



# Publication

## BC ECONOMIC INDEX

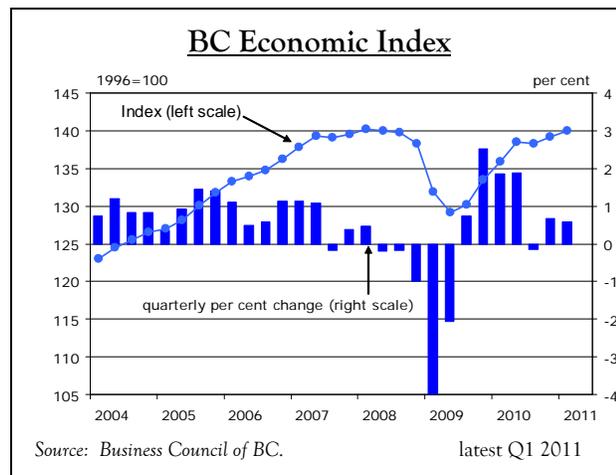
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### MODERATE EXPANSION CONTINUES IN 2011

The BC Economic Index posted a 0.6% quarterly increase in the first quarter of the year, essentially matching the Q4 2010 rise. The good news is that consecutive quarterly gains in the Index of this magnitude indicate the economy is on a solid footing. But a cautionary note is that growth remains on the soft side considering the depth of the 2008/09 recession. With growth having slowed quite sharply from the early stages of the recovery, BC's unemployment rate remains in excess of 8%. For it to move lower will require more job creation which ultimately depends on a return to more robust economic conditions.

The different component indicators used to compile the Index show that the domestic side of the BC economy has weakened, with the increase in the Index resting on exports and favourable external conditions. Both employment and retail sales contracted in Q1, dampening the overall gain in the Index. During periods of economic expansion, both of these indicators usually increase, at least slightly, from quarter to quarter. To have both of them in negative territory points to soft domestic conditions. The number of international visitors also moved lower and was the other negative element in the first quarter.



On the positive side, non-residential building permits and the Canadian Leading indicator each provided a large lift to the Index. The non-residential permits indicator, however, enters into the Index with a lag, so the latest gain reflects strength a few months back. More recently, non-residential permits have fallen. So even though permits provided a lift in Q1, this indicator will temper gains in the Index in the next few months. A jump in housing starts at the end of 2010 also helped drive the Index higher in Q1. Manufacturing shipments are the final positive indicator. Thanks mostly to strong demand in China but also to some improvement in the US, manufacturing output in BC has climbed over the past 18 months. Shipments serve as a proxy for exports in the Index.

While the Index indicates BC's economic expansion continued at a modest pace in the first quarter of 2011, the composition and performance of the component indicators underscores the fact that recovery on the domestic side remains muted, which is part of the reason the Index is only now returning to its pre-recession levels. We anticipate improvements in employment and spending, but if these fail to materialize by the second half of the year, then economic growth for 2011 is likely to disappoint.

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