Canadian dollar over-valued, economist says

THE ECONOMY | Country's productivity rate not reflected, visiting professor claims

BY WENCY LEUNG
VANCOUVER SUN

The Canadian dollar is currently over-valued, rising in relation to a depreciating U.S. dollar, says Kurt Huebner, a visiting economics professor at University of British Columbia.

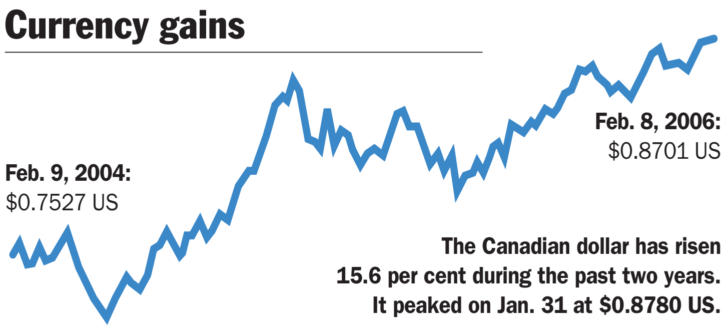
"The value of the dollar, in comparison [with] the U.S. dollar and the euro, is not reflecting the real value, in terms of productivity," said Huebner, from York University in Toronto.

While a stronger dollar might provide a boost to Canada's resource sector, he said, the appreciation is harming the service and manufacturing sectors and emphasizing regional imbalances between the Western resource-based provinces and the central manufacturing-heavy provinces.

The higher dollar means domestic manufacturers lose their price competitiveness in the global marketplace, especially against China, where the value of the yuan is not based on a flexible exchange rate, Huebner said.

The dollar has appreciated 13 per cent since 2002, while the U.S. dollar has depreciated nearly 29 per cent against the euro during the same period.

Currency gains



Huebner is organizing a two-day conference starting today of top world currency experts at UBC, titled *Currency Conflicts and Currency Co-operation in the Global Economy*, to discuss the future of small currencies such as the Canadian dollar, amid competition between the greenback, euro and the yuan.

The Canadian economy could benefit significantly from a joint North American currency, similar to the euro, Huebner said but he warned that due to the U.S.'s political and economic clout, Canada would likely be relegated to the role of a junior partner.

"From an economic perspective, there are a lot of benefits [of establishing a joint currency], but there are a lot of political problems."

A model, similar to that of the European Central Bank with its "one-country, one-vote" decision-making policy, would be ideal for a joint North American currency, which could increase Canada's ability to compete globally, Huebner said.

Benjamin Cohen, a professor of international political economy at the University of California, Santa Barbara, said he is much more skeptical of the prospects of a joint currency.

"My prognosis is that a North American monetary union is a non-starter," said Cohen, who will also speak at the conference.

Since the greenback is the principal international currency, "there is absolutely no interest in the U.S. for a monetary union with Canada," he said, adding the political costs to the U.S. and constraints on setting monetary policy "could be substantial."

Cohen said the costs of establishing a joint currency would out-weigh benefits to Canada, as well. Due to its heavier reliance on resources, the Canadian economy is subject to more trade shocks than the U.S., he said.

"Given the very significant differences between the economies, the exchange rate is a very useful safety valve," he said. "To lock itself into a dollar would create a situation where a joint exchange rate would be inappropriate from a Canadian perspective."

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Greater Vancouver home building activity slows in January

HOUSING | Slump in multiple-family housing pushes home building down in January

BY BRUCE CONSTANTINEAU
VANCOUVER SUN

A sharp drop in multiple-family housing starts last month caused Greater Vancouver home building activity to fall 19 per cent below the level reached in January 2005, Canada Mortgage and Housing Corp. reported Wednesday.

CMHC said a 22-per-cent increase in single-family home construction in January, to 366 units, was more than offset by a 31-per-cent drop in multi-family starts, to 723 units.

But analysts said multi-family starts typically vary widely from month to month and expect total housing starts this year will only fall by two per cent. Demand for new housing is expected to remain strong but factors like labour shortages and rising building costs will constrain construction activity.

"The demand is still up there but the capacity for builders to build more than they're already doing is pretty much limited," CMHC senior market analyst Cameron Muir said in an interview.

Muir said housing affordability throughout B.C. has become an issue more than ever as prices are expected to rise by about nine per cent in 2006 while the average three-year mortgage rate is expected to climb by about one third of a percentage point.

"As prices and rates edge up this year, it's going to affect affordability for many consumers," he said.

CMHC said total housing starts across B.C. rose by 20 per cent in January to 2,238 units, with strong increases in Victoria, Abbotsford and Kelowna offsetting the Greater Vancouver decline.

The drop in Greater Vancouver starts occurred despite strong increases in Surrey and Langley, where combined starts rose from 258 starts in January 2005 to 500 starts last month. The number of housing starts in Burnaby dropped from 228 a year go to just 11 last month while city of Vancouver activity declined from 321 units to 109.

Muir said that as building costs continue to escalate, developers must choose between pre-selling all their units as soon as possible or holding off on sales as long as possible to ensure they charge prices that create a decent profit margin.

"If they sell all their units before building them, costs could go up and cut into their profits," he said. "But if they hold units back to mitigate that risk, they have to be confident the market will stay strong and their units will all sell at good prices."

Greater Vancouver Home Builders' Association chief executive officer Peter Simpson said Greater Vancouver housing starts in January 2005 were also down about 17 per cent from a year earlier but total starts for the year only declined by about three per cent.

"The numbers tell me we're at a plateau — it's not a big dip," Simpson said. "It's not unexpected and it makes it more manageable for builders who were scrambling during the large rampup we had in 2004, which was the best year in a decade."

CMHC predicts total Greater Vancouver housing starts will decline by about two per cent this year to 18,500 units and by another two per cent in 2007 to 18,200 units. Total B.C. housing starts are forecast to dip by six per cent this year to 32,600 and by another four per cent in 2007 to 31,300.

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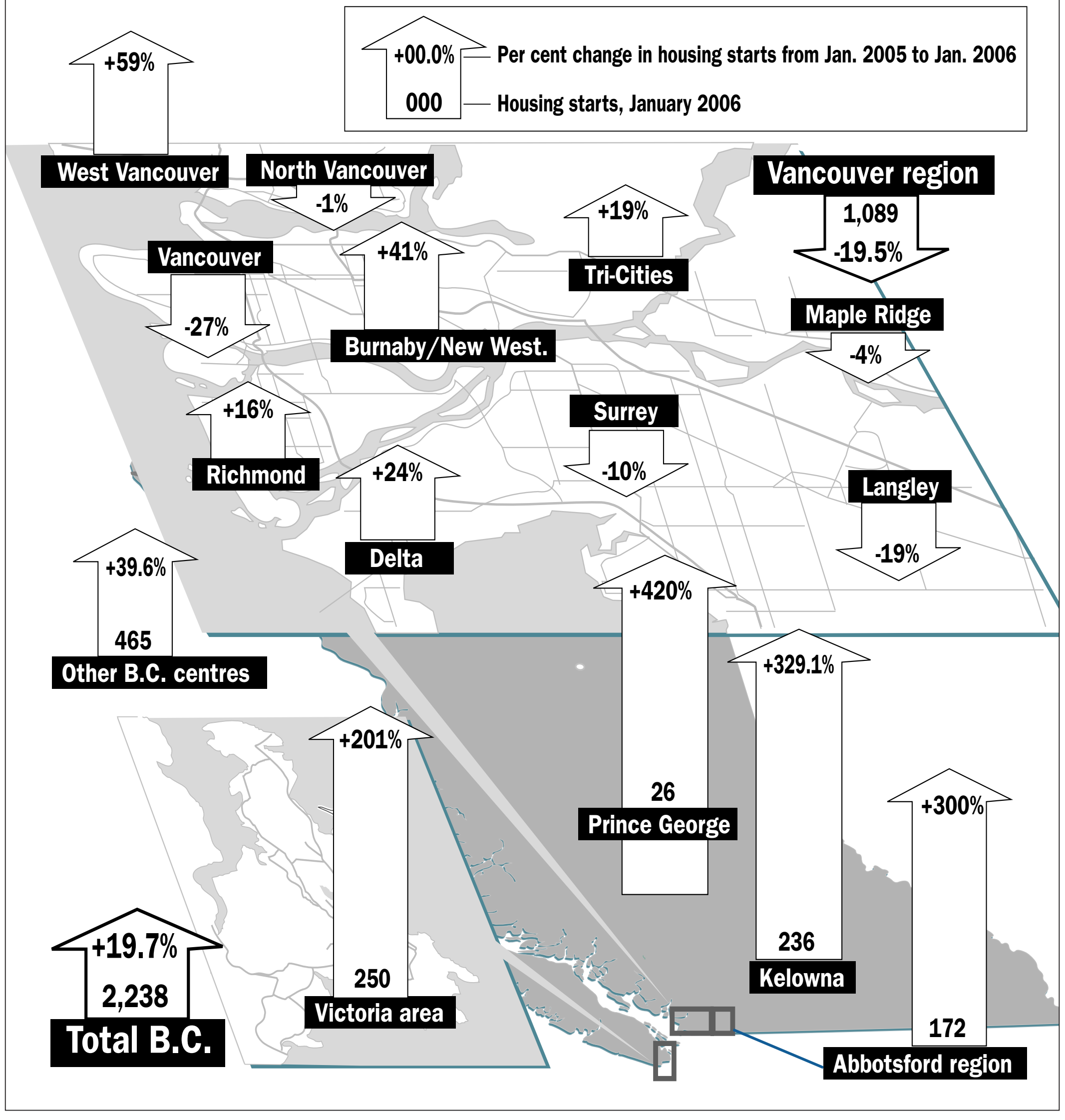
Region's housing starts expected to slow in '06, '07

Greater Vancouver's housing starts are predicted to fall two per cent in 2006 and a further two per cent in 2007. January's housing starts (below) show rapid declines in some areas of the Vancouver CMA; however monthly volatility is normal and the region as a whole is up 22 per cent over the same month last year:



Source: CMHC VANCOUVER SUN

Drop in IT spending among mid-size firms hurts entire sector

BY GILLIAN SHAW
VANCOUVER SUN

TECHNOLOGY | A decline in spending by mid-sized companies is accounting for an overall dip in information technology spending this year, according to an Ipsos-Reid report released Wednesday.

Overall spending on information technology among companies in Canada is expected is expected to drop slightly to $40.93 billion, down from last year's $41.35 billion.

A decrease in IT budgets by mid-sized companies, the largest IT revenue generators in Canada, is behind the decline. Spending by that segment is expected to drop by four per cent, to $22.9 billion in 2006, compared to 2005's $23.9 billion.

Spending by companies in the large enterprise segment is projected to climb seven per cent, to $4.9 billion for 2006 over last year's $4.6 billion.

Small business spending is slated to grow by two per cent this year, resulting in overall spending of $13 billion in 2006 for this segment of the market.

Lise Dellazizzo, vice-president of Ipsos-Reid's information technology practice, said while overall the spending is fairly flat, the decline is focused on one segment.

"The deceleration is really taking place mostly in the mid-market," she said. "If you look at all the numbers for IT spend this year based on budgets, the mid- market is still the biggest revenue- generating segment in Canada.

"It is still the place where the most money is being spent and it is the one segment that is dragging it down."

The mid-market range is defined as companies with 100 to 499 employees, while the large-enterprise market is split into two segments — one from 500 to 999 employees and the other 1,000-plus.

Dellazizzo said while the large-enterprise customers still have the highest per company spend, outstripping the average per- company spend in the mid-market by a margin of three to one, the mid-market remains a key segment for vendors hoping to increase revenues.

"In terms of the overall money being pumped into the IT market, the mid-market is still the engine," she said. "They (vendors) have to look at the spend in the mid-market and look at divining solutions that are very suitable for that market."

Ipsos surveyed 375 companies in its second annual study on IT spending, including 254 mid-sized and large companies and 121 small businesses.

Among other findings:

■ The mid-market is the most lucrative for IT, based on volume, the average per company spend and the total in IT spending.

■ The decline in mid-market spending was caused by an 18 per-cent drop in hardware and infrastructure spending between 2005 and the 2006 anticipated figures.

■ The decline in mid-market spending is partly offset by an increase in spending on software and services.

■ The seven per-cent hike among companies in the large enterprise segment will be driven by a 33 per-cent increase in spending on software; overall, growth will be tempered by a decline in IT services of six per cent.

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TimberWest fails to meet annual cash distributions

EARNINGS | TimberWest Forest Corp. earned a fourth-quarter profit of $30.9 million, up from a loss of $1.2 million a year ago, however the firm did not generate enough cash to cover its annual distributions.

TimberWest said the fourth-quarter results brought distributable cash for the year to $67.3 million or 87 cents per stapled unit, short of the $83.1 million or $1.08 per stapled unit it paid out.

Nevertheless, the company said its financial condition was strong.

"While we did not achieve targeted levels of distributable cash in 2005, lots of good work was done by employees to better position the company for the future," said president and CEO Paul McElligott said in a release.

TimberWest said Wednesday it earned 40 cents per unit for the Dec. 31, compared with a loss of two cents per unit in the same period a year ago.

Stapled units of TimberWest, which released its results after the close of markets, finished down 17 cents at $13.54 on the Toronto Stock Exchange.

Canadian Press

Nortel agrees to $2.5 billion US to settle lawsuits

PAYOUT | But shareholders likely to collect only $1 US per share as legal fees, court costs will be covered

FRANK GUNN/CANADIAN PRESS

Nortel's Brampton, Ont., offices. The payout is to compensate shareholders for losses between 2001 and 2004,

BY BERT HILL

OTTAWA — In what ranks with the top lawsuit settlements of its kind in history, Nortel Networks Corp. announced Wednesday it would pay $2.5 billion in cash and stock to shareholders to compensate for major losses between 2001 and 2004.

However, shareholders are likely to collect only about $1 US per share, since legal fees and courts costs will take a big slice off the top of the settlement. The huge number of Nortel shares in circulation — 4.33 billion — will also diminish the payout.

Nortel announced the settlement of the two U.S. class-action suits Wednesday after two days of negotiations in a New York court led by Judge Robert Sweet. Investors that sued included the OPSEU Pension Trust, which manages a $10-billion Cdn pension plan for the Ontario Public Sector Employees Union, and the Ontario Teachers' Pension Plan Board, which oversees $88 billion Cdn in assets.

As in most such settlements, Nortel did not make any admission of wrongdoing. It also promised to put in half of whatever it gets from a $13-million Cdn suit against former chief executive Frank Dunn and two other fired financial executives.

The accounting fraud led Nortel to fire officials including Dunn over errors such as improperly boosting sales by accelerating the booking of fiber-optic equipment contracts. Investors claimed 10 senior executives created improper reserves, and later used the reserves to make it appear as if the company was profitable.

Mike Zafirovski, the new Nortel chief executive, hopes to set a new course for the troubled company that is struggling with rounds of layoffs, a botched leadership succession and lost market share in key markets.

"Resolving these important issues will enhance the company's ability to focus on our transformation and renewal priorities and our customers," Zafirovski said in a statement.

Nortel Networks and the pension plans that led the case said Nortel has promised changes in corporate governance but refused to provide details.

To be eligible, shares had to be owned during a four-month period ending in Feb.15, 2001 and a 12-month period ending April 27, 2004 — the points at which Nortel revised previous optimistic forecasts and financial reports.

From a peak of $120.25 in August 2000, Nortel shares plunged as low as 79 cents 27 months later.

During the phantom return-to-profitability phase of early 2004, Nortel shares surged as high as $11.01 in February, then were cut in half after Nortel fired Dunn.

Nortel was a popular stock and daily trading averaged 11 million and 16 million shares during the two periods.

Legal fees are likely to be heavy. No fewer than 62 lawyers worked for Canadian, U.S. and European pension plans on the marathon litigation over four years.

Only about $575 million US will be paid in cash while the balance will be paid through the issuance of 628 million new shares.

That means the current holders of Nortel shares will see the value of their stock devalued by a 15 per cent dilution.

Some Nortel analysts expressed surprise at the size of the proposed settlement, which will substantially dilute shareholders' holdings.

At just under $2.5 billion, Nortel's proposed settlement would be the fifth-largest ever, behind the Enron and WorldCom settlements, Cendant's $3.5 billion settlement in 1999, and Time Warner's $2.5 billion last year.

"The settlement was certainly larger than we were expecting," said Jefferies & Company analyst George Notter, who was anticipating a settlement of between $1.5 billion to $2 billion US.

But investors didn't appear too bothered by the news. Nortel stock closed Wednesday at $2.98 US in New York, down only four cents. On the Toronto Stock Exchange, shares slipped three cents to finish at $3.44.

Ottawa Citizen