



Weekly economic Briefing

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Little growth in retail sales

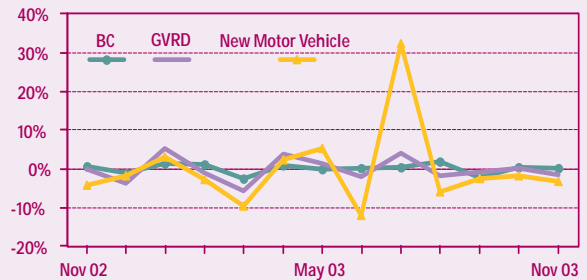
Retail sales in British Columbia totalled \$3.4 billion in November 2003, on a seasonally adjusted basis. That represents an increase of less than \$6 million (+0.2%) from October. November's total retail sales were up only 2.1% from a year earlier. That rate of growth is roughly equal to consumer price inflation over the same period, indicating the overall quantity of retail merchandise sold was more or less flat.

That's partly because new motor vehicle sales saw their fourth straight monthly decline. Car manufacturers have generally reduced their subsidies on 2004 models. Retail sales in Greater Vancouver have also been weak, declining in three of the past four months. This is partly due to lower auto sales, but may also be related to weak tourist traffic and relatively expensive real estate prices.

In the first 11 months of 2003, retail sales in B.C. totalled \$37.6 billion, up less than 2% from the same period a year earlier. That barely equals the rate of price inflation and is well down from the 6% growth in retail sales in 2002. Year-to-date retail sales in Greater Vancouver are up a mere 0.4% and sales of new motor vehicles are down 4.2%. Outside of Greater Vancouver, sales are up 3.2% year-to-date. Excluding new motor vehicles, year-to-date retail sales for all of B.C. are up 2.9%.

Motor vehicle and Vancouver retail sales have slid over the past four months

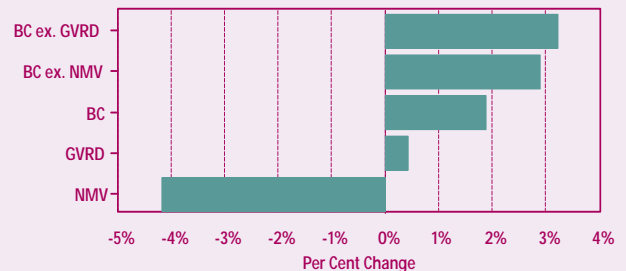
Retail Sales Growth, Seasonally Adjusted Monthly Per Cent Change



Source: Statistics Canada.

Motor vehicles and Greater Vancouver hold down retail sales growth in 2003

Retail Sales Aggregates, British Columbia Jan.-Nov. 2003 vs. Jan.-Nov. 2002



Source: Statistics Canada.

Retail sales growth is forecast to pick up in 2004 as domestic demand responds to continued low interest rates and fairly strong employment growth. Credit Union Central of British Columbia forecasts retail sales growth in B.C. will average 5.5% in 2004 and over 7% in 2005.

U.S. visitor traffic stalls, overseas still rising

The rebound in tourist traffic to B.C. that followed the end of the SARS scare and other negative events of 2003 is moderating, as visits by U.S. tourists level off, although overseas visitors continue to arrive in greater numbers. Currency movements may be having an impact on tourist flows to B.C., given the sharp appreciation in the U.S.-Canada exchange rate and the depreciation in the Euro-Canada and Yen-Canada rates. U.S. tourists find B.C. tourism services more expensive, but the Europeans and Japanese are paying less than before.

With U.S. traffic accounting for over 80% of total international entries to B.C., any change in that variable will affect the total. The current monthly trend level for U.S. entries needs to increase over 10% in 2004 just to match the 2003 total. Higher U.S. economic growth this year will help. Overseas entries in 2004 are on a course to exceed their 2003 figure, as long as economic growth in those countries improves (as the consensus expects) and the currency trend remains in their favour.

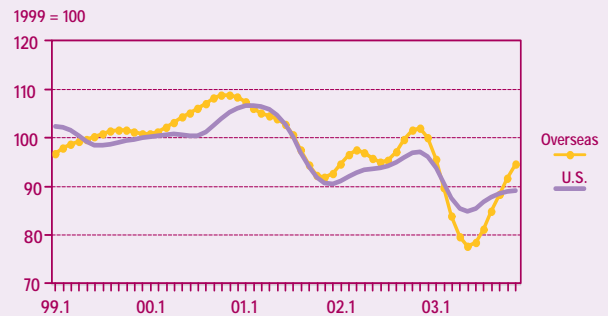
Tourism activity is sensitive to currency movements and, according to an Export Development Canada report, it is highly vulnerable to the appreciation in the U.S.-Canada exchange rate. How that rate will fare in 2004 is wide open to debate, with some seeing an imminent decline and others seeing more appreciation. Forecasting B.C.'s tourism activity in 2004 requires an assumption on the exchange rate as well as other factors affecting the sector. We are forecasting a 4.4% increase in total international entries to B.C. in 2004, even though a higher U.S.-Canada exchange rate is expected. A substantial increase in overseas traffic is part of the forecast, but that will require a stronger rebound in U.S. traffic than seen so far.

Currency appreciation hits exporters' top line

One area where the currency's appreciation is having a direct impact is U.S. dollar commodity prices, such as for lumber, when Canadian companies convert those revenues into the domestic currency. Sales revenues are hurt by the roughly 20% currency appreciation. Lumber prices are up in U.S. dollar terms by over 50% since the lows of late 2002, but are up only 30% in Canadian dollar terms. Of course, a 30% price gain is good in any currency, but clearly money is being left on the table as a result of the currency's move.

Overseas visitors returning in relatively greater numbers than U.S. visitors

U.S. and Overseas Entries via B.C.



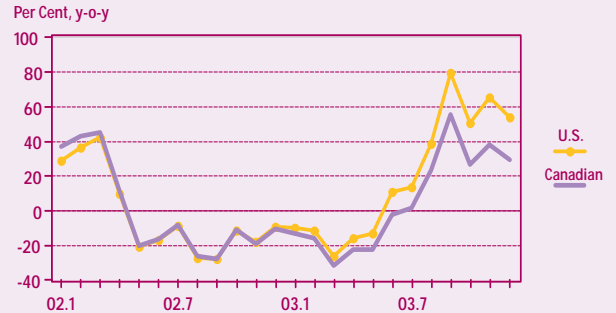
Source: Statistics Canada, CUCBC.

Latest: November 2003.

Other factors beside the currency affect lumber company revenues and profits, and some of these can be more important over the longer term. Productivity and cost efficiency are examples, as is domestic forest policy. U.S. duties on Canadian lumber are expected to burden the industry for some time, unless a negotiated settlement is reached. The recent NAFTA panel ruling requiring the U.S. Department of Commerce to lower the countervailing duty rate to 13.2% from 18.8% will not take effect until the review process is completed, possibly in 2005.

Higher currency cuts into lumber price gains

Lumber WSPF Price Changes in U.S. and Canadian Dollars



Source: BC Stats, CUCBC.

Latest: December 2003.

