



FEI Vancouver



February, 2002



2002 Will be Better, But With Lots of

It is becoming increasingly apparent that the global economy will recover early in 2002. The U.S. economy will lead the way for the rest of the world, just as it led the way down last year.

Unfortunately, the recovery will be unusually gradual. Consumers, who were well cushioned by falling interest rates and tax cuts, did not retrench last year, so cannot bounce back strongly. The excess investment that preceded the tech wreck is still there, so investment spending will not surge either, until the hangover dissipates. The international uncertainty engendered by September 11 will persist, acting as a headwind to international trade and global capital flows, further restraining economic growth. Given these constraints, the U.S. economy appears capable of only modest growth of 1.5-2% this year, although Canada should outperform slightly. Thus, 2002 will be a healing year, but it will be well into 2003 before our economies are fully healed.

This sub-potential growth track will create a variety of stresses. Most importantly, the level of economic activity will remain well short of its capacity limits until sometime in 2003. Consequently, inflation will continue to drift down, and with inflation already very low, deflationary pockets will emerge in some sectors of the economy. Those most affected will be manufacturing companies and commodity producers that are highly exposed to international competition.

Deflationary pressures are very difficult for companies to deal with. 2002 is therefore likely to see a resurgence of corporate restructuring – defensive investment spending designed to reduce labour costs – and the economic recovery may be largely jobless as a consequence, like in 1991-93. Some companies will cope better than others, so stock-pickers will earn their commissions again in 2002. The most vigorous restructuring efforts will occur where deflationary pressures are the strongest – in Japan – but no country will be exempt from the need to restructure.

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Want to hear more? Join us on February 21st when Mr. Poloz addresses the FEI Vancouver Chapter as our guest speaker of the evening!

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These stresses will have their roots in the major economies, but they will spill over into the developing world. Commodity markets have bottomed, but will recover only slowly, along with world demand. OPEC's difficulties in managing global oil markets could continue through much of the year. Producers of other major commodities will also see their incomes remain depressed until the healing process is further along. Major potential stresspoints will include Indonesia, Russia, and Venezuela, where the risks may also have political overtones. Mexico will face the double headwind of slow U.S. growth and soft oil prices, compounded by the continued fragility of its financial system. Major manufacturing centres, like Korea and Thailand, will see cut-throat international competition as surplus goods find their way into a crowded global marketplace.

The bottom line? The recession, modest as it was, is mostly behind us, and 2002 will be a better year. But 2002 could have an unpleasant mix of characteristics – a painfully slow healing process that generates few jobs, produces deflationary pockets in some sectors of the global economy, and allows economic and political stresses to fester in key parts of the developing world.

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Congratulations!

Congratulations to Hugh Lindsay President of the Financial Mentors Group who was recently recognized by the BC Institute of Chartered Accountants for his contribution to the profession and awarded the FCA.

Congratulations from all of us in the Vancouver FEI

January Meeting - Lumber Trade Dispute

We all face complexities in today's business world however those in the forest industry face unique challenges. Guest speaker John Allen, President of the B.C. Lumber Trade Council, shared these challenges with us at the January FEI dinner meeting.

Starting with the background of the US /Canadian forest industry disputes from the early eighties, John brought us up to the present day. John was able to provide detailed examples, which illustrated the complexity of the matter as well as a perspective on the political side of the negotiations.

The importance of the forest industry to the provincial economy made the discussion relevant to all in attendance. Those in the audience and not in the forest industry or close to the debate were able to gain a perspective of the issues that are not available through the press. The talk also raised discussion amongst the audience about other B.C. industry affected by similar

Update from November's Meeting

At our November meeting, BC Finance minister, the Hon. Gary Collins was our guest speaker. At that time our chapter was asked to put forward names of individuals who would sit on a new Accounting Policy Advisory Committee.

This committee is established under the Budget Transparency Act and is to advise Treasury Board as to the implementation of generally accepted accounting principles for government. Under the legislation, the BC government is to comply with GAAP by April 1, 2004.

Our chapter responded within the timelines and put forward the names of three chapter members – Joe Wurz, Wayne Audette and Tom Webster. The timely response by our chapter to this request was important in order to maintain and fulfill our role as senior financial executives in the province. We will keep you informed as to the

Upcoming Meetings

February 21 Students' night. Guest Speaker Stephen Poloz, Vice President and Chief Economist for the Export Development Corporation will join us here in Vancouver for an economic update. Also, students who were recipients of the FEI 2001 scholarships will be attending the dinner to accept their awards.

March 21 It's always nice to be able to draw on our membership resources and so we are fortunate to be working with Philips Hager & North to have a financial planning breakfast seminar.

April President's Night
Michael Walker of the Fraser Institute

May Speaker to be secured.

June AGM

Welcome to Our First Edition!

FEI Vancouver is pleased to provide its members with an informative newsletter covering past and upcoming events as well as news relevant to our profession.

Should you have an article or story you wish to share, please contact us.

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FEI Canada Conference

The FEI Canada conference will be held in Halifax from Wednesday June 5th through Friday June 7th. The theme is "Charting beyond Finance" and the keynote speaker is Professor Michael Porter of Harvard University.