INDUSTRY CANADA
Prefabricated Housing Review

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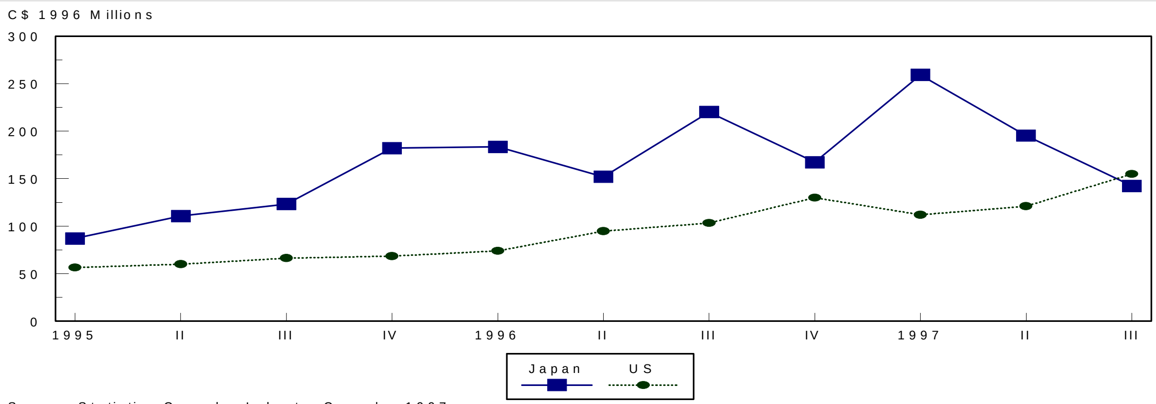
Industry Feels Effects of Japanese Slowdown
US, European Exports Still Growing
Mobile Home Shipments Up in 1997

Exports to the US and Japan Seasonally Adjusted and Annualized



Source Statistics Canada, Industry Canada, 1997

During the second and third quarters of 1997, the Canadian prefabricated building industry began to feel the full impact of the slump in the Japanese housing market. After beginning the year with a record first quarter, exports to Japan started to decline rapidly. Between July and September, exports to Japan were running nearly 30 percent below their year-ago levels.

The sharp downturn in the Japanese market has been offset in part by growth in exports to other markets, particularly the United States. Through the first nine months of 1997, exports to the US market are running nearly 40 percent above their year ago levels. As a result of growing exports to the US and weak Japanese exports, the Canadian industry shipped more product to the US in the third quarter of 1997 than it did to Japan. This was the first time

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Also in this Issue

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Year to date Exports of Prefabricated Buildings, 1997

Destination	Exports(Jan-Sept) ($000 Cdn)	Pct. change
Total	314 223	+17
Japan	145 265	+5
US	98 117	+39
European Union	10 019	+28
Eastern Europe and Former Soviet Union	4 751	-39
Asia Pacific (excl. Japan)	18 113	+69
Latin America and the Caribbean	16 228	+81

Source: Statistics Canada

since 1990 that quarterly exports to US exceeded those to Japan. While Japan will retain its status as the largest export market for the Canadian prefabricated building industry in 1997, it could well be displaced by the United States in 1998 should the slump in the Japanese housing market extend well into the new year.

Due largely to weakness in the Japanese market, the prefabricated building industry will likely experience only a relatively modest increase in the value of its exports this year. Total industry exports are on track to finish the year at just over $400 million, which would represent a 10-12% increase over their 1996 levels. While this still represents a healthy annual increase, it is far below the rates of export growth that the industry has been recording since the early 1990s.

Although exports to Japan are still running slightly ahead of their 1996 levels through September on a year over year basis, this is due to their strong start to the year. Exports to Japan tailed off sharply through the spring and summer months and seem destined to finish 1997 virtually unchanged from their 1997 levels of just over $180 million. In contrast to the Japanese market, exports to other Asian countries are up sharply, driven by growth in exports to South Korea. The strong increase recorded in exports to Latin America is largely the result of stronger exports to Argentina. Exports to the European Union are also up significantly, due in large part to stronger exports to Germany. However, exports to most major markets in Eastern Europe are down on a year over year basis through the first 9 months of the year.

While exports to all regions of the US are up in 1997, the two largest regional markets for the Canadian industry, the Northeast and West, have been the fastest growing. In the West, growth has been strongest outside of the two states that have traditionally been the largest markets for the Canadian industry, Washington and Montana. Strong growth in exports to the Northeast is spread fairly evenly across the states in the region.

IMPORTS

Given the lack of reliable data on domestic production and shipments of prefabricated buildings, import levels can provide an indicator of the strength of the domestic market. Recent trends in imports suggest that the domestic market for prefabricated buildings has benefitted from the improving domestic construction market. Through the first 9 months of 1997, imports of prefabricated buildings are running one third higher than they were

Year to date Exports of Prefabricated Buildings to the US

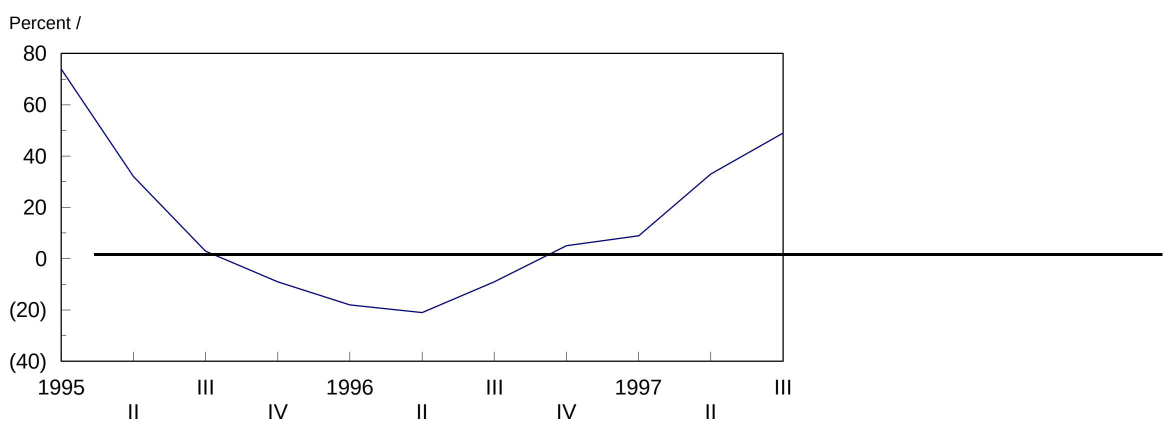
Region	1996 %Total	Total for 1997 (Jan - Sept) in $000's	Percent Change*
Total US	100	98 117	+39
Midwest	19	18 231	+20
Northeast	25	27 742	+59
South	19	16 737	+12
West	37	35 373	+58

Source: Statistics Canada
* Percentage change in the value of exports between 1997 (Jan -Sept) and 1996 (Jan - Sept)

Mobile Home Shipments

Mobile Homes shipments have been strengthening over the course of 1997. During the third quarter of the year, they reached a seasonally adjusted annual rate of $ 242 million. Through the first 9 months of 1997, mobile home shipments are running 6 percent above last year's levels. However, industry shipments were exceptionally strong in the fourth quarter of 1996 and will have to be again in the final months of this year if the industry is to record a significant increase in its overall shipments in 1997.

Prefabricated Building Imports / Year Over Year Percent Change

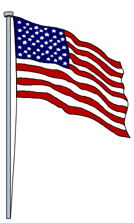


Source: Statistics Canada, Industry Canada, 1997

Construction and Housing Review

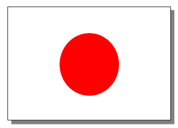
Canada

The Canadian residential construction industry has experienced a strong rebound this year with the number of building permits issued up by nearly 22 percent from last year's levels through the first nine months of the year. Through September, this has been the strongest year for new residential construction starts in Canada since 1990. All provinces except for Newfoundland, Nova Scotia and British Columbia have recorded year-over year increases in activity levels. Growth has been strongest in Quebec (29%), Ontario (41%) and Alberta (44%).



United States

US housing starts appear to be on track to finish the year slightly below their levels in 1996, which was their best year on record since 1988. Through the first 9 months of 1997, US housing starts are running 2 percent below their levels during the same period last year. Over this period, starts have increased 3.5 percent in the Northeast and are virtually unchanged in the South while they declined by 3.7 percent in the West and by 7.5 percent in the Midwest.

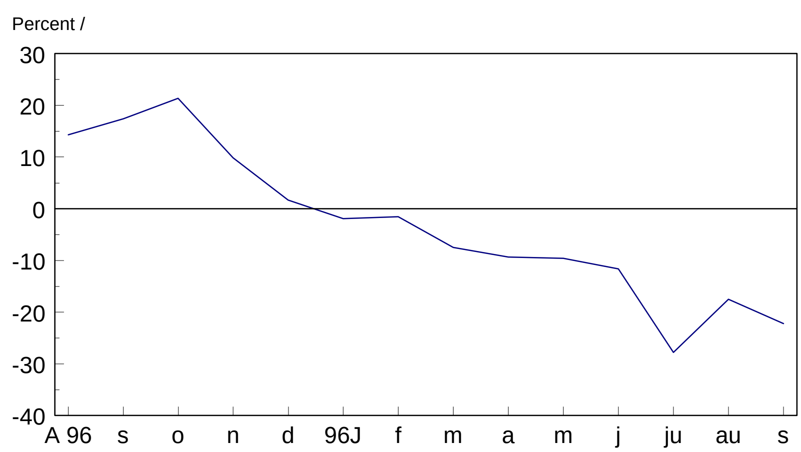


Japan

While a temporary economic slowdown was widely anticipated in Japan after their consumption tax increase in April, few foresaw that it would be as severe as it has proven to be. Between April and June, Japan recorded its sharpest quarterly decline in economic output since the early 1970s. The residential construction sector has been severely impacted by this downturn with housing starts down by nearly 13 percent in the first 9 months of the year. Private home construction has been particularly hard hit by the downturn while condominium construction has shown some signs of improvement in recent months.

In response to the weak economy, the Japanese government has further reduced interest rates from their already low levels. While interest rate decreases act as a stimulus to residential construction, they can also cause potential buyers to postpone purchases in anticipation of further rate increases.

Japanese Housing Starts / Year Over Year Percent Change



Source: Japanese Ministry of Construction, 1997

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Special Feature: What's New on the Web

Over the past few years, there an explosion in the volume of information available to Canadian manufacturers and exporters on the Internet. To help companies deal with this ever-growing volume of material, several public and private sector organizations have developed sites which are intended to offer single window access to information on specific subjects. These include the federal government's recently launched ExportSource and the Canadian Wood Council's Canada Forest Network. Other sites of interest include the Canadian Building Products Directory and Trade-Data On-Line.

ExportSource:

http://exportsource.gc.ca

A federal partnership between Industry Canada, the Department of Foreign Affairs and other federal organizations, this web site is intended to bring the information published by the federal government for exporters together in a single location. It provides information on market research, export financing, export regulations/logistics, trade statistics and export contacts, as well as trade shows and missions. By searching across various federal databases, Export-Source
eliminates the run-around that can occur when dealing with many different sources of information.

Trade Data On-Line

http://strategis.ic.gc.ca/sc_mrkti/tdst/engdoc/tr_homep.html

Industry Canada's Trade Data On-Line allows you to do detailed searches of Canadian and US export and import trends by industry or product. To access up-to date trade data free of charge, simply follow the step by step directions offered at the site. Trade Data On-Line can be accessed directly at the address above or through Strategis or ExportSource.

For trade data on the Canadian or US Prefabricated buildings industry, search by HS code 9406. For information on Canadian exports and imports of mobile homes, use SIC code 3244.

The Canadian Building Products Directory

http://canadabuild.com

The new "Canadian Building Products Directory Web Site" allows companies to showcase their products to potential customers around the world. From millwork products to pre-fabricated houses, the Canadian Building Products Directory Website is where you'll find export-ready Canadian companies and their products. The website database is designed to easily locate Canadian manufacturers and suppliers by company, product, and province.

All participants in the recently published Canadian Value Added Building Products Export Directory have already been included on this site. Please visit the site at the address above and see for yourself how this product could improve your sales.

For more information about registering your company with Canada Build, please contact:
Ken Montgomery
Phone: (613) 954-3053
Fax: (613 952-8384
E-mail: montgomery.ken@ic.gc.ca

or visit the site to enquire directly

Canada’s Forest Network
www.forest.ca

In November of this year, a consortium of Canadian forestry groups, representing government, industry and research interests, launched **Canada's Forest Network (CFN)**.

The **CFN** could be described as a gateway or directory, or indeed, as a kind of ‘yellow pages’ that will connect Internet users to a large variety of web sites on all aspects of Canadian forestry.

These sites, which come from many sources, include the complete spectrum of Canadian forest products [from pulp and paper to engineered wood to maple syrup], forest management and silviculture information. It will be dynamic, state-of-the art, fast and accessible through all current popular web browsers.

Major features of the Canadian Forest Network include:

- **a ‘tree’ of forestry and forest products subject categories -** at the end of each branch there will be links to other web sites with information specific to that subject category search engines that will search by keyword for any topic relating to Canadian forestry or forest products on web sites including:
- **a searchable e-mail directory** of major players in Canada's forest and forest products industry, the ability for any forestry-related web site to register relevant pages on the Network and also an **interactive notice board** for posting notices and asking questions in an open forum.

For more information, contact Peter Mazikins of the Canadian Wood Council by e-mail at: pmazikins@cwc.ca, fax: 613-747-6264, or tel: 613-747-5544.

Secteur de l'industrie
Direction générale des industries forestières et des matériaux de construction

Industry Sector
Forest Industries & Building Products Branch