

The world economy slipped deeper into recession over the past two months, and economic indicators released this week reflect a deepening recession in British Columbia. Housing starts and new automobile sales are down sharply, while bankruptcies have spiked up and international trade is down. These trends will almost certainly continue over at least the next two calendar quarters.

The financial bust originating with the shadow banking catastrophe in U.S. housing and consumer debt markets is far from over. The staggering scale of losses yet to be realized dwarfs all of the funds so far committed to bail-out and stimulus packages. Funds announced so far in these programs, world-wide, including the U.S. government's latest \$800 billion stimulus package and \$2 trillion additional bail-out of financial intermediaries, amount to only a third of the probable mark-to-market losses to date. And there is no clear floor as yet in the prices of key assets, such as residential property.

Housing starts in B.C. continued to tumble, according to the latest estimates from Canada Mortgage and Housing Corporation. Construction began on just 925 housing units in January in the urban areas of B.C. That is down 60% from a year earlier. Central 1 Credit Union forecasts housing starts in B.C. will total a mere 16,500 units in 2009, down 51% from 2008 and the lowest level since 2000.

New motor vehicle sales in B.C. and the territories dropped sharply in December, according to the latest estimates from Statistics Canada. Sales totalled 11,214 units, seasonally adjusted, down 2,930 units (21%) from November. Sales totalled 182,115 units in calendar year 2008, down 19,481 units (10%) from 2007.

The outlook is for another year of low sales of new vehicles in 2009. Central 1 Credit Union forecasts consumer spending on durable goods will decline 3.6% in B.C. following a 0.2% gain in 2007. Meanwhile, business investment spending on machinery and equipment is forecast to drop 12.6% this

year, following a 1% rise in 2007. New motor vehicle sales account for about a quarter of total consumer spending on durable goods and a material portion of spending by business on machinery.

Bankruptcies are up sharply, according to the latest statistics from the Office of the Superintendent of Bankruptcy for Canada. In December, bankruptcies totalled 724 persons and corporations in B.C. That's up 40% from December 2007. For calendar year 2008, bankruptcies in B.C. climbed 9% from 2007.

Personal bankruptcies in B.C. totalled 683 in December, up 42% year-over-year. In 2008, personal bankruptcies reached 7,293, up 10% from 2007. Business bankruptcies in B.C. totalled 41 in December, up 8% from December 2007. In 2008, there were 454 business bankruptcies, down 3% from 2007. Bankruptcies are a lagging indicator of broad measures of economic output, and further increases are likely in the coming months.

The global recession has materially lowered **international trade flows** with B.C. since last September and these trends continued in December, according to the latest estimates from Statistics Canada. Prices for exported commodities peaked in July last year and have since fallen back to levels last seen in 2005. This price bust was amplified by a similar peak in the \$US/\$Can exchange rate.

While lower trade flows reflect much slower growth in consumer spending and outright declines in residential and business investment, a silver lining is a decline in B.C.'s international merchandise trade deficit over the last few months of 2008. Although the economic recession continues to deepen, small comfort can be taken from the fact that we are running up debt less quickly than before.

B.C.'s international merchandise trade deficit fell to \$987 million in December, down \$88 million (8.2%) from November. The decrease resulted from imports falling faster



than exports. Specifically, the value-weighted quantity of imports dropped faster than that of exports, more than offsetting a sharp drop in export prices.

For 2008, B.C.'s international merchandise trade deficit totalled \$9.8 billion, up \$2.7 billion (38%) from 2007. The deficit increased because the value-weighted quantity of exports fell, while that of imports increased. These quantity changes more than offset the improvement in B.C.'s international terms of merchandise trade (i.e., export prices increased by more than import prices).

Central 1 Credit Union's forecast for 2009 sees the value-weighted quantity of imports continuing to drop much more than that of exports. However, import prices are forecast to rise while export prices remain flat. The net result is slower growth in the current dollar value of B.C.'s international merchandise trade deficit and the first decline in the real value of the trade deficit since 2002.

David Hobden, Economist
dhobden@central1.com
 604 737 5063

