



B.C. ECONOMIC INDEX

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EXTERNAL FACTORS LEAD TO DECLINE IN BC ECONOMIC INDEX IN Q2

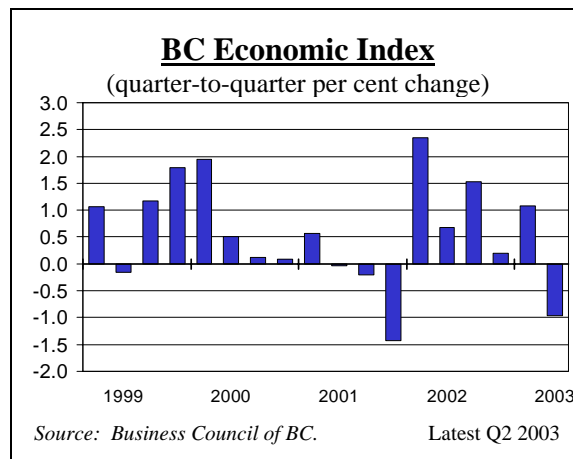
The Business Council's BC Economic Index fell 1.0% in the second quarter of 2003, marking a notable change from the first quarter when the Index advanced by 1.1%. It is the first negative reading in this broad proxy of current economic conditions since the fourth quarter of 2001, when the 9-11 terrorist attacks devastated the province's tourism sector. The Q2 decline left the Index at 118.4, down from 119.5 in Q1.¹

Three of the Index's components fell, three rose, and one was essentially unchanged. As was the case in the last time the Index posted a significant drop, the tourism industry was front and centre. The SARS outbreak kept people home and resulted in a sharp drop in the number of international entries into BC; this was the largest contributor to the overall drop in the Index.

The other key area of weakness was manufacturing shipments. While this is not a new theme, the decline (in real dollars) accelerated in recent months as shipments recorded their largest quarterly contraction since late 2001.

Another indicator pulling the Index down was retail sales. Here, some of the weakness may reflect the slow tourism season, but most of the decline stems from a retrenchment in automobile sales.

The three indicators that increased in Q2 were housing starts, employment, and the Canadian leading economic indicator. Non-residential construction activity continued to move sideways and was essentially unchanged.



Housing was once again a notable area of strength for the provincial economy. Although construction of single family homes has recently moderated, strong activity earlier in the year lifted the quarterly reading higher and made a significant positive contribution to the Index. If single family starts remain near their current monthly level, the recent slowing will show up in the third quarter.

Overall, the latest reading of the BC Economic Index shows economic conditions softening in Q2, a finding that is consistent with developments at the national level and with the recent downgrading of Canadian growth forecasts for 2003. This does not mean the economy is headed for a downturn, but it does underscore that growth in BC continues to be held back by a weak export sector and a struggling tourism industry.

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¹ Year-over-year, the Index was still up 1.8%, but this is down significantly from the (revised) 3.5% annual increase recorded in the first quarter.