

**Consumer Price Inflation Drops to 1.5% in August, Flat from July**

According to the latest estimates from Statistics Canada, consumer price inflation in British Columbia fell to 1.5% on a year-over-year basis, down from 2% in July. On a month-to-month basis, price levels remained stable as the consumer price index (CPI) fell by 0.27% on a seasonally adjusted basis.

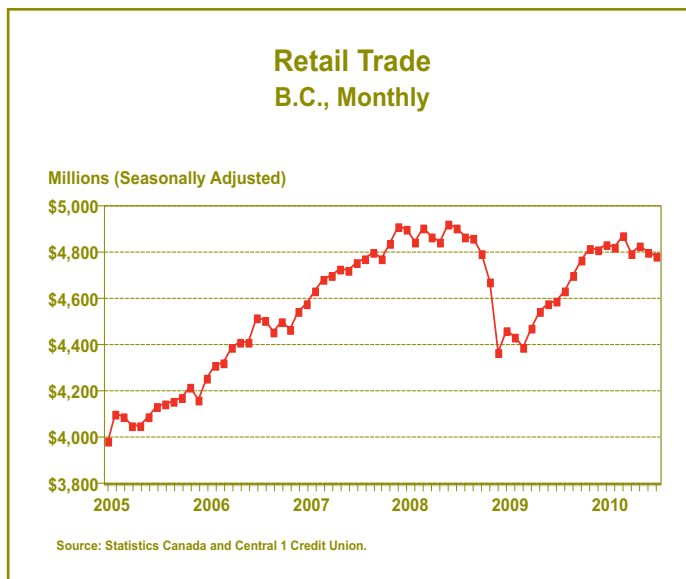
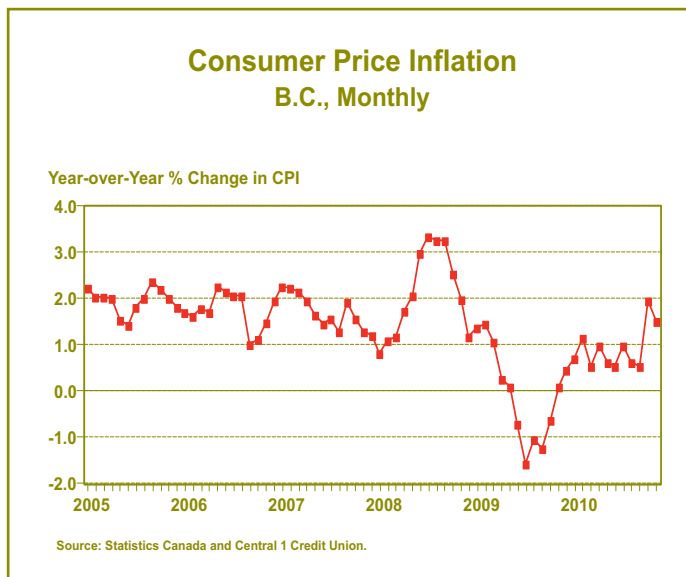
Similar to July's details, significant year-over-year price level increases were observed in the restaurant food and tobacco product/smoker supplies sub-components of the CPI, which rose by 6.7% and 6.5% from the previous year as the HST pushed consumption taxes up in these sectors to 12% from 5%. The effects of the HST on annual inflation figures will persist until July 2011.

Other items contributing to annual inflation in August included gasoline prices (+6.5%), electricity (+8.8%), the transportation aggregate (+2.4%), and health/personal care products (+2.8%). Meanwhile, clothing and footwear price levels dipped 2.5% from the previous year, and 0.5% from July. Homeowners' home and mortgage insurance costs fell by 11.8%.

With the exception of the introduction of the HST in July, which resulted in an upwards shift in the consumer price index, underlying inflation pressures have been benign in 2010. A significant uptrend in inflation is unlikely over the next year as significant production capacity remains unused in the economy.

**Consumers Tighten Spending in July**

Consumers tightened up their purse strings in July as retail sales edged down for the second consecutive month. Seasonally adjusted retail sales fell 0.4% in July to \$4.78 billion, following a dip of 0.6% in June. July's figure provides further evidence that provincial growth prospects have dimmed over the last quarter. After rebounding from a late-2008 recessionary collapse in consumer spending, sales rebounded during the latter three quarters of 2009, but have stalled near \$4.8 billion since November. Inflation adjusted retail sales have also shown signs of a downwards trend in recent months.



Based on data adapted from Statistics Canada, recent trends suggest that demand for small-scale discretionary and non-discretionary items is still rising as sales for clothing, food, health/personal products and sporting/recreational sales trend higher in B.C. In contrast, sales of motor vehicles have remained stagnant despite some recent statistics suggesting an improvement in new vehicle sales. Furniture and home furnishings declined sharply in July



(-11%), which could reflect the slowdown in housing activity. Consumers may be less willing to take on additional debt to finance larger scale purchases in the current economic environment.

On a year-to-date basis, retail sales are up 7.1% from the same period in 2009.

### Tourist Visits Edge Up in July

International tourist visits to British Columbia edged up in July by 1.3% to a seasonally adjusted 349,279 entries. Monthly gains were led by a 2.2% increase in US visitors, while non-US international visits fell by 0.3%.

Although tourist visits have stabilized in recent months after the Olympics induced spike, tourism levels remain historically weak, which reflects a longer-term trend of declining visits from American tourists since the beginning of the decade. Despite American travel to B.C. rising in July, US visits are still trending 20% below where they were 5 years ago.

In contrast, non-US international visits remained relatively robust despite July's slip. Visits have trended near 116,000 per month, up 10-15% from pre-Olympic levels. Past research has indicated that increased tourism from Asian markets have accounted for much of the recent gains.

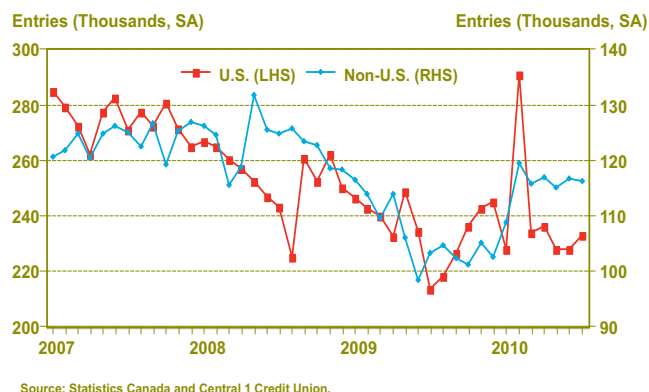
Moving forward, a rebound in US tourism to Canada will remain constrained by the higher Canadian exchange rate, a weak US labour market and stagnant consumer and business spending. In addition, stricter passport requirements enacted in 2009 for Americans travelling to Canada by air will continue to be detrimental for tourist activity. Growth in the tourism market is expected to increasingly rely on visitors from outside of North America. In particular, the recent Canada/China Approved Destination Status (ADS) agreement, and stronger economic growth in the Asia Pacific economies should induce further tourism growth from Asia and other emerging markets.

### Consumer Bankruptcies Remain Elevated

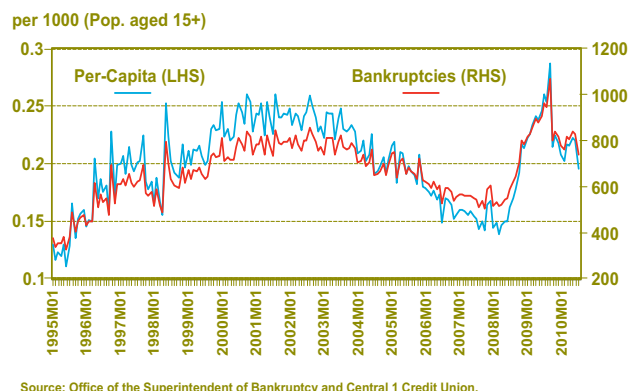
Based on data adapted from the Office of the Superintendent of Bankruptcy, consumer bankruptcies in British Columbia fell sharply in July by 10.8% on a seasonally adjusted basis. Adjusted bankruptcies have declined to the lowest level since October 2008 and dropped to the peak levels reached during 2001-2002. On a per-capita basis, bankruptcies have fallen below previous cycle peaks.

Nonetheless, consumer bankruptcies remain elevated on a historical basis and "proposals", (which reflect negotiations to change the terms of contracts) have climbed

### International Tourist Entries B.C., Monthly



### Consumer Bankruptcies B.C., Monthly



since early 2008. This suggests that ongoing labour market challenges and slow pace of economic growth continues to adversely impact consumers. As these variables lag the broader economy, bankruptcies and proposals are expected to trend lower in the quarters ahead but remain at elevated levels.

It should be noted that changes to the bankruptcy legislation in September made it more difficult to discern the current state of consumer financial health. Legislative changes led to temporary increases and subsequent decreases in bankruptcies filings in late 2009 and early 2010.

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