



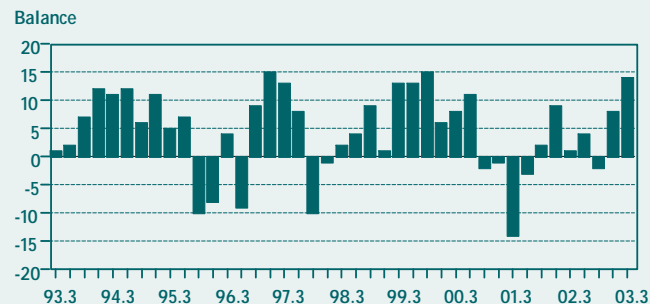
Business conditions slowly improving for B.C. manufacturers

Business conditions in B.C.'s manufacturing industries are improving but remain less than robust, on balance. Trade barriers on softwood lumber, the higher Canadian dollar exchange rate, and on-going weakness in international travel continue to take their toll on the province's tourism and export sectors. While B.C.'s manufacturers generally expect to increase production over the next three months, finished goods inventories remain too high at present and overall employment is expected to stabilize, but not to grow, in the third quarter of 2003.

The balance of opinion among B.C. manufacturers is that third-quarter production will increase from the second quarter. Thirty-three percent of B.C. respondents to Statistics Canada's latest business conditions survey of manufacturing industries expect production to increase while 19% think it will fall. The difference leaves the balance of opinion at plus-14% for an increase. Some 48% of respondents think production will not change from the second quarter. Expectations of higher production in the following quarter are up from three months ago, when the balance of opinion was plus-8% for an increase.

Balance of opinion for expected production volume in next three months vs. last three months

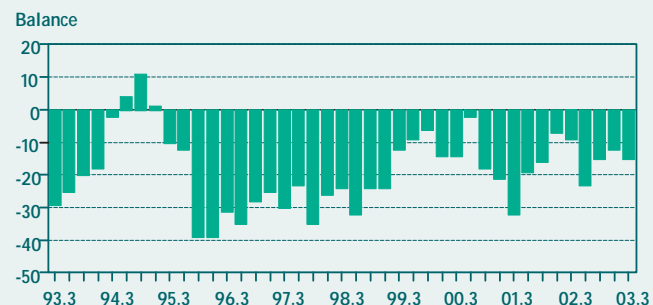
Business Conditions Survey: Manufacturing British Columbia, Quarterly (Seasonally Adjusted)



Source: Statistics Canada.

Balance of opinion for current level of finished product inventory on hand

Business Conditions Survey: Manufacturing British Columbia, Quarterly (Seasonally Adjusted)



Source: Statistics Canada.

As for manufacturing employment, expectations are that third-quarter employment will remain more or less unchanged from the second quarter. That represents an improvement from three months ago, when a net 10% of respondents expected employment to fall. With production expected to rise, B.C.'s manufacturers, on balance, expect declines in manufacturing employment to abate over the next three months.

Respondents continue to think that, on balance, finished goods inventories are currently too high. Some 22% say inventory is currently too high, but only 7% feel inventories are too low. The difference leaves the balance of opinion at minus-15% for excess inventory, more or less unchanged from three months earlier. Most respondents, some 71%, believe current inventories are about right. On balance, manufacturers have thought that inventories have been too high since mid-1995, although the degree of excess inventory appears to be diminishing.

The value of manufactured shipments from B.C. is heavily weighted toward wood, paper and food products, but also includes machinery, fabricated metals, non-metallic minerals, chemicals, beverages, plastics and rubber, transportation equipment, computers and electronics, printed goods and electrical equipment.

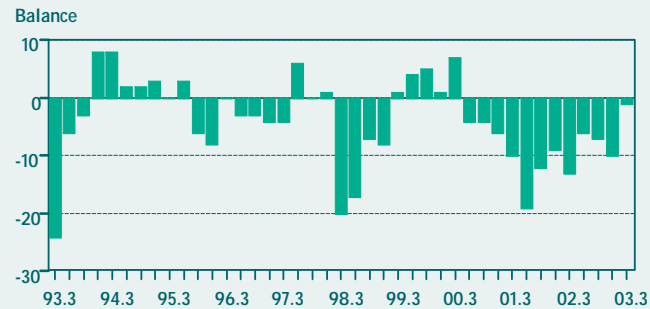
U.S. recovery unfolding but jobs still disappearing

The U.S. economy is showing increasing signs of a revival, with a pick-up in second-quarter GDP growth, a higher reading in the key July manufacturing index, and last week's favourable result in the leading economic index. The future direction in growth is heading in the right direction and expectations of a stronger second half and 2004 are well founded, given the huge amount of monetary and fiscal stimulus that exists. The lower U.S. dollar will give provide some boost in 2004, but not this year.

Second-quarter real GDP growth posted a 2.4% increase, compared with a 1.4% rise in the first quarter. The composition of the GDP report was quite strong, with final sales to domestic purchasers surging 4.6% and final sales of domestic products up 3.2%. Among the components, real personal consumption rose 3.3% and non-residential fixed investment was up a surprising 6.9%. Equipment and software spending more than reversed its one quarter

Balance of opinion for employment prospects in next three months vs. last three months

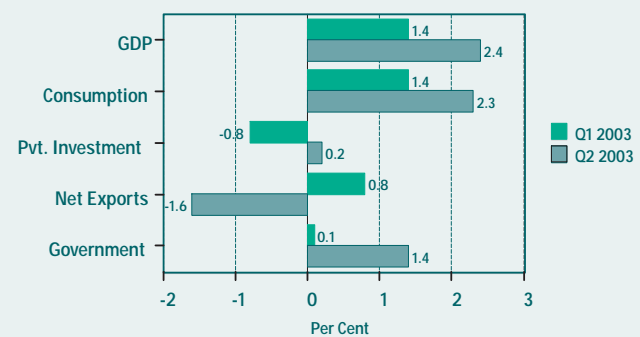
Business Conditions Survey: Manufacturing British Columbia, Quarterly (Seasonally Adjusted)



Source: Statistics Canada.

Boost from domestic spending components but trade sector a drag on growth

Contributions to Per Cent Change in US Real GDP Growth



Source: US BEA. Data are preliminary.

decline to continue its upward trend, while structures spending reportedly rose for the first time since the third quarter of 2001. However, the previous quarter's numbers had a similar rise in structures, but it was revised away in the final release of data. Government expenditures rose 7.5%, contributing 1.4 percentage points to overall growth, partly because of increased spending associated with the U.S./Iraq war.

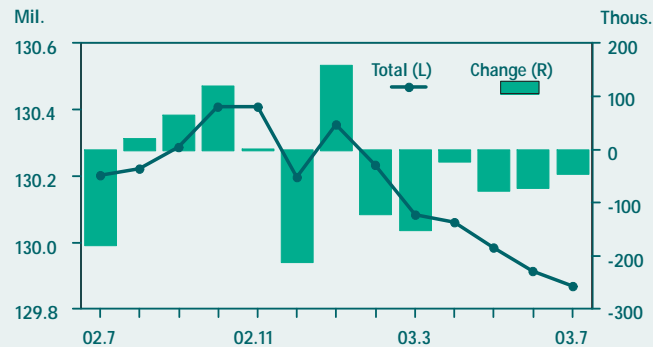
Contributions to second-quarter real GDP growth were mainly from domestic components, such as personal consumption, fixed investment, and government spending, while weakness in trade held back growth. Exports will take some time before they contribute to U.S. growth, and imports into the U.S. will also take a while to decline.

The recovery continues to be jobless, as U.S. non-farm payrolls fell by 44,000 jobs in July, while June's losses were revised downward to 72,000 (from the initial estimate of a 30,000 drop). Factory jobs declined by a huge 71,000, although the service sector did produce 23,000 jobs. One bright spot was temporary services, which added 42,000 jobs. It's believed that job gains in this category are a signal of more robust hiring in the future. Other aspects of the survey were weak, namely the average workweek falling by 0.1 hours to 33.6 and the manufacturing workweek dropping 0.2 hours to 40.1.

Overall, it does appear that growth momentum is building and will continue to do so, but there are still weak spots. The growth track will not be higher in every successive quarter to come. Currently, the U.S. economy is on pace to post growth of 3.0% to 3.5% in the second half, putting the whole year's figure at around 2.5%. Next year, it should be higher, in the 3.5% range.

Jobless recovery

US NonFarm Employment and Monthly Change



Source: US BLS. Note: Based on seasonally adjusted data.

