Dan Schrier
(250) 387-0376
Dan.Schrier@gov.bc.ca
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Exports ◆ October 2007

- The value of BC origin exports has fallen 5.7% in the first ten months of 2007 compared to the January to October period in 2006. The downturn is being driven by several factors, but the most critical among these is likely the appreciation of the Canadian dollar and the slump in demand for building materials in the United States due to a sharp reduction in housing starts.

- Exports of solid wood products have plummeted 17.2% year-to-date to October, with the lower demand for housing in the United States being one of the main reasons for the decline (see this month's feature article for more details).

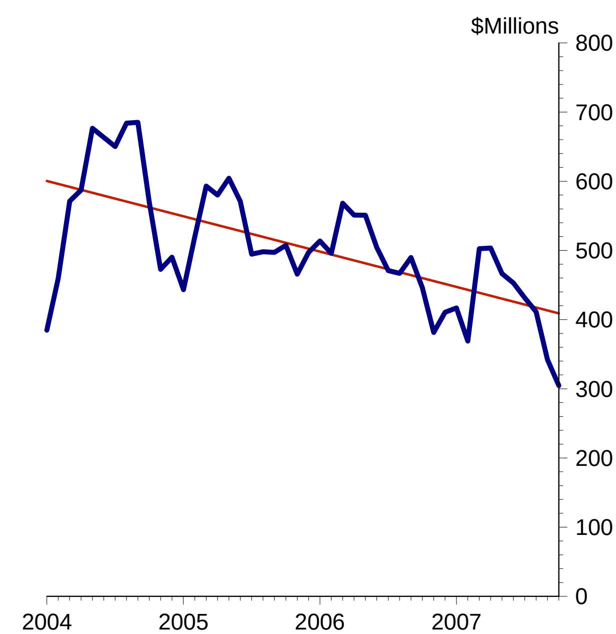
- Pulp exports have provided one of the few bright spots for the forest sector, as the value of international shipments of pulp is up 14.8% year-to-date, mostly due to higher prices for the good. The rise in pulp exports has more than offset declines in exports of newsprint (-21.6%) and paper and paperboard (-2.0%), such that overall pulp and paper exports from the province have climbed 6.0%.

- International shipments of natural gas have dropped 12.8% year-to-date due to a combination of lower demand and falling prices. The exchange rate effects are exacerbating the situation for natural gas producers and activity in BC's industry has fallen dramatically. Exports of coal have also seen a sharp drop, falling 14.1%. The drop is completely due to lower prices as quantities of coal shipped are actually 3.6% higher than last year. The decline in exports of these two commodities has driven overall energy exports down 6.5%, despite the fact that the value of electricity exports has more than doubled (+111.9%) year-to-date compared to the same period last year.

- Despite the high Canadian dollar, exports of machinery and equipment are up 1.8% compared to last year. This is despite declines in shipments of motor vehicles and parts (-6.8%) and scientific, photographic and other technical equipment (-11.8%).

- Exports to BC's largest trading partner, the United States, have dropped 6.5%. Other large declines include India (-30.2%), Japan (-14.2%), Hong Kong (-16.4%) and Taiwan (-14.6%). However, shipments to Mainland China have jumped 15.8% and exports to the European Union are 3.0% higher.

BC lumber exports have been trending down



SEASONALLY ADJUSTED EXPORTS

Seasonal adjustment supplies a means of making month-to-month comparisons by removing the regular periodic seasonal fluctuations that occur. Variations from normal seasonal patterns are revealed in the seasonally adjusted data series.

- Exports continued to slump in October, edging down 0.5%. It was the sixth consecutive monthly decline, likely driven at least in part by the rapid rise in the value of the Canadian dollar. Exports to the US fell 2.7% in October as shipments of forest products (-5.1%) and agriculture and fish products (-11.7%), in particular, experienced a downturn.

- Overall, the main contributors to the decline in BC's total exports were industrial and consumer goods (-3.8%), agriculture and fish products (-9.3%) and machinery, equipment and automobiles (-3.9%).

Exports (adjusted for seasonality) fell for the sixth consecutive month in October

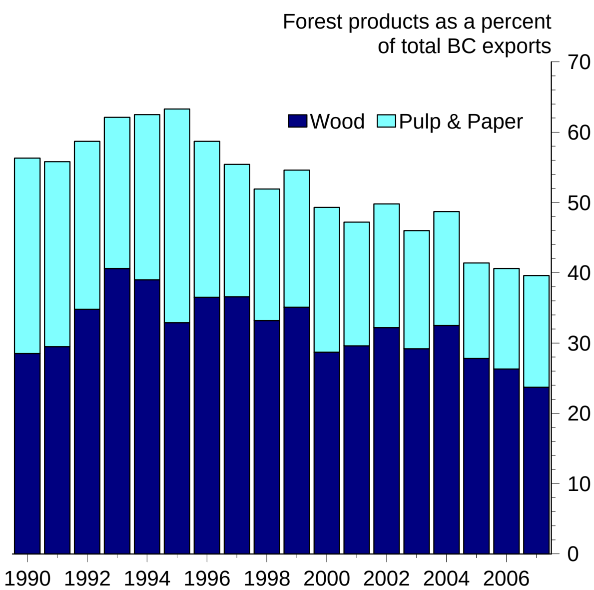
BC Exports, Seasonally Adjusted ($Millions)

Month	Agriculture & Fish	Energy	Forest Products	Machinery& Equip, Auto	Industrial, Consumer	Total	Exports to USA
Oct 2005	198	858	1,158	374	489	3,076	2,063
Nov	204	688	1,154	377	579	3,003	2,020
Dec	192	803	1,182	384	560	3,120	1,975
Jan 2006	189	693	1,165	364	536	2,947	1,935
Feb	186	584	1,138	369	570	2,847	1,784
Mar	185	590	1,097	416	586	2,874	1,773
Apr	181	540	1,069	356	518	2,665	1,698
May	193	518	1,074	351	581	2,718	1,707
Jun	190	559	1,106	379	718	2,952	1,689
Jul	200	491	1,039	349	664	2,743	1,671
Aug	197	490	1,057	339	601	2,684	1,637
Sep	206	514	1,057	377	599	2,753	1,651
Oct	207	442	1,046	397	682	2,773	1,618
Nov	197	447	1,011	355	615	2,624	1,591
Dec	211	530	1,032	377	683	2,833	1,710
Jan 2007	214	508	1,095	363	620	2,800	1,719
Feb	207	565	987	369	555	2,683	1,674
Mar	213	546	1,055	377	595	2,786	1,713
Apr	202	539	1,113	375	657	2,886	1,693
May	190	551	1,009	334	622	2,705	1,592
Jun	184	505	986	338	609	2,622	1,606
Jul	169	508	970	347	605	2,599	1,581
Aug	182	483	979	350	559	2,552	1,578
Sep	196	448	822	357	592	2,415	1,489
Oct	178	460	853	343	569	2,404	1,449

BC's Commodity Exports Are Still Largely Forest-Based

The economic impact of the forest sector industries in BC has diminished over the last several decades as the province's economy has diversified and other industries, particularly in the service sector, have gained in importance. For example, direct employment in the forest sector (forestry services, logging, wood manufacturing, pulp and paper manufacturing) fell from 6.3% of total employment in the province in 1991 to only 3.3% in 2006. Nevertheless, forest products still comprise a substantial portion of BC's international commodity exports.

Forest products still represent a major portion of British Columbia's commodity exports



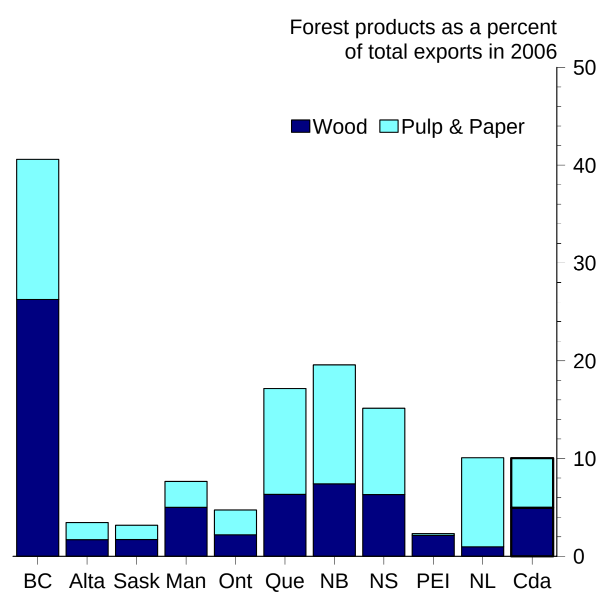
Source: Statistics Canada

Note: 2007 is year-to-date to October

In 2006, 41% of BC's commodity exports consisted of forest products and year-to-date in 2007, the share of total exports derived from the forest sector is still hovering around 40%. This is down from over 60% in the early 1990s, but forest products still make up a far larger share of British Columbia's exports than any other commodity group. Energy products (natural gas, electricity, coal, oil, etc.) comprise about 20% of the value of total BC commodity exports, or only half that of forest products.

Compared with other provinces, BC is far more reliant on the forest sector as a source for commodity exports. In 2006, about 20% of New Brunswick's exports were forest sector products, well behind BC's 41% figure, but New Brunswick ranked second in the country in terms of forest products as a percent of exports. While BC was the origin of only 8% of Canada's total exports in 2006, it was the source of a third of Canadian forest product exports.

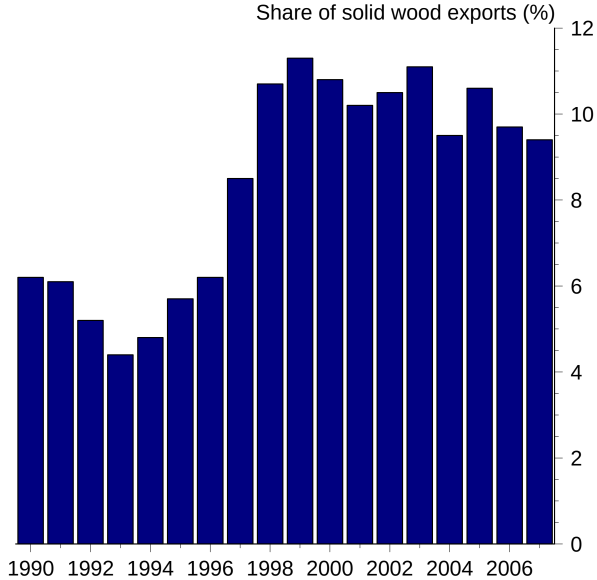
The forest sector is far more important in BC than in other provinces



Source: Statistics Canada

Approximately 23% of Canada's international shipments of pulp and paper products came from BC, while 43% of solid wood product exports originated in British Columbia. Most of these solid wood products consist of building materials, such as lumber, plywood, shakes and shingles, etc. While there was some growth in exports of value added wood products in the late 1990s, their share of BC's solid wood exports has since levelled off at around 10%.

The share of value added wood products jumped in the late nineties, but still represents only about a tenth of overall solid wood exports



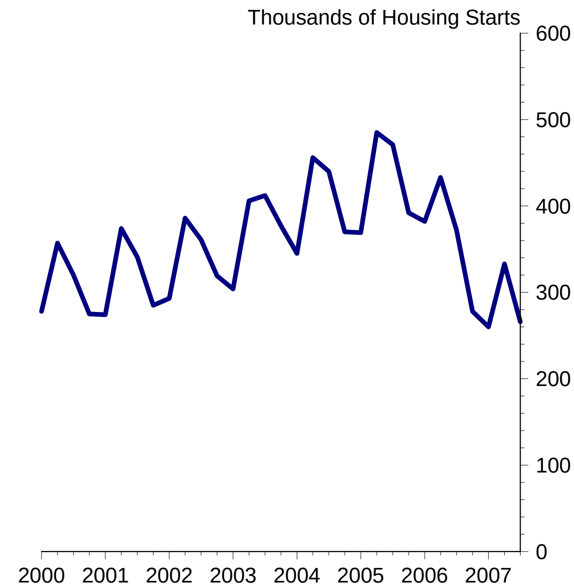
Source: Statistics Canada

Note: 2007 is year-to-date to October

Given the emphasis on building materials, demand for housing is a strong determinant of the strength of BC's wood exports. The main destination for BC's international shipments of wood products is the United States, with over three quarters (76% in 2006) of BC's wood exports shipped there. As such, the housing meltdown in the US is having severe repercussions for forest companies in BC.

The current decline in the US housing market has its roots in the subprime mortgage issue that hit the stock market earlier in the year. A large number of mortgage companies in the US were offering deals on mortgages, such as no money down, low initial interest rates and so forth, and they were often giving people mortgage loans without even a simple credit check or any kind of income verification. The prospect of cheap, easily available mortgages artificially drove up the demand for housing and, consequently, drove up the price as well, which led to an increase in home building. Once the higher interest rates started to kick in, many of these mortgage holders ended up defaulting and the mortgage companies started going out of business. Consequently, the housing supply expanded with the addition of homes lost to loan default and the availability of low-cost loans fell, which in turn reduced demand for new housing. The combination of a larger supply and lower demand has resulted in a significant drop-off in the number of housing starts in the United States, which has diminished the demand for building products from BC and elsewhere. US housing starts in the third quarter of 2007 were down 28% from the third quarter of 2006, and have declined 44% from the number recorded in the third quarter of 2005.

The number of housing starts in the United States has dropped dramatically



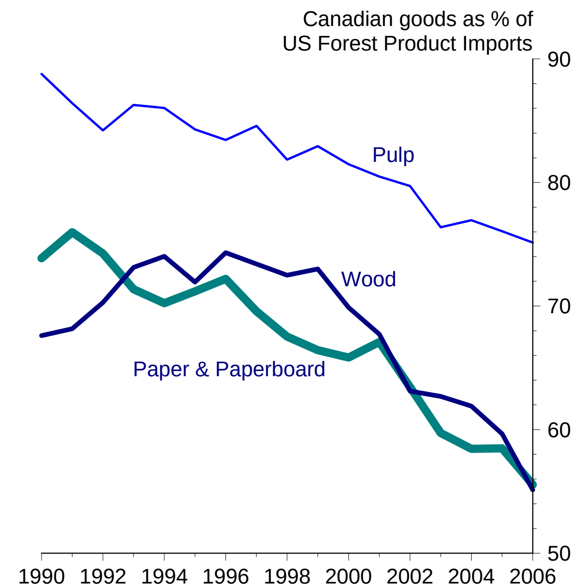
Source: US Census Bureau

At the same time that demand for housing was falling in the US and prices for building materials were about to fall, Canada entered into the new softwood lumber agreement that set export taxes on lumber when prices fell below a certain level. Exacerbating the situation even more for lumber producers in BC was a surplus of wood due to accelerated harvesting of pine beetle-killed wood. The excess supply of lumber has further dampened prices. The result of the confluence of these events has been a number of mill closures and subsequent layoffs in the forest sector in British Columbia.

As if all that isn't bad enough for BC's forest sector, Canada's share of American forest product imports has been falling over the last decade. As mentioned earlier, about three-quarters of BC's solid wood product exports are destined for the United States. For paper and paperboard, the figure is similar (75% to 80%), while between 50% and 60% of exported newsprint is shipped to the US. Pulp is the only major forest product export from BC that does not count on the US market for most of its business, as only about a quarter of BC's pulp exports are shipped to the United States.

Given this concentration on the US market, the fact that Canada is losing market share to other countries is of concern for BC forest sector manufacturers. For instance, for wood products, Canada's share of the US import market has dropped from a peak of 74% in 1996 to only 55% in 2006. Paper and paperboard (including newsprint) has seen its share diminished from over 70% in the early 1990s to less than 56% in 2006 and although BC pulp producers are less dependent on the American market, the Canadian share of pulp imports has also slumped about ten percentage points in the last decade.

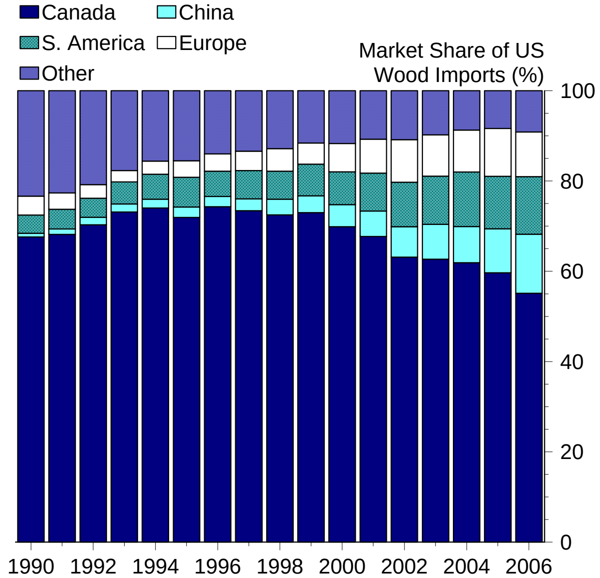
Canada's share of the US market for forest products has been falling



Source: Industry Canada

In the last several years, China has increased its share of the American market for solid wood products from less than 3% in 1997 to over 13% in 2006. Chinese lumber manufacturers have easy access to the large supply of trees in Russia and a large portion of their lumber is derived from Russian forests. Countries in South America, such as Brazil and Chile have been gaining a larger foothold in the American market as well. European countries, particularly Germany, have made smaller gains when viewed independently, but in aggregate their market share is reasonably comparable to that of South America and China.

Canada is still the source of most of the wood shipped to the US, but other regions have been taking away some of Canada's market share



Source: Industry Canada

The combination of reduced market share in the United States for forest products and a drop in demand for wood products may be a bad sign for overall commodity exports from British Columbia, given the significant presence that forest products have in BC's export mix. If the province is to avoid another year of slumping exports, BC's forest companies may have to court other markets for their products. The recent opening of a new container handling facility at the Port of Prince Rupert could be an opportunity for companies in Northern BC to open up new markets in Asia for their products. If BC forest companies manage to diversify their customer base, they may not only avoid a severe economic downturn, but they also may soften the blow if there are any future disputes with the softwood lumber industry in the United States.

Recent Feature Articles in Exports Release
Listed by Statistical Reference Date of Issue

07-10 *BC's Commodity Exports Are Still Largely Forest-Based* *(released December 2007)*

07-09 *Is Cross-Border Shopping Making a Comeback?* *(released November 2007)*

07-08 *Prince Rupert Container Port Open for Business* *(released October 2007)*

07-07 *Canada Weighs Anchor on Free Trade with EFTA* *(released September 2007)*

07-06 *BC's Trade with California* *(released August 2007)*

07-05 *Appreciating Dollar Not Appreciated by Exporters* *(released July 2007)*

07-04 *The Greening of BC's Exports* *(released June 2007)*

07-03 *BC's High Tech Trade* *(released May 2007)*

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05-08 *Booming Energy Sector May Give Rise to "Dutch Disease" for Other Exporters* *(released October 2005)*

05-07 *Laying on the Lumber* *(released September 2005)*

NOTES

Countries Included Within World Regions:

(1) Western Europe: United Kingdom, Ireland, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland.

(2) Eastern Europe: other Europe, including all of Russia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, etc.

(3) South East Asia: Malaysia, Brunei Darussalam, Singapore, Myanmar, Kampuchea, Laos, Indonesia, Philippines, Thailand, Vietnam.

(4) Africa: continental Africa, excluding Ethiopia, Libya, Somalia, Sudan, Egypt.

(5) South America: continental South America from Colombia and Venezuela south to Chile and Argentina, including offshore islands, but not Caribbean.

(6) Central America and Caribbean: from Guatemala and Belize to Panama, plus Caribbean Islands.

(7) Pacific Rim (including Japan): Japan, Hong Kong, Malaysia, Brunei Darussalam, Singapore, Laos, Mongolia, China, Indonesia, North Korea, South Korea, Philippines, Macau, Taiwan, Thailand, Vietnam, Australia, Fiji, New Zealand.

(8) Pacific Rim: as above, but excluding Japan.

(9) Middle East: from Turkey and Iran south through the Arabian Peninsula. Excluding Afghanistan and Pakistan, but including Cyprus, Ethiopia, Egypt, Somalia, Sudan and Libya.

The **European Union** is the membership as of January 1, 2007: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom.

'Selected Value-added Wood Products' category includes prefabricated houses, doors, windows, furniture, moulding, siding, etc. It does not include panel products, shakes, shingles or any pulp and paper products.

Revisions

Statistics Canada revises trade data for the previous three data years with release of the December data. The revision number is indicated in the footer of the tables (e.g., Rev 1 is the first annual revision, etc., and Prelim indicates it is the first release of data to December for that year). In addition to annual revisions, Statistics Canada revises the data for the previous data year every quarter (indicated in the footer by Rev Q1, etc).

Service Offered for Detailed Trade Statistics

For BC government statistics users requiring more detailed information on exports or imports, a special report service is offered through the address below:

Dan Schrier
BC STATS
P.O. Box 9410 Stn Prov Govt
Victoria, B.C. V8W 9V1
(250) 387-0376

This service is provided through the Trade Research and Inquiry Package (TRIP) computer reporting system. TRIP offers user-defined tabulations of export or import statistics for BC, Canada, the United States and other countries. Tabulations can include information on commodities, countries, US states, years, months, mode of transport, etc.