

Quarterly Update: Impact of Slowdown in Asia Showing Up in BC Exports

In our summer 2012 economic update, we held our forecast for BC's economy to grow by 2% for the year, citing the fact that a slight improvement in the domestic economy would likely offset the impact of a somewhat weaker global economy on the province's export sector. While recent developments in the housing market prompt some concern about the resilience of the domestic side of the BC economy, elevated activity in non-residential construction is providing a boost to overall spending. Recent data also paint a mixed picture for BC's exports. The slowdown in Asia is already showing up in BC's exports, but shipments to the US are gradually recovering.

While it is a close call, as shifting domestic and external growth drivers are largely offsetting, the softer economic outlook for Asia has convinced us to trim our BC GDP growth forecast this year to 1.9% from 2%. Having already cut the outlook for 2013, and anticipating that China's stimulus efforts will have some traction, we are leaving next year's growth projection for BC unchanged at 2.2%.

In the summer, we expected that financial turmoil in Europe would continue, that global growth would ease, and that the US recovery would remain sluggish. Apart from the reassessment Asia's growth outlook referenced above, these assumptions remain appropriate.

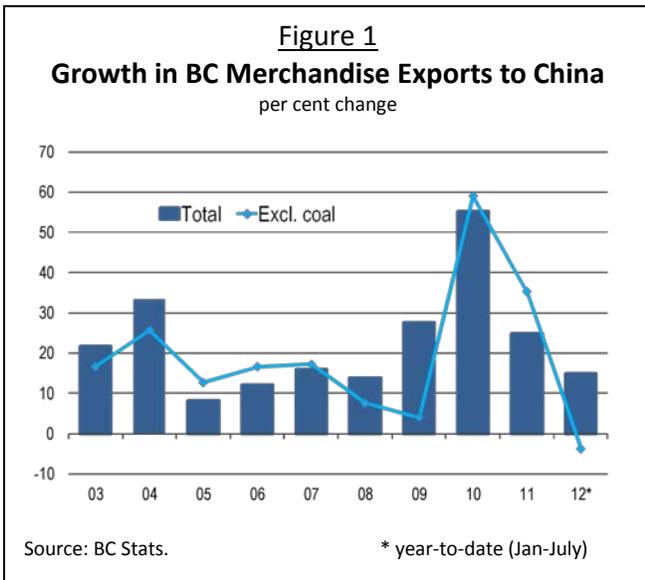
BC Exports: China Slowing, US Growing

With China having catapulted to the position of BC's second largest export market, changing economic conditions there now have a material impact on the province's economic prospects. China is being hit by the recession in Europe. The country's purchasing managers' index (PMI) slipped for the 11th consecutive month in September, which indicates that China's manufacturing sector is wilting. The effect of the slowdown is now being felt in BC. Growth in BC's exports to China has fallen off, and if coal is excluded from the total, the value of exports to China is down 3.7% year-to-date. Sales to China across all of BC's other large export categories (lumber, other wood products, pulp and metallic mineral products) are lower this year.

The good news, however, is that the value of goods shipped to the US is up this year. And if the one weak export commodity – natural gas – is excluded, exports to the US are growing at their fastest pace in seven years. The gains mostly reflect a 23% jump in lumber shipments, but exports of machinery and equipment have also grown at an impressive clip.

Decreases in sales to other key markets including South Korea, Taiwan, and Western Europe mean that overall BC merchandise exports are down slightly so far this year.

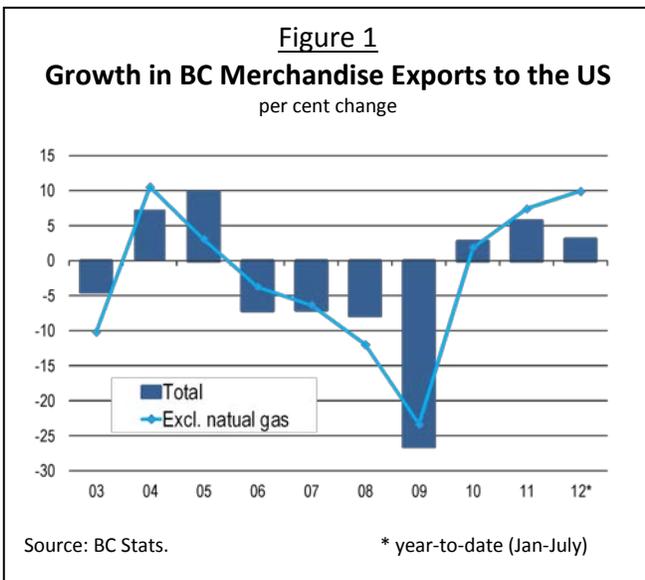
Table 1			
BC Economic Outlook			
(annual per cent change unless otherwise indicated)			
	2011a	2012f	2013f
Real GDP	2.0	1.9	2.2
Employment	0.8	2.0	1.9
Unemployment rate (%)	7.5	6.9	6.6
Housing starts – all areas (000 units)	26.4	27.0	24.5
Retail sales	2.1	4.3	4.5
BC CPI	2.3	1.9	2.1
a – actual f – forecast e – estimate			
Sources: Statistics Canada and BC Stats; Business Council for forecasts.			



population growth into account, the average household is not spending much more than it did last year.

A slowdown in the provincial housing sector is now underway. The number of homes sold through the MLS system is down 25% from year-ago levels, and the average price of a home sold is off by 9%. High prices, related affordability issues and a reduction in the influx of foreign investors are likely the main reasons behind the softening housing market.

The key growth driver in the province these days is non-residential construction. The value of non-residential building permits is now back to the peak levels seen during the 2006/07 building boom in the province.



A change in migration patterns is another important shift that is apt to weigh on provincial growth. Net interprovincial migration is now negative due to plentiful job opportunities and lower housing costs in Alberta (and Saskatchewan). International migration has also eased. The net result is that population growth in the province has fallen from 1.8% to 1% over the past couple of years.

Moderate Growth in Consumer Activity

Consumers in BC appear to be somewhat tentative. Retail spending in the province is up, but the 3.9% gain so far this year is well short of the nearly 6% y/y increase in the years prior to the financial crisis. After taking inflation and

Table 2
BC Economic Indicators
(year-to-date per cent change compared to same period in 2011)

Merchandise exports	-0.4%
Manufacturing shipments	1.1%
Employment	1.9%
Retail Sales	3.9%
Residential building permits	12.4%
Non-res. building permits	24.8%
International visitor entries	1.4%

Source: BC Stats.

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