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Exports ◆ August 2009

Note that with this edition of *Exports* a table has been added with detail on commodity exports to Mainland China in recognition of that country's growing importance as a destination for BC exports. See also this month's feature article for a profile of BC's exports to Mainland China.

- The value of British Columbia origin exports has dropped 24.2% over the first eight months of 2009 compared to the January to August period a year earlier. Exports to BC's largest trading partners, the United States (-27.0%) and Japan (-27.8%) have slumped dramatically. Among BC's main trading partners, only Mainland China has experienced an increase in shipments, at 22.3%.

- Forest product exports are well down from a year earlier. The value of solid wood product shipments has dropped 26.1% year-to-date compared to the same eight-month period in 2008. Pulp and paper exports are also well off the mark, slumping 25.9%.

- Exports of energy products have also experienced a substantial decline, dropping 27.0%. Natural gas shipments are down 43.7% as a result of lower prices, as volumes exported have actually increased 16.9%. Electricity exports have plunged 62.6% as a result of both a drop in demand and prices. Coal shipments have slumped 12.8%, while other energy product exports, including crude petroleum, are down 1.0%.

- The value of metallic mineral exports has fallen 35.1% year-to-date. Shipments of copper ores and concentrates fell 25.1%, exports of molybdenum ores and concentrates dropped 54.0% and unwrought aluminum (-38.6%) and zinc (-37.4%) also experienced significant declines in the value of exports. Fabricated metal product shipments also fell, slumping 33.5%.

- Exports of machinery and equipment dropped 17.1%, led by a 37.0% decline in shipments of motor vehicles and parts.

- The one bright spot in an otherwise dismal export picture was in exports of agricultural and food products. Exports of agriculture and food other than fish climbed 6.8%, while seafood product shipments edged up 3.6%.

The global economic downturn has had a profoundly negative effect on BC exports

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 fell back down 8.2% in August, after a 10.3% increase a month earlier. A 20.8% plunge in shipments of energy products was the main driver of the decline. Of the major commodity groups, only industrial and consumer goods (+1.8%) experienced an increase in shipments.

- The value of exports to the United States dropped below $1 billion for the first time since 1994 after falling 3.0% in August. Shipments to all other destinations fell 12.8%, mainly due to a 27.1% slump in exports of energy products.

Exports (adjusted for seasonality) slumped in August

BC Exports, Seasonally Adjusted ($Millions)

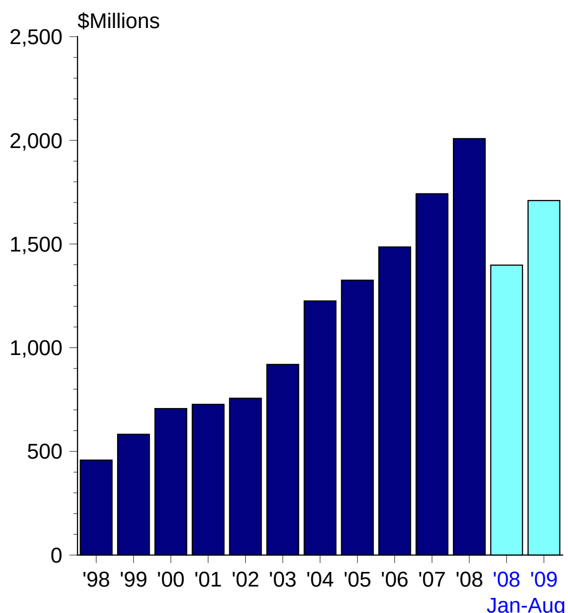
Month	Agriculture & Fish	Energy	Forest Products	Machinery& Equip, Auto	Industrial, Consumer	Total	Exports to USA
Aug 2007	183	493	993	345	522	2,535	1,563
Sep	192	463	817	357	594	2,423	1,487
Oct	170	493	849	326	548	2,385	1,440
Nov	170	505	860	339	622	2,496	1,445
Dec	184	470	850	317	570	2,390	1,417
Jan 2008	183	468	822	336	586	2,395	1,367
Feb	196	554	875	330	653	2,608	1,502
Mar	179	587	792	325	556	2,439	1,490
Apr	191	739	817	320	624	2,692	1,535
May	187	866	863	323	804	3,044	1,424
Jun	188	995	795	331	707	3,015	1,534
Jul	179	1,086	807	322	592	2,986	1,634
Aug	198	869	755	346	735	2,902	1,424
Sep	201	833	802	322	617	2,774	1,381
Oct	220	995	831	350	645	3,042	1,575
Nov	210	893	739	348	604	2,793	1,432
Dec	204	782	695	323	472	2,476	1,304
Jan 2009	208	615	637	305	471	2,236	1,252
Feb	213	693	633	285	489	2,312	1,216
Mar	201	589	603	271	548	2,213	1,112
Apr	199	548	603	269	444	2,064	1,060
May	192	473	575	273	419	1,932	1,056
Jun	196	480	566	257	431	1,929	1,011
Jul	202	618	584	268	454	2,127	1,011
Aug	181	490	570	251	462	1,954	981

China Continues to Buy BC Goods

British Columbia's export picture has been bleak so far this year, but one of the few bright spots has been a substantial increase in shipments to Mainland China. Year-to-date to August, exports of goods from BC to Mainland China have jumped 22% compared to the same eight-month period in 2008. This growth continues a decade-long trend that saw the value of BC's exports to China climb 339% from 1998 to 2008.

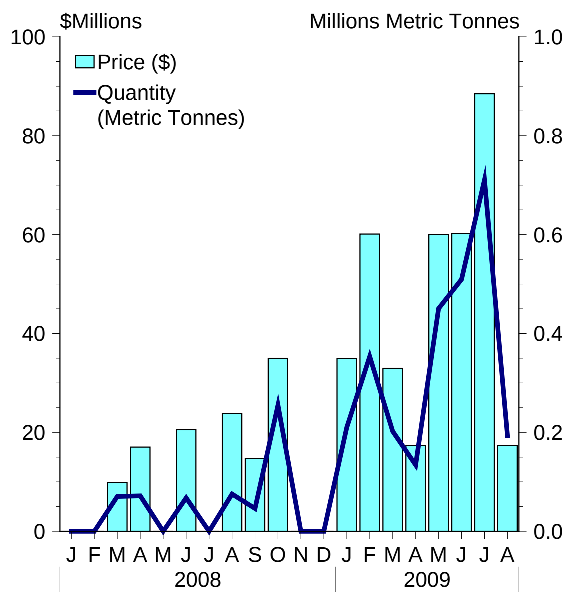
The value of BC's exports of coal to China has skyrocketed by 421% year-to-date; however, the price of coal has declined over the last year, such that the increase in volume of coal shipped is even larger, at 869%, or almost ten times the amount shipped in the first eight months of 2008. Coal has increased its share of BC's total commodity exports to China from about 5% in the January to August period of 2008 to 22% in the same period in 2009.

BC commodity exports to Mainland China have increased steadily over the last decade and so far 2009 has been no exception



Source: Statistics Canada

BC's shipments of coal to Mainland China have increased substantially in 2009



Source: Statistics Canada

The growth in exports to China has primarily been centred on raw materials, as shipments of manufactured goods such as machinery and equipment (-16.1% year-to-date) and fabricated metal products (-43.8%) have fallen. By way of contrast, there have been substantial increases in exports of coal, metallic mineral products and lumber.

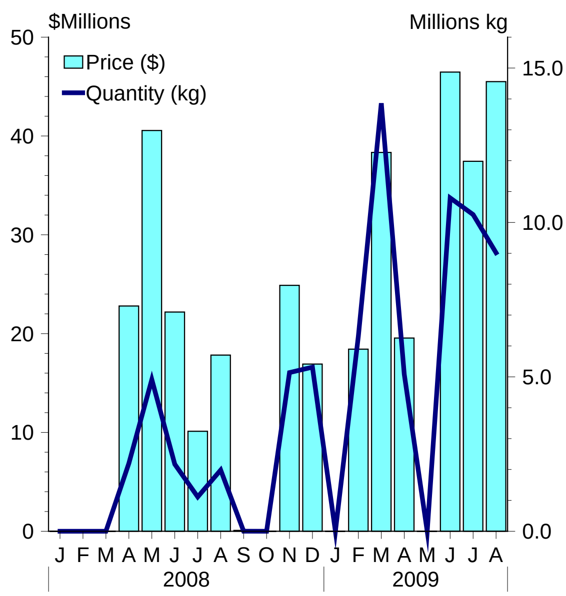
China's increased appetite for coal is due to at least a couple of factors. Issues surrounding domestic supply were part of the reason for the jump in coal imports into China, as many of the smaller, high-cost mines were shut down as a result of the global financial crisis. Also, many of the domestic users of coal purchased the commodity from foreign sources while attempting to coerce better prices from local producers. Stockpiling may be another factor in the rise in coal imports as China has been restocking its reserves of several commodities, coal included.

There are some signs indicating that China's coal imports will start to decline over the remainder of the year and probably into next year. Stockpile inventories are more or less at capacity, while domestic production is increasing as some of those small mines that were closed are being re-opened. The resulting increase in domestic supply, combined with reduced demand for products of the steel industry, which is a major user of coal, will reduce the need for imports. In fact, there was already a drop in Chinese imports of coal between July and August, including that shipped from British Columbia (from 710,675 metric tonnes to 193,369).

The same kinds of issues that supported the jump in Chinese imports of coal have also affected metallic minerals, particularly copper, iron ore, nickel, aluminum and zinc. As a consequence of the global recession, metal prices fell significantly, which resulted in the closure of some high-cost metal mines in China, thereby reducing domestic supply. At the same time, the Chinese government and private producers have been replenishing reserves of various metal ores, taking advantage of the lower prices and reduced shipping costs. As a result of the demand from China, prices for most metals have since rebounded. For example, copper prices have more than doubled from their lows last year.

Copper ores and concentrates are the most significant metallic mineral export from BC to Mainland China. Over the first eight months of 2009, the value of exports of this commodity to China has increased 81% compared to the same period in 2008, despite lower prices for the good, as the quantity of copper ores and concentrates shipped has more than quadrupled.

BC's shipments of copper ores and concentrates have also jumped in 2009



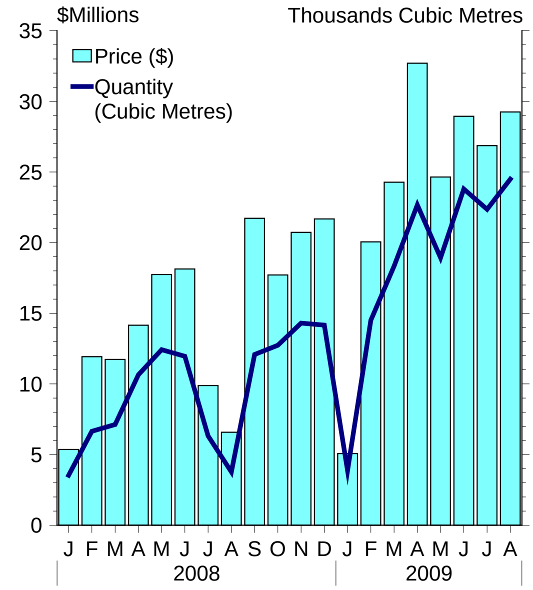
Source: Statistics Canada

With inventories near capacity and demand for manufactured products still sluggish, there could be a drop in Chinese imports of metallic minerals, particularly since domestic production has picked up. This could affect metal prices and may dampen BC exports of metallic mineral commodities.

Another commodity that has benefited from demand from China is softwood lumber. Year-to-date to August, the value of lumber exports to Mainland China has doubled. In fact, in volume terms, China has surpassed Japan as a destination for BC lumber. However, China's lumber purchases have been concentrated on lower value lumber, particularly beetle-killed wood, such that Japan still ranks well ahead of

China in terms of value of lumber exports from British Columbia.

BC's exports of softwood lumber to China have experienced significant growth

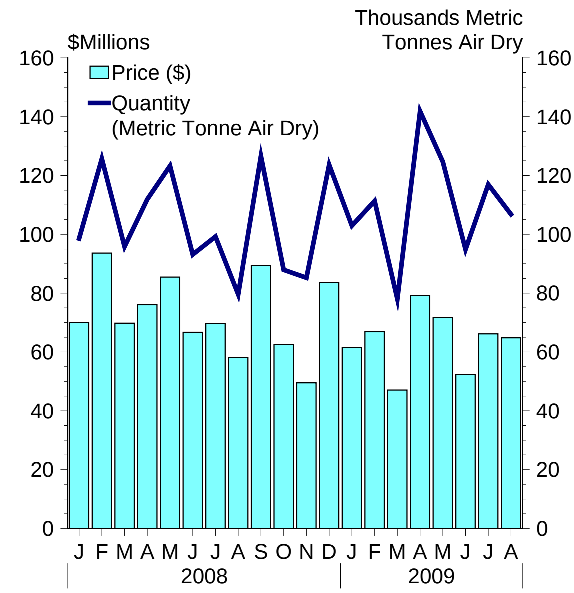


Source: Statistics Canada

China's demand for economy-grade wood has been a boon to regions suffering from the blight of the pine beetle as the Chinese are buying up as much of the low grade lumber as the mills can produce.

Elsewhere in the forest sector, the story is not quite as positive. BC's largest export to Mainland China is pulp, but low prices have reduced the value of exports of pulp to China by 14% year-to-date, despite a modest 6% increase in quantity of pulp shipped. Pulp has slumped from representing around 42% of BC's exports to China over the first eight months of 2008, to only 30% so far in 2009. However, pulp prices are starting to go up again and Chinese demand for pulp has not waned, so it is possible that the value of BC's pulp exports to China will improve over the remainder of the year.

Due to lower prices, BC's exports of pulp to China have dropped in value despite an increase in volumes shipped



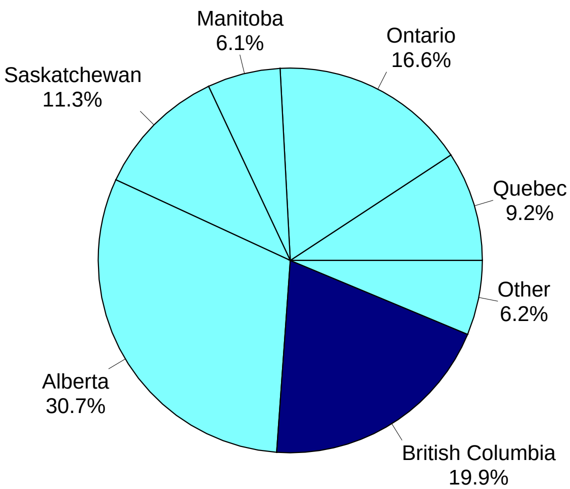
Source: Statistics Canada

Across Canada, China's appetite for raw materials has also triggered export growth for a number of other provinces. The largest percentage growth in shipments to Mainland China was from the Atlantic Provinces, specifically New Brunswick (249% jump year-to-date) and Newfoundland and Labrador (144% increase). For both these provinces, a boost in shipments of ores drove much of the increase. Saskatchewan has seen exports to China climb 41% so far in 2009, mostly on the strength of a more than two-fold jump in shipments of oil seeds.

At the other end of the scale, Alberta has experienced a 27% drop in exports to Mainland China in 2009 due in large part to substantial declines in shipments of sulphur and organic chemicals. Alberta ranked first in Canada as a source for commodity exports to China in 2008, but the increases in BC and Atlantic Canada in particular have chipped away at Alberta's share of exports, such that BC has almost equalled

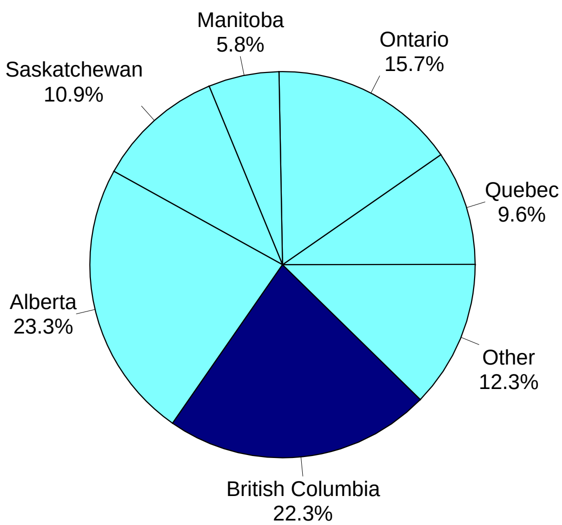
Alberta as a source for Canadian commodity exports to Mainland China so far in 2009.

In 2008, British Columbia ranked second among the provinces as a source for Canadian commodity exports to Mainland China



Source: Statistics Canada

...Year-to-date in 2009, British Columbia has almost equalled Alberta

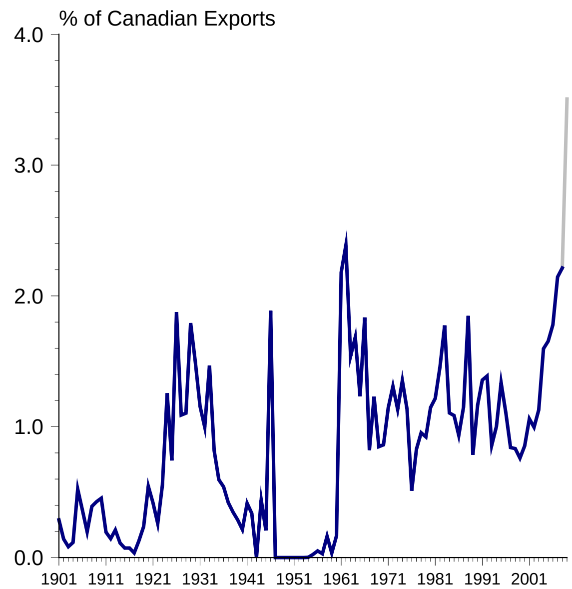


Source: Statistics Canada

At first glance, it may seem odd that Ontario and Quebec do not have a larger share of Canadian exports to China, but this can be explained by looking at the types of goods that China imports. Both Ontario and Quebec have large manufacturing sectors and a large portion of exports from those provinces are manufactured goods, but China's imports from Canada tend to be raw materials for input into its own manufacturing production, or food products to feed its populace. These are the types of goods that make up a much larger proportion of exports from BC, Alberta and Saskatchewan.

There are opportunities to expand Canada's exports to Mainland China beyond the resource sector. China is an enormous market that has been neglected to some extent by Canada. Prior to 2009, China's share of total Canadian commodity exports had never exceeded three percent. In fact, the 2.4% share achieved in 1962 marked the high point.

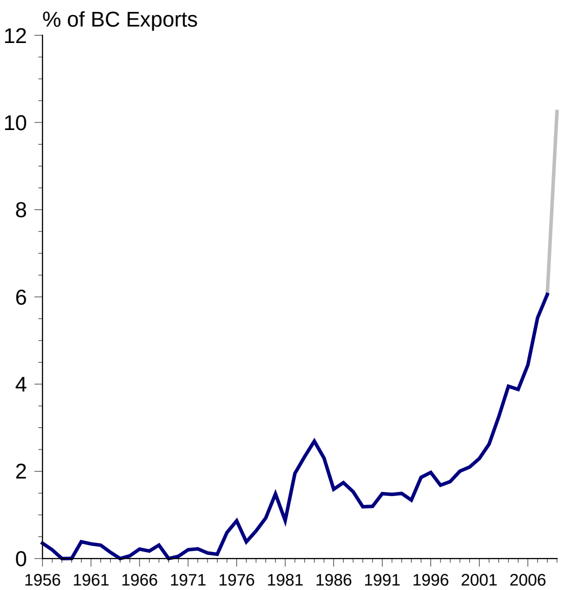
Until 2009, Canada has not put much emphasis on trade with China: 1962 was the high point in share of commodity exports prior to this year



Sources: Statistics Canada, Canada Yearbook

However, over the first eight months of 2009, China's share of Canadian commodity exports has climbed to 3.5%, indicating that Canada may finally be making an attempt to tap this huge market. It appears that British Columbia was far quicker to recognize China's potential, as China's share of BC's exports has been climbing steadily over the last decade, rising from 2% in 1999 to 6% in 2008. In 2009, China's share of BC's exports has climbed even higher, to over 10%.

On the other hand, British Columbia has been ramping up exports to Mainland China for the last decade



Sources: Statistics Canada, BC Stats

Given the size of China's economy, it is inevitable that it will play a significant role in the recovery from the global economic downturn. However, there are some potential roadblocks that could hinder that recovery. China and the United States are currently embroiled in a trade spat that could have global implications. The United States implemented a 35% duty on tires manufactured in China that are designed for passenger cars and light trucks. China responded by initiating an anti-dumping probe on imports of American car parts and chicken products. These moves were made despite a commitment made by the G20 leaders last November to refrain from policies that might impede trade. This type of tit-for-tat protectionism is exactly what they were trying to avoid as they have the potential to trigger further actions that could harm recovery efforts.

British Columbia's exports have been hit hard by the global economic slowdown and anything that will slow recovery will almost certainly have a negative impact on BC. The rise in exports to Mainland China has been one of the few bright spots in an otherwise dismal year for BC exports. While it is possible that there will be a reduction in shipments to China over the remainder of the year as inventories in that country reach capacity, it remains a positive sign that BC in particular, and Canada as a whole, have managed to boost their exports to one of the world's largest markets. The challenge will be to not only repeat that performance, but to expand that trade even further.

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

09-08 *China Continues to Buy BC Goods*
(released October 2009)

09-07 *Energy Exports are Powering Down...For Now*
(released September 2009)

09-06 *Adding Some Heat to Trade with India*
(released August 2009)

09-05 *Trade with the Other Americas*
(released July 2009)

09-04 *The State of Canada's Trade with the USA*
(released June 2009)

09-03 *British Columbia's Trade Balance Tipped in Favour of Imports*
(released May 2009)

09-02 *Fifteen Years of Free Trade with Mexico*
(released April 2009)

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(released February 2009)

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(released November 2008)

08-08 *Milking the System: Is Canada's Supply Management System an Impediment to Free Trade?* *(released October 2008)*

08-07 *Charting BC's Exports*
(released September 2008)

08-06 *Bad News for Newsprint Exports*
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08-05 *Asia Offers Potential as a Destination for BC Exports*
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08-03 *Border Line Threats to Trade*
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07-05 *Appreciating Dollar Not Appreciated by Exporters*
(released July 2007)

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) as well as with the release of the January and February data.

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:

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(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.