



About 80% of immigrant landings continue to be either members of resident families or independent skilled workers. Refugees, assisted relatives, entrepreneurs and investors make up the balance of landings. Compared with the rest of Canada, B.C. receives an above-average proportion of business immigrants and a below-average proportion of refugee immigrants.

Asia accounted for almost 80% of B.C.'s first-quarter immigrant landings. Mainland China remained the leading source of immigrants and provided for most of B.C.'s immigration in the skilled worker and investor classes. India remained the second-largest source of immigrants and accounted for most of B.C.'s family class landings.

Immigration continues to be the main source of overall population growth in B.C.

### Small business confidence falls in B.C.

Confidence among operators of small- and medium-sized enterprises (SMEs) in B.C. fell significantly in the second quarter, according to the latest survey by the Canadian Federation of Independent Business (CFIB). The CFIB's Business Barometer Index for B.C. reflects how well business owners expect their firms to perform in the next 12 months. The index stands at 103.2 as of June, down sharply from a reading of 113.2 in March. This marks the first significant decline in SME confidence since the third quarter of 2001.

The biggest concern of SMEs in the latest quarter is the higher cost and lower availability of insurance. Most businesses indicate they have been harmed either slightly or significantly by these factors. The continuing softwood lumber dispute with the U.S. is another major source of harm to SMEs. Other factors currently hurting SME's include the U.S.-Iraq war, mad cow disease and Severe Acute Respiratory Syndrome (SARS).

The appreciating Canadian dollar had a mixed impact on business confidence, but the overall effect is negative. About one-third of SMEs said that a higher Canadian-U.S. dollar exchange rate hurts their business, while a fifth said it helps. Half of respondents think the exchange rate has an unknown or neutral impact on their business.

Canada-wide, SMEs in the agriculture, construction, retail and hospitality sectors are feeling the most pressure from economic shocks and weaker economic growth. SMEs in the financial services, social services and business services sectors are least affected by these factors.

## Lower immigration in first quarter

### Immigrant Landings in B.C., Quarterly

Thousands of People

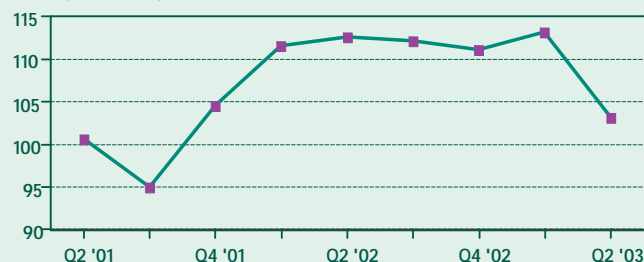


Source: B.C. Stats.

## Small business confidence down

### Expectations Index, B.C., Quarterly Small and Medium Sized Enterprises

Index (1988 = 100)



Source: Canadian Federation of Independent Business.

## Canada's economy contracts

For the first time since September 2001, Canada's economy shrank. April's contraction was due to various factors, the most prominent being SARS, the rising Canadian dollar, a slowing U.S. economy, poor weather, and the Iraq war. April's drop in Gross Domestic Product (GDP) was not a surprise, since it was foretold by the poor labour market and manufacturing data released earlier. Indications are that May will be weak and possibly show another contraction.

The economy was affected by the SARS scare, but when the travel sector (down 0.7%) is excluded, it still contracted by 0.1%. There was widespread weakness among the goods producers, as mining plunged 2.3%, utilities output was down 1.5%, and manufacturing was off 0.4%. Overall, industrial production fell 0.8%, the fifth drop in six months. Service sector output was flat, as a 2.1% plunge in the accommodation and restaurant industry was partly offset by a 0.5% rise in health care, which was boosted by SARS.

This report and other available economic data for May, along with expectations of at best only a modest improvement in the June and July data, point to an interest rate cut by the Bank of Canada. Economic growth forecasts are being revised downward and 2003 growth is now expected to be about 2%, instead of the 3%-plus predicted six months ago.

Statistics Canada does not produce comparable monthly GDP figures for the provinces, but if numbers were available, they would show a contraction in B.C.'s growth too. We now are forecasting B.C.'s real GDP growth rate to come in at 1.5% this year. The risk is on the downside for these economic forecasts.

## Stage set for Bank of Canada rate cut

The latest reading on the Canadian economy, the sharply higher Canadian dollar, and the rate cut by the U.S. Federal Reserve Board set the stage for the Bank of Canada to slash rates too.

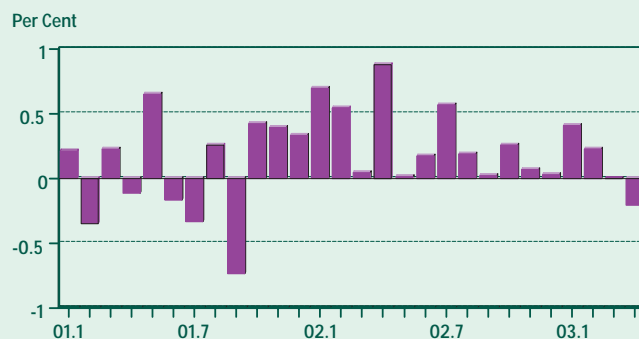
Canada's economy shrank in April, and probably did again in May, thus relieving any excess inflationary pressure. That was reflected in the recent moderation in the inflation rate. This widens the 'output gap' – the difference between potential and actual economic output – further in the second quarter. The Bank estimates that it was -0.3% in the first quarter and we estimate that it will widen to about -0.8% to

-1.0% in the second quarter. With this economic performance, there's no reason to keep monetary conditions as tight as they are.

The Fed cut interest rates one more time in an effort to stave off deflation and to re-ignite the U.S. economy. The quarter-point reduction in its key lending rate to 1.00% is considered a cautious move, when it could have sent a stronger message by cutting rates by one-half of a percentage point. The Fed may have to cut again if the economy does not show more

## First contraction since 9/11

Canada's Gross Domestic Product, Monthly Change



Source: Statistics Canada.

Latest: April

signs of revival by its next meeting, on August 12. Economic forecasters are predicting stronger growth in the third quarter of this year. If that materializes, this latest cut would be the last, barring an unforeseen negative shock.

The Fed's move along with the sharp appreciation of the Canadian dollar during the past few months gives the Bank of Canada more than enough leeway and rationale to cut rates at its July 15 meeting. The dollar's appreciation by itself should be reason enough to slash short-term interest rates and the Fed's move only adds weight to that decision. According to the Bank's own research, a 3% appreciation in the Canadian dollar is equivalent to a one percentage point rise in short-term interest rates. The higher Canadian dollar is having a negative impact on prices that Canadian producers receive, according to the latest data from Statistics Canada.

The dollar has risen about 15% since the beginning of the year, which is roughly equivalent to short rates rising by five points. That's comparable to a 9.5% prime rate with the Canadian dollar at 64 cents US. Obviously, Canada's economic growth would be considerably weaker with a 9.5% prime rate, and the current 74-cents-US dollar is having the same effect. In the past, the Bank has used interest rates to defend a falling dollar; it should now use interest rate policy to fend off a rising dollar.

Monetary conditions, the combination of short-term interest rates and the exchange rate, have tightened from roughly -10 at the beginning of the year to less than -5. This represents the sharpest increase in monetary conditions during a six-month period since the second half of 1980, when short-term interest rates went from about 10% to 17%.

Thus, the stage is set, and all that remains is for the Bank to follow the script and play out the role. For the Bank not to cut rates on July 15 would require some highly unusual developments to occur between now and then, unless it is simply a bad actor.

