

## B.C. ECONOMIC SNAPSHOT

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### IN SPITE OF STRONG JOB NUMBERS GROWTH WILL REMAIN MODERATE

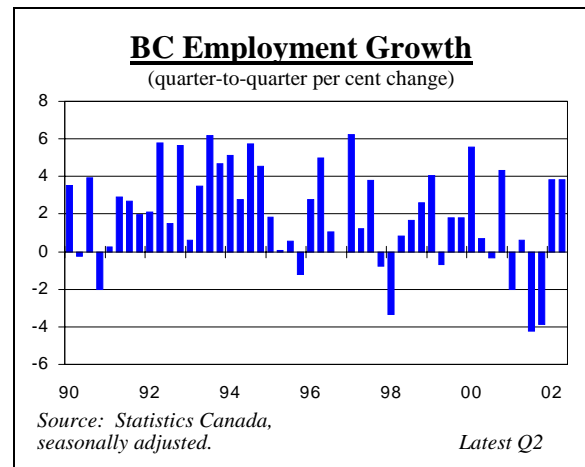
A number of economic indicators suggest that economic growth in BC was stronger in the first half of the year than most pundits had predicted. While some turnaround was expected, many analysts were looking for only a slight improvement in economic conditions after a poor year in 2001. With 2002 more than half over, the question now is whether the modest pace of growth will be sustained over the balance of the year.

Some of the available data point to a continuing economic expansion. June saw another sizable jump in employment. In addition, retail sales continue to climb and the housing market remains strong. Even exports are on the rise, after a lengthy period of weakness.

Despite these positive signs, the provincial economy is being held back by in several other areas. At this stage, the economic outlook for 2002 as a whole is for only a small increase in real GDP (1.2-2.0%), meaning that BC will once again find itself at the bottom of the pile among the provinces. Stiff US duties on softwood lumber are hurting forestry, the tourism industry is still suffering from the lingering effects of 9/11 as well as an uncertain US economy, and business non-residential investment in BC has yet to recover.

BC did enjoy an impressive turnaround in the job market in the first half of 2001. In June, total **employment** surged by 27,000, on top of 29,000 net new jobs created over the January to May period. Employment grew at a strong annualized pace of 3.8% over the first and second quarters of the year. Back-to-back quarterly increases of this

magnitude have not been seen in BC since 1994.



But there is doubt as to whether these job gains can be sustained. Put simply, the job numbers seem out of whack with an economy that is clearly far from firing on all cylinders. It may be that Statistics Canada's Labour Force Survey is overestimating provincial employment levels – a situation that is not uncommon. If so, there is a distinct possibility that employment will begin to back off in the July and August surveys. Even if the job numbers do not fall off significantly, the pace of job growth is almost certain to slow given the prospect of rising layoffs in the forest industry and weakness in other sectors.

Although the investment climate in the province has improved considerably over the past year thanks to lower taxes and other policy changes, declining equity valuations and unsettled economic conditions in North America mean that many businesses are still hesitant to make major investment expenditures. This reluctance is reflected in

the ongoing slide in the value of **non-residential permits**, which (in inflation adjusted dollars) fell by more than 7% in the second quarter. A number of consecutive decreases have left the real value of private sector non-residential construction some 20% lower than last year.

Apart from a short-lived upturn in late 1999, industrial building permits have been weak, falling steadily since 1997. There is also a notable lack of companies announcing plans to expand existing or set up new operations in the province.

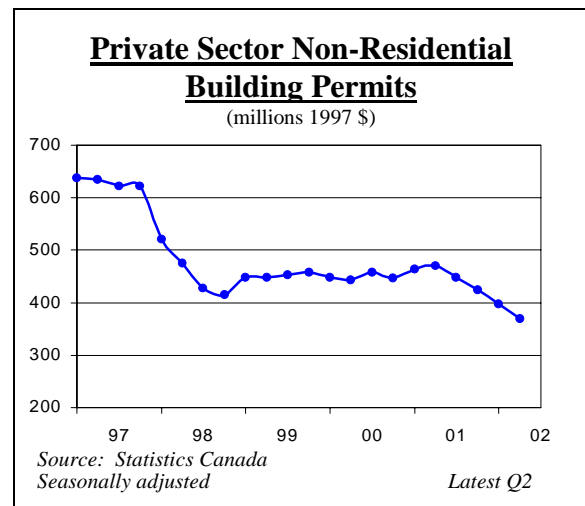
A number of indicators show that **tourism** also remains soft. The 12% drop in the number of international entries to BC over January-April (compared to the same period last year) points to lower tourism-related expenditures. Occupancy rates for hotels, for example, are running at 58.8%, down from 60.1% and 61.4% in April of 2001 and 2000, respectively. The arrival of fewer foreign visitors has also hurt spending at restaurants and some high-end retail stores.

In contrast to subdued activity in the non-residential construction sector, **housing starts** are a tower of strength for the BC economy. Total housing starts were up again in June and are now running 32% above year-ago levels. Construction of single-detached housing units continued to advance steadily, while multi-unit construction accounted for most of June's gain.

The strength in residential construction even extends beyond the Greater Vancouver region. In the first half of the year, starts in Abbotsford and Kelowna have more than doubled last year's pace. In Victoria, single family starts are also quite strong, although multi-unit construction has yet to pick up.

The buoyant housing market is also boosting purchases of appliances, furniture, garden equipment and other household items. This is one reason why overall **retail sales** have grown at a healthy clip, at least through the

first several months of the year. Retail sales posted a 1% monthly advance in May, on the heels of a similar increase in April. Activity in the retail sector has been supported by solid job growth so far in 2002. Looking ahead, turbulence in global financial markets, coupled with rising Canadian interest rates, may dampen consumer spending and thus retail sales over the balance of the year.



BC's **international commodity exports** continue to climb from their low point reached in December 2001. The gains are spread across most commodity groups. Lumber exports rose sharply over the first few months of 2002 as BC producers increased shipments to the US prior to the final imposition of penalty duties in mid-May. With an average US tariff of 27.2% now in effect, lumber exports are expected to decline in the coming months. Pulp shipments have also picked up as prices have started to edge higher.

On balance, the evidence suggests the provincial economy will continue to expand over the rest of 2002 and into early 2003, but at only a modest pace and with considerable unevenness across sectors.

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