

This week's economic indicators were less downbeat than a month ago and suggest the worst of the recession is behind us. The U.S., Canadian and B.C. economies are widely expected to resume growing later this year, although the path to get there will be bumpy and the eventual growth rate modest.

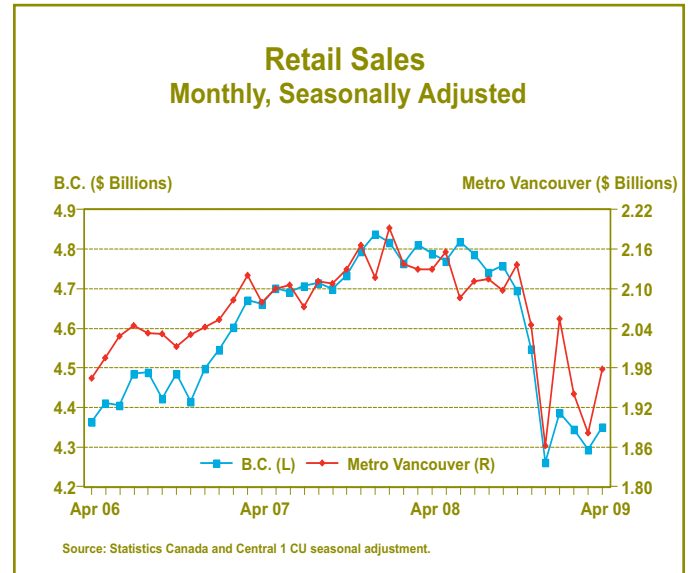
In the United States, housing starts and building permits both increased in April, seasonally adjusted, but remain very near the record lows of March. Industrial production continued to drop in May, led by a three-week suspension at Chrysler plants. The Leading Economic Indicator (LEI) increased for a second straight month in May, indicating economic recession could turn to growth in a few months.

In Canada, manufacturers' sales were virtually unchanged in April, seasonally adjusted, as gains in the aerospace and automobile industries offset declines in most other industries. May saw the Leading Economic Indicator (LEI) rising for a second straight month. Retail sales continued to decline in April, led by new automobile sales.

In British Columbia, manufacturer's sales declined 2.1% month-over-month, seasonally adjusted, in April. Meanwhile, retail and wholesale sales as well as international traveller entries all climbed, month-over-month, but remain near recent lows.

Retail sales in B.C. may be on a slow, choppy upward trend from the low reached in December 2008. Sales increased 1.3% in April, month-over-month, seasonally adjusted, according to the latest estimates from Statistics Canada. That follows declines of 1% in February and 1.2% in March and leaves unadjusted year-to-date sales down 9.9% from the same period a year ago.

Retail sales in metro Vancouver increased by a robust 5.2% in April, month-over-month, seasonally adjusted. That follows declines of 5.5% in February and 3.1% in March. Unadjusted sales in January through April are down 9.3% year-over-year.



Consumer spending is a mainstay of economic growth, but the financial crisis and economic recession have forced deleveraging and lower risk tolerance across the whole economy. The propensity to consume is down while the propensity to save is up. This is expected to happen when household wealth has plunged due to lower real estate and business equity values, as well as declining employment and soaring government deficits.

Central 1 Credit Union forecasts retail sales in B.C. will drop 2.8% in 2009, the first year-over-year decline since 1998. Hardest hit will be new car dealers, gasoline stations, home centre/hardware stores and furniture/home furnishing stores. Bucking the forecast year-over-year drop in sales will be beer/wine/liquor stores and supermarkets.

International non-resident tourist entries to B.C. increased in April although the trend remains downward. Entries rose 1.2% month-over-month, seasonally adjusted, according to the latest estimates from Statistics Canada. That is only the second increase in the past 12 months. Unadjusted entries in the first four months of 2009 are down 8.1% from the same period a year ago.



April's increase was spread over visitors from the U.S. and elsewhere. Entries from the U.S. climbed 1% month-over-month, seasonally adjusted, while entries from non-U.S. countries jumped 5%. Year-to-date entries from the U.S. are down 10.1% year-over-year, while entries from other countries are down 4.3%.

Tourism will tend to continue struggling as the global recession dampens international travel for pleasure and business. The 2010 Winter Olympics will provide a significant temporary boost in the first half of next year in the metro Vancouver to Pemberton region. Even so, discretionary travel spending is forecast to remain weak through the 2011.

Consumer prices in B.C. edged up in May following two month-over-month declines. The all-items Consumer Price Index (CPI), seasonally adjusted, increased 0.1% from April and is also 0.1% above where it was 12 months earlier. That is the lowest headline inflation rate since March 1998. Metro Vancouver's seasonally adjusted consumer price inflation rate was virtually zero in May, while the CPI is up by a mere 0.1% year-over-year.

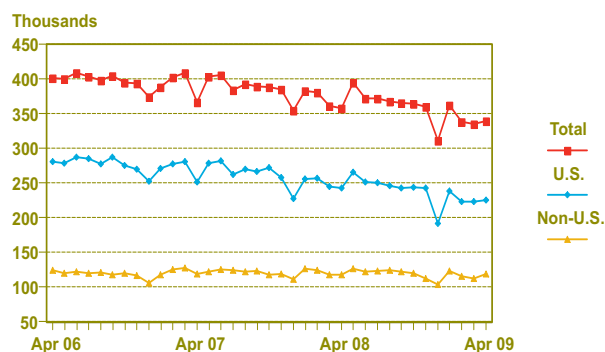
Neither inflation nor deflation is of concern this year, as the recession works its way through the real economy. Central 1 Credit Union forecasts B.C.'s CPI inflation rate will slow to average just 0.4% compared with 2.1% last year. That will be the slowest rate of CPI inflation since a 0.3% rise in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

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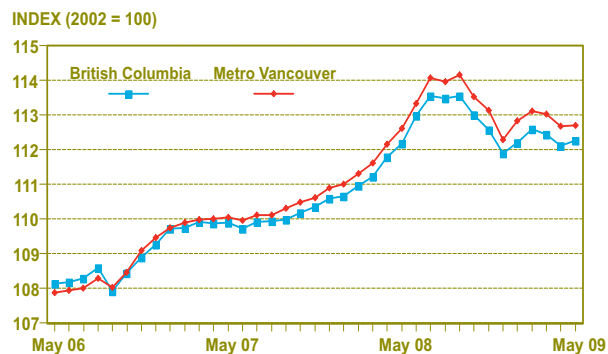
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International Tourist Entries to B.C. Seasonally Adjusted, Monthly



Source: Statistics Canada and Central 1 CU seasonal adjustment.

Consumer Price Index Monthly, Seasonally Adjusted



Source: Statistics Canada and C1CU seasonal adjustment.