



Publication

B.C. ECONOMIC INDEX

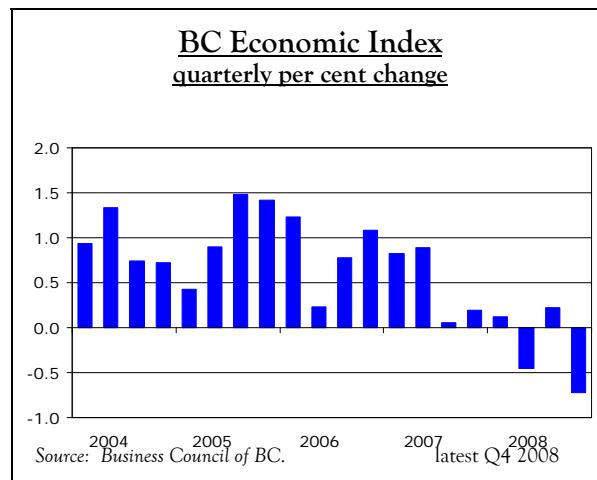
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Editor: Jock A. Finlayson

GLOBAL ECONOMIC WOES CATCH UP TO BC

The latest reading of the BC Economic Index confirms that the province is now feeling the effects of the sharp and rapid downturn in the global economy. In the final quarter of 2008, the Index registered a sizable 0.7% decrease. This follows an upwardly revised 0.2% gain in the third quarter. In the second quarter, however, the Index also fell, thus producing a weak overall performance for most of 2008. The up down pattern suggests BC has escaped a recession so far but provides no guarantee looking ahead.

The Index's most recent downturn was broadly-based with five of the seven component indicators pulling the reading lower. The number of jobs in BC dwindled in the final months of the year, making employment a significant drag in the latest tabulation of the Index. A retrenchment in consumer spending meant that retail sales were also an important factor in the decline.



The number of international visitors to BC continued to trend lower (following a brief uptick in the third quarter). Housing starts also pulled the Index down. Because housing starts are computed with a lag, the latest reading reflects a drop in new home construction in the third quarter of 2008. Since then the falloff in home construction has accelerated, with new home construction almost certain to be an even larger negative for the Index in the first quarter of 2009. The Canadian leading indicator, which is pointing to weaker conditions ahead for the national economy, was the final component that helped to drag the Index down.

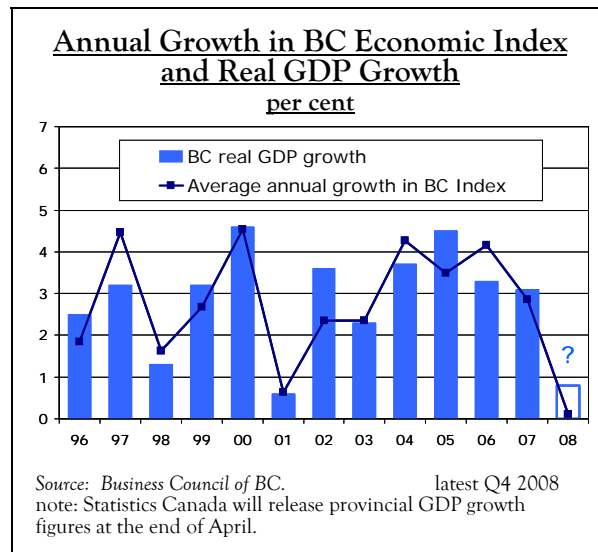
Manufacturing shipments and non-residential building permits were the two positive indicators in the fourth quarter. In inflation-adjusted terms manufacturing shipments posted a modest gain in the final quarter, after declining steadily over the past two years. In the wake of a steep retrenchment in the first half of the year, non-residential permits rebounded in the second half. But we believe the recent upturn will prove to be temporary, as all indications are that plans for non-residential construction are being scaled back.



In sum, the BC Economic Index has reflected softer economic conditions for six consecutive quarters now. The 0.7% decline in Q4 suggests that BC's economy likely contracted in the final months of 2008 and points to a very weak handoff going into 2009.

An Assessment of 2008 Annual Growth and the Risk of Recession

The BC Economic Index was designed as an unbiased composite indicator of current economic conditions and as a tool to help identify turning points in the provincial economic cycle. On the question of recession, using the Index as a proxy for GDP growth, so far BC has not seen at least two consecutive quarterly declines in output (real GDP), the main rule of thumb for defining a "recession." This suggests that although the economy has clearly weakened, it has not yet slipped into recession. This resilience, however, may be short-lived. Many of the Index's components are poised to slip further in the coming months. Employment, for example, will continue to decline in the first quarter and all indications are that retail spending will remain weak. As noted above, the sharp downturn in housing construction at the end of 2008 will definitely be a drag on the Index in the first quarter of 2009. Although still speculative at this stage, it is likely the Index will decline again in Q1. If it does, this will be an indication that BC may have fallen into recession in the final months of 2008.



The Index can also be used as a guide in assessing last year's annual economic growth, because our research shows that year-over-year changes in the Index are well correlated with real GDP growth. Averaging the annual growth rates for each quarter shows the Index advanced by just 0.1% in 2008. This represents the smallest annual gain since 1991 and a more subdued pace of economic growth in 2008 than most analysts are currently estimating. Based on the pattern over the past decade, the almost flat Index for 2008 suggests that when Statistics Canada releases GDP figures this coming April, they are likely to show that BC's economy grew by less than 1% in 2008. Even though the Index has been a reasonably good proxy for GDP growth, we believe the official growth number for BC's economy in 2008 will turn out to be somewhat higher than the tiny gain in the Index itself because of the positive impact of natural gas production and strong commodity prices in the first half of the year - factors that are not well captured in the Index.