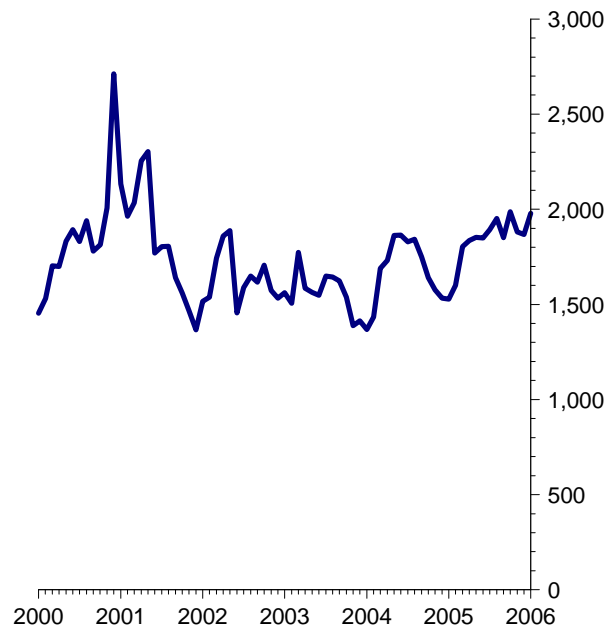


Exports ♦ January 2006

- The value of BC origin exports soared 19.9% in January compared to the same month in 2005. A significant boost in shipments to the United States (+29.6%), particularly for energy products (+107.0%), was the primary driver of the large year-over-year jump.
- Price inflation was the primary reason for an 86.1% rise in total BC exports of energy products, although quantities of electricity and natural gas exports also grew significantly. Electricity exports skyrocketed 190.8% in January, while shipments of natural gas almost doubled (+98.0%) compared to the same month a year earlier. Coal exports also experienced substantial growth (+47.8%), despite the fact that there was a decline in volumes shipped.
- The forest sector saw a mixed performance in January, with shipments of solid wood products climbing 12.9%, while exports of pulp and paper continued to fall, dropping 4.0% compared to a year earlier. Exports of softwood lumber increased 15.7% to lead the way among solid wood products, while a slump in paper and paperboard (excluding newsprint) exports (-13.1%) was the main contributor to the dip in pulp and paper shipments.
- Exports of metallic mineral products slipped 9.6% as declines in shipments of copper ores and concentrates (-41.6%) and molybdenum ores and concentrates (-15.1%) offset gains in other metallic minerals.
- Despite the high value of the dollar relative to other currencies, BC exports of machinery and equipment continue to climb, rising 10.4% in January, mainly on the strength of a 34.3% jump in shipments of electrical, electronic and communications equipment.
- In addition to the US, other destinations of BC exports that experienced a significant increase in shipments in January were the United Kingdom (+141.8%), Japan (+21.5%) and China (+14.6%). On the other hand, exports to Taiwan (-46.6%), South Korea (-23.9%) and India (-20.6%) dropped.

Exports to the US have been rising despite the appreciation of the Canadian dollar



SEASONALLY ADJUSTED EXPORTS

Exports (adjusted for seasonality)
dipped in January

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.

- A 14.1% slump in exports to countries other than the United States resulted in a 2.7% drop in overall exports in January. Shipments to the US climbed 4.0% to offset some of the decline in exports to other destinations.
- Overall energy exports fell 2.1% despite a 13.9% increase in shipments of energy products to the US. Exports of energy elsewhere plunged 23.7%. Exports of machinery and equipment (-6.7%), and industrial and consumer goods (-7.3%) also saw large declines.



BC Exports, Seasonally Adjusted (\$Millions)

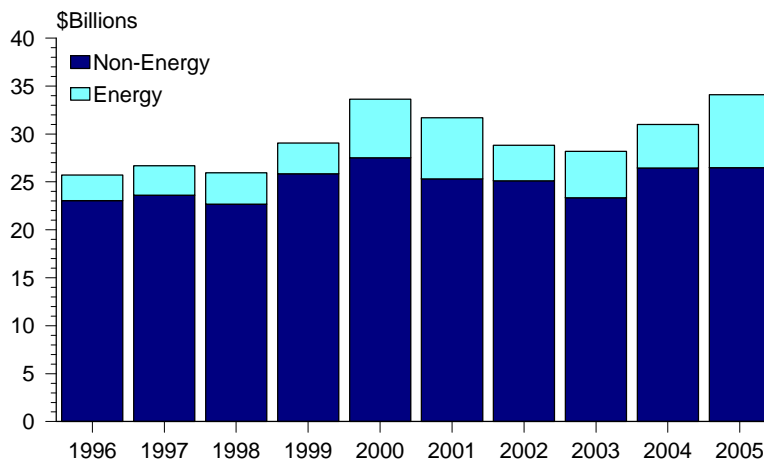
| Month | Agriculture & Fish | Energy | Forest Products | Machinery & Equip, Auto | Industrial, Consumer | Total | Exports to USA |
|----------|-----------------------|--------|--------------------|----------------------------|-------------------------|-------|-------------------|
| Jan 2004 | 172 | 334 | 1,033 | 311 | 404 | 2,255 | 1,496 |
| Feb | 187 | 349 | 1,042 | 333 | 455 | 2,366 | 1,512 |
| Mar | 187 | 351 | 1,156 | 317 | 452 | 2,464 | 1,613 |
| Apr | 190 | 342 | 1,188 | 315 | 497 | 2,532 | 1,648 |
| May | 196 | 441 | 1,335 | 340 | 532 | 2,843 | 1,764 |
| Jun | 198 | 384 | 1,307 | 345 | 491 | 2,725 | 1,787 |
| Jul | 206 | 387 | 1,272 | 355 | 496 | 2,715 | 1,766 |
| Aug | 187 | 377 | 1,276 | 341 | 521 | 2,702 | 1,763 |
| Sep | 200 | 298 | 1,265 | 340 | 491 | 2,594 | 1,718 |
| Oct | 209 | 336 | 1,186 | 341 | 503 | 2,575 | 1,659 |
| Nov | 197 | 458 | 1,115 | 340 | 492 | 2,602 | 1,711 |
| Dec | 186 | 452 | 1,127 | 327 | 514 | 2,605 | 1,684 |
| Jan 2005 | 193 | 445 | 1,125 | 335 | 556 | 2,655 | 1,673 |
| Feb | 183 | 419 | 1,163 | 337 | 550 | 2,653 | 1,722 |
| Mar | 180 | 444 | 1,124 | 336 | 507 | 2,590 | 1,723 |
| Apr | 183 | 495 | 1,111 | 351 | 515 | 2,656 | 1,740 |
| May | 186 | 538 | 1,121 | 356 | 535 | 2,737 | 1,725 |
| Jun | 206 | 612 | 1,105 | 360 | 590 | 2,873 | 1,771 |
| Jul | 176 | 681 | 990 | 359 | 479 | 2,685 | 1,808 |
| Aug | 203 | 800 | 1,067 | 364 | 549 | 2,983 | 1,837 |
| Sep | 197 | 776 | 1,049 | 366 | 585 | 2,973 | 1,835 |
| Oct | 201 | 841 | 1,123 | 375 | 527 | 3,067 | 2,020 |
| Nov | 209 | 717 | 1,123 | 376 | 584 | 3,009 | 2,023 |
| Dec | 203 | 830 | 1,193 | 391 | 591 | 3,208 | 2,023 |
| Jan 2006 | 201 | 812 | 1,194 | 365 | 549 | 3,121 | 2,104 |

BC Exports: 2005 in Review

Despite the continued appreciation of the Canadian dollar against other currencies, particularly the US dollar, the value of BC origin exports climbed 10.0% from 2004 to 2005. However, when exports of energy products were excluded, the growth in merchandise exports from BC was virtually flat (+0.1%). While an increase in demand for goods such as natural gas, electricity and coal contributed to the rise in energy shipments, price inflation was the most significant driver of the 68.3% jump in the value of energy exports. The average price received for BC shipments of natural gas rose just over 25%, while electricity cost almost 50% more for importers of the BC product and coal prices were up just over 75% compared to a year earlier.

The value of BC exports jumped 10% in 2005, despite the appreciation in the Canadian dollar

Excluding energy, growth in BC exports was virtually flat in 2005



Price inflation and high demand for energy products were the main contributors to the overall growth in BC exports

Aside from energy, international shipments of metallic mineral products also experienced significant growth in 2005, rising 28.6%, mainly on the strength of demand from China, which has helped drive up metal prices worldwide. BC exports of machinery and equipment were another bright spot, expanding 7.1% from a year earlier, and shipments of agriculture and food products (excluding fish) saw similar growth, jumping 7.0% in 2005.

Slumping exports in the forest sector offset much of the increase in shipments of other commodities. The value of exports of pulp and paper products dropped 7.5%, mainly due to a 13.2% plunge in exports of pulp. Higher prices for newsprint resulted in a 2.5% rise in exports of that product, despite a decline in volumes shipped, which helped mitigate the impact of dwindling pulp shipments somewhat. Exports of solid wood products fell 5.8%, with the value of shipments of softwood lumber shrinking 9.0%. The only wood products that experienced export growth were value added wood products (+5.1%) and unprocessed logs, which increased both in terms of value (+24.7%) and quantity shipped (+36.6%).

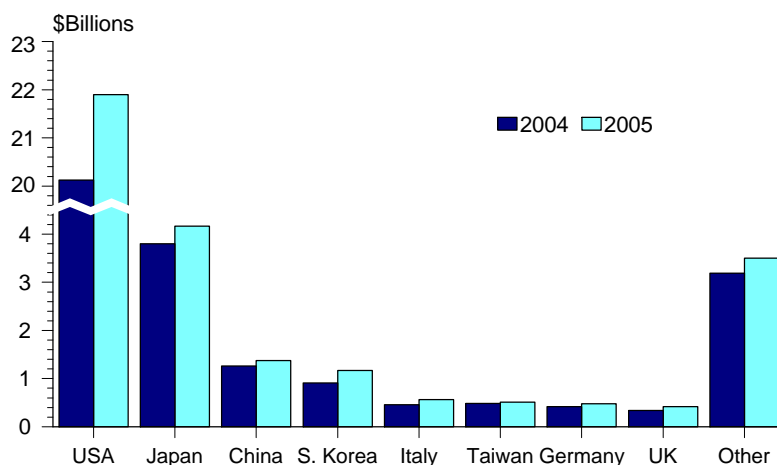
Forest sector exports slumped for the most part, with the exception of newsprint, value added wood products and unprocessed logs

Another commodity group that has been experiencing lean times in terms of value of exports is apparel and accessories. International shipments of these goods from BC have fallen for five consecutive years including double-digit declines in four of those years. In 2005, the value of exports of apparel and accessories from BC slumped 11.3%. The removal of global import quotas for clothing and textiles on January 1, 2005 has opened up the market for these goods to developing nations and North American manufacturers are finding it difficult to compete with lower-cost regions such as China. In addition, the greater availability of apparel from these countries has resulted in lower prices for the goods, which is also affecting the bottom line of exporters in BC and elsewhere in North America.

Exports of apparel and accessories are down for the fifth consecutive year

Overall, despite declines for some goods, BC origin exports to most destinations have increased in the last year. While China is often hailed as the key Asian market that exporters in North America should pursue, growth in BC exports to both Japan and South Korea exceeded that of the jump in shipments to China, although the rise in the value of exports to China was still substantial, climbing 9.0%. Japan's economic rebound was the impetus behind the greater demand for BC goods, pushing BC exports to that country up 9.7%. South Korea experienced the sharpest incline in imports of BC goods, at 28.9%.

BC exports are up to most destinations



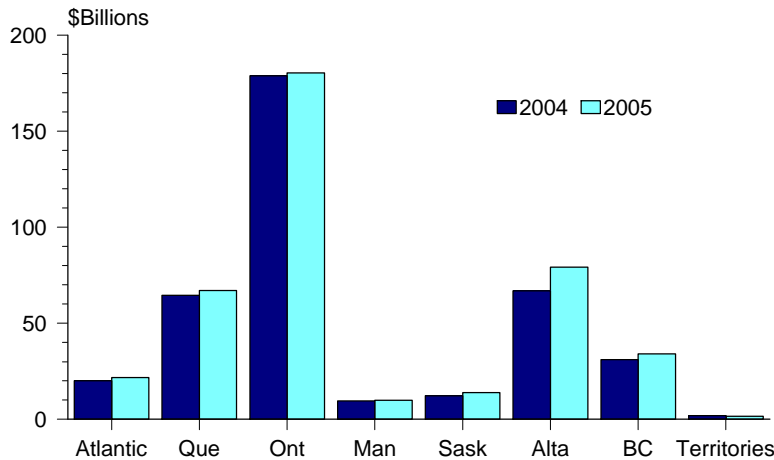
BC exports to most destinations were higher in 2005 compared to a year earlier

The expansion in BC exports was not limited to Asian destinations. In Europe, Italy (+22.8%), Germany (+14.8%) and the United Kingdom (+23.6%) all experienced significant growth in imports of BC products. Shipments to the United States, by far the most significant destination for exports from BC, climbed 8.8%, mostly due to a 55.1% jump in exports of energy products.

British Columbia was not alone in experiencing higher values of exports in 2005, as most regions in the country saw export growth. Among the provinces, Prince Edward Island led the way with a 19.9% jump in exports, followed by Alberta, at 18.5%. The only region of the country to see a drop in exports was the Northwest

Territories, where international shipments dropped 22.2%.¹ Ontario origin exports edged up only 0.8%, the smallest increase of any province. Since exports from Ontario are mainly comprised of manufactured goods, it has been the province most acutely affected by a rising Canadian dollar.

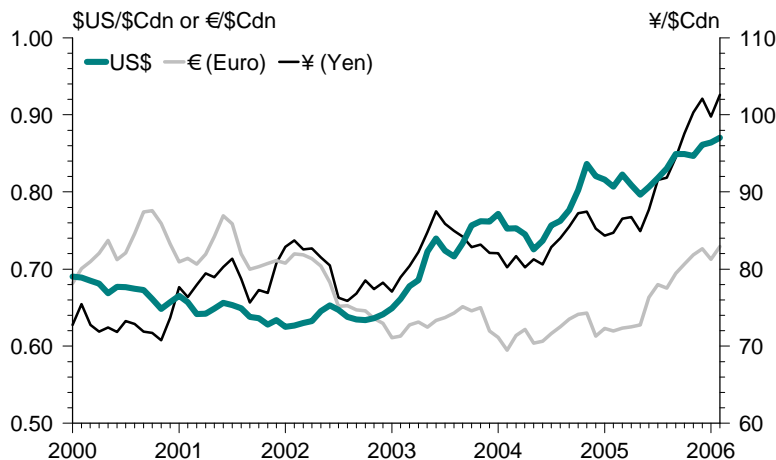
Most regions of the country saw exports rise in 2005



Across the country, all provinces saw an increase in the value of exports, with only the Northwest Territories suffering a decline

The export performance in resource-rich Alberta and BC versus manufacturing-centred Ontario highlights the variable impact of the dollar's appreciation. The Canadian dollar has climbed in value relative to most other currencies, in large part driven by commodity price inflation, but the strong Canadian economy is helping sustain the gains even as prices of resource products have stabilized.

The Canadian dollar continues to appreciate against other currencies



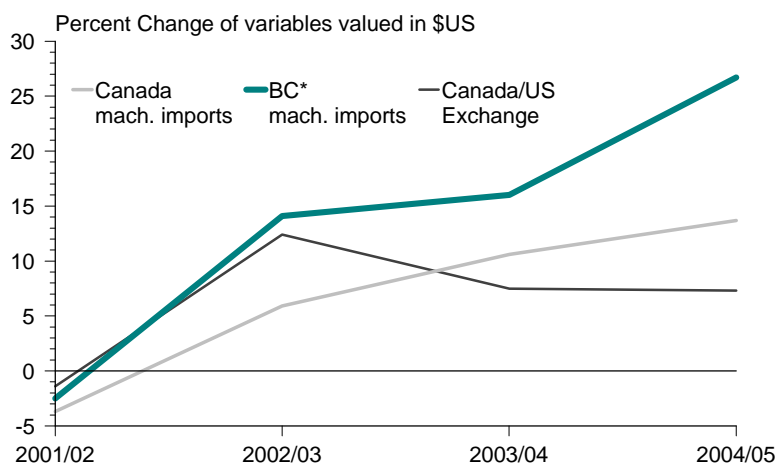
The Canadian dollar is rising relative to all the world's major currencies

¹ This decline is overstated as data for unsorted diamonds were not available for the months of November and December when Statistics Canada produced the year-end 2005 figures. The drop is likely closer to around 18%.

The higher dollar is problematic for all Canadian exporters, but particularly those of manufactured goods. Since commodity price inflation is driving much of the dollar's increase, the impact of a higher Canadian dollar has often been offset by the higher prices for the resource goods. Manufacturers are seeing increased competition from low-cost regimes, such as China and therefore cannot afford to increase their prices, so a higher dollar is costly for them as they will receive fewer Canadian dollars for their goods when they are priced in a foreign currency, or their goods will be more expensive to foreign buyers when they are priced in Canadian currency.

One of the reasons why overall exports have not declined in the face of a soaring dollar may be that manufacturers and other exporters are taking advantage of lower-cost imports of machinery and equipment in an effort to improve productivity through capital upgrades. In other words, just as exports of Canadian goods are more expensive for foreign buyers when the dollar is high, imports of foreign goods into Canada are less expensive because it takes fewer Canadian dollars to buy the goods. In a low-dollar climate, imports of machinery that can help improve productivity are often too expensive and it is not cost-effective for Canadian companies to make these purchases. In effect, the "subsidy" provided by a low-valued dollar offers no incentive to be as efficient as a foreign competitor because the funds needed to maintain that level of efficiency will exceed the revenue bump from productivity improvements. With the higher-valued dollar, not only are Canadian companies more compelled to make productivity improvements to become more competitive, it is also cheaper to do so because imports of those goods are less expensive.

Imports of machinery have been climbing as the Canadian dollar appreciates against other currencies



*Imports cleared through BC customs ports; not necessarily consumed within the province

Canadian manufacturers are importing machinery in order to improve productivity and remain competitive despite the higher dollar

Imports of machinery into Canada have increased dramatically in the last couple of years. This can be seen most clearly when viewing the imports valued in US dollars (which is in what most of

these goods will be priced). In each of the last three years, imports of machinery into Canada have increased, just as the Canadian dollar has appreciated relative to the US dollar over three consecutive years.² Valued in US dollars, Canadian machinery imports rose 5.9% in 2003, 10.6% in 2004 and 13.7% in 2005. Imports cleared through BC ports have climbed even more dramatically, with double-digit increases in each of the last three years, including a 26.7% jump in 2005.³

While productivity improvements achieved through purchases of machinery and equipment, and other means may help Canadian exporters weather the exchange rate storm, a continued appreciation of the dollar could eventually result in falling exports. The outlook for the Canadian dollar varies, but the average forecast of the British Columbia Economic Forecast Council that advised the Minister of Finance in her preparations for the 2006 provincial budget is for the exchange rate to average 84.8 cents in 2006, well below the 88 cent level at which it has hovered at the beginning of March. The forecasts ranged from a low of 81.0 cents up to a high of 87.8 cents. The Ministry of Finance forecast is for an 86.2 cent dollar in 2006, well above the Council's average. If these forecasts are in the vicinity of the actual annual average, exporters that have been able to remain competitive thus far will likely be able to cope quite well, but if the dollar rises higher than anticipated, to above 90 cents or even more, Canada's export-oriented economy could be headed for a slump.

Forecasts for the dollar are for more stability and an end to sharp increases, which should help Canadian exporters

² "Machinery," for the purposes of this report, is comprised of all goods in the harmonized system code classification 84: "Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof." Values are converted to US dollars using an average monthly exchange rate.

³ Note that imports cleared through BC customs ports are not necessarily consumed within the province and may be en route to other provinces.

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

| | | | |
|--------------|--|--------------|--|
| 06-01 | <i>BC Exports: 2005 in Review</i> (released March 2006) | 04-10 | <i>Legitimate Border Threat or Reefer Madness?</i> (released December 2004) |
| 05-12 | <i>Electricity Puts a Charge into BC Exports</i> (released February 2006) | 04-09 | <i>Canada is Hoping Trade with Brazil will Take Off</i> (released November 2004) |
| 05-11 | <i>Pulp Friction: Challenging Times for BC's Pulp Industry</i> (released January 2006) | 04-08 | <i>Border Congestion Threatens Trade</i> (released October 2004) |
| 05-10 | <i>Japan Aims for Free Trade with Canada</i> (released December 2005) | 04-07 | <i>NAFTA Panel Finds in Favour of Canada in Softwood Lumber Dispute</i> (released September 2004) |
| 05-09 | <i>China's Growth Both an Opportunity and a Threat for Exporters</i> (released November 2005) | 04-06 | <i>Canada's Trade with Greece</i> (released August 2004) |
| 05-08 | <i>Booming Energy Sector May Give Rise to "Dutch Disease" for Other Exporters</i> (released October 2005) | 04-05 | <i>Hollywood North Thrives in 2003</i> (released July 2004) |
| 05-07 | <i>Laying on the Lumber</i> (released September 2005) | 04-04 | <i>Port of Prince Rupert: Down, But Not Out</i> (released June 2004) |
| 05-06 | <i>Removal of Textile Quotas Tailor-Made for Protectionist Fervour</i> (released August 2005) | 04-03 | <i>Expanded European Union Could be Both Good and Bad for BC</i> (released May 2004) |
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| 05-01 | <i>Commodity Prices, Exchange Rates and Exports</i> (released March 2005) | 03-10 | <i>Is Global Free Trade Possible?</i> (released December 2003) |
| 04-12 | <i>The Internet Pharmacy Debate</i> (released February 2005) | 03-09 | <i>Relatively Few Small Businesses in BC are Exporters</i> (released November 2003) |
| 04-11 | <i>Canada's Trade With China</i> (released January 2005) | 03-08 | <i>Where's the Beef?</i> (released October 2003) |

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.