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Gore shows alternative energy stocks can pay off Page F2	S&P expects U.S. house prices to plunge Page F6	BSE loophole 'lunacy,' says watchdog Page F3



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MONEY • ENERGY • TECHNOLOGY • WORK

EDITOR: CHARLES FRANK 235-7370 Fax: 235-7358

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WEDNESDAY, JULY 11, 2007

MARGIN CALLS

Beware targeted tax relief: study

TAXATION • Canadians should be "wary" of governments offering targeted tax relief, according to a new study from the C.D. Howe Institute.

"Although some tax measures aimed to reduce rates and broaden tax bases, many governments (in Canada) increasingly rely on targeted tax credits, which complicate the tax system without necessarily improving the prospects for economic growth or fairness," said the study, Federal and Provincial Tax Reforms: Let's Get Back on Track, released Tuesday.

The report's authors — Duanjie Chen, Jack Mintz and Andrey Tarasov — pointed to credits for activities such as sports, transit passes, filmmaking, research, labour training and manufacturing and forestry equipment.

Tax reductions have also been targeted to small businesses, "thereby creating greater opportunities for personal and corporate tax avoidance," the report said.

"If governments remain on this tax reform path, the accumulation of targeted tax relief measures will have a significant fiscal cost, which could be better used to finance broad rate reductions," the report said.

Consumer confidence up

SPENDING • Canadian consumer confidence rose in this year's second quarter, heading in the opposite direction of sentiment in the United States, according to a report released by Decima Research Inc. on Tuesday.

The Ottawa-based research firm said the overall consumer-confidence score of Canadians in the last quarter was 87.7, up 1.1 points from the first quarter. The score is derived from asking people taking the survey questions about their confidence in the economy, their financial well-being, and their willingness to make major purchases.

It's based on a similar model to the University of Michigan's poll, which scored the United States at 83.7 in the last quarter, down 5.1 points from the previous period.

HERALD ENERGY



Explosions at two natural gas pipelines fuel security fears in Mexico

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Dean Bicknell, Calgary Herald

A total of 1,060 new homes were started in Calgary in June, down from 1,889 in June 2006.

Calgary's building boom continues to slow pace

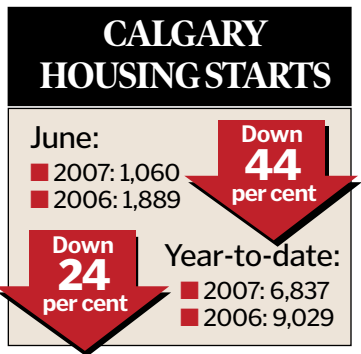
Demand drops as prices, rates creep higher

LISA SCHMIDT
CALGARY HERALD

The pace of home building in Calgary continued to ease up in June, with new home starts down 44 per cent from last year's record levels.

In Calgary, builders got a start on 1,060 new homes during the month of June, down from 1,889 during the same month last year, according to figures released Tuesday by the Canada Mortgage and Housing Corp.

Analysts said an increase in the number of resale homes is reducing some demand for new construction, while rising prices of homes are keeping more buyers, especially first-timers, out of the market.



Source: Canada Mortgage and Housing Corp.

Most of the decline was attributed to fewer starts of multi-family dwellings, such as condominiums and townhouses, which fell 61 per cent from last June. The number of new single-family homes was also down 27 per cent.

Year-to-date, Calgary's housing starts are down about 24 per cent, with a total of 6,837 new homes being built in the region, which includes neighbouring communities such as Airdrie, Cochrane and

Chestermere, compared with the same period a year ago.

"It's definitely a little bit of a correction and that's to be expected after the kind of year we had last year," said Deep Shergill, president of the Calgary Region Home Builders Association.

But the slower pace is a welcome change for an industry that has been running flat out for the past few years and continues to face constraints on labour, he added.

"Right now the market that we have is sustainable, it's healthy," said Shergill.

"I don't think there is anybody in the industry that is crying about the fact that it's slowed down."

Housing starts are expected to begin to rise in the city later this year, but still be about 10 per cent off last year's record pace, said Lai Sing Louie, CHMC's senior market analyst for Calgary.

SEE STARTS, PAGE F12

Interest rate hike fuels job fears

Bank of Canada warns of further 'modest' rise

ERIC BEAUCHESNE
CANWEST NEWS SERVICE
OTTAWA

Borrowing costs for Canadians are up and are likely to go even higher, raising concerns that the latest interest rate hike could slow the economy and hurt jobs.

The Bank of Canada raised its key lending rate a quarter point Tuesday to a six-year high of 4.5 per cent, triggering matching increases by chartered banks, and it warned that a further "modest" increase may be needed to rein in inflation in a stronger-than-expected economy.

The immediate impact will be higher rates for mortgages, loans and lines of credit.

But the higher rates — and the warning that they may go even higher, plus further evidence of economic strength — failed to lift the loonie, which slipped back toward 95 cents US from a 30-year high.

The loonie's slide against the U.S. dollar, which was losing ground to most other currencies, reflected market concerns that higher rates will lead to slower economic growth, and, in turn, lower rates — a view that was reflected by a drop in Canadian bond yields.

mist Ted Carmichael, adding he expects two further quarter point rate hikes starting early next year.

The central bank rate hike prompted banks and trust companies to raise their blue-chip prime lending rates to 6.25 per cent from 6.0 per cent, which also led to matching increases in rates on variable-rate mortgages to a high of 6.25 per cent for a three-year open mortgage, and on a variety of loans and lines of credit linked to prime rates.

The rate hike, however, was criticized by labour, some business groups and Ontario's finance minister. "Higher costs of borrowing and a higher Canadian dollar have a negative impact on Ontario manufacturers, particularly those who are exporting to the U.S. and abroad," said Ontario Treasurer Greg Sorbara.

Avrim Lazar, president of the Forest Products Association of Canada, said the central bank "is not giving adequate consideration to the economic well-being of hundreds of communities across large regions of Canada."

United Steelworkers' national director Ken Neumann accused the Bank of Canada of "letting an unbalanced fear of possible inflation outweigh the country's broader interests in a vibrant economy," echoing comments also issued by the Canadian Auto Workers union.

The further rise in mortgage rates will also hit homeowners.

"For homeowners with a \$200,000 variable rate mortgage with a 25-year amortization and floating payments, this rate change means an extra \$28.76 per month and monthly payments of \$1,203.38," said Neil Glasberg, president and chief executive of Invis, Canada's largest mortgage brokerage firm.

"However, if the effect of this small increase in monthly payments is calculated for an entire five-year term, this rate change means the mortgage holder will end up paying \$2,406.83 more in interest and \$681.23 less off their mortgage principal over five years."

The bank rate increase was widely expected, but Scotia-Bank analysts noted the accompanying statement was "more dovish than both its predecessor and what the market was expecting."

Those analysts and others felt the bank softened its tone about how much higher rates may have to go.

"We are expecting another (quarter) point rate hike on Sept. 5 to 4.75 per cent, followed by a brief pause to gauge the effect of both the higher interest rates and the recent appreciation of the Canadian dollar," said J.P. Morgan econo-

“ We are expecting another (quarter) point rate hike on Sept. 5 to 4.75 per cent ”

TED CARMICHAEL,
J.P. MORGAN ECONOMIST



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COMPUTERS

Dell tries to 'reignite' sales

Founder sees 'a lot of work left' to return to No. 1 status

CONNIE GUGLIELMO
AND GREG MILES
BLOOMBERG

Dell Inc. has "a lot of work" left to complete the personal computer-maker's turnaround efforts, founder Michael Dell said in an interview in New York on Tuesday.

"Give us some time — we are making steady progress," Dell, 42, said. "We have an enormous opportunity in front of us, but it will require some changes."

Dell returned as CEO in January after his company lost the PC market lead to **Hewlett-Packard Co.**

Last month, he abandoned a practice he pioneered of only selling products through the Internet or by telephone. With partners including **Wal-Mart Stores Inc.**, Dell wants to woo back consumers, who are spurring the industry's current growth.

The Round Rock, Texas-based company is putting more emphasis on product design and recently introduced a line of PCs in colours such as pink and espresso brown, he said.

More new consumer products are planned for later this year, Dell said. "You'll see many tens of thousands of places where customers can buy Dell products all over the world," he said. "We are taking a number of steps to improve the performance of the current portfolio that Dell has to reignite growth and expand into new areas."

The company just introduced a product line called Vostro that includes PCs and printers designed for small businesses with fewer than 25 employees and no dedicated technical staff.

Dell's changes, which include re-vamping his top management team, came after Hewlett-Packard's share of the global PC market rose to 19.1 per cent in the first quarter from 16.5 per cent a year earlier, according to market researcher **IDC** in Framingham, Mass.

Dell fell to 15.2 per cent from 18.2 per cent.

When asked if he wants to win back the title of No. 1 PC-maker, a position the company held for three years until last year, Dell said, "We first want to be No. 1 in service and support for our customers. And after that, we want to be No. 1 in profitability and I think if you do those two things correctly, you become No. 1 in market share."

Shares of Dell dropped 36 cents to

\$28.65 US at 4 p.m. in Nasdaq stock market trading. It has gained 14 per cent this year.

Palo Alto, Calif.-based Hewlett-Packard fell 42 cents to \$44.94 in New York Stock Exchange composite trading.

Dell struggled to revive sales after Hewlett-Packard cut expenses and jobs to be able to lower prices while preserving profit margins.

Kevin Rollins, chosen by Michael Dell to lead the company, stepped down as CEO after missing company forecasts for sales and earnings last year.

Dell said he will remain at the helm "for the foreseeable future" as the 23-year-old company works on its turnaround. "This is a business that changes very quickly, and we saw some developments in our business that were not going the right way. I felt it was time for a change."

When asked if at least half of the turnaround work has been completed, Dell said, "It is a much lower number. I would say in the single digits."

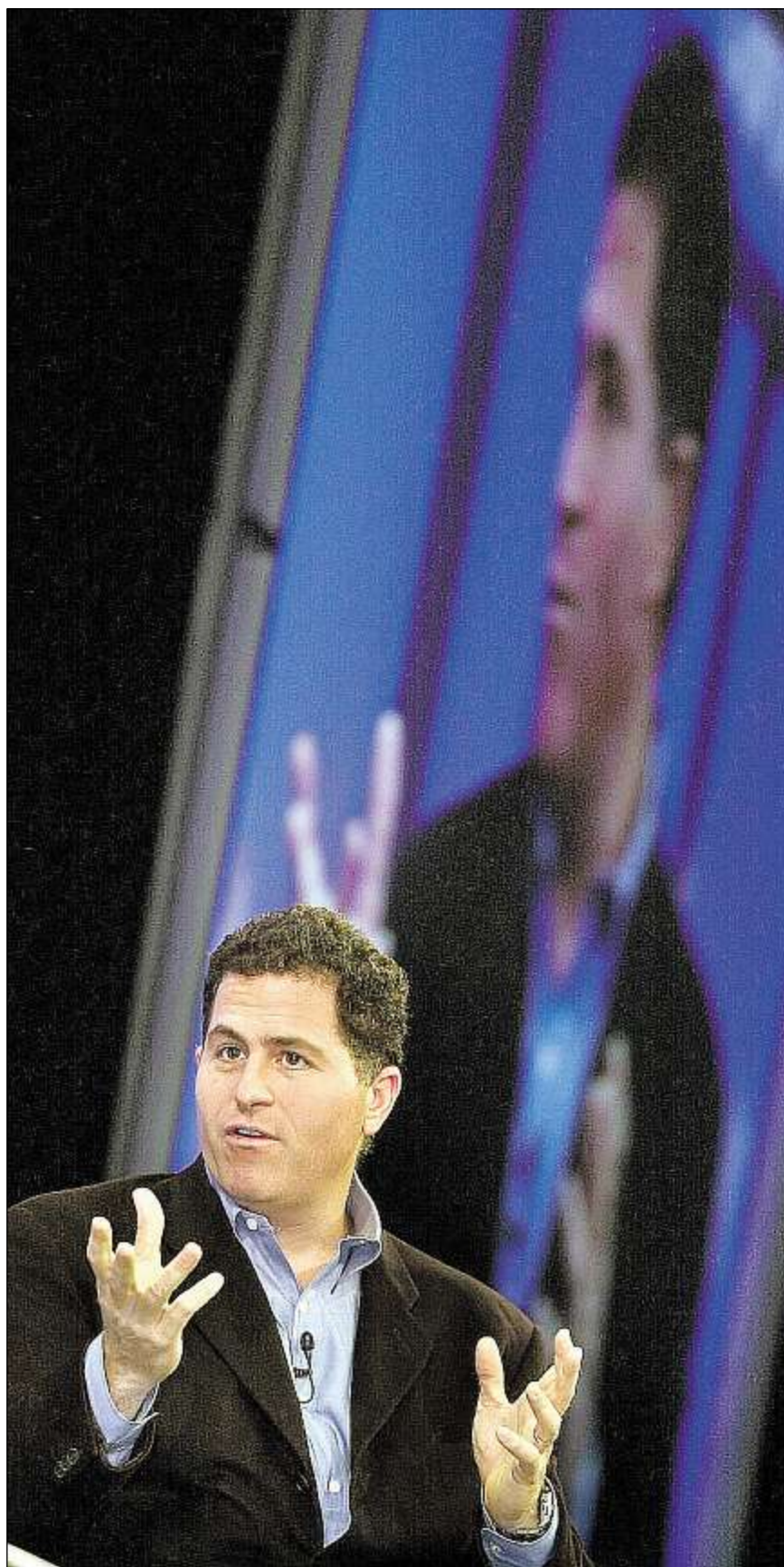
The company said in May it will fire 8,800 employees, or about 10 per cent of its workforce, in the next year. Dell may make small acquisitions to boost its services business, though larger deals may also be considered, he said.

Dell said an investigation by the U.S. Securities and Exchange Commission into the company's accounting practices is nearing its end. As part of the probe, which began in August 2005, Dell said it found misconduct and that employees involved in the irregularities are no longer with the company.

Winning back investor confidence "will take as long as it takes," Dell said. "We are making investments, investments we believe will be required for the long term. We are not looking to do something in the short term that will dramatically improve our results but cause a problem later on."

Dell also offered some praise for rival **Apple Inc.** In 1997, after co-founder Steve Jobs returned as CEO to help revive sales of Apple's Macintosh computers, Dell advised Jobs to shut down the company and return the money to shareholders. Apple's sales have more than tripled in the past four years.

"You have to give them credit for what they have done," Dell said. "They have done a very nice job."



Herald Archive, Bloomberg
Dell computer founder and returning CEO Michael Dell says the company must become No. 1 in service and support, "and I think if you do those two things correctly, you become No. 1 in market share."

FROM F1 STARTS: Affordability still an issue

"We expect the gap to narrow a bit from what it is now, but we don't expect the housing starts to improve so much that we exceed last year's level by year end," he said.

But affordability will continue to be an issue for buyers going forward, as home prices continue to rise. Average prices have notched about 17 per cent gain since December and now sit around \$464,000 in Calgary, Louie noted.

The number of housing starts in Alberta also fell in June, sinking 23 per cent mostly due to the traditionally volatile multi-family market.

The total number of new homes in the province last month was 3,306, down from 4,276 a year ago.

However, year-to-date starts show the provincial market is still running close to last year's pace. The number of homes built in Alberta in the first half of the year was down about four per cent to 19,724.

Across Canada, the CMHC reported housing starts in urban centres — those cities with populations over 10,000 — were down about six per cent in June, compared to the same month last year.

LSCHMIDT@THEHERALD.CANWEST.COM

Ruling clears way for Dell lawsuit

SUPREME COURT • A decision expected Friday by the Supreme Court of Canada could open the door to a Quebec class-action lawsuit against **Dell Computer Corp.**

The case, which pits Dell against a Quebec consumer advocacy group, was initiated in 2003 after the computer giant posted incorrect low prices online for its Axim hand-held personal digital assistants.

Montreal consumer Olivier Dumoulin started a class-action lawsuit against Dell, arguing that the company wouldn't honour Axim sales made on its Canadian website before the erroneous prices of \$89 and \$118 were rectified. The real prices were \$379 and \$549, respectively.

At issue for the Supreme Court is a caveat used by Dell and a growing number of retailers on the sale of everything from computers to cellphones. It's a clause that obliges dissatisfied customers to challenge companies through arbitration — and not class-action lawsuits.

— CanWest News Service

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