Recent Performance of the Canadian Economy: A Regional View

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- *While monetary policy is by nature national, regional economic analysis provides a central bank with one of many complementary views on economic conditions. Since 1997, the Bank's new regional offices have monitored regional economic developments. Through these offices, the Bank has improved communications with the general public and enhanced its information on current economic conditions.*
- *Industry visits and quarterly surveys allow the Bank to probe business conditions and to receive timely feedback on topically important issues and on the effects of economic shocks. An industry association survey conducted in the summer of 2000 pointed to continued strength in the economy and the possibility of increasing pressures on capacity.*
- *Recent regional economic performance is defined by the contrasting effects that the Asian crisis has had on Canada's five regions: the Atlantic provinces, Quebec, Ontario, the Prairies, and British Columbia. With the crisis over, all five regions are experiencing relatively good economic conditions, which has resulted in a buoyant national economy.*

This article outlines the activities of the Bank's regional offices and how regional economic analysis fits into the Bank's decision-making process. The first section describes how the offices gather anecdotal information and incorporate it in the Bank's analytic framework. The second section reviews recent developments as well as prospects for future growth in the Canadian economy from a regional perspective.

Regional Economic Surveys

Given the lags in the effects of monetary policy on inflation and the uncertainty surrounding estimates of the output gap (defined as the difference between the observed level of demand and the unobserved economy's potential to produce), the Bank of Canada has stressed, in recent *Monetary Policy Reports*, the growing importance for its policy deliberations of alternative measures of inflation pressures when assessing the upward and downward pressures on inflation.[1] In recent years, the Bank has paid more attention to material collected through surveys and to other anecdotal information.[2]

1. The uncertainty surrounding the output gap estimate was discussed in Technical Box 4 in the May 1999 *Monetary Policy Report*. For a discussion on monitoring inflation pressures, see Technical Box 4 in the November 1999 *Monetary Policy Report*.

2. An example of other issues explored by regional offices through surveys or interviews is an analysis of the effects of restructuring on the Canadian economy summarized in Kwan (2000).

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Other central banks also make extensive use of surveys of business conditions in their decision-making process. In the United States, the Federal Reserve banks produce, on a rotational basis, the "Beige Book," a report of anecdotal information on current economic conditions in each Federal Reserve District collected through reports and interviews with key business contacts, economists, market experts, and other sources. The Bank of England publishes the *Agents' Summary of Business Conditions*, which summarizes monthly reports compiled by the Bank of England's regional agents following discussions with about 1,700 businesses. The Bank of Japan produces the *Tankan* survey, a quarterly survey of approximately 10,000 private sector enterprises that assesses business conditions in Japan. At the Bank of Canada, surveys of business conditions are conducted by the Bank's regional offices.

The Bank of Canada's regional offices

The Bank of Canada has historically maintained a sizable regional presence across the country. Until recently, this was achieved through nine agencies located in major centres. The mandate of these agencies was primarily to distribute bank notes and deliver bonds and central banking services to financial institutions and the federal government. The Bank also operated offices in Montreal, Toronto, Vancouver, and, for a time, in Calgary and Edmonton, to monitor financial markets and execute open market operations with the financial community. Regional economic developments were monitored out of the Bank's head office in Ottawa by the Research Department. Head office staff also regularly visited industries across the regions to gather information on topical issues of particular concern, such as investment plans or wage and price pressures, and to gain insight into the economy to support ongoing research. As well, Bank staff would visit financial institutions to gather information relevant to understanding changes in money and credit aggregates.

Over time, the needs of the Bank changed and so did the nature of its regional presence. The advent of new technologies to deliver financial services greatly reduced the need for agencies across Canada. At the same time, the Bank needed more regional economic analysis, and its public communications became more important as it became a more open and transparent institution.

In 1996, after carefully considering more cost-effective ways to deliver its financial services, the Bank closed all but two agencies, keeping two large centres for bank note distribution in Verdun, Quebec and Mississauga, Ontario. At the same time, it opened two new regional offices and expanded the activities of the existing offices in Montreal, Toronto, and Vancouver, giving them the mandate to concentrate their activities in the areas of economic liaison and analysis and to oversee and support the operation of the financial services being carried out in conjunction with the private sector.[3] Through these offices, the Bank wanted to strengthen its ties with industry, governments, educational institutions, associations, and the public. The five regional offices are: Atlantic Canada (Halifax); Quebec (Montreal); Ontario (Toronto); the Prairies, Northwest Territories, and Nunavut (Calgary); and British Columbia and the Yukon (Vancouver).

[Regional surveys are used] to obtain an independent, bottom-up assessment of growth prospects at the national level that could be used as a cross-check of model-based staff projections.

At each regional office, a team of two economists and administrative staff (who report directly to the Research Department at head office) is responsible for economic liaison and analysis in the region. This involves speaking to business groups, universities, and schools; participating in business meetings and

3. For more information on the opening of regional offices, see the Bank of Canada press release dated 23 April 1997; for information on the closing of the Bank's agencies, see the Bank of Canada press release dated 17 July 1996.

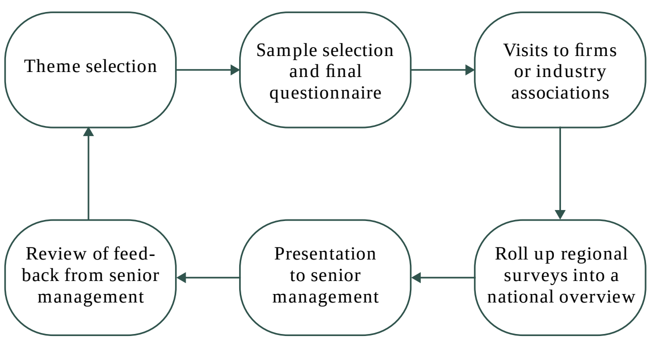
conferences; and meeting with businesses, analysts, and government officials to broaden the Bank's understanding of the region and to explain developments in monetary policy. Regional offices also monitor regional economic developments and trends in commodity prices. The offices adopted the existing Research Department surveys as a framework but expanded their use to obtain an independent, bottom-up assessment of growth prospects at the national level that could be used as a cross-check of model-based staff projections.[4]

Gathering and reporting anecdotal information

When undertaking current analysis projects such as surveys, all five regional offices work together as a single team. They conduct four regional surveys per year timed to coincide with the Bank's quarterly economic projections. There are three surveys of individual firms and one survey of industry associations. Figure 1 shows the cycle of a typical survey.

Figure 1

Survey Cycle



The Bank of Canada's surveys are designed to identify the underlying trends in the economy through a mix of quantitative and qualitative anecdotal information collected during interviews. While the Bank's surveys are not as comprehensive as those done by Statistics Canada and the Conference Board of Canada, they are timely, forward-looking, and focused on issues relevant to monetary policy. In addition, responses are probed through direct conversations with survey participants.

The selection of the firms or associations to survey is reasonably simple. Each round of industry visits targets about 100 firms, while each round of industry-association visits targets about 70 associations. The sample distribution is based on the composition of Canada's gross domestic product. Each regional office selects firms that they believe to be a good barometer of business conditions in their area. The aim is to achieve a good mix of small, medium, and large firms.

The survey questionnaire allows comparison of quantitative results over time. It includes questions about past and future sales from Canadian operations; prospects regarding inventories, investment, employment, labour costs, and prices; and expectations about inflation. Questions about constraints to capacity and the ability to meet unexpected demand were recently added to monitor whether the pressures on capacity are stable or growing. Each survey also includes supplementary questions dealing with topical issues of particular interest to the Bank and eliciting comments from respondents on monetary policy or other issues of concern to them. Recent supplementary questions concerned the effect of the depreciation of the Canadian dollar on output prices, an examination of how businesses were coping with the recent sharp rise in oil prices, and an assessment of the progress towards e-commerce and its impact on cost control.

The survey is sometimes carried out by telephone, but regional staff try to visit as many respondents as possible. Visits outside the major centres are also arranged regularly. Face-to-face visits are preferred, since they foster more broad-ranging discussions and allow Bank staff to see first-hand how businesses operate. The responses to the questionnaire are carefully handled to maintain strict confidentiality.

Results of the five regional surveys are amalgamated to provide a national overview. Responses are tabulated in a format that helps to gauge the degree of momentum in the economy over the next few quarters. In the majority of responses, the results are presented as an unweighted balance of opinion; that is, the difference between the percentage of firms or associations who expect a given economic variable to be higher or to increase at a faster pace than in the previous year, minus the percentage who expect the variable to be lower or to grow at a slower pace. The balances

4. For a description of the role of model-based staff projections in the conduct of monetary policy, see Poloz et al. (1994).

of opinion can vary between +100 and -100. A strong positive balance of opinion suggests that survey respondents expect an acceleration in the trend growth rate over the previous period. Some of the survey questions try to identify underlying trends or the severity of a growing problem in the economy.

Such a survey clearly has limitations. The small sample means that there are large confidence intervals around the sample results. The selection of firms is not completely random; since participation is voluntary, firms that are experiencing difficulties may be less likely to participate. The measure of momentum can, itself, also be misleading. For example, a positive unweighted balance of opinion, coming mainly from small firms, would send the wrong signal if larger firms expected a slowdown. The interpretation of the results therefore requires informed judgment. In developing a consensus view of the survey results, the regional offices complement their analysis with additional information collected from their network of contacts and during external liaison activities.

The survey results are presented to senior management at about the same time as the quarterly staff economic projections. The survey provides expectations for key national economic variables, built up from the regional information, looking forward over the next 12 months. This view can be compared with the staff economic projections that are based on a structural macroeconomic model (the Quarterly Projection Model or QPM) adjusted by the judgment of analysts and by projections based on monetary aggregates. Significant differences between the outlooks would prompt further analysis. There is currently keen interest in any evidence from industry or association visits that would indicate a buildup in pressures on capacity or signs that capacity is being added at a faster rate than conventional measures or official statistics reveal. Concerns raised by senior management at the time of the presentation often sow the seeds for supplementary questions in the next survey.

Highlights from the summer 2000 survey of associations

Charts 1 and 2 present the results of the last five surveys for six key economic variables. The results of industry-association surveys are shown with those of firms, although the two may not be directly comparable. The latest association survey took place in June 2000. The regional offices contacted 66 industry associations across the country: 23 national associations and 43 provincial or regional associations. The main findings of the June survey are:

- The Canadian economy is likely to continue to grow at a robust, but slightly slower, pace over the next 12 months, since the momentum towards an acceleration in growth has diminished.
- Prospects for employment growth continue to be positive across all regions. This is contributing to an acceleration in wage growth, but respondents indicated that the increases would be moderate and that most would be matched by productivity gains.
- Input prices are expected to increase more than the previous year, mainly because of energy-related cost increases. Other costs remain well contained.
- Output prices are not expected to rise as much as input prices because of productivity gains, continued strong competitive forces, and customer resistance to higher prices. Inflation expectations are well anchored, with 89 per cent of respondents expecting inflation to remain within the Bank of Canada’s target range of 1 to 3 per cent over the next two years.
- There are growing signs of firms facing capacity constraints. While most firms are still able to work around the difficulties, there were severe constraints in a few industries.
- Strains on capacity are attributed mainly to a shortage of skilled labour. The number of skills in short supply has widened steadily over the past year. Firms and industry associations are actively pursuing innovative partnerships with schools and universities to deal with this growing problem. These findings contrast with recent surveys that suggest shortages of skilled labour are not a major concern of Canadian businesses. Nevertheless, the Bank of Canada’s surveys clearly point towards an intensification of difficulties in recruiting qualified personnel.

Recent Trends in Regional Economic Performance

In addition to carrying out quarterly surveys as a formal information-gathering tool, regional offices also engage in a wide range of contacts in industry and government. These contacts help the offices monitor events in regional economies and interpret trends in

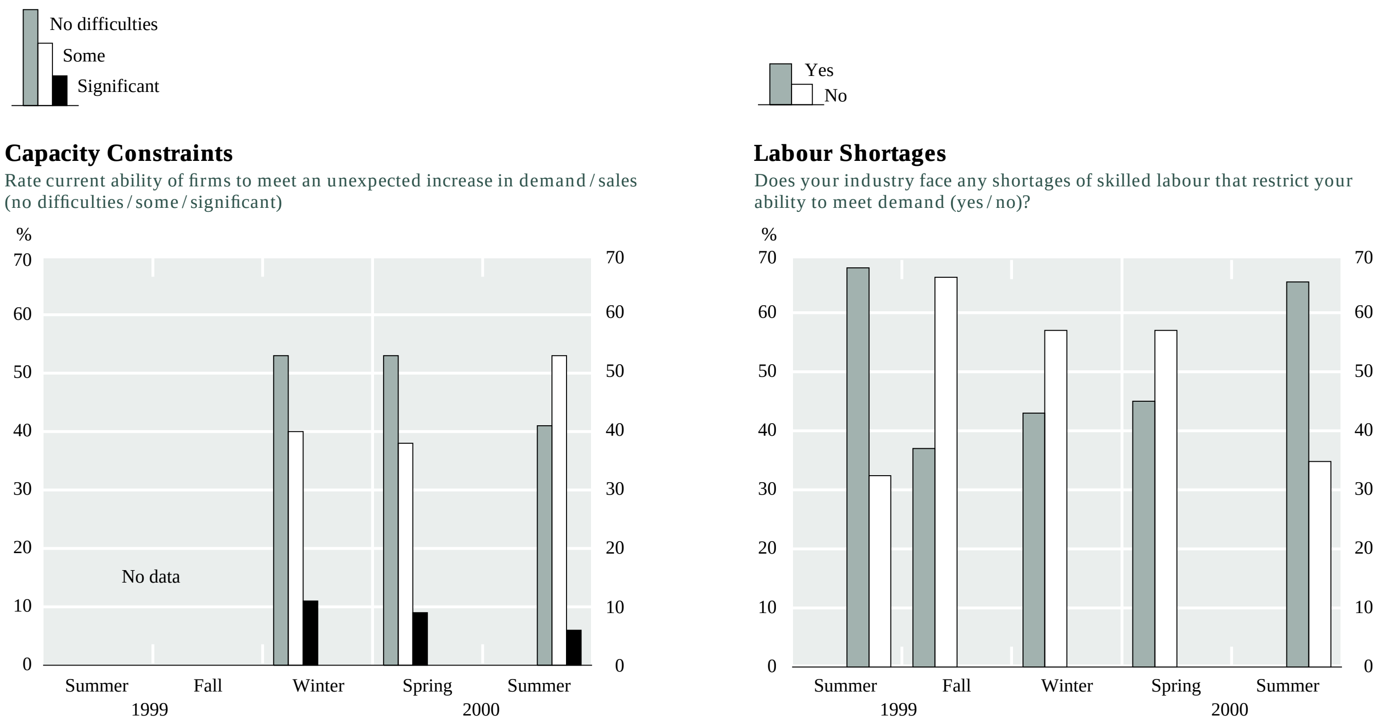
Chart 1

Balances of Opinion on Selected Economic Variables[1]

1. Percentage of firms expecting an increase minus the percentage expecting a decrease or a slowdown. Results of industry-association surveys (shaded bars) may not be readily comparable to results of firm surveys.

Chart 2

Probing Firms' Ability to Meet Unexpected Demand



regional data. The quarterly survey results and information from liaison activities are combined with information from official statistics and surveys by Statistics Canada, the Conference Board of Canada, and other sources to assess regional economic developments and near-term prospects.

While regional economies broadly follow a national business cycle, they have their own key sectors, industries, and trading partners. Economic shocks therefore have different regional impacts, and, at any given time, regional cycles do not match the national trend. By monitoring each region, the Bank believes it can gain insights into the performance of the national economy and perhaps pick up advanced warning of shifts in the business cycle. The Asian financial crisis, together with its differential effects on Canada's regions, has been the key factor underpinning the relative performance of the five regions since 1997.[5] With the recovery in most Asian countries in 1999 and 2000, there has been some convergence of regional economic performance towards the national average and, at the same time, an acceleration in overall growth.

The following description of the evolution of Canada's five regions since the Asian crisis is organized around the principal components of aggregate demand.

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Foreign demand

From its peak in January 1997 and through the worst of the Asian crisis, the Bank of Canada's commodity price index (BCPI) fell 29 per cent.[6] This decline was

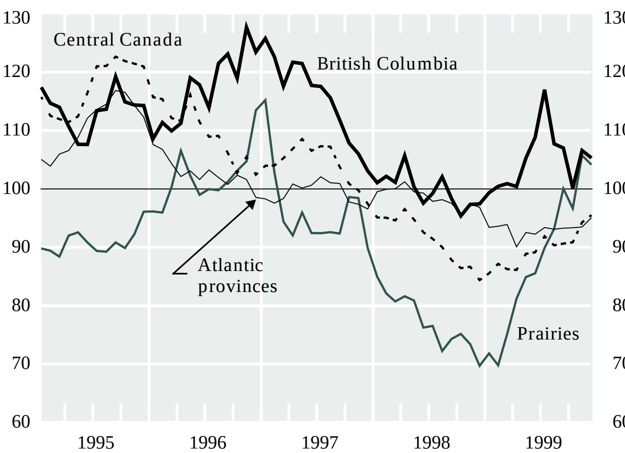
5. For a discussion of the Asian financial crisis and its effects, see Technical Box 3 of the May 1998 *Monetary Policy Report*.

6. For a more complete discussion of movements in the BCPI during the Asian crisis, see Novin and Stuber (1999).

Chart 3

Real Commodity Prices

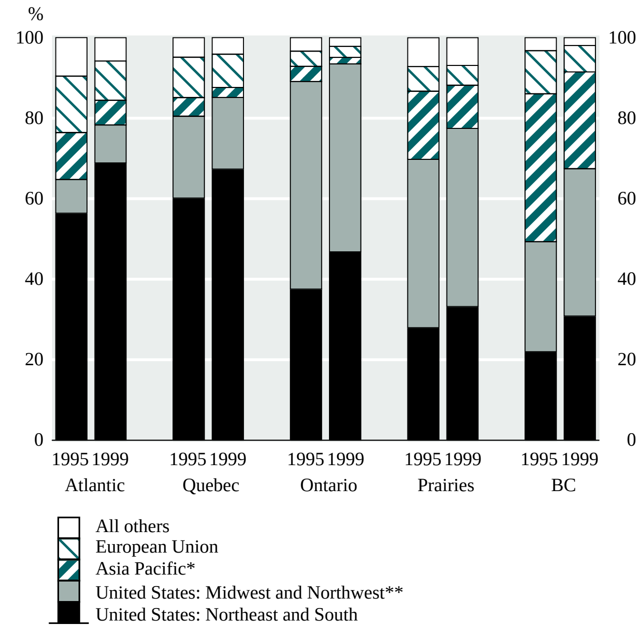
1986=100



Source: Bank of Canada

Chart 4

Regional Exports by Destination



Source: Industry Canada
* Excludes the Americas
** Includes U.S. other and minor outlying islands

not evenly distributed across Canada's five regions (Chart 3)**.** The indexes for British Columbia and the Prairies, which had risen in 1995 and 1996, fell 22 and 39 per cent, respectively, because of steep price reductions in key commodities such as crude oil, natural gas, lumber, pulp, grains and oilseeds, hogs, and some base metals. The Quebec and Ontario indexes fell 15 and 21 per cent, respectively. Weakness in prices for aluminum and other base metals, as well as for forestry products, caused most of the declines in these provinces. The Atlantic Canada index suffered the least, decreasing by only 1.4 per cent, with higher prices for fish, lobster, and potatoes largely offsetting lower prices for pulp, iron ore, and zinc.

In addition to declining prices for key commodities, export volumes suffered as direct Asian demand for Canadian products softened. Again, British Columbia and the Prairies suffered the brunt of the collapse. In 1997, both regions depended on Asian demand for a relatively large portion of total exports, 34 and 13 per cent, respectively (Chart 4). In contrast, central Canadian exports to Asia amounted to less than 4 per cent of total international exports in 1997. Evidence on the regional effects of the Asian crisis in the United States suggests that the western states, much like the western Canadian provinces, were also more severely affected by the Asian crisis (Coughlin and Pollard 2000).

By 1999, the first full year after the Asian crisis, regional trade flows had shifted. Continued weakness in Asian markets and the relative weakness of other global markets, compared with the booming market in the United States, had drawn an increasing proportion of Canadian goods towards our largest trading partner. Exports to the northeastern and southern states, in particular, have become a larger portion of total exports in all five Canadian regions. Eastern Canada, with its already strong trade links in the northeastern and central United States, not only suffered the least from the direct effects of the Asian crisis, but also was well positioned to benefit from the strength of U.S. demand, particularly for automotive products, transportation, and telecommunications equipment.

Investment spending

From 1992 to 1998, investment spending has been the fastest-growing component of demand in all regions except British Columbia (Table 1). The trend has been particularly strong in the Prairies and the Atlantic provinces. In recent years, both regions have benefited from investment in large-scale energy projects and their related transportation infrastructure. These

Table 1

Regional Economic Growth by Component

	Atlantic Canada	Quebec	Ontario	Prairie provinces	British Columbia	Canada
	Total increase from 1992 to 1998 (per cent)					
Consumption	12.6	16.7	17.7	19.6	20.1	17.7
Investment	62.6	26.4	48.3	95.1	14.9	47.5
Government spending	-5.3	-3.0	0.2	-4.4	3.6	-1.5
Exports	36.5	46.0	61.0	39.9	19.6	48.4
Imports[a]	30.7	37.4	52.4	40.7	26.4	42.0
Total GDP	11.3	15.7	22.8	26.5	14.2	20.0
Population	-0.2	3.0	7.7	6.6	15.3	6.6
Total GDP per capita	11.5	12.3	14.0	18.7	-0.9	12.5
	Contribution to GDP growth[b]					
Consumption	8.5	10.1	10.0	11.2	12.7	10.4
Investment	8.2	3.7	6.3	15.0	2.9	6.9
Government spending	-2.0	-0.9	0.1	-1.2	0.9	-0.4
Exports	14.9	18.9	31.2	19.8	7.5	22.4
Imports	-18.4	-16.4	-24.0	-19.5	-11.9	-19.6
Total GDP	11.3	15.7	22.8	26.5	14.2	20.0

a. Imports are subtracted from total GDP.
b. May not sum exactly because of rounding.
Source: Statistics Canada

included the Alliance pipeline, the Sable Gas project, and the Terra Nova oil project. British Columbia's performance was held back by lingering softness in mining and forestry and by a reversal of capital inflows from Hong Kong in the wake of a smooth handover to China on 1 July 1997.

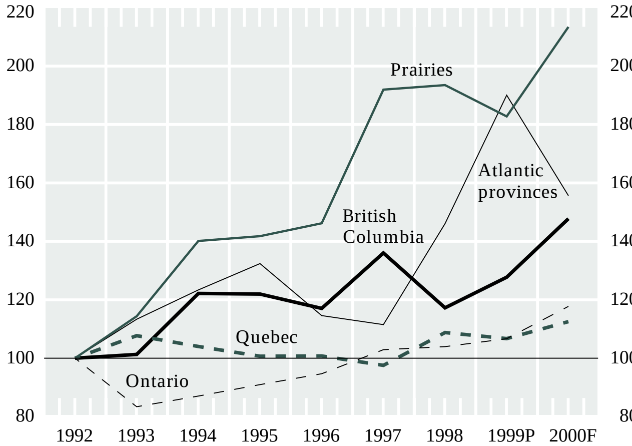
In Quebec and Ontario, non-residential construction activity, which had been stagnant since the beginning of the economic recovery in 1992 (Chart 5), partly because of a hangover from the overbuilding of office space in the late 1980s, has started to accelerate. Vacancy rates for office space in Canada's large cities have dropped rapidly over the last three years, and the national office vacancy rate, as recorded by Royal LePage, stands at an historical low of 7.4 per cent in the second quarter of 2000, down a full 2 percentage points from a year ago.[7] Over the medium term, demand for new office space and the expansion of

7. Source: Royal LePage. *National Office Report*, 2nd Quarter 2000.

Chart 5

Business Capital Spending, Non-Residential Construction

1992=100



Source: Statistics Canada
P= Preliminary, F= Forecast

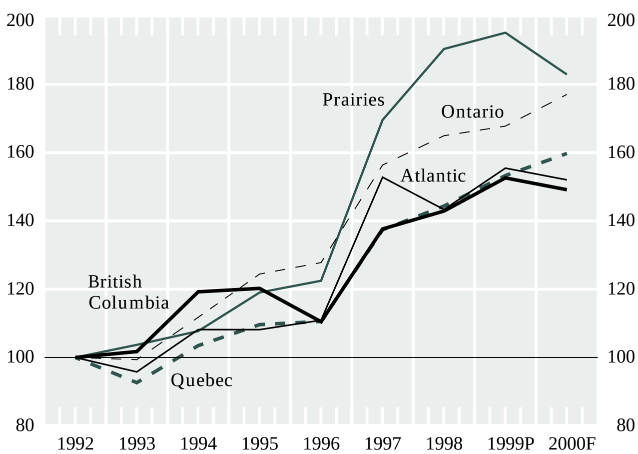
transportation infrastructure around major cities are expected to help fuel non-residential construction.

Growth in spending on machinery and equipment has been stronger since 1996 across all five regions (Chart 6). A series of retooling projects at auto plants, two metal-processing projects in Quebec, and the adoption of new technologies by manufacturing firms in Quebec and Ontario have provided a solid base for growth in central Canada over the past few years.

Chart 6

Business Capital Spending, Machinery and Equipment

1992=100



Source: Statistics Canada
P= Preliminary, F= Forecast

Consumer spending

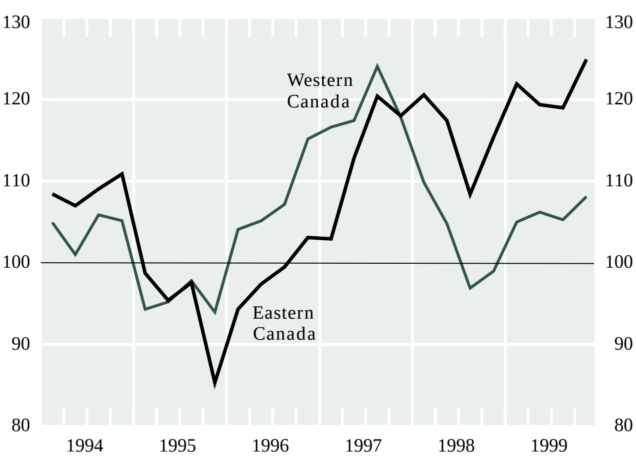
Western Canada—particularly British Columbia—enjoyed strong growth in consumer spending in the early to mid-1990s, when the economic climate was quite buoyant. This growth, driven at least partially by an influx of people and wealth from Asia, waned during and after the Asian crisis. More recently, consumer spending has been significantly stronger in eastern Canada than in western Canada. In 1999, the average growth of retail sales in provinces east of the Manitoba border was 7 per cent compared with less than 3 per cent in western provinces.

One key reason for this west-to-east shift in consumer spending has been the contrasting effect that the Asian crisis has had on consumer confidence in different parts of Canada (Chart 7)**.** The Conference Board of Canada's survey of consumer confidence (*Index of Consumer Attitudes*) captures the decline in confidence among consumers in western Canada throughout 1998. In contrast, confidence among eastern Canadian consumers fell initially but soon regained momentum and reached peak levels in 1999 and early 2000. As explained earlier, to the extent that the northeastern and central United States were aided by low commodity prices during the crisis, the eastern Canadian provinces that trade heavily with them have benefited. It appears that some of the downstream effects of this trend also indirectly boosted consumer confidence in eastern Canada.

Chart 7

Index of Consumer Attitudes

1991=100



Source: Conference Board of Canada

The latest surveys suggest that consumer confidence among western Canadians has improved (although not to the levels reached prior to the Asian crisis) and remains at a high level in central Canada. In Atlantic Canada, consumer confidence has retreated since the second quarter of 1999. All regions have seen improving labour markets in 1999 and in the first half of 2000. Coupled with expected wage growth, overall labour income will expand. Furthermore, consumers will retain more of their income, given announced reductions in both federal and provincial income taxes.

Provincial government spending

Because of a concerted effort to reduce and eliminate federal and provincial budget deficits, government expenditures on goods and services have been flat, on average, since 1992 (Table 1). More recently, with budgets largely balanced, government priorities have turned to two other issues. Tax reductions are a key theme in most provincial budgets this year. As well, some provinces plan to increase spending in specific areas such as health, education, and infrastructure. Many provinces are also moving to decouple their income tax structures from the federal structure. Few provincial governments have made specific commitments to debt retirement or to targets for their debt-to-GDP ratios, focusing instead on short- and medium-term commitments to tax reductions and modest plans for additional spending. Some provinces have also focused on zero-deficit legislation.

In central Canada, both Ontario and Quebec have proposed a series of tax reductions. Quebec's plan would see reductions of $4.5 billion spread over three years. Reductions are already well underway in Ontario, where the income tax rate declined from 58 per cent of basic federal tax in 1995 to 38.5 per cent in 2000. Both provincial governments are forecasting another year of balanced budgets in 2000/01, and both have initiated new spending measures focused mainly on health care, education, and infrastructure projects.

The three Prairie provinces have run balanced budgets for the past several years. This favourable fiscal position has been maintained despite deteriorating economic conditions in the wake of the Asian crisis. Manitoba and Saskatchewan expect a small surplus in 2000/01, while Alberta's surplus is now expected to be $5 billion. The Prairies' public debt has fallen from over 30 per cent to less than 20 per cent of GDP. Alberta has made the largest contribution to this trend, having recently eliminated its net debt.

Prince Edward Island and Newfoundland have managed to significantly improve their fiscal positions in the past few budget years, partly because of strong revenue growth in robust economies. Meanwhile, Nova Scotia and New Brunswick have revised their accounting practices to more accurately reflect the state of provincial finances. New Brunswick is now expecting to record a $21 million surplus in 2000/01. Nova Scotia is expecting a deficit of $268 million in 2000/01, a marked improvement from the $765 million deficit recorded in 1999/2000. In British Columbia, a $1.1 billion deficit for 1999/2000 has recently been revised to a $52 million surplus, and a balanced budget is expected in 2000/2001.

Wages and prices

Wage settlements have moved up moderately in all regions except British Columbia.[8] From 1998 to 1999, wage growth in an average agreement rose from 1.7 to 2.2 per cent. The momentum was slightly stronger in private sector agreements and in settlements in Manitoba and Alberta. For example, private sector agreements in Alberta averaged 5.1 per cent in 1999. More recently, average private and public sector wage increases ranged from 0.6 per cent in British Columbia to 3.8 per cent in neighbouring Alberta. Wage settlements in eastern Canada are close to the national average of 2.3 per cent.

Increases in the consumer price index (all items) have recently ranged from 1.5 per cent in British Columbia to 4.8 per cent in Prince Edward Island. This index has been heavily influenced by the differential regional effects of recent increases in energy costs. The spectrum of consumer price inflation when food and energy are excluded is much less variable from province to province, ranging from 0.9 per cent in British Columbia to 1.8 per cent in Alberta. British Columbia has had one of the lowest inflation records since 1996, owing to slow economic growth, a tuition freeze, and weak housing costs. This represents a strong reversal of the situation in the early 1990s when British Columbia consistently posted the highest inflation in the country, as high output growth put pressure on capacity.

Prospects and risks

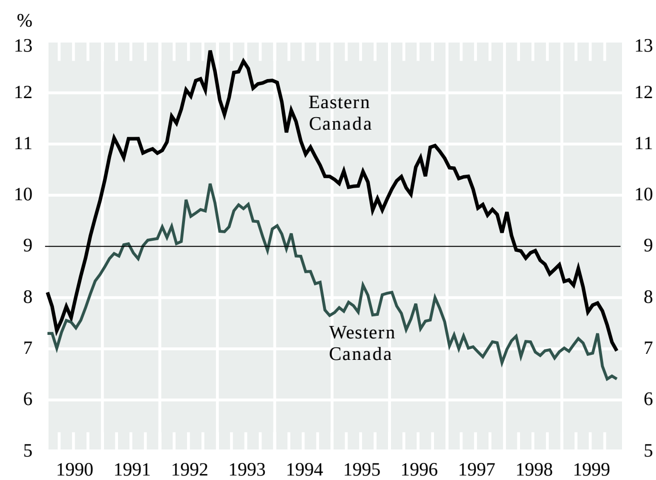
Prior to the Asian crisis, western Canada (west of Ontario) led the economic recovery from the 1990–91 recession. In January 1997, for example, the unemployment rate in eastern Canada (east of Manitoba) was much higher than in western Canada (Chart 8). During and after the Asian economic crisis, major sectors in the Prairies and British Columbia suffered setbacks, and unemployment rates in western Canada remained stuck at 7 per cent. In contrast, eastern Canada benefited from the strong pace of expansion in the United States, and unemployment rates fell rapidly. With the crisis now over, economic conditions have remained robust, or are improving quickly, across all five regions. Regional labour markets continued to gain strength in 1999 and the first half of 2000.

Consumer spending will likely continue to respond to these stronger labour market conditions. Central Canadian (Ontario and Quebec) consumers are expected to continue to contribute heavily to overall growth in household consumption this year and beyond. Consumer spending in Alberta is expected to grow at rates close to those of central Canada, driven by very strong gains in both population and incomes. In the other western provinces, consumer spending is expected to rebound slowly as economic conditions in Manitoba, Saskatchewan, and British Columbia

Chart 8

Unemployment Rate

Seasonally adjusted



Source: Statistics Canada

8. Wage-settlement data are obtained from *The Wage Settlements Bulletin* produced by Human Resources Development Canada. This report's coverage of wage settlements is estimated to be 55 per cent of the unionized workforce and 20 per cent of the non-agricultural, paid, employed workforce.

improve. In Atlantic Canada, retail sales growth remains close to the national average.

Foreign demand for Canadian goods and services is expected to remain a solid source of output growth in 2000. While agricultural and lumber prices have come under some downward pressure, international prices for other Canadian-produced commodities (such as oil, natural gas, and base metals) have strengthened over the past year. For the oil and gas sector, these factors are already spilling over into better-than-anticipated exploration and investment activity. Investment intentions for Alberta are 8.4 per cent higher this year than investment levels in 1999. Lower office vacancy rates in major Canadian cities are also expected to generate commercial construction activity this year and next. Growth in investment intentions in Quebec and Ontario for 2000 is 5.4 per cent and 7.5 per cent, respectively. On the other hand, several major projects hit peak construction levels during 1999. This could dampen growth for 2000 in the provinces affected—Manitoba, Saskatchewan, and the Atlantic provinces. Public and private investment in British Columbia is expected to grow by 5.3 per cent in 2000.

While the strength and sources of output growth vary from region to region across Canada, all five regions share the risks that have recently been highlighted in the Bank's *Monetary Policy Report*. These risks pertain primarily to greater pressures on capacity as Canada's output gap narrows because of strong demand from foreign and domestic sources. As discussed above, a growing list of firms, industry associations, and key regional contacts also point to shortages. In particular, labour shortages, which were once limited to high-tech industries, are now broadening to include the construction trades, truck transportation, engineering, food services, and accommodation. Assessing the evolution of these risks to the Canadian economic expansion will continue to be a focus of regional liaison activities in the months ahead.

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