

AT YEAR END BC ECONOMY REMAINS ON TRACK

The BC economy remains healthy. Strong job growth, rising incomes, buoyant consumer spending, a construction boom and expanding exports fuelled by robust North American and global demand have all contributed to an impressive upswing in 2004. With the year coming to a close, the provincial economy looks set to grow by about 3.4% (after inflation) in 2004, a pace that would put BC near the top of the provincial growth rankings.¹

The export sector, however, is encountering significant headwinds. The sharp increase in the loonie relative to the US dollar is beginning to take a bite out of provincial exports. At the same time, prices for some of BC's key commodity exports (notably lumber) have slipped in recent months.

Despite some worries on the export front, the domestic side of the economy is in good shape. Although **employment** was essentially unchanged in November, job growth year-to-date has been solid. The number of people working has continued to climb over the past several months, adding to gains recorded earlier in the year. The result is that between January and November, employment in BC averaged 2.067 million, up 48,000 compared to the same 11-month period in 2003. This represents a 2.4% gain in employment, the biggest rise among the provinces. What's more, it comes on the heels of a 2.5% increase in 2003. Assuming employment

holds up in December, 2003-2004 will see the **strongest back-to-back annual job growth in the province since 1993-1994.**

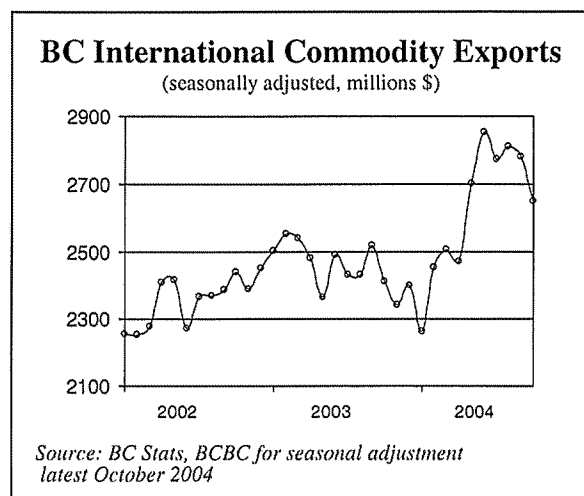
Against the backdrop of healthy job growth and rising incomes, BC's retailers are having a stellar year. Both the second and third quarters of 2004 saw **retail sales** surge by 8% over the previous year. (Excluding automobile sales, annualized retail spending grew in excess of 10% in each of the past two quarters.)

Ipsos-Reid recently reported that 73% of British Columbians believe the economy is in "good" or "very good" shape. This is a hefty 15 point climb from early summer. Positive consumer sentiment, higher employment, a pick-up in population growth and the half-point rollback of the provincial sales tax should all help to sustain momentum in the retail sector through the all-important holiday season and into 2005.

Heading into the final weeks of the year, the construction industry continues to operate in high gear. While **residential building** activity recently pulled back a bit, this follows nearly four years (44 months) of steady expansion. Although housing starts may slip further in the near-term, continued low interest rates should help to rekindle sales activity and prompt a pick-up in homebuilding activity as 2005 progresses. For the year as a whole, the number of starts is expected to stay close to the level set in 2004.

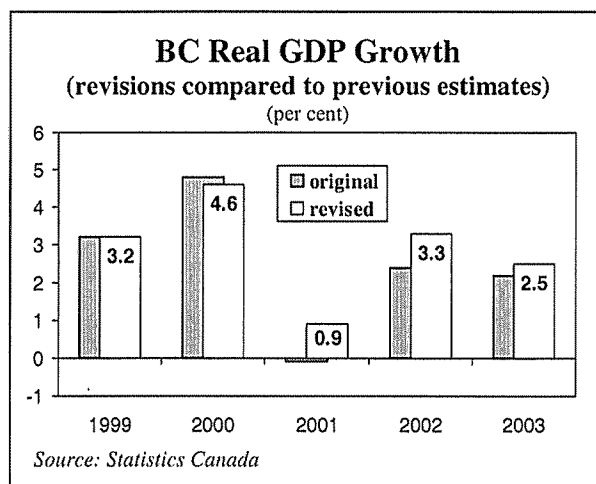
¹ The 2004 forecast is from the provincial government's Economic Forecast Council which is based on an average of 13 private sector forecasts for the BC economy.

Non-residential building activity has also provided a boost to the domestic economy. So far this year new permits for commercial structures have jumped 16% while industrial building permits are up 10%.



Amid the strongest rise in global economic activity in three decades, the value of **BC exports** increased by 11% for the first 10 months of the year compared to the same period in 2003. So far the fallout from the unprecedented rise in the Canadian dollar relative to the US dollar has been fairly limited. But there is mounting anecdotal evidence that exporters are struggling. The full impact of past currency appreciation will take some time to show up because many companies employ hedging strategies to protect against currency fluctuations. As time passes, these exporters will bear the full brunt of the stronger dollar. Furthermore, in contrast to what happened over much of the past 18 months or so, higher commodity prices are not likely to offset the impact of any further rise in the currency in 2005. If the loonie remains above 80 cents US, it will exert a tangible drag on BC's export sector – forest products, manufacturing, agriculture, film production, and other sectors – in the coming year.

Considering that the US is also the province's largest **tourism** market, the hospitality sector is also vulnerable to the exchange rate. While many within the industry believe that longer-haul and more expensive trips made by Americans are not particularly sensitive to currency fluctuations, there is little doubt that the number of short-term American visitors (particularly by car) will drop because of the weaker US dollar.



Data Revisions Indicate BC Economy Stronger than Previously Thought

Statistics Canada recently revised its estimates of provincial economic output going back to 2000. The result is that the BC economy has grown more strongly over the past few years than was previously believed. In 2001 for example, provincial GDP was reported to have fallen slightly (-0.1%) but the revised estimates show real GDP inching ahead in that year by 0.9%. Real economic growth in 2002 was also revised upwards by almost a full percentage point to 3.3%. For 2003, real GDP growth was notched up from 2.2% to 2.5%.

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