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ECONOMIC INDEX EDGES HIGHER, BUT ECONOMY STILL WEAK

The BC Economic Index eked out a tiny 0.1% gain in the third quarter. The slight increase follows two consecutive quarterly declines. Although the latest quarterly gain comes as a bit of good news amid the current global financial crisis and rapidly deteriorating economic outlook, it does not alter the weak economic conditions which the Index is reflecting. The Index has been relatively flat for more than a year now, suggesting at best very sluggish economic growth in BC in the coming quarters.

The Index advanced in Q3 because five of the seven component indicators increased and just two fell. This is exactly opposite to the preceding quarter when five indicators were negative and just two were positive. The Index's latest gain is small since most of the indicators barely inched ahead.

Curiously, the biggest driver of the Q3 up tick was international visitor entries to BC. This is "curious" because the number of visitors has been trending down steadily for many years. The visitor numbers rose recently, however, thanks to an unusual one-month surge in visitor entries a few months back, which appears to be "payback" for an unusually large and unexplained decline the preceding month.

Employment also contributed to the Index's most recent gain. But month-to-month job growth has been relatively flat since April, so its contribution was well short of what is normal. Similarly, with consumers reigning in their spending, the lift provided by retail spending was also very muted and well below what is typical.

Non-residential construction and the Canadian Leading Indicator were the other two positive factors while manufacturing shipments and housing starts dampened the Index.

Overall, the small positive Q3 reading indicates that BC is not currently in recession, but the pattern over the past few quarters does show that economic growth is weak. According to the Index, the shift to slower growth in BC was evident well before the recent escalation in the global financial crisis, no doubt reflecting the softening American economy and the dramatic fall-off in US housing starts. The tumultuous events of the past several weeks are likely to weigh on consumer sentiment, business confidence, and the prospects for BC's exports in Q4 and into 2009.

