



B.C.'s revenues reach a three-year high

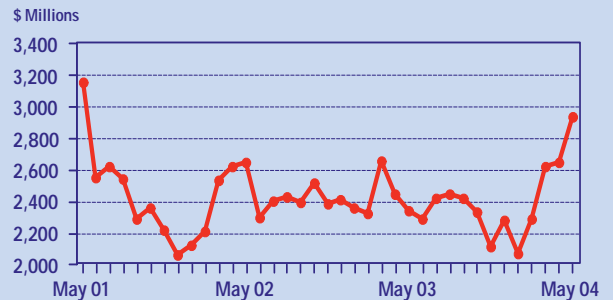
International exports of goods originating in B.C. surged in value by \$290 million (+11%) in May, to \$2.94 billion. This marks four consecutive monthly gains and puts export revenues at a three year high. Exports are now on track to grow in 2004 after declining for three consecutive years.

Exports increased in all major commodity groups in May compared to April. Revenues from energy and forest product exports surged by 13% and 14% respectively. Industrial goods and materials exports, mostly ores and metal alloys, climbed by 5%, while export revenues from all other B.C. origin goods climbed 7%.

Year-to-date revenues for B.C.-origin goods exports are up \$440 million (3.6%) from the same period a year ago. By sector, year-to-date exports of forest products are up \$650 million (13%), while industrial goods and materials exports are up \$330 million (20%). These year-to-date gains are partially offset by declines in energy exports of \$360 million (-17%) and in other goods and materials of \$180 million (-6%).

B.C.'s export revenues climb to a three-year high in May

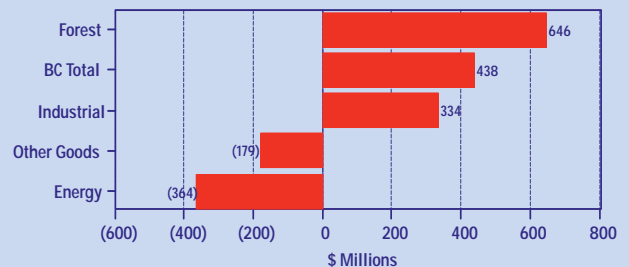
B.C. Origin International Exports of Goods



Source: Statistics Canada.

Forest and mineral product export revenues climb

B.C. Origin International Goods Export Revenue Jan.-May 2004 less Jan.-May 2003



Source: Statistics Canada.

Credit Union Central of British Columbia forecasts B.C.'s export revenues will rise approximately 5% in 2004 following three straight years of decline. This reflects improving U.S. and Asian economies (Pacific Rim excluding Japan) as well as limited inflation in Canadian exchange rates.

B.C. inflation rate up in June

The Consumer Price Index (CPI) for B.C. rose 2.8% in June compared up from 2.5% in May and 1.7% in April. This upturn is largely fuelled by higher energy prices, particularly gasoline, in response to crude oil prices breaking \$US40 per barrel. Gasoline prices are up 26% from last year. When energy is excluded, the inflation rate drops to 1.9% in June.

Other areas exerting upward pressure on B.C.'s consumer inflation rate are a 20% increase in education (tuition) costs and a 5% increase in alcohol and tobacco products. Also, electricity costs are up nearly 7% while homeowner property taxes are up over 4% from a year earlier.

Our forecast of a 1.8% increase in this year's CPI is low and needs to be raised since the sharp upturn in crude oil prices was not foreseen. The energy price index dipped a little in June from the May high but even if it did not increase any further, the year-over-year increase would be almost 10%. The new forecast calls for a 2.2% increase in B.C.'s all Items CPI in 2004 with a risk for a higher inflation rate.

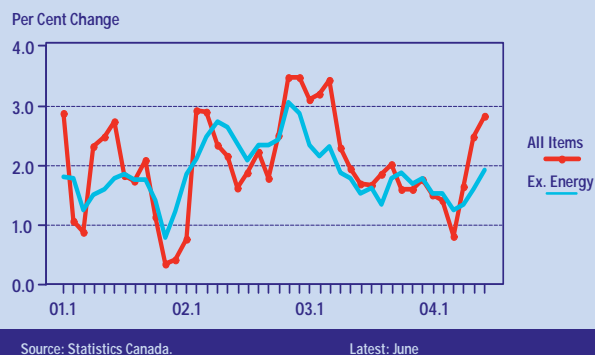
Higher energy prices power Canada's inflation

Canada's headline inflation rate in June was 2.5%, the same as in May and largely due to higher energy prices. Gasoline prices were the main contributor to the increase in the Consumer Price Index (CPI) with gasoline's 12-month increase at 24.5% in June, down from 30.3% in May. However, the CPI excluding energy rose 1.6% compared with 1.3% in May.

The all-important core CPI tracked by the Bank of Canada and used as its inflation target increased to 1.7% in June from 1.5% in May. For the second quarter, core inflation averaged 1.7%, compared to the Bank's April forecast of 1.4% and up from 1.3% actual in the first quarter. On this basis inflation is trending higher and it should as excess slack in the economy is used up. In the Bank's April Monetary Policy, it expected core inflation to return to 2.0% by the end of 2005. The Bank's Monetary Policy Report Update is coming out July 22 with a revised inflation forecast.

Energy pushes up inflation rate

B.C. Consumer Price Inflation

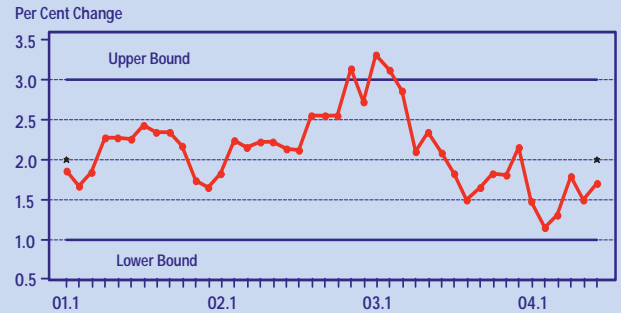


This inflation report will not prompt the Bank to change its interest rate setting on July 20. The most that should be expected from the Bank is a change in its bias or language in the July 20 statement on the future course of inflation. It is widely expected that the Bank's tone will move away from neutral towards monetary tightening setting the stage for an eventual rate increase.

Most forecasters predict the Bank will make its first tightening move at the September 8 policy setting meeting. With the Canadian dollar suddenly moving up to over 76 US cents and some softening in the external economic scene (slower US economic growth and lower commodity prices), Canada's export performance will weaken which has implications for the output gap and inflation pressures. The view taken here is that the Bank will hold off on its rate tightening until later this year.

Inflation contained

Core Consumer Price Inflation and Bank of Canada Target Range



Source: Bank of Canada. * Inflation control target

Latest: June

