



Weekly economic Briefing

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Gas and mineral prices boost first-quarter B.C. exports

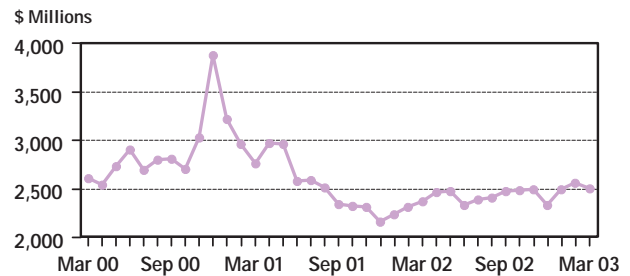
International exports of goods originating in B.C. dipped in value by \$55 million (-2.1%) in March, to \$2.51 billion, after adjusting for seasonal effects. But energy exports rose \$94 million (+17.6%) as below-normal winter temperatures, declining inventories and pipeline constraints held up the price of natural gas. For the whole first quarter, energy exports were up \$776 million (+92%) year-over-year.

First-quarter exports of industrial goods and materials, mainly ores, also increased year-over-year, by \$156 million. In contrast, exports of forest products fell \$298 million year-over-year, as lower lumber prices offset higher export quantities. Exports of all other B.C.-origin goods rose a net \$7.5 million year-over-year.

March's dip in export revenue marks the first drop in four months in the seasonally adjusted dollar value of B.C.-origin exports. Slow growth in the U.S. and global economies have dampened exports worldwide. Higher energy and mineral prices are expected to continue to drive B.C.'s export growth in 2003, with most other commodities seeing moderate price and volume increases.

B.C. export revenue dips in March

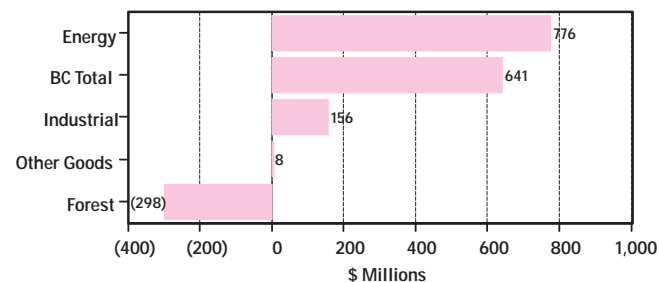
B.C. Origin International Exports of Goods Monthly, Seasonally Adjusted



Source: Statistics Canada.

Energy and mineral exports up; Forest exports down

B.C. Origin International Goods Export Revenues 1st Quarter 2003 less 1st Quarter 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. 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 rising

The Canadian dollar continues to rise in value relative to our major trading partners. The dollar has appreciated against the U.S. dollar in each of the past seven months. It has also risen in value relative to the Euro, Yen and Pound Sterling in each of the past four months. 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 recent 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 they are in the U.S., Japan, the European Union and the United Kingdom. More importantly, these yield and return spreads are widening, in Canada's favour. This in turn is due to a near-term outlook for economic growth that is brighter for Canada. Reinforcing the international capital flow to Canada is a moderate increase in our merchandise trade balance with the rest of the world over the past 12 months.

Credit Union Central forecasts the Canadian dollar will continue to rise over the next several years, averaging US\$0.71 to US\$0.72 this year and about US\$0.75 in 2004. That compares with an average of US\$0.64 last year.

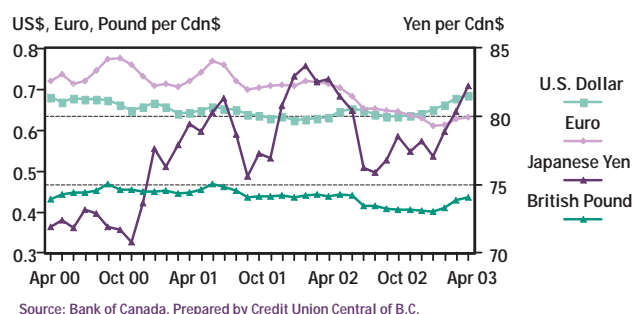
Our rising dollar has several important consequences. First, it is expected to reduce B.C.'s real GDP growth rate by up to one percentage point, owing to lower export growth. Second, domestic interest rates will not have to increase as much as expected, since the soaring dollar acts like a rising bank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

U.S. consumer confidence surge a good sign

The strong rebound in U.S. consumer confidence is a positive sign of better economic growth ahead, barring another shock -- geopolitical or otherwise. Every time consumer confidence has rebounded strongly in the past, the U.S. economy has never fallen back into reces-

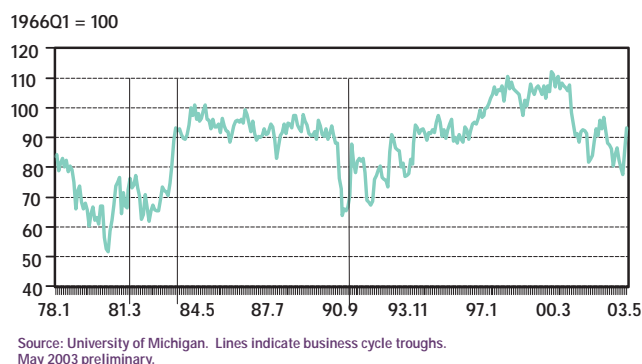
Canadian dollar rising

Selected Currencies per Canadian Dollar
Monthly Averages



Strong rebound in consumer confidence

U.S. Consumer Sentiment Index, Monthly



sion or, put another way, has always seen stronger or ongoing growth. The latest release from the University of Michigan Survey put the preliminary May consumer confidence index at 93.2, compared to 86.0 in April and 77.6 in March. This is one of the largest two-month gains on record but does not match the 20.9 jump following the end of the Gulf War in March 1991, which coincidentally marked the end of the 1990 recession and the beginning of the long recovery and expansion of the 1990s. The only other occasion when the index posted a larger two-month rise was in December 1992 following President Clinton's election.

The index's gain was entirely in its expectations component, as the present conditions component declined. This is the same pattern seen in all other major rebounds in the overall index. Reasons for this strong rebound are an end to the war with Iraq, lower energy prices, and stock market gains.

While this renewed consumer confidence signals a better economy ahead, significantly stronger growth will not emerge quickly. One difference this time is that the U.S. consumer has a lower level of pent-up demand, and so consumer spending will be less of a catalyst than normal in powering stronger economic growth. The U.S. consumer kept the economy out of a normal or severe recession in 2001 with continuing purchases of new vehicles, housing, and other goods and services.

Nonetheless, higher consumer confidence levels are critical to ongoing consumer spending growth and to the overall U.S. economy. Some fallback in confidence in the coming months is likely, once the glow of the rebound fades and the reality of a fairly weak labour market takes more prominence. But, as long as we have passed the low point in confidence and there is no major setback, there is a high probability of stronger U.S. economic growth ahead.

