



B.C. ECONOMIC INDEX

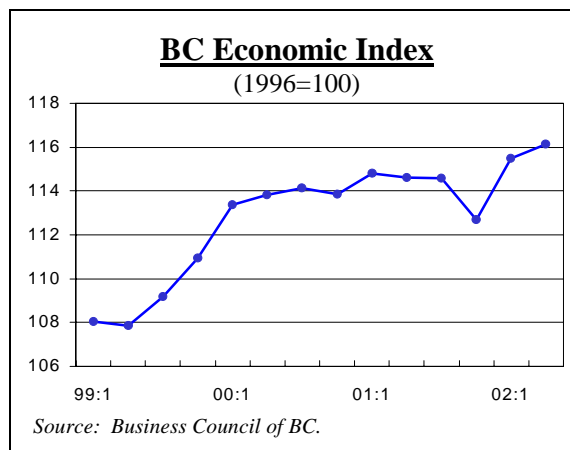
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BC ECONOMIC INDEX REGISTERS MODEST Q2 INCREASE

The BC Economic Index advanced 0.6% in the second quarter of 2002, down considerably from the surprisingly strong 2.5% rebound recorded in the first quarter. The index moved up to a level of 116.1 in Q2 from 115.5 in Q1.¹

The smaller rise in the index suggests the pace of economic growth in BC has slowed. This is not terribly surprising. Recoveries are often the mirror image of recessions, so the moderate expansion now underway is consistent with the mild downturn in the BC economy in 2001. Although growth in the index has clearly slowed, the latest result does mark the second consecutive quarterly increase and lends support to our view that a consumer-driven economic recovery is still in place.

Four of the seven series that make up the BC Economic Index rose in the second quarter. Single-family housing starts, which have increased steadily over the past 12 months, provided the biggest boost. The next largest contribution came from real manufacturing shipments. The gain in this indicator is a significant change because it is the first time manufacturing shipments (adjusted for inflation) have made a positive contribution to the index in two years. Unfortunately, this welcome development is almost certainly transitory, as the reinstatement in May of stiff US countervailing and anti-dumping duties will reduce BC's lumber shipments (and thus depress total manufacturing shipments) over the last half of 2002 and very possibly into next year.



Employment registered another strong quarterly increase, helping to buoy the overall index. The Canadian leading index also increased in the second quarter, although at a much slower pace (+1%) than in the first quarter (+5%).

Although retail sales were up in nominal terms, they slowed enough so that after adjusting for inflation they were essentially unchanged, making no contribution to the index's Q2 increase. Non-residential construction continues to be an area of weakness. Also contributing to the smaller index gain was the fact that the number of foreign residents entering BC dropped off, after recovering from the September 11 attacks in 2002 Q1.

Overall, the more modest increase in the BC Economic Index points to positive but far from robust economic growth in Q2 and probably for 2002 as a whole.

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¹ The Q1 level was revised down slightly from that reported previously.