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B.C. ECONOMIC SNAPSHOT

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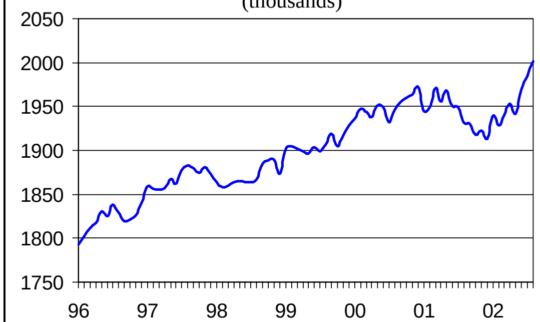
DOMESTIC ECONOMY REMAINS RESILIENT

Based on domestic conditions, particularly in the lower mainland, the economic outlook for the province would appear to point to robust growth. Strong job gains and low interest rates are bolstering consumer spending and giving a welcome lift to the housing sector. The upturn in housing starts in 2002 is generating substantial spin-off activity in both the construction and retail trade industries.

The reality, however, is that about 25% of all economic activity in BC comes from international exports of goods, and here the picture is far more sobering. Exports play a critical role in wealth and job creation in the province. The soft external economy is a key factor dampening the near-term economic outlook. The US recovery is tentative, with some American forecasters calling for a return to recession by the fourth quarter. Moreover, the effects of the US tariffs on BC's softwood lumber exports are beginning to show up in the form of reduced lumber production and shipments. Nor is there much reason to hope that Japan – still BC's second largest export market – will provide an economic lifeline anytime soon, as that nation continues to struggle with serious structural problems.

For BC, the biggest economic story this year is undoubtedly the sharp jump in the number of people with jobs. **Employmen**t rose by a healthy 16,000 in August, on the heels of a similar increase in July and a whopping 27,000 gain in June. Since the beginning of 2002, employment has climbed by an astonishing 88,000. To provide some context, this is the largest increase over an eight-month period on record, and also one of the biggest advances in percentage terms.

BC Employment
(thousands)



Source: Statistics Canada
Seasonally adjusted *Latest August*

The difficulty is that the near-record pace of job growth doesn't seem consistent with an economy that is growing relatively slowly and whose strength is essentially being driven by the consumer.

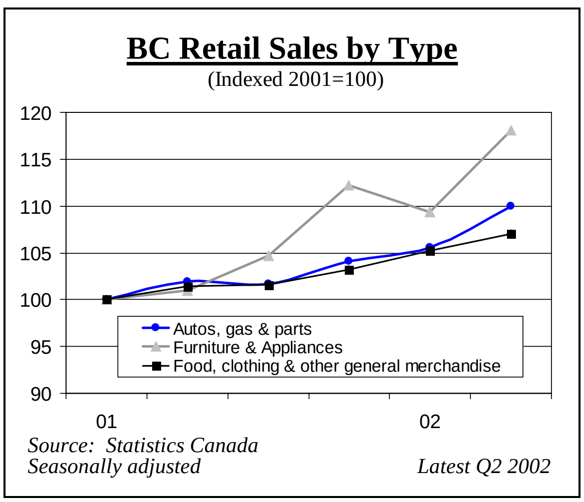
Part of the explanation for the remarkable job numbers is likely attributable to errors in the employment estimates derived from Statistics Canada's Labour Force Survey. Sampling techniques may be overstating employment levels now, or alternatively may have understated employment levels at the end of 2001, making job growth since then appear stronger than it is.

Even if the pace of employment growth is somewhat overstated, the fact that the Survey has consistently shown a long stretch of solid increases makes it difficult to discount the results too much. And the fact that one fifth of all jobs created this year have been in the **construction** sector lends some credibility to the figures. Similarly, the 15,000 net new jobs in finance, insurance and real estate may reflect the recovery in this sector, which shed thousands of jobs in recent years.

BC's **manufacturing sector** has enjoyed a 20,000 job surge so far in 2002. This figure is more questionable, but production in the lumber sector did increase in the first half of the year before the US duties were fully in place. A job gain of this magnitude would mean that smaller niche manufacturers (such as food, plastics, chemicals and electronics) have also expanded their payrolls in the past several months.

Housing starts were up sharply in August, thanks to a huge increase in multi-unit construction activity. It was just a matter of time before a jump in multiple unit construction materialized because the supply of condos and apartments has not kept pace with demand in the Greater Vancouver area.

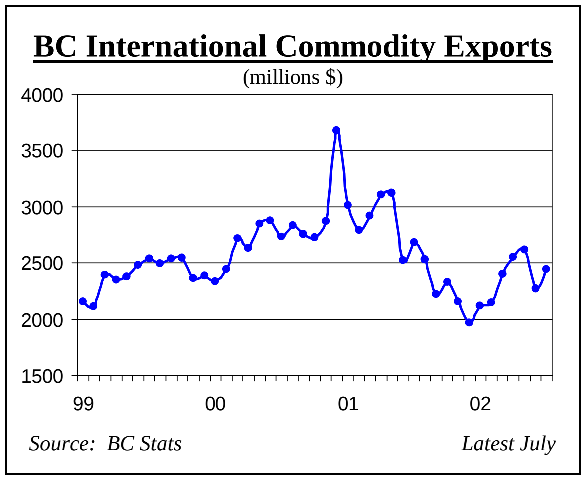
The number of multiple starts in the Vancouver area more than doubled from the previous month and was up 270% from one year ago. Construction of single family homes dropped for the second consecutive month. The latter setback, however, comes amid a strong overall upward trend that looks set to remain in place given that housing sales are still strong and mortgage rates are at very attractive levels.



Retail sales in BC grew at an annualized rate of 12% in the second quarter. The spin-off effect of the buoyant housing market is evident in the 35% annualized increase in furniture and appliance sales. The second quarter of 2002 also saw another sizable quarterly increase (25% annualized) in motor vehicle sales.

The combination of income tax cuts, low interest rates, steady job growth and a modest appreciation in housing prices has created an environment where consumers in BC are optimistic and eager to spend.

At this point, the main source of uncertainty for the provincial economy comes from external factors. The value of BC's **international commodity exports** took a dive in June, which was the first full month in which US duties on softwood lumber were in effect. The value of BC wood products shipped to the US plummeted by nearly 50% between May and June, a decline sufficient to pull the total value of provincial exports down by 10%.



Lumber exports recovered somewhat in July, but are still at low levels. If the recent level of exports is any indication of how BC lumber companies are going to respond to the US duties, many forestry dependent communities are clearly in for a tough time.

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