relatively slow month, year-to-date unit sales were up 0.4% at the end of July, compared to the first seven months of 2009; the year-to date average price of a single family home in the city was up 6.0% compared to the same period last year, and up 1.0% over the period in 2008. Comparatively, year-to-date unit sales in BC and Canada were up 3.8% and 5.6%, respectively, at the end of July, although sales activity continued to trend down; average prices were up 11.3% provincially and 9.4% nationally over the first seven months of 2009.

(Source: BC Northern Real Estate Board; Canadian Real Estate Association)

Housing Construction

There were 18 housing starts in Prince George in July (all single family units), 2 more than in the same month last year and 5 fewer than in July 2008. Year-to-date, starts were up 71.4% over the same period last year, and down 25.6% over the first seven months of 2008. Comparatively, year-to-date starts were up 109.7% and 49.5%, respectively, in BC and Canada. There were 3 residential units completed in the city in July (all single family units), 32 fewer than in the same month in 2009, and there were 208 housing units under construction (147 single family, 4 semi-detached and 57 row units); 14.8% fewer than in July 2009.

(Source: Canada Mortgage and Housing Corporation)

Building Permits

The City of Prince George issued 67 building permits valued at \$51.1M in July; the value of permits issued was more than ten times the value issued in the same month last year. Institutional building permits accounted for 84.1% of the total value of permits issued, due

almost entirely to the \$40.0M permit for the BC Cancer Agency's Centre for the North. Residential permits accounted for 10.9% of total permits in July, and Commercial permits accounted for the remainder of permits issued for the month; a \$2.4M renovation permit for Terasen Gas's downtown building made up most of this category. The value of total permits issued in the city was up 219.0%, year-to-date, compared to the first seven months of 2009, and up 115.9% over the same period in 2008. Comparatively, year-to-date permits were up 46.8% provincially and 35.1% nationally at the end of June.

(Source: City of Prince George; Statistics Canada)



Business Licenses

The City of Prince George issued 113 business licenses in July (73 renewals and 40 new licenses). Year-to-date, new licenses and renewals were up 23.4% and 25.3%, respectively, at the end of July.

(Source: City of Prince George)

Airport Passenger Volumes

62,988 passengers passed through the Prince George airport in June and July, 6.6% more than in the same period last year; year-to-date traffic was up 5.6% at the end of July compared to the first seven months of 2009. Comparatively, traffic through the Vancouver airport was up 3.6% year-to-date, at the end of June.

(Source: Prince George Airport Authority; Vancouver Airport Authority)