

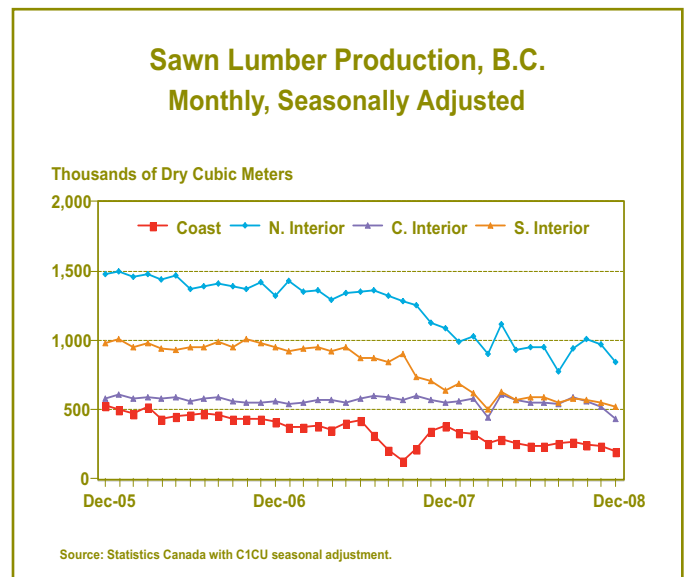
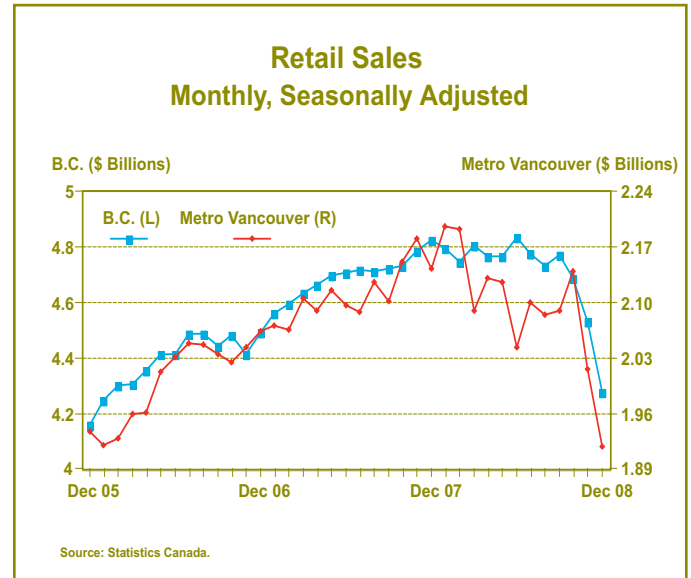
It was another week of uniformly negative economic indicators, with no floor to the unfolding recession in sight. Retail sales in B.C. ended 2008 on a sharp downward trend, as did lumber manufacturing. U.S. housing indicators showed there is worse yet to come in that market. Estimates of U.S. GDP in the fourth quarter were revised from the preliminary -3.8% SAAR (seasonally adjusted, annualized rate) to -6.2% SAAR. And a survey of investment intentions revealed that widespread declines in capital spending are expected this year in B.C.

Retail sales in B.C. ended 2008 in a nosedive, dropping 5.6% in December, month-over-month, seasonally adjusted. That is the largest monthly decline since December 1996 and brings total dollar sales to their lowest level since the beginning of 2006. Declining employment, lower expected income and a greater propensity to save and reduce debt among households and businesses led to the sharp decline in retail spending that began in mid-2008.

For 2008, B.C.'s retail sales totalled \$56.5 billion, up a mere 0.2% from 2007 and well below the 6.7% growth in 2007. Central 1 Credit Union forecasts sales will drop 2% in 2009, the first year-over-year decline since 1998. Hardest hit will be durable goods such as automobiles and building supplies.

Metropolitan Vancouver also saw retail sales continue to plunge in December, recording a 4.9% month-over-month decline, seasonally adjusted. That follows a 5.7% drop in November and continues a downward trend that began in early 2008. Retail sales totalled \$25.1 billion in 2008, down 1.1% from 2007. Central 1 forecasts year-over-year sales will decline again in 2009.

Lumber manufacturing in B.C. ended 2008 in a continuing steep decline, according to the latest estimates from Statistics Canada. Sawn lumber production totalled 2.0 million dry cubic metres in December, seasonally adjusted, down 13% from November. The Coastal region saw an 18% month-over-month decline, while the Central Interior region was hit with a 17% drop, the Northern Interior region took a 13% plunge and the Southern Interior region's production slipped 5%.



Sawn lumber production in B.C. totalled 28.2 million dry cubic metres in 2008, down 23% from 2007 and the lowest annual total in at least the past 16 years. Year-over-year declines were greatest in the Southern Interior (-32%), closely followed by the Northern Interior (-27%) and the Coast (-19%). Meanwhile, production fell 5% last year in



the Central Interior, reflecting the relatively better efficiency of these operations in the Quesnel-Williams Lake area.

B.C.'s lumber manufacturing industry continues to be depressed by shrinking housing markets in the U.S., Canada and Japan. This week, the U.S. National Association of Realtors reported that **sales of existing homes** fell 5.3% in January from December. That is a new cyclical low, with single-family dwelling sales at their lowest level since 1997. The inventory of existing homes for sale in the U.S. has trended lower over the past six months but still remains grossly oversupplied, especially considering the scale of unsold listings that have expired over the past year.

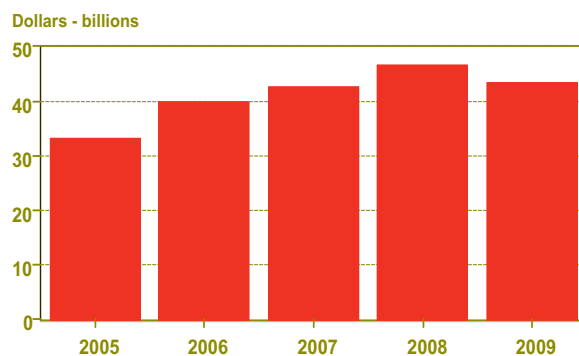
Meanwhile, the U.S. Census Bureau reported this week that **sales of new homes** continued to decrease in January, reaching their lowest level since current records began in 1963. Worse yet, the inventory of new homes for sale fell by less than sales, raising the supply to 13.3 months in January from 12.2 months in December.

So far, there is no sign that any of the U.S. housing market indicators have reached bottom, let alone begun to trend upward. Thus, the outlook for lumber manufacturing in B.C. remains negative. Central 1 Credit Union forecasts sawn lumber production in B.C. will drop a further 10% this year, following year-over-year declines of 23% in 2008 and 11% in 2007.

The latest Statistics Canada Survey of **Private and Public Investment Intentions** captured a material decline in 2009 spending intentions in B.C., but chances are high that the actual result will be considerably weaker. The survey was taken in the October to January period, during which time the full impact of the financial shock events of September were just beginning to be realized. As a reflection of how the ground has shifted since then, consider the many downward revisions to forecasts made by economists, analysts, and policymakers during that period – and those revisions continue.

The survey numbers yield a 7.2% decline in total capital spending intentions to \$43.3 billion during 2009. This follows a 9.4% increase last year, 6.9% gain in 2007, and 20.0% surge in 2006. The excess productive capacity opening up in the private sector during this recession means less investment is needed to expand capacity though repair, and replacement spending for the most part does not vary with market conditions. With the private sector pulling back on investment, public spending is increasing. Sectors benefiting from public infrastructure spending are transportation, health, and education.

Total Capital Spending, British Columbia Actual and 2009 Intentions



Source: Statistics Canada. Note: Private and public, 2008 preliminary actual.

Industries posting the most pessimistic investment intentions for 2009 are accommodation/food services (-59%), business/building/support services (-33%), miscellaneous services (-25%), mining/oil/gas production (-17%), retail trade (-17%), transportation/warehousing (-16%), finance/insurance (-14%) and education services (-13%). Meanwhile, utilities (+8%), health/social services (+8%) and manufacturing (+7%) are the only major industries intending to increase capital spending this year.

David Hobden, Economist

dhobden@central1.com

604 737 5063