Economic Commentary

A Green Light for LNG, A Green Light for Northern B.C. Prosperity

After experiencing years of delays and seemingly dashed hopes, B.C. finally snagged a big one. LNG Canada announced a positive Final Investment Decision (FID) today (October 2, 2018). While not the five liquefied natural gas projects once projected to dot the B.C. coast by the end of the decade, this massive $40 billion terminal in Kitimat will be transformational for not only the regional economy, but will also boost economic activity in northern B.C. as a whole, generating large scale capital investment, construction jobs, and increased drilling in the northeast.

Led by Royal Dutch Shell, and its partners: Mitsubishi Corp., Petronas, KOGAS, and PetroChina, the project will feed Asia markets, with a significantly shorter shipping distance than U.S. exporters. At $40 billion, the project, located at the former Methanex facility site, includes a liquification plant, storage, and transport facility.[1] The project will connect to the B.C. Hydro grid, which is boosted by Site C. The build out period is estimated to last about three to four years for the terminal, which would align production with the next LNG cycle expected in the mid-2020s, and take advantage of long-run growth in LNG demand from emerging Asian markets. Construction will likely start in 2019. LNG Canada estimates peak construction employment of about 10,000 persons, with permanent jobs numbering at 900 positions in the initial phase[2].

Announcement of the FID has also triggered the go-ahead for the Coastal GasLink Pipeline announced by Trans Canada. The pipeline is 670 kilometres long, which will feed the LNG facility from gas in the Montney Play region. Initial capacity is 2.1 billion cubic feet per day (Bcf/day), with potential expansion to approximately 5 Bcf/day. Construction is expected to commence in early 2019.[3] Total pipeline cost is estimated at $6.2 billion, including nearly $500 million in pre-construction work already undertaken. Construction of the pipeline is expected to employ 2,000 to 2,500 persons.

1 B.C. Major Projects Inventory
2 https://www.lngcanada.ca/opportunities-in-lng/
3 https://boereport.com/2018/10/02/transcanada-to-construct-coastal-gaslink-pipeline-project/

Additionally, expected extension of Terminal A at the Kitimat port is expected to accommodate the LNG project at a cost of $250 million.

Put into context, the B.C. Hydro's Site C project has an estimated capital cost of $10.7 billion. That said, a substantial amount of the LNG capital expenditures will be imported machinery from Asia.

Economic Impact Positive

Project construction, and downstream impacts are forecast to lift economic growth through the next three-year period (our forecast horizon). LNG Canada's project adds modestly to growth in 2018 and 2019, with full buildout periods in 2020 and 2021 pushing GDP growth up by 0.3 and 0.5 percentage points. GDP growth reaches 2.8 per cent in 2019, and 3.1 and 2.9 per cent in 2020 and 2021. This is a conservative estimate.

Business investment sees the strongest growth in activity, led by higher machinery and equipment investment. This is however offset in part by higher imported goods. Average employment growth rises by 0.2 percentage points to 1.5 per cent per annum, but remains constrained by labour supply. B.C.'s unemployment rate edges lower to 4.8 per cent. Labour can only grow by the extent of population growth, which will see a moderate boost in interprovincial migration. Average resident employment climbs by 11,000 relative to baseline in 2019 and 20,000 in 2020. With work camp housing facilitating the projects, many workers from other provinces will be transient, following the work rather than relocating to B.C.

Economic benefits will be concentrated in B.C.'s northern and northern interior communities. The project will boost employment in the North Coast/Nechako where the terminal is based, the Cariboo, and Northeast. The project will draw workers from all of these regions, as well from further south in the Thompson-Okanagan. While projects will likely hire locally, there is the constraint of availability of labour from the immediate regions and skills mis-match. Hiring will also be in competition with the Site C dam in the Peace River area.
Nonetheless, we can expect a strong bump in employment across communities and a tightening of labour markets, although the magnitude is uncertain. The northeast will see a lift from increased well drilling as proponents gear up for production. Housing values and rents will rise

in accordance with increased local incomes, spending, hiring and speculative expectations. As major projects are temporary, communities need to be wary of the prospects of potential boom-bust cycles related to major projects following project completion.

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Economic Outlook										
	Baseline					with LNG Canada				
	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
GDP at market prices	6.7	4.9	5.0	5.0	4.3	6.7	5.0	5.1	5.3	4.9
Real GDP, expenditure-based	3.9	3.0	2.7	2.8	2.4	3.9	3.1	2.8	3.1	2.9
Household consumption	3.5	2.8	3.4	3.1	3.0	3.5	2.8	3.5	3.3	3.5
Government expenditure	2.8	2.0	1.4	1.3	1.2	2.8	2.0	1.4	1.3	1.3
Government capital formation	4.8	6.3	3.3	-4.7	2.0	4.8	6.3	3.3	-4.7	2.1
Business capital formation	2.3	3.7	2.5	2.5	1.9	2.3	4.0	3.2	4.6	5.1
Residential structures	3.4	2.6	-1.6	-0.5	1.4	3.4	2.7	-1.5	0.0	2.4
Machinery and equipment	3.6	4.4	9.0	5.5	2.6	3.6	4.9	9.2	9.4	6.8
Non-residential structures	0.7	4.7	6.0	5.9	1.5	0.9	5.5	8.5	10.5	9.2
Final domestic demand	3.2	2.9	2.9	2.4	2.5	3.2	3.0	3.0	3.0	3.4
Exports	4.6	3.1	3.0	3.8	2.2	4.6	3.1	3.0	3.8	2.2
Imports	2.9	2.8	3.3	2.8	2.8	2.9	2.8	3.5	3.5	3.9
Net exports, $2007 bil.	-5.9	-5.7	-6.1	-5.3	-6.1	-5.9	-5.8	-6.5	-6.4	-8.5
Employment	3.7	1.2	1.7	1.3	1.2	3.7	1.2	1.7	1.5	1.5
Unemployment rate (%)	5.1	5	4.9	4.9	4.9	5.1	5	4.9	4.8	4.7
Housing starts, 000s	43.5	41.8	39	38.1	37.2	43.5	41.8	39.1	38.5	38.3
Population Growth (%)	1.3	1.2	1.1	1.1	1	1.3	1.2	1.1	1.2	1.1

Source: Statistics Canada, CMHC, Central 1 Credit Union