

B.C. ECONOMIC INDEX

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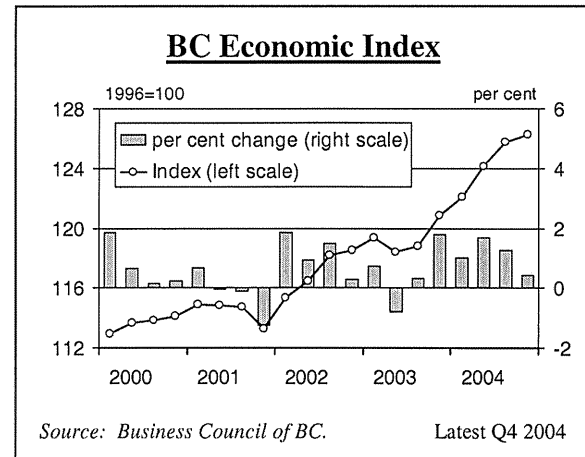
BC ECONOMIC INDEX POINTS TO CONTINUED GROWTH IN Q4

The Business Council's BC Economic Index rose by 0.4% in the fourth quarter of 2004. This suggests that economic growth slowed from the strong (and unsustainable) pace recorded in the first three quarters of the year, as residential building activity took a bit of a breather and the tourism industry continued to struggle under the weight of a higher Canadian dollar.¹

Still, the Index's current showing represents a decent advance. And given that it comes on the heels of the strongest four consecutive quarterly increases in the Index since 1994, some slowing is not surprising. The fact that five of the seven indicators that make up the Index contributed to the most recent gain supports the view that the province's economy remains on a solid growth footing.

Buoyant retail sales have been a key source of economic strength for BC. Healthy retail activity helped to drive the economic rebound throughout 2004, but recently the strong retail sector has been an even more important factor in the performance of the Index as growth in some of the other indicators has eased.

Non-residential construction also contributed to the fourth quarter advance. Higher employment was another plus, although not to the same extent as earlier in the year. The Canadian Leading Indicator was also a positive element in Index's fourth quarter gain.



Exports have helped to sustain economic growth in BC over the past year. But evidence is accumulating that the appreciation of the Canadian dollar vis-à-vis the US dollar is starting to take a toll, with the growth in manufacturing shipments clearly slowing from earlier in the year.

A general easing in the BC housing market tempered the fourth quarter gain in the BC Economic Index as the number of single family housing starts has backed off in the past few months. A second recent weak spot is tourism. Here, it appears that the weaker US dollar is dampening Americans' appetite for foreign travel, including to BC, especially in the case of shorter jaunts over the border.

The latest BC Economic Index reading confirms that a fairly broadly-based economic upswing continues to unfold in BC. However, it also signals that the pace of economic growth cooled in the final months of 2004.

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¹ On a year-over-year basis, the Index is up 4.5%, a hefty annual increase that follows a 5.9% rise in the third quarter of the year.