



Retail sales down in September

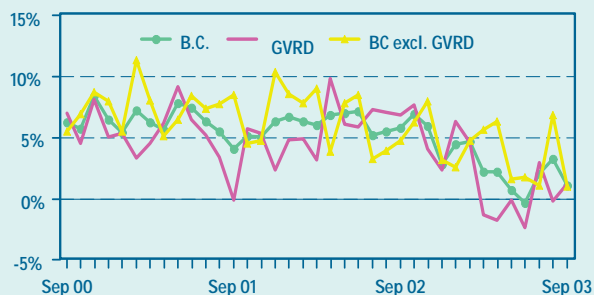
Retail sales growth in British Columbia began to slow noticeably last December and reached a year-to-date low in June. In July and August, sales picked up again but the latest figures, for September, show another reversal in the trend.

September saw retail sales revenues in B.C. reaching \$3.4 billion, down 2.2% from August on a seasonally adjusted basis. The sharp month-over-month drop was seen both in Greater Vancouver and the rest of the province. Sales fell 0.5% in Greater Vancouver in September and 3.8% in the rest of B.C. Weak international tourism and lumber exports have reduced travel, resource income and related consumer spending this year, hurting some retailers. Also, the higher Canada-U.S. currency exchange rate has diverted some retail sales south across the border.

New motor vehicle sales, which account for about 14% of total retail sales, reached \$526 million in September, down 1.6% from August (seasonally adjusted). Vehicle sales in B.C. had fallen steadily from a high in July 2002 to a low in June 2003 but rebounded sharply in July. Auto sales are generally strong from September through November, as dealers clear out current year inventory to make room for next year's models.

Retail sales growth is slow all over B.C.

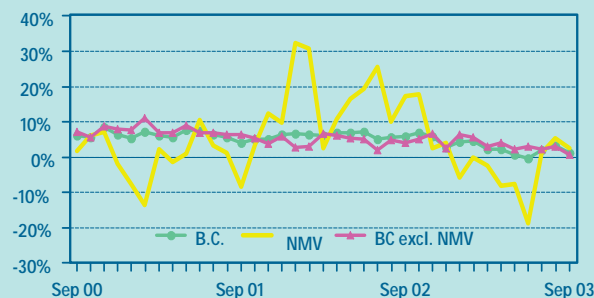
Retail Sales Growth, Seasonally Adjusted Year-over-Year Per Cent Change



Source: Statistics Canada.

New motor vehicle sales growth on par with overall retail sales growth in the third quarter

Retail Sales Growth, Seasonally Adjusted Year-over-Year Per Cent Change



Source: Statistics Canada.

So far this year, retail sales revenues in B.C. are up 2.3% from the same period last year. Since this growth rate is about equal to the rate of consumer price inflation, the actual quantity of goods sold through retailers is roughly equal to last year's level. Normally, there are gains in both the price and quantity of retail sales each year. For example, retail sales revenues rose by 6% in 2002, with consumer price inflation accounting for only about 2.3% of that gain.

Retail sales growth is forecast to pick up in 2004 as the U.S. economy improves. Credit Union Central of British Columbia forecasts retail sales growth in B.C. will average 3.1% this year, improving to 5.5% in 2004.

Canadian GDP growth edges up, but remains low

Canada's real gross domestic product (GDP), the dollar value of all production net of inflation, rose by an estimated 0.3% in the third quarter. Strong consumer spending and business investment in fixed capital were the main sources of growth. Growth was dampened by weak exports and business investment in inventories, particularly in lumber and automobiles. Domestic demand was reasonably strong, increasing by an estimated 1.4%.

On an annualized basis, real GDP growth was 1.1% in the third quarter, a very weak rate. Canada's long-term potential growth is estimated at about 3% per year. Most analysts and forecasters expected third quarter growth to be around 2.2% annualized, twice as high as it turned out to be. In contrast to Canada, real GDP in the U.S. grew by an estimated 8.2% annualized in the third quarter.

Estimates of growth in real GDP in the first half of 2003 were revised downward, reflecting the slow economic growth in Canada this year. Causes include appreciation in the Canada-U.S. exchange rate, revisions to Statistics Canada's system of national accounts, downward revisions in estimated growth in U.S. GDP in the first half of 2003, the SARS outbreak, the mad cow disease issue and the power outage in Ontario.

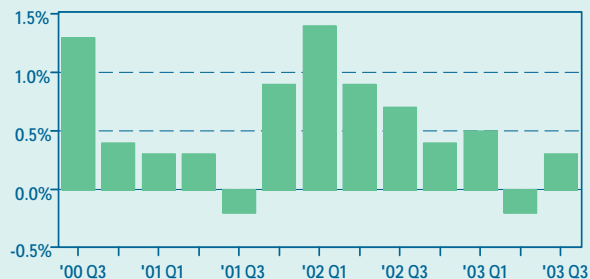
Although anemic, Canada's 0.3% gain in the third quarter was still an improvement over the revised estimate of a -0.2% decline in real GDP in the second quarter. The third quarter ended with stronger GDP growth in September in Canada and particularly strong growth in the U.S.

Low and downwardly revised estimates of GDP growth increase the likelihood that the Bank of Canada will lower the overnight bank rate, rather than holding it steady or raising it. However, most forecasters expect Canada's exports and business inventories to accelerate over the next few quarters, based on increased demand from an accelerating U.S. economy, making it less likely the Bank of Canada will cut the bank rate.

In Credit Union Central's view, the most likely scenario is that the bank rate will remain unchanged until early next year. Two bank rate cuts of 0.25% each are forecast for 2004, in April and in June.

GDP growth in Canada edged up in

Gross Domestic Product, Canada
Quarterly Percent Change, Seasonally Adjusted



Source: Statistics Canada.