

2014 Public Sector Negotiations: GDP Contingent GWIs

Prepared in Preparation for Bargaining
Strictly Confidential

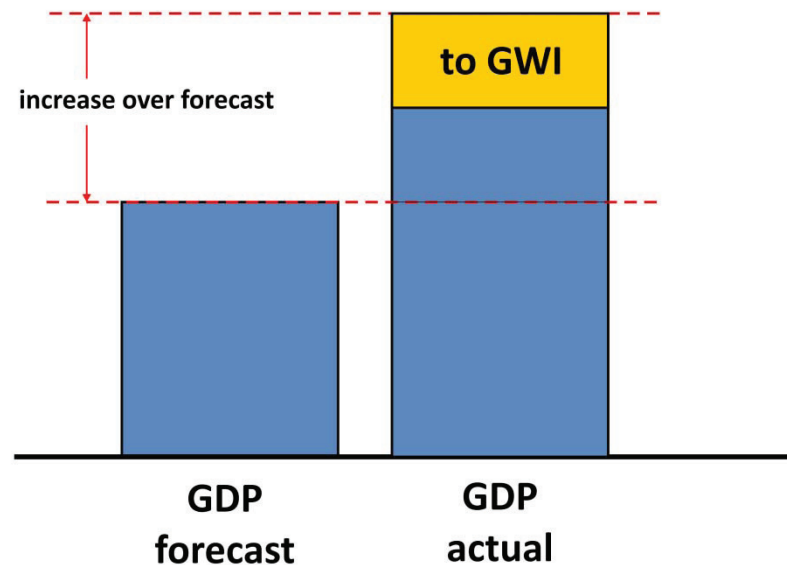


2014 Fiscal Mandate

- Government wants to share the benefits of the Province's economic prosperity with Public Sector workers
- Balance with other priorities:
 - Balanced budgets
 - Debt repayment
 - Program spending
- Mandate consists of **FIXED GWI + VARIABLE GWI**
 - **Variable** is contingent on GDP performance

How does a GDP Contingent GWI work?

- If actual GDP growth exceeds an independent forecast of GDP growth then 50% of the difference is translated into a GWI.

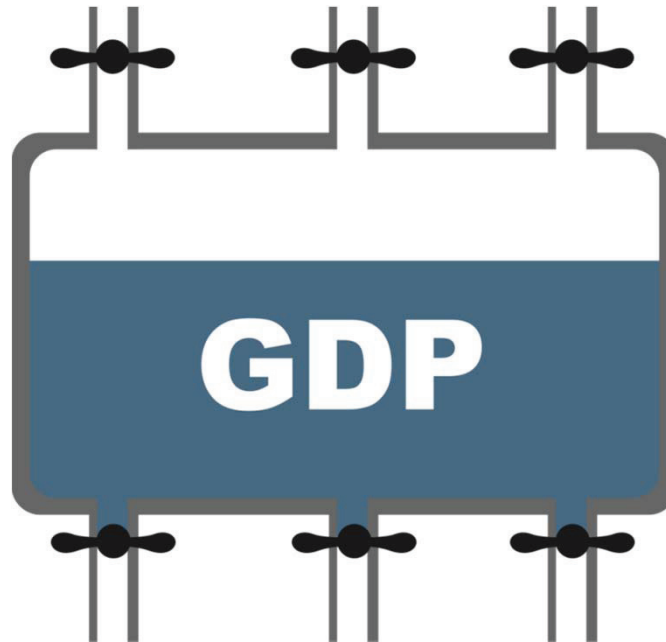


What is GDP ?

- GDP is defined as the monetary value of all the finished goods and services produced within a region in a specific time period.
- Normally calculated on an annual basis.
- Commonly used as an indicator of the health of a region's economy.

What affects GDP ?

- Consumption expenditures by households
- Gross private investment spending principally by firms
- Government (Federal, Provincial, Municipal) purchases of goods and services
- Net exports.

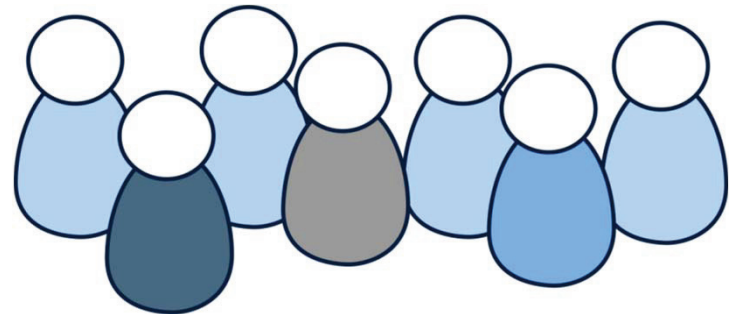


Which measure of GDP are we using?

- We will be using **Expenditure Side Real GDP** (“Real GDP”)
- This is considered the most accurate of the approaches to measuring GDP.
- **Real GDP** measures the total volume of economic activity in a region and is not affected by inflation.

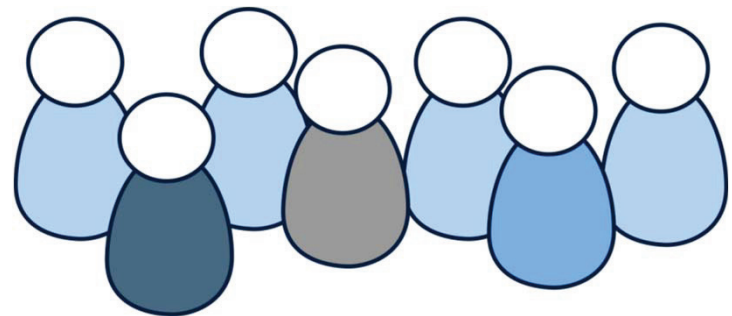
Who forecasts GDP ?

- The Economic Forecast Council (EFC) consists of leading economists from Canada's major banks and private research institutions.
- The EFC consists of 13 organizations:
 1. **BMO**
 2. **BC Business Council**
 3. **BC Real Estate Association**
 4. **CIBC**
 5. **Central 1 Credit Union**
 6. **Conference Board**
 7. **IHS Global Insight**
 8. **Laurentian Bank Securities**
 9. **RBC**
 10. **Scotiabank**
 11. **Stokes Economic Consulting**
 12. **TD**
 13. **Urban Futures Institute**



When is the forecast made?

- The EFC meets in November / December of each year
- Their forecasts are published in the Ministry of Finance Budget and Fiscal Plan each February
- We use the average of these forecasts as the comparator



Who measures GDP – and when?

- Real GDP figures come from Statistics Canada's "Provincial and Territorial Gross Domestic Product by Income and by Expenditure Accounts"
- Published as Real Gross Domestic Product at Market Prices (chained 2007 dollars).
- Data is currently available in the Stats Can CANSIM database, Table 384-0038.
- Currently the data is released in November of each year.

How does this all fit together ?

- For the 2015 / 16 GDP Contingent GWI:
 - February 2014: EFC Forecast of 2014 GDP is published in the Budget
 - November 2015: Statistics Canada releases actual Real GDP for 2014
 - February 2016: Possible GDP contingent GWI
- Repeat for each following year of the mandate

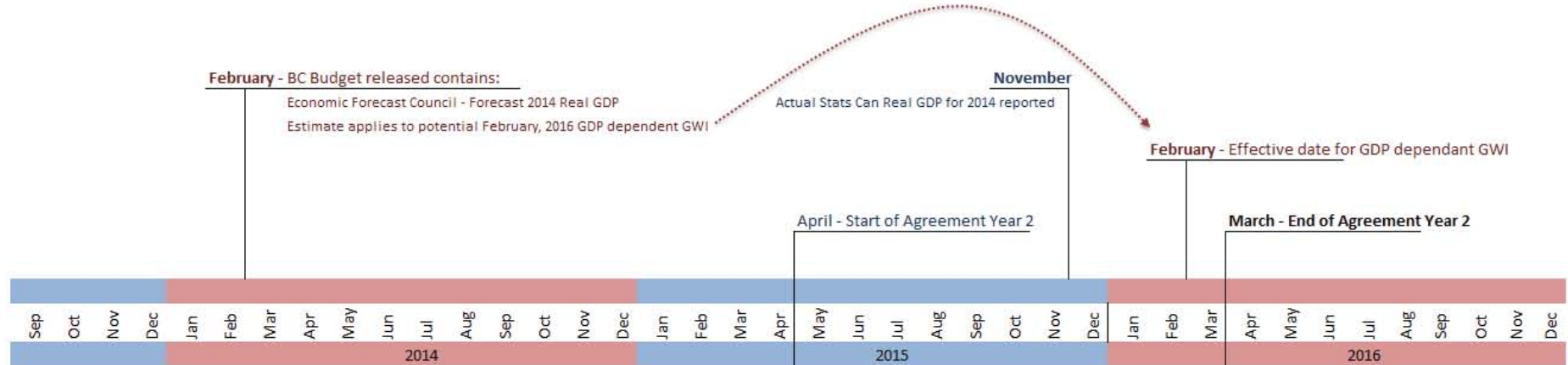
How does this all fit together ?

Economic Stability Divident Example

Collective Agreement Year 2 (April 1, 2015 - March 1, 2016)

Each February:

The **Real GDP** target for that year is set using EFC forecast as released in BC Budget.



Any GDP related increase that is effective February 2016 in the second year of the collective agreement is based on the actual Real GDP results for 2014 that are reported in November 2015.

Note: This is for demonstration purposes only. In the event of a conflict with collective agreement language, the collective agreement will apply.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
EFC Average (Feb)*:	2.40%	0.72%	2.65%	2.88%	3.30%	3.65%	3.35%	2.83%	0.00%	2.95%	2.73%	2.21%
EFC Min (Feb):	-0.50%	-0.50%	1.50%	2.40%	2.80%	3.30%	2.80%	2.40%	-1.00%	2.20%	2.00%	1.70%
EFC Max (Feb):	3.10%	2.00%	3.00%	3.30%	3.80%	4.10%	4.00%	3.30%	0.90%	4.10%	3.30%	3.10%
Actual Real GDP :	0.62%	3.59%	2.35%	3.61%	4.74%	4.07%	2.98%	1.13%	-2.46%	3.20%	2.81%	1.46%
Difference :	-1.78%	2.87%	-0.30%	0.73%	1.44%	0.42%	-0.37%	-1.70%	-2.46%	0.25%	0.08%	-0.75%
Theoretical GWI:	0.00%	1.44%	0.00%	0.37%	0.72%	0.21%	0.00%	0.00%	0.00%	0.12%	0.04%	0.00%
4 Yr Cummulative :				1.80%	2.52%	1.30%	1.30%	0.93%	0.21%	0.12%	0.16%	0.16%

*Economic Forecast Council forecasts from budget and fiscal plans tabled in February of each calendar year.

Total**:	2.93%
Average:	0.95%
Min:	0.12%
Max :	2.52%
# of years	6 out of 12

** Total is the compounded effect of the GWIs