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BC ECONOMY CONTRACTS AGAIN IN Q2

The most recent reading of the BC Economic Index shows the provincial economy continued to shrink in the second quarter of the year. With six of the seven component indicators falling, the Index posted a sizable 2.4% quarterly decline for the April to June period. While this is among the larger contractions on record (confirming an ongoing and significant recession in the province), the good news is the rate of decline moderated from the record 4.7% tumble in the first quarter of 2009.¹ The slower pace of contraction in this broad measure of current economic conditions suggests the trough of the recession probably occurred in the first quarter of the year.

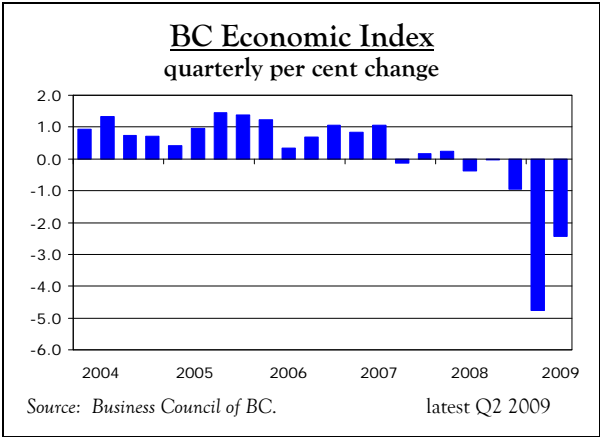
The fact that six of the Index's seven component indicators were negative confirms the economic malaise remains widespread. But this too is a slight improvement from the first quarter, when all seven indicators were negative.

The steep drop in new home construction remains a substantial drag on the provincial economy and was the single largest factor behind the Q2 fall in the Index (accounting for 40% of the total decline). Employment also pulled the Index lower. Even though the job numbers have edged up in recent months, earlier losses kept the moving average (used to smooth monthly fluctuations when calculating the Index) on a downtrend. With all developed industrialized countries mired in recession, BC's manufacturing shipments (which are mostly exported) were also a key reason for the large drop in the Index. The pull back in non-residential construction was also a significant negative factor. Retail spending and the number of international visitors to BC (reflecting tourism activity) were minor negative factors. The only positive component indicator was the Canadian Leading Indicator, which is a composite, forward looking index for the Canadian economy produced by Statistics Canada.

The most recent tabulation of the BC Economic Index shows the province remains in recession, but it also suggests that the worst may be behind us. The magnitude of the drop in the Index over the first half of the year, however, means that absent a sharp rebound in the second half of the year (which appears unlikely), economic growth in BC in 2009 is likely to be even weaker than most forecasters are currently predicting.

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¹ The Index originally fell 4.5% in Q1, but now shows a -4.7% decline as a result of data revisions.