

This week's real economic indicators were downbeat and revealed an unfolding economic recession that is not about to end. In the United States, housing starts continued to fall in April, reaching their lowest level in at least 50 years. Building permits, a short-term leading indicator of housing starts, also tumbled in April.

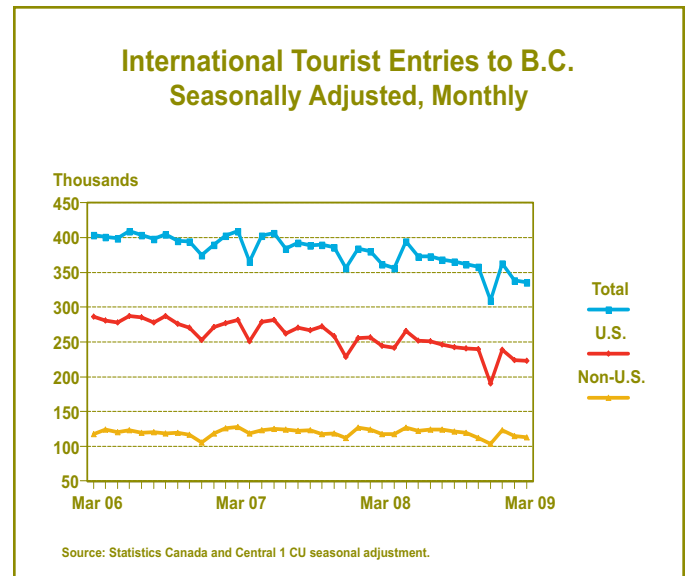
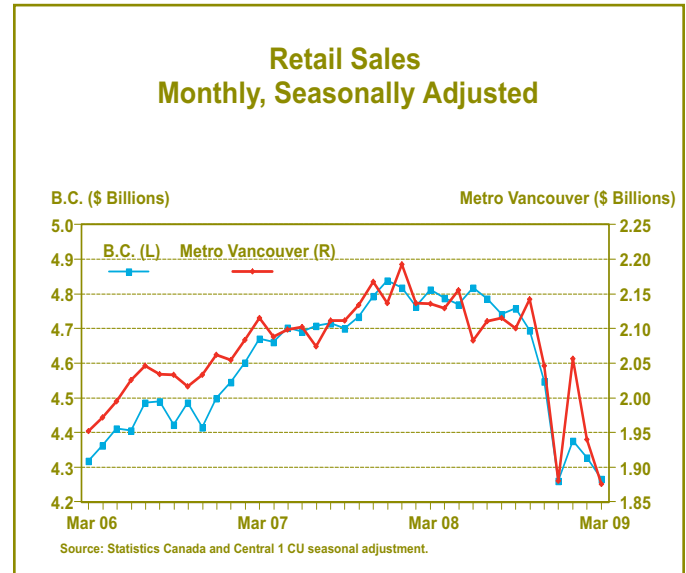
Japan's economy has been particularly hard hit by the financial crisis and economic recession, with first quarter real GDP down a staggering 15.2% SAAR following a similar decline in the fourth quarter. Imagine losing 30% of economic output in just six months!

In Canada, headline consumer price inflation of 0.4% in April was the lowest in 15 years. Meanwhile, Statistics Canada's leading economic indicator continued to drop in April. In British Columbia, retail sales continued to fall, as did international visitor entries and the rate of consumer price inflation.

Retail sales in B.C. fell 1.4% in March, month-over-month, seasonally adjusted, according to the latest estimates from Statistics Canada. That puts sales back to the three-year low reached in December last year. Unadjusted sales in the first three months of 2009 are down 10.6% compared to the same period a year ago. Retail sales in metro Vancouver also fell in March, down 3.3% month-over-month, seasonally adjusted. Unadjusted sales in January through March are down 10.0% year-over-year.

The propensity to consume across the whole economy continues to weaken, as the financial crisis and economic recession have forced deleveraging and lower risk tolerance. This is expected to happen when wealth has plunged due to lower real estate and business equity values, as well as declining employment.

Leading the decline in first quarter, year-over-year retail sales were new car dealers (-25%), gasoline stations (-26%), home centre/hardware stores (-17%), furniture/home furnishing stores (-18%), pharmacies/personal care stores



(-9%) and used/recreational motor vehicles/parts (-14%). Most other types of retailers also saw significant declines of a lesser magnitude, with the exception of beer/wine/liquor stores (+4%) and supermarkets (+1%).

Central 1 Credit Union forecasts that retail sales in B.C. will drop 2.8% in 2009, the first year-over-year decline since



1998. Hardest hit will be durable goods such as automobiles and building supplies.

International non-resident tourist entries to B.C. also declined in March, according to the latest estimates from Statistics Canada. Entries fell 0.8% month-over-month, seasonally adjusted, continuing the downward trend that began in late 2002. Unadjusted entries in the first three months of 2009 were down 10.4% compared to the same period a year ago.

March's decline was spread over visitors from the U.S. and elsewhere. Entries from the U.S. dropped 0.3% month-over-month, seasonally adjusted, and year-to-date are down 12.1% year-over-year. Meanwhile, entries from non-U.S. countries fell 2.2% month-over-month and are down 7.1% year-to-date, year-over-year.

The global recession is expected to continue to dampen international tourist visits to B.C. this year, marking four consecutive years of decline. A boost in visitors is expected in early 2010 when the Winter Olympics are staged.

Consumer price deflation continued in B.C. in April, as the all-items Consumer Price Index (CPI), seasonally adjusted, declined 0.3% from March. Consumer prices in B.C. are now 1.3% below their peak in September last year. April's CPI increased just 0.3%, year-over-year, the lowest headline inflation rate since November 2001. Metro Vancouver's CPI inflation was on par with that of the province in March, with a year-over-year increase of 0.4% and a seasonally adjusted month-over-month decline of 0.4%.

Neither inflation nor deflation is of concern this year, as the recession works its way through the real economy. Central 1 Credit Union forecasts B.C.'s CPI inflation rate will slow to average just 0.4%, compared with 2.1% last year. That will be the slowest rate of CPI inflation since a 0.3% rise in 1998.

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