



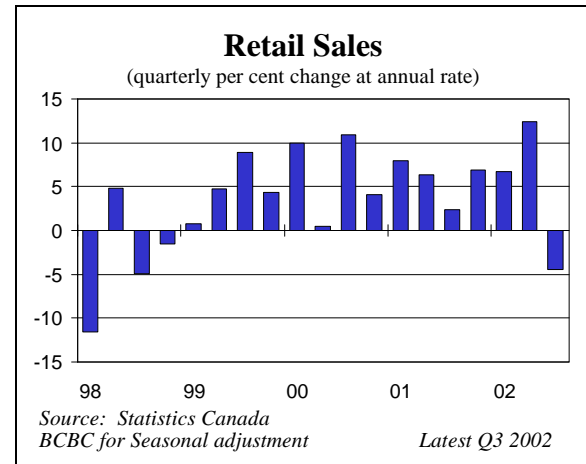
IS THE BC CONSUMER RUNNING OUT OF STEAM?

Although the provincial economy continues to grow, a number of indicators have slowed in recent months, suggesting that the pace of economic activity is moderating. So far in 2002 the consumer has been the key driver of economic recovery, helped along by solid job gains, modest income growth and low interest rates. But consumers may now be showing some signs of fatigue.

If BC consumers do restrain their spending, GDP growth in the final quarter of the year will slow and 2003 could get off to poor start, particularly since non-residential business investment is likely to remain subdued and near-term export growth will continue to be constrained by the softwood lumber dispute and less than buoyant global commodity markets.

Retail sales in BC fell by an annualized 4% in the third quarter of the year, which is the first quarterly contraction since 1998. The decline was broadly-based but was led by a sizable 14% (annualized) drop in the auto segment. Further evidence that the consumer's appetite for "big ticket" items may be diminishing is the 4% fall in sales of furniture and appliances. That combined spending at food, clothing, drug and general merchandise stores also edged down lends weight to the view that consumers are turning more cautious.

The recent data underscore the fact that consumers cannot spend at a rate in excess of income growth indefinitely, especially considering that BC households carry the highest debt burdens in the country. At some point households will have to start saving more and focus on paying down debt.

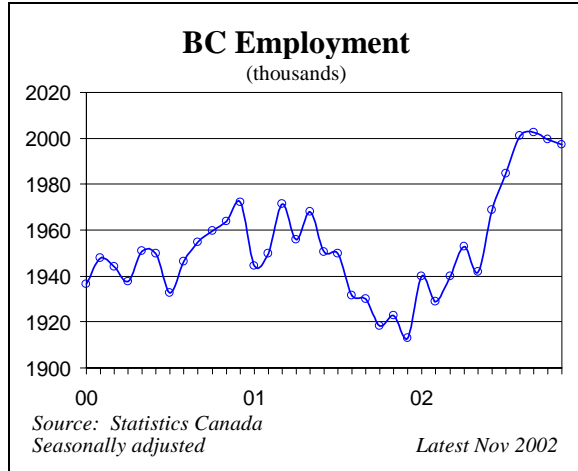


Less ebullience among consumers is also reflected in the pull-back in **housing sales** from levels seen earlier in the year. Low interest rates should keep sales activity healthy in 2003, but many of those who planned on getting into the housing market or on upgrading have already done so, leaving future sales growth to settle at a more modest pace.

The latest data on **housing starts** show that in spite of the slowdown in re-sales, builders are still trying to meet excess demand for new housing. Starts backed off in September but recovered fully in October, keeping the 25% year-on-year increase intact. Much of the October advance was attributable to a surge in single family construction, after three months of decreases in this category. Multi-unit building activity also posted a sizable gain.

An even stronger indication that growth in BC may be easing is the fact that **employment** is finally showing signs of slowing, after expanding at a near-record pace during the first eight months of the

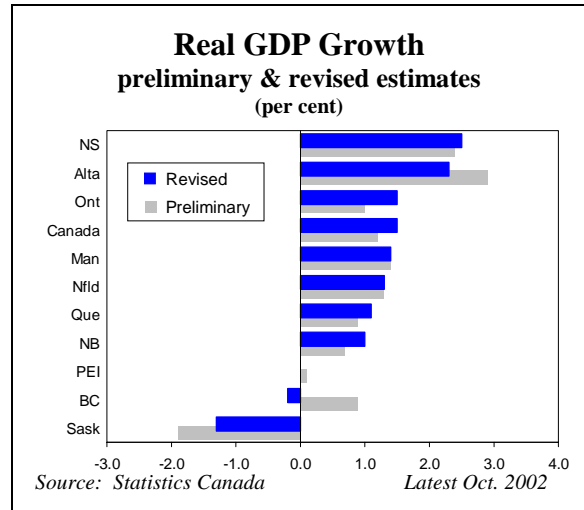
year. That the total job count has been essentially the same for 4 months (at approximately 2 million) suggests that employment growth has at least temporarily tapered off.



Even more telling is the change in the full-time employment category, which levelled off in September and then dropped sharply in October. There was a small increase in this category in November. The overall job count has only dipped slightly because the decline in full-time employment has been mostly offset by a jump in the number of part-time positions. Recognizing that labour force data are often volatile, it is probably too early to draw firm conclusions. However, the shift to more part time employment could be a sign that employers are scaling back hours in response to weaker demand conditions.

Figures released a few weeks ago show that after adjusting for seasonal variation, net **interprovincial outmigration**, was just over 1000 in the third quarter. Although this is still a net loss, it is a substantial improvement from the low point in 1998, when BC experienced a quarterly net loss of approximately 4,000 individuals to other provinces. In spite of this, underlying population growth remains at a relatively subdued 0.9%.

Other recently published data reveal that the BC economy was weaker in 2001 than initially thought. According to Statistics Canada's **revised real GDP estimates**, the BC economy actually contracted by 0.2% in 2001, whereas the preliminary estimate had the economy growing by 0.9%.



Most of the change is attributable to a modification in the methodology used by Statistics Canada to estimate GDP. The revisions, however, were generally favourable for other provinces (the national growth figure was revised upwards from 1.2% to 1.5%). BC's economic growth ranking slipped from seventh to ninth place last year. The revised GDP data also indicate that BC's standard of living continues to deteriorate in relation to the rest of Canada: on **per capita GDP growth**, BC was last among the provinces in 2001.

Ken Peacock
Senior Policy Analyst
kpeacock@bcbc.com