



Small Decline in the BC Economic Index in Q3

In the third quarter of 2011 the BC Economic Index registered a slight 0.1% contraction. Adding to the weak reading, the result from the second quarter was revised down from a respectable 0.8% increase to a more modest 0.5% advance. As an indicator of current economic conditions, the downward revision coupled with the small contraction in Q3 indicates that the provincial economy essentially stalled over the past few months.

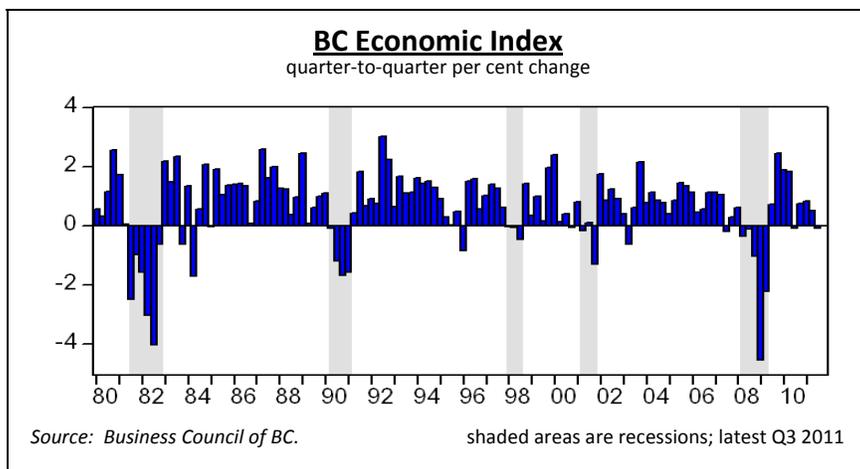
40% of BC's total exports of goods and services go to other provinces).

Construction activity (both residential and non-residential) helped to temper the Index's decline. Retail spending was also up, following a second quarter dip. Note, however, retail spending has been soft over the past year. The number of international visitors edged higher and also provided some offset to the negative factors.

With all of the chatter about a possible recession in Europe, the US and even Canada, the drop in the BC Index raises the prospect of a recession in BC. At this point we believe it is unlikely the province will slip into recession. September's employment increase (+30,000) was unusually large and should be interpreted cautiously but the gain does point to stronger job market conditions in the latter part of the year and sets up the Index for a positive reading in Q4. Avoiding a second consecutive decline in the

Index would be a strong indication BC avoided a technical recession. As evident in the graph, two or more consecutive negative readings in the Index coincide with BC recessions while occasional instances of a single decline reflect temporary disruptions during expansion phases.²

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If there is good news in the Q3 tabulation, it is that the decline was narrowly based with just three of the seven component indicators that make up the Index in negative territory. Manufacturing shipments, which capture export activity, fell in Q3. Total employment in the province also slipped.¹ The Canadian Leading Indicator was lower, pointing to some softening in the Canadian economy (some

¹ Because of moving averages and lags used to calculate the Index employment was a negative factor in spite of the surge in jobs reported in September.

² In 2001 there was a small increase in the Index in Q3 between the Q2 and Q4 contractions. While there were not two consecutive negative readings in the Index in 2001 the pattern reflects a significant slowdown or mild recession.