



B.C. ECONOMIC INDEX

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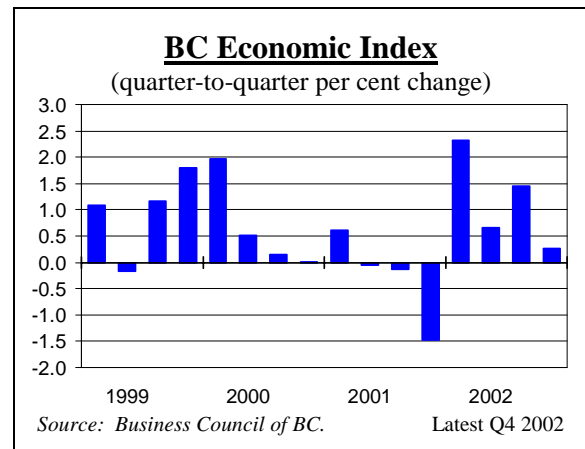
BC ECONOMIC INDEX SLOWS IN FOURTH QUARTER

The Business Council's BC Economic Index rose just 0.3% in the fourth quarter of 2002, suggesting the province saw very little economic growth in the final three months of the year. The slim advance in this broad proxy of current economic conditions is a sign that BC's economy put in a sporadic performance in 2002 and failed to generate sustained positive momentum. The index crept up to a level of 118.2 in the fourth quarter, up slightly from a revised 117.9 in the third quarter.¹

The weaker reading stems from the fact that while five of the seven indicators that make up the index rose, the gains were generally more modest than earlier in the year. This is particularly true for employment, which has moved sideways over the past three months after increasing strongly in the first two-thirds of the year.

The other key change in the index was in the retail sector. Even though the most recent monthly data showed a small resurgence in consumer spending, it was not enough to offset weakness in the previous two months, leaving retail sales (adjusted for inflation) as one of the two index components that actually contracted in the fourth quarter.

Single family housing starts also dragged down the index. For most of 2002 single family starts were a significant positive contributor to the index, but recently went



through a soft spot. However, this is probably a temporary development, as single family construction activity has already bounced back and is expected to support economic growth in the first quarter of 2003. It is also worth noting that overall conditions in the BC housing market remain healthy.

On the plus side of the ledger, a rise in non-residential construction permits boosted the index in the fourth quarter; the number of international travellers entering BC also edged up; and, manufacturing shipments increased modestly.

Overall, the latest reading of the BC Economic Index indicates that growth in the provincial economy likely tapered off in the latter part of the year. Although it is difficult to read a trend into the growth pattern of the index in 2002, the recent downshift may set the stage for a subdued start to 2003, particularly if employment and retail sales remain in a holding pattern.

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¹ Note that the year-over-year increase in the index shot up to 4.7% in Q4 and was revised up slightly to 2.9% for Q3. The annual increase accelerated even though the quarter-to-quarter growth rate slowed because the base for calculating the annual change (Q4 2001) dropped sharply and, according to the index, was the low point in the economic cycle.