



Third monthly dip in B.C. goods exports

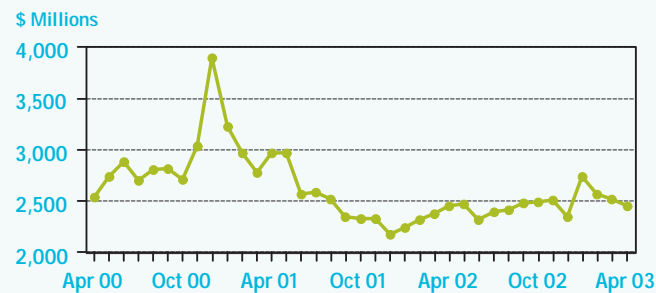
International exports of goods originating in B.C. dropped in value by \$71 million (-2.8%) in April, to \$2.45 billion, after adjusting for seasonal effects. Forest product exports fell \$80 million (-7.8%), as strong demand together with over-supply continued to weaken lumber prices in North America. Energy exports dipped by \$9 million (-1.5%) as the price of natural gas fell slightly. Exports of industrial goods and material and other goods also dropped in April, as the rising Canadian dollar cut revenues from the U.S. and Asia.

In the first four months of 2003, net B.C.-origin exports were \$888 million higher than in the same period last year. Year-to-date energy exports rose \$1.31 billion, while exports of industrial goods and materials increased \$151 million. But those gains were partly offset by a \$565 million drop in forest product exports.

April's dip marks three consecutive months of lower revenues from B.C.-origin exports, seasonally adjusted. A slowdown in U.S. and global economic growth has dampened exports worldwide and the rising value of Canada's currency relative to our main trading partners has also cut export revenues. U.S. trade barriers against imports of Canadian lumber, wheat, beef, steel and other commodities are also dampening B.C.'s exports.

B.C. export revenues dip in April

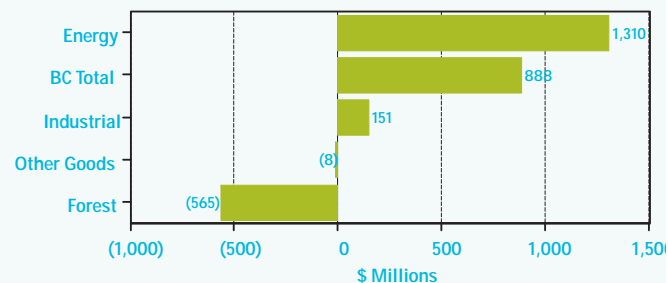
B.C. Origin International Exports of Goods Monthly, Seasonally Adjusted



Source: Statistics Canada.

Energy and mineral exports up; Forest exports down

B.C. Origin International Goods Export Revenues Jan-Apr 2003 less Jan-Apr 2002



Source: Statistics Canada.

Credit Union Central of British Columbia forecasts an increase in exports of B.C.-origin goods of about 2.5% this year and a further 8% in 2004, with some downside risk. Most economic forecasters see at least a moderate acceleration in U.S. and global growth in the second half of this year. When U.S. growth takes off, the growth of B.C.'s exports will follow.

Canadian dollar rise continues in May

The Canadian dollar continued to rise in value relative to most of our major trading partners in May. The dollar appreciated further against the U.S. dollar, Japanese yen and U.K. pound, while dipping slightly relative to the Euro. The rising Canadian dollar dampens Canadian and B.C. exports, but lowers the cost of imported goods and services. On balance, it is a negative factor for B.C.'s economic growth.

The main source of continued strength in the Canadian dollar is the increased international flow of money and capital into Canadian treasury bills, bonds, stocks and other assets. Capital is attracted to Canada because T-bill yields and stock market returns are higher here than in the U.S., Japan and the U.K. That in turn is due to Canada's brighter near-term outlook for economic growth.

Credit Union Central forecasts that the Canadian dollar will continue to rise over the next several years, averaging US\$0.72 to US\$0.73 this year and about US\$0.75 in 2004, with some upside risk. That compares with an average of US\$0.64 last year.

Our rising dollar has several important consequences. First, it is expected to reduce B.C.'s real GDP growth rate by up to one percentage point, owing to lower export growth. Second, domestic interest rates will not have to increase as much as expected, since the soaring dollar acts like a rising bank rate to dampen expected inflation. Finally, Canadians will get more "bang for their buck" when purchasing imported goods and services.

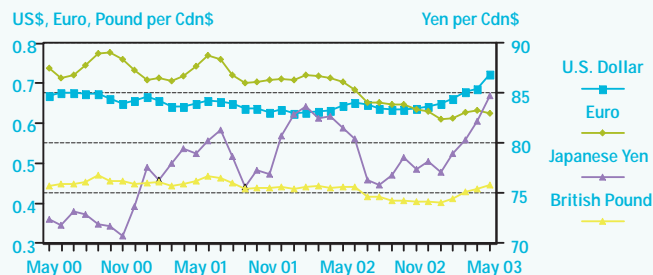
Housing construction strong

Housing starts in urban areas of B.C. dropped in May but remained relatively strong. New construction of both single-detached and multi-family dwellings fell, with most of the decline occurring in Metro Vancouver. So far this year, urban housing starts in B.C. are up 20% from the same period last year.

Rising prices and relatively low inventory levels are setting the stage for further gains in housing construction. Sales and prices will rise as a result of affordable mortgage rates, firming economic growth, and slowly accelerating population growth.

Canadian dollar rising

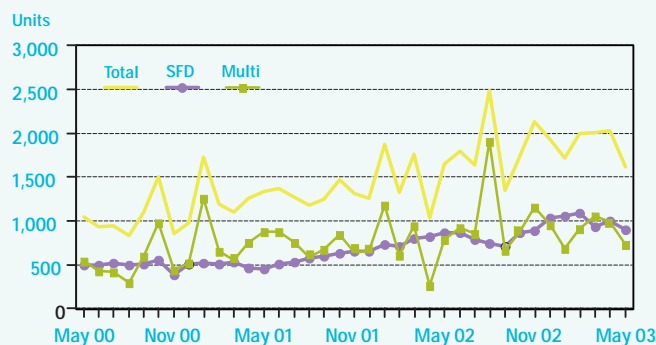
Selected Currencies per Canadian Dollar
Monthly Averages



Source: Bank of Canada.

B.C. housing starts dip in May

Housing Starts by Type, Seasonally Adjusted, Monthly, Urban BC



Source: CMHC, CUCBC for seasonally adjusted data.

Starts are rising in most B.C. centres, led by the larger population areas. Victoria, Abbotsford, Vancouver and Kelowna are seeing year-to-date gains of over 20%, but smaller population areas are not. Differing local economic conditions, population growth rates and levels of pent-up demand account for the variations in new housing starts.

Credit Union Central is forecasting a 21% increase in B.C. housing starts this year, to 26,200 units from 21,625 last year. Starts are expected to rise a further 10% next year. Details of Central's latest real estate and construction forecast for B.C. will be published soon in the next issue of Economic Analysis of British Columbia.

U.S. consumer sentiment slips after sharp rebound

U.S. consumers viewed the economy's future more dimly in June after a sharp rebound in the previous two months, which followed the end of the war with Iraq and lower energy prices. The expectations component of the consumer sentiment index fell to 84.2 from 91.4 in May and was responsible for most of the decline in the overall index, just as it was for the rebound. Consumers' assessment of current conditions also declined in June. On the positive side, consumers still have a more optimistic view of the economy than in the past year.

The University of Michigan's survey is one of the more important economic reports on the U.S. economy, since it covers the large consumer sector, which has kept the economy out of recession, and is closely watched by analysts. Its expectations component has proven to be a good leading indicator for the U.S. economy and consumer spending in particular.

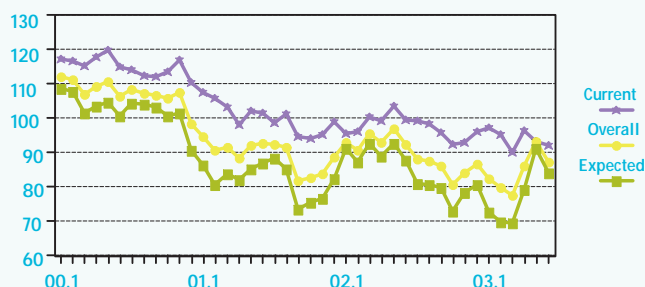
June's preliminary readings were viewed negatively by the financial markets and raise the odds of a Fed rate cut at the end of the month. The Fed will await further data on the economy and prices before making its rate decision on June 25. The market is pricing in a rate cut of 25 basis points (bps) and the odds of a 50 bps drop are put at about 50-50. The futures market predicts the Fed funds rate will rise to about 0.85% in September from its current 1.25%.

For Canada, a healthy U.S. economy and consumer sector is vital to keep domestic exports growing. A Fed rate cut would put considerable pressure on the Bank of Canada to chop rates at its July 15 meeting, especially when the Canadian dollar will easily appreciate to more than 75 cents US (and possibly over 77 cents) following a Fed cut. The wider interest rate spread between Canada and the U.S. would attract more investment money into Canadian financial assets and boost the Canadian dollar. The Bank would have to cut rates to slow the momentum of the Canadian dollar and, for the first time in a long while, it would be changing rates not to defend a falling dollar but to fend off a rising dollar. Unusual times indeed!

U.S. consumer sentiment falls back in June

U.S. Consumer Sentiment Index

1966Q1 = 100



Source: University of Michigan. Latest: June preliminary