



B.C.'s economy outperforms Canada

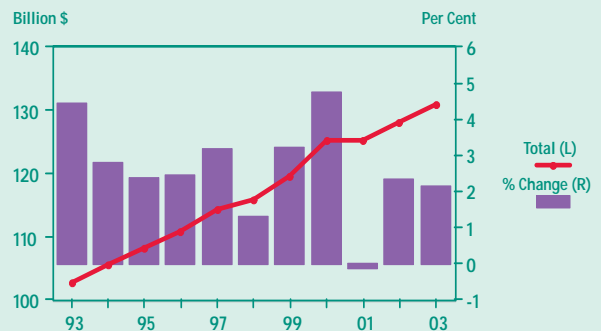
The latest estimate of the provincial economy's performance in 2003 shows an economy mainly driven by consumer spending and residential investment with some stirrings of investment in areas other than residential, particularly energy related. Overall real GDP growth remained moderate at 2.2%, down slightly from the 2.4% growth seen in 2002 and just under the past 10 year average.

B.C.'s performance was higher than the national growth rate of 1.7% and higher for only the second time in the prior seven years. Canada's lacklustre growth was dragged down by weak growth in Ontario, which was hard hit by the SARS situation, a power outage, and a weaker auto market. Net interprovincial migration in B.C. turned positive last year reflecting this growth differential turnaround.

An encouraging increase in business investment in non-residential structures and in machinery and equipment occurred after declining in 2002. Investment spending remained below the highs posted in the 2000-2001 period. Spending on new machinery and equipment was aided by the higher dollar and higher corporation profits, up 12% after two years of decline.

Moderate economic growth last year

B.C. Real Gross Domestic Product



Source: Statistics Canada. Latest data are preliminary.

Key economy metrics diverge in 2003

B.C. Real per Capita GDP and Disposable Income Change



Source: Statistics Canada. Latest data are preliminary.

While the domestic economic sectors posted growth, the trade sector was a drag on overall growth. Real exports rose 0.5% but real imports rose by 4.3% resulting in a larger trade deficit subtracting 1.9% from overall growth. In stark contrast, domestic demand grew 3.9%.

Personal income rose 2.4% while personal disposable income increased by the lesser 1.9% last year, its lowest increase since 1998. The end of federal and provincial tax cuts along with some government fee and tax increases held back growth in disposable income as did the moderate gain in personal income. Adjusting for inflation and population growth, real per capita disposable income fell 0.6% — its first drop since 1996.

Another key measure of the economy's overall health is real GDP per capita and here the result is more positive with a 1.2% gain last year, coming off a 1.6% rise in 2002 and a 1.1% drop in 2001.

Our current B.C. real GDP growth forecast is 2.8% this year and 3.3% next year. With the latest Provincial Economic Accounts data showing stronger than expected growth, revisions may be needed. However, these will await the arrival and examination of the more detailed data.

Record high retail sales in February

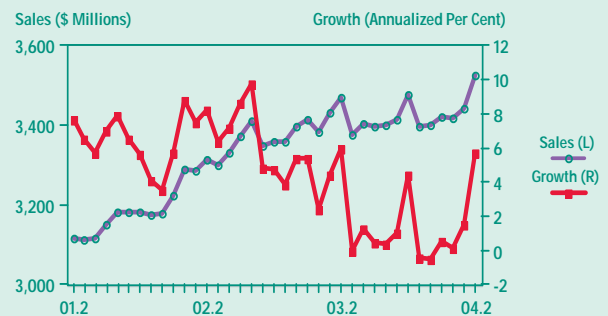
B.C. retail sales in February hit their highest level ever, surging 2.4% from January to total \$3.52 billion on a seasonally adjusted basis. Rising auto sales, including recreational vehicles, together with strong gains in clothing, furniture, general merchandise and food sales all contributed to strong sales growth. Sales growth was well below average through most of 2003 as auto sales and tourist traffic ebbed. Those trends are now abating.

The outlook for retail sales is fairly positive since the B.C. economy will post a higher growth rate this year and low interest rates are also expected to persist. In fact, another cut in the prime lending rate is possible. Low mortgage rates fuel the housing market and push up related furniture, appliance, and other sales of household goods. A higher economic growth rate means higher income growth and that will also advance retail sales. Auto sales are difficult to predict, but the safe forecast is for the same sales level in 2004 as in 2003.

Retail sales are forecast to grow at a more normal pace this year rebounding from last year's weak growth performance. Our forecast calls for 5% growth in 2004, which is at the high end of other forecasts, which are around 2% to 3% annual growth.

Record-high retail sales in February

B.C. Retail Sales, Seasonally Adjusted, Monthly



Source: Statistics Canada.