BRITISH COLUMBIA

BC STATS

Ministry of
Management Services

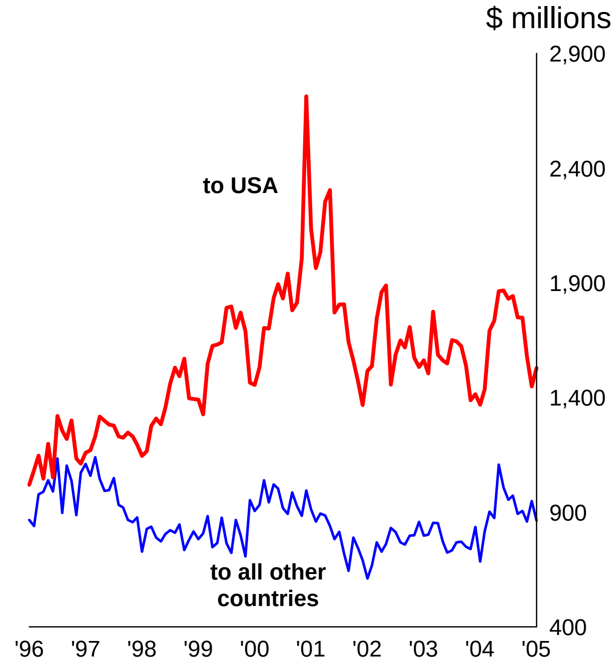
Dan Schrier
(250) 387-0376
Dan.Schrier@gems3.gov.bc.ca
March 2005
Issue: 05-01

Exports ◆ January 2005

Note: The export data has been revised to correct a coding error that mistakenly assigned exports of ethylene glycol to British Columbia when they actually originated in Alberta. In 2004, there were $0.5 billion worth of exports of this product misallocated. Data for previous years have also been adjusted to rectify the error and ensure time series continuity. Data published by Statistics Canada have not yet been adjusted to account for this error, which means that data released by BC Stats will not match that published by Statistics Canada and Industry Canada (Strategis).

- BC origin exports experienced strong growth in January, climbing 16.6% compared to the same month in 2004. Much of the growth was driven by commodity price inflation, particularly in metals and energy products.
- The value of BC exports of metallic mineral products more than doubled in January (+103.0%), compared to January 2004. Exports of copper ores and concentrates increased by almost eight times (+698.3%), while shipments of molybdenum ores and concentrates were three times higher (+203.5%).
- Energy exports jumped 28.0% in January, mainly on the strength of coal (+76.4%) and natural gas (+17.5%), both of which benefited from higher prices. Electricity transmissions were down, which translated into a 24.4% drop in exports of the commodity.
- Exports of fish products increased 17.3% in January, mainly on the strength of a 70.1% jump in shipments of whole salmon.
- Shipments of solid wood products also showed a healthy increase in January (+12.4%). Softwood lumber exports to the United States continue to climb (+23.0%) despite the burden of punishing duties.
- Elsewhere in the forest sector, shipments of pulp and paper to international destinations climbed 2.7%, despite a slight decline (-0.3%) in pulp exports. Paper and paperboard (+6.2%) and newsprint (+1.6%) more than compensated for the dip in pulp exports.
- Despite the ongoing trade disputes with the United States, BC exports to that country grew 11.8% in January. Energy (+28.0%), wood (+12.4%) and metallic mineral products (+103.0%) helped drive the expansion.

BC commodity exports continued to expand in January



SEASONALLY ADJUSTED EXPORTS

Seasonal adjustment supplies a means of making month-to-month comparisons by removing the regular periodic seasonal fluctuations that occur. Variations from normal seasonal patterns are revealed in the seasonally adjusted data series.

- Seasonally adjusted BC exports bounced back in January, rising 3.0% from the December level. There was growth in all commodity categories, but energy products stood out with a 9.6% gain.
- The energy sector was also one of the main drivers of growth in exports to the United States. Exports of energy products climbed 11.4% in January, which helped boost overall exports to the US by 3.3%.

BC exports (adjusted for seasonality) rebounded in January

BC Exports, Seasonally Adjusted ($Millions)

Month	Agriculture & Fish	Energy	Forest Products	Machinery& Equip, Auto	Industrial, Consumer	Total	Exports to USA
Jan 2003	222	404	1,131	354	423	2,535	1,679
Feb	212	392	1,083	338	436	2,461	1,636
Mar	206	560	1,028	333	414	2,541	1,747
Apr	193	381	972	332	440	2,318	1,453
May	178	375	936	323	380	2,192	1,479
Jun	182	413	937	315	352	2,199	1,539
Jul	195	418	979	315	405	2,311	1,562
Aug	187	429	1,002	312	421	2,352	1,581
Sep	192	411	1,048	308	421	2,380	1,582
Oct	161	374	1,041	308	368	2,252	1,512
Nov	167	311	1,066	296	431	2,271	1,467
Dec	213	371	1,034	320	442	2,381	1,555
Jan 2004	172	328	1,031	308	403	2,241	1,497
Feb	179	339	1,085	326	462	2,391	1,508
Mar	184	355	1,167	317	447	2,471	1,622
Apr	185	333	1,182	319	493	2,512	1,652
May	191	423	1,315	346	533	2,809	1,764
Jun	205	379	1,340	348	499	2,770	1,811
Jul	200	408	1,256	351	508	2,723	1,792
Aug	196	405	1,264	341	538	2,745	1,747
Sep	197	313	1,247	337	508	2,601	1,695
Oct	209	431	1,174	343	498	2,654	1,754
Nov	211	436	1,114	345	498	2,603	1,672
Dec	187	387	1,128	322	529	2,553	1,637
Jan 2005	192	425	1,135	331	549	2,631	1,690

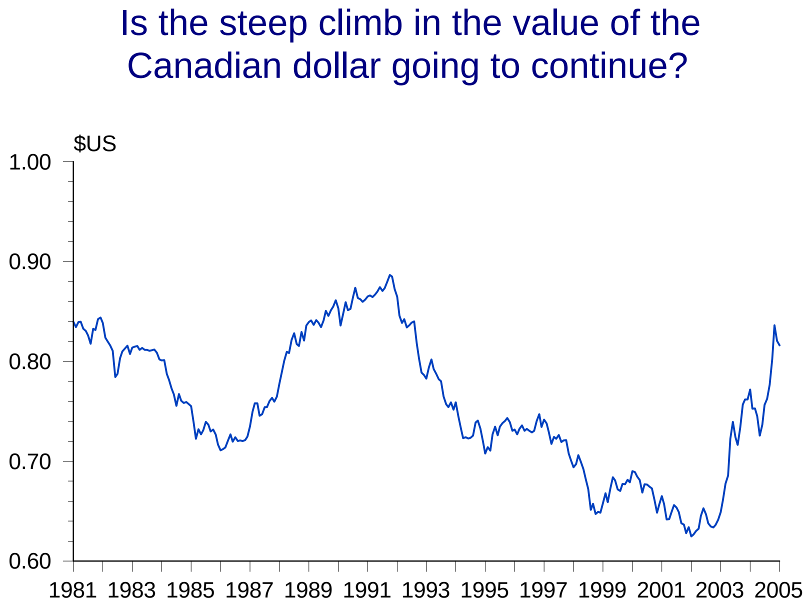
Commodity Prices, Exchange Rates and Exports

BC origin exports climbed 10.2% in 2004, putting the brakes on a three-year slide

Despite rapid appreciation in the value of the Canadian dollar relative to its American counterpart, BC origin exports experienced solid growth in 2004. The value of BC goods shipped to international destinations climbed 10.2% from 2003 to 2004, halting a three-year slide that saw BC exports drop $5.5 billion from their peak in 2000. Much of the turnaround was due to commodity price inflation, caused in large part by torrid demand from China for raw materials for its industrial operations. However, the pace of export growth peaked around mid-year and has since slowed, providing evidence that the higher exchange rate is causing some problems for BC exporters.

From the beginning of 2002 to the end of 2004, the Canadian loonie has appreciated approximately 30% against the US greenback. The volatility of the dollar has made it difficult for economists forecasting its future movements, as evidenced by the wide range of predictions for the loonie's value by the end of 2005. Forecasts range from a drop to below 80 cents US, to a rise to 90 cents US, with a virtual continuum of values in between.[1]

The Canadian dollar has appreciated about 30% against the US dollar in the last two years and economists have mixed opinions on whether or not the climb will continue



The exchange rate is extremely important to British Columbia due to the province's reliance on exports and the fact that almost two-thirds of those exports are shipped to the United States. If the Canadian dollar continues to appreciate, it could have negative consequences for exporters, which in turn could serve as a drag on the provincial economy. The reason for this is that goods and ser-

[1] For example, the Conference Board of Canada has predicted the dollar will average 79 cents this year, while Scotiabank believes the loonie will hit 90 cents by the third quarter. The BC Ministry of Finance forecasts an average of just over 84 cents.

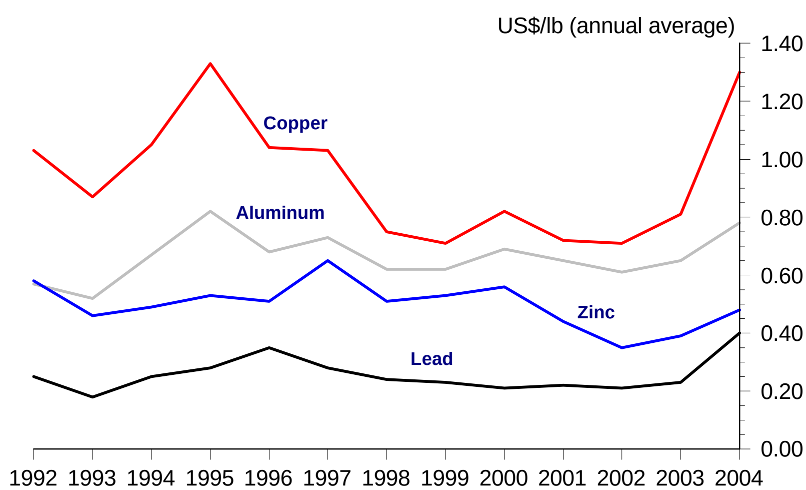
vices priced in Canadian dollars will be more expensive for American buyers, which could cause a fall in demand. Alternatively, if goods and services are priced in US dollars, Canadian producers will receive less for them when the revenue is converted to Canadian currency.

The difficulty in predicting the movement of the dollar lies not only in its recent volatility, but also in the competing pressures that are pushing it in both directions. One of the bigger impacts on the value of the dollar is the movement in commodity prices. In general, if commodity prices are trending up or down, the Canadian dollar will follow. This is due to the strong export orientation of the Canadian economy. The commodity price inflation that has occurred over the last year has likely contributed to the rise in the dollar, but it has also allowed Canadian exporters to remain profitable in the face of the higher exchange rate, as the inflated prices they received for their goods have offset the damage done by the growth in the dollar.

Competing pressures pushing the dollar in both directions have made it difficult to predict its future value

China's seemingly insatiable demand for raw materials has been the leading cause of inflation in commodity prices. This is particularly apparent with regard to prices of metals, especially copper, for which the price rose over 30% in just the last year. Even more impressive was the jump in the price of molybdenum, which skyrocketed to about four and a half times what it was a year earlier.

Metal prices surged in 2004, particularly for copper

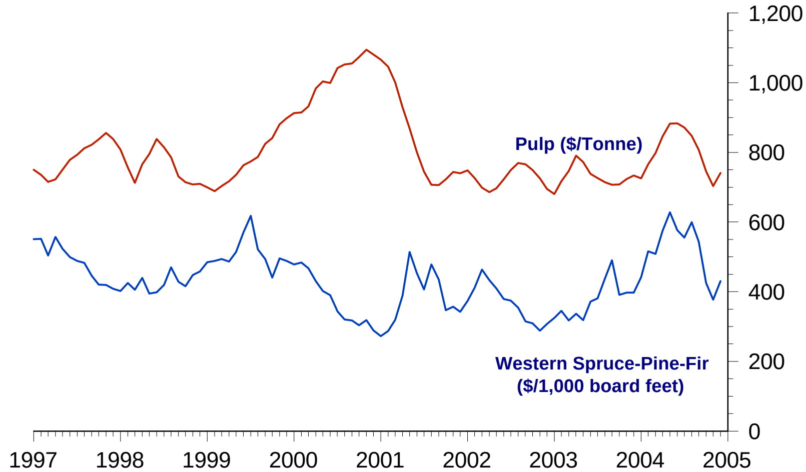


There was significant inflation in metal prices in 2004, which helped drive up the value of BC metallic mineral product exports

Higher demand and inflated prices resulted in a 36.5% jump in the value of BC exports of metallic mineral products in 2004, which translated to an increase of more than a half billion dollars. It is probable that prices are currently at or near their peak and will start to level off, perhaps even slipping back somewhat. However, the demand for these goods is unlikely to abate much in the near future, so prices should remain stable and significant declines are improbable.

BC exports of forest sector goods also benefited from price increases, with international shipments of solid wood products climbing 22.1% and exports of pulp and paper products rising 5.8%. The outlook in the forest sector is mixed. The likelihood of falling demand for housing in the United States as interest rates rise has the consensus opinion favouring a drop in prices of lumber as a result of the subsequent slowdown in housing starts. However, analysts are more bullish with regard to pulp and paper prices and foresee continued improvement through 2005.

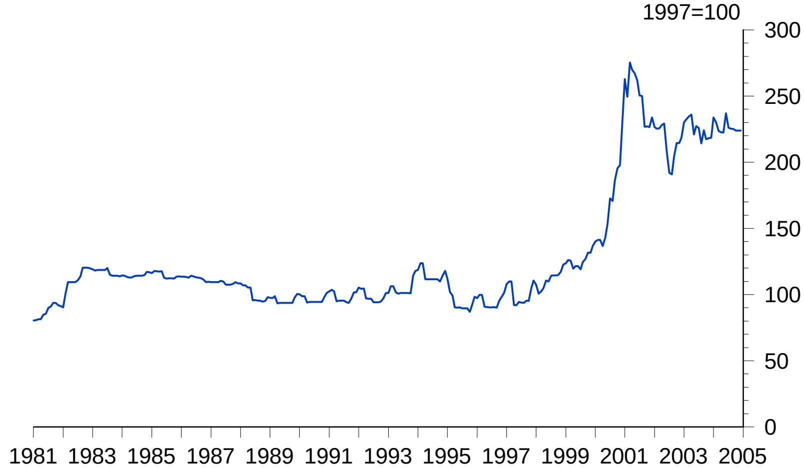
Forest sector product prices showed improvement in 2004



Prices for lumber and pulp showed significant improvement in 2004

The energy sector was one of the few areas where BC experienced a decline in the value of exports; however, this was mainly due to a drop in demand resulting from mild weather. There seems to be a consensus of opinion that prices for natural gas will remain fairly stable due to tight supplies, possibly slipping slightly in 2005, but staying well above historical levels.

Natural gas prices seem to have settled at a much higher level than seen historically



Prices for natural gas seem to have stabilized at a new plateau after more than doubling early in 2001

The one energy product that will see some significant price inflation is coal. Contract prices for coal are running at about double what they were in 2004 as high demand is forcing buyers in Japan and elsewhere to accept these substantial price hikes.

Overall, the outlook for commodity prices is mixed, but it appears that they will have far less effect on the value of the Canadian dollar than they did in 2004. It is probable that prices will be far more stable in 2005, which will help keep the dollar where it is now, but shouldn't have as much influence on upward or downward movements.

The one factor that could keep up the inflationary pressure on the Canadian dollar is the ballooning trade deficit faced by the United States, coupled with a growing fiscal imbalance. The constant demand for energy imports and the burgeoning thirst for goods from China are driving US imports up, while exports are growing at a much slower pace, resulting in significant expansion to an already large trade deficit. In addition, the US government continues to add to its debt load as a result of deep tax cuts combined with rising costs, particularly related to fighting the war in Iraq. The twin deficits have been the main force behind the greenback's depreciation relative to other currencies, including the Canadian dollar. It doesn't look like these deficits will ease any time soon, which should continue to depress the US dollar, but whether or not that will mean further depreciation of the US buck, particularly relative to the Canadian dollar, is difficult to predict.

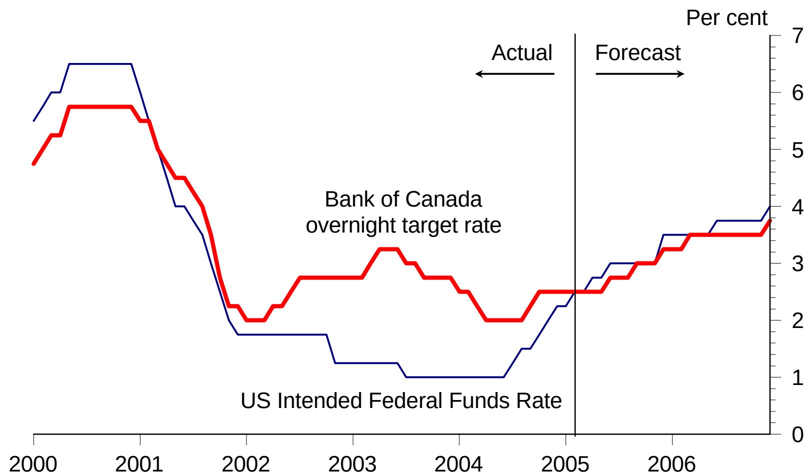
The twin deficits faced by the United States have been the leading force behind the greenback's depreciation

There are other forces that could buoy the American dollar relative to Canada's loonie. For instance, if China gives in to pressure to re-valuate its currency, that could help ease demand for Chinese products somewhat, particularly if they allow their currency to float, rather than maintaining a rate pegged to the US dollar. Currently, since the Chinese currency moves in tandem with the US dollar, the normal adjustments that would occur under a floating rate regime cannot happen. If China allowed its currency to float the phenomenal economic growth it has been experiencing in recent years would most certainly have resulted in substantial appreciation of its currency relative to the US dollar, which in turn would have reduced demand for its products in the US since the price would increase for American buyers. As it is, with the currency pegged to the US dollar, there is no adjustment occurring and American demand for Chinese products continues unabated, contributing to a growing trade deficit.

If China re-valuates its currency, the US dollar might recover somewhat, which would help curb the rise in the Canadian loonie

By itself, a re-valuation of the Chinese currency is not going to have a major effect on the value of the Canadian dollar, but a far more influential factor in exchange rate movement is the gap between the Bank of Canada's overnight target rate and the US Federal Funds rate. Most economists agree that the US rate is likely to rise faster than Canada's, which will result in a higher interest rate in the United States. The consequence of this should be that the Canadian dollar will depreciate relative to its US counterpart.

The BC Ministry of Finance projects US short-term interest rates will rise faster than Canadian rates



Source: BC Budget 2005 (Forecasts are by the BC Ministry of Finance)

The bank rate spread is an important factor in the exchange rate and consensus opinion is that the US rate will grow faster than Canada's, which should depress the value of the loonie

A recent development that could also depress the value of the Canadian dollar is the announcement in the Federal budget that foreign content limits on tax-sheltered pension plans will be removed. Previously, there was a cap of 30% on foreign content. Without the cap, there is a possibility that large Canadian pension funds will dramatically increase their holdings of foreign stocks and bonds, which would probably drive the value of the Canadian dollar down.

The removal of foreign content limits on pension plans could put downward pressure on the Canadian dollar

The different push and pull forces acting upon the Canadian dollar make predictions difficult. While the US deficit problem could continue to negatively affect the value of the US dollar and there could still be further commodity price inflation that would also favour a higher Canadian currency, the bank rate spread and the new rules regarding foreign content limits should act in the opposite direction, suppressing the loonie's growth. A lot depends on the speed of US bank rate increases, whether or not China adjusts its currency and what kind of effect the removal of foreign content limits has. While the dollar may or may not rise further, it seems fairly certain that it will not dip back to levels below 75 cents any time soon, which means exporters will have to continue to make the adjustment to a new exchange rate level.

Recent Feature Articles in British Columbia Origin Exports Release
Listed By Statistical Reference Date of Issue

NOTES

Countries Included Within World Regions:

(1) Western Europe: United Kingdom, Ireland, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland.

(2) Eastern Europe: other Europe, including all of Russia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, etc.

(3) South East Asia: Malaysia, Brunei Darussalam, Singapore, Myanmar, Kampuchea, Laos, Indonesia, Philippines, Thailand, Vietnam.

(4) Africa: continental Africa, excluding Ethiopia, Libya, Somalia, Sudan, Egypt.

(5) South America: continental South America from Colombia and Venezuela south to Chile and Argentina, including offshore islands, but not Caribbean.

(6) Central America and Caribbean: from Guatemala and Belize to Panama, plus Caribbean Islands.

(7) Pacific Rim (including Japan): Japan, Hong Kong, Malaysia, Brunei Darussalam, Singapore, Laos, Mongolia, China, Indonesia, North Korea, South Korea, Philippines, Macau, Taiwan, Thailand, Vietnam, Australia, Fiji, New Zealand.

(8) Pacific Rim: as above, but excluding Japan.

(9) Middle East: from Turkey and Iran south through the Arabian Peninsula. Excluding Afghanistan and Pakistan, but including Cyprus, Ethiopia, Egypt, Somalia, Sudan and Libya.

The **European Union** is the membership as of May 1, 2004: Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, United Kingdom.

'Selected Value-added Wood Products' category includes prefabricated houses, doors, windows, furniture, moulding, siding, etc. It does not include panel products, shakes, shingles or any pulp and paper products.

Revisions

Statistics Canada revises trade data for the previous three data years with release of the December data. The revision number is indicated in the footer of the tables (e.g., Rev 1 is the first annual revision, etc., and Prelim indicates it is the first release of data to December for that year). In addition to annual revisions, Statistics Canada revises the data for the previous data year every quarter (indicated in the footer by Rev Q1, etc).

Service Offered for Detailed Trade Statistics

For B.C. government statistics users requiring more detailed information on exports or imports, a special report service is offered through the address below:

Dan Schrier
BC STATS
P.O. Box 9410 Stn Prov Govt
Victoria, B.C. V8W 9V1
(250) 387-0376

This service is provided through the Trade Research and Inquiry Package (TRIP) computer reporting system. TRIP offers user-defined tabulations of export or import statistics for British Columbia, Canada, the United States and other countries. Tabulations can include information on commodities, countries, U.S. states, years, months, mode of transport, etc.