

IN BRIEF

From Herald News Services

Study casts doubt on loonie-travel tie

CURRENCY • Even before the loonie hit parity, Canadian same-day trips to the U.S. were on the rise, according to figures for August that were published Thursday by Statistics Canada.

Same-day car trips to the U.S. — seen as being synonymous with cross-border shopping — increased to 2.4 million, a rise of three per cent on the same month last year.

A report published Monday however suggests that there is not such a close link.

Eric Lascelles, chief economics and rate strategist at TD Economics and author of the report on cross-border shopping, argues that Canada's economic health — rather than its currency — is a key to the rise in international travel.

Canadians bail out of foreign securities

STATISTICS CANADA • International investors sold \$3.8 billion worth of Canadian securities in August, while Canadians disposed of a record \$7.4 billion in foreign holdings in the same month, Statistics Canada said Thursday.

"With the credit crunch and melt-down in the asset-backed finance sector, residents halted investment in foreign corporate paper, resulting in a sharp reversal from a period of heavy acquisitions of foreign securities averaging \$6.3 billion per month since February 2005," the agency said.

August was the fourth straight month in which non-residents unloaded their Canadian holdings.

Prizm slashes distributions

INCOME TRUSTS • Fast food outlet operator **Prizm Income Fund** said Thursday it will temporarily slash cash distributions, sell up to a quarter of its restaurants and close another 25 as it tries to combat falling sales and climbing costs.

Prizm, which reported lower third-quarter sales and profit Thursday, expects those changes to save about \$4 million in 2008, while adding net proceeds of \$20 million to \$30 million from the sale of up to 120 restaurants over the next two years.

Prizm said it will cut monthly distributions to 3 cents a unit, from 10.67 cents, for the next three months due to a \$5 million restructuring charge it will take in the fourth quarter. In January, distributions will rebound to \$1.20 a unit for 2008, or 10 cents monthly.

But Prizm will withhold distributions for its subordinated limited partnership units until the third quarter of 2008. It will then review its distribution policy as it assesses restructuring progress.



Stuart Gradon, Calgary Herald

A Haskayne School of Business study, authored by Debi Andrus, says the safety concerns in recalling products are decreasing consumer trust. Between 2002 and 2006, the study found that 837 products were recalled.

Product safety concerns eroding consumer trust

Recalls almost doubled in past year: study

MARIO TONEGUZZI
CALGARY HERALD

A first-of-its-kind Canadian product recall study says each new recall results in increasing concerns about manufacturing and distribution processes.

As well, public safety concerns are decreasing consumer trust.

The study, conducted by the Haskayne School of Business at the University of Calgary, examined product recalls between 2002 and 2006. The 10 product categories included food, beverages, toys, jewelry, clothing, consumer electronics, appliances, furniture, tools and sports equipment. Over the five-year period, there were 837 product recalls. There were 279 recalls in 2006, the highest number in the five years, almost doubling the number of recalls in 2005.

"Manufacturers and their suppliers

need to find new ways to work together to remedy the concern of product recalls," said Debi Andrus, an assistant professor of marketing at the Haskayne and the principal researcher for the study.

"There isn't just one answer to fixing this because it's a complex situation... We don't have a true cost yet of what all these recalls are. And I think we need to do more research in that."

The study, sponsored by the National Quality Institute, identifies faults in the supply chain as the primary reason for product recalls.

The study recommends that manufacturers and suppliers share the responsibility of design excellence and quality controls.

"The number of high-profile, international product recalls within the past year has created concern about a product-recall crisis," said the report. "Each new recall elicits emotional responses and concerns about quality manufacturing and distribution processes. Product safety concerns are diminishing the consumers' trust."

The toothpaste and pet-food recalls in the first six months of 2007, combined with the more recent Mattel toy recalls, have heightened concerns about products, parts or ingredients

made in China, said the report. Analysis of the country of origin of recall products for the past five years shows total recalls from Canadian-made products (32 per cent) are slightly higher than China (28 per cent). Year-over-year analysis shows that from 2002, product recalls from Canadian products have decreased and recalls of products from China have increased.

The study also said Canadians need a central system to find information about current product recalls. Product recalls are currently found on four different Canadian government websites.

"I believe we need to have one central system for product recalls to make it easy for consumers to find the information that they need as well as for industry and for government to know exactly what's going on," said Andrus.

The majority of product recalls have not caused injury or death and all are voluntary. The results found that 69 per cent of the recalls during the past five years involved food, while toys represented 10 per cent. The leading cause of food recalls involved allergy alerts (48 per cent), dangerous ingredients (20 per cent) and design faults (10 per cent).

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CANADIAN ATTITUDES

Growing debts put many in jeopardy

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OTTAWA

Many Canadians are in denial about their growing addiction to debt, a national association of accountants warned Thursday, expressing fear that — after being lulled by years of economic prosperity, low interest rates and easy credit — they are not prepared for any financial shock, such as an economic downturn or the loss of a job.

Household debt has been rising by nearly five per cent a year for the past 30 years, outpacing gains in personal disposable income, in assets and in the economy, to hit a record \$1 trillion last year, the Certified General Accountants Association of Canada said in a report on Canadians' attitudes towards debt and saving.

Yet, a survey on which part of the 113-page report is based, found only 14 per cent of Canadians admit their debt increased significantly over the last three years. In fact, it found that Canadians are more likely to think their debt is decreasing or staying the same.

The survey also confirmed that saving is not a priority for Canadians, with one in five households saying they could not handle unforeseen expenditures of \$5,000.

Further, 25 per cent of households do no saving whatsoever, not even for their retirement, the report said, adding that the personal savings rate has plunged to just 1.2 per cent of income from 20 per cent in the early 1980s.

While Canadians also worry that they won't have enough money to retire, an increasing number — 20 per cent — are also tapping into their RRSPs prior to retirement, using funds primarily for day-to-day living purposes, it said.

The report comes as forecasters, including the Bank of Canada, are warning economic growth will slow and that the risks of a downturn have increased.

"It's a call for some degree of alarm in the sense that it's telling us that our whole economy is going to slow down," association vice-president Rock Lefebvre said in an interview. "Although the economy has certainly witnessed positive gains, Canadians should be mindful that no one is entirely certain of the timing of a negative shock, of its magnitude, and of the type of spillover it can provoke."

But even during the current good times, and with unemployment at a three-decade low, Canadians in some regions and in some jobs are at risk of facing financial shocks, such as those in Canada's shrinking manufacturing sector, the report noted.

"The least wealthy 20 per cent of Canadians are also more vulnerable to economic shocks because they have almost no housing equity to back up their mortgage debt and no other assets to support their rising debt load," it said.

The drop in savings, meanwhile, is due in part to increases in the value of housing, which is viewed by some as an alternative form of savings, it noted.

However, despite rising home values the actual level of home equity per owner has fallen five per cent since 1997, Lefebvre noted, explaining that is in part due to people making home equity loans to finance other spending.

Rates on hold through 2009: Bank of Canada

Dodge defends decision not to cut

ERIC BEAUCHESNE
CANWEST NEWS SERVICE
OTTAWA

It could be next year before Canadian lenders sort out the mess in domestic credit markets, which along with the slowdown in the U.S. economy and the stronger dollar, are acting as a drag on economic growth, the head of the Bank of Canada warned Thursday.

However, bank governor David Dodge defended the bank's decision not to cut interest rates earlier this week despite its warning of an economic slowdown, and appeals by the struggling manufacturing industry to do so, saying that were it not for the financial market storm which erupted in August it would have raised rates further because domestic inflation pressures have turned out to



Chris Wattie, Reuters

Bank of Canada Governor David Dodge said Thursday the impact of the credit crunch has been the same as a quarter point rate hike.

be even stronger than economic growth, suggests that the current level of inter-

"Since July what we've actually seen is stronger domestic demand... and if nothing else had changed that would have implied more of a policy-rate increase," he said.

However, the impact on the economy of the credit crunch that has erupted since then has been the equivalent of a quarter point rate hike, which will last through 2009, and which, along with the downward revision to U.S.

est rates is now "appropriate," Dodge told a news conference after the release of the bank's latest Monetary Policy Report.

"These developments are likely to have a dampening effect on borrowing," the report said.

"The bank appears to be sending an unusually clear signal that it neither intends to hike, nor cut rates for the duration of its forecast period, which extends to 2009," said **TD Securities** economist Jacqui Douglas.

But some analysts suggested the central bank is still

being overly optimistic.

J.P. Morgan economist Ted Carmichael predicted the weakness in the economy will prompt the central bank to cut interest rates by half a percentage point before next spring.

Dodge, meanwhile, said he isn't surprised it has taken longer than the two months initially expected for financial market players here to unravel problems with \$35 billion worth of asset-backed commercial paper in Canada that has been tainted with holdings of subprime to U.S. mortgages.

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