

This week's indicators of B.C. economic activity are mixed. Retail sales were little changed in January, while manufacturing sales increased and international visitors decreased. Consumer price inflation remained moderate in February.

Retail sales in B.C. were little changed in January, month-over-month, the third straight month of flat-lining, according to the latest seasonally adjusted estimates from Statistics Canada. Consumer spending has partially rebounded from the sharp recessionary declines at the end of 2008, but has yet to fully recover previous highs. Sales totalled \$4.6 billion in B.C. in January, up 8.8% from the recession low in December 2008 but down 3.8% from the record high in June 2008. Central 1 Credit Union forecasts retail sales will rise 4.3% this year and 5% in 2011, following a 5.1% drop last year.

Overall consumer spending in B.C. is forecast to increase over the next several years, but at a below-average rate of growth. High and rising household and government debt levels, lower employment and lower investment returns will dampen consumer spending growth for a couple of years. Consumer spending did not increase in 2009, which was a rare occurrence for B.C. and marked the worst performance since the 1982 contraction.

Manufacturing sales in B.C. continue to recover very slowly from the trough created by the latest recession. According to the latest estimates from Statistics Canada, sales increased \$116 million (4.2%) in January from December, seasonally adjusted. The gain was mostly in durable goods, which rose 7.7%, while non-durable goods inched up 1.1%.

Wood products are by far the largest component of durable goods manufacturing in B.C., although mineral products are also a substantial component. Food and paper products are the dominant components of B.C.'s non-durable goods manufacturing. In January 2010, B.C.'s manufacturers sold \$2.6 billion worth of goods, up 2.5% from January 2009 but down 16.1% from January 2008. Sales of non-durable goods are up 3.2% from one year ago but down 3.1% from two years ago. Sales of durable goods are up 1.8% from a year ago but down 26.8% from January 2008.

B.C.'s manufacturing industries are weighed down by the high dollar and various structural issues. Nonetheless, a cyclical upturn linked to the U.S. and global economic recovery will play out and lift their exports. Central 1 Credit Union forecasts this sector's gross domestic product (GDP) will edge up 1.3% this year, not including price changes, following an estimated 15.9% contraction in 2009. Growth is forecast at 4.5% in 2011 and 4% in 2012.

International non-resident traveler entries to B.C. fell in January following four straight month-over-month gains. The drop was due to fewer visitors from the U.S., as international visitors from elsewhere increased. January's decline is consistent with the prevailing downward trend that began in early 2003. It also likely reflects the 2010 Winter Olympics pulling visitors forward to February.

Total entries in January fell by 10,666 persons (3.1%), month-over-month, seasonally adjusted, according to the latest estimates from Statistics Canada. U.S. visitors dropped by 12,985 persons (5.2%), while visitors from other countries increased by 2,319 persons (2.3%).

International tourism will likely continue to struggle for some time yet. The 2010 Winter Olympic Games provided a short-term, irregular boost in the Greater Vancouver and Squamish-Lillooet regions, but this will not be revealed in official statistics for another month. The global economic recovery will lift business travel in the coming years, but discretionary travel spending is likely to remain weak for some time due to high and rising household and government debt, as well as beefed-up border security efforts.

Consumer prices in B.C. increased in February for the second straight month, according to the latest estimates from Statistics Canada. The all-items Consumer Price Index (CPI) increased 0.6% from January, seasonally adjusted. The unadjusted CPI in February is up 1.2% from 12 months earlier.

The latest monthly increase was led by higher prices for recreation items and footwear. These increases were partly offset by lower prices for fruits, vegetables, fuel oil and inter-city transportation. The latest 12-month increase was led by higher prices for fuel oil, electricity, property taxes, gasoline, recreation items, reading material and cigarettes.

Neither inflation nor deflation is of particular concern over the near-term. The latest recession has left considerable unused production capacity, while monetary policy can readily become less expansive if expected consumer price inflation accelerates. Central 1 Credit Union forecasts that B.C.'s CPI inflation rate will average 1.5% this year, up from no change in 2009 but still below the long-term average.

David Hobden, Economist

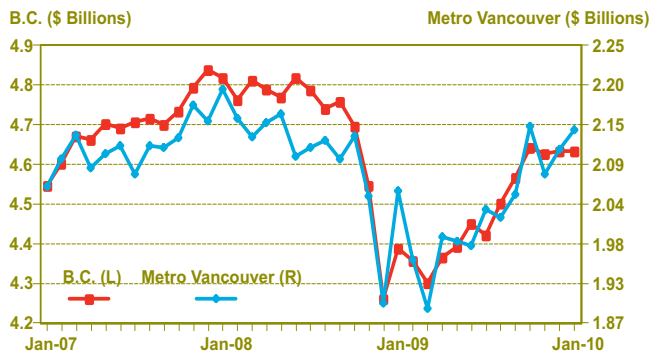
dhobden@central1.com

604 737 5063

Graphs on page 2

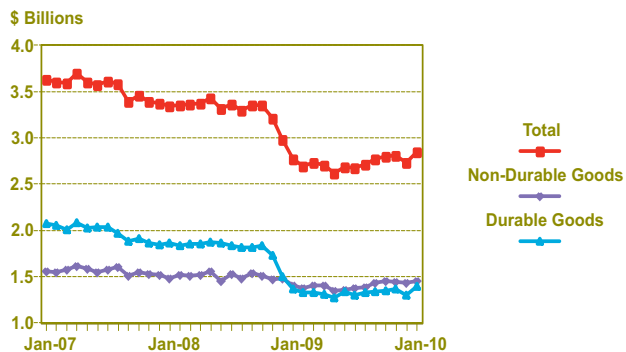


Retail Sales Monthly, Seasonally Adjusted



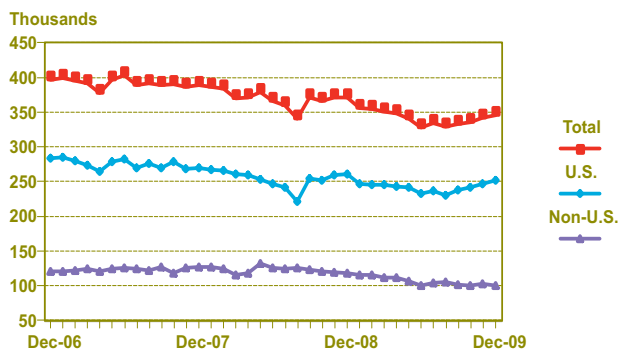
Source: Statistics Canada and Central 1 CU.

Manufacturing Shipments British Columbia, Monthly, Seasonally Adjusted



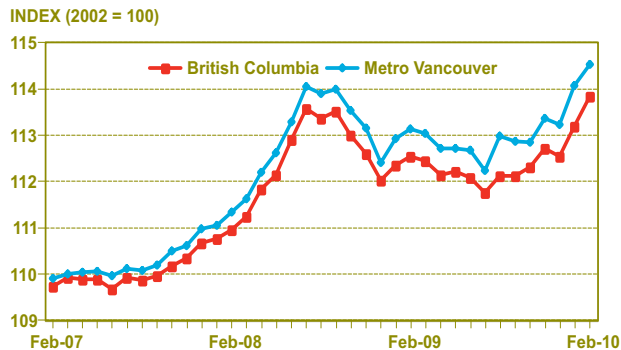
Source: Statistics Canada.

International Non-Resident Traveler Entries British Columbia, Seasonally Adjusted, Monthly



Source: Statistics Canada.

Consumer Price Index Monthly, Seasonally Adjusted



Source: Statistics Canada and C1CU seasonal adjustment.