

- The number of regular EI recipients rose 2.9% (seasonally adjusted) in April
- Infant mortality was 3.7 per 1000 live births in 2000
- Domestic Canadian tourism in BC amounted to \$3.5 billion in 2001

Employment Insurance

- The number of British Columbians receiving regular Employment Insurance (EI) benefits rose 2.9% (seasonally adjusted) in April. Across Canada, the number of regular benefit recipients increased 1.3%. Provincially, Ontario had the largest increase in regular EI recipients (+3.1%), while neighbouring Manitoba had the largest decline in recipients (-1.3%).

In BC, 61.1% of regular benefit recipients had been collecting EI for 14 weeks or more. At the national level, 66.0% of recipients had been collecting EI for 14+ weeks.

Source: SC, Employment Insurance Statistics

- Regular EI beneficiaries represent only 39% of BC's unemployed workforce. Adding in special benefit recipients—such as those claiming sickness, maternity, or parental benefits—brings effective coverage of the EI program to only 58% of unemployed workers in BC. *Source: SC, Employment Insurance Statistics and LFS data*

Government Finance

- BC's provincial government deficit was \$3.169 billion for the fiscal year ending March 31st, 2003. This represents 11.2% of government expenditures.

Income tax revenues, down 30.9%, were the driving factor in the deficit. Personal income tax revenues dropped 22.6%, while corporation income tax receipts fell 59.8%. Together, this amounts to \$2.1 billion in lost revenue.

Partly offsetting the decline in income tax revenue was a 42.2% increase in Medical Services Plan premiums, as well as a notable rise in transfer payments from the federal government (+19.2%). Provincial Sales Tax

(+6.8%) and property tax (+4.0%) revenues also moved upward.

On the expenditure side, spending on health care reached \$10.7 billion, up 6.2%. Education spending was unchanged (+0.3%), while the budget for social services fell 9.6%. Overall, spending was unchanged from last year (+0.1%).

Source: BC Ministry of Finance

Education

- In BC, 49% of high school graduates do not go directly into a post-secondary degree program (such as a university, community college, trade/vocational program, etc). By age 20, 30% of high school graduates had still not taken up any post-secondary studies. This is almost twice the national rate of non-enrolment (17%). In Quebec, where the CE-GEP system facilitates post-secondary training, very few choose not to continue their studies (6%).

Nationally, enrolment in post-secondary training is lower among males, and among those who have a child. As well, young people with parents who have low educational attainment are less likely to continue with post-secondary schooling.

Source: SC, Catalogue no. 81-595-MIE

Housing

- The BC housing market is headed for strong growth for 2003 and into the next year, according to forecasts by the Credit Union Central of BC. Residential housing sales are forecast to rise 8% in 2003 and 5% in 2004. Average house prices are expected to rise at least 6% in both years. In the rental market, vacancy rates are forecast to rise from 3.3% in 2002 to 4.1% in 2004, as tenants make the

Did you know...

42% of Canadians find telephone surveys annoying, according to a recent phone survey

move to home ownership.

Source: Credit Union Central of British Columbia

Vital Statistics

- **The infant mortality rate in BC was 3.7 per 1000 live births in 2000.** This is well below the national average of 5.3 per 1000 live births. Provincially, the highest infant mortality rates are in the prairies—Manitoba (6.5), Alberta (6.6) and Saskatchewan (6.8). The lowest rates are in Eastern Canada—particularly PEI (3.5) and New Brunswick (3.5). There is a strong geographic pattern of rising infant mortality moving from east to west in Canada, though BC is a notable exception.

Source: SC, Catalogue no. 84F0001-XPB

Tourism

- **Domestic Canadian tourism in BC amounted to over \$3.5 billion in 2001.** Average spending by Canadian tourists in BC was \$201 per visit—the highest in Canada—while the province hosted 15.1 million tourist trips (10% of the Canadian total).

Most of the Canadian tourism in BC is done by British Columbians themselves. Only 17% of tourist trips in BC were from out of province. This, nevertheless, is higher than the Canadian average—13% of all domestic Canadian trips are inter-provincial. PEI is the only province where most trips (67%) are from out of province.

Source: SC, Catalogue no. 87-212-XIE

The Nation

- **The conference Board of Canada has downgraded its economic growth forecast to 1.9% for Canada in 2003.** This spring, the Board forecast economic growth of 2.8%. The surge in the value of the Canadian dollar—which has battered Canadian exports—was the key factor in the revision. For 2004, the Board predicts a more robust growth rate of 3.2%.

Source: Conference Board of Canada

- **Both the demand and supply of financing for small and medium-sized business dropped in 2001.** Small and medium-sized businesses applied for \$38.9 billion in debt financing in 2001, down 28% from the year before. Lenders approved only \$28.3 billion in financing, 36% less than in 2000. Thus the

approval rate was 73% in 2001, compared with 82% in 2000.

Relatively large firms were more likely to be approved for financing in 2001. Firms with 100 to 499 employees (the largest in the survey) had a 91% approval rate. Approval rates were notably lower for firms with one to four employees (80%) and firms with no employees (77%).

Source: Statistics Canada

Culture

- **In the Canadian market for films and videos, foreign productions overwhelmingly dominate.** Foreign movies accounted for 98.1% of distribution revenues in the movie theatre market in 2000/01, with Canadian movies making up the balance of 1.9%. Foreign productions have a similar share of the home video market (97.1%).

The TV and Pay-TV markets have considerably more Canadian content, but foreign productions still dominate. In the TV market, foreign productions take up 84.3% of revenues, while in Pay-TV, the foreign share is 76.5%.

At the same time, there is a strong export market for Canadian-made films and videos. In 2000/01, exports represented 64% of revenues from Canadian productions. This is up substantially from the early 1990s, when exports made up about one-third of revenues. Canadian works, it seems, are increasingly popular abroad.

Source: Statistics Canada

- **Advertising revenues of private radio broadcasters in Canada stood at \$1.08 billion in 2002, an increase of 13% over 1999.** This pushed the before-tax profit margins of private radio stations to 14.7%—up from 8.9% in 1999. FM stations were highly profitable, earning a 22.9% rate of profit, while AM stations suffered significant losses (-7.3%).

Source: SC, Catalogue no. 56-001-XIE

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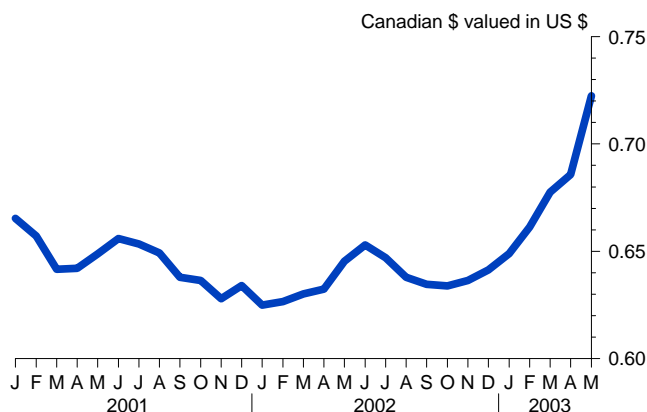
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Exports and the Rising Dollar

The rapid appreciation of the Canadian dollar against its American counterpart has sparked concern for Canadian exporters. The rising dollar is a worry for exporters because: (a) where goods are priced in American dollars, it means the Canadian producers are receiving less for their goods when the revenue is converted to Canadian currency; and (b) where goods and services are priced in Canadian dollars, Canadian goods and services are more expensive to American buyers, so demand for goods and services from BC and the rest of Canada may fall, which could result in a significant decline in exports. Approximately 68% of BC origin goods exports and 87% of all Canadian commodity exports were shipped to the United States in 2002, which demonstrates the importance of that market.

In 2002, the US was the destination for 68% of BC's commodity exports and 87% of Canada's

The rapid appreciation of the Canadian dollar is causing concern for exporters



The rapid rise in the Canadian dollar from about 63 cents US in January to over 73 cents in just four months has exporters worried

While it is true that a higher-valued Canadian dollar will negatively affect the revenue of Canadian exporters, this does not necessarily mean that it will have a detrimental effect on their bottom line. Whether or not an exporter's net income is affected by the rising dollar depends on more than just its revenue stream. For example, it was recently reported that the sudden increase in the Canadian dollar has been a windfall for some BC forest companies.¹ The reason is that they have significant debt denominated in US dollars. This means that in the same way that American consumers have to pay more for Canadian products because it takes more American currency to buy Canadian dollars, these companies have to pay less in debt charges because it takes fewer Canadian dollars to buy American currency.

Those exporters with US-denominated debt may actually be benefiting from a higher Canadian dollar

¹ For example, see "Rising loonie helps debt but will hurt lumber," *Vancouver Sun*, May 8, 2003, p. F3.

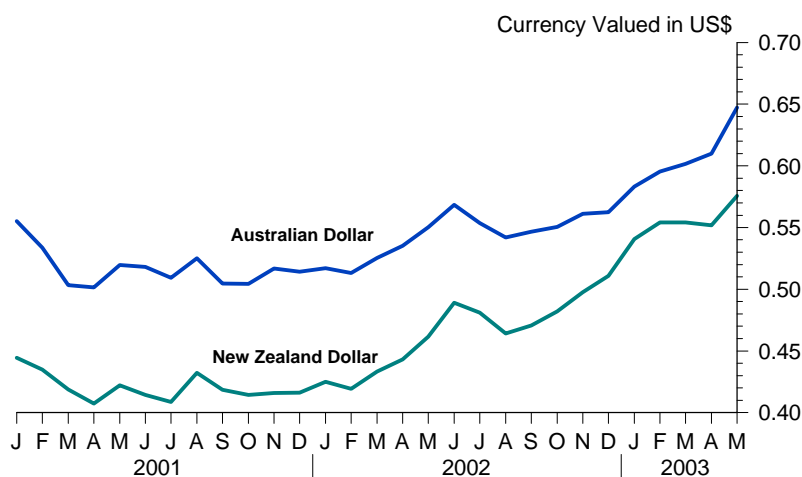
Another possible benefit of the appreciating dollar is in terms of lowering the cost of production. In cases where manufacturing firms import significant amounts of the material inputs to their products, or machinery and equipment used in production, the cost savings from these inputs could at least partially offset the reduction in sales revenue.

Unfortunately, in British Columbia, much of what is exported is based on resource materials extracted within the province or is in the form of services, such as tourism. For these exports there is very little, if any, input material that is imported from elsewhere. For these exporters, unless they hold US-denominated debt, the rising dollar is problematic.

The service sector is possibly the most susceptible to severe fluctuations in the dollar. One example of a service sector that has benefited from a low Canadian dollar is the film industry. The price advantage afforded American filmmakers due to the favourable exchange rate has resulted in Canadian locations, particularly in BC and Ontario, attracting major film projects that may have otherwise been filmed in the United States, or in the case of some smaller budget projects, not been filmed at all. The strong growth in these so-called “runaway” productions has raised the ire of many of those working in the American film industry that believe American jobs are being exported to Canada.² The rising dollar may threaten some of this production in Canada, although it will likely have to appreciate considerably further to cause significant harm to the Canadian industry, particularly since the currencies of countries such as Australia

Exporters with significant material inputs imported from the US may achieve cost of production savings that will at least partially offset reduced sales revenues

Other currencies are appreciating against the US dollar as well



The Canadian dollar is not the only currency appreciating against the US dollar

² For some background on this issue, see the article ‘Is “Runaway” Film Production in Canada Harming the U.S. Industry?’ in the February 2002 issue of *Exports*.

and New Zealand, which are among Canada's main competitors in the film sector, are also appreciating against the US dollar. Other benefits of filming in Canada, such as qualified film crews, tax incentives, unique locations, common language and proximity to American post-production facilities should maintain the Canadian film industry's viability regardless of fluctuations in the exchange rate.

Tourism is another service sector that could suffer poorer earnings as a result of the rising dollar. After the terrorist attacks of 9/11 revenues from many tourism-related industries, particularly air travel, took a significant hit. For Canadian tourist destinations, the low Canadian dollar, combined with the relative proximity to the United States, helped attract many of those US tourists that had become reluctant to travel long distances. Perhaps even more importantly, the exchange rate convinced many Canadians to stay at home and travel within their own country. As the Canadian dollar rises and the spectre of terrorism begins to fade in people's minds, Canada could lose some of its lustre as a tourist destination for both Americans and Canadians alike and this could hurt tourism revenues.

There is some statistical evidence to support the idea that trade in services is more closely tied to fluctuations in the exchange rate. Based on a simple statistical regression of British Columbia service exports in *constant dollars* (i.e., removing the effects of inflation and exchange rates) against the exchange rate and a simple time trend, the exchange rate was shown to be a significant determinant of volume of service exports. On the other hand, for trade in goods, for BC, the exchange rate was not a significant determinant of export volumes.³

This does not necessarily imply that the exchange rate has no effect on BC commodity export volumes. It could mean that the general growth trend in exports dwarfed any exchange rate effects, or that the significance for some goods is concealed in the aggregate. For commodities like natural gas and electricity, for example, the exchange rate is unlikely to effect demand. Sales of these energy products are limited more by supply than demand. On the other hand, sales of machinery and equipment, for which there are more likely to be substitutes within the United States, are much more susceptible to exchange rate effects.

The tourism sector and other services could be hurt by a higher dollar

Regression equations:

$$SE = 4904 - 5092 * ER + 147 * T$$

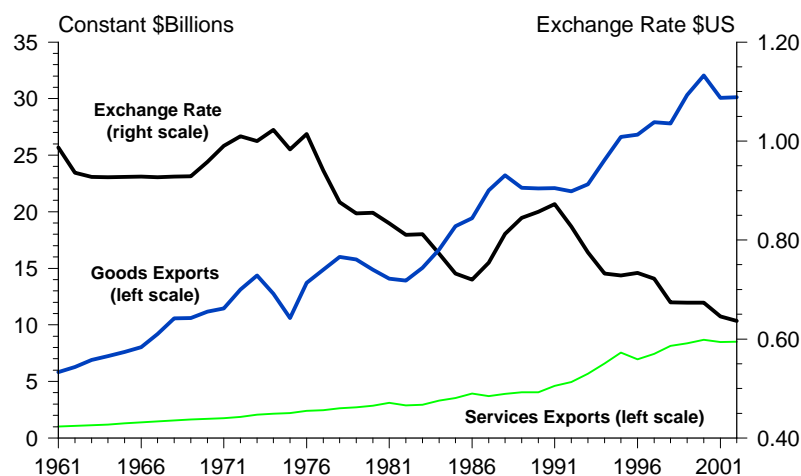
$$GE = 5990 - 1587 * ER + 593 * T$$

Where SE=Services Exports,
GE=Goods Exports, ER=Exchange Rate, T=Time Trend

(See footnote for statistics)

³ The regression using annual exports of services from BC from 1961 to 2002 had an adjusted R-squared of 90% and t-values of -2.4 for the exchange rate variable (in \$US) and 7.4 for the time trend variable. For goods exports, the R-squared was 96%, with t-values of -0.4 for the exchange rate and 14.8 for the trend variable.

Exports of both goods and services have grown steadily over the last few decades, but it is likely that only a portion of that growth was due to the falling dollar



Note: Export data presented here is from the Provincial Economic Accounts

There has been strong growth in goods and services exports over the last 40 years, but the value of the Canadian dollar is likely responsible for only a small portion of that growth

In the case of most resource products, prices are in American dollars, which means the changing exchange rate should not influence demand, but could have an effect on whether or not the supplier can afford to sell at that price. For instance, if a Canadian company has higher production costs than an American competitor, a low-valued Canadian dollar could still allow it to sell at the market rate (assuming most of its costs, such as labour and capital inputs, are in Canadian dollars). However, if the dollar appreciates enough, at some point the higher production costs will not be cancelled out by the exchange rate difference and the Canadian company will find itself in a situation where it can no longer afford to compete with the more efficient competitor.

For most resource sectors, rising commodity prices will help offset the higher Canadian dollar, at least to some extent, but for lumber producers it is a different story. The rising dollar combined with the ongoing dispute with the United States is creating a double whammy for British Columbia's lumber producers, or perhaps even a triple whammy. The higher value for the Canadian dollar means Canadian exporters are already taking a hit, because with their goods priced in US dollars, they are getting less when it is converted to Canadian currency. On top of that they have to pay a 27% duty on shipments to the US. To make matters even worse, Canadian mills have been trying to operate at full capacity to reduce costs in order to continue running in the face of these substantial duties, but this has resulted in an oversupply of wood on the market. Consequently, prices for lumber have fallen and are not likely to rise unless the excess supply is used up.

The rising dollar is exacerbating problems caused by the softwood lumber dispute

While it is beyond the scope of this report to determine with any precision the effect that the exchange rate has had on exports of goods and services from BC, it is likely that the overall effect is reasonably small and transitory, although for some industries, the effect may be significant. Service-producing industries, like tourism, may be more prone to suffering from a higher valued dollar and some goods-producing industries may be more affected than others. However, there are other factors, such as commodity prices, tariffs, global economic conditions, and so on that are likely far more important in terms of their effect on BC exports and BC exporters.

In fact, there may be some disadvantages to exporters to having a low Canadian dollar. For example, when the dollar is low it is more expensive to import new cutting-edge technologies. This, combined with an “exchange rate subsidy,” in effect, may cause Canadian companies to become complacent, allowing productivity to decline and investment in new capital to lag. The higher Canadian dollar may push these companies to become more efficient and accelerate investment in new technologies.

There are some disadvantages to a low Canadian dollar for exporters

A higher value for the Canadian dollar may not in itself be a threat to the viability of Canadian exporters, but rather, it is the rate of appreciation that is causing problems. The rapid rise is not giving Canadian companies the time to adjust. If the rise occurred at a slower pace, Canadian exporters could make the necessary capital improvements and still maintain profitability.

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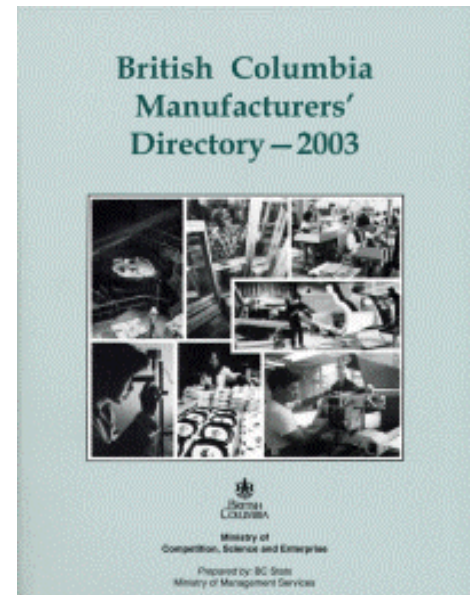
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BC at a glance . . .

| POPULATION (thousands) | | % change on one year ago |
|---|--------------|--------------------------|
| | Apr 1/03 | |
| BC | 4,162.5 | 0.8 |
| Canada | 31,559.2 | 0.8 |
| GDP and INCOME | | % change on one year ago |
| <i>(BC - at market prices)</i> | 2002 Prelim. | |
| Gross Domestic Product (GDP) (\$ millions) | 134,365 | 2.7 |
| GDP (\$ 1997 millions) | 126,141 | 1.8 |
| GDP (\$ 1997 per Capita) | 30,459 | 0.8 |
| Personal Disposable Income (\$ 1997 per Capita) | 19,445 | -0.2 |
| TRADE (\$ millions, seasonally adjusted) | | % change on prev. month |
| Manufacturing Shipments - Apr | 2,792 | -0.6 |
| Merchandise Exports - Apr | 2,439 | -5.9 |
| Retail Sales - Apr | 3,405 | 1.1 |
| CONSUMER PRICE INDEX | | 12-month avg % change |
| <i>(all items - 1992=100)</i> | May '03 | |
| BC | 120.4 | 2.6 |
| Canada | 122.0 | 3.2 |
| LABOUR FORCE (thousands) | | % change on prev. month |
| <i>(seasonally adjusted)</i> | May '03 | |
| Labour Force - BC | 2,193 | 0.2 |
| Employed - BC | 2,005 | -0.4 |
| Unemployed - BC | 189 | 6.5 |
| | | Apr '03 |
| Unemployment Rate - BC (percent) | 8.6 | 8.1 |
| Unemployment Rate - Canada (percent) | 7.8 | 7.5 |
| INTEREST RATES (percent) | Jul 2/03 | Jul 3/02 |
| Prime Business Rate | 5.00 | 4.25 |
| Conventional Mortgages - 1 year | 4.65 | 5.55 |
| - 5 year | 6.10 | 7.25 |
| US/CANADA EXCHANGE RATE | Jul 2/03 | Jul 3/02 |
| <i>(avg. noon spot rate)</i> Cdn \$ | 1.3363 | 1.5290 |
| US \$ <i>(reciprocal of the closing rate)</i> | 0.7488 | 0.6529 |
| AVERAGE WEEKLY WAGE RATE | | % change on one year ago |
| <i>(industrial aggregate - dollars)</i> | May '03 | |
| BC | 684.33 | 2.1 |
| Canada | 662.79 | 1.9 |
| 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 | | |

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