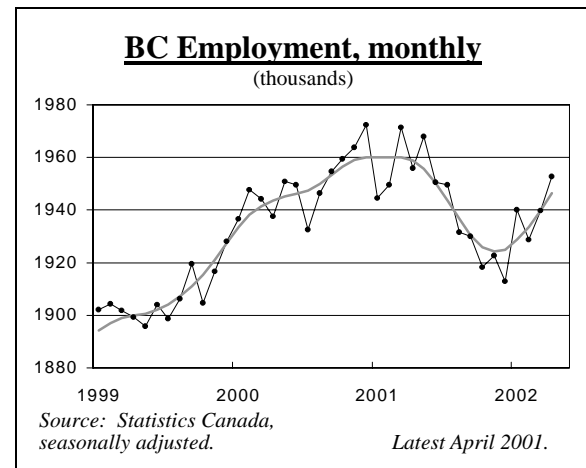


RISING BC JOB NUMBERS SUGGEST A RECOVERY IS UNDERWAY

Most indicators continue to point to a provincial economy that is in recovery mode. The latest job numbers, in particular, suggest the economy is growing more rapidly than anticipated. As is the case elsewhere in Canada and the US, the improvement is being driven by the consumer. Business investment is still a soft spot, yet investment could turn around later in the year if the export sector can extend its recent improvements and consumer sentiment remains intact.

Unfortunately, the looming US softwood lumber tariffs could derail hopes for a recovery in the BC export sector. At this point, it is difficult to say what the final impact will be, but at a minimum some additional mill closures are likely and, in a worst-case scenario, layoffs and related job losses could take a very large bite out this year's job increase. One reason why it is hard to assess the full economic impact of the softwood tariffs is uncertainty about both the US housing market and future lumber prices. Most forecasters believe the US housing market will remain strong, which, if combined with some price appreciation in the lumber market, could help mitigate the negative effect of the tariffs.

In terms of specific indicators, **employment** in the province advanced by another 13,000 in April, bringing the total increase in jobs this year to a remarkable 40,000. A gain of this magnitude would be respectable for a whole year, let alone just four months. The fact that nearly all of the new jobs are in the private sector is further testament to the underlying strength of the job market.



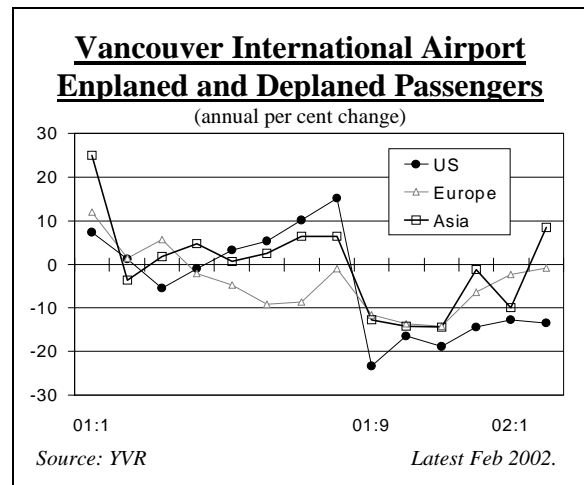
Even though employment in the **goods producing sector** advanced just slightly in April, it was still the fourth consecutive monthly gain in this broad sector. The moderate job losses in logging likely reflect the uncertain outlook for softwood lumber, but with US tariffs not yet reinstated the data show little evidence of further job losses in the manufacturing side of the forest industry. It should be noted, however, that the initial round of US tariffs contributed to the 15,000 drop in BC manufacturing employment over the past 16 months.

The one concern with the most recent employment report is that most of the new jobs were concentrated in one service industry, leaving only modest gains (along with some losses) in the other service sectors. Employment in the **trade sector** (comprising retail and wholesale activity) surged in April. This is partly due to the continued strength of consumer spending, but probably also reflects some "pay back" for the sizable decrease recorded in March.

Regionally, most of the increase in employment is centred in the Lower Mainland region, with conditions mixed elsewhere in the province. In the Thompson-Okanagan and the North Coast/Nechako, jobs have been on the rise since the beginning of the year. In the Kootenay, employment levels continued to fall in April, undoing some of the solid gains reported in the latter part of 2001. In the Cariboo, job counts appear to have levelled off and in the Vancouver Island/Coast region employment recently turned down, probably because of additional forestry-related job losses.

By most indications, consumer sentiment remains healthy in the province. After taking a breather in January, **retail sales** posted a decent 1.4% advance in February. Some of the buoyancy in the retail sector is related to the upbeat housing market. **Total housing starts** in BC were pulled down in April because of a drop in multi-unit construction. Such dips occur regularly in multi-unit activity and do not mean the recovery in the housing market is coming to an end. In fact, according to CMHC, the supply of apartment condominiums in the Vancouver market is very low (half the level of any month during the 1990s), which points to a rise in multiple starts later in the year. In Greater Vancouver, the number of single-family starts was up, but starts moved lower for the second consecutive month in the rest of the province.

Although **passenger traffic** at Vancouver International Airport has not fully recovered from the effects of September 11th, enough ground has been regained to suggest the upcoming tourist and cruise ship season will not be unduly impacted. In February, total passenger traffic was down about 9% from last year's level, having recouped more than half of September's 20% plunge. North American markets have been slower to recover: US traffic remains down 11% and the number of domestic passenger is off 13%. In comparison, traffic from Europe has



already reached last year's level and the number of Asian passengers was up 8%.

With the ultimate outcome and impact of the softwood lumber dispute still unknown, it would be premature to say that BC's **commodity exports** have bottomed out and are poised to recover. But the fact that January and February both showed month-to-month increases does offer some hope that the export picture is improving. For the first two months of 2002 exports were still down by a whopping 25% compared to year-ago levels. Most of the shortfall, however, is due to the effect of sharp energy price spikes in 2001; if energy is stripped out, exports in February were only 6% lower than last year.

One area of the economy that is still noticeably weak is non-residential construction. The value of non-residential building permits in the first quarter of 2002 was 30% lower than last year. Industrial permits are especially weak, having fallen by more than 50%; commercial and government/institutional permits are both off roughly 25%. Last year, government and institutional construction helped prop up non-residential construction, but the current constraints on provincial government capital spending means that government spending will not provide the same lift this year.

Ken Peacock
Senior Policy Analyst
kpeacock@cbc.com