



# Publication

## B.C. ECONOMIC INDEX

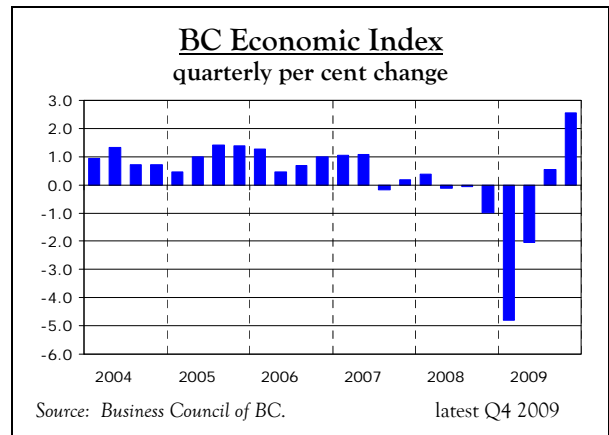
Vol. 8 No. 4 - January 12, 2010

Editor: Jock A. Finlayson

### A STRONG FINISH TO 2009 POINTS TO CAUTIOUS OPTIMISM

The BC Economic Index registered a very impressive 2.6% quarterly increase in Q4 2009. This is one of the largest quarter-to-quarter gains on record and is a good indication that the province's economy is on the mend.

The fact that six of the seven component indicators in the Index were positive helped drive the Index higher. The broad-based nature of the increase is further evidence the economy is recovering. If there was a weak spot, it is that the Canadian Leading indicator made the largest contribution to the overall increase while employment in BC made the smallest. Retail spending, housing starts, non-residential building permits and manufacturing shipments were also positive factors. Only a slip in the number of international visitors served as a drag on the Index in the most recent quarter.



The Index has a good track record as a proxy for economic growth in the province so the hefty advance in Q4 comes as welcome news. It is important to note that to some extent the latest increase reflects an inevitable rebound following one of the steepest downturns in the post-war era and record declines in the value of the Index in the first half of 2009. With a relatively slow recovery taking shape in the US (especially on the jobs front) it is premature to expect a strong "V-shaped" recovery in BC for 2010. A more likely outcome, in our view, is that a moderate growth trajectory will unfold as the province moves out of recession.

It is also instructive to look at the year-over-year changes in the Index. We typically focus on quarterly changes because they provide more timely information about changing economic conditions. But provincial GDP growth is based on annual tabulations and therefore reflects annual changes. In spite of the strong quarterly increase in Q4 of 2009, on a year-over-year basis the Index is still 3.8% lower than in the final quarter of 2008. This speaks to the fact that economic output in BC fell a long way and is operating well below potential. It also suggests that BC's real GDP growth figure for 2009 - to be published by Statistics Canada in the spring - will be in deep negative territory. The current consensus estimate for real GDP growth in 2009 is -2.5 per cent.<sup>1</sup> The year-over-year changes in the Index suggest that last year's decline may turn out to be even larger.

Ken Peacock  
Director Economic Research

\* \* \* \* \*

<sup>1</sup> This is the average forecast from the BC Economic Forecast Council, which is comprised of 14 private sector economic forecasters.