



# Weekly economic Briefing

VOLUME 8 . NUMBER 44 . NOVEMBER 1, 2002

## Payroll employment and earnings grow slowly in B.C.

**P**ayroll employment in British Columbia totalled 1,614,616 employees in August 2002, adjusted for seasonal effects. That's a gain of 0.2% from July. Payroll employment averaged 1,606,058 from January through August 2002, up 0.6% from the same period last year.

Industries gaining the most payroll employees (seasonally adjusted) in August were retail trade (+1,370), information and culture (+840), and construction (+640). Industries losing the most workers were finance and insurance (-840), other services (-600) and forestry, logging and support (-420).

To date in 2002, industries with the highest payroll employment growth rates are real estate, rental and leasing (+8%), retail trade (+5%) and management of companies (+5%). Those losing the most payroll employment are forestry, logging and support (-26%), manufacturing (-4%) and finance and insurance (-4%).

Self-employment has grown at a faster rate than payroll employment so far this year. CUCBC Economics forecasts total employment, including workers on payroll as well as the self-employed, will grow by 1.2% in 2002 and another 1.5% next year.

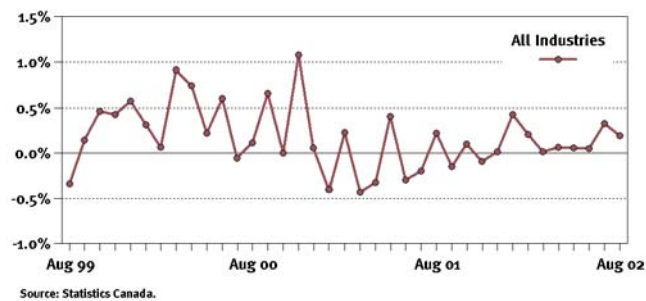
Pure inflation on the employment earnings of payroll employees, after adjusting for changes in work-force size, composition and hours worked, was zero in August. So far this year, pure inflation on payroll employees' earnings has averaged 2.1% per annum. CUCBC Economics forecasts that the average weekly wages of salaried, payroll employees will increase by 2.9% in 2002 and 2.5% next year.

### Modest GDP growth in Canada in August

Gross domestic production (GDP) in Canada grew by a preliminary estimate of 0.1% in August. This marks 11 consecutive months of growing output, although the growth

### Payroll employment growing slowly

Payroll Employment, B.C.: Seasonally Adjusted Percent Change Monthly



Source: Statistics Canada.

rate is down from 0.5% in July and 0.2% in June. GDP was 3.2% higher in August this year than in August 2001.

Industries seeing the highest growth rates in production in August were arts, entertainment and recreation (+2.8%), information and culture (+1%), administrative and waste management services (+0.9%) and professional, scientific and technical services (+0.9%). Those experiencing the highest shrinkage rates in production were agriculture, forestry, fishing and hunting (-2.3%), mining, oil and gas (-1.6%) and utilities (-1.6%).

Compared with August a year earlier, industries with the highest growth rates in production were information and culture (+9.4%), arts, entertainment and recreation (+6.1%), administrative and waste management (+5.7%), construction (+5.1%) and wholesale and retail trade (+4.8%). The only industries producing less in August this year compared with a year earlier were agriculture, forestry, fishing and hunting (-3.5%) and mining, oil and gas (-3%).

The consensus outlook among leading economic forecasters foresees real GDP growth of 3.4% for Canada and 3% for the United States in 2002. CUCBC Economics is forecasting real GDP growth in B.C. at 1.6% in 2002 and 2.5% next year.

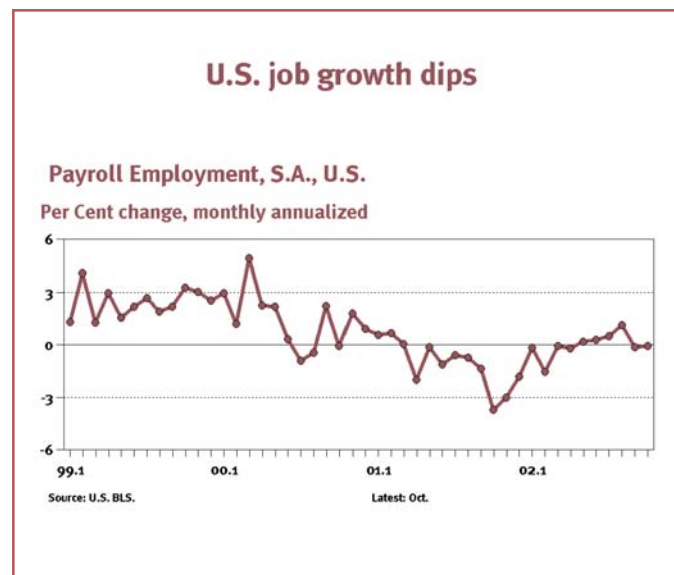
### Will the U.S. Fed cut?

Speculation is running high that the U.S. Federal Reserve will cut its key lending rate at its next regularly scheduled meeting on Wednesday. The futures market is pricing in a 90% probability of a 25 basis point (bps) cut in the fed funds rate to 1.50%. Many forecasters are calling for a similar result, with a few going further and predicting a 50 bps cut. Slowing growth in the U.S. economy in the most recent months has precipitated this scenario, which is a 180-degree about-face from the view six months ago.

While economic data leans towards a Fed cut, other considerations will probably cause the Fed to remain on hold with an easing bias.

The latest release on the U.S. employment situation, showing a 5,000-job decline and an up-tick in the unemployment rate to 5.7%, tends to support that view. Other elements in the October jobs report weigh in on the other side, such as upward revision to September employment. The preliminary September figure showed a 43,000-job loss, but that was revised to a 13,000 decline. Last month, August employment was revised upward as well.

Additional data came out this past week to confirm slower growth in October. The ISM (Institute of Supply Management) index declined slightly in October, falling to 48.5%. This was the second consecutive month with the index below the critical 50% level, signaling a decline in manufacturing activity. The demand for mortgages is softening, with the MBA (Mortgage Bankers Association) index declining by more than 19% in the latest week, though it is still at a high level. The large drop in consumer confidence reported by the



Conference Board was somewhat dated news since the University of Michigan's survey showed the same result earlier in the month. October vehicle sales are down from the huge 9/11-induced spike of a year earlier, but that comes as hardly any surprise.

GDP for the third quarter came in at a moderate 3.1% annual rate, up from the second quarter's 1.3%, but below the heady 5.0% pace seen in the first quarter. The consumer sector is propping up the economy, which is normal, and business investment, excluding residential, is lagging. One positive note in the third quarter figures is a 6.5% increase in equipment and software spending, led by the information processing and software sector. At least one part of the high-tech sector investment scene is improving. Based on this rearward look at the economy, the Fed would not cut rates.

Parallels are being drawn between Japan and the U.S., with some forecasters issuing warnings that a deflationary and recession-like economy is a real possibility for the U.S. This comparison is largely superficial and ignores some fundamental differences between the two situations and economies. Some of these are that the U.S. has a more flexible labour market and economy, more fiscal room, no housing price bubble, and a well-functioning banking system. To project the Japanese economic scenario onto the U.S. economy ignores those differences and does not take its underlying growth potential into account.

A consumer spending bust — due to a lack of confidence, falling stock prices or housing price, or rising unemployment — is the main concern of those doomsayers. Current low interest rates will make enough of a difference and the past week's reversal in rising bond yields will mean lower adjustable mortgage rates and higher mortgage demand. Stock prices closed higher in October, making it the first up month since early in the year. In a real sense, the decline in longer-term bond yields will help do the job for the Fed and thereby allow it to remain on hold.

Some forecasters think a rate cut will boost confidence as well as reduce the cost of short-term financing. It would show that the Fed is ready to take action. But it is not a foregone conclusion that a Fed rate cut would boost confidence, and it could indeed have the opposite effect. By making a cut, the Fed would signal that it is sufficiently worried about the economy's future, and some economic agents might become similarly worried and reduce spending. Also, if deflation appears to be around the corner, one is better off to postpone spending. It is quite unnecessary for the Fed to make a move just for the purpose of showing that it is ready to take action — it has already made 11 cuts since late 2000 in its most aggressive easing phase ever.

The Fed's main interest rate policy tool is already only 175 bps above zero — the absolute minimum. Thus, it has seven 25 bps cuts left in its arsenal. The Fed needs to save its 'ammo' for truly desperate times, and this is not one of them. By holding steady in the midst of tough times, the Fed can send a signal that it still has some confidence in the economy's future and that recent evidence is not yet sufficiently bad. It is a close call and a Fed cut would not surprise, but it would raise concerns.