



B.C.'s inflation rate eases in July

B.C.'s inflation rate for the year ending July 2004 was 2.4%, according to the latest Consumer Price Index (CPI) from Statistics Canada. That is down from June's 2.8% rate. The latest month-over-month change came in at -0.2%, down from June's +0.2% increase. Lower prices in July for gasoline, vegetables, fruit and non-alcoholic beverages outpaced higher prices for piped gas, women's clothing and inter-city public transportation.

Excluding energy, B.C.'s inflation rate for the year ending July 2004 was under 1.8%, down from June's year-over-year rate of over 1.9%. The latest month-over-month change was below 0.1%, as prices were virtually unchanged over the whole basket of consumer goods excluding energy. Higher gasoline prices over the past year have driven up overall consumer price inflation, although that process began to ease in July.

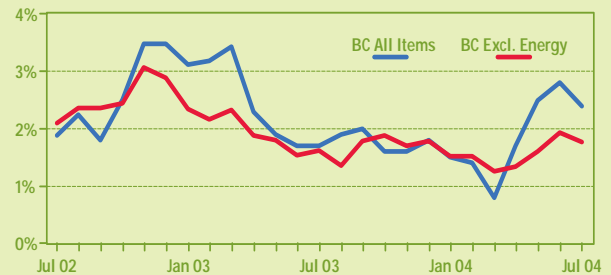
This year's sharp increase in crude oil prices was not widely foreseen. Central's forecast for consumer price inflation in B.C. in 2004 was recently increased from 1.8% to 2.2%, with some risk of a higher all-items inflation rate. B.C.'s inflation rate was 2.1% in 2003.

Retail sales on a roll

Consumer spending in B.C. is growing at a fast clip, posting increases in the 8% region, a pace not seen for several years, especially in today's lower inflation climate. Seasonally adjusted retail sales came in at over \$3.9 billion in June, up 0.5% from May and 8% from a year ago. Consumer fundamentals, such as low interest rates along with improved job and income growth, are boosting spending.

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B.C. Consumer Price Index (CPI)
Year-over-Year Per Cent Change



Source: Statistics Canada.

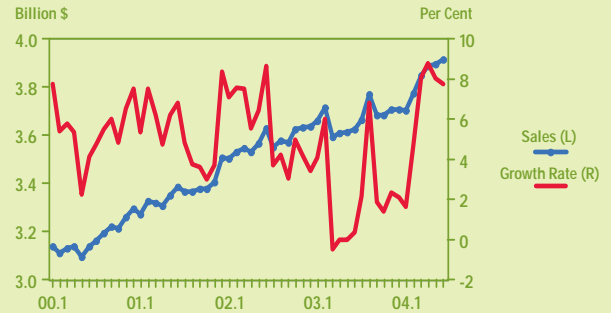
Monthly trade group data are not available at the provincial level. However, since B.C. new vehicle unit sales were up slightly over May, it is reasonable to infer that this helped to lift overall sales. Quarterly data by trade group, or store type, are published by Statistics Canada, and this shows that furniture stores are posting sales gains of nearly 20%, a reflection of the strong housing market. With the surge in gasoline prices, sales at gasoline stations were up over 13% in the quarter. Drug and computer stores posted above-average growth rates. Below-average growth rates for the second quarter were seen for auto dealers, supermarkets, and the category that covers stores specializing in shoes, clothing, sporting goods, music and books.

This current growth rate is expected to subside to the 6% range for the year as a whole, which would put 2004 back on its longer-term trend growth rate after a weaker 2003. Part of the reason for this year's stronger growth comparison is the weak start in 2003 due to the various shocks that hit the economy and affected tourist traffic, whose spending is counted in retail sales. Tourist traffic is up this year, giving a lift to sales.

Consumer spending fundamentals are expected to remain supportive of retail sales growth next year. Retail sales in 2005 are forecast to rise between 5% and 6%, slightly less than this year, but there is some chance of a stronger growth rate. Job and income growth, combined with only modestly higher interest rates, will provide enough fuel for additional growth. Add in an expected modest pick-up in population growth and the retail sector is expected to perform quite well in B.C.

Retail sales on a rebound

Retail Sales, Seasonally Adjusted, B.C.



Source: Statistics Canada, CUCBC.

Latest: June 2004

Strong retail sales outside of auto sector

Growth Rate in Retail Sales by Type, B.C., Quarterly



Source: Statistics Canada, CUCBC.

Latest: Q2 2004

