

Retail sales up in December and in 2004

British Columbia and Newfoundland were the only provinces in Canada where retail sales increased in December. According to Statistics Canada's latest estimate, B.C.'s retail sales totaled \$4.01 billion for the month, seasonally adjusted, up 0.7% from November. December's actual dollar sales were up 8.6% from one year earlier.

December's gains in B.C. were broadly based. Sales increased in metropolitan Vancouver and in the rest of the province. Sales of new motor vehicles were up, as were sales of other products.

Retailers in B.C. enjoyed above-average sales growth through most of 2004. Sales totalled \$47.1 billion for the year, up \$3.1 billion (+7%) from 2003. The largest dollar gains were in sales by convenience, specialty food and alcohol stores (+\$571 million), supermarkets (+\$502 million) and gas stations (+\$438 million).

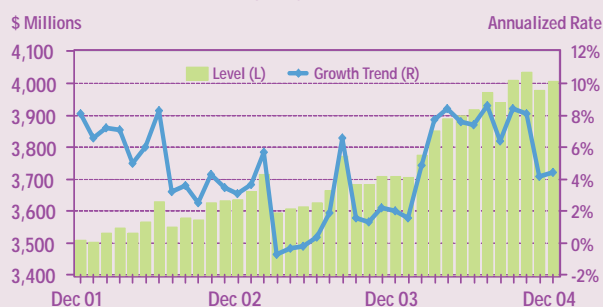
Most other types of retailers saw substantial dollar gains. Sales by home centres, hardware stores, furniture, home furnishings, home electronics, home appliances, specialty building material and garden stores grew by \$830 million over 2003. Pharmacy, personal care, department and other general merchandise stores saw combined sales grow by \$648 million.

Sales dropped for several types of retailers. Sports, hobby, music, book, computer and software stores had a combined drop of \$100 million. New automobile dealers saw sales fall by a slight \$32 million (-0.4%). Combined sales by retailers of shoes, clothing accessories and jewelry also declined.

Further growth in retail sales in B.C. is foreseen in 2005, although at a slower pace than last year. Credit Union Central of B.C. forecasts sales will increase by about 5.5% this year and 6.2% in 2006, following growth of 7% in 2004.

B.C.'s retail sales up in December

Retail Sales, Seasonally Adjusted, B.C.



Source: Statistics Canada.

Type of Retailer	2003 x \$1,000	2004	Change	Percent Change
Total	44,033,850	47,106,901	3,073,051	7.00%
Total Excluding Autos/Parts	33,348,938	36,412,144	3,063,206	9.20%
Convenience/Special Food/Alcohol	2,474,937	3,046,098	571,161	23.10%
Supermarkets	8,468,512	8,970,368	501,856	5.90%
Gas Stations	4,323,248	4,761,454	438,206	10.10%
Home Centers/Hardware	1,688,301	1,983,808	295,507	17.50%
Pharmacies/Personal Care	2,508,461	2,749,802	241,341	9.60%
Department Stores	2,364,730	2,591,367	226,637	9.60%
Other General Merchandise	2,347,554	2,527,481	179,927	7.70%
Furniture	861,649	1,041,020	179,371	20.80%
Home Electronic/Appliances	1,348,047	1,518,924	170,877	12.70%
Miscellaneous	1,383,916	1,501,252	117,336	8.50%
Home Furnishings	573,382	672,720	99,338	17.30%
Specialized Building/Garden	658,000	742,460	84,460	12.80%
Clothing	1,917,792	1,991,151	73,359	3.80%
Used & Recreational Autos/Parts	1,775,749	1,817,668	41,919	2.40%
Shoes/Accessories/Jewelry	646,460	630,115	-16,345	-2.50%
New Auto Dealers	8,909,164	8,877,089	-32,075	-0.40%
Computer & Software	257,459	212,398	-45,061	-17.50%
Sport/Hobby/Music/Book	1,526,489	1,471,726	-54,763	-3.60%

Source: Statistics Canada.

Consumer Price Inflation Still Tame in January

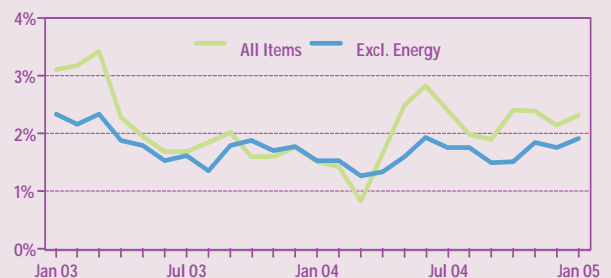
Consumer prices in B.C. edged up in January from December, according to Statistics Canada. Higher prices were notable for meat, seafood, non-alcoholic beverages, women's and children's clothing, and local public transportation. Price gains in these consumer categories more than offset notable price decreases on fresh vegetables and fruit, men's clothing, inter-city public transportation and recreation. Overall, consumer prices bumped up 0.1% in January.

This January, consumer prices were up a moderate 2.3% compared with January a year earlier. The most notable price increases were for transportation and shelter, with gasoline prices rising 11.5%, and residential water, fuel and electricity up a combined 5.5%. Other above-average price gains were seen in women's clothing (+5.4%), meat (+7.6%), property taxes (+3.7%), education (+10%) and alcoholic beverages (+4.5%). These increases were partly offset by notable price decreases for seafood (-4.7%), fresh vegetables (-6.7%) and non-alcoholic beverages (-2.6%).

Consumer price inflation in B.C. averaged 2% last year, down from 2.1% in 2003 and 2.3% in 2002. Credit Union Central of B.C. forecasts inflation will continue to edge downward, averaging 1.6% this year and 1.3% in 2006.

Inflation remains tame in January

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



Source: Statistics Canada.

Robust intentions for capital spending

Statistics Canada's latest annual survey of investment intentions reveals another year of robust growth ahead in B.C., led by public sector capital spending. Total capital spending in B.C. could rise 8.2% to \$31.5 billion if those intentions are met, and it is highly likely that figure will be exceeded. Low interest rates, higher corporate profits in 2004, stepped-up government capital spending, and less expensive technology imports from the U.S. due to the higher dollar are all contributing to the current capital spending upturn.

Increased investment spending is an important part of B.C.'s 2005 economic forecast and these figures generally corroborate predictions of higher spending. Stronger domestic demand growth is needed to offset some weakness in the trade sector and, in the longer term, higher investment is necessary to boost productivity and growth. Final spending growth rates will differ from these initial estimates, with higher rates expected when revisions are released next year. Our forecast for total capital investment in 2005 calls for a 14.1% increase in current dollar spending, compared to the 8.2% indicated in this survey.

Rising construction costs are likely to push spending higher than intentions in 2005. Costs escalated by more than 8% during 2004 for non-residential building construction in the Vancouver area, while apartment construction costs were up 9%. Although there's a sign that some moderation in cost increases occurred in the fourth quarter, increased demand for labour and materials arising from 2005 capital spending plans will ensure another substantial increase in overall costs.

One aspect of investment likely to see low cost increases is machinery and equipment, because of the dollar's appreciation against the U.S. dollar. B.C. data are not available on a current basis, but the machinery and equipment price index for Canada in the fourth quarter declined 2.9% from the third quarter, and was down for the year, too. With the dollar likely to hover in the range of 78 to 82 cents U.S. during 2005, lower cost savings from this source are likely.

Public capital spending intentions are slated to rise 12.6% to \$6.0 billion in 2005, following a 15.7% increase in 2004 based on preliminary actual data. The large majority of public capital spending is on construction (buildings, roads, etc.) rather than on machinery and equipment. Public construction spending looks to grow by 15.6% in 2005 to \$4.9 billion. Last year saw a 19.2% increase.

Investment spending to expand nearly 10%

B.C. Capital Spending, Percentage Change



Source: Statistics Canada. 2003 and prior actual, 2004 preliminary actual, 2005 intentions.

Larger gain in public capital spending

B.C. Private and Public Capital Spending, Percentage Change



Source: Statistics Canada. 2003 and prior actual, 2004 preliminary actual, 2005 intentions.
Note: Private excludes housing.

Private sector capital spending could rise 7.2% to \$25.5 billion this year, which is less than the 14.3% revised increase for 2004. However, when housing is excluded, this year's gain rises to 7.8% and last year's falls to 7.7%, representing the best two-year performance since the early 1990s. Machinery and equipment purchases could rise to \$8.7 billion or 8.1% this year, although that's lower than last year's 15.1% increase.

Housing investment (new construction and renovations) is expected to grow in 2005, but by just 6.3% compared to last year's red-hot 24.8%. Housing investment has grown every year since 1999, reflecting the housing market's expansion in demand and housing prices.

Preliminary actual figures for 2004 indicate that investment was stronger than original intentions reported last year. A year ago, total capital spending intentions indicated a 5.3% increase was in the offing, but the revised preliminary actual figure is up 14.6% over 2003. Housing accounted for much of the revised increase, jumping 24.8% compared to the intended 8.4% gain. Year-ago public spending intentions were also low by a wide margin — 8.3% versus 15.7% actual. Excluding housing, private spending actually rose 7.7%, compared to intentions of 2.1%. Some of these differences can be attributed to the largely unexpected run-up in construction costs, but some is also due to unexpected demand.

