

CREDIT UNION FORECAST

## Slump in U.S. housing market helps drag B.C. economy to new low

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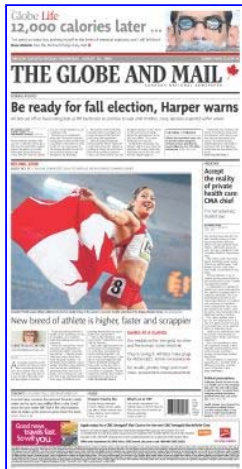
VANCOUVER -- British Columbia's economy is sputtering as the U.S. housing crisis continues to undermine exports, driving down growth this year to its lowest levels since the Liberals took power in 2001, according to estimates issued yesterday.

That anemic growth will continue into 2009, leaving the Liberals facing voters with a weakened economy and a faltering housing market in the provincial election set for May.

The forecast from Central 1 Credit Union points to a dramatic deceleration this year, with the B.C. economy growing by just 1.5 per cent, said chief economist Helmut Pastrick.

That is less than half the rate of expansion in 2007. Next year is predicted to be much the same story, with growth rising only slightly to 1.8 per cent.

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The 2010 Winter Games will lead to a spurt in economic activity - but the effect will fade quickly, with 2011 seeing significantly weaker growth.

For the moment, exports are the culprit in B.C.'s softening economy, with the forestry sector particularly hard hit.

Next year, trade will begin to rebound, but retail sales and other parts of the domestic economy will decline, according to Mr. Pastrick's forecast.

The housing market will grow even weaker next year, Mr. Pastrick predicts.

The downturn in new construction will last through to the Olympics, and housing prices, down marginally from their peaks early this year, are likely to drop by 10 per cent before the market rebounds, he said. All told, British Columbia looks set to turn in weaker growth than the national average in 2009 after years of outperforming most of the rest of Canada. However, Mr. Pastrick said it is not likely that the province will slip into recession.

B.C. Finance Minister Colin Hansen conceded that the provincial economy is softening, and that he will need to revise its numbers for gross domestic product from the February budget, which predicted growth of 2.4 per cent this year and 2.8 per cent next year. He is to issue a fiscal update in the first half of September, a briefing that will be his first formal budget presentation.

Mr. Hansen said he believes B.C.'s economy is essentially sound, and that much of the worry is simply an echo from the woes of the United States and Eastern Canada. "The basic economic underpinnings in British Columbia are still very strong," he said, noting that growth in the mining and energy sectors means that the province is far better prepared to weather a downturn in forestry than it was a decade ago.

Despite the downturn in the economy, the government's fiscal position may actually be improving, thanks to surging natural gas prices that will more than offset likely decreases in sales and property-transfer taxes, said Jock Finlayson, executive vice-president of the Business Council of British Columbia. Mr. Finlayson said that, from an economist's point of view, there is no need to use that extra cash to accelerate tax cuts or to boost spending. "I don't think there's a lot of things they can or should do. Politically, it's a different issue."

Premier Gordon Campbell and the Liberals will have to make it clear to voters that they are taking some sort of action, said Greg Lyle, managing director of polling firm Innovative Research Group. It need not be an expensive effort, he said, noting that the Ontario government's ads touting career training are a relatively cheap way of garnering points from voters for paying attention to their economic pain. "It's a challenge [the Campbell Liberals] are going to have to take on squarely," he said.

Otherwise, the Liberals risk giving the NDP the ability to paint them as arrogant and uncaring.

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