INDUSTRY CANADA
Prefabricated Housing Review

Volume 4 Issue 2 Summer 1998

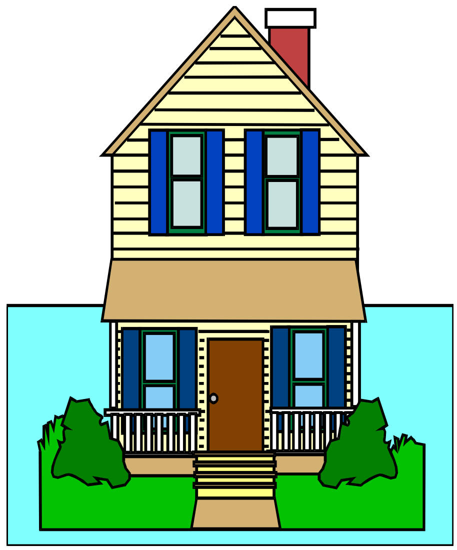
Asian Economic Downturn Impacts Exports
Mobile Home Shipments Maintain Momentum
Record High Exports to U.S.

International Trade

Prefabricated building exports decreased to $66.7 million during the first quarter of 1998, down 39.1 percent from the corresponding period in 1997. After reaching record levels in 1997, the new year began slowly for the Canadian industry with declining exports to Japan, Europe, Asia-Pacific and Latin America. Exports to the US, however, have posted a 51.3 percent rate of growth, replacing Japan as the largest market for Canadian prefabricated buildings.

The Asian economic downturn continued to impact negatively on Canadian prefabricated building exports to Japan and the Asia Pacific region, which declined by 55.8 percent and 75 percent, respectively, this quarter. The high unemployment rate in Japan has resulted in a fall in Japanese consumption. This is reflected in the Japanese housing market by a reduction in housing activity since the beginning of the year. Japanese residential housing starts have declined consecutively in each of the last fifteen months. Exports in Asian markets accounted for 40.6 percent of total industry exports for the first quarter of 1998, compared to 58.8 percent for the first quarter of 1997.

Western and Eastern European markets have also declined by 37.6 percent and 68.2 percent, respectively for the first quarter of 1998 with exports valued at $5 million for the European Union and $1.2 million for Eastern Europe and the Former Soviet Union. While exports to Latin American markets have dropped almost $10 million, to the level of $1.9 million for the first three months of 1998, it should be noted that the high level of ex-



Also in this Issue

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Prefabricated Building Exports by Destination 1st Quarter 1998

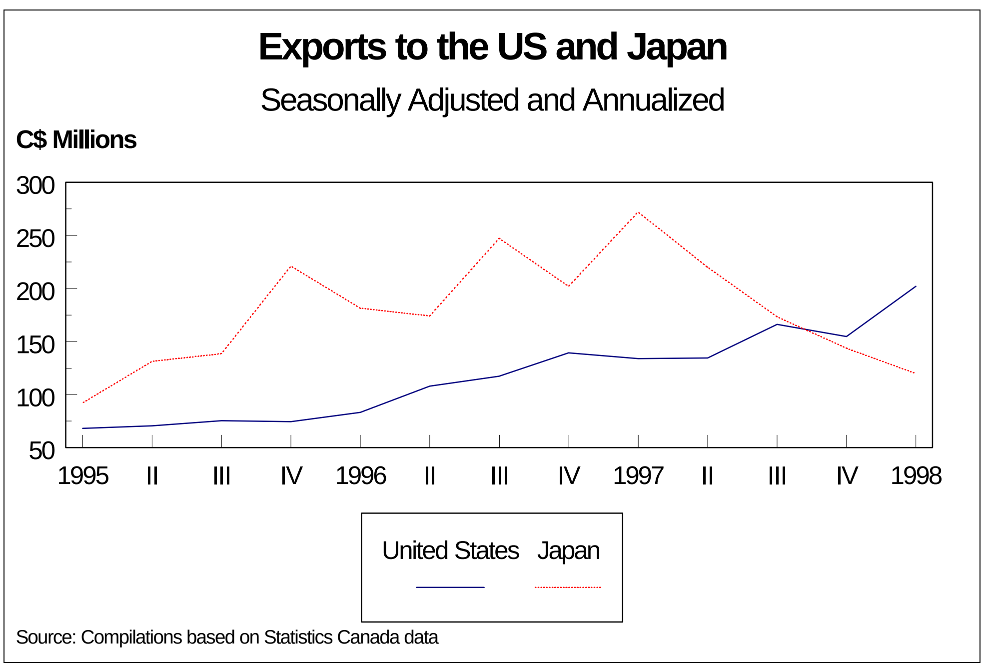
Destination	Value of Exports 1st Q 1998	Value of Exports 1st Q 1997	% Change* 1998-97	% Change* 1997-96	% of Total Canadian Prefabricated Building Exports
	($ '000 Cdn)	($ '000 Cdn)			
Total	66,699	109,592	-39.1	69.0	100
United States	29,126	19,256	51.3	60.3	43.7
Japan	25,371	57,359	-55.8	49.4	38.0
European Union	5,047	8,086	-37.6	90.5	7.6
Asia Pacific (exc. Japan)	1,771	7,074	-75.0	105.7	2.6
Latin America	1,866	11,841	-84.2	776.2	2.8
Eastern Europe	1,227	3,859	-68.2	4.3	1.8
Others	2,291	2,117	8.2	23.2	3.5

Source: Statistics Canada

ports reached during the first quarter of 1997 was led by an unprecedented $7 million export shipment to Argentina. A comparison between first Quarter 96 and 98 exports is more representative of trade performance to Latin America. Exports in 1996 were $1.35 million versus $1.9 million in 1998.

US Market

Led by a strong economy and booming residential construction activity, Canadian prefabricated buildings exports to the US continued to strengthen, outpacing Japan for the third consecutive quarter. Reaching $29.1 million for the first quarter of 1998, exports to US now represent 43.7 percent of total industry exports. This good performance in the US market for the first quarter of 1998 has offset some of the adverse affects of the decline of Canadian exports to other markets but has not been enough to maintain overall exports at the 1997 level. All US regions, except the West, recorded higher rates of import growth, more than doubling the level of imports for the first quarter of 1998. Leading this expansion, the Midwest increased by 161.4 percent to $5.9 million, the Northeast increased by 119 percent to $6.9 million and the South increased by 111.1 percent to $9.3 millions. A 25.2 percent decrease was recorded in the West, for a value of 7.1 million this quarter. With housing starts on an upward trend for the first quarter of 1998, US demand should continue to be strong, establishing the US as the largest single market for Canadian prefabricated buildings exports in 1998.

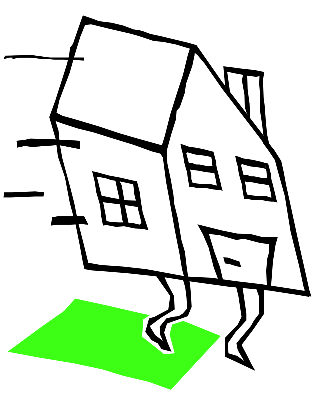


Domestic Market

In the domestic market, imports of prefabricated buildings continue to grow. Valued at $13.3 million for the first quarter of 1998, imports to Canada grew by 24 percent from the 1997 level. This result indicates improving domestic demand for the Canadian industry, benefitting from growing construction activity in Canada during this quarter.

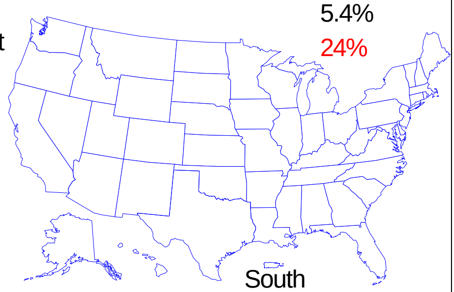
Mobile Home Shipments

Canadian mobile home shipments reached the seasonally adjusted sum of $64.7 million for the first quarter of 1998. The first quarter result was only slightly higher than in 1997, indicating a similar growth rate for the industry as last year. If the trend persists, Canadian mobile home industry shipments are estimated to reach $255 million (seasonally adjusted and annualized) this year.



The US Housing Market: 1998 1st Quarter Housing Starts

- On a year over year basis, housing starts were up 8.7% from 1997.
- Total housing starts on a SAAR basis totaled 1.57 million.
- Strong US economy (especially in the South) continues to drive housing activity.



Legend:
Region
% of US Housing Starts
% of Cdn Prefabricated Building Exports

Source:U.S. Dept of Commerce, 1998

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Exports of Prefabricated Buildings to the US 1st Quarter 1998

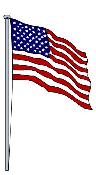
Region	Value of Exports 1st Q 1998	Value of Exports 1st Q 1997	% Change* 1998-97	% Change* 1997-96	% of Total Canadian Prefabricated Building Exports
	($ '000 Cdn)	($ '000 Cdn)			
Total-US	29,126	19,256	51.3	60.3	100
Midwest	5,870	2,246	161.4	-15.7	20.15
Northeast	6,884	3,143	119.0	33.1	23.63
South	9,286	4,398	111.1	-4.7	31.89
West	7,086	9,469	-25.2	298.5	24.33

Construction and Housing Review

Construction in Canada

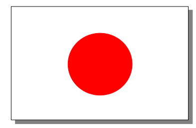
Housing starts in the first quarter totalled 23 570 units, up 3.5 percent on a year over year basis. Building permits gained a modest 1.5 percent. January's ice storm had a negative impact on housing starts in Quebec and resulted in a 13.6 percent decrease from the first quarter of 1997. Construction in Ontario and Alberta continued to be strong, with starts up 20.7 percent and 14.2 percent respectively. With the exception of Manitoba, the Prairie provinces continued to show growth in the residential construction sector. The Atlantic region experienced a 59 percent decline in housing starts from the same period in 1997. Starts in BC were down 7.8 percent for the first three months of 1998.

Construction in the United States



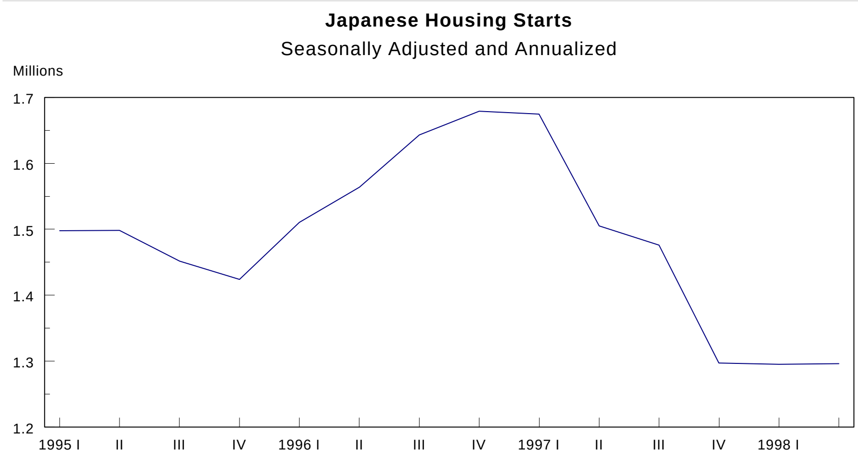
The strong US economy continued to move along relatively unscathed by the turmoil in Asian economies. Housing starts in the first quarter reached a seasonally adjusted annualized rate of 1.57 million, up 8.7 percent from the same period in 1997. Construction in the Southern states continued to lead all regions, with over 155 000 housing starts in the first three months alone. Starts in the Midwest increased 13.6 percent to 49 000 units. Residential construction in the West was up 5.2 percent to 83 700 units. In contrast to the other regions, the Northeast region recorded a 32 percent drop in housing starts, falling to 25 800 units in the first three months of the year accounting for 5.4 percent of US housing starts.

Construction in Japan



In the first quarter of 1998 Japan officially entered a recession, as the economy contracted for a second consecutive quarter. With unemployment near 4 percent and a depreciating currency, Japanese consumer spending remained low. While the first three months are usually slow for the construction sector, the housing market continued to slide in the first quarter of 1998. Housing starts in the first three months totalled only 283 400, down 13.8 percent from 329 100 starts in the first quarter of 1997.

Japanese Housing Starts Signal Weak Construction Activity



Source: Japanese Ministry of Construction, 1998

Please note

SPECIAL FEATURES

NAFTA TEMPORARY ENTRY PROVISIONS

In the past few months, Industry Canada has received requests for information concerning Canadian business persons entry to the US.

Chapter 16 of the North American Free Trade Agreement (NAFTA) contains provisions that facilitate the cross-border movement of four categories of business persons (Business Visitors, Intra-Company Transferees, Traders and Investors, Professionals). To qualify for facilitated entry under the NAFTA, a person must clearly demonstrate that their qualifications and/or their work-related duties directly relate to one of the categories of business persons listed in the NAFTA.

To assist in clarifying some of the NAFTA cross-border procedures and criteria, the Department of Foreign Affairs and International Trade (DFAIT) produced a brochure entitled *Cross-Border Movement of Business Persons and the North American Free Trade Agreement*. Copies are available from the departmental InfoCentre at 1-800-267-8376 or electronically, through the departmental website at: www.infoexport.gc.ca/nafta/cross-border/16006-e.asp (english)

Given the vast number of border crossings made by business people, it is inevitable that problems will periodically occur. Accordingly, Canadian officials continue to monitor the application of the NAFTA temporary entry provisions by border officials of NAFTA Parties.

If instances of specific cross-border difficulties are known that may be inconsistent with U.S. (or Mexican) NAFTA obligations, details should be directed to the Services Trade Policy Division (EBS) of the department (tel: 613-944-2046, fax: 613-944-0058). This information will assist trade officials in assessing whether there have been any NAFTA violations and in determining appropriate courses of action. Details of any incident should be as specific as possible including the location of the U.S. Port of Entry, the name of the officer, the time of the incident and copies of any documentation used at the time a border crossing was attempted.

On January 1, 2000, the Year 2000 problem —known as

The Year 2000 Challenge

the millennium bug—could affect any computer and any kind of data-activated device such as the embedded technology used in production, maintenance, field operations and telecommunications. There is also a good possibility that the effects will be experienced before the Year 2000—in either case, costly errors or computer failures will result if no action is taken.

"We urge all Canadian business leaders, chief executive officers, presidents and business owners to implement immediately a formal action plan for Year 2000 preparedness—if they have not yet done so. Firms that are prepared for the Year 2000 computer challenge could gain a significant competitive advantage in the marketplace at home and abroad. Those that are not prepared could inflict business losses on themselves and on others.

We urge those firms actively pursuing their Year 2000 formal action plans also to enquire into the preparedness of their key domestic and international trade partners, and to plan accordingly. Correcting the Year 2000 problem now is a matter of crucial importance and a national priority."

Task Force Year 2000, February 1998

For more information
Call toll-free: 1-800-270-8220 (08:00 to 20:00 EST Monday to Friday)
or visit our Web site:
http://strategis.ic.gc.ca/sos2000
The toll-free number for the Telecommunications Device for the Hearing Impaired is: 1-800-465-7735.

Trade Team Mission to Eastern Europe January 1999

The first ever Trade Team Canada Mission to Russia, the Ukraine and Poland will take place January 16 to 27, 1999. It will focus on a number of sectors including construction products and services. These missions have led to a large number of business deals and have helped open doors for Canadian businesses to important contacts and opportunities, creating and sustaining employment in Canada. Companies interesting in getting further information on this Team Canada mission can contact the Team Canada Task Force in Ottawa at tel: 613 995-2194 or fax: 613 996-3406.

CONSTRUCT CANADA

Industry Canada and the Department of Foreign Affairs & International Trade will again be participating in Construct Canada being held December 2-4, 1998 at the Metro Toronto Convention Centre. The 10th annual Construct Canada is being held concurrently with PM Expo and Home Builder Expo.

The joint IC/DFAIT booth will highlight government programs and services aimed at assisting building products and services firms access foreign markets. It is anticipated a number of foreign delegations will again visit the show, which covers a wide spectrum of design, construction, retrofit and renovation with 800 exhibits of products, materials, technologies, and services. Special exhibit areas will focus on advanced construction technologies, roofing, concrete, building performance, security & life safety, prefabricated building systems, and computer applications.

To obtain exhibitor information for **Construct Canada** or **Home Builder Expo**, fax a request to (416) 512-1993 or call (416) 512-1215, ext. 229.

GERMAN SOFTWOOD CERTIFICATION REQUIREMENTS

The Canadian Food Inspection Agency has issued a new phytosanitary note concerning certain requirements for homes built of softwood destined for the German market. In certain cases log homes and post and beam structures that are sanded or planed in some way are not subject to phytosanitary import regulations in Germany or the European Union (EU). Homes with a high level of prefabrication such as modular or closed panel products can be considered finished products and may not require a phytosanitary certificate or a Heat Treatment Certificate (HTC)

Canadian exporters interested in exporting wood housing and components to Germany should very clearly discuss the matter with a German broker/importer. If a Canadian exporter does not have an experienced importer who knows how to handle the imports of these products he/she should contact Mr. Wolfgang Schefczyk, Canadian Consulate in Hamburg; Tel No. (011-49-40) 35556-292; Fax (011-49-40) 35556-294. For further information on certification requirements contact a local office of CFIA.