



Energy prices boost inflation

B.C. consumers paid 2.4% more in October for the basket of goods and services in the Consumer Price Index (CPI) than they did a year earlier. This compares to 1.9% in September and 2.0% in August. Energy prices, for gasoline and fuel oil in particular, are up over 20% and pushing the total CPI higher. When energy prices are stripped out of the total CPI, consumer price inflation was 1.5% in October, the same as in September.

For all of 2004, CPI inflation is predicted to rise to 2.1%, up from its 1.9% year-to-date increase. Inflation in the remaining two months of the year is expected to average 2.7% due to higher energy prices. Next year, CPI inflation is put at 1.9%, as energy prices subside from current highs.

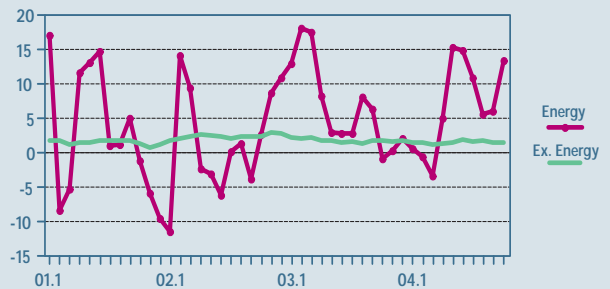
At the national level, CPI inflation reached 2.3% in October, up from 1.8% in September. However, the all-items index (excluding the eight volatile components identified by the Bank of Canada) increased by 1.4% from October 2003 to this October. This was a slight decline from September and just below the Bank's forecast of 1.5% for the fourth quarter of 2004.

This will be the last CPI report before the Bank's December 7 policy-rate-setting meeting. While the core rate was down in October and the currency has touched 85 U.S. cents — a 12 year high — the Bank will raise its policy rate by another one-quarter of a percentage point to 2.75%. This will boost the prime lending rate by a similar amount to 4.50%.

In its press release, the Bank will cite the Canadian economy operating at full capacity and expected to do so for the next few quarters. It will recognize the potential risk to its

High energy price inflation

Consumer Price Index, Energy and Excluding Energy, B.C.,
Percentage change, year/year



Source: Statistics Canada.

Latest: October 2004

economic outlook emanating from the currency's sharp appreciation and from higher oil prices dragging down global economic growth. These risks are expected to play out in 2005 and prompt the Bank to pause in its rate-tightening move.

Retail sales continue recent strong growth

Consumers are spending at a strong clip this year with sales growth in the 9% area in some months. Retail sales ended last year on a weak growth note and began to pick up noticeably in February. September sales growth accelerated from August to one of the strongest monthly performances this year. For the first time, monthly retail sales broke the \$4 billion mark.

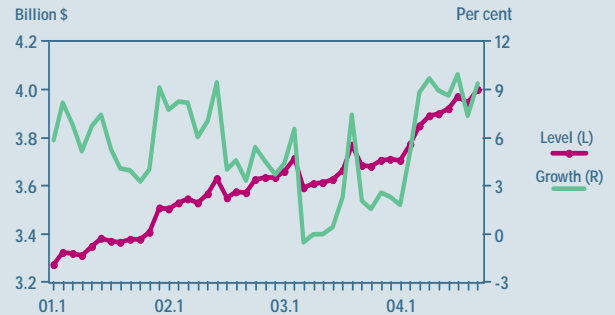
Year-to-date sales growth is 6.1% and our forecast calls for a 6.5% gain by year-end. This would be a considerable improvement over last year's 2.6% increase and the highest growth rate since 1995.

Much of this year's strength is coming from the housing sector, with increased spending on furniture and appliances, building supplies, and related goods. Electronic and computer equipment is also seeing fast growth. Auto sales are relatively flat, though the surge in gasoline prices is boosting sales figures at service stations. The rebound in tourist visits this year, following last year's poor showing, is another factor pushing retail sales higher this year. But the vast bulk of retail sales is generated by the domestic market.

Further growth in retail sales is foreseen in 2005, though at a slightly lesser pace. We are projecting a 5.5% increase, which would put annual sales very close to \$50 billion. The main factors behind the forecast are the slightly lower housing activity, employment and income growth anticipated in 2005.

Retail sales growing at strong pace

Retail sales, seasonally adjusted, B.C.



Source: Statistics Canada, CUCBC.

Latest: September 2004

