

Highlights:

- Resource sector weakness drag on exports
- Lumber production dives in May

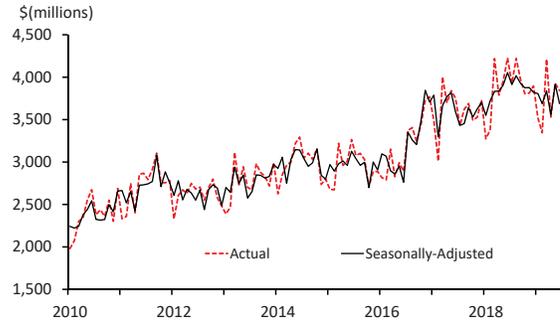
Exports retreat in June

B.C. international goods exports remained sluggish in June as shipments retreated following a May rebound. Dollar-volume exports reached \$3.84 billion during the month. This marked a two per cent drop from May (unadjusted) and nine per cent below year-ago levels. Based on Central 1 calculations, seasonally-adjusted month-to-month sales fell 5.8 per cent, following a 10 per cent increase the previous month. Exports have declined since mid-2018.

Weaker resource demand continued to drag on headline exports. Metal and non-metallic mineral product exports were down 31 per cent year-over-year in June, while forestry sector sales declined 27 per cent. Global trade uncertainty and slowing economic growth has negatively impacted demand for metal and minerals and dampened prices. Removal of U.S. aluminum tariffs has provided a lift for unwrought aluminum in June. Meanwhile forestry exports have been hammered by poor business conditions. Softer demand from the U.S., high log costs, ongoing tariffs and plunging prices resulting from excess supply, have led to a handful of mill shutdowns and curtailments impacting exports.

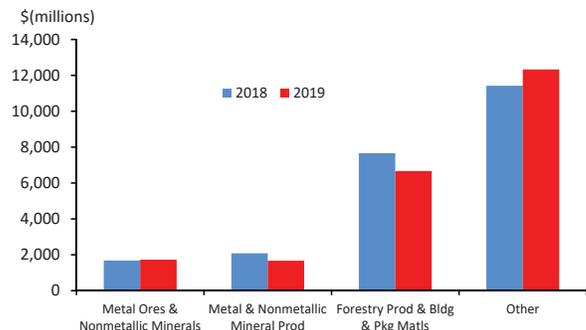
Through mid-year, dollar-volume exports fell two per cent compared to the first half of 2018. Declines have been led by a 20 per cent decline in raw metal and mineral exports and a 13 per cent decline in forestry products. That said, performance has generally been strong outside these two important segments as the low Canadian dollar continues to support demand for B.C. goods abroad. Farm, fish and intermediate food product shipments are up 11 per cent, motor vehicle and parts exports are up 16 per cent and energy shipments are up 7.7 per cent. Excluding resources, export sales are up eight per cent.

B.C. International Merchandise Exports



Source: Statistics Canada, Central 1
Note: seasonal-adjustment by Central 1
Latest: June 2019

Year-to-date Exports



Source: Statistics Canada, Central 1

We anticipate a soft export environment for the next couple of years, with real growth trending below 1.5 per cent due to the global growth slowdown, sluggish capital investment and challenging commodities environment. Growth in services exports and tourism should outpace, but not enough to drive significant growth. Weak commodity environment will drag on aggregate corporate profits this year. Imports, which are down 1.3 per cent, will climb at a faster pace reflecting required inputs for major project investments in the province.

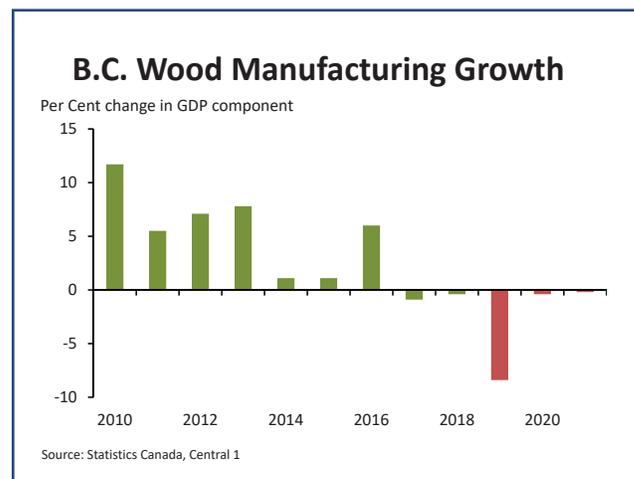
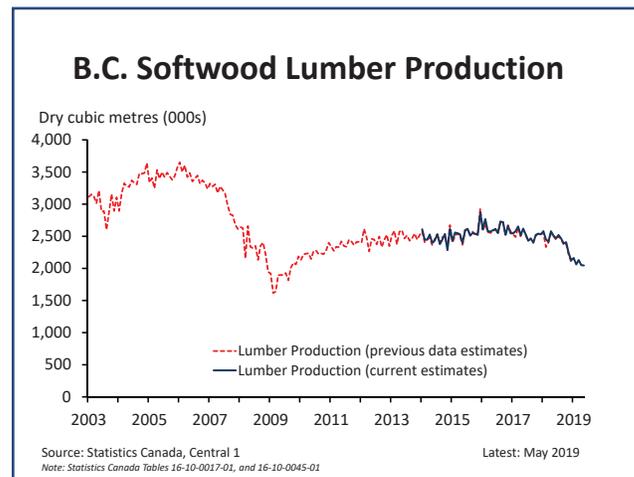
Lumber production down 18 per cent in May

As noted in our recent report [Splintered Wood: Assessing B.C. Forestry Sector Conditions](#), the bottom has fallen out of B.C.'s forestry sector. The province has seen a flurry of recent and announced sawmill closures and increased downtime at mills. Sharp declines in lumber prices over the past year coupled with ongoing tariffs,

soft demand, relatively high log costs and longer-term constraints to timber availability, have driven the downturn. Mill shutdowns and weak conditions will be a drag on smaller urban areas in B.C.'s interior through direct impacts on workers and flow-through effects of lower incomes in the community.

The latest sawmill production numbers for softwood lumber show ongoing sector deterioration. Total production reached 2.16 million dry cubic metres in May marking an 18 per cent year-over-year decline. While narrowing from a 20 per cent drop in April, the production trend is negative. Seasonally-adjusted monthly production has declined since mid-2018 and has fallen to the lowest level in nearly a decade.

Including May's performance, sawmill production has declined 16 per cent through the first five months of 2019, driven by a 17 per cent production decline in the interior and a 8.4 per cent production decline in coastal regions. Interior production accounts for about 90 per cent of provincial production. Provincial data on gross domestic product (GDP) is not available on a monthly frequency, but Canadian data through May shows a 5.5 per cent decline in real wood manufacturing output through the first five months of 2019. As noted above, forestry exports fell 13 per cent at mid-year. Central 1 forecasts wood product manufacturing GDP to contract by nearly nine per cent this year.



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