



Business Council *of*
British Columbia

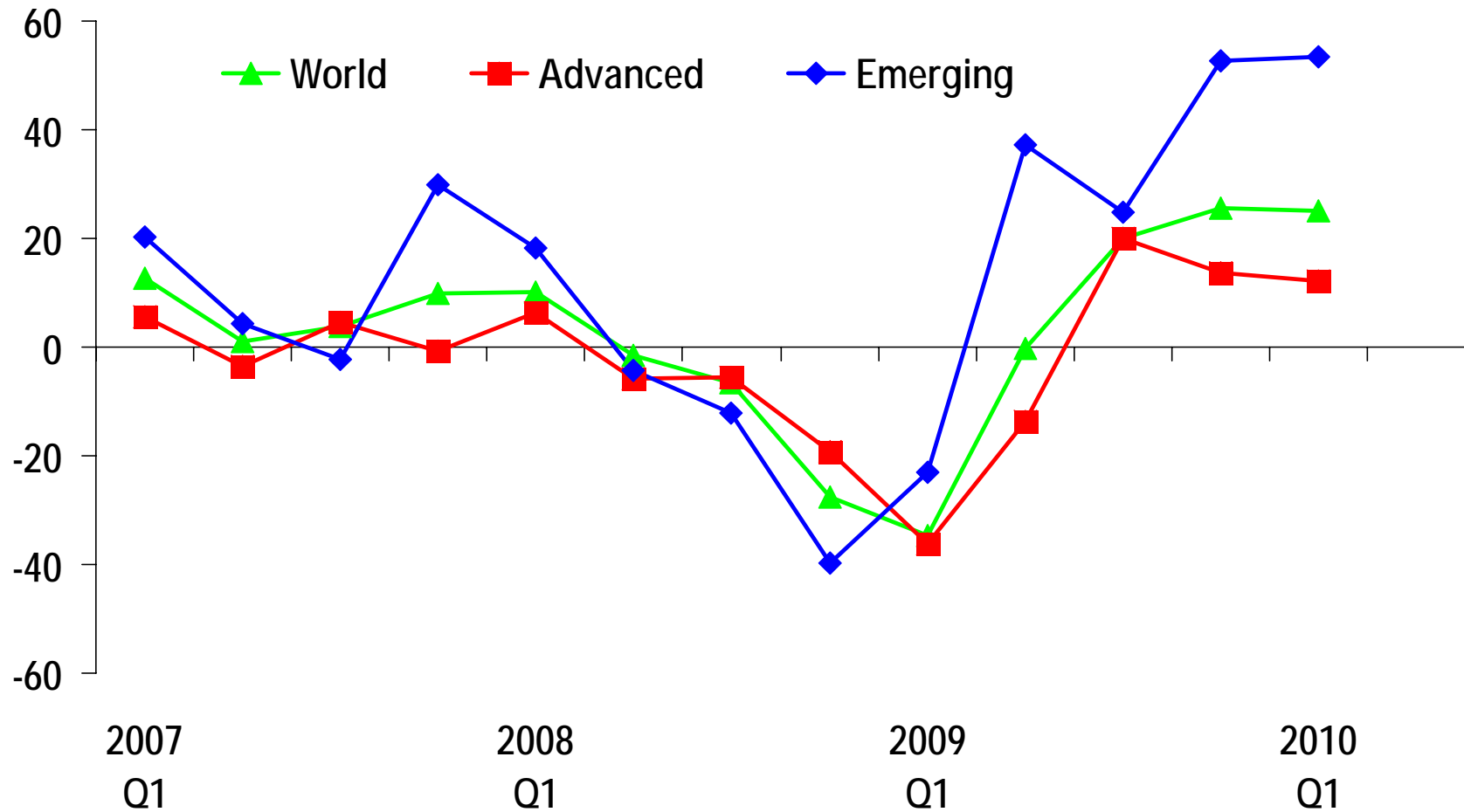
Setting the Stage: Economic Outlook and Key Trends

Presented to: Capital Ideas 2010
October 26, 2010

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World Trade Gymnastics

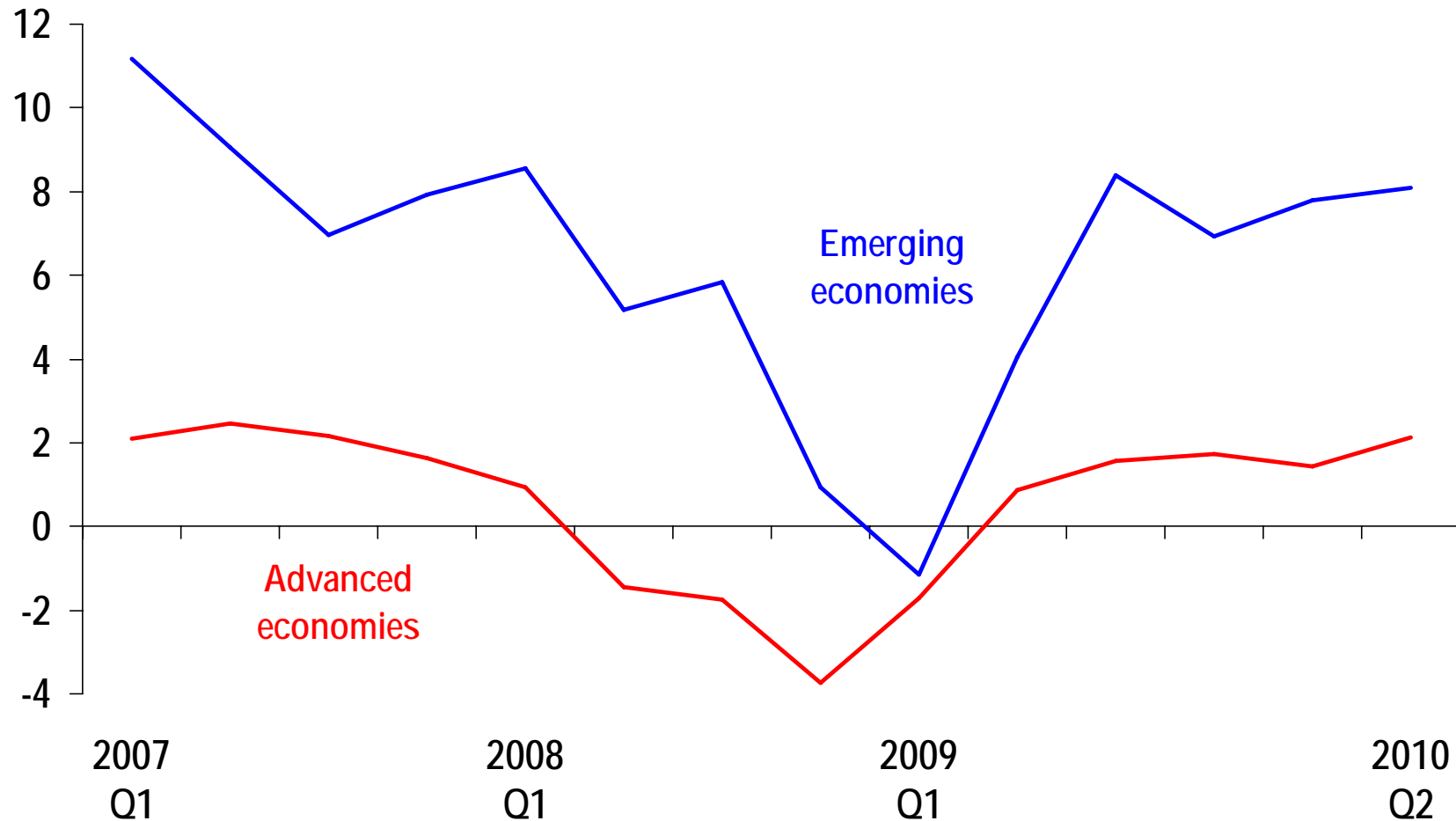


Source: CPB Netherlands Bureau of Economic Policy Analysis; and IMF staff calculations.



Global Private Consumption

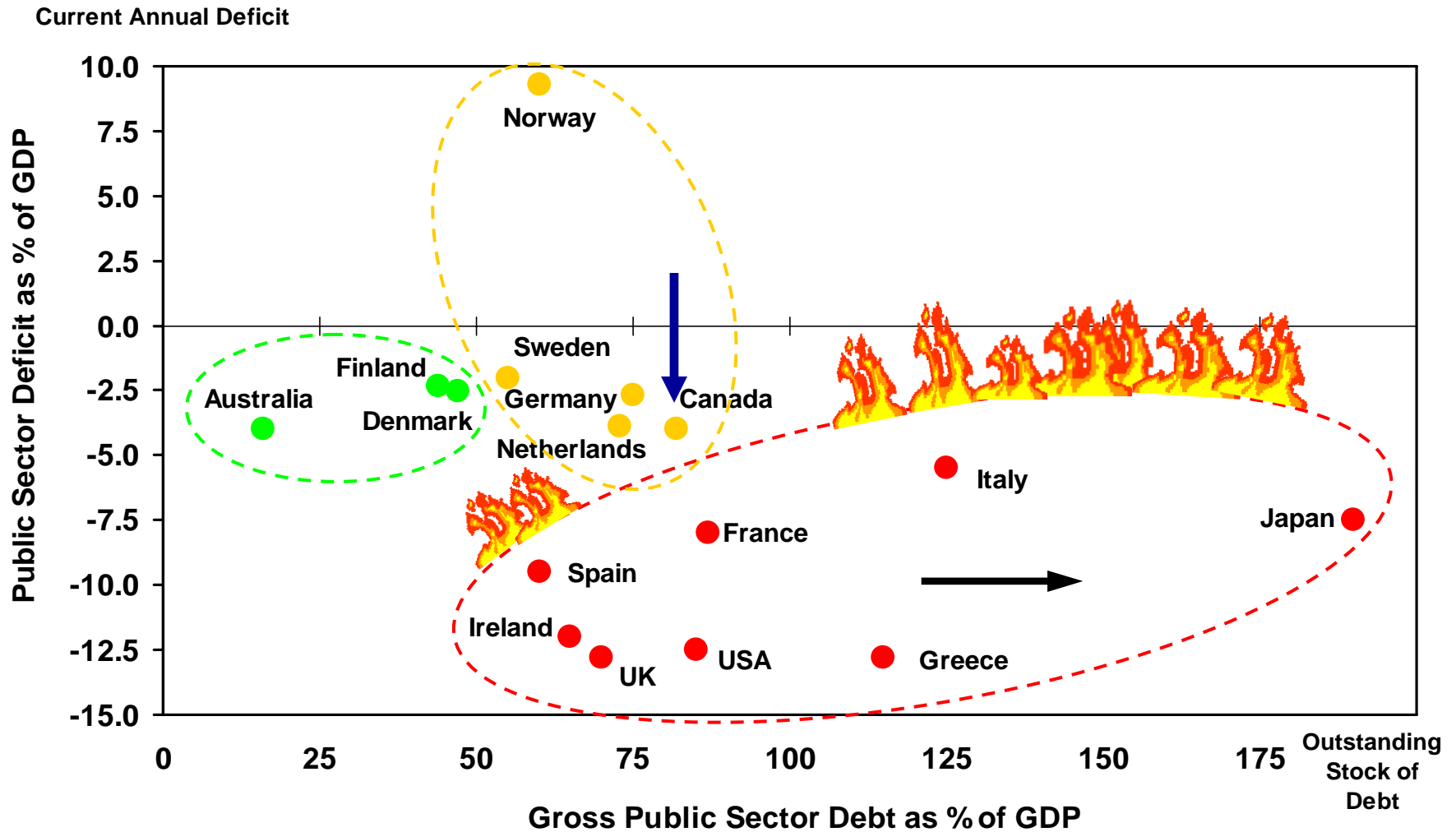
(annualized % change real GDP, from preceding quarter)



Source: IMF staff estimates.



Fiscal Trends: The 'Ring of Fire'



Source: PIMCO.



Latest Economic Forecast

	Share of real global GDP (per cent)	Projected growth (per cent)		
		2010	2011	2012
United States	20	2.7	2.3	3.3
Euro area	15	1.7	1.1	1.7
Japan	6	2.9	1.3	2.3
China	13	10.3	9.0	8.9
Rest of the world	46	5.2	3.6	3.5
World	100	4.7	3.5	3.8



Characteristics of the 'New Normal'

- De-leveraging (households, government) and years of balance sheet repair will constrain economic growth in most advanced economies
- Greater concern over possible sovereign defaults
- Growth momentum shifts to emerging economies
- Sluggish increases in nominal GDP and incomes point to relatively subdued equity market returns going forward
- Risk of 'currency wars', trade protectionism, & rising international economic tension

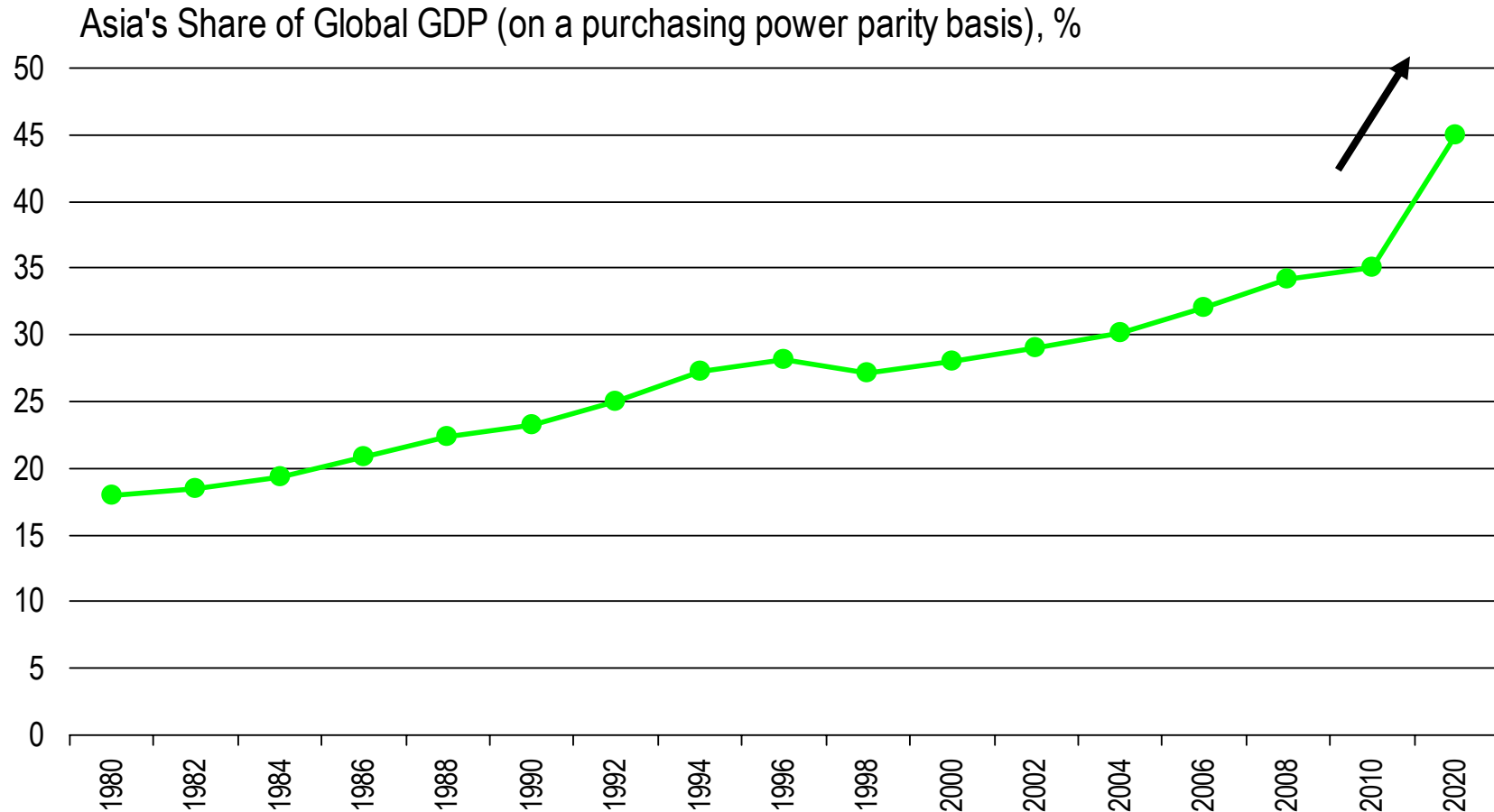


China Looming Larger

- ▶ World's #1 exporter
- ▶ Surpassed Japan as the second biggest national economy
- ▶ Accounts for 12-15% of global imports
- ▶ Largest foreign currency reserves
- ▶ In most years, China is #1 destination for inbound direct foreign investment
- ▶ Biggest global consumer of coal, steel, copper, cement, iron ore, aluminum, etc.
- ▶ In 2009, eclipsed the US as the world's largest market for new vehicle sales



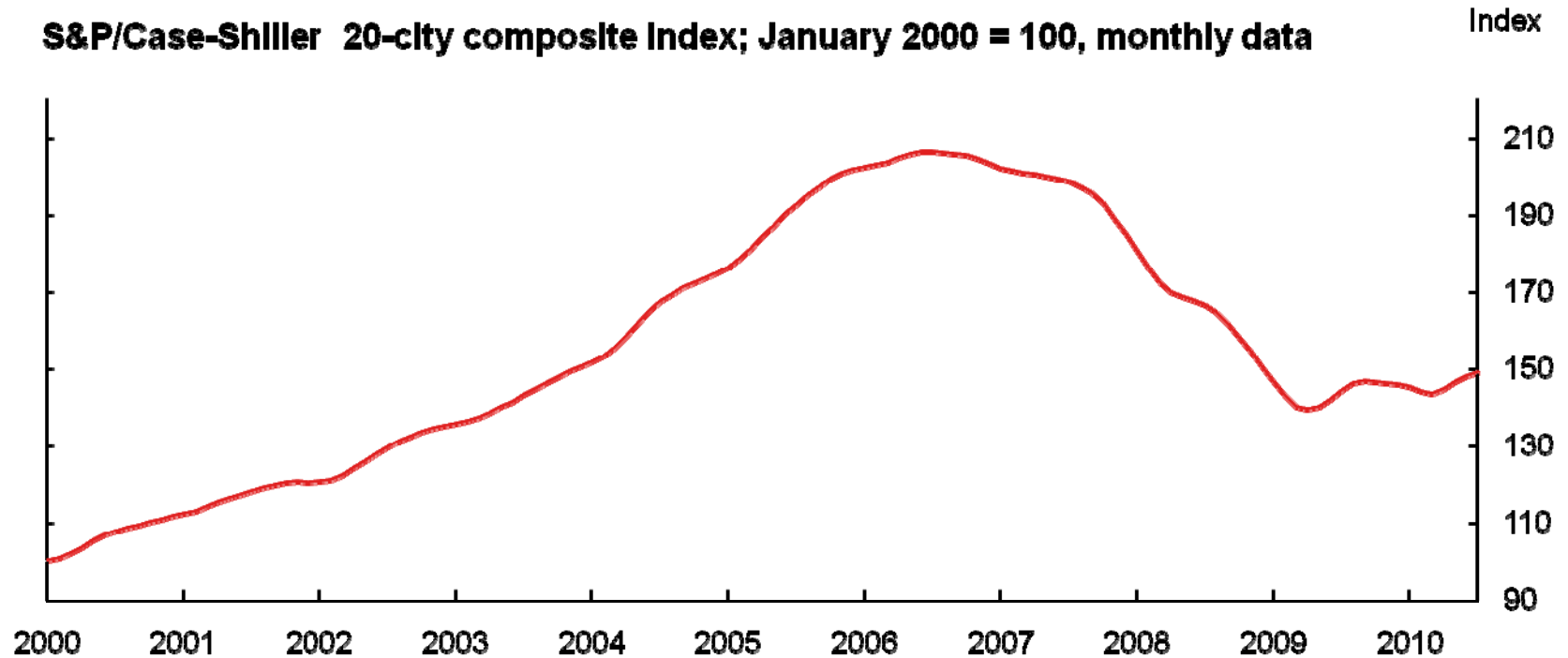
Asia Accounts for a Growing Share of Global Output



Source: International Monetary Fund.



American Housing Prices Down Sharply From 2006 Peak

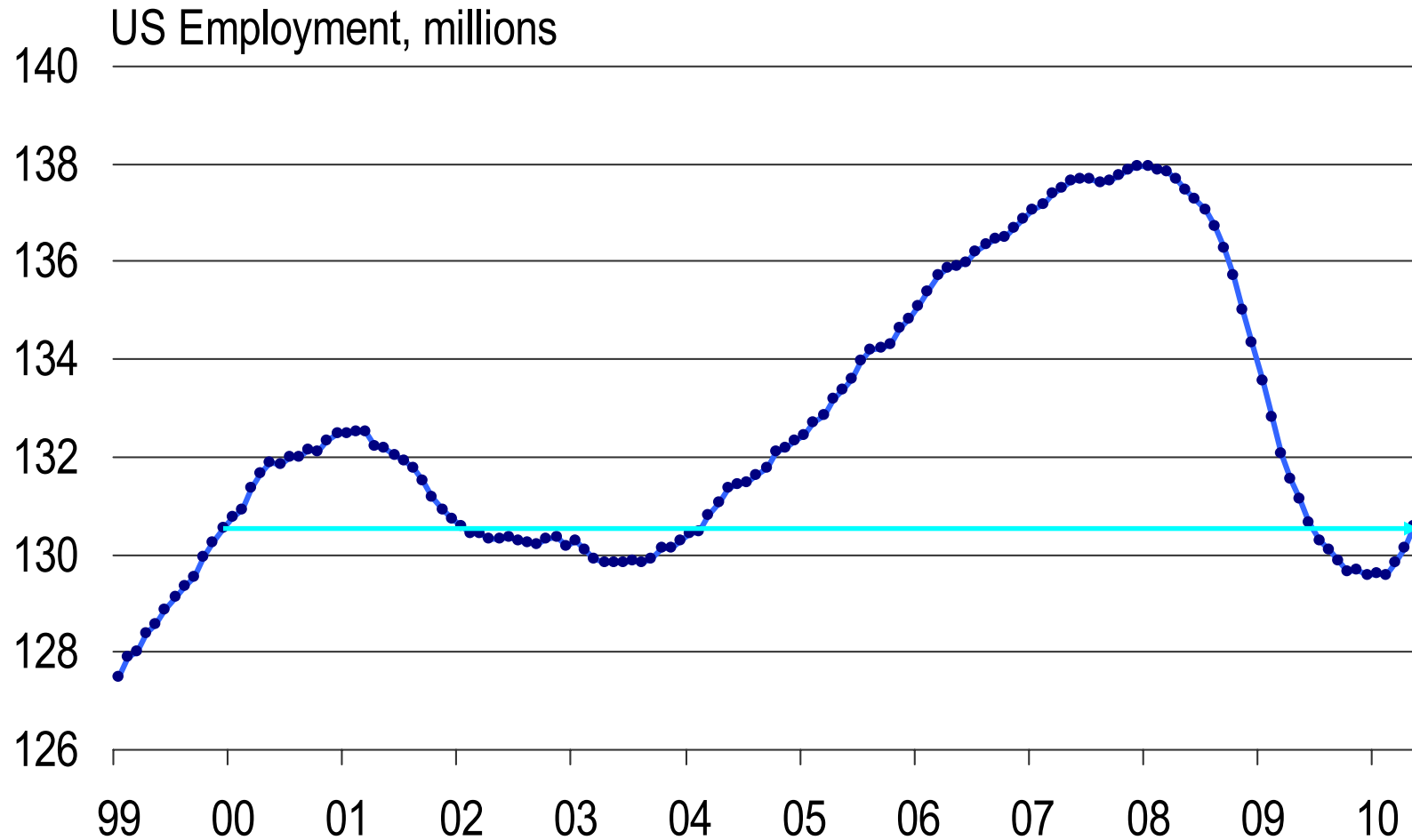


Source: Standard&Poor's

Last observation: July 2010



A Lost Decade for US Jobs



Source: US Bureau of Labour Statistics, seasonally adjusted.



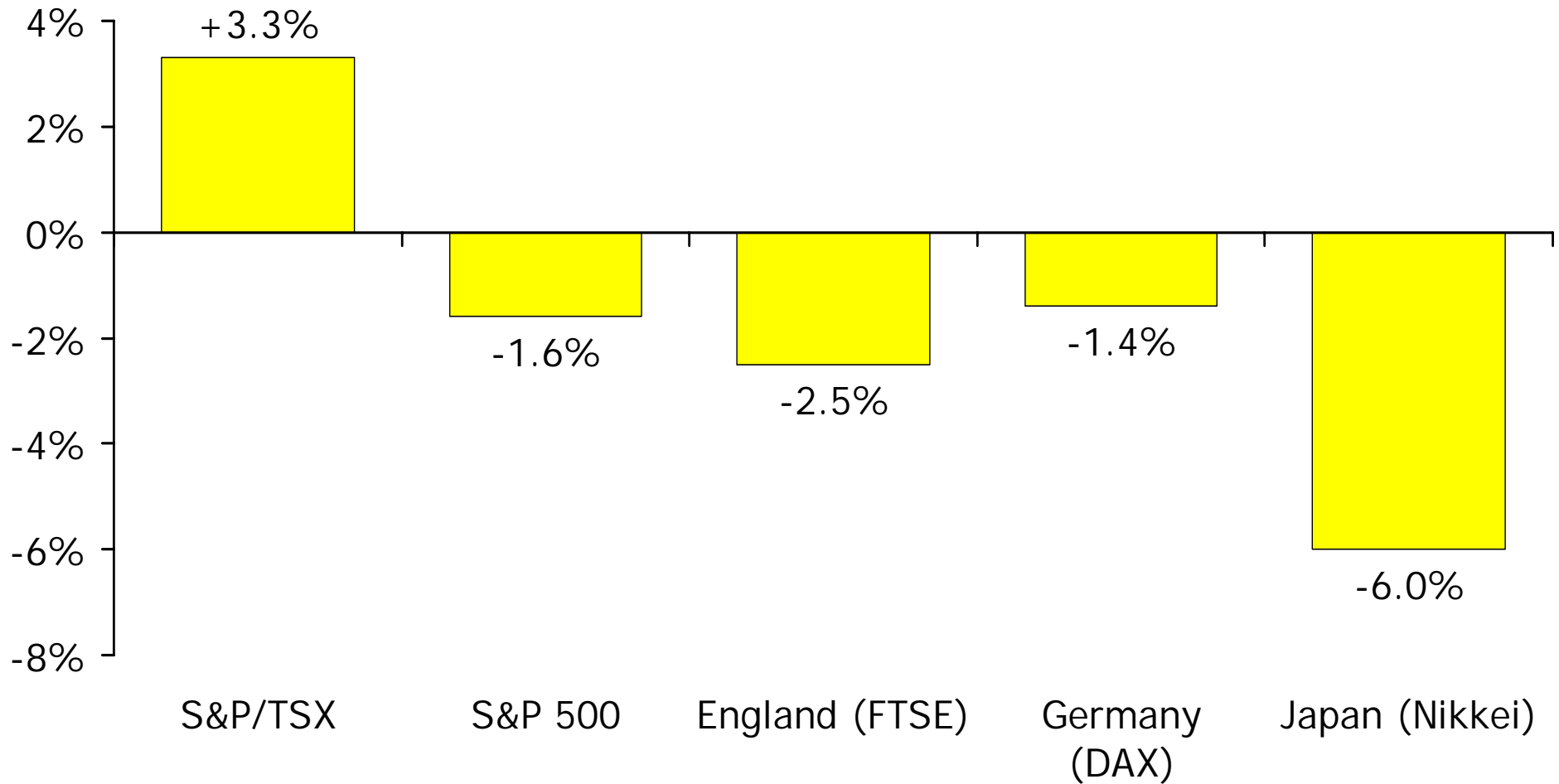
Further Thoughts on US Economy

- ▶ Consumer outlays = 70% of GDP
- ▶ Half of the 'officially' unemployed out of work for > 6 months. Adding 'hidden unemployed' → unemployment rate 15%-16%
- ▶ Drop in household net worth (\$11.7 trillion since 2007 peak) is also crimping consumption
- ▶ 11 million residential properties (23% of homes with mortgages) in negative equity
- ▶ US businesses sitting on mountains of cash



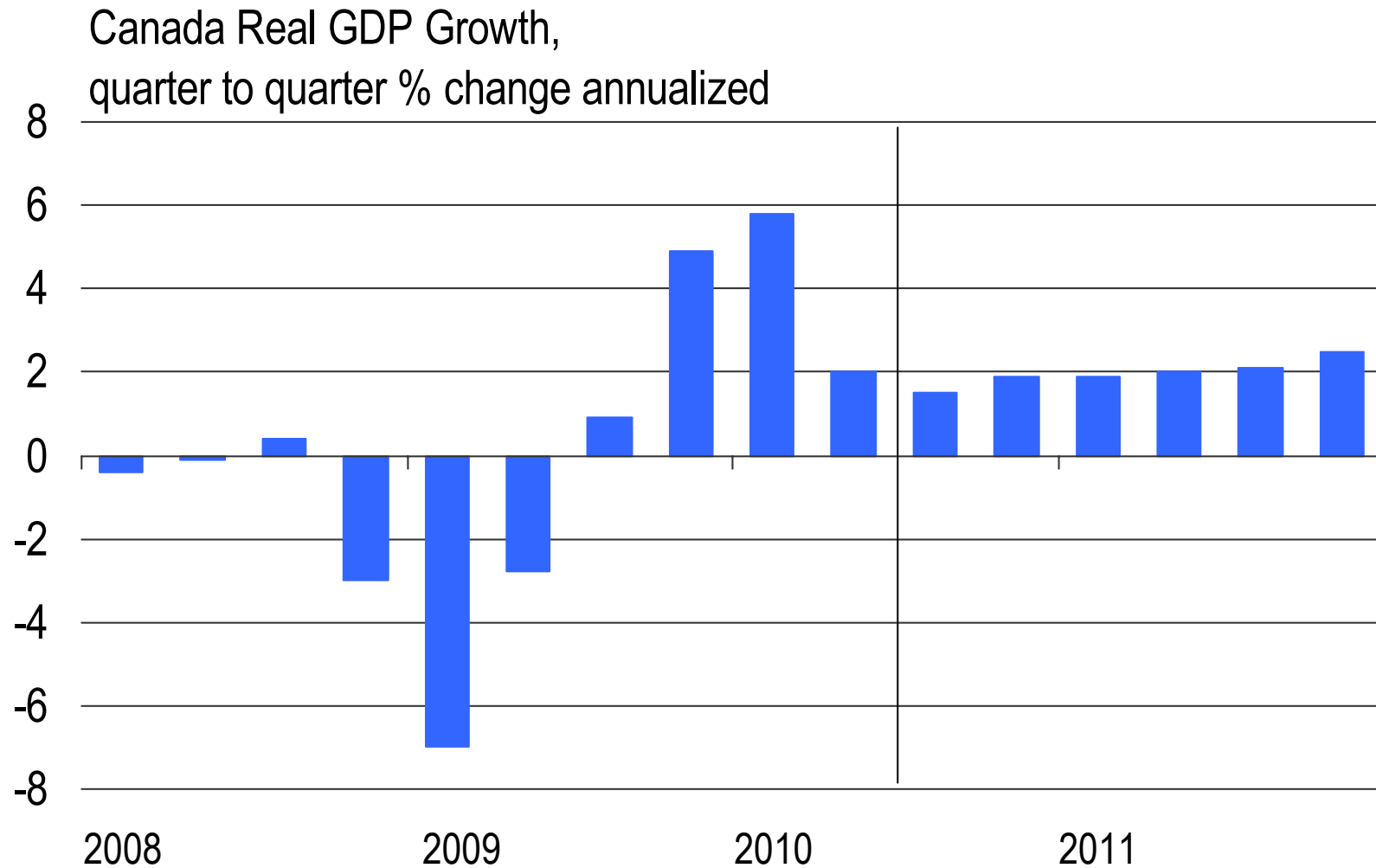
A Brutal Decade for Equity Investors

(Annualized total equity returns, 2000-2009)



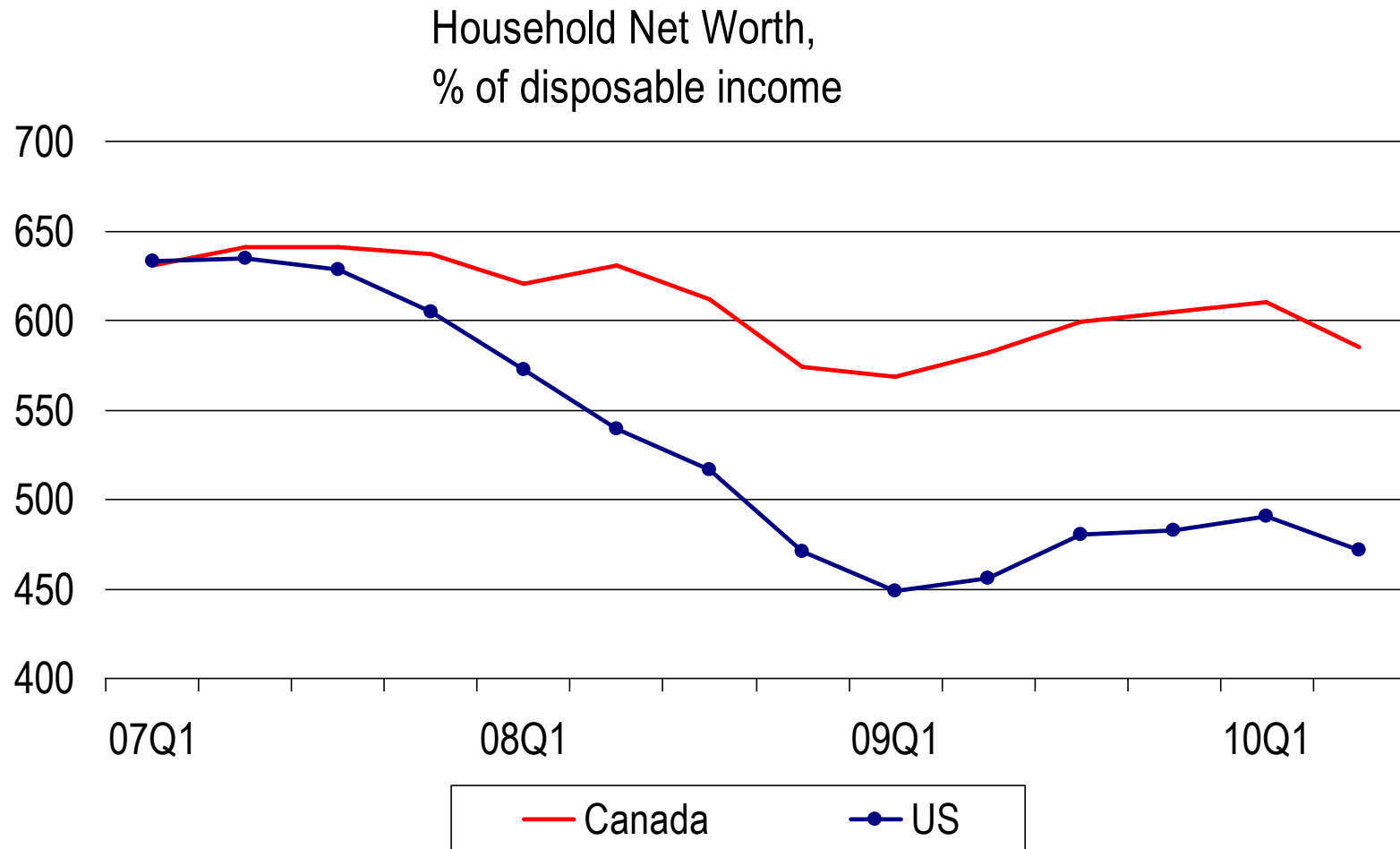


Canadian Economy Downshifts



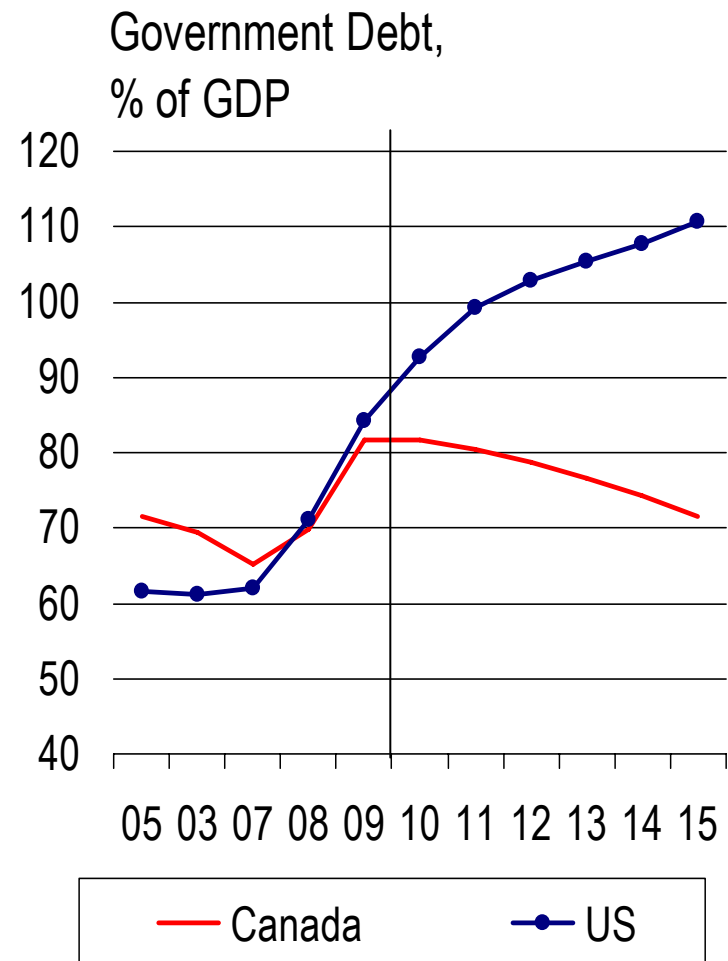
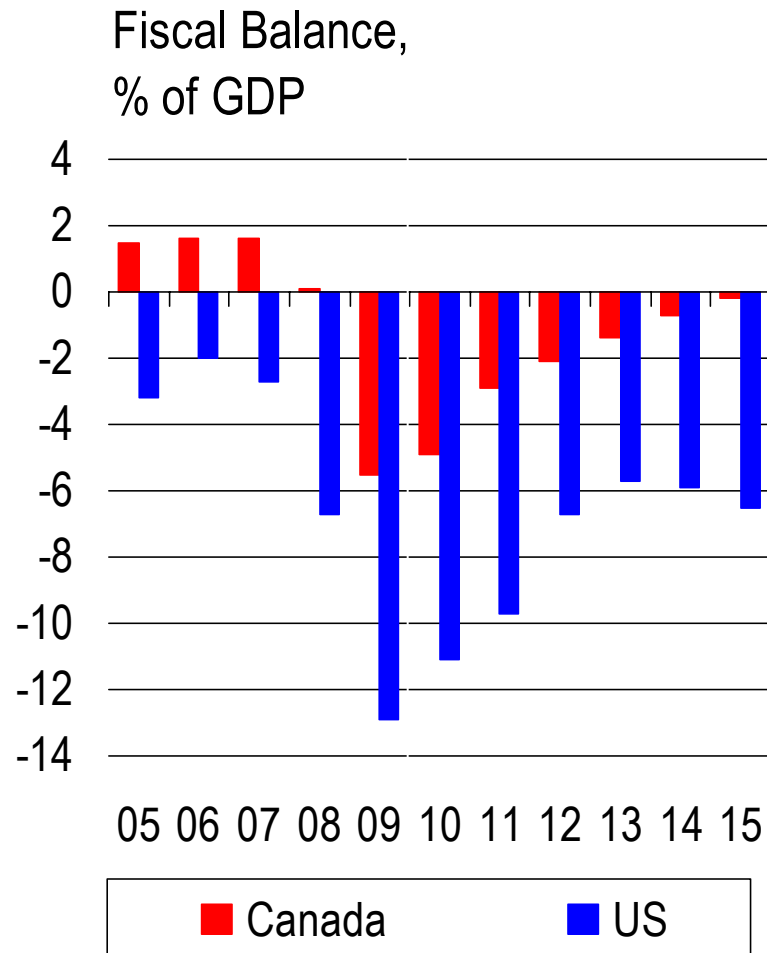


Canada/US Comparisons





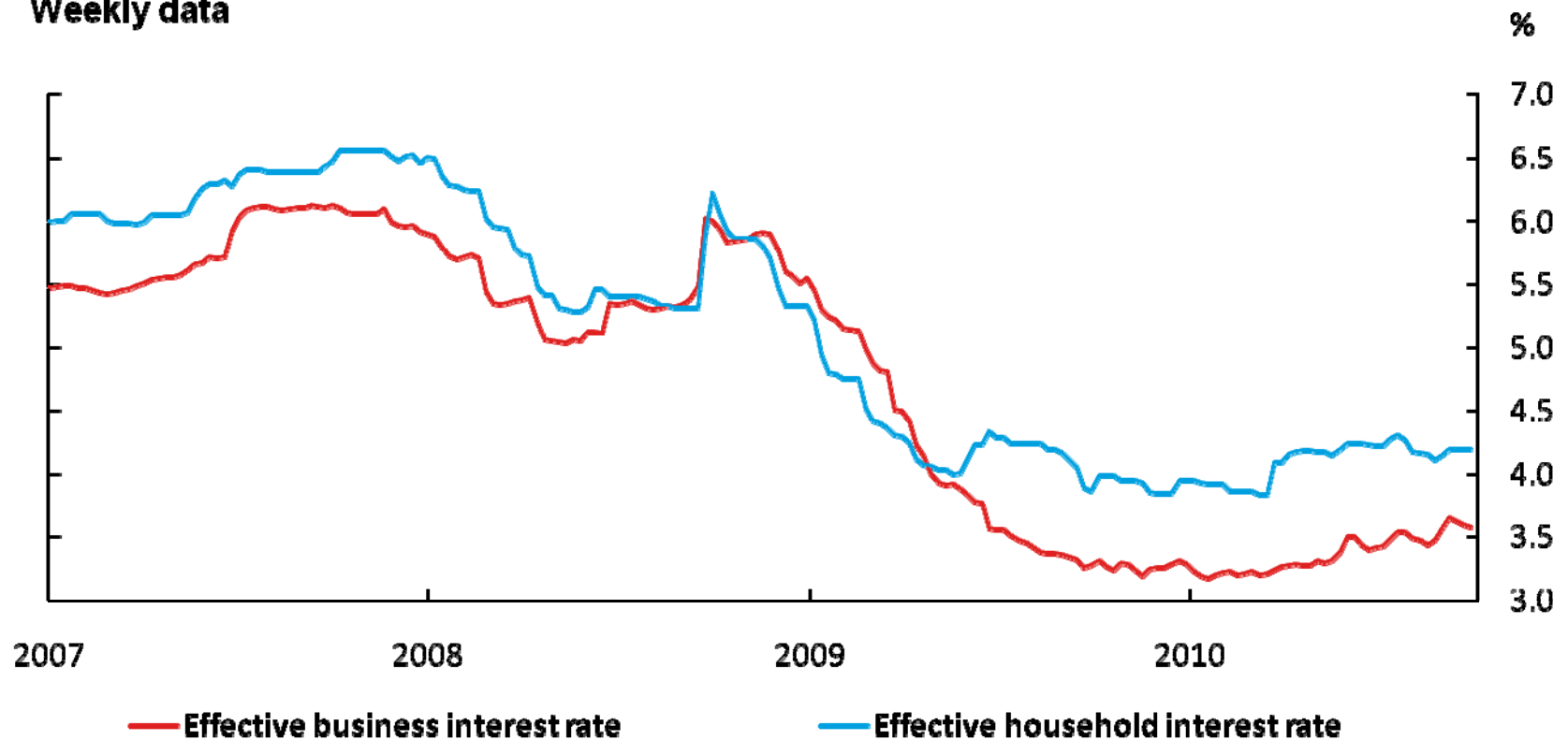
Canada/US Comparisons





Borrowing Costs for Households & Businesses in Canada Remain Low

Weekly data



Note: For more information on these series, see <http://credit.bankofcanada.ca/financialconditions>.

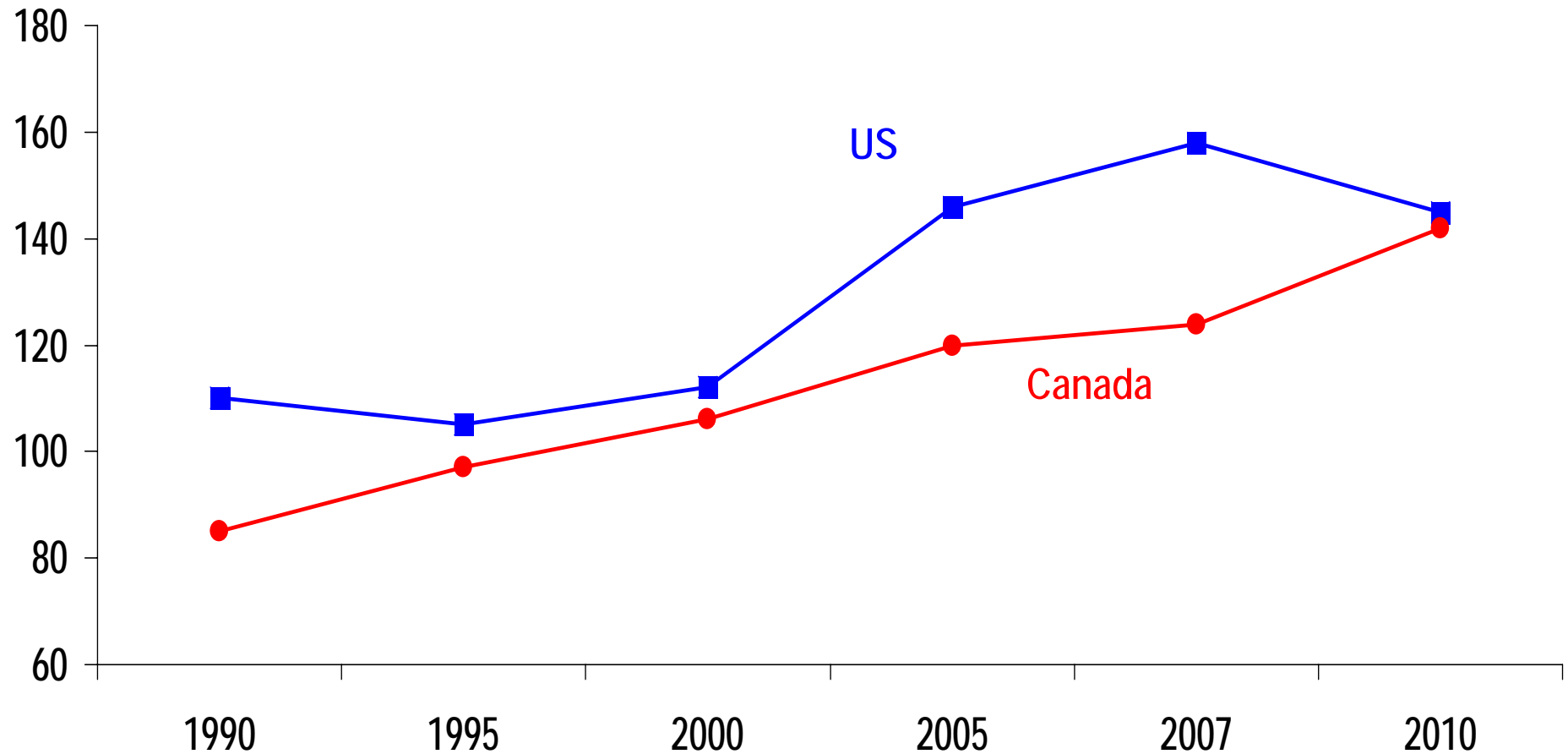
Source: Bank of Canada calculations

Last observation: 15 October 2010



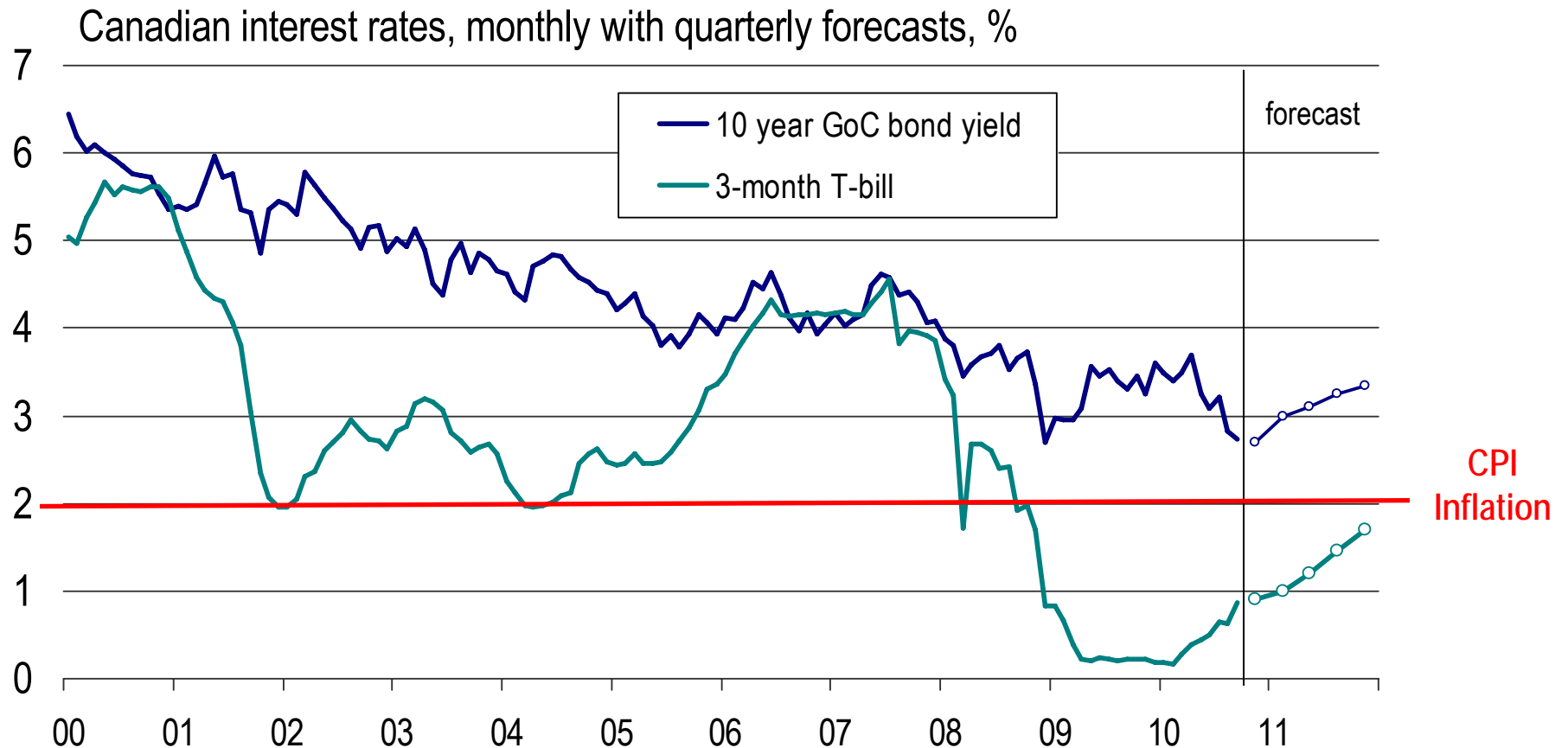
Canadians Become Enthusiastic Borrowers

(household debt as % of personal disposable income)





Canadian Interest Rates Will Edge Higher

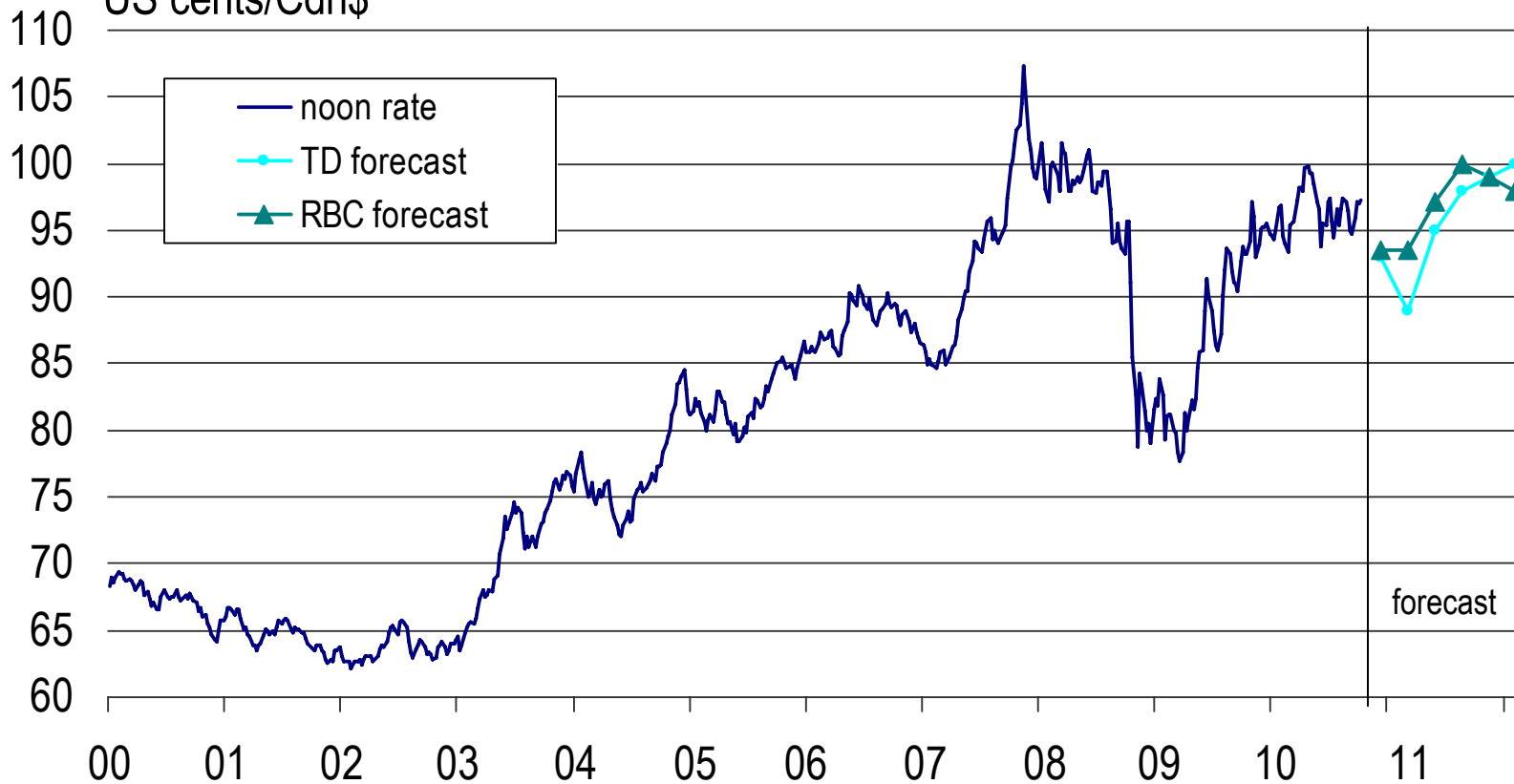


Source: Bank of Canada, TD Economics for forecasts.



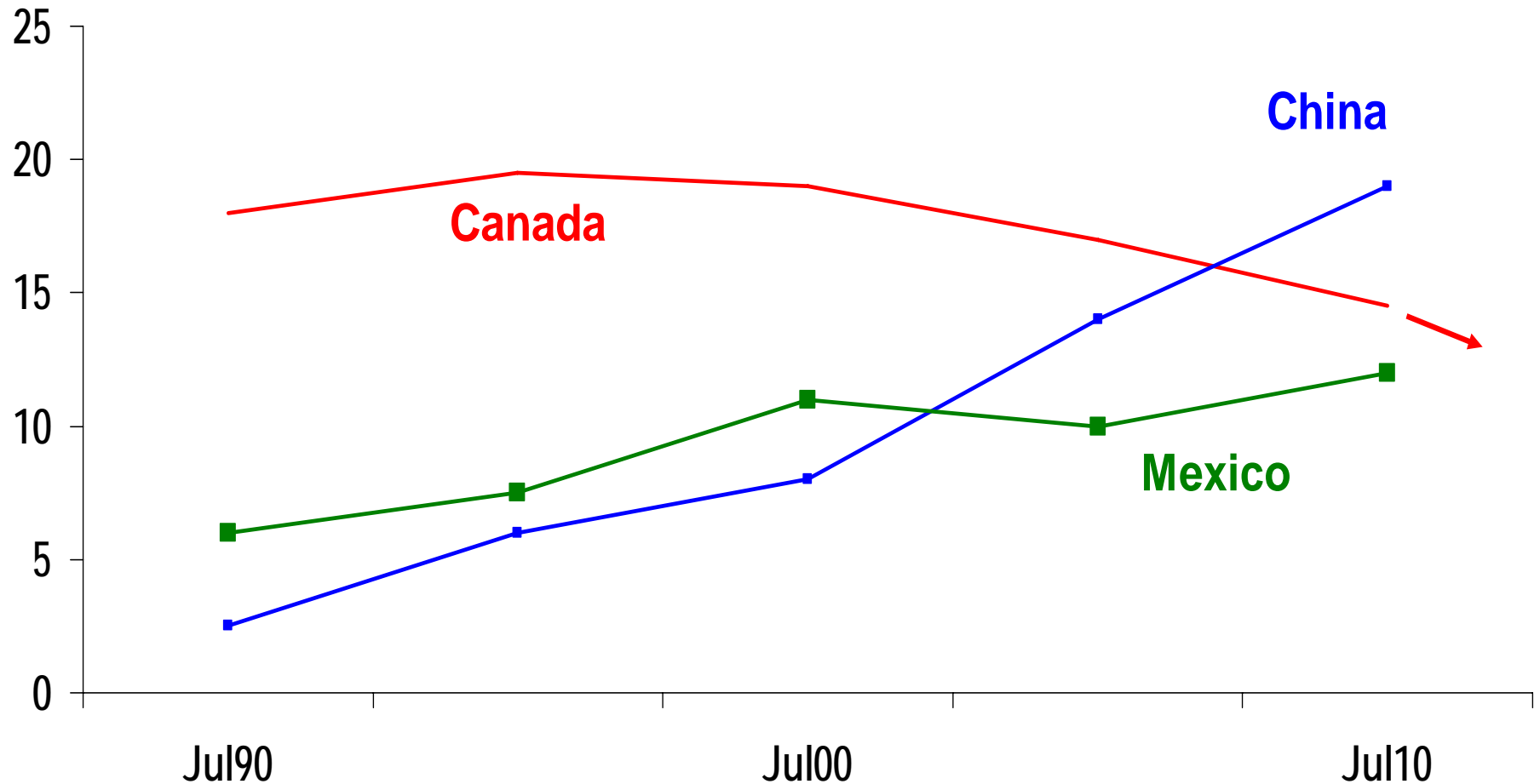
Strong Loonie Re-Shaping the Competitive Landscape

Canada - US Exchange Rate, weekly with quarterly forecasts,
US cents/Cdn\$



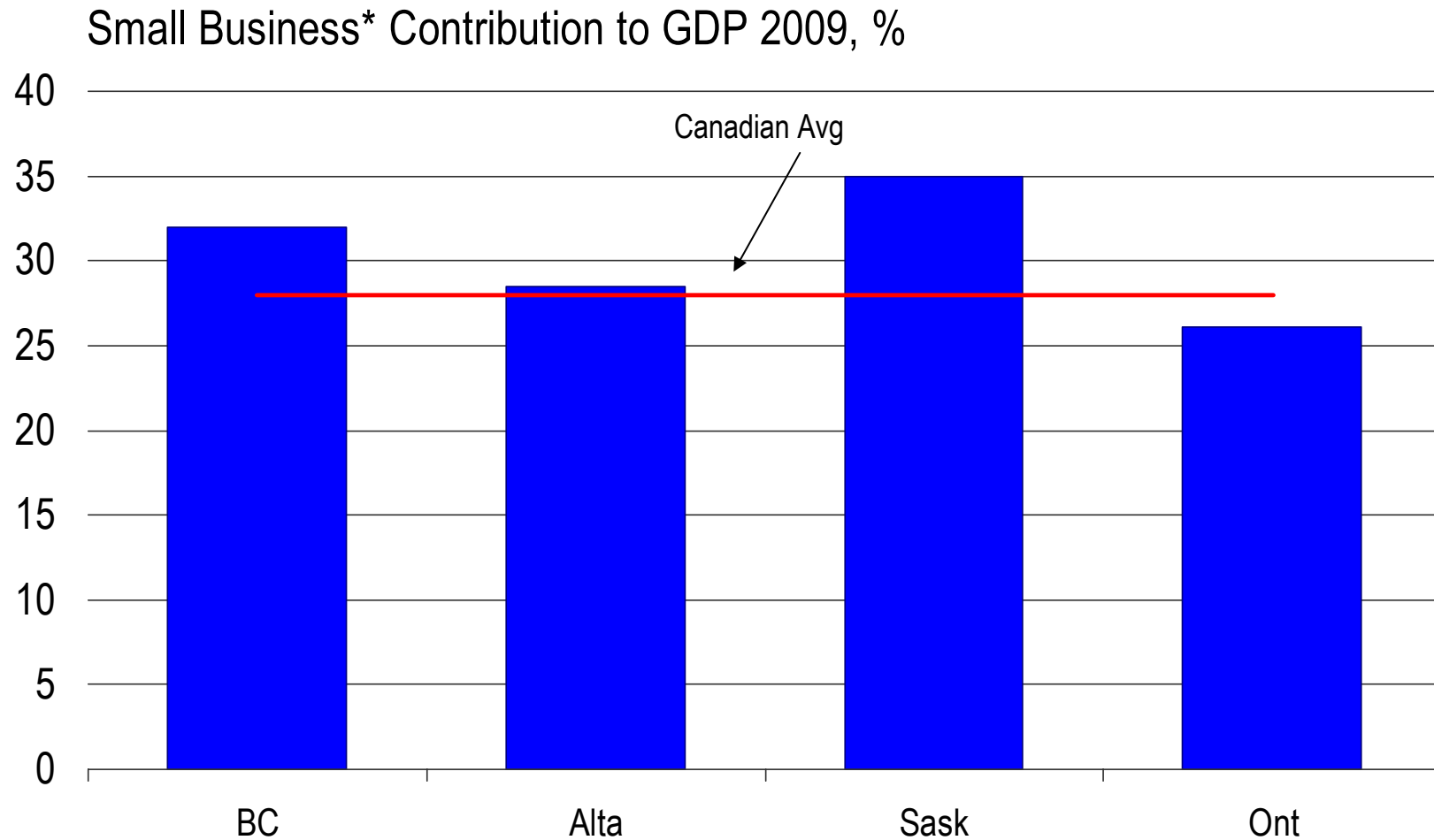


Canada Losing Ground in US Market (share of total US imports)





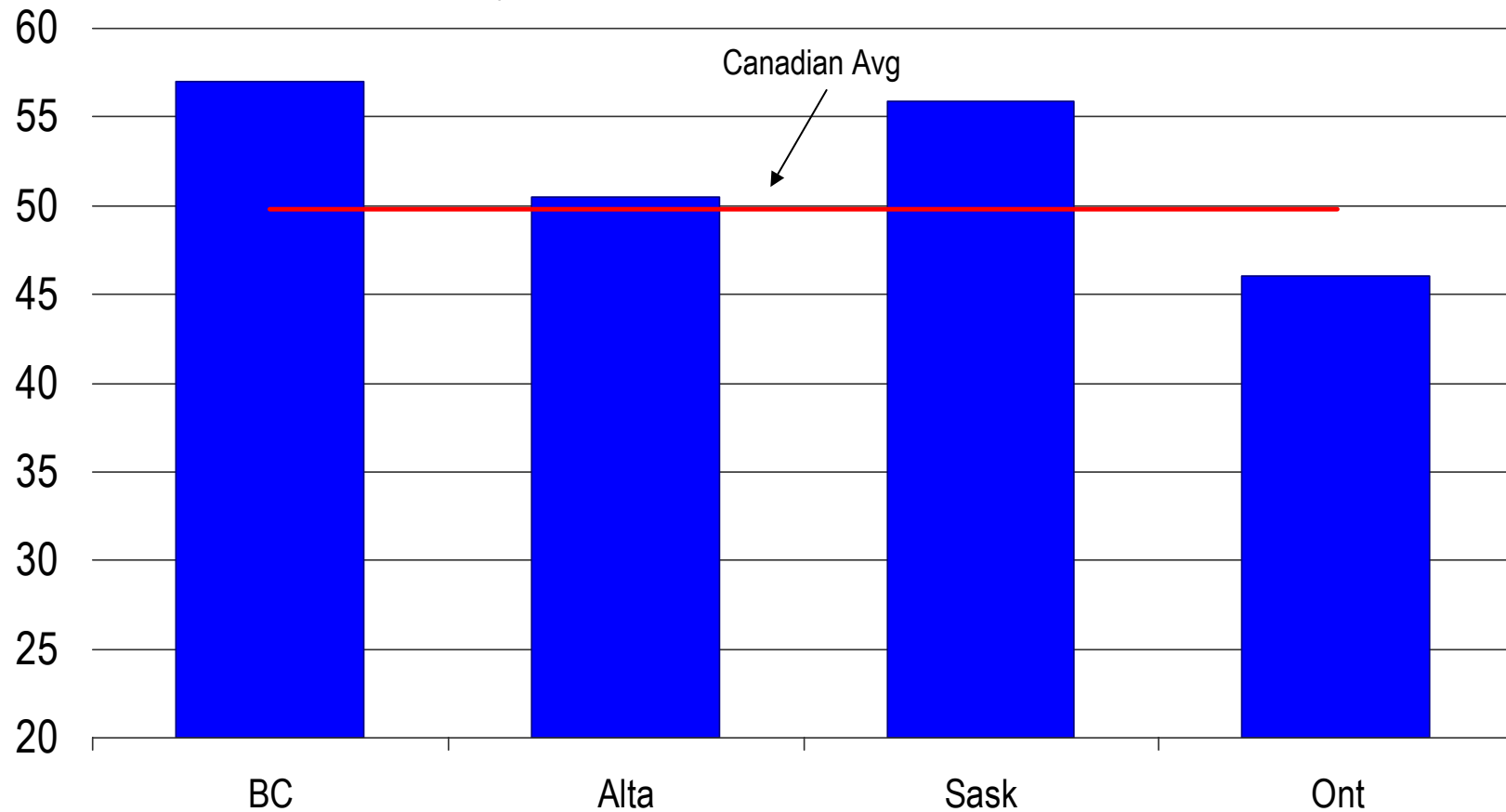
Small Business Contributes More to GDP in West





Small Business Accounts for More Jobs in the West

Small Business* 2009 Employment as Share of Private Sector Employment, %





Few Big Firms in BC

All businesses	391,300
Small businesses, of which:	384,300
No paid employees	216,300
< 50 employees	168,000
'Large' businesses (50+)	7,000

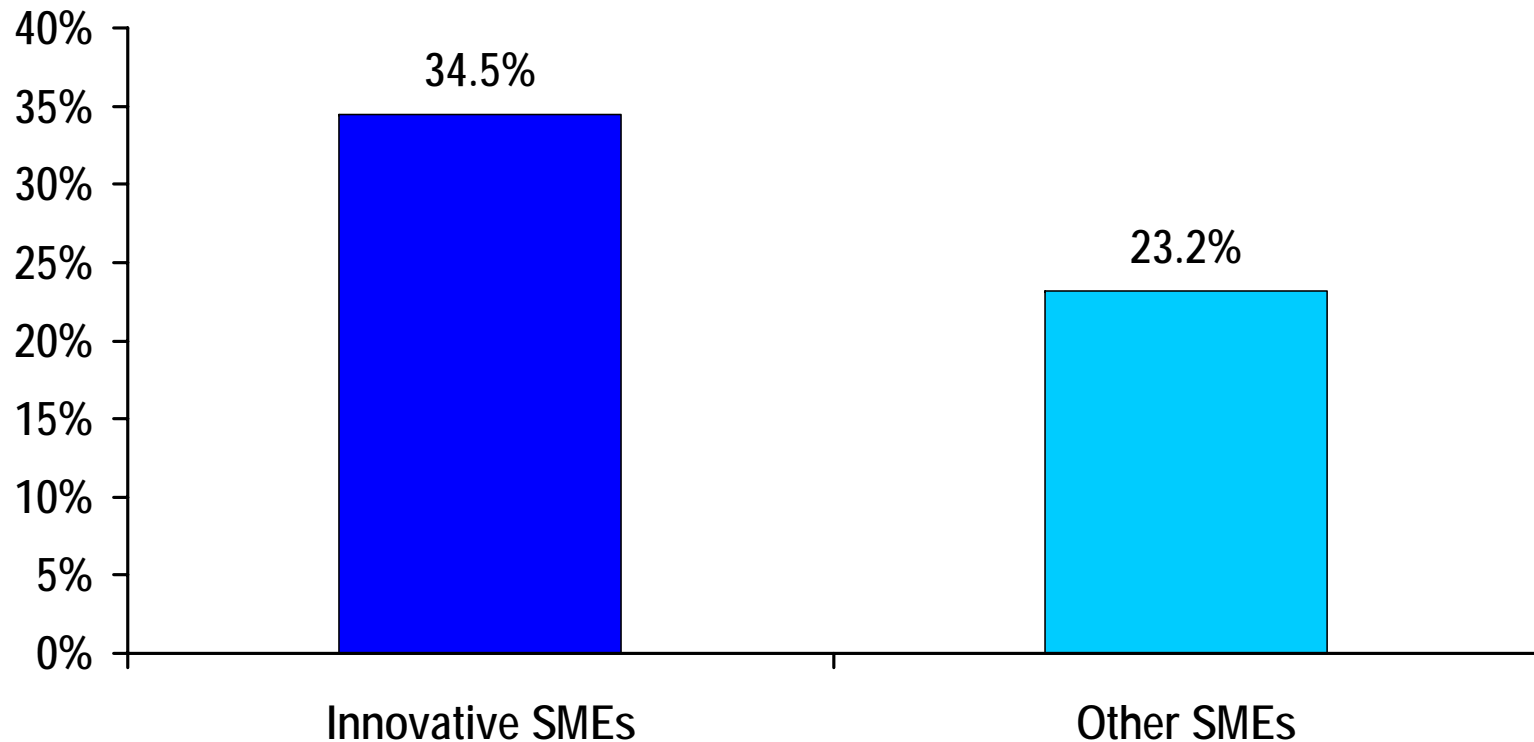


Characteristics of Innovative SMEs

- Innovative SMEs are more likely than other SMEs to...
 - » adopt business strategies geared to achieving rapid growth in sales
 - » focus on exporting
 - » undertake R&D
 - » be less than seven years old
 - » seek external finance, including equity, to fuel their growth



External Finance More Important to Innovative Firms



- ▶ Innovative SMEs, and growth-focused firms generally, have greater external financing needs than other SMEs



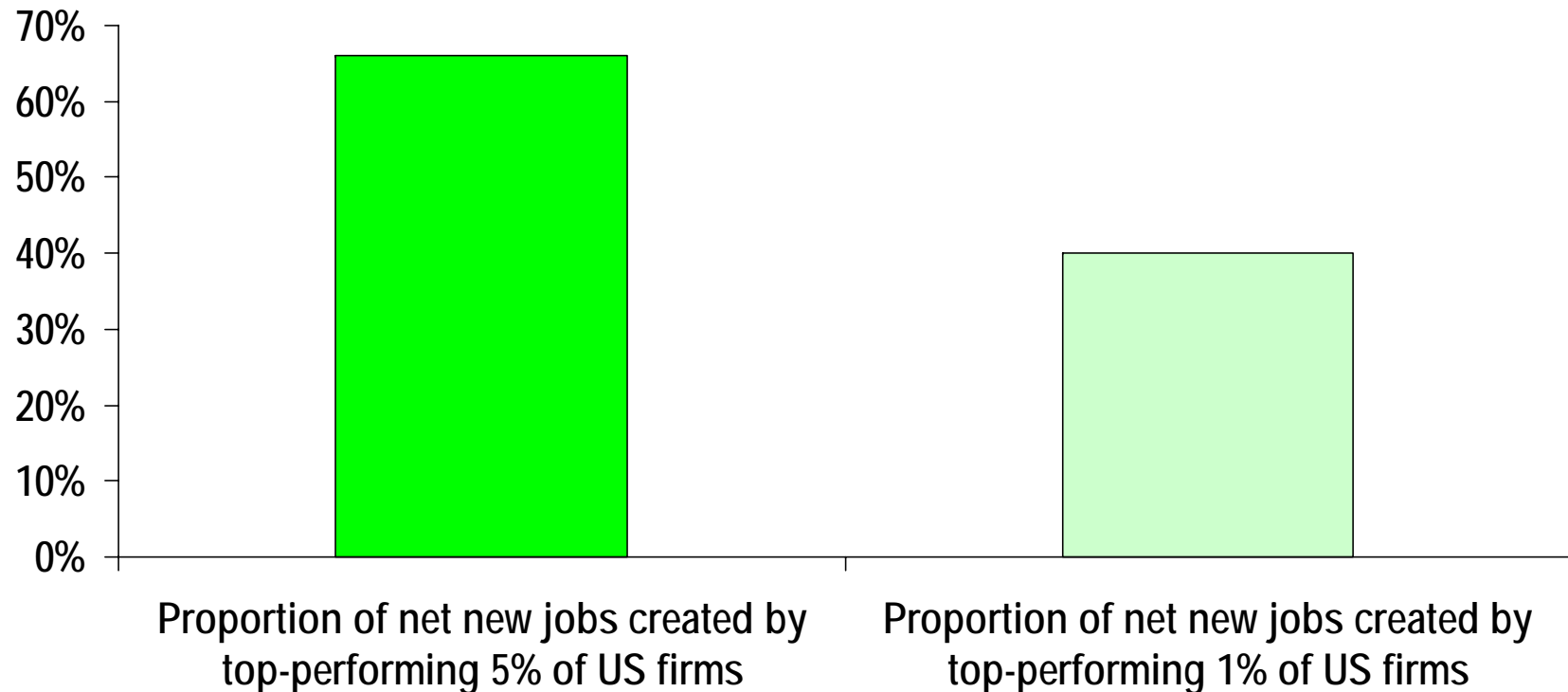
Economic Importance of 'Growth' Companies

- ▶ New research from the Kauffman Foundation* shows that a relatively small number of rapidly growing firms account for the bulk of US net job growth
- ▶ These “gazelles” tend to be relatively young, 10 years or less. They are widely distributed across industry sectors – not all concentrated in ‘high tech’
- ▶ Kauffman’s conclusion: “These super high-growth [companies] become *scale* firms, the next generation of iconic companies”

* Dane Strangler, *High Growth Firms and the Future of the American Economy* (Kauffman Foundation, 2010).



Top-Performing US Firms = Job Generating Machines

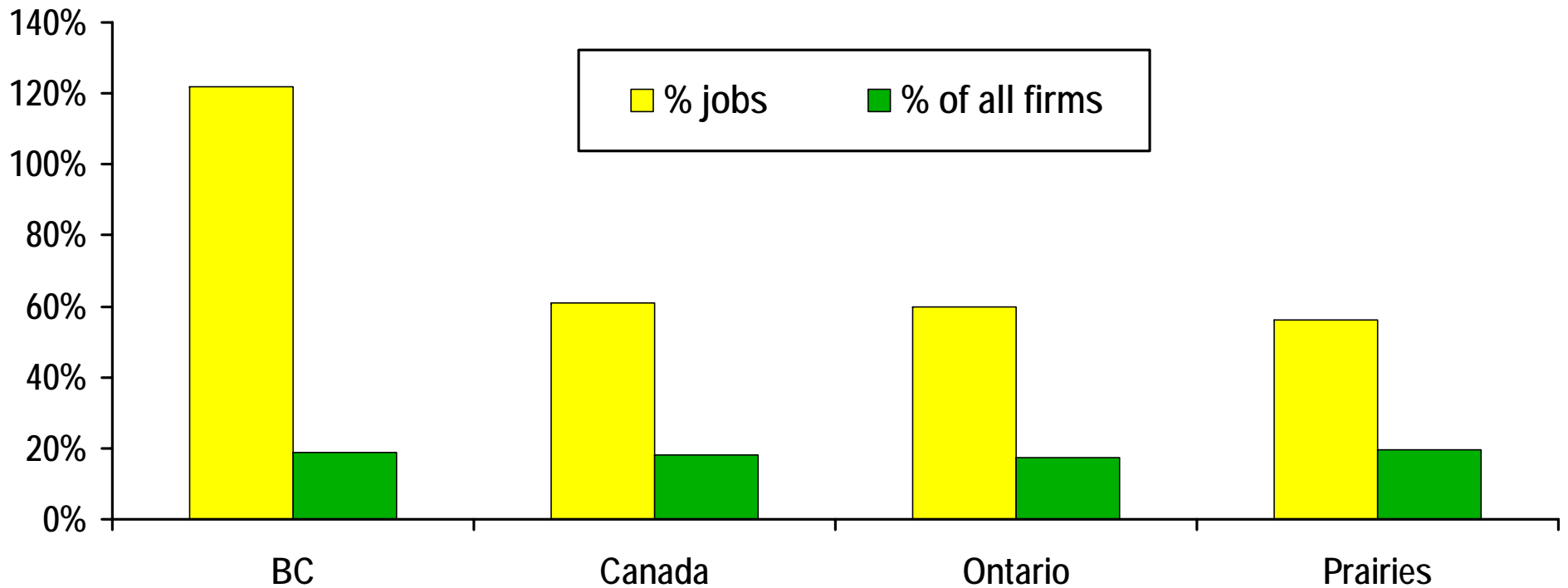


- The top-performing 5% of all US businesses, measured by rates of employment growth, account for most net job creation.



In Canada Too, 'Growth' Firms Create Most New Jobs

(percentage of net new jobs from hyper and strong growth firms* combined, 1993-2002)



- Firms with 50% plus growth in jobs over the preceding 4 years are the main drivers of net employment gains in Canada.



Economic Importance of 'Growth' Companies

- Only 0.5-1.0% of Canadian SMEs can be described as 'gazelles' – the true growth stars. Another 17-18% are 'strong growth' firms.
- Industry Canada 2008 study: "A very small proportion of companies are responsible for the bulk of job creation in our country."
- A key challenge for Canadian policy makers – and also for financial and capital market regulations – is to facilitate the financing of potential high growth SMEs given the disproportionate economic benefits that these firms deliver
- This leads to issues involving access to capital, including equity capital, as well as tax policy, the regulatory environment, and how best to nurture and reward entrepreneurship