

Current Statistics ♦ September 2003

Second Quarter in Review—Slowing Down

A slower Canadian economy was mirrored in British Columbia in the second quarter, with most economic indicators showing signs of weakness. Exports, which have been boosted by soaring natural gas prices, fell 1.1% despite a 29.4% increase in the value of energy exports. Forest products, BC's dominant export commodity, dropped 9.9% as the effects of the ongoing softwood lumber dispute and lower prices took a toll on BC producers.

% change from previous quarter (seasonally adjusted)	Q1 '03	Q2 '03
Business activity		
Exports	0.2	-1.1
Shipments	-2.0	-3.4
Wholesale sales	3.4	-5.1
Non-residential investment		
Consumer activity		
Retail sales	0.8	-0.8
New motor vehicles sold	-6.5	-6.6
Housing starts	1.0	-4.6
Labour market		
Labour Force	-0.1	0.5
Employment	0.4	0.2
Unemployment rate (level (%))		
Consumer Price Index (y/y)		
Other indicators		
GDP, Canada	0.6	-0.1
GDP, USA	0.4	0.8

The downturn in the manufacturing sector deepened, with shipments dropping off (-3.4%) for the third consecutive quarter. Shipments were down or flat in all sectors except computer and electronic products (+15.9%), paper (+2.6%), plastics (+4.1%) and chemicals (+0.4%). A long expansion in the wholesale sector ground to a halt, with sales slumping (-5.1%) for the first time since the end of 2001. The province's agriculture sector

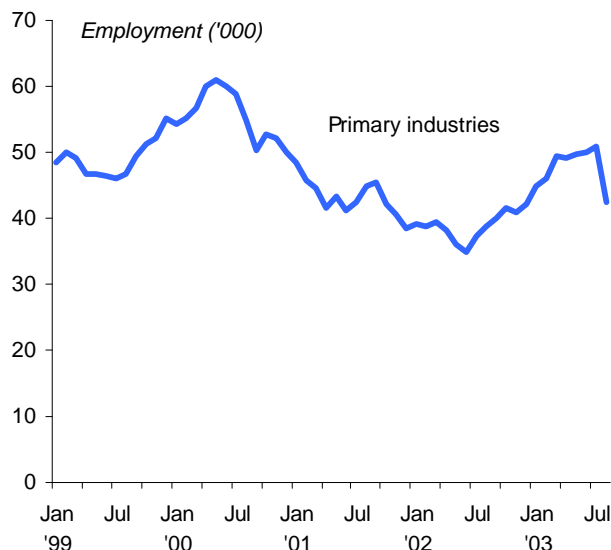
took a hit from the mad cow crisis, as border closures for Canadian beef hurt BC livestock operations. Investment in non-residential construction dropped for the third quarter in a row.

The general weakness in the business sector spilled over into consumer activities. Retail sales were off 0.8%, virtually reversing the previous quarter's gain. New motor vehicle sales fell back for the third straight quarter. Housing starts, which had helped boost the demand for lumber and other products sold by wholesalers, were off 4.6%, as the frenetic pace of new building activity continued to ease. Despite the slowdown, investment in residential construction remained strong as builders completed work on housing projects already underway. BC's quarter-over-quarter inflation rate dropped to 2.0%, as inflationary pressure from the energy sector eased off.

Labour market conditions remained relatively robust. The size of the labour force expanded 0.5% in the second quarter. Job gains (+0.2%) were not as strong, and as a result BC's unemployment rate rose to 8.3%—still well below the levels seen early last year. While most of the job growth was among the self-employed, full-time workers made substantial gains (+2.6%) for the first time in more than two years.

Overall, second quarter results for the province indicate that BC may be headed, along with the Canadian economy, into a slowdown. The forest sector has been particularly hard hit. It is unlikely that the third quarter results for BC's forest industry will be more positive, given the forest fires that razed through the Interior during the summer, and the ongoing dispute with the US over the softwood lumber issue.

The number of jobs in primary industries—forestry, fishing & mining—dropped sharply in August



- **British Columbia's unemployment rate inched up again in August, rising to 8.7% (seasonally adjusted).** The advance in the jobless rate occurred as an increase in the number of people with jobs (+0.3%) was not sufficient to absorb a 0.5% expansion in the labour force. *Source: Statistics Canada*

- **The sources of job growth paint a somewhat less rosy picture of the BC labour market.** Part-time (+3.5%) and self-employment (+2.4%) rose substantially, but there were fewer people with full-time (-0.6%) jobs, and the number of employees dipped 0.1%. Public sector (-0.6%) work was harder to find and the number of private sector employees was unchanged from July. Fewer men (-0.9%), but more women (+1.8%), had work in August. BC's goods producing industries cut back on the size of their workforce (-1.4%) in August, but the decline was localized in forestry, fishing and mining (-16.7%). The forest fire situation in the Interior of the province may have played a role in this decline. On the service side, employment was up 0.8%. *Source: Statistics Canada*

- **The number of British Columbians receiving regular employment insurance (EI)**

benefits rose 2.2% (seasonally adjusted), to 66,220, between May and June.

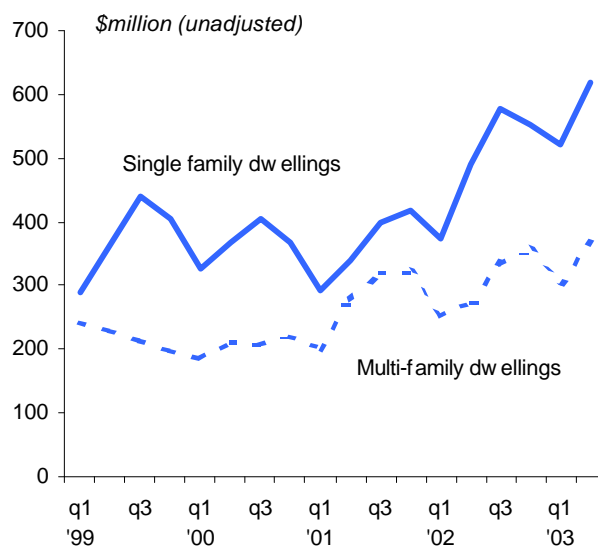
Source: Statistics Canada

- **Housing starts in the province dropped slightly (-2.0%, seasonally adjusted) in August after jumping (+35.7%) in July.**

Source: CMHC

- **BC investment in residential construction continued to boom in the second quarter, increasing 26.7% relative to the same period of 2002.** Spending on both new housing (+29.0%) and alterations and improvements to existing dwellings (+22.7%) rose substantially. *Source: Statistics Canada*

Single family dwellings lead the way in new housing boom



- **The cost of new housing in BC's two biggest cities continued to climb in July.** The new housing price index (NHPI) was up 3.8% (year-over-year) in Vancouver. Victoria's NHPI rose 7.4%, posting the second highest increase among the 21 urban centres surveyed. *Source: Statistics Canada*

- **The value of building permits issued by BC municipalities increased 22.8% (seasonally adjusted) in July, reaching a record high of \$598 million.** Both residential (+16.2%) and non-residential (+38.9%) permits were up substantially. *Source: Statistics Canada*

• **Exports of BC products fell 2.0% (seasonally adjusted) in July, after increasing in the two previous months.** Energy products, which had propped up the overall value of BC's exports, were off 10.9%. International shipments of forest products remained weak (-0.9%), falling for the sixth time in the last seven months. However, exporters of other goods fared better, with especially strong gains made by producers of industrial and consumer goods (+10.9%). Shipments to the US dropped 1.0%, as energy exports slipped (-8.0%). Exports to overseas destinations slumped (-4.3%) in July. *Source: BC Stats*

• **Manufacturing shipments in BC rose (+1.0%, seasonally adjusted) for the first time since the beginning of the year in July.** Manufacturers of non-durable goods (+2.3%) accounted for most of the overall increase. Both paper (+1.7%) and food (+2.0%) shipments advanced. Other non-durables producers also made solid gains. However, shipments of durable goods stalled (0.0%) in July as shipments by wood producers edged down 0.2%. Solid gains in machinery (+6.2%) and computer & electronic products (+9.8%) were offset by declines in non-metallic minerals (-6.3%) and transportation equipment (-9.8%). *Source: Statistics Canada*

• **The number of new motor vehicles sold in BC and the territories surged in July (+22.2%, seasonally adjusted), more than reversing June's decline (-8.7%).** This increase was largely due to various incentives, including 0% financing and cash-back deals. Nationally, sales also climbed (+12.6%), as they were up in all provinces. *Source: Statistics Canada*

• **Sales by wholesalers in the province rose a strong 1.0% in July, the first increase since January.** Wholesalers in BC sold \$3.4 billion worth of goods and services, counting for 9.3% of sales in Canada. Nationally, sales increased 1.1%, following also five consecutive monthly declines. *Source: Statistics Canada*

• **There were 821 consumer bankruptcies in the province in July, up (+3.4%) from 796 in the same month last year.** Consumer bank-

ruptcies in Canada increased 11.2%

Source: Industry Canada

• **The number of business bankruptcies registered in BC was 81 in July, down (-4.7%) from 85 last year.** Most (56) of the bankruptcies were in service industries, primarily retail trade (16) business services (7) and wholesale trade (5). On the goods side, construction (13) and manufacturing (10) accounted for the lion's share of the bankruptcies registered. Total liabilities of insolvent firms in BC were \$21.2 million. *Source: Industry Canada*

• **The mad cow crisis took a toll on BC farmers in the second quarter.** Farm cash receipts slipped 2.0% (relative to the same period last year) due to a sharp decline in cattle sales. Cattle receipts recorded the biggest year-over-year decline in 33 years, plunging 42.2% to their lowest level since 1996. Total livestock receipts were down 5.9%. Crop producers saw sales edge up only marginally (+0.6%) largely because floriculture and nursery receipts were flat (+1.3%). Floriculture and nursery products are BC's biggest cash crop, and typically account for more than half of total sales in the second quarter. *Source: Statistics Canada*

Receipts from cattle sales plunged in the second quarter

