

Overall consumer prices up

Consumer price inflation in B.C. rose by 0.5% in the latest month, reversing a five-month downward trend. January's rise in prices was due to higher prices for fresh produce, beverages, women's clothing and motor vehicle operation. The overall increase in prices was partly offset by lower prices for shelter, piped gas, children's clothing, inter-city public transportation and recreation.

Consumer price inflation remains muted in B.C., even excluding volatile food and energy prices. Recent increases in housing sales and prices have yet to show up in the consumption price for owned accommodation, although these household costs are forecast to increase somewhat over the next two years.

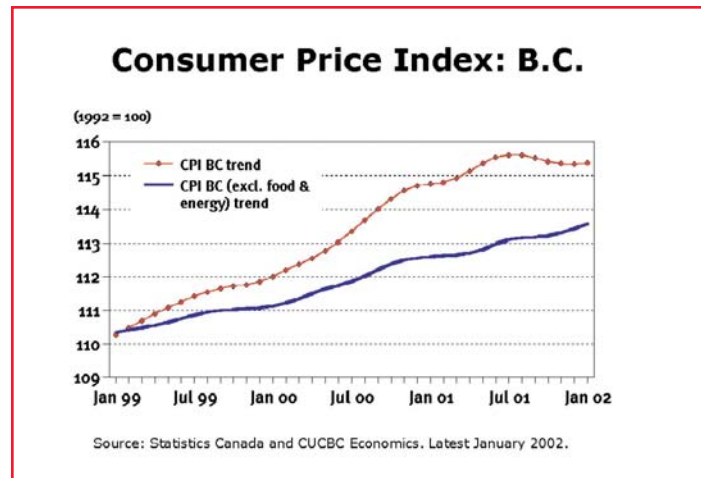
The annual rate of consumer price inflation in B.C. is moderate and below the national average. Prices are up by slightly less than 1% in B.C. from a year ago, compared with just below 1.5% for Canada as a whole.

Nationally, the core rate of inflation remains in the middle of the Bank of Canada's target range of 1% to 3% a year. The latest CPI results are thus consistent with maintaining the status quo in short-term interest rates. Monetary conditions in Canada are currently providing substantial stimulus to economic activity via lower interest and exchange rates. These factors increase the volume of debt and exports.

January's CPI results provide some evidence that disinflation in consumer prices in the last half of 2001 has abated. Sustained disinflation eventually leads to generalized deflation. In turn, deflation perpetuates the cycle of putting off consumption until prices are even lower, which, if widespread, leads to or worsens a recession. January's CPI numbers will allay fears of such an outcome in B.C. or Canada.

Motor vehicles sales still active

Sales of new motor vehicles increased in B.C. in December, the second consecutive monthly increase. This continues an upward trend in vehicle sales that began in early 2001. Dealer and manufacturer incentives, combined with low interest rates, are driving the latest increases. A total of 15,836 new vehicles were sold in December, compared with 14,556 in November and 14,646 one year earlier.



Passenger car sales increased last year while truck sales were down slightly. Car sales rose by over 7% in 2001 compared to 2000, while truck sales were down by nearly 1%. New vehicle sales totalled 172,606 units in 2001, up almost 3% over 2000.

The market for new vehicles in some ways mirrored the general economy last year. Rising car sales were consistent with the consumer sector never falling into recession. Discounted pricing led to flat revenues for dealers and manufacturers. Lower truck sales and flat revenues were symptomatic of a recession in various business sectors.

U.S. recovery more tentative

This week's economic releases on the U.S. economy continued to support the recovery scenario, although the recovery's strength, and to a lesser extent its timing, was brought into question. The recovery will be weaker than normal and than previously thought. Its arrival is around the corner, probably in the March to May period, while some expect it in February. And a few experts have even declared the recession over.

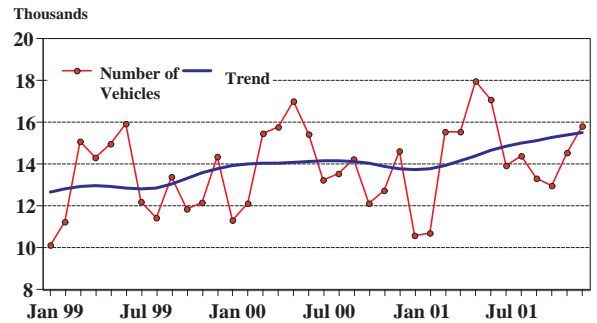
Positive signs came from lower business inventories and declining initial jobless claims, and retail sales, excluding autos, holding up fairly well. A couple of the regional Federal Reserve manufacturing indexes suggested that the worst was over and some improvement in shipments and average weekly hours were evident.

On the negative side, there were declines in mortgage applications, a drop in consumer sentiment, a slight contraction in industrial production, and a fall in the Economic Cycle Research Institute's weekly leading index. The decline in industrial production is nearly over, though, since it has fallen from such a high level and for such a long time, and other indicators point to a pending revival.

The graph shows U.S. industrial production during this business cycle phase, compared to the 1990 recession and a typical recession. What jumps out is its early contraction relative to the business cycle peak. This reflects the unusual nature of this recession. It is business-led, in contrast to the more normal consumer-led recession.

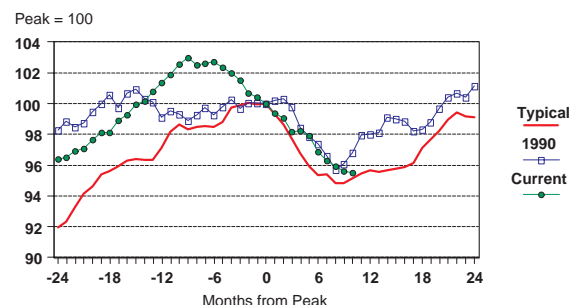
The U.S. government also released its January Producer Price Index — a measure of inflation at the wholesale level — which rose by a modest 0.1%. Current PPI data reveal that inflation is still at bay and demand remains subdued. The Federal Reserve Board elected to hold interest rates steady in its last meeting, but it still has an easing bias. The Fed could undertake further easing if deemed necessary in the near term, and there was little in this week's data that would prevent that.

New Vehicle Sales: B.C.



Source: Statistics Canada and CUCBC Economics. Latest December 2001.

U.S. Industrial Production around Business Cycle Peak



Source: US Federal Reserve, CUCBC Economics. Latest: Jan. 2002.