



Publication

B.C. ECONOMIC INDEX

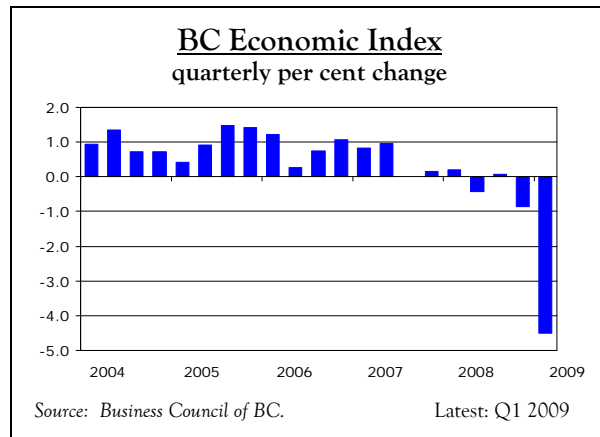
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ECONOMIC INDEX POINTS TO STEEP CONTRACTION IN Q1

The latest reading of the BC Economic Index indicates the provincial economy contracted sharply in the first quarter of the year. The Index dropped by a sizable 4.5% in Q1 2009. While we usually avoid alarmist language, this constitutes a very substantial fall. It is the largest quarterly drop on record (consistent data to calculate the Index go back to 1978), surpassing the 3.9% decline recorded in the depths of the 1982 recession. Although we are not surprised the Index declined (economic activity is diminishing across the world), the magnitude of the Q1 drop was unexpected and prompts some concern about the pace of the economic slowdown.

A key reason for the large drop is the widespread nature of the downturn. All seven of the Index's component indicators were negative. Even the worst quarter of 1982 had just six of the indicators on the negative side of the ledger.



Consumer spending and a sagging export sector stand out as areas of particularly weakness. The huge reduction in retail sales accounted for one-quarter of the Index's latest decline. With the downturn in manufacturing shipments accelerating, this indicator – which is used to proxy the health of the export sector – was also responsible for one-quarter of the Q1 decline.

The rest of the decline was spread more evenly among the remaining five component indicators. Slumping employment was an important negative factor as was the ongoing drop-off in housing starts. Non-residential construction, the number of international visitors to the province, and the Canadian leading economic indicator all made smaller contributions to the quarterly result.

In sum, the most recent Index reading quells any lingering hope that BC would be able to escape the impact of the severe global recession and confirms that 2009 is going to be a very difficult year for the province. The Q1 result suggests that real GDP in British Columbia could decline by 2% or more this year.

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