

About the Coincident Economic Index

The purpose of the Coincident Economic Index (CEI) is to provide a summary measure of the current level and velocity of the economies of British Columbia and Metro Vancouver. Estimates of economic growth provide a benchmark to gauge performance and compare well-being over time and place.

The most widely recognized measure of the value of goods and services produced in an economy is Gross Domestic Product (GDP). However, there are no official, published estimates of GDP for any sub-provincial area. Official GDP estimates are available for B.C., but they are neither frequent nor current.

Various current and frequent economic indicators are available at the provincial and sub-provincial levels. The B.C. CEI is composed of hours worked, business incorporations, retail sales, goods exports, goods imports, housing construction, housing sales, manufacturing shipments and foreign travelers. The Metro Vancouver index is composed of employment, non-residential construction, housing construction, retail sales, housing sales, seaborne cargo and foreign travelers.

The idea behind the CEI is that these economic indicators share a common influence that can be measured by a single unobserved variable, or index, that represents the general state of the economy. The coincident index is identified as this common factor and is a weighted average of current changes in the economic indicators. The weights sum to one and are estimated by a powerful and sophisticated trending method.¹ The index is scaled to match the mean and variance of estimated GDP.

The CEI is an information product developed by the Economics Department of Central 1 Credit Union. It is estimated on a monthly frequency, reported on a quarterly frequency and lags real time by one to two months owing to processing lags in the input data. Each update revises the entire history of the index and the latest estimates always take precedence over earlier estimates. The CEI is based on real, seasonally adjusted data and therefore changes over time are generally not attributable to price changes or recurring seasonal patterns.

¹ Stock, James H. and Mark W. Watson, 1989, *New Indexes of Coincident and Leading Economic Indicators*, in *NBER Macroeconomics Annual*.

Central 1 Credit Union - Economics Coincident Economic Indexes Fourth Quarter, 2008



B.C. economy in recession

British Columbia's real economy shrank in the fourth quarter of 2008, according to Central 1 Credit Union's latest update of their Coincident Economic Index (CEI). That is the second consecutive quarter-over-quarter decline and the third quarter-over-quarter decline in 2008. This suggests B.C.'s economy has been in recession since the third quarter of 2008.

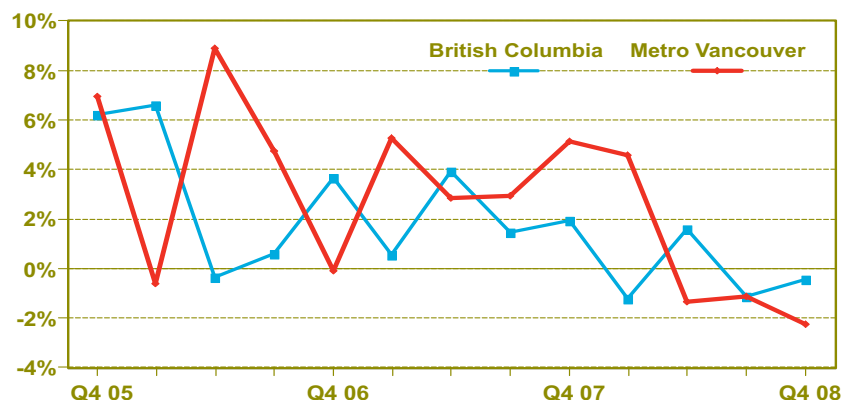
The CEI for British Columbia slipped to a level of 122.1 in the fourth quarter of 2008 from a base of 100 in 2001. That represents a decrease of over 0.4% from the third quarter at a seasonally adjusted, annualized rate (SAAR) and follows a drop of 1.1% SAAR in the third quarter. These readings suggest B.C.'s real economy grew by approximately 1% 2008, much more slowly than official estimates of 3% growth in 2007.

Almost every component of the CEI declined in the fourth quarter, led by residential property sales, business incorporations, housing under construction, retail sales, manufacturing shipments and hours worked. Declines in these indicators more than offset a gain in foreign traveler entries and a reduction in the international trade deficit in goods. Fourth quarter declines were concentrated in November, with lesser declines noted in October and December.

Metro Vancouver recession continues

Metro Vancouver's real economy also shrank in the fourth quarter of 2008, according to Central 1 Credit Union's latest update of their Coincident Economic Index (CEI). That is the third consecutive quarter-over-quarter decline, suggesting the metropolitan economy has been in recession since the second quarter of 2008.

**Coincident Economic Index (CEI), Quarterly
British Columbia & Metro Vancouver
Real, Seasonally Adjusted, Annualized Rate of Change (%)**



Source: Central 1 Credit Union

Coincident Economic Indexes Q4 2008

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The CEI for Metro Vancouver fell to a level of 129.6 in the fourth quarter of 2008 from a base of 100 in 2001. That represents a decrease of 2.2% from the third quarter at a seasonally adjusted, annualized rate (SAAR) and follows declines of 1.1% SAAR in the third quarter and 1.3% SAAR in the second quarter. These readings suggest metro Vancouver's real economy grew by approximately 2.1% in 2008, about half the pace of estimated growth of 4% in 2007.

All but one component of the CEI declined in the fourth quarter, led by residential property sales, seaborne cargo handling, housing under construction, retail sales, foreign traveler entries and employment. Declines in these indicators more than offset a gain in non-residential construction investment spending. Fourth quarter declines were concentrated in November and December.

Coincident Economic Indexes, Quarterly				
Real, Seasonally Adjusted, Annualized Rate of Change (%)				
	Q1	Q2	Q3	Q4
			2001	
British Columbia	0.99	0.96	-1.32	2.59
Metro Vancouver	--	6.53	-1.97	0.07
			2002	
British Columbia	4.86	6	1.56	3.81
Metro Vancouver	7.99	7.83	9.7	3.33
			2003	
British Columbia	2.49	4.96	6.79	3.78
Metro Vancouver	-0.06	-1.12	9.03	7.55
			2004	
British Columbia	3.71	1.72	2.47	2.2
Metro Vancouver	3.94	6.69	1.15	4.6
			2005	
British Columbia	5.32	4.93	2.24	6.23
Metro Vancouver	5.81	1.96	2.18	6.95
			2006	
British Columbia	6.6	-0.33	0.61	3.67
Metro Vancouver	-0.61	8.88	4.76	-0.07
			2007	
British Columbia	0.56	3.92	1.49	1.92
Metro Vancouver	5.27	2.84	2.92	5.13
			2008	
British Columbia	-1.21	1.6	-1.14	-0.45
Metro Vancouver	4.57	-1.34	-1.13	-2.23

Source: Central 1 Credit Union