

- **Manufacturers optimistic about third quarter prospects**
- **Sawmill production up 3.8% in May**
- **Rural areas a big draw for tourists in BC**

## The Economy

- **BC manufacturers surveyed in July remained fairly optimistic about the prospects for the third quarter.** Just over half (55%, *seasonally adjusted*) expected to see little change in production, and 30% anticipated an increase, nearly twice the number forecasting a decline (16%).

Seventy-one percent said that they thought the number of orders received in the third quarter would be about right, while 20% expected orders to rise. Producers weren't anticipating big changes in the backlog of unfilled orders or inventory levels. While 66% said employment levels will be unchanged, 23% expected job prospects to improve, more than double the number (11%) anticipating job losses. A shortage of skilled labour was identified as a potential source of production difficulties by 11% of manufacturers, but other types of difficulties were not expected to be particularly problematic.

Canadian manufacturers had a less rosy view of the future, with the balance of opinion on production prospects falling to -3, as more people expected production prospects to decline (22%) than to increase (19%). Twenty-six percent of Canadian manufacturers thought inventory levels would be too high, and 23% expected that orders would fall. Job losses (15%) were thought to be more likely than job gains (14%), although most manufacturers (71%) did not anticipate much change in employment prospects. *Data Source: Statistics Canada*

- **Production at sawmills and planing mills in the province was 3.8% higher this May than in the same month last year.** Mills in the interior produced 6.7% more lumber, but coastal mills cut back their output 10.9%. Canadian production stalled (-0.1%), largely because of

slowdowns in Quebec (-9.5%) and Alberta (-2.7%). *Data Source: SC, Catalogue 35-003-XIB*

- **The number of British Columbians receiving regular employment insurance (EI) benefits fell 2.5% (seasonally adjusted) in May, dropping to 50,790.** Nationally, the number of beneficiaries was down 2.1%, to 512,190.

*Data Source: Statistics Canada*

- **Restaurant, caterer and tavern receipts in the province continued to climb in May, increasing 4.6% (seasonally adjusted).** Drinking places took in substantially more (+7.9%) than in April, and food service establishments also had a good month (+4.3%). Canadian establishments did not fare as well: receipts increased 1.4% overall, but revenues at drinking places were down (-0.6%) for the third time in four months. *Data Source: Statistics Canada & BC Stats*

## Tourism

- **Less than half (41%) of the people who live in BC reside in predominantly rural areas of the province (those with fewer than 150 people per square kilometre).** However, rural regions of BC are a big draw for visitors, with about 60% of tourist visits made to rural areas of the province.

Domestic travellers in the province (who are more likely to visit rural areas) appear to have different preferences than visitors from the US and overseas, who tend to gravitate to predominantly urban areas. In the rest of Canada (except Manitoba), foreign visitors are attracted to the same places that Canadians visit—urban centres in Ontario and Quebec, and rural regions in other parts of the country. *Data Source: SC, Catalogue 21-006-XIE*

- **Over the last five years, there has been a downward trend in accommodation costs at both the provincial and national levels.** This

### Did you know...

In January 1974, 118.1 cm of snow fell in 24 hours at Lakelse Lake, BC. Until 1999, that was Canada's biggest 24 hour snowfall on record.

trend predates the events of 9/11 and the SARS outbreak in 2003 (accommodation prices had already begun to ease in the summer of 2001).

Accommodation prices usually peak in the summer months (typically in August). They are at their lowest levels in December/January. Last month, travellers staying at hotels, motels and other accommodation properties in BC paid about the same price (net of taxes) as they would have in December 2000. For leisure clients, the cost of staying in a BC hotel, motel, or other accommodation property was only 90% of the December 2000 level. However, business (106%), government (105%) and foreign (103%) travellers paid more for accommodation services. (By comparison, the all-items CPI was nearly 10% higher than in December 2000.)

Nationally, accommodation prices have fallen to 97% of the December 2000 level, largely because there has been a pronounced decline the cost of accommodation in Ontario. Although operators in Ontario, Quebec and BC have been offering travellers better bargains, establishments in most other parts of the country have either increased room rates, or kept them on a relatively even keel during the last five years.

*Data Source: Statistics Canada*

### R&D

- **Health care research accounts for a growing share of total R&D spending in Canada.** Between 1996 and 2001, about 17% of gross domestic expenditures on R&D were in the health field. The proportion had jumped to 22% by 2002, and reached 24% in 2004.

*Data Source: SC, Catalogue 88-001-XIE*

### Film & Video Distribution & Wholesaling

- **Canadian film & video distribution & wholesaling revenues continued to climb in 2003/04, rising 4.9% to \$3.4 billion.** Film and video distributors get most of their revenues from sales to theatres and TV broadcasters. Together, these account for nearly 80% of the total market. However, home video sales are gaining ground, possibly because of the availability of DVD releases, which often offer movie fans additional footage, interviews with those involved in making the films, and other features

not available to theatre-goers. In 2003/04, about 21% of total revenues came from home video sales. That compares to just 15% five years earlier.

*Data Source: Statistics Canada*

### The Nation

- **Canadian manufacturers' prices were marginally higher (+0.2%) this June than in the same month last year.** Prices for BC softwood lumber remained well below 2004 levels, posting a fifth straight year-over-year decline (-16.5%). Canadian paper producers also received less for their product (-2.6%) in June. However, prices for molybdenum, copper, zinc and silver (some of BC's most important metal products) continued to ratchet up. Petroleum and coal prices (+19.4%) also continued to exert inflationary pressure. Excluding petroleum prices, the overall industry product price index would have been 1.5% lower than in June 2004.

The strong Canadian dollar has had an effect on the prices of goods produced primarily (or largely) for export. Wood, paper, and auto products that are exported often change hands via US dollar-denominated contracts, so the recent appreciation of the Canadian dollar has meant that Canadian exporters of these products are receiving less in Canadian funds.

*Data Source: Statistics Canada*

- **The Canadian economy maintained a steady pace in May, expanding 0.3% (seasonally adjusted).** Energy-related industries (+1.3%) fuelled growth in the goods sector (+0.5%). Manufacturing expanded 0.2% for the second month in a row, but construction activity stalled as spending on residential construction continued to decline—enough to offset the effect of increased activity in the non-residential sector. In the service sector, growth was more muted (+0.2%). Retailers (-1.1%) lost ground, and the output of the arts, entertainment & recreation (-0.2%) and health care (-0.1%) industries also shrank. However, education (+0.6%), transportation & warehousing (+0.5%) and information & cultural services (+0.5%) made solid gains.

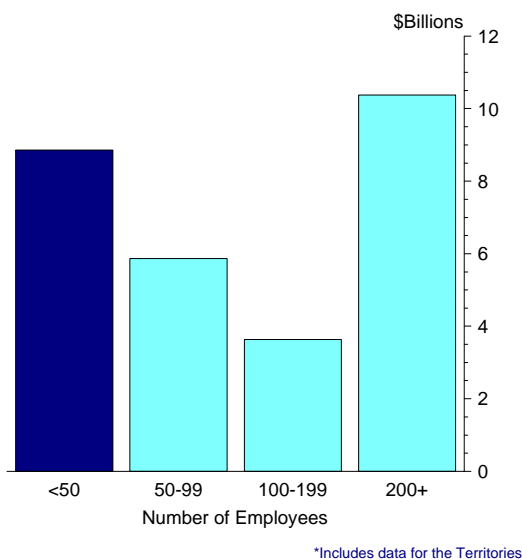
*Data Source: Statistics Canada*

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## Small Business That Export

Although small businesses in BC are less likely to export than larger businesses, those that do are a significant presence on the export scene. Small businesses that export comprise only 1.4% of all small businesses in BC, yet they shipped about 31% of the total value of merchandise exports from the province in 2003.<sup>1</sup>

Small businesses shipped approximately 31% of the total value of exports from BC\* in 2003



Source: Statistics Canada, *Exporter Registry*

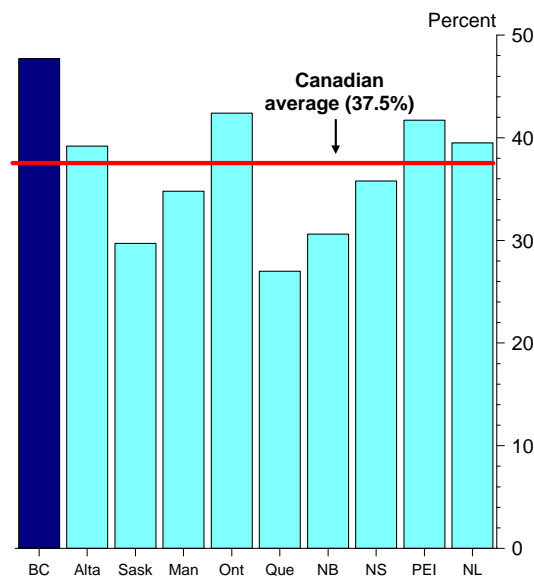
A couple of reasons why there are few small businesses that export are the high start-up costs and the fact that, in order to compete internationally, businesses need to achieve economies of scale that may not be attainable for most businesses with fewer than 50 employees. A survey of their members by the Canadian Federation of Independent Business (CFIB) con-

<sup>1</sup> Export data are from Statistics Canada's *Exporter Registry* and are confined to international exports of goods of greater than \$30,000. Data for the three northern territories are included with BC to meet confidentiality requirements. It is likely that this inclusion inflates the BC figures for small businesses by around 0.5%.

firms that market reasons and high costs, including infrastructure, insurance and packaging, are among the barriers to having small and medium-sized firms participate in international trade, on both the export and import side.<sup>2</sup> Another major obstacle is global financial risk, particularly related to the fluctuation of the exchange rate.

One area where small businesses may be able to compete with larger firms on a global scale is in niche markets. Small businesses are often better suited to produce specialized items for these smaller markets, but the problem is getting the word out to customers around the world. This is where the continuing development of e-commerce may help small businesses find an export market. According to the CFIB survey, 47.7% of small and medium-sized businesses in

Small and medium-sized businesses in BC are more likely to have a web site than those in other provinces



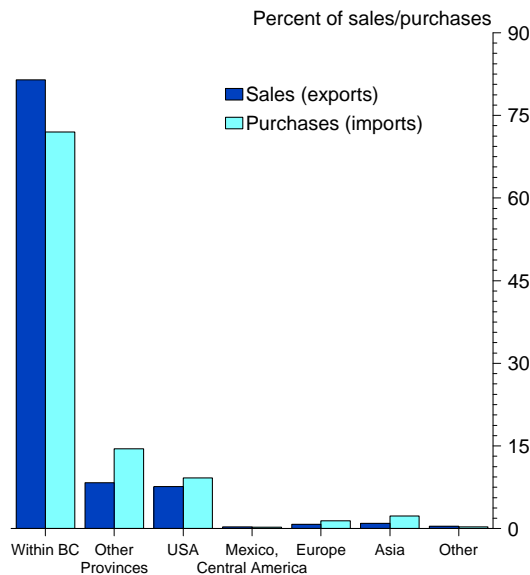
Source: Canadian Federation of Independent Business

<sup>2</sup> Canadian Federation of Independent Business, "Report on Trade" (Oct. 2004).

BC have their own web site. This is well above the Canadian average of 37.5% and is the highest ratio in the country.

However, data from the CFIB survey corroborate the Statistics Canada figures with regard to the fact that, currently, only a small percentage of small and medium-sized firms engage in international trade. Over four-fifths (81%) of the firms surveyed in BC sold exclusively within the province, while a slightly smaller portion (72%) made all business purchases within BC. Another 8% sold to other provinces, and 14% made interprovincial purchases, with the remainder of sales and purchases attributed to

Small and medium-sized firms in BC do most of their business within the province



Source: Canadian Federation of Independent Business

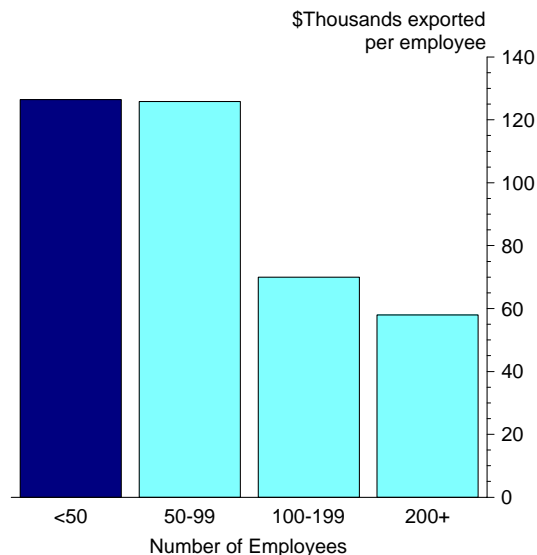
international exports and imports.

On the other hand, the data from Statistics Canada indicate that 80% of all exporters in BC are small businesses. The fact that four-fifths of exporters have fewer than 50 employees, but export only 31% of the value of total BC exports indicates that small businesses that export tend

to ship less to international destinations compared to larger businesses. Looking at the average value of exports per exporter by employee size confirms this as the average value of exports rises with the size of firm. Small businesses averaged exports of \$1.7 million in 2003, compared to \$40.5 million for businesses with 200 or more employees.

Nevertheless, it is interesting to note that 22% of small businesses that exported were large exporters (i.e., they shipped \$1 million or more worth of goods), while 58% of exporting businesses with 200 or more employees were small exporters (shipping less than \$1 million). Also, the average value of exports per employee of a small business far exceeds that of a large business. For businesses with fewer than 50 employees, the average value of exports per worker was \$126,400 in 2003, compared to \$58,000 for firms with 200 or more employees (those with 50 to 99 employees averaged \$125,900 and those with 100 to 199 workers av-

In 2003, the average value of exports per employee of smaller businesses in BC\* exceeded that of larger businesses

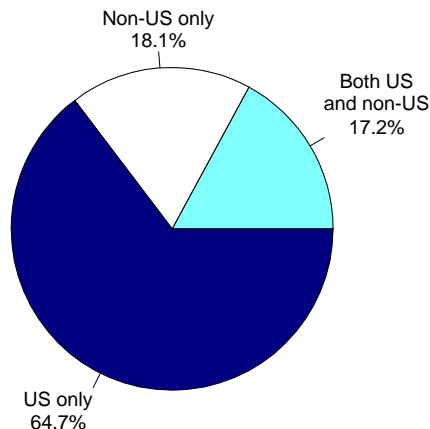


\*Includes data for the Territories

Source: Statistics Canada, *Exporter Registry* (averaged \$69,900).

The main foreign destination for exported goods is the United States. This is true regardless of the size of the exporter. In 2003, 82% of exporting firms with fewer than 50 employees shipped at least some of their goods to the United States. For almost two-thirds (65%) of

BC\* small businesses that exported in 2003 shipped mainly to the United States



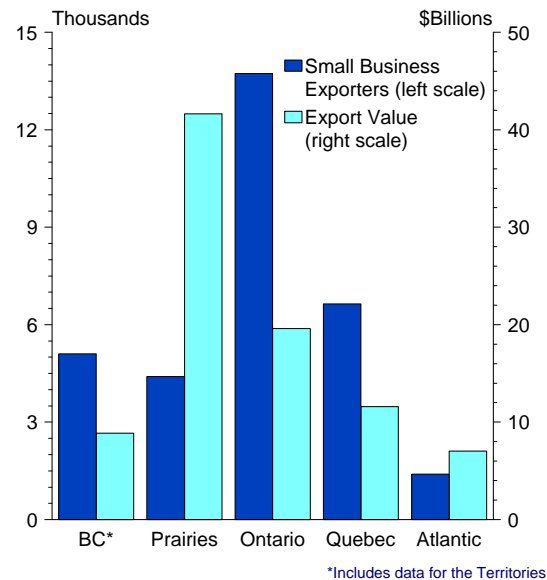
\*Includes data for the Territories

Source: Statistics Canada, *Exporter Registry*

small business exporters, the United States was the only country to which they shipped goods. Only 18% of small businesses that exported did not ship any goods at all to the United States.

There is significant variation by region within Canada in terms of the export intensity of small businesses. In other words, in some regions, small businesses export far more by value, on average, compared to other regions. For example, while central Canada had comparable export intensity with BC – Quebec small businesses averaged \$1.7 million and Ontario firms averaged \$1.4 million compared to BC's \$1.7 million – the numbers were considerably higher in the Prairies and the Atlantic provinces. Small businesses in the Atlantic region averaged exports of \$5.0 million, while firms in the Prairies averaged \$9.5 million. The regional differences in terms of the number of small businesses exporters and export intensity are likely driven by

## Export intensity for small businesses varies widely by region



\*Includes data for the Territories

Source: Statistics Canada, *Exporter Registry*

the provincial variation in industry composition.

A study by Industry Canada suggests that the relatively large export intensity of small businesses in the Prairies could be due to the oil and gas sector in Alberta. It is possible that Alberta oil and gas producers hire small firms in the finance and insurance sector to deal with exporting their product.<sup>3</sup>

Regardless of regional differences, the changing nature of the global marketplace is making exports increasingly important and evolving information technology, particularly related to electronic commerce, should help level the playing field for small businesses that wish to expand their markets and export their wares.

<sup>3</sup> Parsley, Chris, "More Important Than Was Thought: A Profile of Canadian Small Business Exporters," Small Business Policy Branch, Industry Canada (Dec. 2004).

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## BC at a glance . . .

<b>POPULATION (thousands)</b>		% change on one year ago
	Apr 1/05	
BC	4,232.5	1.2
Canada	32,146.5	0.9
<b>GDP and INCOME</b>		% change on one year ago
<i>(BC - at market prices)</i>	2004	
Gross Domestic Product (GDP) (\$ millions)	156,481	7.5
GDP (\$ 1997 millions)	138,783	3.9
GDP (\$ 1997 per Capita)	33,072	2.8
Personal Disposable Income (\$ 1997 per Capita)	20,002	1.2
<b>TRADE (\$ millions, seasonally adjusted)</b>		% change on prev. month
Manufacturing Shipments - May	3,603	2.5
Merchandise Exports - May	2,630	-0.8
Retail Sales - May	4,123	-0.3
<b>CONSUMER PRICE INDEX</b>		12-month avg % change
<i>(all items - 1992=100)</i>	Jun '05	
BC	125.4	2.1
Canada	127.2	2.1
<b>LABOUR FORCE (thousands)</b>		% change on prev. month
<i>(seasonally adjusted)</i>	Jun '05	
Labour Force - BC	2,257	-0.2
Employed - BC	2,126	-0.3
Unemployed - BC	131	0.8
		May '05
Unemployment Rate - BC (percent)	5.8	5.7
Unemployment Rate - Canada (percent)	6.7	6.8
<b>INTEREST RATES (percent)</b>	Jul 27/05	Jul 28/04
Prime Business Rate	4.25	3.75
Conventional Mortgages - 1 year	4.90	4.60
- 5 year	5.80	6.55
<b>US/CANADA EXCHANGE RATE</b>	Jul 27/05	Jul 28/04
<i>(avg. noon spot rate) Cdn \$</i>	1.2342	1.3305
<i>US \$ (reciprocal of the closing rate)</i>	0.8087	0.7522
<b>AVERAGE WEEKLY WAGE RATE</b>		% change on one year ago
<i>(industrial aggregate - dollars)</i>	Jun '05	
BC	700.73	3.3
Canada	701.45	3.5
<b>SOURCES:</b>		
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 <a href="http://www.bankofcanada.ca">www.bankofcanada.ca</a>		

## Labour market characteristics of off-reserve Aboriginal population



It is now possible to examine the labour market characteristics of off-reserve Aboriginals. The data, from an expanded sample of Aboriginal peoples in the labour force survey, highlight some defining characteristics that contribute to their experience. In the past, this type of data has been available from the census but was limited to a snapshot taken in mid-May at five year intervals. A full year of sampled monthly data, fully integrated to the labour force survey, will be of great interest to researchers, policy makers and other users.

On-line at  
[www.bcstats.gov.bc.ca/data/lfs/abor/ap\\_index.htm](http://www.bcstats.gov.bc.ca/data/lfs/abor/ap_index.htm)

### Released this week by BC STATS

- Consumer Price Index, June 2005
- Business Indicators, July 2005
- Current Statistics, July 2005

### Next week

- Tourism Sector Monitor, July 2005