



# Publication

## BC ECONOMIC INDEX

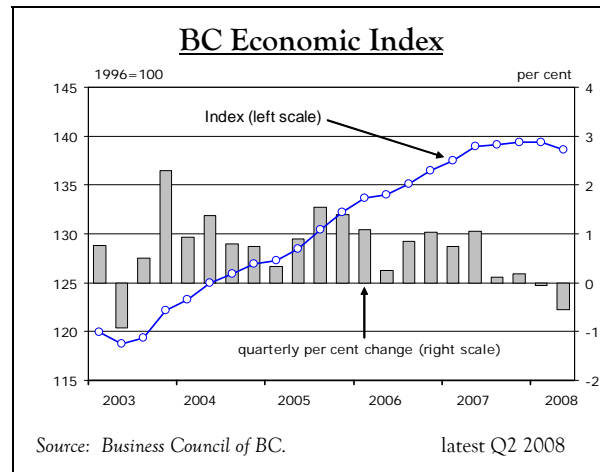
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### BC ECONOMIC INDEX CONFIRMS THE ECONOMY IS SLOWING

The BC Economic Index slipped from 139.3 in Q1 2008 to 138.6 in the second quarter. This change represents a 0.5% decline and follows a revised 0.1% drop in the first quarter of the year. Back to back declines in the Index confirm the provincial economy is downshifting and suggests the slowdown may be more significant than commonly perceived. In fact, going back to 1978, consecutive quarterly declines have occurred on just three previous occasions: 1981-82, 1990 and 1998. The 2001-2002 period also shows up as a notable weak spot, but in this instance the three negative readings were broken by two small increases. In other words, the Index has consistently identified past recessions, or near-recession downturns as 1998 and 2001 could be characterized, and is also not susceptible to false signals.

Currently, much of the weakness in economic conditions is centred in the export sector. Under the weight of a strong dollar and a slowing US economy, BC manufacturing shipments have fallen over the past year. International tourism is also struggling, as reflected by a steady drop in the number of international visitors entering the province. With recent declines adding to the steady reduction over the past seven years, the total number of international travellers (both short- and longer-term) has now fallen back to levels not seen since 1994. The Canadian leading economic indicator, which is included in the Index to capture the strength of the Canadian economy, also fell in the second quarter.



Some slowing on the domestic side of the economy is also evident. Here, the biggest turnaround is in non-residential construction. The value of building permits fell sharply in the first four months of 2008 and was by far the single biggest drag on the Index. We would note that permit values have rebounded more recently, but they are tabulated in the Index with a lag to reflect the fact it takes time for construction projects to ramp up. It is the downturn early in the year that pulled the Index lower.

Some softening in retail spending also contributed to the drop in the Index. Retail sales in BC have slipped in three of the past four months. This is a worrisome development as consumer spending has been key in sustaining BC's multi-year economic expansion.



Employment and housing starts are the only two indicators to make positive contributions to the Index in the second quarter. Although there are some soft spots in the labour market (on a regional basis as well as the private sector), overall employment growth has held up reasonably well in BC. Housing starts also gained in the first half of the year.

In sum, with five of the seven component indicators on the negative side of the ledger and the Index showing two consecutive quarterly declines, it is clear the provincial economy is slowing, mainly due to negative external developments. At this stage it is hard to gauge the full extent of the downturn. In the past, two consecutive negative readings have lined up with periods of economic contraction. Yet, it still seems unlikely that growth in total output is stagnating or falling into negative territory. Although the Index was developed to provide an unbiased and timely measure of economic activity, based on an examination of all of the latest data we don't believe the BC economy is teetering on recession. The spike and subsequent retrenchment in non-residential building permits may pave the way for a positive Index reading in Q3. Higher natural gas prices and the increased investment flowing into that sector (factors that are not captured in the Index) should help to lift growth this year. Having said that, the Index does suggest BC's economic growth for 2008 could slip below 2.0% ~ a weaker result than most forecasters are currently predicting.

