



## November exports stay low, prospects for 2003 modest

**W**eak international demand for B.C. merchandise exports kept November's total near recent low levels. Seasonally adjusted exports came in at \$2.304 billion, slightly higher than in October, but still on a downward short-term trend. Compared to a year earlier, exports were unchanged. Exports for the year-to-date are down 9%, compared to a 7.3% drop for all of 2001.

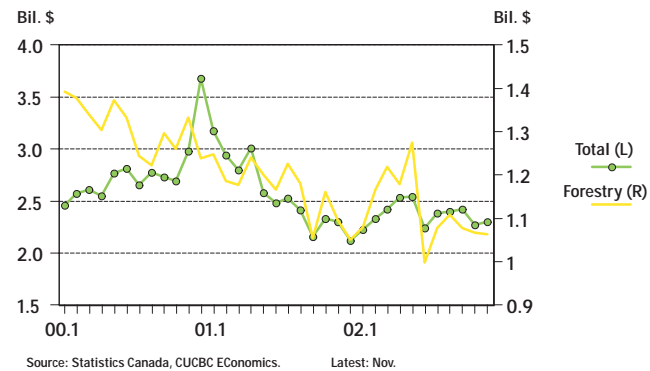
Forest products exports continued to slip in November on the heels of lower prices and volumes for some products. The yearly performance is somewhat better than for total exports, with a 4.8% drop to date. This was due to the surge in lumber production prior to the imposition of the U.S. duties and to higher prices for pulp and newsprint earlier in the year.

The outlook for B.C.'s international merchandise exports is modest and cautiously optimistic. We are forecasting growth of 4.5% for 2003. A moderate growth performance in the U.S., and the global economy in general, should result in commodity prices firming and higher volumes during the year. Removal of the U.S. duties is unlikely, but it would provide a significant boost to lumber exports. Government policy changes in the forest sector are in the offing, but it is unclear how far they will go and how the U.S. will react. Our 2003 forecast assumes a status quo policy framework.

A rising Canadian dollar against its U.S. counterpart is built into the 2003 forecast. We expect the Loonie to trade in the 64 cents US to 66 cents US range and average 65 cents US. In 2002, the dollar averaged 63.7 cents US in a range of 62.0 to 66.1 cents US. This small expected increase is will not crimp U.S. export demand very much, but if the Loonie crossed the 70 cents US threshold, its value would become a negative factor.

### Exports remain down

B.C. International Merchandise Exports, S.A., Monthly



## Latest U.S. economic data generally weak

The near-term outlook for the U.S. economy is for further weakness in January and probably into February as well. The first reading of consumer confidence for January shows a decline from December, with the drop concentrated in the index's expectations component. Consumer spending, the economy's growth driver in recent years, will likely remain in a moderate growth mode at best — December retail sales posted a 1.2% gain, but sales were flat with autos and gasoline excluded. Nor is the industrial or manufacturing sector showing signs of renewed growth, with another contraction in December, marking the fifth monthly decline since June.

In the few brighter reports of the past few weeks, jobless claims fell and home purchasing activity rose. A fairly dormant inflation report on December consumer prices could be taken either way -- positively, in that interest rates will not be rising anytime soon, or negatively, because it shows that the pricing power of companies is weak. To improve the bottom line, companies will be under continued pressure to cut costs and lay off employees.

Geo-political events are weighing heavily on consumer expectations. Until these issues are resolved, uncertainty in the economy and volatility in financial markets will continue. This climate is affecting consumers, businesses and investors, thereby holding back economic activity and restraining growth. The January 27 target date for the UN report on Iraq weapons inspections is a key event, as is President Bush's annual State of the Union address on the following day. The recent tax cut proposals will have only a minor positive impact on U.S. growth in 2003. Economic growth in the first two quarters of 2003 is likely to be in the 2% to 3% range, assuming no major flare-up on the geo-political front.

In that scenario, B.C.'s exports to the U.S. are probably on a modestly improving growth track, at best. With the U.S. accounting for two-thirds of B.C.'s international goods exports, we cannot expect a strong boost to the province's economy this year.

## Consumer confidence falls back in January

Consumer Sentiment Index, U.S.

