



## Inflation rate remains subdued

B.C.'s inflation rate in the year ending September 2003 was 2%, according to the latest Consumer Price Index (CPI) from Statistics Canada. The latest month-over-month change came in at 0.2%, down slightly from August's 0.3% and well below the inflation rate earlier this year. Based on performance so far and projecting a trend to the end of the year, the 2003 increase will be 2.2%. In 2002, the annual gain was 2.3%.

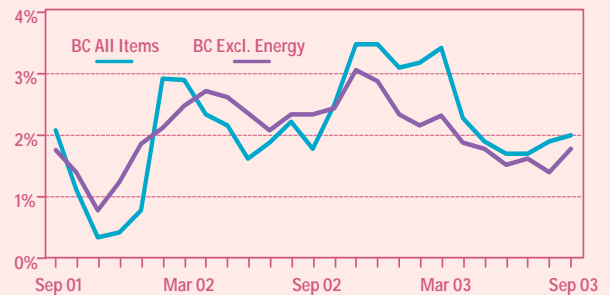
This year's inflation rate would have been lower had energy prices not risen by as much. Excluding energy, B.C.'s CPI was up only 1.8% for the year ending in September, compared to 2% for the total CPI. The energy component of the CPI is up 6.4% in the latest 12 months due to crude oil, gasoline, and natural gas prices rising on various supply disruptions or issues. Energy prices did ease back 0.8% in September, the first month-over-month decline since April.

Next year's CPI inflation rate will probably stay below 2%, and we are forecasting a rate of 1.6%. Energy prices are always a wild card and any supply disruptions will drive up prices and boost total CPI. Underlying inflation forces, however, are expected to remain tame, since the economy as a whole will operate at below capacity. Wage increases will be close to or below the inflation rate, since the unemployment rate is over 8% and demand will not be strong enough to lower it significantly.

A similar forecast prevails for Canada as a whole. Next year's CPI inflation rate is seen dropping to 1.6% by the forecast consensus, with all analysts expecting lower inflation in 2004. Even the Bank of Canada is forecasting a lower inflation rate for next year, also at 1.6%, according to its October 2003 monetary policy report. This sets the stage for further rate cuts by the Bank.

### Consumer price inflation remains subdued

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



Source: Statistics Canada.

One benefit of a higher Canadian dollar is that imported goods from the U.S., such as fresh vegetables in the winter, will be cheaper and this will help keep the inflation rate down. However, a falling U.S. dollar will slow the growth in Canada's money supply, thereby delaying further rate cuts by the Bank of Canada.

### Retail sales rise, except in Greater Vancouver

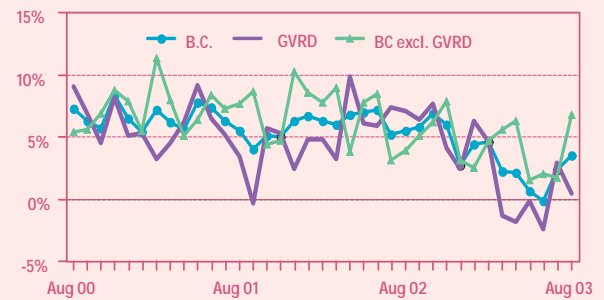
Retail sales growth in B.C. began to slow noticeably last December and reached a year-to-date low in June. In July, sales picked up in metropolitan Vancouver but remained level elsewhere. The latest figures, for August, show a reversal in the metro versus non-metro trends.

August saw retail sales revenues in B.C. reaching \$3.48 billion, up 1.6% from July on a seasonally adjusted basis. The strong month-over-month growth was entirely due to sales outside of Greater Vancouver, which jumped 4.3% in August. At the same time, sales in Greater Vancouver dropped 1.2%. Weak international tourism and export markets have reduced travel and related consumer spending this summer, hurting some retailers in Greater Vancouver.

For the year ending in August, retail sales increased 3.6% in B.C. overall, 0.5% in Greater Vancouver and 6.8% outside of Greater Vancouver. Overall 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.

### Retail sales growth returns, except in Greater Vancouver

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



Source: Statistics Canada.

