



B.C. ECONOMIC INDEX

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SMALL RISE IN BC ECONOMIC INDEX SUGGESTS THE WORST IS OVER

Following a barrage of negative economic news that led to a 1.0% decline in the second quarter, the Business Council's BC Economic Index eked out a slight 0.2% quarterly increase in Q3.¹

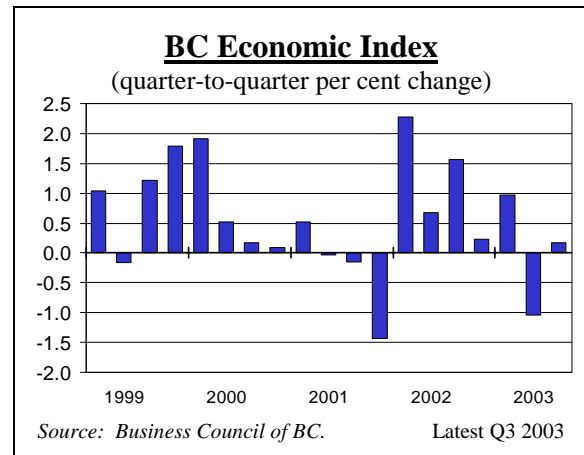
The soft reading is not surprising considering the various negative shocks that brought growth to a halt in Q2 – the sharply stronger Canadian dollar, fallout from the “mad cow” incident, SARS and the ongoing softwood lumber dispute. These events spilled over into the summer months when the province also had to cope with the worst forest fire season on record. Although the increase in the Index is small, given the above noted difficulties any positive reading in this broad gauge of economic activity should be seen as promising.

Also not surprising is the fact the gain in the Index was narrowly based, with just three of the seven component series on the positive side of the ledger. Perhaps the most notable shift was in the Canadian leading economic indicator, whose recent surge provided a significant boost to the BC Index.

Employment growth was the other key source of strength. For much of 2003 the job market has been tepid, but healthy gains over the past few months (employment has increased by almost 20,000 since May) suggest the BC economy has weathered the storm of negative shocks reasonably well.

An up-tick in retail sales also contributed to the positive Index reading in the third quarter. Slower auto sales dampened the retail sales numbers early in the year, but

there has been some recovery in recent months.



On the negative side, manufacturing shipments and non-residential construction activity continued to edge lower.

The number of international visitors to BC, which plummeted in the spring, has recovered somewhat over the past two months, but not nearly enough to avoid detracting from the Index's Q3 reading. And in contrast to the previous quarter, the measure of housing activity moved lower due to a drop in single family starts in May and June.

Overall, the latest reading of the Index points to a BC economy that is struggling to recover from protracted weakness in the non-energy export sector and a variety of negative shocks. In this context, the slight improvement seen in the third quarter can be taken as a sign that the worst may be over.

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¹ Year-over-year the Index posted a modest 0.3% increase in Q3.