BRITISH COLUMBIA

BC STATS

Ministry of
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Infoline

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- **British Columbia has the largest proportion of visible minorities of the provinces**
- **BC products exports fell 5.4% (seasonally adjusted) in November**
- **The province's inflation rate was 2.3% in 2002**

Census 2001

- **Twenty-two percent of British Columbians identified themselves as visible minorities in the 2001 census, giving the province the highest proportion of visible minorities in the country.** BC's visible minority population has increased substantially since the early 1990s, when the ratio stood at 14%. It was 18% in 1996. The national average in the census was 13%. The predominant visible minority group in BC was Chinese (5.9% of the population) followed by South Asians (2.9%). Ontario had the next highest portion of visible minorities (19%) with the most prominent groups being Black (3.1%) and Chinese (2.9%). *Source: 2001 Census*

- BC is a popular destination for immigrants, with one in five (20%) new immigrants to Canada settling in the province during the 1990s. Ontario (56%) was the only province that attracted more immigrants. Quebec (13%) was the third most common destination for new immigrants. Increasingly, new Canadian residents are choosing to live in these three provinces. During the 1990s, nine out of ten (89%) settled in these areas. This compares to 85% during the 1980s and 81% in the 1970s. *Source: 2001 Census*

- **British Columbia's Aboriginal population is the second largest in the country, at 170,025, 17.4% of the national total.** Ontario had the most of the provinces (19.3%) and Prince Edward Island had the fewest (0.1%). In the major urban areas in BC, a fairly low percent of the population identified themselves as Aboriginal. Vancouver (1.9%) and Victoria (2.8%) had lower proportions than some other urban areas such as Prince George (9.4%), Edmonton (4.4%), Regina (8.3%) and Saskatoon (9.4%). *Source: 2001 Census*

Prices

- **British Columbia's all-items consumer price index (CPI) rose 3.5% from December 2001 to December 2002.** Increased transportation (+9.3%), recreation, education, and reading (+3.9%) and alcohol and tobacco (+14.9%) prices helped drive the index up. Prices of food (+1.9%) and shelter (+1.0%) rose more moderately, and clothing (-0.5%) was less expensive than in December 2001. Canada's inflation rate was 3.9% in December. Higher costs for transportation (+11.2%), and alcohol and tobacco products (+17.6%) were leading causes of the national rise as well. *Source: Statistics Canada*

- **The province's annual inflation rate climbed to 2.3% in 2002, topping the two percent mark for the first time since 1995.** Tobacco taxes, which helped boost the cost of tobacco by 25.6%, put upward pressure on the overall price level last year. Consumers paid 3.5% more for transportation, largely because of higher fares for urban transit (+7.8%) and inter-city transportation (+7.7%), as well as a 10.1% hike in vehicle insurance premiums. Fresh fruits (+5.0%) and vegetables (+6.6%) cost substantially more than in 2001, contributing to a 2.7% rise in food prices, and the cost of operating and furnishing a household was up 2.5%. However, clothing and footwear prices were unchanged from 2001, and the cost of shelter (+0.7%), recreation, education & reading materials (+1.7%) and health & personal care (+1.8%) products rose only modestly. Energy costs increased just 1.2%.

Report **Lumber Battle Takes an Unexpected Turn**

Did you know...
The average Canadian spends over 50% more on recreation, entertainment and education than they did a decade ago.

The Canadian inflation rate was 2.2% last year. Among the provinces, inflation rates ranged from a low of 1.6% in Manitoba to 3.4% in Alberta and New Brunswick. Victoria's inflation rate was 2.7%, while prices rose 2.2% in Vancouver. *Source: Statistics Canada*

The Economy

- **Exports of BC products decreased 5.4% (seasonally adjusted) in November.** The drop in the value of BC's exports occurred across the board. Shipments of forest products (-2.7%) fell for the third straight month. A decline in exports of automotive products (-2.4%) also contributed to the monthly decrease.

  Shipments to the US remained weak, falling 4.4% after posting a 2.6% drop in October. Exports destined for use overseas were also down (-7.3%). *Source: BC STATS*

- **British Columbia's manufacturing shipments were down 0.7% (seasonally adjusted) in November from the previous month.** Shipments of non-durable products rose (+0.8%) largely due to an increase in the paper industry (+6.3%) more than offsetting a reduction in food shipments (-1.4%). Durable good shipments (-1.6%) fell from a strong decline in wood products (-5.1%) outweighing rises in several other durable goods categories.

  Canadian manufacturing shipments declined (-1.3%) to $43.6 billion, the lowest level since June. Shipments were weak in most provinces although Newfoundland and Labrador (+6.5%) saw an increase for the third straight month. *Source: Statistics Canada*

- **Sales by retailers in the province remained constant in November after rising in the previous month.** Nationally, retail sales declined 0.6% largely due to drops in automobile (-1.7%) and clothing (-1.0%) purchases. Sales were down or constant in all provinces in November with the exception of Newfoundland and Labrador (+0.1%) where there was a marginal increase observed. *Source: Statistics Canada*

- **Wholesale merchants in BC saw sales increase 1.6% (seasonally adjusted) in November, more than in any other province.** Canadian sales continued to rise (+0.3%) for the sixth straight month. Across the nation, wholesaling of food (+0.6%) and automotive (+0.2%) products contributed the most to the overall rise. Lumber and building materials (-2.7%) and industrial machinery (-0.8%) partially offset the growth in sales in other industries. *Source: Statistics Canada*

- **Restaurant, caterer, and tavern receipts in British Columbia increased 2.6% in November, reaching $433.6 million (seasonally adjusted).** The equivalent receipts for Canada saw an increase of 0.7%. Drinking places in BC experienced a 5.8% jump in sales in November, whereas food services saw a more moderate increase of 2.4%. *Source: BC STATS*

The Nation

- **Employment in Canada soared (+3.7%) over the course of 2002, boosted by economic growth.** In December 2002, the proportion of the working-age population employed was 62.4%, the highest on record. As a result, the unemployment rate fell half a point over the year to 7.5%. The manufacturing industry was responsible for the largest increase in employment (+5.6%) adding 124,800 new jobs since December 2001. Health care and social assistance (+5.7%) employed 89,700 more workers, and educational services (+8.2%) hired on 79,300 new employees. *Source: SC, Catalogue 75-001-XIE*

- **The telecommunications industry contributed $6.48 billion (1997 constant dollars) to Canadian GDP, accounting for 2.6% of the total in the third quarter of 2002.** Wireless operating profits topped $300 million in the last quarter, remaining profitable in the first three quarters of 2002. The number of subscribers keeps increasing with 15.2% more people signing up for wireless services in the third quarter. *Source: SC, Catalogue 56-002-XIE*

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Lumber Battle Takes an Unexpected Turn

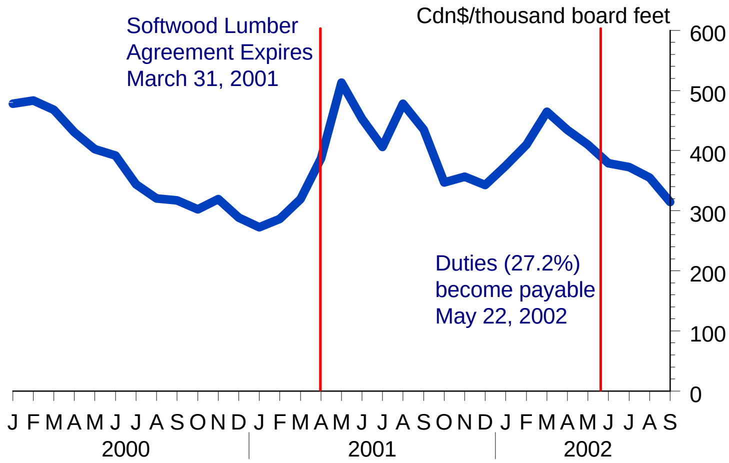
Canadian lumber producers have taken steps to minimise costs by operating at capacity and closing inefficient mills

The trade dispute between Canada and the United States over softwood lumber has taken an unexpected twist that has resulted in a drop in the price of lumber to its lowest point since the expiry of the Softwood Lumber Agreement. Despite the substantial penalties imposed on shipments of Canadian lumber, Canadian companies have not reduced the quantity of wood exported to the United States. Instead, they have ramped up production, often increasing to three shifts at more efficient mills, while shutting down those mills that are not cost effective. The goal of this strategy is to minimise unit costs and enable the companies to continue to operate in the face of punishing duties while retaining their customer base in the United States.

The result has been an oversupply of lumber on the market and consequently, a decline in price. The price of Western Spruce-Pine-Fir (SPF) has fallen to approximately Cdn$300 per thousand board feet, its lowest level in almost two years. At this price it is likely that many lumber producers are losing money after the duties are applied.

Prices fell all through 2000 and the first quarter of 2001, as supply outstripped demand. The low demand was likely due to several factors, including poor weather in the United States that delayed building, and possibly because customers were holding back, anticipating that the end of the Softwood Lumber Agreement (SLA) would bring a "wall of

Prices of Western SPF have been falling steadily since the implementation of American duties on Canadian lumber

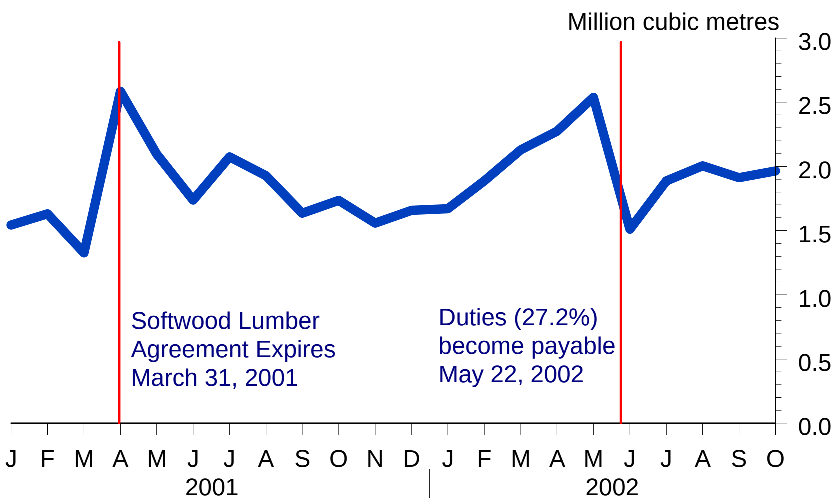


Source: Madison's Canadian Lumber Reporter

The over-supply of wood resulting from mills producing at capacity has led to falling prices for lumber wood" over the border with corresponding price declines. When this influx of lumber did not materialise and the building season began in the United States, the resulting increase in demand reacted with the tight supply and drove prices up. Prices then followed their usual seasonal pattern, falling in the winter, then increasing again in the spring. The current cycle of declining prices likely began during a duty-free gap resulting from a World Trade Organisation stipulation that provisional duties cannot be extended beyond a certain period. When this period ended, there was a short interval where Canadian lumber companies were able to ship wood to the United States duty free. Anticipating substantial duties effective May 22, the companies took advantage of the duty-free period and the wall of wood that was expected after the expiry of the SLA finally showed up a year later. Since then, prices have continued to drop as Canadian producers have kept volumes shipped to the United States at a steady level.

Quantities of softwood lumber shipped from BC to the US spiked when the SLA expired, probably because companies had been holding back shipments as their quotas were reached, and spiked again during the duty-free period prior to the imposition of combined duties of 27.2%; quantities shipped over the last few months are at or above volumes shipped through most of last year

Shipments of softwood lumber* from B.C. to the U.S. have not declined despite the imposition of substantial duties



*Excluding siding

It is difficult to predict how long Canadian manufacturers can continue to run full out with prices as low as they are. Already the smaller companies on both sides of the border are falling by the wayside. While the large operators have the option of concentrating their efforts in their most efficient mills and cranking up production to achieve economies of scale, for smaller producers this usually is not an option. Even for the larger firms, the cost of flooding the market will eventually (if it hasn't already) lead to losses as oversupply drives prices down further.

Smaller forest companies can't compete with the larger firms with prices as low as they are and are going out of business

One factor helping British Columbia companies is the access to pine beetle infested timber, which is generally assessed lower stumpage rates. The lower cost of harvest means the companies can better afford to sell the wood at lower rates.

Ironically, some of the modifications made by the larger Canadian companies to lower unit costs would not have been possible if not for the threat posed by American duties. Unions were far more amenable to concessions with regard to shift premiums and schedule flexibility than they would have been in absence of the duties.

Prices for softwood lumber will likely fall further as the usual winter downturn in demand occurs. Fears of a slowing US economy and housing market in 2003 could also add to price declines. Already some companies are scheduling temporary shutdowns of their mills. Although this is more or less normal procedure during the winter months, the number of layoffs this year could be far in excess of usual levels. With smaller producers unable to continue operating in the face of the combination of crippling duties and low prices, and larger companies consolidating their operations by closing inefficient mills, there are already a significant number of forest sector workers in British Columbia suffering unemployment. It is likely that the low price for lumber will result in more temporary shutdowns and further temporary layoffs over the coming months.

It is not just the Canadian companies that are feeling the pinch of lower prices for wood. Lumber producers in the United States are also experiencing shutdowns and layoffs as the duties they championed are now backfiring on them. If this situation is to continue, it could mean further industry consolidation such that small operators will be pushed out of the picture. The end result could be a leaner Canadian industry with only a handful of efficient companies that will be poised to become even stronger once the duties are eventually lifted. As anticipated, the cost of this dispute to the Canadian industry will be substantial. Somewhat more surprising is that the cost to the American industry may also be significant.

The costs of the softwood lumber dispute will probably be felt on both sides of the Canada/US border

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BC at a glance . . .

POPULATION (thousands)	Oct 1/02	% change on one year ago
BC	4,151.0	0.9
Canada	31,485.6	0.9
GDP and INCOME		
(BC - at market prices)	2001 Revised	% change on one year ago
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
TRADE ($ millions, seasonally adjusted)		% change on prev. month
Manufacturing Shipments - Nov	2,899	-0.7
Merchandise Exports - Nov	2,298	-5.4
Retail Sales - Nov	3,391	0.0
CONSUMER PRICE INDEX		
(all items - 1992=100)	Dec '02	12-month avg % change
BC	118.8	2.3
Canada	120.4	2.2
LABOUR FORCE (thousands)		
(seasonally adjusted)	Dec '02	% change on prev. month
Labour Force - BC	2,176	-0.3
Employed - BC	1,994	-0.2
Unemployed - BC	182	-2.2
		Nov '02
Unemployment Rate - BC *(percent)*	8.3	8.5
Unemployment Rate - Canada *(percent)*	7.5	7.5
INTEREST RATES (percent)	Jan 22/03	Jan 23/02
Prime Business Rate	4.50	3.75
Conventional Mortgages - 1 year	4.90	4.35
- 5 year	6.45	6.85
US/CANADA EXCHANGE RATE	Jan 22/03	Jan 23/02
(avg. noon spot rate) Cdn $	1.5320	1.6039
US $ *(reciprocal of the closing rate)*	0.6530	0.6240
AVERAGE WEEKLY WAGE RATE		
(industrial aggregate - dollars)	Dec '02	% change on one year ago
BC	676.45	5.1
Canada	651.35	1.6

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.bankofcanada.ca

Released this week by BC STATS

- Migration Highlights, 3rd Quarter 2002
- Consumer Price Index, December 2002
- Exports, November 2002

Next week

- Immigration Highlights, 3rd Quarter 2002
- Business Indicators, January 2003
- Current Statistics, January 2003

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