



## Housing bubble burst in U.S. cools B.C. exports

### 'Forestry sector contracting while others grow'

**Gordon Hamilton**

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The shock wave caused by the bursting U.S. housing bubble is hitting British Columbia faster and harder than the rest of Canada, and is expected to drag down the total value of B.C. exports by three per cent in 2007, according to an outlook prepared by Export Development Canada.

Declining forest products revenues are already bogging down the province's export economy as demand for building products shrinks in the U.S.

Forest products account for 40 per cent of the province's total exports and the decline in that sector is darkening the export picture, according to EDC senior economist Stephen Poloz.

"We continue to see a significant split in the province's performance, with the forestry sector contracting while almost all other sectors continue to grow," Poloz said Tuesday.

He said declining forest revenues in 2006 are holding B.C. growth this year at two per cent. The three per cent decline next year will be largely caused by continued erosion of forest products prices, he said. The high-flying Canadian dollar is also a factor.

The EDC forecasts that the value of Canadian exports will decline one per cent in 2007. However, it also released an alternative downside scenario if the housing downturn brings on a recession in the U.S. In that case, provincial export revenues will drop deeper and Canadian exports overall would be expected to fall 3.4 per cent.

Poloz was skeptical that a recent upturn in lumber prices is indicative of the bottom being reached for the forestry sector.

"Show me the proof," he said. "Right now there is no evidence that it is over."

How far the economic ripples will spread into demand for metal, energy and manufactured goods is still an open question. Economists should get a glimpse into the mood of consumer spending -- which will affect

demand for other commodities and goods -- over American Thanksgiving weekend, Poloz said in an interview.

Poloz was in Vancouver Tuesday advising business leaders of his forecast. He said the U.S. housing bubble fed an expansion in American consumer spending over the last four years.

"And now that channel of spending has been cut off."

U.S. consumers account for 15 to 20 cents out of every dollar in the world, he said, and the shock wave caused by the collapse of housing will ripple through the global economy as American consumers start spending less. "Our judgment is that it is unlikely to pull the U.S. or world economy into a recession. But we have to be honest about this. We don't really know."

Poloz said other economic sectors in B.C. are expected to feel some impact of reduced economic activity in the U.S. The value of B.C. energy exports, which accounts for 23 per cent of export revenues, is expected to grow by two per cent this year and then decline by two per cent in 2007. Industrial goods, at 15 per cent of export revenues, will post a solid growth rate this year of 16 per cent before coming off five per cent in 2007.

The Export Development Council does not foresee a global recession as a result of the housing downturn in the U.S., but Poloz cautioned that the full impact has yet to be felt. The problem with bubbles, he said, is that they don't deflate; they burst.

He likened the impact on the world economy to be similar to the condition of a person whose head is in an oven but whose feet are in a freezer.

"On the average, it's alright. But it's extremely uncomfortable for the head and the feet.

B.C.'s forest industry, he said, happens to be one of those extremes.

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## EXPORT OUTLOOK

Exports from B.C. have experienced rapid growth in recent years, but a continuing high Canadian dollar, dropping prices and slowing demand will likely translate into a decline in those growth rates through at least the next year.

Share of province's total exports \$billions

Export Outlook (% growt)

2006 2007

Sector 2005 2005 2005 (forecast) (forecast)

Forestry \$13.9b 40.7% -6.5% -2% -4%

Energy \$7.8b 22.9% +71.4% +2% -2%

Industrial goods \$5.2b 15.1% +13.8% +16% -5%

Machinery \$2.5b 7.4% +6.8% +5% +3%

Agri-Food \$2.4b 7.1% -5.8% -2% +1%

All others \$2.3b 6.7% +7.8% -3% -4%

TOTAL \$34.1b 100% +10% +2% -3%

Source: EDC Economics

Ran with fact box "Export outlook", which has been appended to the end of the story.

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