



B.C.'s merchandise export revenues dip in July

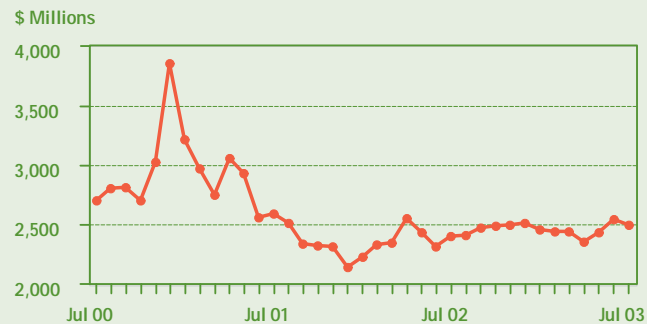
International exports of goods originating in B.C. dipped in value by \$42 million (-1.6%) in July, to \$2.5 billion, after adjusting for seasonal effects. Forest product exports edged up \$17 million (1.8%) as reasonably strong demand together with supply constraints caused by forest fires began to raise lumber prices in North America. Energy exports dropped by \$100 million (-15.6%) as the price of natural gas edged down. Exports of industrial goods and other goods both rose in July by a total of \$56 million, as Canadian dollar exchange rates eased and industrial production perked up in the U.S. and parts of Asia.

In the first seven months of 2003, B.C. origin exports increased \$553 million (3.3%) compared to the same period last year. Year-to-date energy exports rose \$1.69 billion year-over-year while exports of industrial goods and materials increased \$108 million. These gains were partly offset by a \$1.1 billion drop in year-to-date forest product exports and a \$143 million drop in year-to-date exports of all other goods.

July's dip in seasonally adjusted export revenues from B.C.-origin goods follows two consecutive monthly gains. Economic growth has been sluggish in the U.S. and globally so far this year, dampening exports, although

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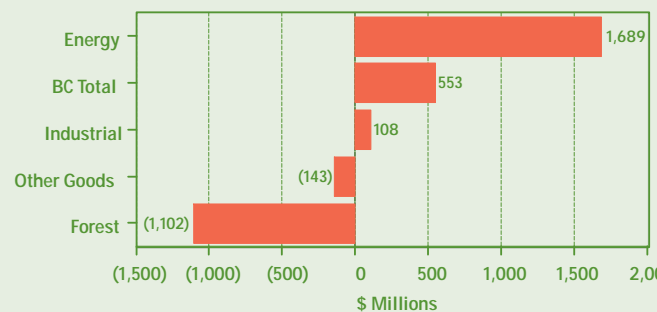
B.C. Origin International Exports of Goods, Monthly (Seasonally Adjusted)



Source: Statistics Canada.

So far this year, energy and mineral exports are up while forest and other exports are down

B.C. Origin International Goods Export Revenues (Jan-Jul 2003 less Jan-Jul 2002)



Source: Statistics Canada.

the U.S. economy now appears to be perking up. The exchange value of Canada's currency relative to our main trading partners has also eased back recently after rising rapidly in the first half of the year. U.S. trade barriers on imports of Canadian lumber, beef, and other commodities continue to dampen B.C.'s export growth.

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 eases again in August

The Canadian dollar eased back in value relative to most of our major trading partners in August, the second straight monthly decline following strong and steady appreciation in the first half of 2003. The dollar depreciated against the U.S. dollar and Japanese yen, held steady against the U.K. pound, and appreciated against the Euro. A lower Canadian dollar has a lagged but positive effect on Canadian and B.C. exports, but raises the cost of imported goods and services. On balance, it is a positive factor for B.C.'s economic growth.

The main source of weakness in the Canadian dollar in August was the decreased flow of international money and capital into Canadian treasury bills, bonds, stocks and other assets. Capital was less attracted to Canada because the positive spread between future Canadian and U.S. treasury-bill yields narrowed as the Bank of Canada re-aligned the direction of monetary policy with the U.S. Federal Reserve. As well, stock market returns improved in the U.S. relative to Canada. This in turn was due to a near-term outlook for economic growth that is somewhat brighter for the U.S.

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

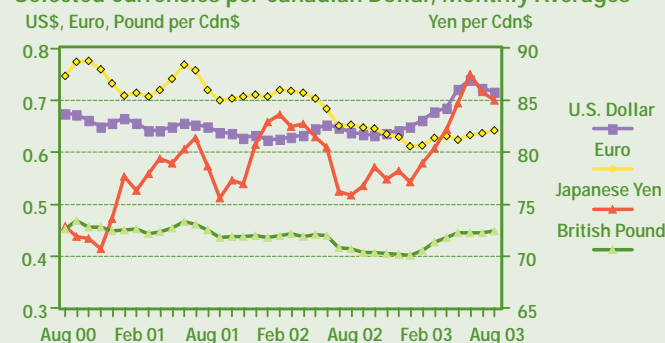
Non-residential building activity remains lackluster

Investment in new non-residential buildings in B.C. jumped by about \$48 million to \$209 million in July from June, led by a \$30-million rise in government-institutional building permits and an \$18 million rise in industrial building permits. Private-sector construction was up \$18 million as industrial permits jumped while commercial permits held steady.

B.C.'s investment opportunities for new, private sector, non-residential construction is limited, owing to excess capacity or high vacancy rates in the office and hotel sectors. Retail space demand is growing modestly, judging by the performance of retail sales. On a trended basis, non-residential permit values are edging lower and July's gain did not alter that direction.

Canadian dollar lower again in August against the U.S. and Asia

Selected Currencies per Canadian Dollar, Monthly Averages



Source: Bank of Canada.

Our forecast of a 1.1% rise for 2003 in total non-residential building permits values appears achievable. Year-to-date performance is 0.7% above the same period of last year. The small year-to-date gain results from a 15% jump in institutional-government permits offset by a 4% drop in commercial permits and a 1.5% drop in industrial permits. Our current 2004 forecast calls for a 3% decline in total non-residential building permits in B.C., owing to fewer government and commercial permits.

Housing starts upwards

BC's housing construction upswing shows no sign of abating according to the latest data released by CMHC. August housing starts rose building on past gains and driven by rising prices, robust sales volume, and low new unsold inventory levels. August seasonally adjusted starts rose to 2,403 units, up from 2,300 units in July and above the recent trend-cycle. This was the second highest monthly seasonally adjusted level since this housing cycle expansion began in mid-2000.

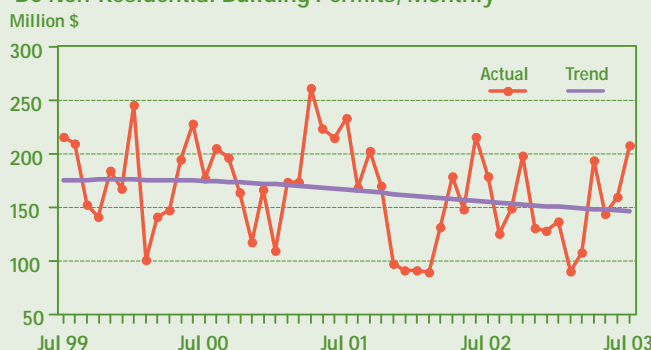
Multi-unit construction is the main contributor to the recent high level of total housing starts. Single detached construction is up as well but a large spurt in multi-unit starts in July and August is behind the high activity. Given the high monthly volatility in multi-units, a fallback next month or the following month would not be surprising.

Single detached starts in the Vancouver CMA are not increasing but rather are down since the beginning of the year. Seasonally adjusted starts in August came in at 431 units compared to an average of over 500 units in the first four months of 2003. Certainly demand or excess inventory levels are not the constraint though lot supply likely is.

Housing constructors could probably sell and build more units if supply constraints, such as skilled labour and single family lots, were not present. Mortgage rates are near record lows and expected to remain there for many more months, which will provide a strong underpinning to the market. Our forecast for BC housing starts was recently revised upwards to 26,200 units in 2003 and to 28,800 units in 2004 in the BC Real Estate and Construction Forecast 2003 -2004 report.

Non-Residential building activity trending down

BC Non-Residential Building Permits, Monthly



Housing construction uptrend continues

Housing Starts, Urban BC

