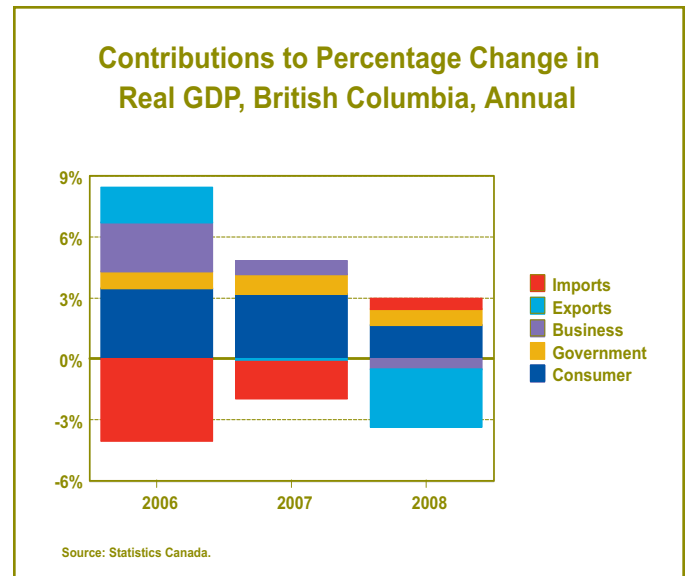
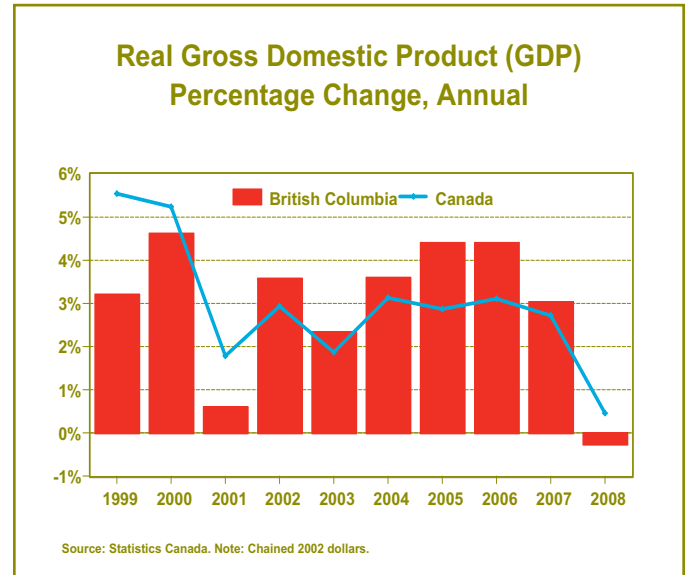


Statistics Canada released preliminary estimates of provincial economic growth this week and British Columbia's economic performance last year was worse than expected. **Real Gross Domestic Product (GDP)** edged down 0.3% year-over-year, following 3.0% growth in 2007. That marks the first annual decline since a much sharper 6.1% contraction in 1982, although in 1991 economic growth virtually stalled at 0.2%. C1CU's Coincident Economic Indicator (CEI) shows economic growth in B.C. stalled in the first half of 2008 and dropped in the second half.

Last year's decline in economic output is largely due to lower exports and slower growth in consumer spending. Exports declined as the global economy headed into recession and the U.S. housing market collapsed. B.C.'s lumber, paper and related forest products sector saw output drop sharply. The mining sector also reduced production, led by natural gas and metallic ores. Lower demand for energy drove utility output down as well. The wholesale industry contracted while the transportation and warehousing industry ceased to expand. Business investment in inventories shrank last year, knocking 0.74% off B.C.'s real GDP growth.

Declining exports knocked 2.8% off B.C.'s real GDP growth in 2008, compared to a very minor 0.1% hit in 2007. A silver lining to last year's economic decline was that imports, a leakage from the economy, fell by more than exports. Lower imports thus added almost 0.6% to real GDP growth last year, compared with subtracting 1.8% in 2007.

Growth in consumer spending slowed sharply last year, as household balanced sheets shrank due to declining values of financial and non-financial assets including real estate, stocks, most kinds of bonds and durable goods such as automobiles. Rising unemployment in the last four months also sapped consumer confidence. Households' propensity to save thus increased, although the personal savings rate in B.C. remained negative at -2.9% but up from -4.9% in 2007.



Consumer spending added just 1.7% to BC's real GDP growth last year, down from 3.2% in 2007. Spending on durable goods actually declined in 2008, led by new vehicles and household equipment. Contributions to growth from spending on non-durable goods and consumer services also dropped sharply. B.C.'s housing market began to deflate last year and investment in residential construction declined



for the first time in nine years, led by fewer new housing starts. That alone knocked 0.4% off real GDP growth.

Economy-wide price inflation in B.C. was 3.8% in 2008, up from 2.3% in 2007. Price inflation on internationally exported goods was 12.5% last year, led by commodities such as metallic ores, coal and natural gas which were very high through the first half of the year. Price inflation on non-residential construction was also high at 9.7% on government structures and 7.9% on business structures. Price inflation on goods imported from other provinces was also high at 8.5% in 2008. Prices for durable and semi-durable consumer goods declined 4.5% and 1.2% respectively last year.

After factoring in price inflation, nominal GDP totaled over \$199 billion in B.C. in 2008, up 3.5% year-over-year. Aggregate labour income climbed 5.6% as employment reached a cyclical high in August. Corporate profits edged up 2.2% driven by cyclical highs in energy and various mineral prices, more than offsetting losses in the forest products sector. Net income from unincorporated business, including rent, climbed 5.1%. Interest and other investment income, excluding capital gains and losses, increased 6.8%.

Gross personal income per person totaled \$36,457 in 2008, up 5.2% from 2007. Due largely to implemented tax decreases, personal disposable income per person climbed faster, up 6.8% to \$28,616.

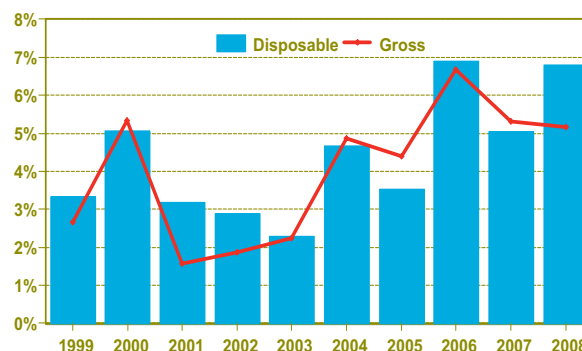
The outlook for B.C.'s economy this year is not good. C1CU forecast real GDP will shrink by approximately 3% while nominal GDP drops by more than 6%. Every sector is expected to weaken except for government spending and government investment. Rapidly declining investment in housing construction and business investment will lead the economic contraction. A very modest recovery is forecast for 2010, while a return to normal rates of economic growth is unlikely before 2012.

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Personal Income per Person, B.C. Percentage Change, Annual



Source: Statistics Canada. Note: Current dollars.