

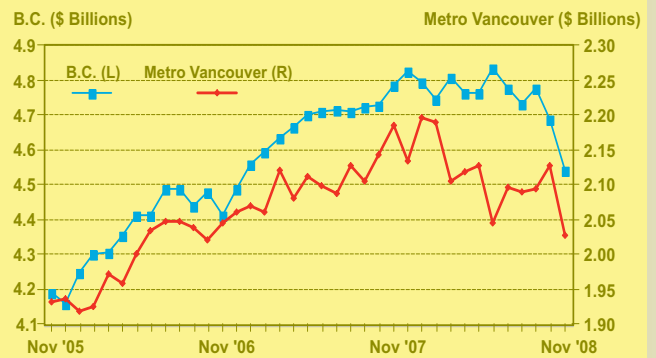
Economic reports released this past week continue to reflect a downturn in British Columbia's economy. Declines in consumer spending, consumer prices and manufacturing shipments in the latest month do not bode well for economic output in the fourth quarter of 2008. B.C.'s economy likely slipped into recession in the fourth quarter, based on these and previously released labour and housing market indicators. Moreover, housing starts in the United States dropped to a 50-year low and, with no clear floor in sight, further declines in B.C.'s forest product manufacturing lie ahead.

Retail sales in B.C. dropped 3.1% in November from October, seasonally adjusted, the largest single-month decline since March 2003. Sales in November were at their lowest level since January 2007. Lower gasoline prices and a decline in unit sales at new car dealers led the drop. Retail sales in B.C. have been trending downward since mid-2008.

Metropolitan Vancouver also saw lower retail sales in November, recording a 4.7% decline from October, seasonally adjusted. That is the largest single-month drop since May 2005 and continues a downward trend that began in early 2008. After excluding price inflation, the real seasonally adjusted value of retail sales in B.C. fell 5.5% from October to November. In metro Vancouver, the real seasonally adjusted value of retail sales declined 4.5%.

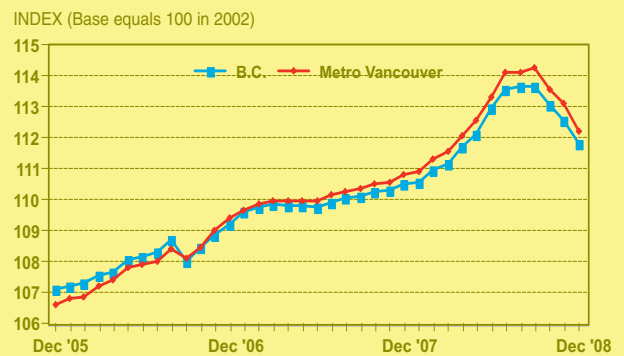
Central 1 Credit Union forecasts retail sales in B.C. will post a rare decline this year, slipping 1.2%. This follows a very slow 1.3% gain in 2008 and a robust increase of 6.7% in 2007. The outlook for the first half of 2009 is particularly bleak, as very low consumer confidence levels, reflecting the financial crisis and heightened economic uncertainty, will be a major constraint on sales growth.

Retail Sales Monthly, Seasonally Adjusted



Source: Statistics Canada.

Consumer Price Index Monthly, Seasonally Adjusted



Source: Statistics Canada and C1CU seasonal adjustment.



Weekly Economic Briefing

Consumer prices in B.C. rose 1.2% year-over-year to December, according to the latest estimates from Statistics Canada. That is down from 2% in November. The inflation rate slowed due largely to falling gasoline prices, which dropped almost 21% from a year earlier. Some upward price pressure came from higher shelter and food costs, driven mostly by higher mortgage interest, household energy, vegetable, bakery and cereal items. These trends were mirrored in metropolitan Vancouver.

Inflation is of little concern in the next year or two. Central 1 Credit Union forecasts B.C.'s Consumer price Index (CPI) inflation rate will slow dramatically this year to 0.8% from 2.1% in 2008. That will be the slowest rate of CPI inflation since a mere 0.3% rise in 1998. The deceleration is largely due to sharply lower energy costs.

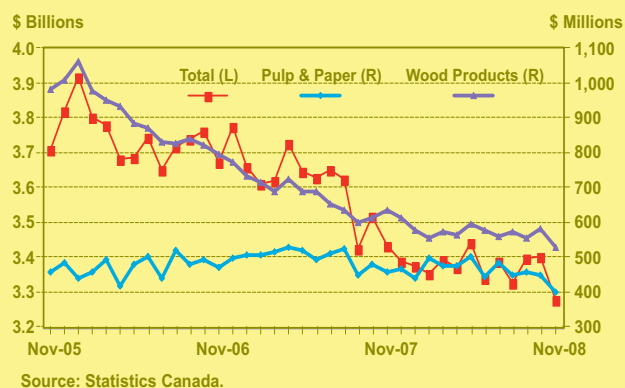
Manufacturing sales in B.C. fell by 3.6% from October to November, seasonally adjusted, according to the latest estimates from Statistics Canada. The drop was largely due to the slumping wood and paper product industries. Machinery manufacturing also declined in November, whereas non-metallic mineral product manufacturing increased.

The U.S. housing market is the main driver of B.C.'s wood products manufacturing industries. **U.S. housing starts and building permits** continued to fall in December, reaching their lowest level in at least 50 years. Starts plunged 16% while permits fell 11%, month over month. That is the largest monthly decline in starts so far in the current downturn.

Residential investment spending in the U.S. in the fourth quarter is estimated to have fallen 30% from the third quarter. The inventory of new homes for sale at current sales rates (month's supply) remains near its peak. For the U.S. housing market, 2009 marks the fourth year of contraction. Inventory and sales statistics indicate the market is at least a year from returning to balanced supply and demand.

Central 1 Credit Union forecasts the forestry and related manufacturing industries face another year of recession in 2009, following a substantial drop of 17% in GDP in 2008 and an 8% slide in 2007. Output losses this year are forecast at 7%, with employment and investment declining as well as income. The recession in forestry will end next year, assuming a U.S. housing market recovery in 2010 and beyond.

Manufacturing Shipments British Columbia, Monthly, Seasonally Adjusted



Housing Starts, United States Total Privately Owned, Monthly Seasonally Adjusted Annualized Rate

