

Weak start to 2005 for international tourism

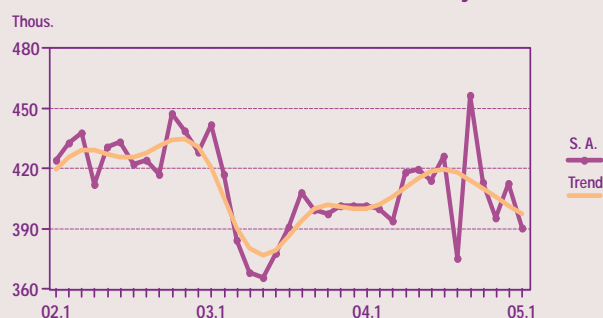
International tourist entries to B.C. in January fell to one of the lowest levels since the SARS crisis, making for a weak beginning for 2005. Seasonally adjusted tourist entries fell to 390,400 persons from 412,500 in December and 401,600 a year earlier. Almost all of January's decline was in U.S. tourist traffic, with overseas entries down only marginally from December. The short-term trend worsened and is more firmly heading downward. It will take a substantial revival in monthly traffic to turn this trend around.

The drop in U.S. tourists to B.C. could be the result of the higher U.S.-Canadian exchange rate, competition from other tourist destinations, or non-economic factors such as security or home bias considerations. After U.S. tourist traffic to B.C. reached its peak in 2001, the American economy entered a period of slow growth. The U.S.-Canadian exchange rate began to turn against American tourists in 2003 and remains a negative factor to this day, despite a strong rebound in the U.S. economy.

If the current trend in tourist visits to B.C. continues, we will need to revise our 2005 forecast downward from a 2% to 4% gain to an overall drop. Overseas traffic is the more likely source of growth in 2005. However, since the U.S. accounts for over 70% of total international tourism, it would take a 15% jump in overseas visitors to produce a small overall gain this year, assuming that U.S. traffic remains at its 2004 level. The peak summer months will determine the year's outcome.

Tourist traffic trending down

International Tourist Entries to B.C., Monthly



Source: Statistics Canada, CUCBC. S.A. = Seasonally Adjusted Latest: January 2005

New vehicle sales plunge in January

New motor vehicle sales (cars and trucks) fell sharply in January, with the colder-than-usual weather a main factor. Seasonally adjusted vehicle sales dropped to 13,100 units from 15,300 in December. A rebound in February to the 15,000-unit level is expected. B.C. vehicle sales eked out a small gain last year and a similar result is possible this year.

This performance will have a negative impact on January retail sales figures, which are due for release on March 22. Total retail sales were up in December, but there is a strong likelihood of a decline in January. New vehicles account for about 12% of total sales, and their roughly 15% decline in dollar terms will drive the total lower unless there are increases in other products.

January's colder weather affected not only sales of new vehicles but also of housing and likely other items too, particularly durable goods such as furniture and appliances.

B.C. lumber production up

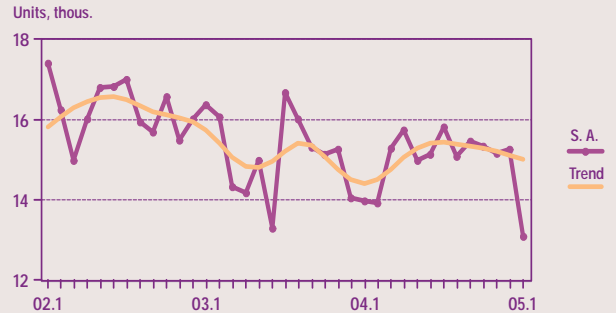
Last year's revival in lumber prices brought an 11% increase B.C. lumber production, with the Interior region posting a 12% gain and the Coast region seeing a 6% increase. However, since mid-year, production in the Coast has been on a downtrend, while Interior production has expanded.

The main reason for the recent decline in Coast lumber production is market-related. Prices in Canadian dollars for hemlock/fir and cedar plunged 10% and 28%, respectively, between mid-2004 and January. The appreciating U.S.-Canadian exchange rate contributed to this performance, as did market supply-demand conditions. Two sawmills on Vancouver Island shutdown temporarily as a result of this market.

U.S. housing starts remain at 20-year highs, with 2.195 million units started on a seasonally adjusted annual basis in February, and have averaged over 2 million units since August. Forecasts call for lower levels this year and next, at 1.84 million and 1.73 million units, respectively. Last year came in at 1.95 million. The slowdown in U.S. housing construction is attributed to higher long-term interest rates. Should this forecast materialize, lumber prices will soften later this year.

Large plunge in January

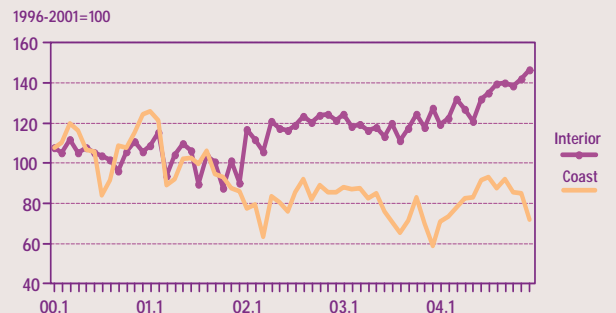
New Motor Vehicle Sales, B.C., Monthly



Source: Statistics Canada, CUCBC. S.A. = Seasonally Adjusted. Latest: January 2005

Rising lumber production in Interior region, declining in Coast region

Lumber Production, Coast and Interior Regions, B.C., Monthly



Source: Statistics Canada, CUCBC. Based on seasonally adjusted data. Latest: Dec. 2004

Coast lumber production is more oriented to Asian markets, particularly Japan, while Interior production is exclusively for North American markets. Japanese housing starts are expected to languish around the 1.2 million unit level for the next two years. It appears that Coast lumber producers will need to rely on other markets for growth.

Prospects for B.C. lumber production are mixed, not only on account of the housing starts forecasts, but also because of U.S. lumber duties and trade actions, the exchange rate, and the mountain pine beetle infestation. Each of these factors could put pressure on producers either to decrease or increase production. On balance, the various forces are likely to cause lower lumber prices and result in lower production in 2005 and 2006.

