BRITISH COLUMBIA

BC STATS

Ministry of
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Infoline

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- **Exports of BC products slip 4.2% in November, as shipments to the US and overseas decline**
- **Housing starts in urban centres up nearly a quarter in 2004**
- **New vehicle sales fall 2.5% in November**

The Economy

- **Exports of BC products slid again in November, dropping 4.2% (*seasonally adjusted*).** The decline reflected lower shipments to both US (-4.3%) and overseas (-4.0%) destinations. US-bound forest product exports fell 6.6% between October and November, while exports of manufactured products such as industrial & consumer goods (-7.7%) and machinery & equipment (-0.5%) were also weak. However, the value of energy products shipped to the US advanced (+1.4%) for the third month in a row. Overseas exports slumped in November, primarily because of a drop in the value of forest product shipments (-9.2%). Exports of machinery & equipment to overseas destinations were down 4.7%, but overseas markets for BC's energy (+1.1%) and agriculture & fish (+4.5%) products were stronger.

  Canadian exports sagged (-2.9%) in November, as shipments to both the US (-2.1%) and other destinations (-6.2%) fell.

  Data Source: Statistics Canada & BC Stats

- ***Unadjusted* figures show that exports remain well above 2003 levels.** In BC, exports were up 13.8% from November 2003, with five other provinces also posting double-digit increases. Alberta (+32.2%) led the provinces, partly due to a 44.3% increase in energy exports. Overall, the value of Canadian exports rose 10.1%.

  Data Source: Statistics Canada

- **BC sawmills and planing mills increased their production 9.3% during the first ten months of 2004, compared to the same period of 2003.** Both Coastal (+4.6%) and Interior (+10.2%) mills ramped up their output.

  Data Source: SC, Catalogue 35-003-XIB

- **The number of new vehicles driven off car lots in the province dropped 2.5% (*seasonally adjusted*) between October and November.** New vehicle sales were down in every region of the country except Quebec (+0.8%). Nationally, the number of new vehicles sold in November fell 3.1%.

  Data Source: Statistics Canada

- **The value of building permits issued by BC municipalities bounced back (+37.5%, *seasonally adjusted*) in November after dropping off in the previous month.** Permits for non-residential projects more than doubled (+150%), with particularly strong growth in planned spending on industrial (+367%) and commercial (+320%) projects. The new housing boom appears set to continue, with permits for residential projects advancing 14.9% in November. In Abbotsford, the total value of permits doubled (+100%) between October and November, while Vancouver (+30.0%) and Victoria (+9.1%) posted solid, but more modest, gains.

  Nationally, the value of permits advanced 9.3% in November. Permits were down in Ontario (-3.3%) and most of Atlantic Canada, but this was offset by strong growth in other parts of the country.

  Data Source: Statistics Canada

- ***Unadjusted* data show the value of permits up 25.1%, year-to-date, in BC during the first 11 months of 2004.** The three largest regions posted increases ranging from +10.3% in Vancouver Island/Coast to +30.4% in Mainland/Southwest. However, planned spending was flat in both Kootenay (+0.4%) and Cariboo (+0.4%), and plunged 53.2% in the North Coast region.

  The increase in the total value of permits was largely driven by the residential sector (+33.5%). Plans for non-residential construction projects were not as robust. Overall, permits were up 4.8% year-to-date, reflecting strong growth in Mainland/Southwest (+20.4%), and in northern regions of the province (+140% in Northeast,

Report Lumber dispute big issue for small business

Did you know...

Prince Rupert is the wettest city in Canada, with an average precipitation of 2,594 mm. That's almost ten times as much as in Whitehorse (267 mm), the country's driest city.

and +32.7% in Nechako).

Data Source: Statistics Canada & BC Stats

- **There were 155,230 businesses with employees in BC during the third quarter of 2004.** Since the beginning of the decade, the number of employer businesses in BC has risen 4.4%, slightly more than the national average (+3.1%), but considerably less than in Alberta, where there were 11.8% more employer businesses than in the first quarter of 2000. Ontario (+6.3%) is the only other province where employer businesses have grown faster than the national average. Nationwide, there were 1,022,140 employer businesses in the third quarter of 2004.

Data Source: Statistics Canada

Housing

- **Housing starts in the province ended the year on a strong note (at the highest December level since 1993), although they were unchanged from November.** Starts were down in most parts of the country, falling 3.4% overall. Nova Scotia and New Brunswick, both of which posted hefty gains of more than twenty percent and BC, where starts were flat, were the only provinces to escape the generalized downturn.

Data Source: CMHC

- **During 2004, work began on 30,884 housing units in urban areas of the province.** Starts were nearly a quarter (+24.9%) higher than in 2003. Robust activity in the Vancouver (+24.4%) and Victoria (+17.7%) markets contributed to the strong growth, but it also reflected the effects of a housing boom throughout most of BC. Starts were up a whopping 89.3% in Prince George, and rose 47.3% in the remaining urban areas (excluding Abbotsford (+2.6%) and Kelowna (+4.1%)). Canadian starts posted a 17-year high of 233,000, an increase of 6.7% over the 2003 level. BC was the only region where housing starts increased more than twenty percent during 2004.

Data Source: CMHC

- **The cost of new housing in BC's two largest cities continued in climb in November, rising 5.1% (year-over-year) in Vancouver, and 6.7% in Victoria.** Land prices remained an important inflationary factor in Victoria, but in Vancouver, the increased cost of new housing was largely due to higher prices for new dwellings. Nationally, the cost of new housing advanced 5.3% during the twelve-month period ending in November. New housing costs rose in every metropolitan area, with Winnipeg (+8.1%) posting the largest increase.

Data Source: Statistics Canada

International Tourism

- **During 2003, international tourism was hit by a number of external shocks that caused many would-be travellers to stay closer to home**. Total international tourism fell 1.2%, with 694 million tourist arrivals recorded worldwide. This compares to 703 million in the previous year. The regions hardest hit by the disruptions were Asia & the Pacific (-9.3%) and the Americas, which saw a 2.2% drop in visitors. Despite conflicts, travel to the Middle East (+10.1%) and Africa (+4.8%) increased significantly. Travel to Europe (+0.4%) was virtually unchanged.

Canada welcomed 38.9 million foreign visitors in 2003, 7.3 million of whom entered the country via BC. Most were from the US (35.5 million visitors to Canada, and 6.1 million entries to BC). New York (1.8 million), Michigan (1.6 million) and Washington (1.5 million) were the main sources of US visitors to Canada in 2003. California (866,000) was ranked fourth among the states.

Data Source: SC, Catalogue 66-201

The Canada/US Output Gap

- **Canada's per capita GDP averaged just 83% of that in the US between 1994 and 2002, but the difference is only partly explained by lower labour productivity (94% of that in the US) in this country.** It is estimated that about two-thirds of the output gap can be attributed to differences between the work effort of Canadians and Americans. Compared to our American neighbours, Canadians were less likely to be employed (our job/population rate was 94% of that in the US). At the same time, Canadians who had jobs spent fewer hours at work (95% of the US average for this period).

Data Source: SC, Catalogue 11-624-MIE No. 9

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Infoline Report

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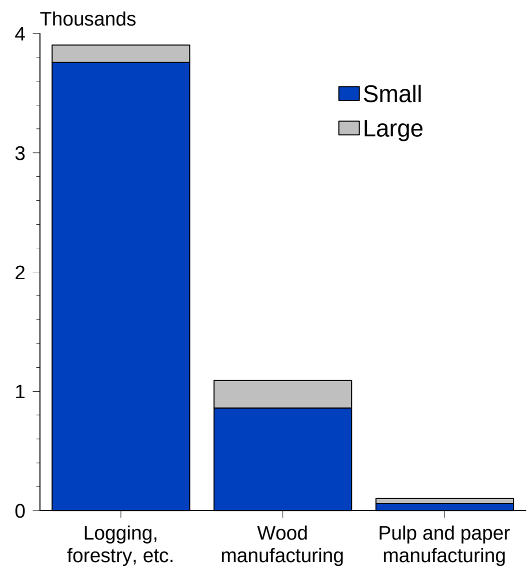
Lumber Dispute Big Issue for Small Business

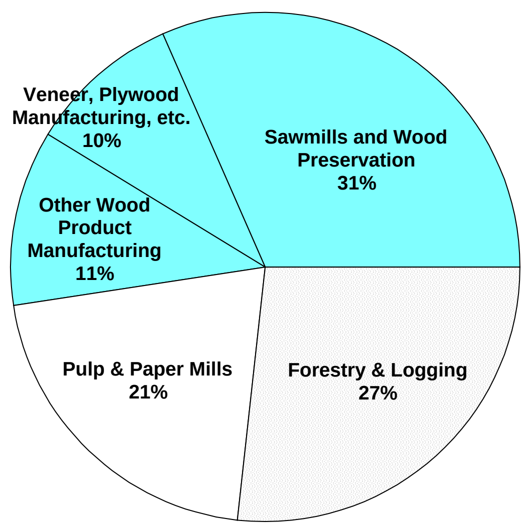
Small businesses play a large role in BC's forest sector. By far the majority of forest sector firms operating in BC are establishments with fewer than 50 employees, which is the definition of a small business.[1] Logging and forestry operations (i.e., silviculture and support activities for forestry) in particular are dominated by smaller companies, but wood manufacturing facilities are more often small businesses as well.

The forest sector is dominated by small firms, particularly in logging and forest services



Although there are more small businesses in number in the forest sector, the larger facilities employ the majority of the workers, at least in the manufacturing operations. In logging, forestry and support enterprises, where small businesses comprise 96% of all firms, only 57% of the employees work in those businesses. Although there are no details readily available by size of business for forestry-specific manufacturing, the percentage of all manufacturing employees working in small businesses is only 32%, despite the fact that small businesses make up 89% of all manufacturing establishments in the province. Enterprises producing wood, pulp and paper products comprise about 14% of all BC manufacturing firms, but employ 28% of manufacturing workers. This indicates that the majority of manufacturing employees in the forest sector in BC work for larger firms.

The majority of employment in the forest sector is in wood manufacturing



Note: Employment is for both small and large businesses

Of these forest sector workers, more than half (52%) are involved in making wood products. Forestry and logging operations employ 27% and pulp and paper mills employ 21% of forest sector workers.

[1] Business counts and employment numbers expressed in this report exclude self-employed individuals.

With so many small businesses in BC involved in logging and wood manufacturing activities, the current dispute with the United States over softwood lumber is a major issue of concern for the small business sector in this province. In a poll of its members in June 2003, the Canadian Federation of Independent Business found that 33% of BC's small businesses felt their business was significantly harmed by the lumber dispute and a further 37% were slightly harmed.[2]

The dispute stems from allegations on the part of American lumber manufacturers that Canadian wood production is subsidized. As a result of the complaint from the American lumber lobby, the US Department of Commerce investigated and came to the decision that there was a subsidy amounting to 18.79%. In addition, they felt that Canadian companies were dumping their product in the US at less than the cost of production and slapped lumber imports from Canada with an additional 8.43% anti-dumping duty. The combined duty of 27.22% has had a significant impact on BC's lumber business.

In an effort to remain profitable despite the imposition of the punishing duties, larger firms attempted to rationalize their operations by shutting down inefficient mills and ramping up production at other mills to gain efficiencies and benefit from economies of scale. While this was a successful strategy for some of the larger lumber companies in the province, it was not an option available to many small business operations with only one small mill and a limited amount of wood supply. Many of these smaller operations simply could not operate with a duty of that magnitude and were forced to shut their doors.

Canada has claimed from the beginning of the dispute that the allegations of subsidization and dumping are false and has brought the issue before several panels in both the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA). While the results of these appeals have been somewhat mixed, on the whole the decisions have supported Canada's position and rejected the contention that Canada's softwood lumber exports are harming the US industry.

Both the WTO and NAFTA have found that the US Department of Commerce has made errors in calculating both the countervailing and anti-dumping duties. More importantly, both tribunals also found that imports of Canadian lumber were not harming the American industry. This is a crucial decision for Canadian lumber producers, because under US and international law, if there is no injury to domestic industry, duties cannot be imposed. This means that the issues of whether or not Canadian lumber is subsidized or dumped are moot.

The United States has appealed each decision by both the WTO and NAFTA, but in each case, the findings were the same: Imports of Canadian lumber have not caused injury to the American industry. In the second remand of the injury question, the NAFTA panel used some harsh language to describe the actions of the US International Trade Commission (ITC—the body responsible for determining whether or not an American industry is injured by imports and therefore, that those imports should be subject to duties determined by the Department of Commerce), suggesting that to allow the process to continue with yet another remand would cause the process to "become a mockery and an exercise in futility." The panel directed the ITC to find that Canadian lumber does not injure the US industry. The ITC reluctantly abided by the ruling, but reversed itself less than three months later in responding to a WTO finding, once again claiming that Canadian lumber poses a threat to American producers. The reversal coincided with the application for an extraordinary challenge of the NAFTA panel's decision. This challenge is the last avenue of appeal in the NAFTA process. If the United States loses this appeal, the process should end. The duties should be removed from Canadian lumber and the monies collected so far should be returned.

[2] Mallett, Ted. Quarterly Business Barometer, 2003 No. 2, Canadian Federation of Independent Business (June 2003).

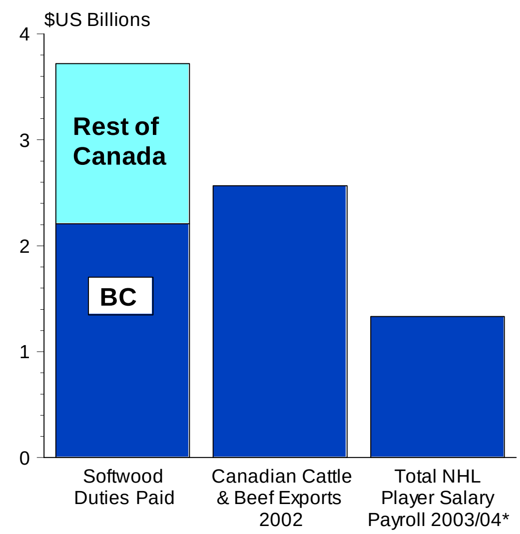
However, the US government has hinted that it has no intention of returning the duties, suggesting that it has no obligation to do so. West Fraser Timber Company is already in a battle to have a portion of its duties returned after the US Department of Commerce revised the company's anti-dumping duty to zero, but refused to refund duties already paid. This does not augur well for the return of the approximately $US 3.7 billion in duties paid so far.[3]

To put that figure into perspective, in 2002, prior to the discovery of a cow infected with BSE that prompted the closure of the US border to Canadian cattle and beef, the value of total Canadian exports of cattle and beef products amounted to just under $US 2.6 billion. The softwood lumber duties deposited with US Customs are almost triple the total National Hockey League player salary payroll for the 2003/04 season.[4] About $2.2 billion of the duties collected so far have come from BC, which alone could cover the entire player payroll of the NHL and then some.

With this much money at stake, it is understandable that Canadian lumber companies are seeing red when they hear hints that the money won't be returned even if the duties are found to be illegal. The recent introduction of a bill by Montana Senator Max Baucus to distribute the funds to US companies using legislation that has already been deemed illegal by the WTO (commonly known as the Byrd Amendment) has sparked even more outrage. BC's Minister of Forests, Mike de Jong, suggested that the bill could start a trade war if it is passed, stating, "You can't steal $4 billion from a country and not expect that there would be repercussions."[5]

The Canadian government has already prepared a list of commodities subject to possible retaliation if the Byrd Amendment is not repealed. The WTO has authorized Canada and seven other WTO members (Brazil, Chile, the European Union, India, Japan, Mexico and South Korea) to retaliate up to 72% of the annual level of duties collected and paid out to US companies. For Canada, this amount is relatively small (approximately $17 million worth of duties have been disbursed to American producers between 2001 and 2003) [6]; however, if the softwood lumber duties are distributed, that value will soar. While it is unlikely that Baucus' bill will ever be passed and odds are that the Byrd amendment will go the way of the Dodo, it is quite possible that Canada will have to go to the courts once again to get the lumber duties returned.

Softwood duties put in perspective



*Source for NHL payroll: USA Today (excludes incentives and salaries of players appearing in fewer than 30 games)

[3] This is an estimate to the end of December based on value of exports shipped to the US. It uses the average dumping duty of 8.43% to determine the dumping portion, although some individual firms may have higher or lower duties.

[4] The figure used for NHL player payroll excludes incentives and salaries of players playing in fewer than 30 games, so technically it is an understatement of the true player payroll; however, it is highly doubtful that including these costs would come anywhere close to doubling the $US 1.3 billion amount, let alone tripling it.

[5] As quoted in "Softwood dispute could prompt trade war: B.C. minister," CBC News Online (www.cbc.ca), Nov. 15, 2004.

[6] "Notice seeking comments on possible trade retaliation against the United States in Response to that country's failure to repeal the *Continued Dumping and Subsidy Offset Act*," Canada Gazette Part I, Extra Vol. 138, No. 19, Nov. 23, 2004, p. 2.

It was thought that after an administrative review of the duties, the US Department of Commerce would halve the 27.2% duty rate on shipments to the US. However, in a move that has further infuriated the Canadian industry, they made a much smaller revision. In a preliminary decision back in June, the Commerce Department proposed reducing the combined duties to 13.2%, but the final duty, as announced on December 14, has come in at 21.21%. Although anti-dumping duties were cut in half to 4.03%, the countervailing portion was revised to 17.18%, down only slightly from 18.79%.

In order to come up with the higher countervailing duty, the US Department of Commerce applied a different method to calculate duties for BC using a cross-border pricing model that both NAFTA and the WTO have already ruled is illegal.[7]

The application of yet another methodology to arrive at a number not significantly lower than the existing duty had Minister de Jong suggesting, "It increasingly looks as if they come up with a number and then employ a methodology to try and get to that number."[8] John Allan, the president of the BC Lumber Trade Council, echoed the forest minister's frustration, stating, "The whole Commerce methodology and process is a bankrupt one. It is designed, as I've said in the past, to grind you into dust. I'm mad as hell."[9]

While it is thought that this move is meant to push the Canadian side back to the negotiating table, those in the Canadian industry, including Allan, have suggested that the opposite is more likely to occur. "I think cutting a deal is just the wrong thing to do right now, given these rates, in the sense that the Americans have basically stuck it to us," he said.[10] Talk like that suggests that the Canadian contingent is more resolved than ever to proceed via the litigation route, rather than seeking a negotiated settlement.

Whatever happens, this long-running dispute has already had a dramatic impact on the structure of BC's forest sector and when the sawdust finally settles it is likely that small businesses will play a different role in forest-based industries compared to the period before this round of the dispute began. They will probably be less involved in sawmilling operations and more oriented toward niche markets and specialized products.

[7] The BC-specific countervailing rate is 22.69%; however, this does not mean that BC companies will pay higher duties. Rather, the BC rate is used to calculate the average Canadian rate (17.18%), which is then applied to all Canadian lumber exports to the US.

[8] As quoted in: Luke, Paul, "U.S. delivers softwood shock," *The Province*, Dec. 15, 2004, p. A35.

[9] Ibid.

[10] As quoted in: Morton, Peter and Greenwood, John, "U.S. lumber move 'shocking,'" *Victoria Times-Colonist*, Dec. 15, 2004, p. D1.

Infoline

Jan 14, 2005

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BC at a glance . . .

POPULATION (thousands)	Oct 1/04	% change on one year ago
BC	4,209.9	1.1
Canada	32,040.3	0.9
GDP and INCOME *(BC - at market prices)*	2003	% change on one year ago
Gross Domestic Product (GDP) *($ millions)*	145,550	5.2
GDP *($ 1997 millions)*	133,600	2.5
GDP *($ 1997 per Capita)*	32,175	1.6
Personal Disposable Income *($ 1997 per Capita)*	19,758	0.3
TRADE ($ millions, seasonally adjusted)		% change on prev. month
Manufacturing Shipments - Oct	3,567	-2.3
Merchandise Exports - Nov	2,564	-4.2
Retail Sales - Oct	4,022	0.6
CONSUMER PRICE INDEX *(all items - 1992=100)*	Nov '04	12-month avg % change
BC	123.7	2.0
Canada	125.7	1.8
LABOUR FORCE (thousands) *(seasonally adjusted)*	Dec '04	% change on prev. month
Labour Force - BC	2,246	0.4
Employed - BC	2,110	0.8
Unemployed - BC	136	-5.5
		Nov '04
Unemployment Rate - BC *(percent)*	6.1	6.4
Unemployment Rate - Canada *(percent)*	7.0	7.3
INTEREST RATES (percent)	Jan 12/05	Jan 14/04
Prime Business Rate	4.25	4.50
Conventional Mortgages - 1 year	4.80	4.75
- 5 year	6.05	6.35
US/CANADA EXCHANGE RATE	Jan 12/05	Jan 14/04
(avg. noon spot rate) Cdn $	1.1987	1.2869
US $ *(reciprocal of the closing rate)*	0.8331	0.7762
AVERAGE WEEKLY WAGE RATE *(industrial aggregate - dollars)*	Dec '04	% change on one year ago
BC	695.57	2.3
Canada	687.28	2.8

SOURCES:

Population, Gross Domestic Product, Trade, Prices, Labour Force, Wage Rate } Statistics Canada

Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics

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Statistical Profiles by College Region With Emphasis on Labour Market and Post-Secondary Education Issues

These profiles provide comparisons of the socio-economic conditions of the on-reserve and off-reserve aboriginal populations as well as the non-aboriginal population by College Region. Data are from the 1996 and 2001 Census, Statistics Canada.

http://www.bcstats.gov.bc.ca/…
data/cen01/abor/ap_main.htm

Released this week by BC STATS

- Labour Force Statistics, December 2004
- Tourism Sector Monitor, December 2004
- Exports, November 2004

Next week

- Earnings & Employment Trends, Dec. 2004
- Consumer Price Index, December 2004

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