

### Tax Cuts to Boost Economic Growth

British Columbia's provincial government this week announced a significant personal income tax cut in Wednesday's provincial address. Subject to legislative approval, provincial income tax on earnings up to \$72,293 will decline 15% as of January 1, 2011. Individuals earning \$20,000 or less will see a tax cut of 49% from current levels.

Based on a preliminary impact assessment conducted by Central 1 Credit Union, these tax cuts will provide a slight boost to B.C.'s forecasted growth profile of 2.4% in 2011 which Central 1 published earlier this week.

Taking into account these newly-announced tax cuts, growth in the economy is now forecast to reach 2.5% in 2011, up 0.1 percentage points from Central 1's baseline scenario. The impact of the tax cuts will be more readily observed in 2012 and 2013, as GDP growth exceeds the no-tax cut forecast scenario by roughly 0.2 percentage points each year.

Increased consumer spending and higher residential investment will be the primary sources of growth. This will lead to slightly higher than expected employment growth, a lower unemployment rate, and higher net migration levels.

Lower income tax rates will primarily filter into the economy through higher personal disposable incomes. While a portion of the tax cuts will be saved by individuals, most will be spent on consumer goods and housing related investments. Growth in consumption expenditures in 2011 is forecast to reach 3.6%, up from the no-tax cut forecast of 3.4%. Growth in 2012 and 2013 is forecast to reach 4.2 to 4.5%, up from a previously forecast 4 to 4.1%.

The residential construction sector will also see increased activity from the tax cuts as demand for housing increases. Over a three-year time horizon, these cuts are forecast to yield an additional 800 to 1,200 new home starts, increased renovation spending and expenditures related to purchases of existing homes.

Increased economic activity will also induce higher employment levels and lower unemployment rates over the forecast horizon. By 2013, employment will exceed a no-tax cut environment by 6,000 – 11,000 individuals, and lead to a 0.1 – 0.2 percentage point drop in the unemployment rate relative to the baseline scenario.

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B.C. Forecast with Personal Income Tax Cuts						
	2011		2012		2013	
Real GDP Growth (%)	2.5	(0.1)	3.5	(0.1 - 0.2)	3.8	(0.1 - 0.2)
Retail Sales Growth (%)	5.5	(0.2)	7.7	(0.2 - 0.3)	7.3	(0.2 - 0.5)
Employment Growth (%)	2.1	(0.1)	2.2	(0.0 - 0.1)	2.8	(0.1 - 0.2)
<i>brackets denote percentage point increase from no-tax cut baseline forecast</i>						
	2011		2012		2013	
Housing Starts ('000s)	27.7	(27.6)	31.8	(31.5)	34.3	(33.5)
Net Migration ('000s)	57	(56)	57	(55)	53	(50)
Unemployment Rate (%)	7.2	(7.3)	6.7	(6.8)	5.7	(5.9)
<i>brackets denote no-tax cut baseline forecast (level data)</i>						

