

highlights

a weekly digest of recently released British Columbia statistics

The Economy

- **There were 694 consumer bankruptcies registered in the province in July.** This compares to 733 in the same month last year. So far this year, there have been 5,680 consumer bankruptcies recorded in BC, an increase of 4.5% over the figure for the first seven months of 2000. Bankruptcies were up in most parts of the country year-to-date, rising 3.6% (to 46,056) nationwide and increasing more than twenty percent in three of the four Atlantic provinces. Alberta (-11.7%) and Manitoba (-3.2%) were the only provinces where there were fewer consumer bankruptcies in the first seven months of this year than in the same period of 2000.

Source: Industry Canada

- **Fewer business bankruptcies were registered in BC this July (79) than in the same month last year (89).** Year-to-date bankruptcies were up 6.7% (from 582 to 621), while Canadian bankruptcies increased 4.8% (from 5,954 to 6,241). The number of business bankruptcies registered was up in every province except Quebec (-10.5%) and PEI, where the number was unchanged. Bankruptcies are extremely volatile, but despite large fluctuations in the numbers, the long-term trend suggests that business failures in BC are declining from the peak levels seen in the late 1990s.

Business bankruptcy statistics are not always a good indicator of overall economic conditions. Business failures increase when the economy is slowing, because previously solvent firms are no longer able to make ends meet. However, they may also rise during boom periods, when there are more start-ups of higher-risk businesses, not all of which are successful.

Source: Industry Canada & BC STATS

- **New motor vehicle sales in BC and the territories rose 4.0% (seasonally adjusted) between June and July.** BC was one of only four regions where vehicle sales increased. Ontario (-0.1%), Alberta (-1.3%) and Quebec (-2.8%), which together account for more than three-quarters of the national total, all posted declines, and the Canadian total was down 0.5%. Nationally, sales of trucks and vans were off 1.2%, while the number of new cars changing hands edged up 0.1%, largely due to increased sales of cars manufactured overseas (+1.2%). Sales of North American manufactured cars fell (-0.3%) in July.

Source: Statistics Canada

- **Canadian industries continued to cut back on their output in the second quarter.** The industrial capacity utilization rate, which measures the ratio of actual to potential output in goods-producing industries, fell to its lowest level (83.2%) in two years. Producers of electrical and electronic products cut back their production sharply, with capacity use plunging from 96.6% in the second quarter of 2000 to just 70.9% this year. Capacity use also fell in the furniture and fixture (-11.3 percentage points, to 75.4%) and textile (-10.6 points, to 69.1%) industries, but was virtually unchanged (at 89.7%) in the dominant transportation equipment industry. Overall, the manufacturing sector decreased its rate of capacity use from 85.9% to 82.0%.

Among other goods-producing industries, logging posted the biggest drop (-9.9 points, to 83.2%). Capacity use fell marginally in the construction (-0.6 points, to 90.3%) and utilities (-0.6 points, to 85.4%) industries, but rose 0.4 points, to 77.9%, in mining

Source: SC, The Daily

Did you know...

Nearly 32 million passenger vehicles—and four million commercial trucks—have travelled on the Coquihalla highway during the 15 years since it first opened

Housing

- **Housing starts in the province fell sharply (-18.5%, seasonally adjusted) in August.** The drop in starts came on the tail of an 8.7% decline in July. Starts were down or flat in seven provinces last month, but increased 11.6% at the national level on the strength of a 35.3% jump in Ontario, where housing starts bounced back after plunging in July. Nearly half (49%) of the starts in Canada were in Ontario last month. New Brunswick (+19.2%) and Alberta (+5.8%) were the only other provinces where housing starts increased in July. *Source: CMHC data*

- **Year-to-date, the number of housing starts in British Columbia was well above 2000 levels, rising 22.8%.** Manitoba (+22.0%) was the only other province to show similarly strong growth. Canadian starts rose 6.5%, as Quebec (+11.2%), Alberta (+7.7%) and Ontario (+4.7%) all posted increases. Starts were down in Atlantic Canada and Saskatchewan. *Source: CMHC data*

- **The cost of new housing in Vancouver and Victoria continued to climb in July, suggesting that the long downward trend in new house prices that began in 1994 is starting to be reversed.** In Vancouver, the new housing price index (NHPI) was up for the third month in a row, rising 1.1% over the July 2000 figure. Victoria's index posted its fifth straight year-over-year increase (+1.0%). However, land values in the two cities have not yet picked up. Land costs in Victoria were 1.1% lower than a year earlier, while in Vancouver, the cost of land remained unchanged for the fourth consecutive month.

Canada's NPHI was up 3.0% in July, reflecting higher housing prices in all but two metropolitan areas: Windsor (-0.1%) and Sudbury/Thunder Bay (-1.4%). *Source: Statistics Canada*

Tourism

- **More cars travelled on the Coquihalla highway this August than in the same month last year.** Passenger vehicle traffic on the highway was up 6.3%. During the peak summer months of July and August, 737,191 passenger vehicles used the highway. Year-to-date, passenger traffic on the Coquihalla was up 1.7%, while the number of commercial vehicles increased 8.8%

over the first eight months of 2000.

Source: Ministry of Transportation data

Liquor Distribution Branch

- **Liquor stores in the province were kept busy in the 2000/01 fiscal year, serving a total of 43.6 million customers.** With an adult population of roughly 3 million, this suggests that the average British Columbian made 14 trips to the liquor store in 2000/01. Gross sales reached \$1.7 billion, with three-quarters (78%) of the revenues coming from counter sales. The remaining 22% was from sales to licensees.

Sales of alcoholic beverages enriched federal, provincial and local government coffers to the tune of \$958 million in the last fiscal year, up from \$928 million in 1999/2000. The provincial government benefited the most, receiving \$742 million from LDB operations. Provincial government profits from operating LDB stores totalled \$642 million, with another \$99 million coming from social service tax revenues. The federal government collected \$113 million in GST, and \$98 million in customs duties and excise taxes. Municipal governments benefited mainly from property tax revenues, which reached \$4.6 million in 2000/01.

Source: Liquor Distribution Branch Annual Report, 2000/01

Education Price Index

- **Canada's education price index (EPI), which measures changes in school board costs, grew faster than the consumer price index in 1999.** The EPI was up 2.3% in that year, well above the 1.7% increase in the overall inflation rate.

The biggest component of the EPI is teacher's salaries, which account for 72% of total school board expenses. They rose 2.1% in 1999 as a result of a number of retroactive collective agreements. Salaries for other workers, which account for 8% of total costs, increased 2.2%.

Non-wage expenditures posted their biggest gain since 1995, rising 2.8% in 1999 as the cost of instructional supplies (+3.3%), school facilities and services (+3.2%) and other expenditures (+2.3%) increased.

Source: SC, The Daily

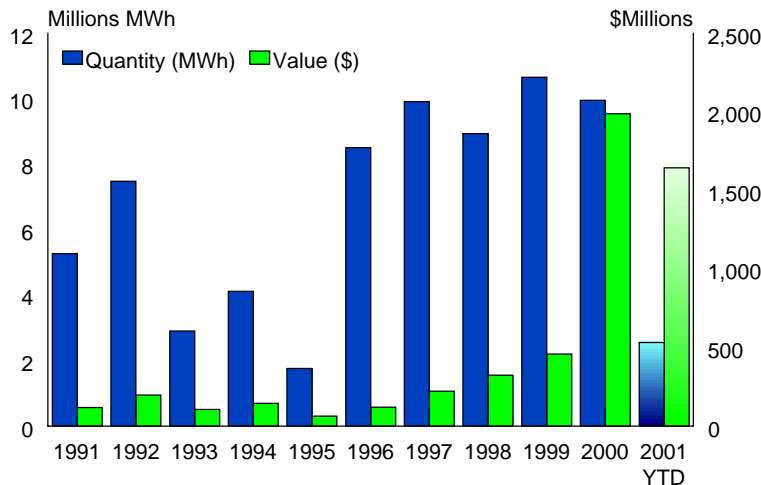
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Buy Low, Sell High: Trade in Electricity

The value of electrical energy exports from British Columbia has skyrocketed in the last several months. This, combined with similar growth in exports of natural gas, has helped mitigate a drop in the value of international shipments of forest products and has led to strong overall export growth for the province. The substantial spike in electricity exports has been entirely due to rampant inflation. In fact, year-to-date, the quantity of electricity exported is about three-quarters of that in the same period in 2000, while the value of exports in 2001 is eight times higher compared to the first five months in 2000.

Despite exporting less electricity year-to-date compared to 2000, the value of those exports in 2001 is 8 times higher.

The value of electricity exports has soared



A case of supply and demand

Inflationary pressure on electricity prices has been driven mainly by supply problems in the United States, particularly California. British Columbia's abundance of hydroelectric power has enabled Powerex, the electricity trade subsidiary of BC Hydro, to take advantage of the high prices in the spot market for electricity and reap tremendous profits. In fact, Powerex has profited to such an extent from exporting electricity to the United States that California has accused it and other wholesale suppliers of electricity of manipulating the market to earn inflated profits.

Supply problems in the United States have exerted inflationary pressure on electricity prices.

The Federal Energy Regulatory Commission (FERC), a United States federal agency responsible for regulating wholesale power sales, found these allegations to be unsubstantiated, but that has not dampened the resolve of those in California who are looking for a scapegoat for the high electricity prices. Some analysts feel that the state's partial deregulation of the industry in 1996 is the root of the problem. Although the industry has been opened up to

competition, electricity rates are frozen until the end of March 2002. This means that regardless of how high the price of electricity goes, consumers will not have to pay more, which means the normal market forces that come into play with changes in price are not working as they should. In other words, where normally the demand would fall as the price rises (i.e., people would choose to conserve and use less energy by leaving on fewer lights, using less heat or air conditioning, etc.), with a price freeze in effect, this is not occurring. In fact, the resurgence of the economy in California over the last few years, coupled with the expansion of computer-based business (large users of electricity), has resulted in a significant increase in demand.

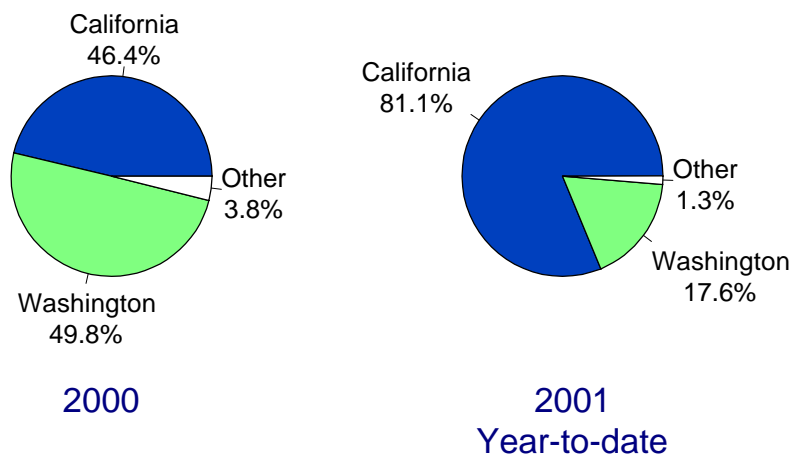
A flawed deregulation scheme in California is at least partially responsible for high prices for electricity.

On the supply side of the equation, California did not anticipate the increased demand and does not have sufficient power-generating facilities in state. This means that California utility companies must import electricity from out of state and this is where companies like BC Hydro and its subsidiary, Powerex, come into the picture. As California is threatened with rolling blackouts because of high demand and low supply, the state has unwittingly contributed to the soaring cost of electricity. It is simply a case of low supply and high demand that is driving up prices. Companies like BC Hydro feel that they are working within the rules of the free market and supplying a commodity at as high a price as the market will bear.

California and Washington receive the bulk of BC exports

In 2000, approximately half of BC exports of electrical power went to Washington State and just over 46% to California. So far in 2001, California has been the destination for over 80% of exports of BC electricity.

California's share of electricity exports* is up in 2001



* by quantity

Electricity generating capacity in British Columbia

In 2000, there were 68,239 GWh of electric energy generated in British Columbia.¹ Of this total, almost 88% was hydro-electric power. Conventional steam-generated electricity made up just over 10%, and combustion turbine (2%) and internal combustion generated electricity (0.1%) comprised the remainder. In addition, approximately 548 GWh of electricity was purchased from other provinces, and 5,245 GWh was imported from the United States. Of the total electricity generated in the province and imported from outside the province, 15% was exported to either other provinces or the United States. This left a total available electricity supply of 62,867 GWh for domestic use in the province.

About 88% of electricity generated in British Columbia is hydroelectric power.

In terms of hydroelectric generating capability, BC Hydro facilities have about 85% of the plant capacity in BC.² The next two largest electricity generators by plant capacity are the Kemano facility owned by Alcan (7%) and the Waneta dam owned by Cominco (3%), which are used as power sources for the Alcan aluminum smelter and the Cominco lead-zinc smelter respectively. Surplus power is also sold to BC Hydro and on the spot market. The next largest utility by capacity is West Kootenay Power (2%).

Buying low and selling high

In 1997, BC Hydro became only the second utility company in Canada to receive a Power Marketing Authorization from the FERC in the United States. This gave the company access to power from anywhere in the United States. In addition, under the terms of the Columbia River Treaty, BC Hydro has exclusive access to the Canadian entitlement of power generated in the US on the Columbia River system. Together with BC Hydro's own substantial generating capacity, these sources provide the company with sufficient resources to make it a significant player in the electricity market.

In addition to simply selling surplus power, BC Hydro, through its wholly-owned subsidiary, Powerex, has been able to buy power during off-peak hours when prices are lower, then sell its own power during the peak period when prices are highest. Basically, the imported power is used to meet electricity needs in British Columbia during the night when the demand is low. This allows BC Hydro to conserve its own supply leaving more power available to sell to other markets when demand is at its peak and prices on the spot market are correspondingly highest. BC Hydro is committed to meeting the needs of its customers in British Columbia first, so it is this system of arbitrage that allows the company to maximise its return on the electricity it produces.

By buying low and selling high, BC Hydro has been able to maximise its profit.

¹ Statistics Canada, *Electric Power Statistics, March 2001*, catalogue 57-001-XIB.

² Statistics Canada, *Electric Power Generating Stations, 1999*, Catalogue 57-206-XIB.

British Columbia Electrical Energy Exports

Year	Quantity (MWh)	Value (\$Canadian)
1991	5,269,329	119,391,994
1992	7,474,483	197,166,697
1993	2,907,335	106,458,350
1994	4,110,621	144,951,684
1995	1,761,852	62,575,440
1996	8,501,768	120,678,691
1997	9,909,866	222,647,723
1998	8,930,188	323,278,087
1999	10,651,695	458,005,447
2000	9,946,438	1,986,598,729
Jan-May 2000	3,463,014	197,661,762
Jan-May 2001	2,555,007	1,641,938,569

BC exports of electricity have been substantially higher in the last five years...

Source: Statistics Canada

British Columbia Electrical Energy Imports

Year	Quantity (MWh)	Value (\$Canadian)
1991	475	18,059
1992	120	4,891
1993	1,080,957	19,085,654
1994	6,104	189,363
1995	1,645,931	24,068,693
1996	34,397	1,557,904
1997	3,511,182	43,452,985
1998	4,288,286	93,157,054
1999	6,611,691	158,312,662
2000	5,244,698	336,356,313
Jan-May 2000	2,597,387	85,166,279
Jan-May 2001	4,471,379	1,187,039,433

...as have imports.

Source: Statistics Canada

The preceding tables show how both exports and imports of electrical energy have risen substantially since BC Hydro was given access to power in the United States and the ability to buy and sell power on the spot market.³ They also display how the value of electricity has surged over the last few years, and particularly in the last several months. This is due to a combination of increased demand as well as the shrewd business practice of Powerex that has enabled it to sell when prices are at their peak.


In addition to giving BC Hydro the opportunity to realise significant profits, the ability to buy and sell on the spot market also gives the company some security with its power supply. By far the majority of electricity generated in BC is hydropower from dams. The flexibility of hydropower is one of the reasons BC Hydro can take advantage of the movements of the spot market. BC Hydro can let the reservoirs rise overnight while imported electricity is being used to power the province, then open them to create hydro-electricity when demand is at its peak. However, this last winter has produced far less precipitation than normal in British Columbia, and the corresponding reduced snow packs have resulted in lower than normal water levels in British Columbia's lakes and rivers. This may mean that BC Hydro will not have the excess capacity available to sell on the spot market, and may even become a net importer of power.

Hydro-generation of electricity is more flexible than other generation methods giving BC Hydro the ability to respond to demand quickly.

Conclusion

Deregulation of electric utilities in some parts of North America has created opportunities for generators of electricity to trade that energy on the open market. In British Columbia, BC Hydro has made good use of its abundance of hydro-electricity, buying and selling power on the spot market according to demand ebbs and peaks and generating a tidy profit as a result. Total BC imports and exports of electrical energy have risen in both quantity and value. Low water levels may prevent BC Hydro from capitalising on future price fluctuations later this year, but the recent experience with the crisis in California is an indication of the future potential of electricity as an export commodity for British Columbia.

³ Although BC Hydro is not the only electricity generating company in the province, it is by far the largest and is likely responsible for the great majority of BC electricity exports.

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BC at a glance . . .

POPULATION (thousands)	Apr 1/01	% change on one year ago
BC	4,087.2	0.8
Canada	30,949.9	0.9
GDP and INCOME		% change on one year ago
<i>(BC - at market prices)</i>	1999	
Gross Domestic Product (GDP) (\$ millions)	118,783	4.2
GDP (\$ 1992 millions)	104,323	2.1
GDP (\$ 1992 per Capita)	25,899	1.3
Personal Disposable Income (\$ 1992 per Capita)	16,700	0.0
TRADE (\$ millions)		
Manufacturing Shipments (seas. adj.) Jun	2,902	-8.7
Merchandise Exports (raw) Jun	2,771	-3.8
Retail Sales (seasonally adjusted) Jun	3,178	6.6
CONSUMER PRICE INDEX		% change on one year ago
<i>(all items - 1992=100)</i>	Jul '01	
BC	116.3	1.8
Canada	117.1	2.6
LABOUR FORCE (thousands)		% change on one year ago
<i>(seasonally adjusted)</i>	Aug '01	
Labour Force - BC	2,100	-0.5
Employed - BC	1,935	-0.6
Unemployed - BC	165	0.3
	Aug '00	
Unemployment Rate - BC (percent)	7.9	7.8
Unemployment Rate - Canada (percent)	7.2	7.1
INTEREST RATES (percent)	Sep 12/01	Sep 13/00
Prime Business Rate	5.75	7.50
Conventional Mortgages - 1 year	5.90	7.90
- 5 year	7.30	8.25
US/CANADA EXCHANGE RATE	Sep 12/01	Sep 13/00
<i>(avg. noon spot rate) Cdn \$</i>	1.5592	1.4835
<i>US \$ (reciprocal of the closing rate)</i>	0.6407	0.6746
AVERAGE WEEKLY WAGE RATE		% change on one year ago
<i>(industrial aggregate - dollars)</i>	Aug '01	
BC	642.30	-0.1
Canada	636.27	2.7
SOURCES:		
Population, Gross Domestic Product, Trade, Prices, Labour Force, Wage Rate } Statistics Canada		
Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics		
For latest Weekly Financial Statistics see www.bank-banque-canada.ca/english/wfsgen.htm		

BC Economic Account

Now Available Electronically!

The diskette version of the British Columbia Economic Accounts (covering the period from 1961 to 1999) is now available. Included in this diskette are annual and quarterly, raw and seasonally adjusted, estimates of all components of the income and expenditure accounts.

For more information, or to order your copy of the diskette, contact Kris Ovens at (250) 387-0359.

Released this week by BC STATS

- Labour Force Statistics, August 2001
- Current Statistics, August 2001
- Quarterly Regional Statistics, 2nd Quarter 2001

Next week

- Consumer Price Index, August 2001