



B.C. ECONOMIC INDEX

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INDEX SHOWS GROWTH CONTINUES DESPITE EXTERNAL HEADWINDS

The Business Council's BC Economic Index rose by 0.1% in the first quarter of 2005. This suggests the provincial economy continued to expand from the previous quarter, but at a moderate pace following the hefty gains recorded during 2004.¹ The recent quarter-to-quarter slowing was not unexpected, in that longer stretches of economic expansion are almost always interspersed with slower quarters. In addition, the impact of last year's surge in the Canadian dollar started to show up late in 2004 and continues to weigh on the province's export and tourism sectors.

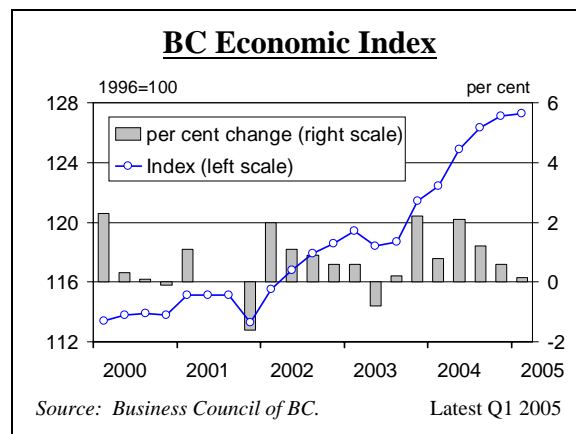
Four of the seven indicators that make up the Index were on the positive side of the ledger in the latest quarter. The labour market continued to create jobs, and non-residential construction also made a positive contribution. Investment in commercial and industrial buildings has been trending higher since 2002, and has been notably stronger in the past few months.

Another positive is home building. Having levelled off in the second half of 2004, housing starts have picked up again, making a modest contribution to the Index.² The

¹ On a year-over-year basis, the BC Economic Index is up a strong 4.0%, following a 4.7% rise in the fourth quarter of 2004.

² Beginning in the first quarter of 2005, the composition of the Index was slightly modified. The total number of housing starts (single and multi family units) replaced single family housing starts, the measure originally used to construct the Index. Single family starts and total housing starts are both good proxies for activity in the housing sector and are well correlated with economic cycles. Single family starts were originally selected because they are less volatile and were slightly more closely aligned with economic cycles. Single family dwellings, however, account for a declining share of

Canadian Leading Economic Indicator also helped to lift the Index.



On the downside, the number of international visitors coming to the province weighed on the Index. Manufacturing shipments also eased in recent months. And growth in retail sales finally slowed after a strong performance in 2004. After adjusting for inflation, retail spending dropped slightly in the first quarter.

The latest BC Economic Index reading suggests that the economic upswing continues in BC. But it also confirms that the growth process is uneven and does not unfold at a steady and uninterrupted pace.

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new homes in BC, and this trend is expected to continue. As a result, we concluded that the total number of housing starts is now a better measure of conditions in the overall housing sector, and in turn in the broader economy. The impact of this change on the historical values of the Index is negligible.