

- BC's inflation rate stays at 1.6% in February as pressure from rising energy costs eases
- Shipments drop 0.5% in January
- Canadian net worth rises to \$137,300 per capita, but household debt exceeds income

## Prices

- **BC's year-over-year inflation rate remained at 1.6% in February.** Although the cost of energy products contributed to the increase in the Consumer Price Index (CPI), other goods and services played a bigger role. Excluding energy, the CPI was up 1.4%, only marginally less than the overall inflation rate.

Consumers faced moderately higher prices for most types of goods and services except clothing and footwear (-4.1%). The cost of health & personal care services (+1.0%) and food (+3.2%) both rose while water charges (+8.4%), piped gas (+15.0%) and homeowners' insurance premiums (+5.2%), took a bigger bite out of household budgets than they did in February last year. Consumers also paid more for alcoholic beverages & tobacco products (+1.5%) as well as for education & reading materials (+2.6%).

Energy prices jumped 4.7%, contributing to rising costs for transportation (+2.3%) and shelter (+2.5%). Although increases in gas prices have eased in recent months, British Columbians still paid 5.1% more for gasoline than in February 2005. Prices at the pumps boosted the cost of public transportation (+3.6%) as consumers paid more for intercity travel (+2.3%) and taxi & other local commuter transportation (+12.8%).

*Data Source: Statistics Canada*

- **On a year-over-year basis, BC's inflation rate was the lowest among the provinces in February.** Saskatchewan and Manitoba (both at 1.9%) were the only other provinces with an inflation rate under 2.0%. PEI (+3.8%) and Alberta (+3.3%) faced the highest price increases, well above the national average (+2.2%).

In Vancouver, the inflation rate was 1.4%, but residents of Victoria faced higher increases

(+1.7%) in prices for goods and services.

*Data Source: Statistics Canada*

## The Economy

- **Shipments by BC manufacturers slipped (-0.5%, seasonally adjusted) in January, following three consecutive monthly increases.** A slight increase in shipments by durable goods producers (+0.2%) was not enough to offset a slump in the non-durables sector (-1.5%). The rise in the value of shipments of durable goods was backed by an increase in shipments by wood manufacturers (+0.3%), which comprise the largest manufacturing industry in the province. Shipments of transportation equipment (+10.1%) continued to see-saw while producers of furniture (+7.4%), non-metallic mineral products (+4.5%), and machinery (+2.9%) made notable gains. However, these were offset by big declines in the computer (-14.8%) and fabricated metals (-7.3%) industries, where shipments fell back after posting big gains at the end of 2005.

Among producers of non-durables, manufacturers of chemicals (+7.8%) and plastic & rubber products (+8.3%) recorded notable increases in shipments, but steep drops in shipments of paper (-9.1%) and food (-3.5%), the second and third largest manufacturing industries, pulled overall shipments down.

Across the nation, shipments fell 0.7% to \$51.8 billion in January due to continued volatility in the transportation equipment sector. The soaring Canadian dollar has also been a challenge for manufacturers since its high value makes Canadian exports more expensive in the global marketplace. Seven provinces reported lower shipments in January, with Ontario (-2.1%), and New Brunswick (-2.0%), posting the biggest declines.

*Data Source: Statistics Canada*

## Did you know...

The odds of finding a four-leaf clover are estimated at 10,000 to one

- **The value of building permits issued by BC municipalities was up 14.8% (unadjusted) in January, compared to the same month last year, with increased activity in every region except Thompson-Okanagan (-9.9%).** Vancouver Island/Coast (+3.1%) posted a modest increase, but the value of planned construction in other parts of the province increased at double- and even triple-digit rates. The biggest increase was in Northeast, where permits soared to \$8.7 million, up from \$0.6 million in January 2005. The increase was largely due to planned spending on commercial buildings, but residential permits were also sharply higher. Nechako (+696%), North Coast (+196%) and Cariboo (+132%) also posted big increases, while planned spending in Mainland/Southwest (+18.4%) and Kootenay (+38.5%) rose at a slower pace. *Data Source: Statistics Canada*

- **Sales by wholesalers in the province increased 2.3% (seasonally adjusted) in January.** The national increase was 1.8%. *Data Source: Statistics Canada*

- **New motor vehicle sales in BC were flat in January (+0.1%, seasonally adjusted), after showing solid growth in December (+5.5%).** Nationally, sales climbed 1.4%, the third increase in four months. *Data Source: Statistics Canada*

### Large Urban Transit

- **Canadians are taking more trips on urban transit systems.** Combined ridership on ten large urban transit systems (accounting for 80% of total urban transit in Canada) was up 2.4% in January over the same month last year. About 109.1 million passenger trips were taken on these systems, generating \$170.4 million in revenue, a 5.8% increase from January 2005. *Data Source: Statistics Canada*

### The Nation

- **A recent study of Canada's place in the global trade market from 1990 to 2005 shows that Canada is becoming less reliant on US and Japanese imports.** In 2005, approximately 40% of Canada's imports came from countries other than Japan and the US. On the exports side, natural resources continue to account for about 50% of the nation's exports and the United

States remains our dominant market.

*Data Source: Statistics Canada*

- **Exports to China more than tripled between 1998 and 2004, with an annual growth average of 21%.** China's rapidly expanding economy and its competitive advantage in manufactured products has resulted in high demand for raw materials. While wood pulp remains Canada's leading export product, chemicals have been our fastest-growing export commodity to China. China is now Canada's fourth largest export market, behind the US, Japan and the UK. *Data Source: SC, Catalogue #11-621-MIE2006037*

- **Canadian businesses increased their borrowing from financial institutions in 2004.** The debt accrued was primarily in the form of mortgages, loans and lines of credit. Financial suppliers such as banks, finance and insurance companies reported business clients owed \$371.4 billion, up 3.3% from 2003. *Data Source: Statistics Canada*

- **Compared to the same quarter of 2004, both foreign investment in Canada and Canadian investment abroad increased in the fourth quarter of 2005.** Net external liabilities were down 2.9% to \$175.8 billion at the end of 2005, the third straight year-end decline. In 2005, foreign investment in Canada increased \$32.7 billion over the 2004 year-end total. This was primarily due to acquisitions of Canadian firms by foreign investors. Canadians invested \$12.2 billion more abroad. Direct investment in the United States rose \$15.5 billion in 2005 but investment in all other countries was down \$3.3 billion. *Data Source: Statistics Canada*

- **Canada's national net worth expanded 5.3% in 2005 to \$4.5 trillion, or \$137,300 per capita.** A 5.5% rise in national wealth (the total value of all non-financial assets, including land) was largely due to higher residential real estate values. At the same time, net foreign debt increased from \$161 billion to \$176 billion.

The debt of Canadian households is rising faster than their income. They currently carry about \$1.08 in debt for every dollar of disposable income. *Data Source: Statistics Canada*

*Infoline Issue: 06-11  
March 17, 2006*

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Originally published in *Exports*. Issue 05-12. Annual Subscription \$60 +GST

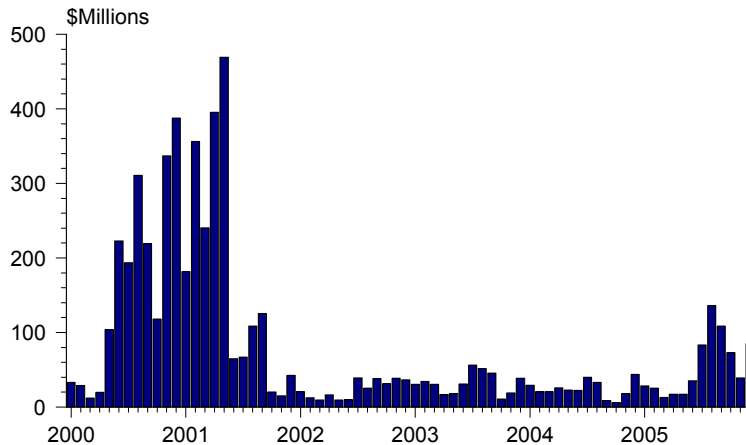
## Electricity Puts a Charge into BC's Exports

After a slow start early in the year, BC exports of electricity surged in the second half of 2005 to their highest levels since the energy crisis that hit California back in 2000 and 2001. At year end, exports of electricity to the United States were up 128% compared to the value of electricity transmitted over the border in 2004. The largest component of this increase was price inflation, but growth in demand also played a role as quantities exported climbed as well, rising 44%.

*The value of exports of electricity rose dramatically in 2005*

The value of BC exports of electricity are the highest they've been since the energy crisis in California in late 2000-early 2001

*Not since the energy crisis in California in 2000/2001 has the value of BC exports of electricity been this high*



Source: Statistics Canada

From January to July 2005, prices of electricity were already significantly higher compared to a year earlier, but the effects of hurricanes Katrina and Rita wreaked havoc on energy supplies in the United States as infrastructure damage limited the availability of natural gas. As a result, prices for all types of energy products, including electricity, soared. The hurricanes also contributed to increased demand for electricity imports into the United States as power companies using natural gas to generate electricity needed to find alternative sources of power.

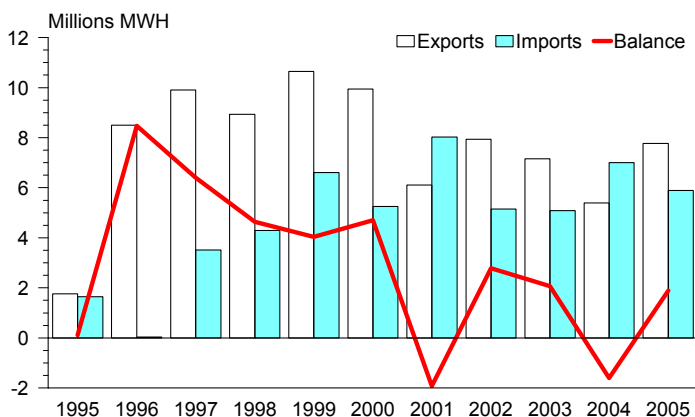
*Hurricanes Katrina and Rita contributed to the price inflation in energy products*

One may wonder how British Columbia is able to export power to other destinations given that BC Hydro, which is by far the largest electricity supplier in the province, has claimed it does not have sufficient resources to meet the needs of British Columbians and that there is a need to develop new power production capacity within the province. A possible explanation for this apparent contradiction is that the province is also a significant importer of electricity.

Since most electricity in BC is hydro-electricity generated from water flowing through dams, the province has an advantage over those regions where electricity is mainly generated from nuclear facilities, or gas or coal-fired operations. While it is fairly simple to turn the flow of water going through the dams on and off, it is quite impractical to regulate the flow of electricity from other generation sources, such as nuclear power, in this manner. This means that the electricity generated using these other methods cannot be stored. It is more or less a "use it or lose it" situation. This allows BC Hydro, through its subsidiary Powerex, to purchase power from these sources in off-peak periods when the spot price is lower and "store" its own electricity by shutting off the flow of water through its dams, then sell the excess stored power in the high-peak periods when prices are higher.

*With the flexibility of hydro-electric power, BC Hydro is able to buy low and sell high*

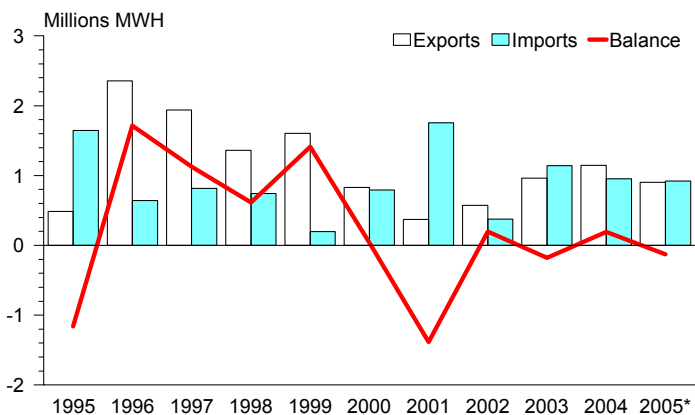
After a deficit in 2004, BC electricity trade with the US moved back into a surplus in 2005



Source: Statistics Canada

*British Columbia exported more electricity to the United States in 2005 than it imported from that country...*

BC interprovincial trade in electricity appears to be headed for a deficit in 2005



Source: Statistics Canada

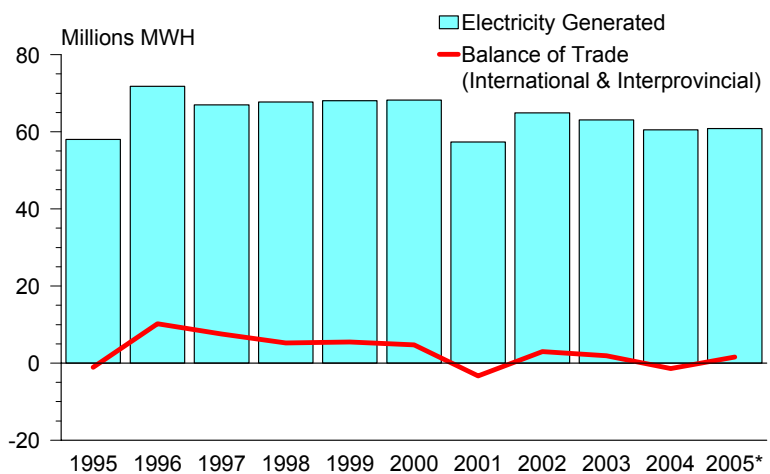
\*January-November year-to-date

*...but given the data available through November, it appears that imports from Alberta will exceed exports to that province in 2005*

This system of arbitrage is employed not only in trade with the United States, but also with Alberta. Nevertheless, with the exception of a few years, BC has generally had a surplus in trade of electricity over most of the last decade. In other words, the amount of electricity exported has exceeded electricity imports in most years.

Those years in which imports exceeded exports coincided with years in which the province had lower than average water levels. In other words, when there was not sufficient precipitation to adequately generate enough electricity to meet the needs of BC residents and businesses, it was necessary to import power not only during low-peak times, but also high-peak periods.<sup>1</sup> This was the case in 1995, 2001 and 2004 when electricity generated in the province was below average. In each of these years, the amount of electricity imported exceeded exports.

**In years where low water levels resulted in below average electricity generation, BC was a net importer of electricity**



Source: Statistics Canada

\*January-November year-to-date

*When water levels are low, BC imports more electricity than it exports*

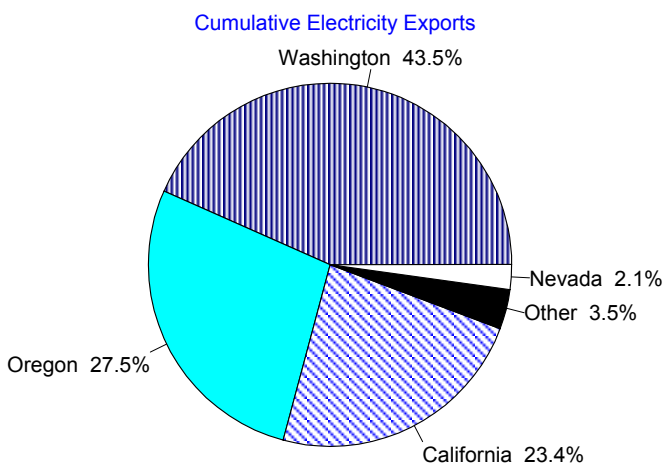
Most of this two-way trade in electricity is with the United States. While BC does have a significant electricity trade relationship with Alberta, the quantity of two-way trade with that province is only about 10 to 15 percent of the magnitude of trade with the US. Within the US, by far most of the trade is with just two states: Washington and Oregon. Given the proximity of these states to BC, this makes

*Most international exports of electricity from BC are transmitted to one of two states: Washington or Oregon*

<sup>1</sup> In actual fact, it may not strictly have been necessary, as BC Hydro may have been able to boost electricity production from other non-hydro sources, but the cost of doing this would probably have exceeded the cost of importing the power. For example, BC Hydro has the option of running the natural gas-fired Burrard Generating Station, but may choose not to do so when the cost of natural gas is too high.

sense. Oregon has increased its imports from BC substantially in the last few years, such that it has been the top destination state for BC electricity exports for the last two years running, displacing Washington. During the energy crisis in California in 2000 and 2001, that state was the top destination state for BC exports of electricity, but exports to California have dropped considerably since then. One of the reasons for the decline could be that equipment upgrades necessitated removing some of the lines to California off the grid for a period of time, which restricted BC's access to the market.

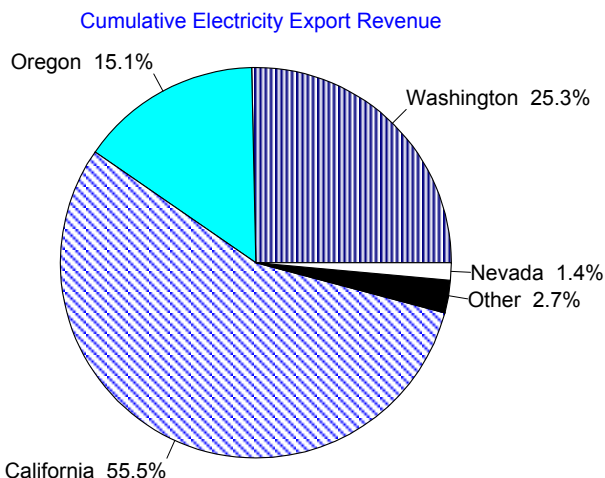
From 2000 through 2005, over 94% of BC international exports of electricity were transmitted to only three US states



Source: Statistics Canada

*Over the last six years, Washington has been the most significant destination for BC electricity exports in terms of quantity...*

California leads as revenue generator for BC electricity exporters, 2000-2005



Source: Statistics Canada

*...but California has generated the most revenue for BC exporters of electricity*

Over the last six years, Washington State has been the top destination for international exports of electricity from BC in terms of quantity, but California tops the scales in terms of revenue generated from sales. This is because the majority of exports to California were during the period when prices were sky high.

The electricity price inflation that has occurred in recent years has been a source of lucrative revenues for Powerex. Even in years where BC was a net importer of power, the trade balance in terms of revenue earned from electricity sales to the United States, less expenses from electricity purchases from the US, has been positive for BC. In other words, since Powerex is able to buy low and sell high given the flexibility of hydro-electric power, it has managed to achieve a positive revenue stream from international electricity trade even in years when it was importing more power than it exported.

The lucrative nature of these power sales has caused some controversy in BC, particularly in the district municipality of Kitimat, where the large aluminum smelter operated by Alcan is located. The District of Kitimat has attempted to sue Alcan for alleged breach of its 1950 agreement with the province that provided Alcan with the water resources needed to produce aluminum in return for the jobs and tax revenue that the aluminum smelter would provide. According to Kitimat's complaint, Alcan has curtailed aluminum production in order to take advantage of high prices for electricity and increase power sales. Alcan has always had an agreement to make surplus power available to BC Hydro, but in recent years, this "surplus" has become larger as poor aluminum prices made it far more economical for Alcan to reduce production and sell the power instead. So far Kitimat's efforts in court have failed, but the district is continuing its legal battle.

*The District of Kitimat is arguing that Alcan is selling power at the expense of aluminum production, in breach of its agreement with the province*

BC Hydro is facing similar opposition with regard to its proposals for additional generating facilities, such as the Site C dam in the Peace River area and the Duke Point natural gas-fired generating station on Vancouver Island. The opposition ranges from concerns over environmental impacts to doubts over whether the projects are even needed.

Whatever the outcomes of these disputes, electricity will undoubtedly remain a significant aspect of BC's trade as energy demand in both Canada and the United States continues to expand. The flexibility offered by hydro-electric power and British Columbia's abundance of water give the province an advantage in producing clean, inexpensive power and should ensure that electricity will continue to contribute to BC's trade balance.

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## BC at a glance . . .

<b>POPULATION (thousands)</b>	Oct 1/05	% change on one year ago
BC	4,271.2	1.3
Canada	32,378.2	1.0
<b>GDP and INCOME</b>		% change on one year ago
<i>(BC - at market prices)</i>	2004	
Gross Domestic Product (GDP) (\$ millions)	157,241	7.7
GDP (\$ 1997 millions)	139,205	4.0
GDP (\$ 1997 per Capita)	33,129	2.8
Personal Disposable Income (\$ 1997 per Capita)	20,182	1.4
<b>TRADE (\$ millions, seasonally adjusted)</b>		% change on prev. month
Manufacturing Shipments - Jan	3,779	-0.5
Merchandise Exports - Jan	3,121	-2.7
Retail Sales - Dec	4,229	-0.6
<b>CONSUMER PRICE INDEX</b>		12-month avg % change
<i>(all items - 1992=100)</i>	Feb '06	
BC	125.8	1.9
Canada	128.6	2.3
<b>LABOUR FORCE (thousands)</b>		% change on prev. month
<i>(seasonally adjusted)</i>	Feb '06	
Labour Force - BC	2,285	0.0
Employed - BC	2,176	0.4
Unemployed - BC	109	-7.1
		Jan '06
Unemployment Rate - BC (percent)	4.8	5.1
Unemployment Rate - Canada (percent)	6.4	6.6
<b>INTEREST RATES (percent)</b>	Mar 15/06	Mar 16/05
Prime Business Rate	5.50	4.25
Conventional Mortgages - 1 year	6.05	4.80
- 5 year	6.45	6.05
<b>US/CANADA EXCHANGE RATE</b>	Mar 15/06	Mar 16/05
<i>(avg. noon spot rate)</i> Cdn \$	1.1553	1.2036
US \$ <i>(reciprocal of the closing rate)</i>	0.8662	0.8300
<b>AVERAGE WEEKLY WAGE RATE</b>		% change on one year ago
<i>(industrial aggregate - dollars)</i>	Feb '06	
BC	716.86	1.7
Canada	715.74	3.3

### 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](http://www.bankofcanada.ca)

## Bankruptcy Rates

A new file on our site publishes bankruptcy rates facilitating the comparison of major urban centres. Consumer bankruptcies are normalized by population (per 1000 population) and business bankruptcies are normalized by number of businesses (per 1000 establishments).

### Bankruptcy Rates

<http://www.bcstats.gov.bc.ca/data/dd/handout/BANKRATE.pdf> [continued]

## Economic Accounts (GDP)

Statistics Canada now provides free access to a broad range of national and provincial economic accounts (Gross Domestic Product) data.

The **System of National Economic Accounts** module provides an up-to-date portrait of national and provincial economies and their structure, based on an integrated, internationally recognized set of economic accounting concepts.

### Labour force statistics

<http://www.statcan.ca/english/nea-cen/index.htm>

### Released this week by BC STATS

- Tourism Sector Monitor, February 2006
- Consumer Price Index, February 2006

### Next week

- No subscription releases