

## highlights

a weekly digest of recently released British Columbia statistics

### *The Economy*

- **The number of business bankruptcies in the province fell 5.7% in September, compared to the same month of 2001.** Consumer bankruptcies rose 11.8% to reach 795, up from 711 a year earlier. Construction industries saw the largest number with 13 businesses declaring bankruptcy. Four manufacturing firms in the province went bankrupt.

Canada-wide, business bankruptcies totalled 717, up 8.8% from September 2001 levels. Consumer bankruptcies rose 5.9%. In Ontario, business bankruptcies grew 46.8%, to 276, compared to the same month of last year. Consumer bankruptcies grew the most in Manitoba, up 29.4% over last September.

*Source: Industry Canada*

### *Housing*

- **The new housing price index increased in both Vancouver (+2.0%) and in Victoria (+5.4%) in September, compared to the same month of 2001.** Higher construction costs and land prices were mainly responsible for the increases in Victoria. A sustained robust demand for new houses, combined with increased costs of skilled labour and building materials, continued to push up the prices nationally. Across Canada the index climbed 4.2% with the largest growth seen in Ottawa-Gatineau (+8.3%). In Edmonton, prices rose 8.2% from September 2001 levels. New housing prices in Windsor grew the least over the period (+0.6%).

*Source: Statistics Canada*

- **The composite price index for apartment building construction (1997=100) in Vancouver was 108.7 in the third quarter.** This was up 0.3% from the second quarter and 1.6% from the third quarter of 2001. This is an indication of the continuing strength of the apartment building construction market. Edmonton recorded the highest quarterly change (+1.0%), followed by Calgary (+0.9%). Montreal saw the highest year-over-year gain from the third quarter of 2001 (+3.1%), followed by Calgary (+3.0%). Vancouver had the smallest quarterly and year-over-year change of the metropolitan centres in the index.
- **The composite price index for non-residential building construction in Vancouver in the third quarter was 107.7.** This is a 0.3% increase since the second quarter and 1.1% from the third quarter of 2000, illustrating a healthy non-residential building construction sector. Edmonton's index rose 0.8% from the second quarter, followed by Calgary (+0.6%). Montreal had the highest change (+2.6%) compared to the third quarter of last year, followed by Calgary (+2.4%).

*Source: Statistics Canada*

### *New Motor Vehicle Sales*

- **In September, new motor vehicle sales (seasonally adjusted) dropped 2.2% in British Columbia and the territories.** There were 16,088 new vehicles were purchased in September 2002, down from 16,453 in August.

Across Canada, new motor vehicle sales decreased 0.4%. Sales of new motor vehicles were down in most provinces, but Newfoundland and

### *Did you know...*

**Quebec produced 5.4 millions gallons of honey and maple products in 2001, accounting for 93% of total Canadian production.**

Labrador (+1.1%), Prince Edward Island (+0.7%) and New Brunswick (+1.0%) saw increases. The largest fall was in Manitoba (-8.4%), followed by British Columbia and the territories (-2.2%). Car sales were stable (+0.0%) with a decrease in Canada-wide purchases of North American cars (-1.4%) offsetting the increase in foreign built car sales (+3.5%). Canadians bought 65,978 trucks, vans or buses in September, down 0.9% from August.

Source: Statistics Canada

### **Tourism**

- **Room revenues fell slightly (-0.9%) through July to \$123.6 million (seasonally adjusted).** The largest factors in the provincial drop were decreases in both Mainland/Southwest (-1.1%) and Vancouver Island/Coast (-1.8%). Near perfect weather conditions experienced in the Thompson-Okanagan region likely aided in its 3.0% increase in revenues in July, which ended five straight months of decline. North Coast also bounced back from a drop in June with growth in July (+2.7%). Revenues in Kootenay (-4.6%) and Cariboo (-4.3%) decreased since June.

Revenue generated by large hotels (greater than 250 rooms) fell back (-3.8%) from the high levels experienced in June. Small hotels (75 rooms or less) continued to inch up (+0.5%) through July, and hotels with 151 to 249 rooms had the largest increase (+1.7%). Vacation rental revenue (-2.3%) fell for the third straight month, but is still 1.0% ahead this year-to-date compared to 2001.

Source: BC STATS

- **The occupancy rate at BC hotels peaked at 79.9% in August, the highest it has been since August 1997.** The average cost for a room during that month was \$138.12 which was 1.6% higher than it was during August of 2000.
- **Employment in many tourism related industries in British Columbia grew since August of last year.** Food and beverages services (+1.6%), arts, entertainment and recreation (+6.5%), and heritage institutions (+3.4%) all saw increases in employment during August. Employment in the accommodation industry fell 4.6%.

Source: BC STATS, Statistics Canada

### **Savers and Investors**

- **The number of British Columbian's reporting investment income declined in 2001, and the income they received fell marginally.** Fewer than 1.1 million BC residents reported receiving a total of \$4.9 billion in investment income in 2001. This was a 3.0% decline in the number of persons reporting investment income, and a slight (-0.4%) decrease in the amount of investment income received.

The number of persons reporting investment income declined in every province and territory. The largest drop occurred in Quebec (-15.1%), followed by New Brunswick (-9.5%). At the same time, the amount of investment income increased in only three provinces: Alberta (+14.7%), Ontario (+1.1%) and Saskatchewan (0.4%). The steepest drop was in Nunavut (-17.7%). Investors in Prince Edward Island reported the sharpest decline (-15.5%) of the provinces after recording the largest performance gain in 2000.

- **The number of savers in Canada climbed to over 5.0 million in 2001.** This was a 4.8% jump over the number in 2000, and the second year in a row with an increase in the number of persons reporting interest income. Canadians earned \$10.1 billion in interest income in 2001, 1.1% more than in 2000. Higher interest rates may be partially responsible for these increases.

Source: SAAD, Statistics Canada

### **The Nation**

- **The low income cutoff for a four person family living in a major urban centre (over 500,000 people) rose to \$35,455 (pre-tax) in 2001.** This is a 2.6% increase over last year. The low income cutoff for a single person living in a major urban area also rose 2.6% to \$18,841.

Source: 75F0002MIE No. 005, Statistics Canada

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## Canada's Share of US Softwood Lumber Market Slipping

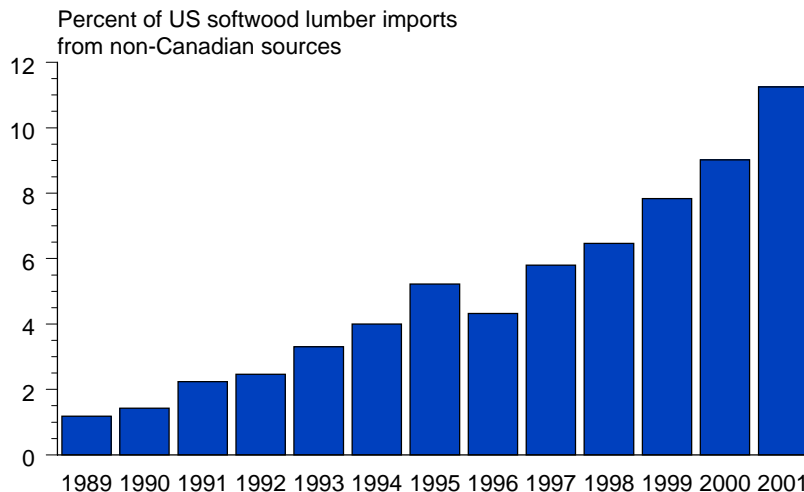
Softwood lumber production is an important component of Canada's economy, and this is even more true for British Columbia, in particular. According to data from Statistics Canada, British Columbia produced almost 12.8 billion board feet of softwood lumber in 2001, almost twice that of Quebec (6.4 billion board feet), the second most significant producer in Canada. Of the lumber produced in BC, 9.2 billion board feet, or approximately 72%, was shipped to the United States. This is almost half the total Canadian exports of lumber to the US. This data makes it clear that the province with the most to lose from the dispute with the United States is British Columbia.

While the short-term effects of the duties imposed by the United States on imports of Canadian lumber are causing serious hardship for Canadian companies and their employees, the long-term fallout may be just as critical. Canada has already won some of its appeals to the World Trade Organisation (WTO), indicating that the Americans may eventually be forced to lift the tariffs on Canadian lumber. However, it is possible that Canada will have permanently lost a portion of its market share by that time. Countries in Western Europe are aggressively pursuing a position in the American marketplace and early indications are that they are having some success. If this continues, it could impact not only Canada's forest industry, but the American industry as well. Not only could other countries pick up the slack left by a reduction in shipments of lumber from Canada, but also the American lumber lobby would be powerless to prevent it. According to US law, it cannot implement a trade sanction against another country until their market

*The term **Softwood lumber** used in this report is consistent with the goods involved in the American trade action against Canada. The Canadian export classification codes comprising this definition are 4407.10, 4409.1011, 4409.1019, 4409.1091 and 4409.1099. The corresponding American import classification codes are 4407.10, 4409.1010 and 4409.1020.*

*The 4407.10 category is standard sawn or chipped lumber, while the 4409.10 categories include lumber that has had slightly more processing, including siding, flooring and other wood continuously shaped along any of its edges or faces.*

**Canada's market share of US softwood lumber imports is declining**

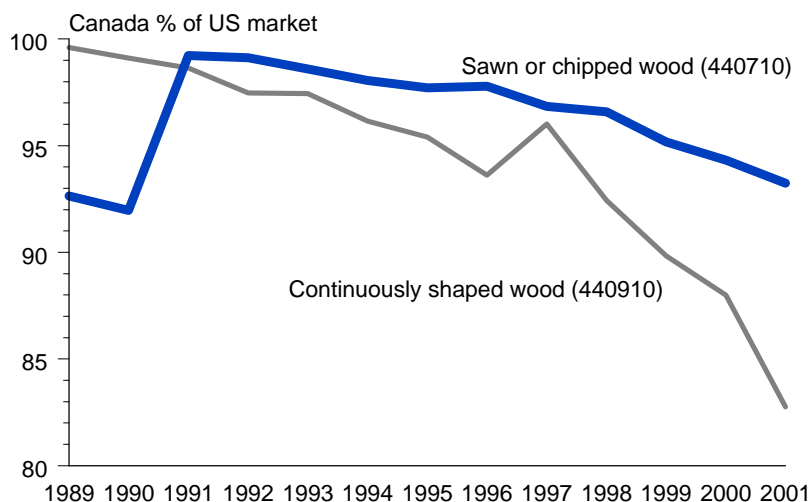


*Countries in Europe and South America are starting to erode Canada's market share of US imports of softwood lumber*

share exceeds three percent. While the share for Western Europe as a whole exceeds three percent, so far this is not the case for any single country within the region.

As can be seen from the preceding chart, Canada's share of US imports of softwood lumber has been in decline for over a decade. However, the percent of lumber imported into the US from non-Canadian sources has more than doubled since 1996 when Canada and the US signed the Softwood Lumber Agreement, which has since expired. The falling share is not only true for the dollar value, but for quantities as well. After shooting up from about 92-93% to over 99% in 1991, the Canadian share of volume of sawn or chipped wood (HS code 440710) sent to the US has continually slipped over the last decade such that it now has dropped back down to 93%. For continuously shaped wood, such as siding and flooring (HS code 440910), the drop has been even more dramatic. From almost 100% in 1989, Canada's share has fallen to just under 83% in 2001. In 1989 volumes of sawn or chipped wood exported to the US were only slightly higher than those of siding, flooring, etc. However, by 2001 there was almost three times as much wood from the sawn or chipped wood class shipped to the US compared to wood within the continuously shaped wood category.

**Canada is losing some of its dominance on volumes of softwood lumber shipped to the United States**



*Share of exports to the US by volume of continuously shaped wood has dropped from almost 100% in 1989 to less than 83% in 2001*

The drop in share of sawn or chipped wood is of far less concern than the continuously shaped variety. Despite the drop in share of exports of sawn or chipped wood to the US, volumes climbed about 34% from 1989 to 2001. The falling share may be a reflection of Canada having reached its production ceiling while demand in the US continues to increase, forcing the Americans to look to other sources. However, for siding, flooring and other continuously shaped wood, volumes in 2001 are about half what they were in 1989.

*Volumes of sawn or chipped wood exported to the US are up despite a reduced market share, but volumes of siding, flooring and other continuously shaped wood are half what they were a decade earlier*

Losing market share in the United States is of particular concern because the Americans are increasing their share of value of world imports of softwood lumber. In 1990, the US imported only 18% of the value of the world's softwood lumber, compared to 51% for Western Europe. By 2000, the US was taking in 32% and Western Europe's share was down to 34%.<sup>1</sup> However, it should be noted that Canada's share of the value of total world exports of softwood lumber increased over this period from 27% to 35%. At the same time, Western Europe went from shipping 32% of the world's softwood lumber exports to only 22%. It used to be the case that Western European countries shipped their lumber mainly to other countries in Western Europe. In 1990, 88% of softwood lumber shipments from Western Europe were destined for other Western European countries, while exports to the US and Japan were negligible. By 2000, Western Europe was making inroads into Canada's traditional markets of the United States and Japan, with 3.5% of its exports of softwood lumber headed to the US and 6.9% shipped to Japan. So although Canada's share increased over the last decade, Western Europe is poised to reclaim a significant portion of the world's softwood lumber market.

*Over the last decade, Western Europe's share of softwood lumber exports to the world has declined, but now they are shipping more to markets that were traditionally served by Canada*

The dispute with the United States has underlined Canada's dependence on that country as a market for softwood lumber, and the potential competition from other countries, particularly in Western Europe, could prove detrimental to the Canadian industry. The ongoing squabbles between the US and Canada over softwood lumber have had a definite impact on the marketplace and British Columbia has had to bear the brunt of it.

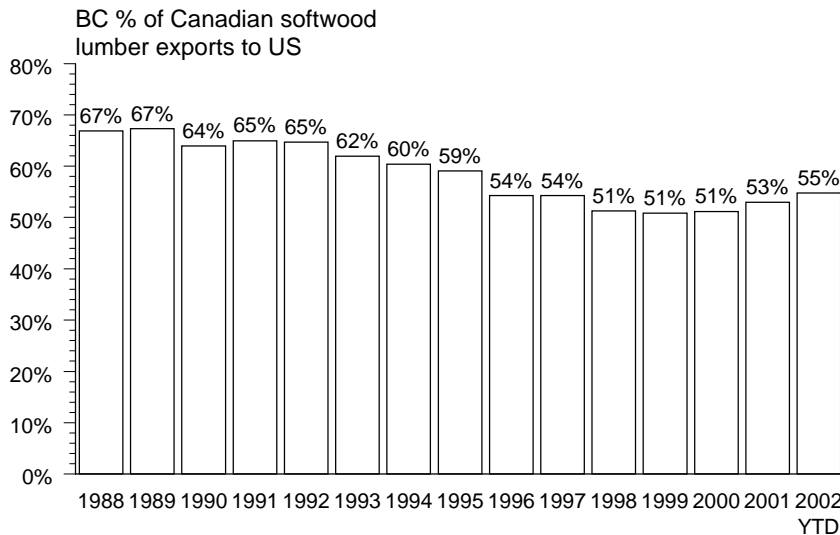
The 1996 Softwood Lumber Agreement (SLA) between Canada and the United States established quotas on how much lumber each province could ship to the United States in one year. Any lumber shipped in excess of the quota was assessed a steep export fee. The provinces covered under the agreement were BC, Alberta, Ontario and Quebec, while the other provinces and territories had no restrictions on the amount of softwood lumber they could ship to the US. Quotas were set based on exports to the United States just prior to the agreement. Since many coastal BC forest companies (and some based in the interior) relied heavily on trade with Asian countries, particularly Japan, they were allocated very little US quota. When the economic crisis hit these Asian markets and demand for softwood lumber consequently collapsed, the coastal mills did not have the opportunity to shift their sales to the United States because they did not have the quota to do so. This, combined with the fact that provinces not covered by the agreement had no restrictions on exports to the US, resulted in a decline in British Columbia's share of Canada's softwood lumber exports to the United States. Since the SLA expired in 2001, BC has regained some of this share.

*A lack of US quota left BC lumber producers with nowhere to go after Japan's economy faltered*

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<sup>1</sup> This is based on data from the World Trade database and includes mouldings and dowelling, which are not included in the definition of softwood lumber used elsewhere in this report. The most recent data available from this source is from 2000.

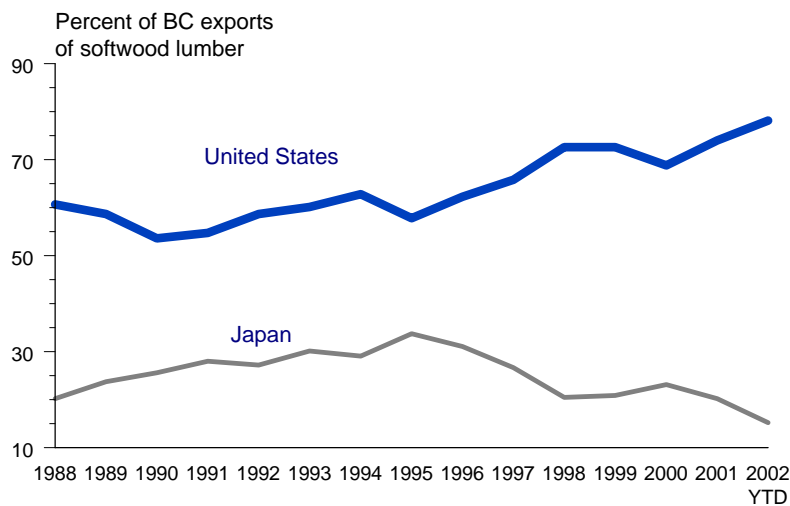
**BC's share of Canada's softwood lumber exports to the US slipped during the years of the Softwood Lumber Agreement**



*The Softwood Lumber Agreement resulted in British Columbia losing a portion of its share of the US market for lumber*

Despite the drop in share to the United States, BC is more dependent than ever on American customers for its softwood lumber. With economic problems in Japan leading to a reduced demand, BC has been shipping a larger proportion of its lumber to the United States.

**Japan's economic difficulties have made BC even more dependent on the US as a destination for BC lumber**



*Japan's share of BC exports of softwood lumber declined with Japan's economic fortunes*

If the Americans continue to apply substantial duties on Canadian lumber, Canada's market share could deteriorate further. Countries from Western Europe and South America, as well as other emerging markets like Russia, will have a price advantage. This could be devastating for British Columbia's forest industry. The combined countervailing and anti-dumping duties averaging 27.2% came into effect May 22, 2002 and since that time BC exports of softwood lumber to the United States have plunged. Part of the reason for the drop is excess inventory that

was built up in the two months preceding the imposition of the duties. Canadian companies took advantage of a loophole in American trade law that allowed for a short period of duty-free shipments and exported large quantities of wood to the US. Exports bounced back slightly in July, but were still well down from July of 2001 and the same is true for August.

Even if the United States eventually lifts the duties on Canadian lumber, it is not likely to happen any time soon and Canadian companies could fall by the wayside if they do not come up with a strategy to survive. If lumber producers in Western Europe, South America and elsewhere continue to chip away at Canada's share of the US market, Canada will have to find other outlets for its wood. Emerging economies like those in China and India are prime candidates to fill the void left by falling demand in the US. British Columbia has already increased its exports of softwood lumber to China fourfold in just the two years from 1999 to 2001 and year-to-date to August, shipments to India are already more than double what they were in all of 2001. However, even combined, these two countries take in less than half of one percent of all BC exports of softwood lumber. The United States will continue to be the number one destination for Canadian lumber, but diversification of markets should be good for Canada's forest companies, and may be necessary for them to survive.

*Canadian companies may need to find new markets outside the United States if they are to prosper*

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## BC at a glance . . .

<b>POPULATION (thousands)</b>	Jul 1/02	% change on one year ago
BC	4,141.3	1.0
Canada	31,414.0	1.0
<b>GDP and INCOME</b>	2001 Revised	% change on one year ago
<i>(BC - at market prices)</i>		
Gross Domestic Product (GDP) (\$ millions)	130,859	1.2
GDP (\$ 1997 millions)	123,912	-0.2
GDP (\$ 1997 per Capita)	30,252	-1.1
Personal Disposable Income (\$ 1997 per Capita)	19,513	1.2
<b>TRADE (\$ millions)</b>		
Manufacturing Shipments (seas. adj.) Aug	2,909	3.8
Merchandise Exports (raw) Aug	2,425	-1.0
Retail Sales (seasonally adjusted) Aug	3,332	4.8
<b>CONSUMER PRICE INDEX</b>	Sep '02	% change on one year ago
<i>(all items - 1992=100)</i>		
BC	118.8	1.8
Canada	120.1	2.3
<b>LABOUR FORCE (thousands)</b>	Oct '02	% change on one year ago
<i>(seasonally adjusted)</i>		
Labour Force - BC	2,180	4.1
Employed - BC	2,000	4.2
Unemployed - BC	181	2.3
		Oct '01
Unemployment Rate - BC (percent)	8.3	8.4
Unemployment Rate - Canada (percent)	7.6	7.4
<b>INTEREST RATES (percent)</b>	Nov 13/02	Nov 14/01
Prime Business Rate	4.50	4.50
Conventional Mortgages - 1 year	4.90	4.50
- 5 year	6.70	6.85
<b>US/CANADA EXCHANGE RATE</b>	Nov 13/02	Nov 14/01
<i>(avg. noon spot rate)</i> Cdn \$	1.5764	1.5916
US \$ <i>(reciprocal of the closing rate)</i>	0.6344	0.6283
<b>AVERAGE WEEKLY WAGE RATE</b>	Oct '02	% change on one year ago
<i>(industrial aggregate - dollars)</i>		
BC	671.53	4.3
Canada	651.07	2.2

### SOURCES:

Population, Gross Domestic Product, Trade, } Statistics  
 Prices, Labour Force, Wage Rate } Canada  
 Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics  
 For latest Weekly Financial Statistics see [www.bankofcanada.ca](http://www.bankofcanada.ca)

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### Released this week by BC STATS

- Labour Force Statistics, October 2002

### Next week

- Consumer Price Index, October 2002
- Exports, September 2002