



B.C. exports level off in August

International exports of goods originating in British Columbia rose by a slight \$13.5 million (+0.6%) in August to \$2.4 billion, after adjusting for seasonal effects. Exports of B.C. origin rose strongly in the first half of 2002, following last year's recession in international trade. However, in June, the imposition of softwood lumber duties on exports to the United States, together with a slowdown in the growth rate of the U.S. and global economies, led to a reversal in export growth. In July and August, the trend level of exports from B.C. was essentially flat.

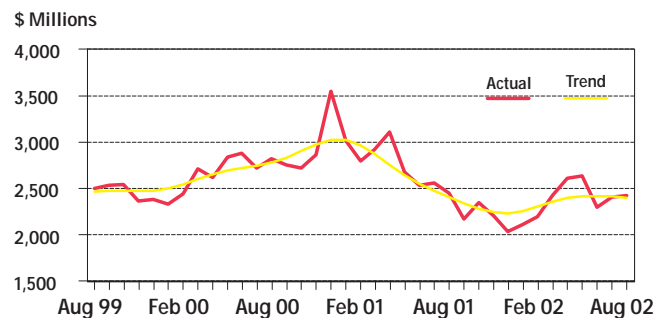
So far this year, international exports of B.C. goods are down 13% in dollar value from the same period in 2001. Our forecast is for a 5.5% decline in goods exports for all of 2002, followed by a 5.7% gain next year.

Year-to-date international exports of B.C. forest products are down 6.8% from the same period in 2001. Representing half of B.C.'s international goods exports, forest products are suffering under the weight of U.S. duties, which add an average of \$27 to the cost of each \$100 worth of softwood lumber exports. As well, lumber and plywood exports to Japan are down substantially from last year, due to weak economic growth there.

Higher-cost coastal lumber production has been hit the hardest, while interior production is up from last year. However, a 16.6% year-to-date decline in pulp and paper

Exports level off in August

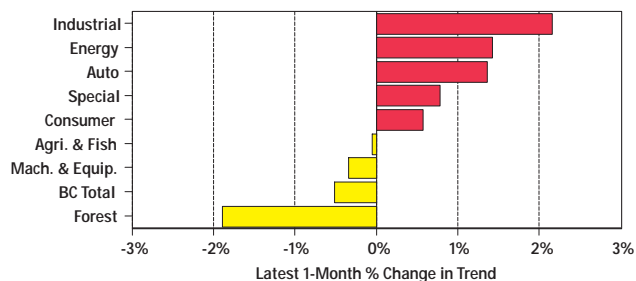
B.C. Origin International Exports of Goods Monthly



Source: Statistics Canada and CUCBC trend.

Forest products continue to dampen B.C.'s export growth

B.C. Origin International Goods Export Revenues



Source: Statistics Canada and CUCBC trend.

exports is the main reason that forest product exports are down this year. Excess worldwide production capacity and slower U.S. and international economic growth have lowered both the price and volume of pulp and paper shipments from B.C.

In August, the trend level of international exports of industrial goods and materials rose by 2%. This group includes mineral ores, concentrates and metals, such as aluminum, copper, zinc, molybdenum, silver and gold. Other major categories of B.C.-origin exports that trended upward in August include energy, automotive and consumer products.

Mainland housing markets flatten out

Housing sales in the Lower Mainland have levelled off over the past few months, after falling by some 30% from the recent peak in April. In Greater Vancouver and the Fraser Valley, residential sales via the Multiple Listing Service (MLS) totalled 3,671 properties in September, up 13% from 3,242 in September 2001. Year-to-date residential property sales are up 27% from the same period in 2001. Despite robust year-over-year gains, sales of residential property in the Lower Mainland trended downward at a monthly rate of 2% in September, after adjusting for seasonal and irregular effects.

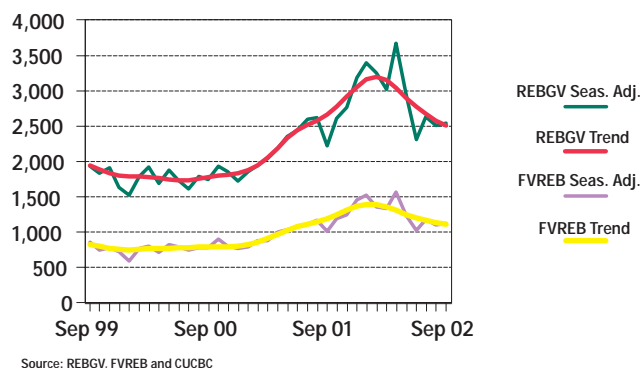
Housing prices remain on an upward trend, according to the constant quality price indexes available from real estate boards in the Lower Mainland. The typical detached house has increased in price by about 8% over the past 12 months in Greater Vancouver and by some 10% in the Fraser Valley, while prices of typical apartment condominiums are up by about 11% in Greater Vancouver and by roughly 14% in the Fraser Valley.

Where does the market go from here? Changes in the trend rate indicate that declining sales since May will soon reverse, and an upward trend will begin early in 2003. Various positive factors point to this. There is pent-up demand of perhaps 40,000 potential households; mortgage rates are forecast to remain low, rising by less than one percentage point by the end of 2003; employment and income are growing modestly but steadily; residential building intentions are rising; low to negative returns are expected on stock investment; low interest rates favour spending over saving; housing price inflation is currently superior to general inflation; and the currency exchange rate with the United States strongly supports U.S. investment in Lower Mainland real estate.

There are negative factors at play, too: generally high and rising residential land prices; a rising trend in mortgage rates; low inventories of existing and new dwellings available for sale; a recent slowdown in the rate of economic growth in B.C., North America and globally; and relatively low levels of net immigration and net inter-provincial out-migration.

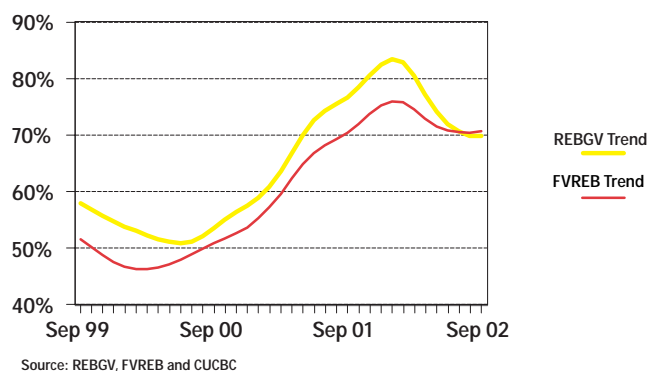
Mainland residential property sales level off

MLS Residential Sales (Dwellings per Month)



Mainland sales to listings ratio indicates prices set to move up

MLS Residential Sales to Listings Ratio (Monthly)



CUCBC economists expect the positive factors will outweigh the negative, and sales will rise by about 10% in 2003. Residential property price inflation is expected to remain significantly above the general inflation rate.

No change by the Bank of Canada; mortgage rates rise

The Bank of Canada thinks external economic growth weakness and uncertainties are enough to slow Canada's economic growth, and thus is keeping short-term interest rates unchanged. This is the second Bank meeting in a row to reach that conclusion, after three consecutive quarter-point increases earlier this year. Our expectation is that the Bank will remain on hold at its next two meetings, but will then begin a gradual tightening phase, or "removal of monetary stimulus" to use the Bank's phrase. We see the first Bank Rate increase happening next March, followed by two more quarter-point hikes later in the year.

In an unrelated development, mortgage rates went up as the stock market rallied, drawing money out of the bond market. Lower bond prices mean higher bond yields, and thus higher costs for financial lenders. The five-year closed mortgage rate rose 30 basis points (bps) to 7.00% and the three-year closed rate increased 15 bps to 6.20%. There was no change in the one-year fixed rate, which currently stands at 5.30%.

These rate increases might stick, but in a still-volatile environment almost anything can happen, so a fallback would not be a surprise. Over the next year or two, mortgage rates will be on a gradual up-trend, as will all interest rates, with short-term rates seeing most of the rise. Higher mortgage rates will take some of the steam out of housing market and dampen growth.

U.S. housing starts surge

Following three months of decline, a 13% surge in U.S. housing starts during September put new home construction at its strongest pace since June 1986. Starts came in at 1.843 million units, annualized and seasonally adjusted, up 216,000 units from August. This was the largest change in monthly units in several years and is difficult to explain. Weather may have played a role in the rebound, and the normal seasonal adjustment may not have adequately accounted for this. But the fact that all four U.S. geographic regions saw significant gains points to a different explanation. It might just be a natural consequence after three monthly declines, since the housing market continues to enjoy very favourable financing conditions.

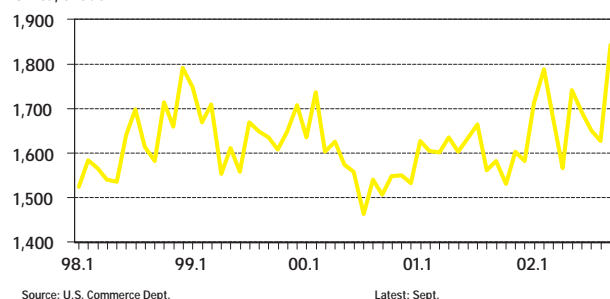
In any case, home-building activity is at a very strong level and will likely remain healthy for the foreseeable future. Housing permits are also up, rising 3.7% during September, suggesting that starts will continue to show strength in the near term. A fallback from the 1.8 million mark should be expected and that could happen next month, but housing will remain a source of strength in the U.S. economy and help keep it out of another recession.

High U.S. housing starts levels are good news for B.C. lumber producers, who have seen western spruce-pine-fir 2x4 stud prices fall to below US\$200 per thousand board feet. This starts report should boost prices, at least temporarily.

September starts surge

U.S. Housing Starts, SAAR, Monthly

Units, thous.



Source: U.S. Commerce Dept.

Latest: Sept.