

# TOPIC CONFERENCE II: Cities Service Industries Development and Regional Cooperation

## SERVICE INDUSTRY TRANSFORMATION IN THE GREATER VANCOUVER ECONOMY

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November 9, 2005

# 1. VANCOUVER ECONOMIC STRUCTURE 1980 - 1986

- ⑥ Vancouver metropolitan area includes approximately 22 Municipal and Electoral bodies operating on a cooperative basis under the Greater Vancouver Regional District (“GVRD”).
- ⑥ The region’s economic base in the 1980 – 1986 period included various industrial facilities, primarily reflecting vertical integration of resource industries, plus some secondary manufacturing (clothing, chemicals, food processing) and a substantial commercial transportation industry closely linked to import/export trade with external markets. Also a mix of domestically oriented service sectors supplying the local market (e.g., retail, construction, business/professional services).

## Vancouver Economic Structure 1980 – 1996 (cont'd)

- ⑥ The head offices of most major BC-based companies (forestry, mining, utilities) were and still are an important part of the region's economic base.
- ⑥ Vancouver's False Creek area (now the site of the Concord Pacific neighborhood) was an industrial centre with rail yards, sawmills, barrel and other manufacturing plants, warehousing and other industrial infrastructure.

## VANCOUVER ECONOMIC STRUCTURE 1980 - 1986 (cont'd)

- ⑥ The Fraser River had an extensive sawmill and manufacturing operations along its banks primarily driven by the need for the water-borne transport of logs, mineral products and the ease of water and rail export of manufactured goods.
- ⑥ Industry was centered in the City of Vancouver and the City of New Westminster with the outlying communities having much smaller industrial bases.

## 2. ECONOMIC TRANSITION / POST EXPO 86 – THE 1986 – 1996 PERIOD

- EXPO 86 was held on the north shore of False Creek on the site previously occupied by one of the two major rail yards operated by Canadian Pacific Railways (“CPR”). At the same time the CPR rail yard in Coal Harbour (Downtown Vancouver) underwent accelerated redevelopment highlighted initially by the Canada Place development which housed the Canadian Pavilion and the Port of Vancouver cruise ship terminal.

## THE 1986 – 1996 PERIOD (cont'd)

- ⑥ To accommodate that development the industries previously located in False Creek and Coal Harbour relocated and in many cases were integrated into other more efficient facilities elsewhere in the GVRD or simply were wound down by their owners.
- ⑥ During this time, Fraser River industrial utilization continued on a significant scale, as in prior years.
- ⑥ Ongoing expansion and redevelopment of the Roberts Bank Coal Terminal was

## THE 1986 – 1996 PERIOD (cont'd)

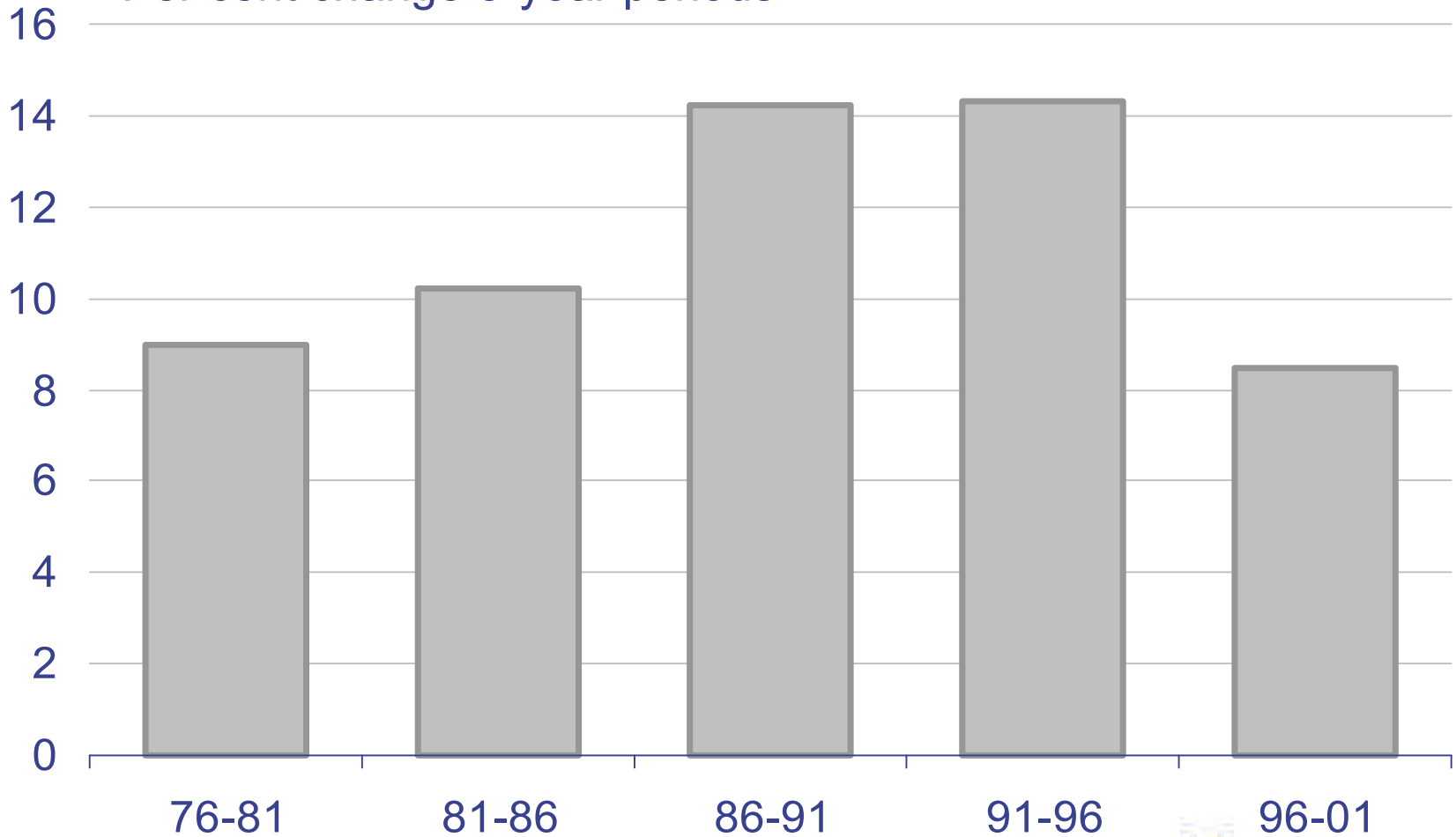
undertaken continuing its development as a major transportation node. However no industrial infrastructure was built around Roberts Bank other than that on site.

- ⦿ This period saw steady population growth in Greater Vancouver, notably a 14% increase in the five year period 1986-1991. In the main this reflected international immigration, but there was also in-migration from elsewhere in Canada plus some natural increase in population (births minus deaths). See Charts 1 and 2

# GVRD Population Growth

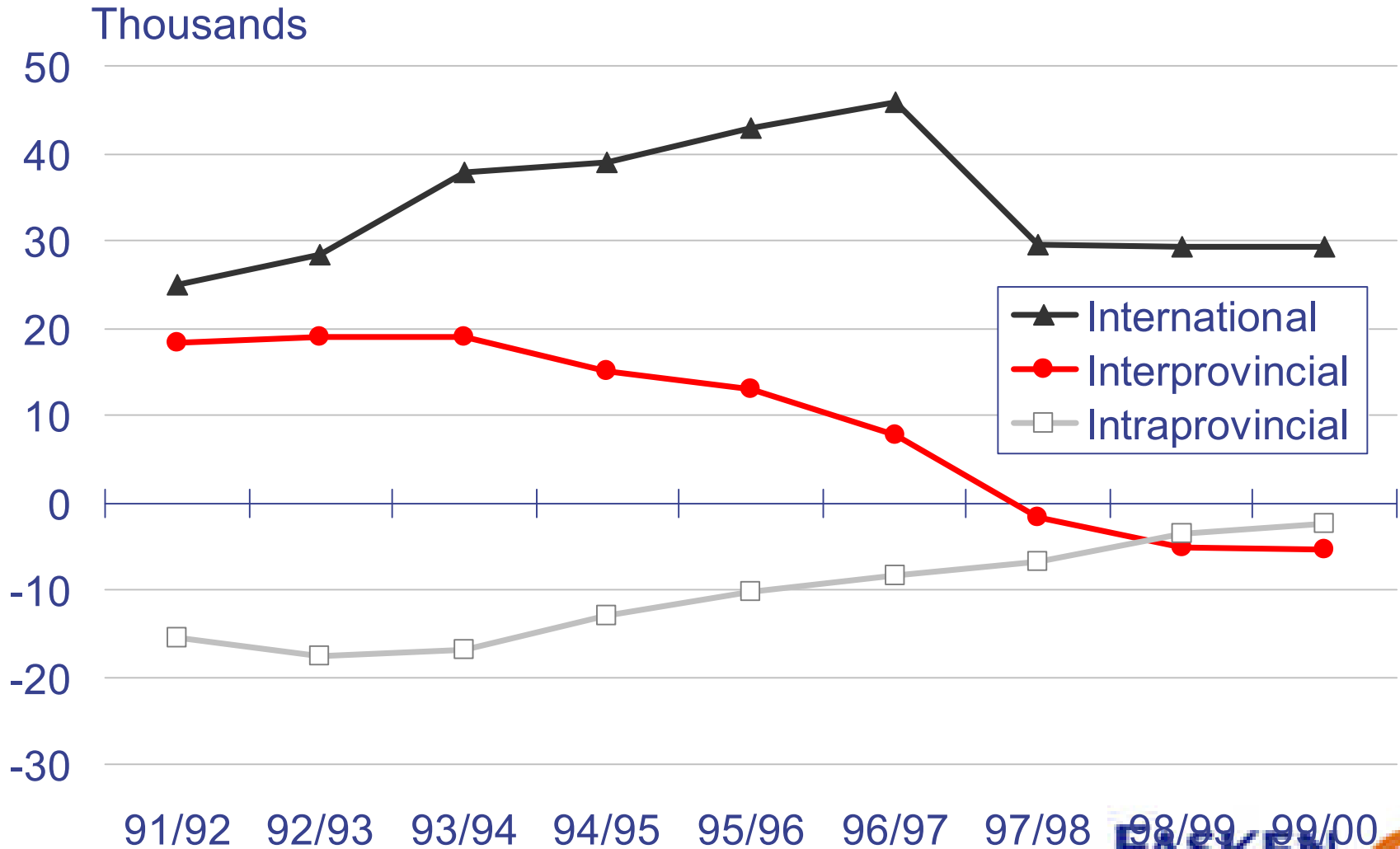
Chart 1

Per cent change 5-year periods



# GVRD Migration

Chart 2

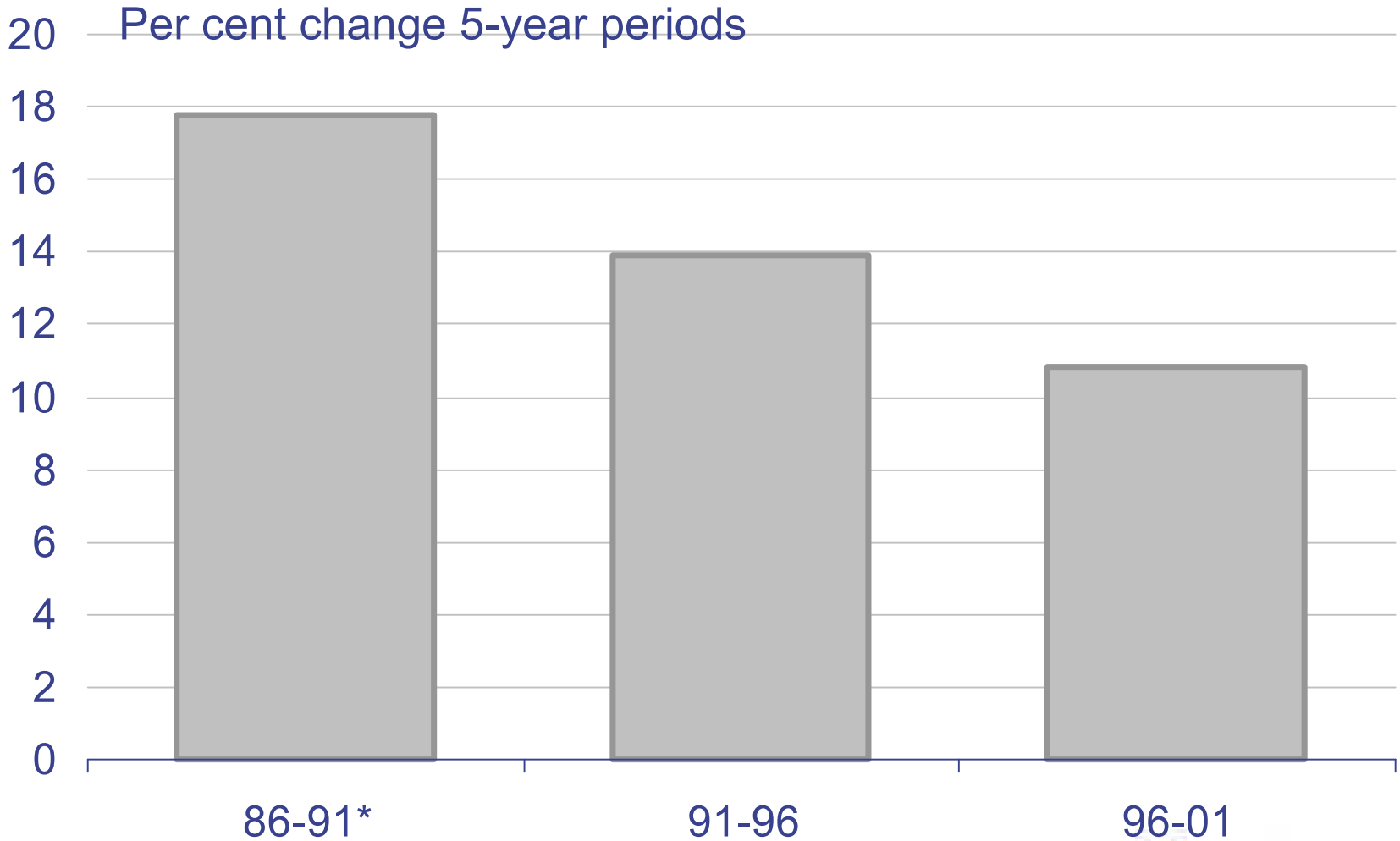


## THE 1986 – 1996 PERIOD (cont'd)

- ⦿ During the decade 1986-1996 Greater Vancouver enjoyed substantial employment growth, which in some years exceeded the rate of population growth (See Chart 3)

# GVRD Employment Growth

Chart 3



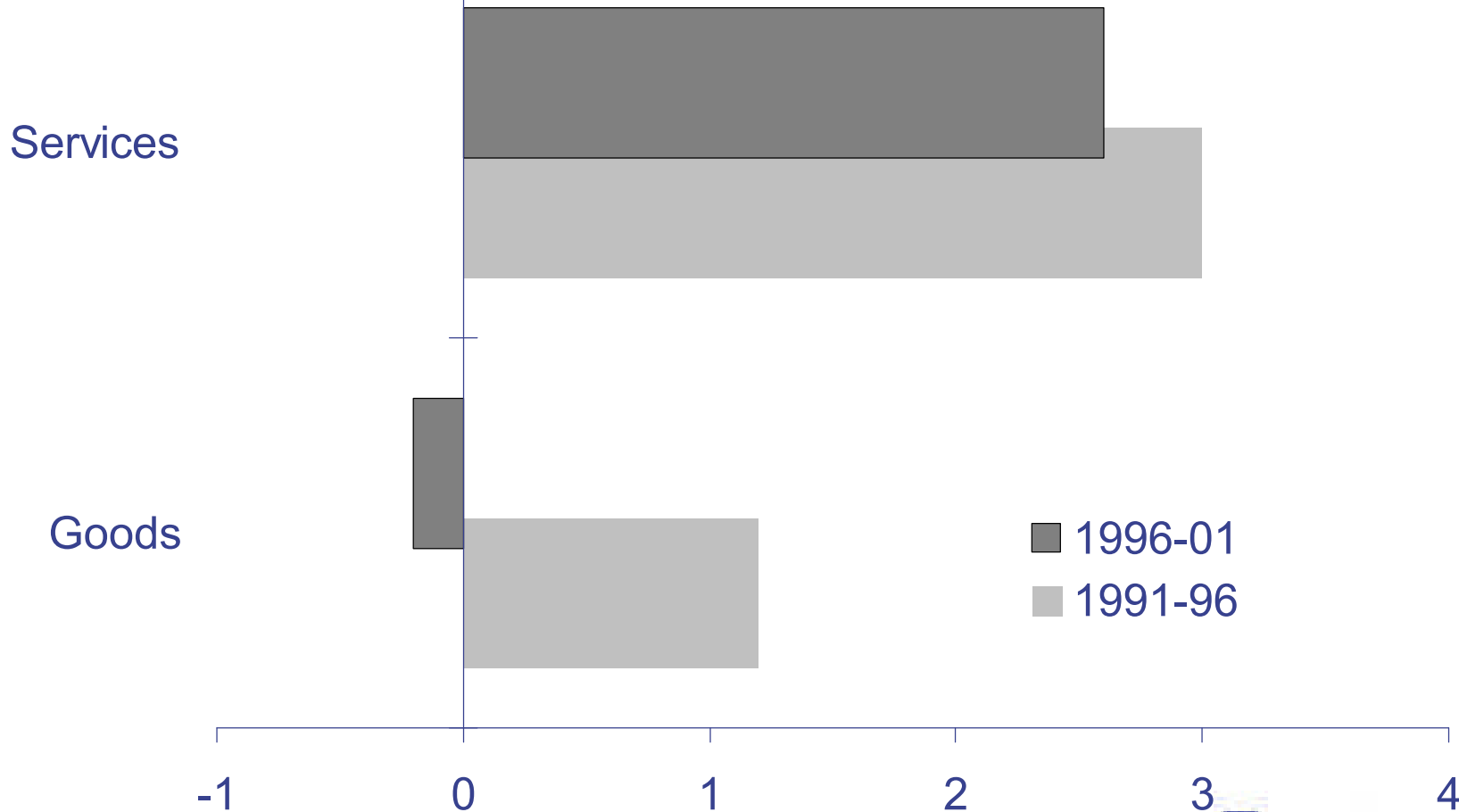
## THE 1986 – 1996 PERIOD (cont'd)

- Overall, the first half of the 1990s brought different patterns of job growth in the goods-producing and service-producing sectors of the region's economy, with service industries experiencing considerably faster growth (See Charts 4 and 5 below). This reflected a number of developments, including longer-term softness in many international commodity markets and structural changes in certain key goods-producing industries, particularly forestry, fishing, mining, and parts of secondary manufacturing. Importantly, capital/labor ratios increased in most goods-producing sectors, which dampened job growth.

# GVRD Employment Growth: Goods & Services

Chart 4

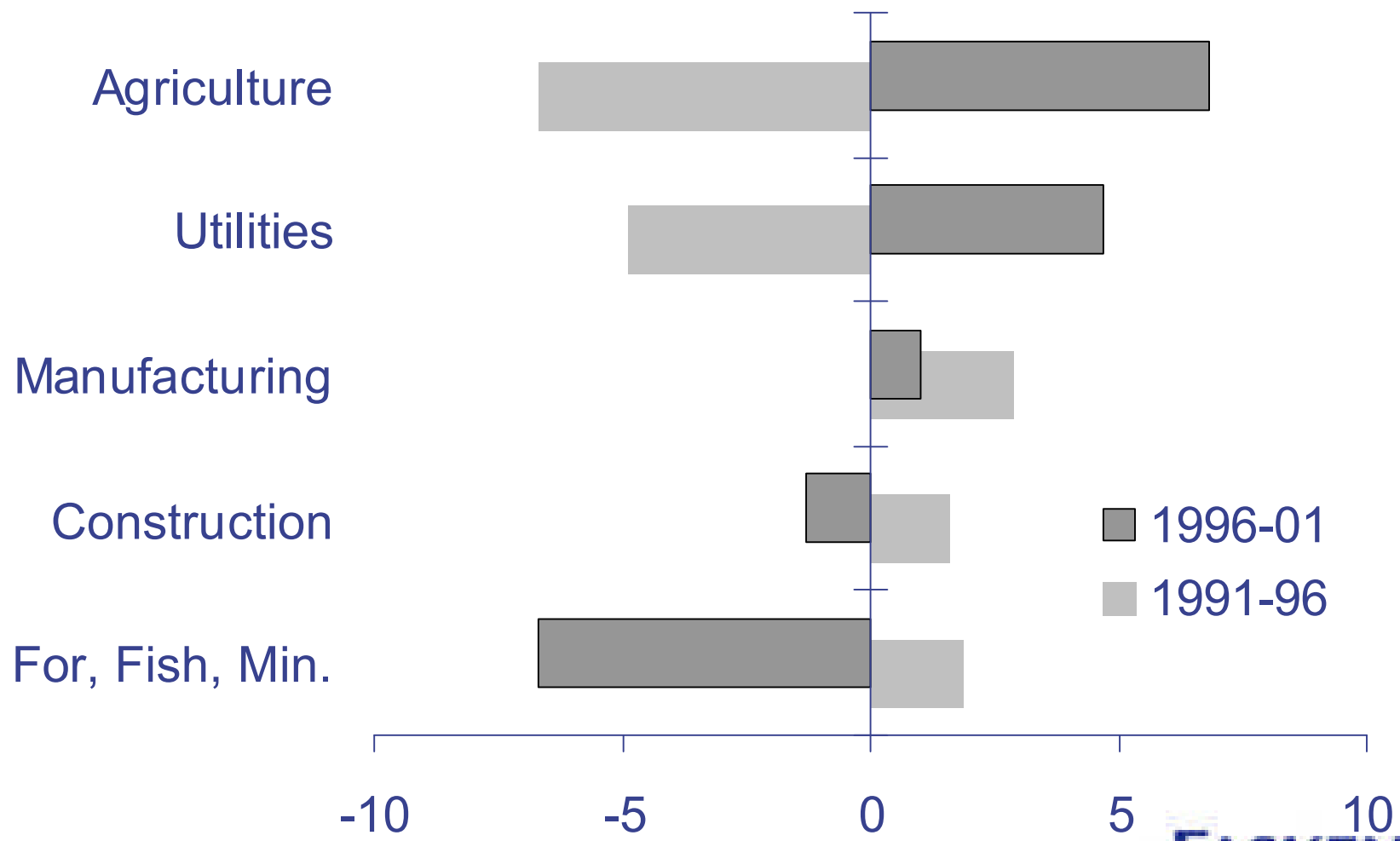
(average annual per cent change)



# GVRD Employment Growth: Goods<sup>14</sup>

(average annual per cent change)

Chart 5



Source: Statistics Canada

## THE 1986 – 1996 PERIOD (cont'd)

- ⑥ By 1991 approximately 79% of all jobs in GVRD were in the broadly defined services sector (this includes private sector services like finance, transportation, and professional services, as well as “non-market” services mainly funded by government, of which health care and education are the two biggest).

### 3. RELATIVE ECONOMIC PERFORMANCE OF GVRD 1996 - 2006

- The last decade has been characterized by some degree of variability in the performance of the region's economy, although the magnitude of the changes and the extent of volatility have been modest compared to those seen in less urbanized regions of BC. This pattern of less pronounced shifts in levels of economic activity can be attributed to diversification and the increased flexibility and resilience that stems from the particular mix of service industries found in Greater Vancouver.
- Historically, the presence of significant industrial infrastructure in the region has required large, fixed capital investment. Undertaking this investment has rested upon

## RELATIVE ECONOMIC PERFORMANCE OF GVRD 1996 – 2006 (cont'd)

on long-term projections and market forces, ideally with sufficient resiliency in the region's economic base for the investment to endure marketplace volatility.

- Compared to manufacturing and resource processing, service industries require lesser amounts of fixed investment in plant and equipment per worker and per unit of output produced, and relatively more investment in people and in specialized training and retraining to adapt to market conditions.

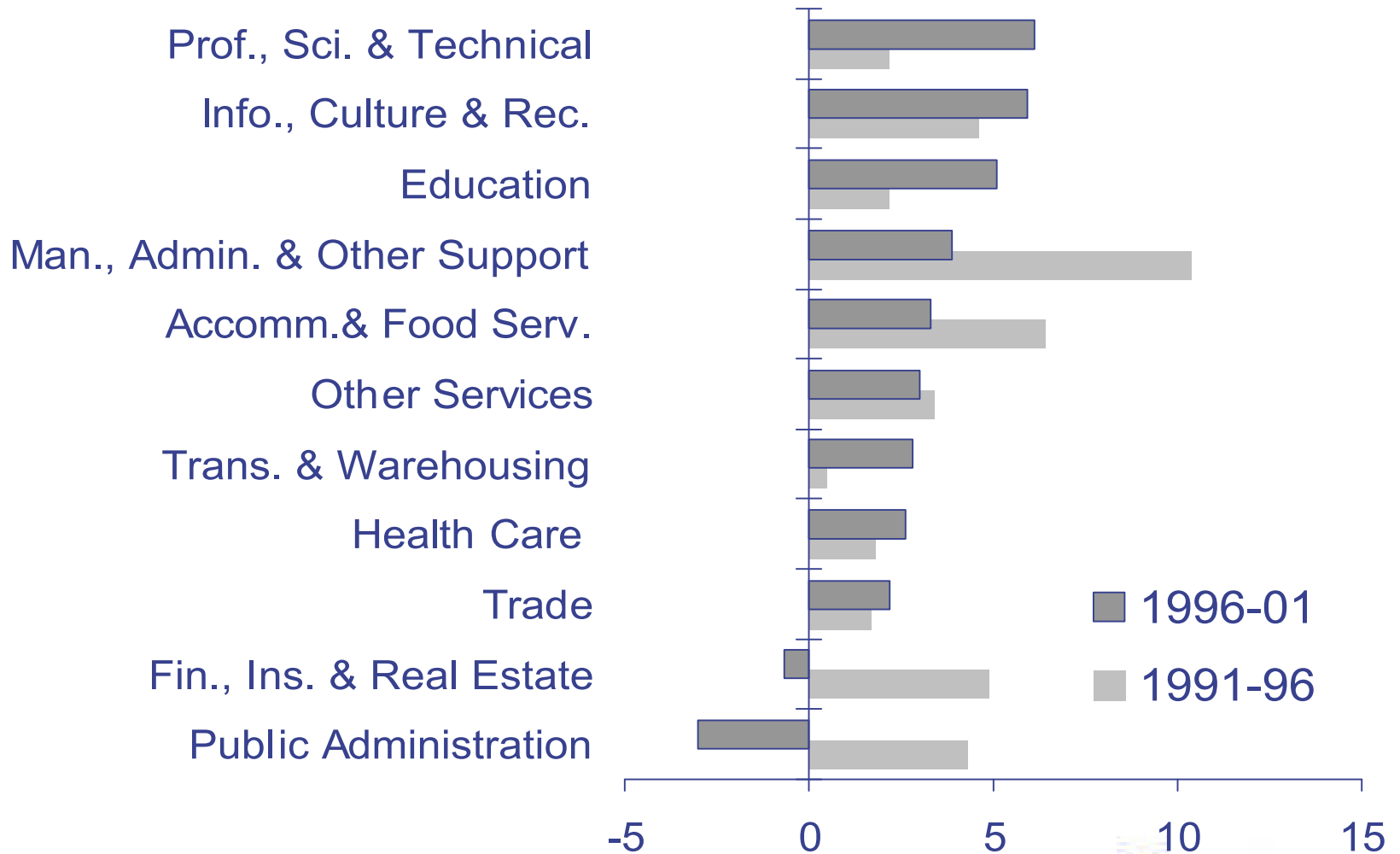
## 1996 – 2006 Period (cont'd)

- Employment growth in services in the first half of the decade (1996-2001) is shown in Chart 6. Data for the most recent period confirm that the labour market trends of 1996-2001 have persisted. Taken together, the service industries' share of total employment in Greater Vancouver reached 82% in 2004, up from approximately 80% in 1996 (See Chart 7).

# GVRD Employment Growth: Services

(average annual per cent change)

Chart 6



# Greater Vancouver Employment by Industry, 2004 20

## Chart 7

(% of total employment in the region)

All Goods-producing Industries	18.0%
Agriculture	0.8%
Forestry, Fishing, Mining	0.7%
Utilities	0.7%
Construction*	5.4%
Manufacturing**	10.4%
All Service-Producing Industries	82.0%
Wholesale/Retail Trade	16.2%
Transportation	5.9%
Financial Services	7.6%
Professional, Scientific, Technical Services	8.9%
Business Services	4.3%
Education	7.2%
Health Care and Social Services	9.5%
Information, Culture, Recreation	6.0%
Accommodation and Foodservices	7.6%
Public Administration	4.4%
Other Services	4.4%

## 1996 – 2006 Period (cont'd)

- Both in North America and globally, the 2000 – 2001 period saw the great 'tech and telecom meltdown' and the associated impact on public capital markets. Growth in many technology-based industries came to a halt for a time. These developments affected Greater Vancouver, which hosts a sizable and fairly diversified advanced technology sector (35,000-40,000 jobs).

## 1996 – 2006 Period (cont'd)

The implosion of values of companies in those sectors eliminated many billions of dollars in enterprise value as perceived by the public markets with a resultant reduction nationally and internationally of activities in those sectors. Since that time there has been a considerable rationalization of capacity and redirection of resources such that 5 years later the markets have been transformed for those sectors but are well pasted their worst days.

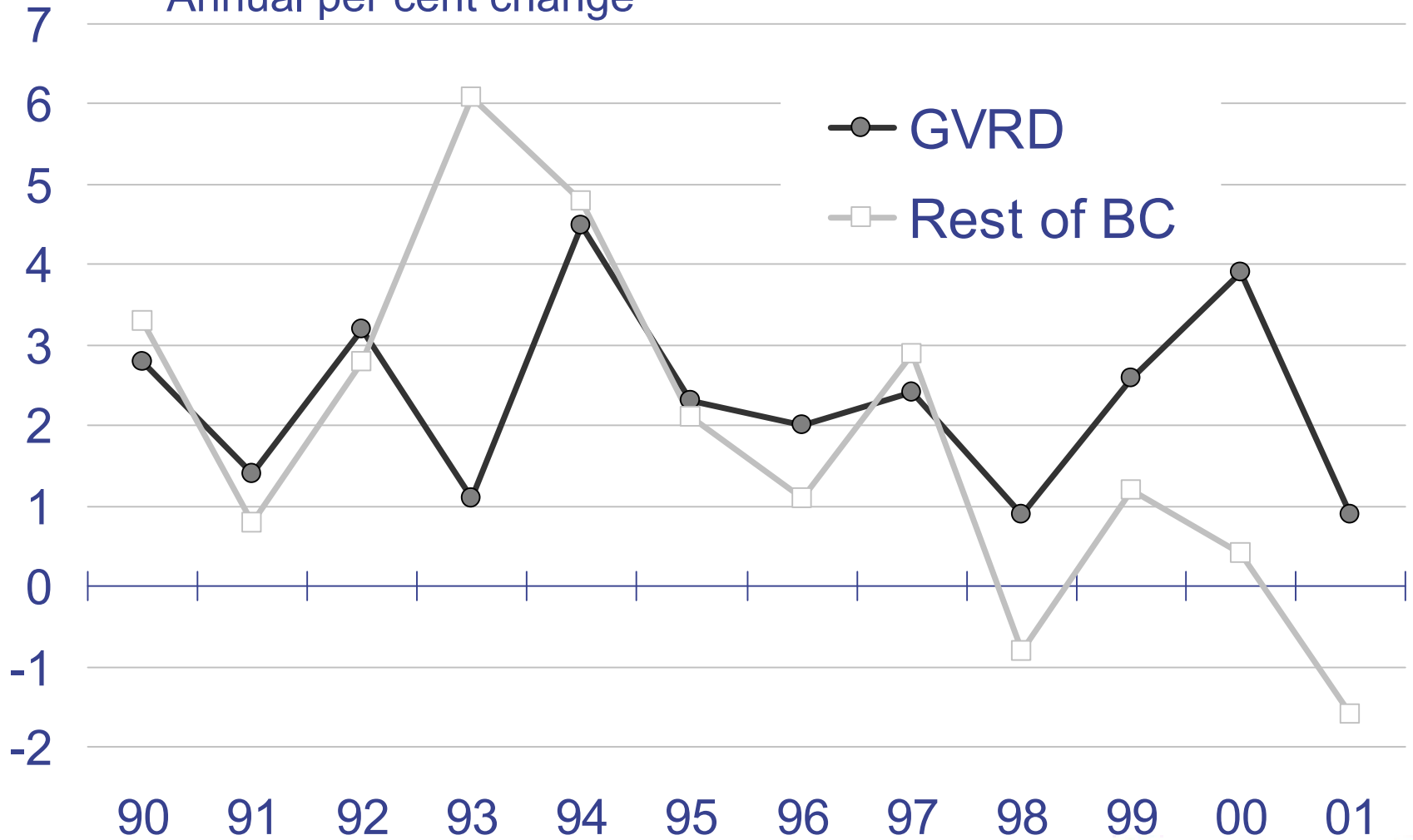
## 1996 – 2006 Period (cont'd)

- ⦿ During much of this period, world commodity prices were declining in real terms, which adversely affected primary producing jurisdictions, particularly Canada and the Province of British Columbia (which generates 75% of its foreign merchandise export earnings from resource-based industries). Consequently, the GVRD, which has a more diversified economic base than other regions of BC, out-performed the rest of the Province in the second half of the 1990s and into 2000-2001 on almost all economic metrics (jobs, housing starts, investment, retail sales, etc.)

# Employment Growth

Chart 8

Annual per cent change



## 4. CURRENT STRUCTURE OF GVRD ECONOMY

- ◉ From 1996 to 2001, employment growth in the GVRD averaged approximately 2.1% per year while in the rest of the Province the average was only 0.4% (See Chart 8).
- ◉ Since 2001, employment growth in the GVRD has been brisk, averaging more than 2.5% per year through the end of 2004. In the meantime, job creation has picked up in several other parts of the Province thanks to rising global commodity prices and growing trade with Asia.

## Current Structure of GVRD Economy (cont'd)

- ⑥ The economic data for the past few years suggest there has been no appreciable change in the relative importance of service industries in the overall GVRD economy. That is, services continue to account for 82-83% of all jobs in the region and for more than 90% of all business establishments.

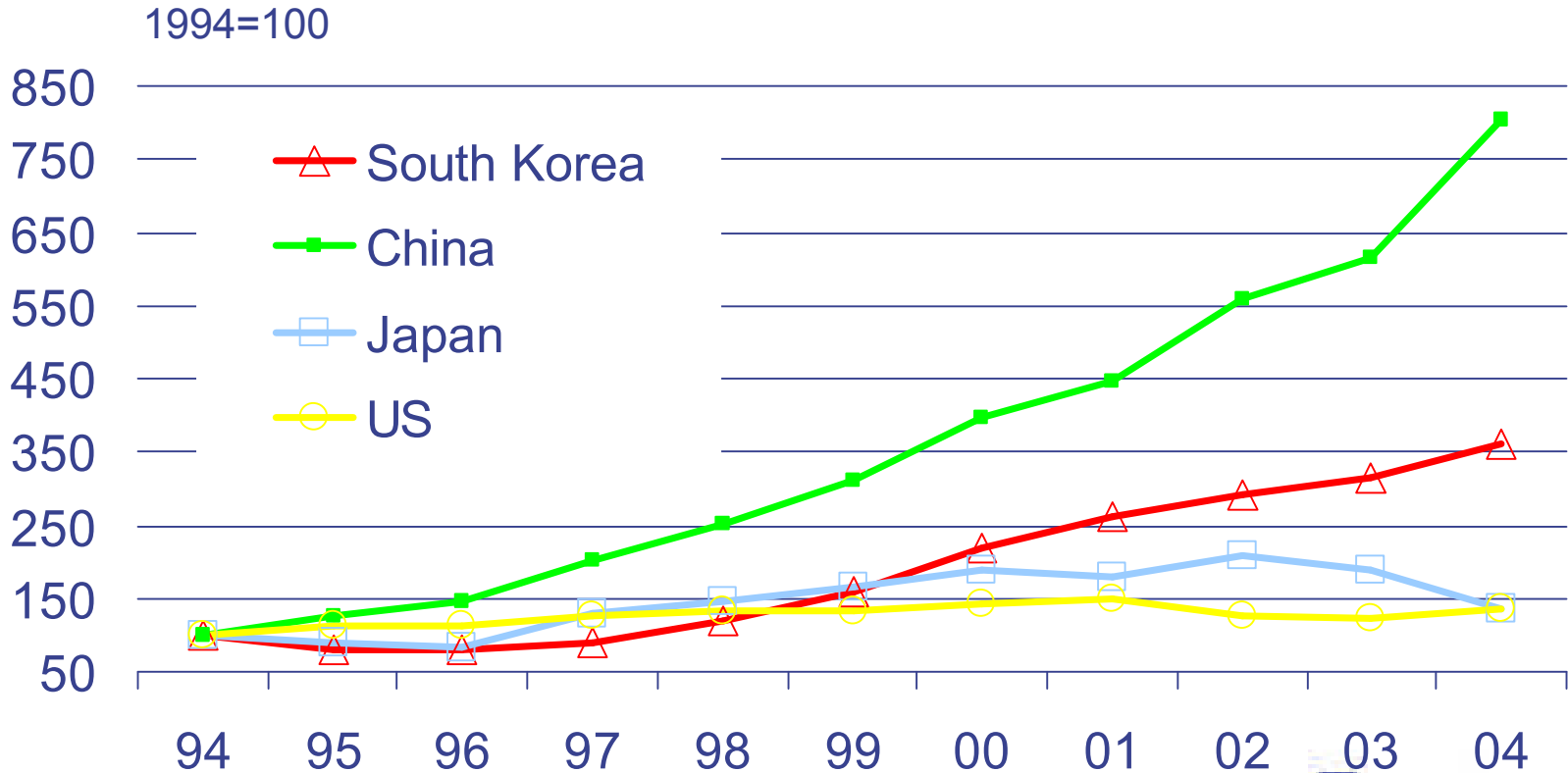
## Current Structure of GVRD Economy (cont'd)

- There are a number of economically significant service-producing industries in Greater Vancouver. Some are oriented to supply the local market, while others sell in both local and export markets and therefore provide a source of export earnings for the region. Engineering services traditionally developed to service the Province's mining, forestry, chemical and energy sectors. In the past two decades, engineering firms in the GVRD have become increasingly active in exporting their expertise to other jurisdictions, as well as continuing to service the local BC market. (See Chart 9)

# International Imports (to or through BC)

Chart 9

## BC International Merchandise Imports, Indexed



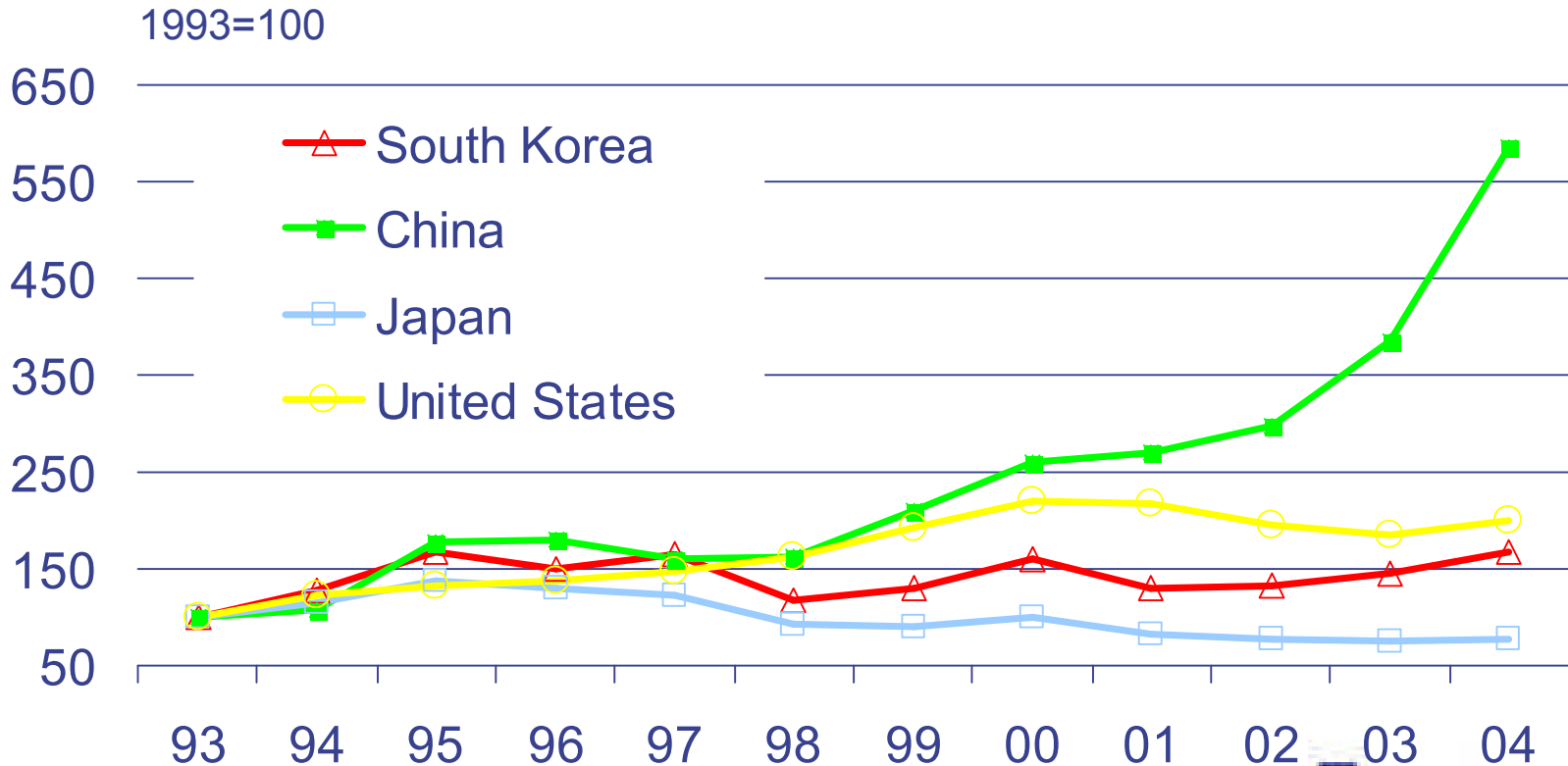
## Current Structure of GVRD Economy (cont'd)

- Transportation services are a major service sector in the region. All transportation modes (shipping, marine terminals, rail and truck) have continued to expand their presence in the GVRD and are attracting increased levels of private and public sector investment.
- The expansion of commercial transportation in the GVRD partly reflects population growth, but also is closely tied to the increasing flows of trade with Asia. China stands out as particularly fast-growing market, accounting for more than 2/3 of the total increase in business volumes for Vancouver-area ports since 1999.

# Soaring Exports to China

Chart 10

## BC International Merchandise Exports, Indexed



Source: BC Stats.

## Current Structure of GVRD Economy (cont'd)

The value of BC's exports to China has jumped by more than 400% since the early 1990s, while the value of Chinese goods landed at BC ports of entry has risen even faster. Most Chinese goods arriving in BC are not consumed locally but instead are shipped on to other parts of Canada or the United States. (See Chart

- ④ Employment and economic multiplier affect:
  - ④ Port of Vancouver – The Port of Vancouver is a major generator of jobs and income in Greater Vancouver, BC, and across Canada.

## Current Structure of GVRD Economy (cont'd)

It is also a significant source of capital investment in the Greater Vancouver region. According to a May 2005 Economic Impact Study prepared by Inter VISTAS Consulting:

- The Port of Vancouver generates an estimated 30,100 direct jobs;
- These jobs are generated from five port-related sectors – maritime cargo, cruise industry, capital investment in Port facilities, shipbuilding and repair and non-maritime enterprises.

## Current Structure of GVRD Economy (cont'd)

- ⦿ When multiplier effects are considered (indirect and induced impacts), the total employment generated by port activities across all five sectors is an estimated 69,200 jobs.
- ⦿ Maritime cargo is the largest employment generator (21,000 direct jobs, 48,000 total), followed by cruise (5,600.00), capital investment (1,500), Non-maritime (1,300), and shipbuilding and repair (725).

## Current Structure of GVRD Economy (cont'd)

- ⦿ Jobs generated in by the Port are generally high wage positions, with an average wage 52% higher than the average wage in the Province. In the cargo segment, the average compensation is 64% higher than the average BC wage.
- ⦿ Most of the direct employment is in BC (24,150), but the economic impact of the port extends throughout western Canada and beyond. The Port generates an estimated 3,800 direct jobs in Alberta, 1,000 in Saskatchewan and 1,200 in Manitoba.

## Current Structure of GVRD Economy (cont'd)

- ⑥ The Port is a major source of tax revenue for all levels of government. In 2004 the Port Authority directly contributed \$4 million to the Federal government and \$3.7 million of municipalities. Including taxes from employers and employees as well as cruise passengers, the Port generated \$762 million in tax dollars (\$411 Federal, \$263 Provincial and \$88)

## Current Structure of GVRD Economy (cont'd)

- ⑥ YVR – YVR is also one of the Province's most powerful engines. According to a 2000 impact study the Vancouver airport:
  - ⑥ Generated 25,053 jobs in 2000
  - ⑥ 53% of the jobs are within airlines
  - ⑥ Every one million new passengers means 1,200 new jobs
  - ⑥ Airport jobs average \$44,000 per year, 26% higher than the Provincial average
  - ⑥ YVR generates \$1 billion annually in wages
  - ⑥ YVR generates \$690 million in annual taxes to governments (70% to Federal government, 30% to local governments and Province)

## Current Structure of GVRD Economy (cont'd)

- Other service-producing sectors which have a sizable presence in Greater Vancouver and have experienced significant new investment and employment growth include business services, financial services, and retail/wholesale trade. Another key sector is construction (both residential and commercial/industrial, and including new infrastructure projects now underway). The infrastructure requirements in Western Canada include both energy-related projects (pipelines, oil sands development, electricity generation and transmission) and other civil works (roads, bridges, rapid transit, hospitals, etc.).

## Current Structure of GVRD Economy (cont'd)

Substantial ongoing infrastructure development is driving up demand for skilled construction workers, project managers, engineers, and other technical and professional employees with relevant credentials and experience.

- For an example of some of the infrastructure requirements in the GVRD and elsewhere see the listing of a current and proposed projects on the website of Partnerships BC (<http://www.partnershipsbc.ca>).

## Current Structure of GVRD Economy (cont'd)

- ⑥ As global commodity markets have tightened and prices for resource goods have climbed in the past few years, again driven by the growth in overall international trade but particularly by increased Asian demand for energy and industrial raw materials, the GVRD has clearly benefited, along with the rest of the Province. This is due to 1) the presence of a sizable number of resource company head offices in the Vancouver region; 2) additional spin-off business for Vancouver area service providers who sell to

## Current Structure of GVRD Economy (cont'd)

resource companies, such as brokerage firms, mining engineers and geologists, legal/accounting professionals, etc.); 3) increased export business for the Port of Vancouver and other area ports (which service all of Western Canada) as well as for the rail and trucking industries that are closely linked to the ports.

## Current Structure of GVRD Economy (cont'd)

- ⦿ In terms of emerging technologies and enterprises some core clusters which have been established in the GVRD, with international recognition include:
  - ⦿ Video game and related software development (Electronic Arts, Microsoft, Disney, THQ, Pivotal, etc.)
  - ⦿ Fuel Cell and alternate energy (Ballard Power, Westport/Cummins, Xantrex)
  - ⦿ Biotechnology and life sciences (QLT, Angiotech, ID Biomedical)
  - ⦿ Film and entertainment
  - ⦿ Wireless technologies

## Current Structure of GVRD Economy (cont'd)

- Export implications:

- A key challenge for the Vancouver region is to strengthen the export base. This will mainly involve developing the export-capacity of service industries. Internationally, most trade is in the goods producing sector. However, about one quarter of total global trade consists of services – including transportation services, financial services, business and professional services, intellectual property, and software and other ICT services.

## Current Structure of GVRD Economy (cont'd)

- The GVRD has experienced some erosion in the region's export base, due declining production and employment in industries like food processing, lumber manufacturing, textiles/clothing, beverage manufacturing, sect. Fortunately, some of the service sectors in the GVRD are export oriented and are already a growing source of export earnings for the region. For example the video game industry, which has extensive software development and studio activity in the region, is among the world's leaders in exports.

## Current Structure of GVRD Economy (cont'd)

Similarly, film and television entertainment production activities lead to entertainment products which are then exported on an international basis. The region also has strengths in engineering, architecture, legal/accounting, environmental consulting, and some areas of finance – all of which produce “tradable” services that can be exported.

## Current Structure of GVRD Economy (cont'd)

- ⦿ However, the complexity of the modern global economy makes it difficult to track the exact impact of some of these sectors, in part due to the intangible nature of the output. For example, a video game which is developed and produced in the GVRD may be transmitted electronically to a disk or a chip production facility in another country to be physically embodied in a distributable product. Similarly, entertainment products are not necessarily broadcast from the GVRD.

## Current Structure of GVRD Economy (cont'd)

- To some extent these are developments of an international nature which do not fit the conventional approach to measuring exports. Nevertheless it is clear services which are tradable and thus can be exported to the international marketplace have a measurably greater impact on the building a more prosperous regional economy than those which are purely for local or internal consumption.
- A corollary of the export point is also reflected in income data which suggest that service industry employment which is export oriented or internationally recognized will yield higher average incomes than service jobs that tend to be domestically focused.

## Current Structure of GVRD Economy (cont'd)

Also, such incomes can, at least in some sectors, lag behind those in conventional goods producing industries, no doubt due in part to the effect of the growing capital intensity of manufacturing, although as can be seen from the difficulties in some goods producing industries (steel, automotive, etc.) in adapting to change markets, high paid manufacturing employment in countries like Canada and the US is vulnerable

## Current Structure of GVRD Economy (cont'd)

- ⑥ The GVRD has one other factor which often is overlooked in economic calculations, namely the international appeal of it as a place to reside or have a real estate investment. In certain key locations and for unique geographic properties, real estate demand in the GVRD is heavily influenced by international buyers and less so by domestic employment and investment levels. In this sense, real estate in parts of Greater Vancouver can be considered to be a 'hidden' export' industry. This is not a phenomenon which can be easily replicated in

## Current Structure of GVRD Economy (cont'd)

in every city which is transitioning to a service base but is important to bear in mind for many cities which may lend themselves to this type of international appeal.

- One by-product of the emergence of a more services-based economy and job market is the development of a matrix type of residential and traffic pattern rather than one focused on key nodes of major capital investment. The GVRD has identified that many residents live in one area of the region and commute to other areas as their employment requires from time to time.

## Current Structure of GVRD Economy (cont'd)

Because of the flexibility inherent in many of the service industries they no longer become complete geographic nodes around which residential development naturally occurs. As the base of employment can move fairly readily, it may be that individuals choose to reside where it best suits their personal preferences and requirements, and develop their transportation and commuting responses based upon the varying locations of the service industries in which they are employed.

## Current Structure of GVRD Economy (cont'd)

The GVRD is projected to see steady population growth in the next decade. As a result, the region faces the need for improved transportation, both for the domestic work force but also and more significantly to allow for the movement of goods shipped to and from area ports and of people arriving at port and airport facilities.

## Current Structure of GVRD Economy (cont'd)

- Notwithstanding some of the difficulties posed by the transition to a highly service based economy, Greater Vancouver has enjoyed the distinction of recently being named as the world's #1 international city for expatriate business people by the Economist Intelligence Unit. And in recent years several other international agencies have ranked the Vancouver area as one of the world's best environments to live and conduct business.

[<http://news.bbc.co.uk/2/hi/business/4306936.stm>]

## SUMMARY

- ⑥ The GVRD economy has a changed over the last 25 years to become highly and increasingly services-based economy from the point of view of employment and business activity. Transportation services are extremely important but are bolstered by other well developed areas of expertise together with several emerging clusters of competency which are being recognized internationally and which have an existing or potential export focus.

## SUMMARY (cont'd)

- Based on GVRD's experience, it is important to maintain high value added or export oriented services wherever possible, as such services tend to yield higher income levels for the work force than domestically oriented service sectors. In some instances exportable services can be among the most remunerative jobs, although overall average service level wage levels tend to lag behind capital-intensive goods-producing sectors. However, a notable advantage of many service industries is their inherent flexibility and ease of entry and exit as compared to traditional capital intensive industries and infrastructure.

## SUMMARY (cont'd)

- ⑥ While much work is required to build a more globally competitive regional economy in Greater Vancouver, to improve incomes, and maintain a and skilled growing work force, these objectives can be met within a livable region which generates a high quality of life for area residents and is recognized internationally for this. Vancouver is fortunate in that it is already acknowledged to be one of the world's most appealing city-regions.

## Greater Vancouver – Ten Key Growth Industries

- Transportation/logistics/warehousing (increased trade; gateway role)
- Education services (universities/colleges; private training + ESL)
- Information and communication technologies (incl. software, telecommunications)
- Scientific and technical services (engineering, environmental, etc.)
- Some segments of manufacturing (machinery/equipment, plastics, electronics, etc.)
- Transportation infrastructure (port, YVR, RAV line, etc.)
- Film production (except for 2004)
- Real estate and other financial services
- Biotech cluster (life sciences; health research)
- Construction