



General Purposes Committee

Date: Monday, June 16th, 2003
Place: Council Chambers
Richmond City Hall
Present: Mayor Malcolm D. Brodie, Chair
Councillor Linda Barnes
Councillor Derek Dang
Councillor Evelina Halsey-Brandt
Councillor Sue Halsey-Brandt
Councillor Rob Howard
Councillor Bill McNulty
Councillor Harold Steves
Absent: Councillor Kiichi Kumagai
Call to Order: The Chair called the meeting to order at 4:00 p.m.

MINUTES

1. It was moved and seconded
That the minutes of the meeting of the General Purposes Committee held on Tuesday, May 20th, 2003, be adopted as circulated.

CARRIED

It was moved and seconded
That the order of the agenda be varied to deal with Item Nos. 3 and 4 prior to Item No. 2.

CARRIED

General Purposes Committee

Monday, June 16th, 2003

ENGINEERING & PUBLIC WORKS DIVISION

3. CANADA/BRITISH COLUMBIA INFRASTRUCTURE PROGRAM APPLICATIONS

(Report: June 9/03, File No.: 1087-19-01) (REDMS No. 1020992)

It was moved and seconded

That the grant application for the East Richmond Branch Library with a municipal priority ranking of 9, be withdrawn from the Canada/British Columbia Infrastructure Program.

CARRIED

FINANCE & CORPORATE SERVICES DIVISION

4. SISTER CITY COMMITTEE

(Report: June 2/03, File No.: 0135-04-02) (REDMS No. 998907)

The Manager, Customer Service, Anne Stevens, accompanied by Mr. Jim Kojima, a member of the Sister City Committee, indicated that they were available to respond to questions.

Discussion then ensued among Committee members and staff on the need, if any, and the cost, to place banners around City Hall and in Steveston. The suggestion was made during the discussion that banners should be placed throughout Richmond to advertise the 30th anniversary of the twinning of Richmond and Wakayama.

Also discussed was the criteria which would be used to determine who would be attending the opening dinner, as well as the cost of the dinner. Advice was given that the Sister City Committee would be pursuing a suggestion that efforts be made to find a sponsor for the dinner.

As a result of the discussion, the following **amended** motion was introduced:

It was moved and seconded

That Council approve funding of \$10,000 from Council contingency to cover the costs of the Wakayama 30th Anniversary celebrations in the Fall of 2003.

CARRIED

It was moved and seconded

That Part 2, "That Council approve the placement of Sister City banners in Steveston and around City Hall during the 30th anniversary celebrations", be referred to staff to examine various options, along with alternate proposals, with regard to the proposed banner program.

CARRIED

General Purposes Committee

Monday, June 16th, 2003

It was moved and seconded

That staff explore methods of utilizing the print media to advertise the 30th anniversary celebration of the twinning of Richmond with Wakayama, Japan.

Prior to the question on the motion being called, the suggestion was made that a crossword or puzzle feature be introduced in local newspapers to increase the public's interest about the celebration event.

The question on the motion was then called, and it was **CARRIED**.

DELEGATION

2. ***Dr. Martin Murenbeeld – To provide an economic update.*** (File No.: 4150-01)

The Director of Finance, Andrew Nazareth, introduced Dr. Martin Murenbeeld, of M. Murenbeeld & Associates, through a PowerPoint presentation, provided an economic and financial overview to the Committee on the status of the Canadian and American economy. A copy of the presentation is attached as Schedule A and forms part of these minutes.

A brief discussion then ensued among Committee members and the delegation on such issues as:

- previous recessions and recoveries
- the links between the Canadian and American economies and which economy was riskier
- the Richmond and Lower Mainland economy as it related to the housing market in comparison to the rest of Canada.

The Chair thanked Dr. Murenbeeld for his presentation.

ADJOURNMENT

It was moved and seconded

That the meeting adjourn (5:24 p.m.).

CARRIED

Certified a true and correct copy of the Minutes of the meeting of the General Purposes Committee of the Council of the City of Richmond held on Monday, June 16th, 2003.

Mayor Malcolm D. Brodie
Chair

Fran J. Ashton
Executive Assistant, City Clerk's Office

**SCHEDULE A TO THE MINUTES OF
THE GENERAL PURPOSES
COMMITTEE MEETING HELD ON
MONDAY JUNE 16TH, 2003.**



P.O. Box 6187, Depot #1
Victoria, British Columbia
Canada V8P 5L5
Tel: (250) 477-7579
Fax: (250) 721-3524
Email: murenbeeld@pacificcoast.net

**M. Murenbeeld &
Associates Inc.**

4150-01

To General Purposes - June 16, 2003

Economic and Financial Overview

Presented for The City of Richmond

June 12, 2003

Economic and Financial Overview

For City of Richmond Treasury Management

M. Murenbeeld & Associates Inc.
www.Murenbeeld.com
June 16, 2003

Thank you for asking me to come in and discuss the economic and financial outlook.

I will start with a brief commentary of where we currently are, then discuss a key theme in our analysis, before reviewing some key developments and trends in the US and Canadian economies.

I'll conclude with some guesstimates of how the economic and financial environment is likely to unfold over the next 4-6 quarters.

Summary Overview

The Canadian economy has been robust ...
on the back of a very weak Dollar
But the Bank of Canada has pushed rates
upwards ...
The US has weakened significantly against
overseas currencies ...
responding to the record current account deficit
The Fed now fears deflation, not inflation ...
and stands ready to cut interest rates again

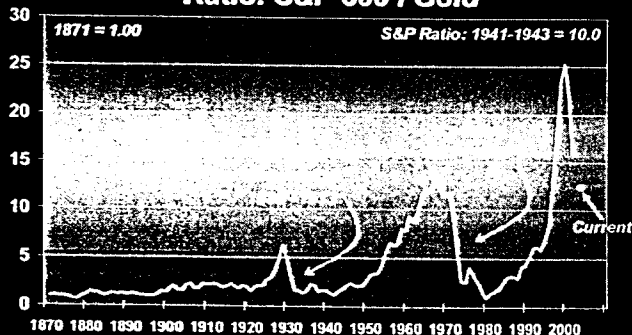
Where are we currently?

The Canadian economy has been strong (relatively), and the Bank of Canada has continued to raise interest rates on worries of an inflation problem. This has helped the Dollar to soar.

The Fed has continued to cut rates, which has helped the Dollar to weaken significantly against the Euro and Yen, as well as the Canadian Dollar.

Theme

Ratio: S&P 500 / Gold



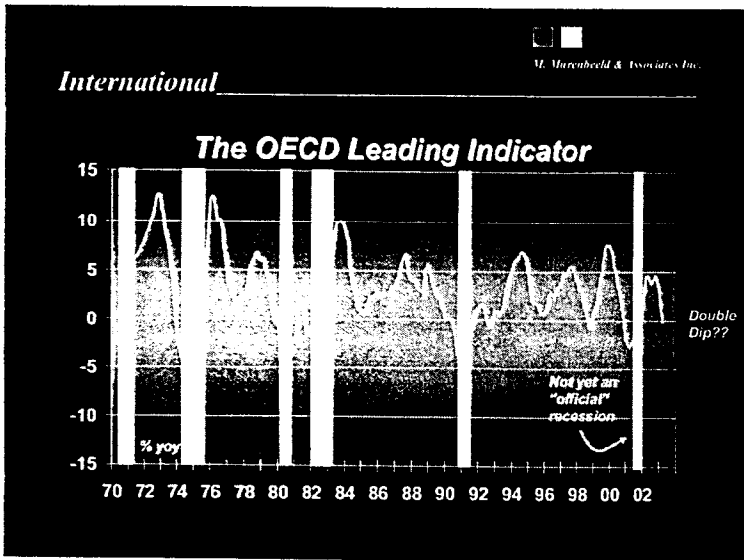
Let's have a closer look at what is going on.

This is my "silly" chart, but it makes several basic points.

The first is that the third financial bubble of the last 100 years has just burst. After the previous two bubbles stock markets took 8-10 years to regain their previous highs.

The second is that economic growth was weak for a prolonged period of time after each bubble had burst.

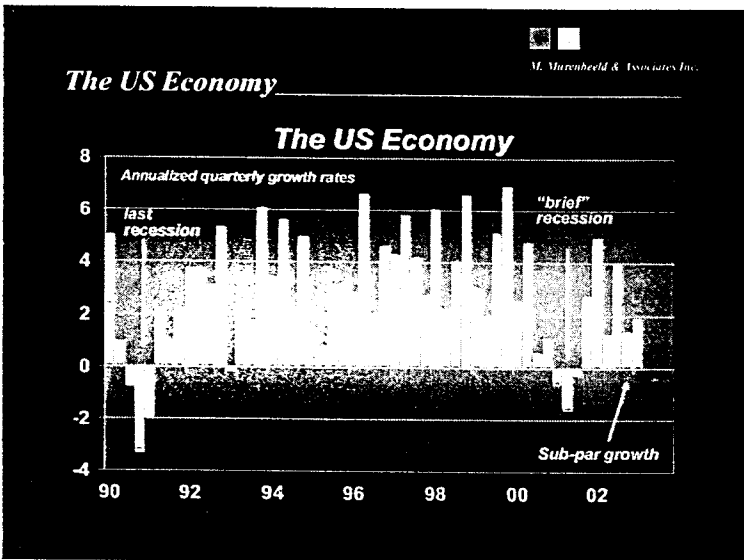
The third is that something fundamental happened to the gold price in the wake of each bubble – it was revalued in 1934, and cut loose in 1971.



In keeping with our silly chart, the OECD leading indicator has again run out of steam. Indeed it looks as if it is signaling another recession.

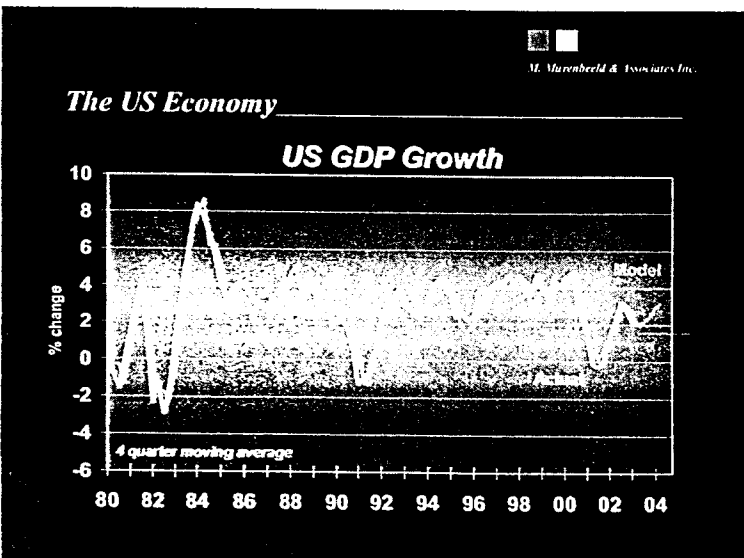
The danger here is that the world economy has become over-dependent on the US consumer, and as we will show, the US consumer really ought to stop spending for a while.

This means there would be a potential problem in the world economy.



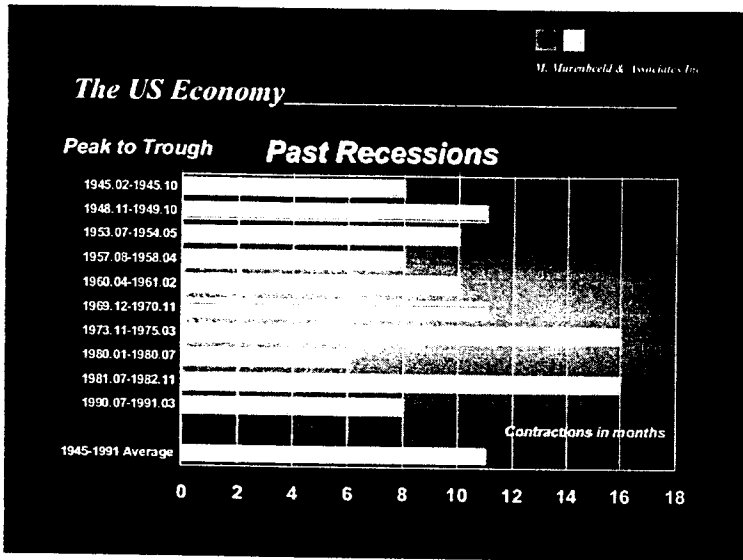
On the surface of it, the US economy doesn't look all that bad. It rebounded strongly from the attack of 9/11 – growth in early 2002 was near 6% in fact.

More recently growth has slowed, but even a war with Iraq did not cause the US growth rate to slip below zero.



This is one of our forecasting models. It suggests that the sharply lower interest rates in the US, and the weaker Dollar, will help reinvigorate the economy over the next four quarters.

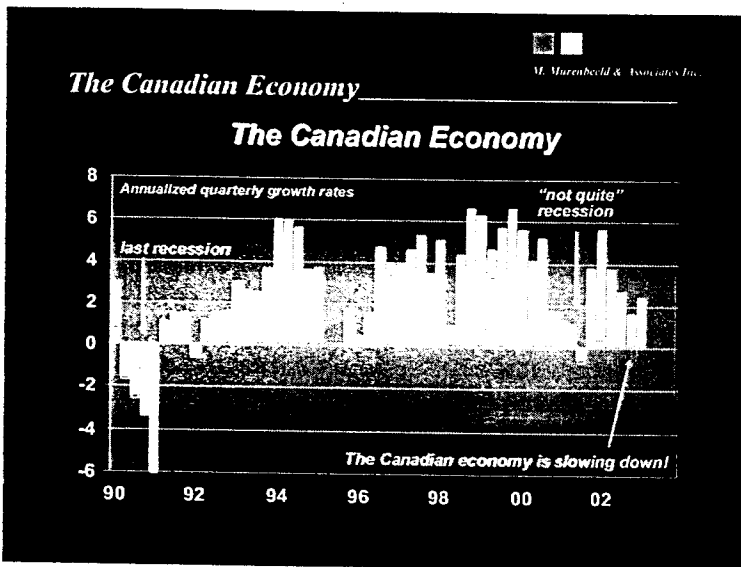
Unfortunately, we don't fully share this optimism, and are looking for a more sideways trend.



This chart highlights US recessions since 1945. The shortest recession lasted 6 months, which is about as long as the 2001 recession lasted.

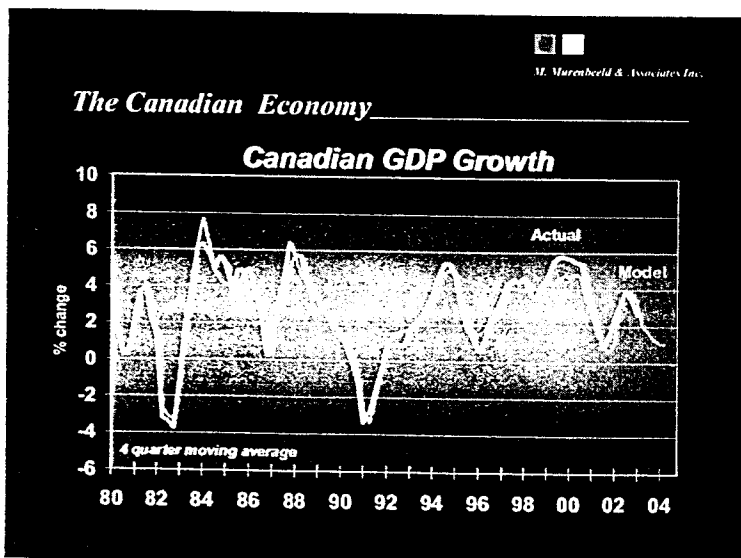
Yet, the short recession of 1980 was followed quickly by a much longer one – the “double-dip” of 1980-82.

That worries us!



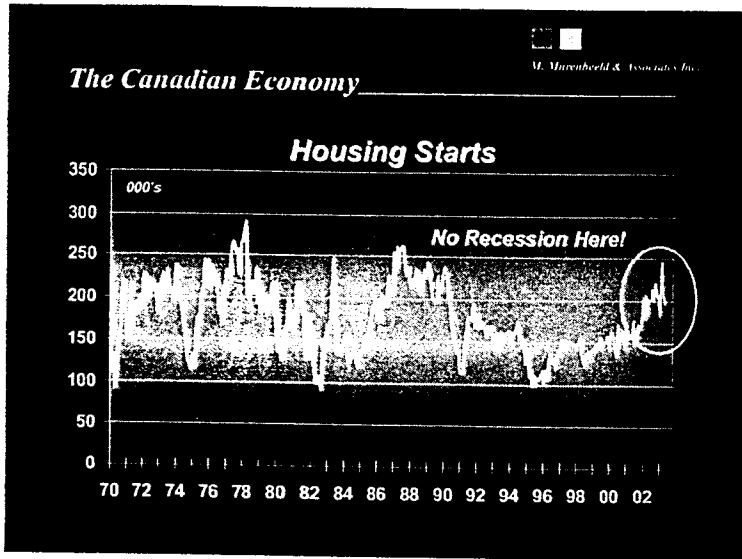
The Canadian economy contracted briefly in 2001, but not as dramatically as the US economy.

The economic “rebound” was stronger in Canada than in the US, but the falloff in growth in Canada is now quite visible.



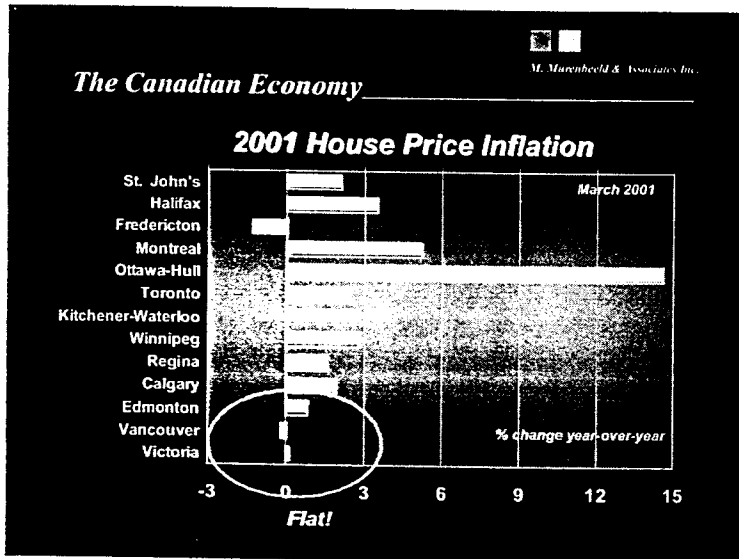
Indeed, our forecasting model for Canada points to lower growth – in the range of only 1% - as a result of higher interest rates and the sharply higher Canadian Dollar.

This model agrees more with our view of what may lie ahead.



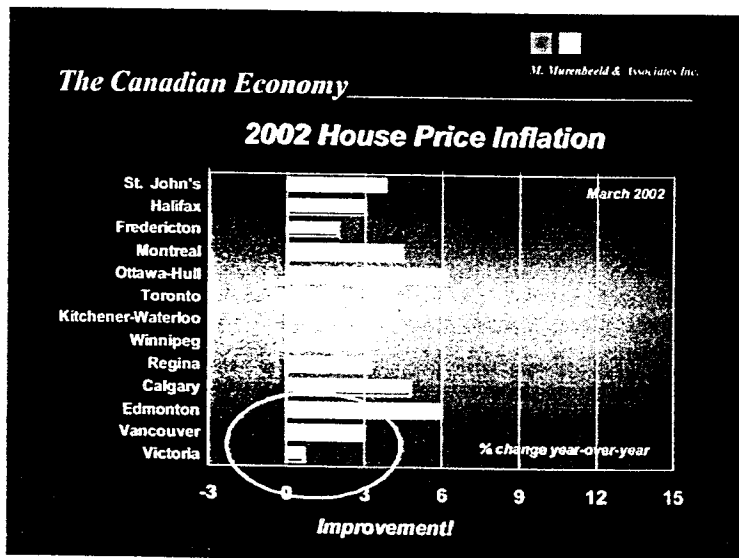
The one area where the Canadian economy has been exceptionally strong is the housing market. This chart of housing starts in Canada indicate a robust market.

Interestingly, the rise in short term interest rates in Canada did not adversely affect the long term rates significantly. Ergo, mortgage rates have been extremely attractive.



This is how house prices were faring across the country in 2001. All the price improvement was out East; house prices in BC were stagnant.

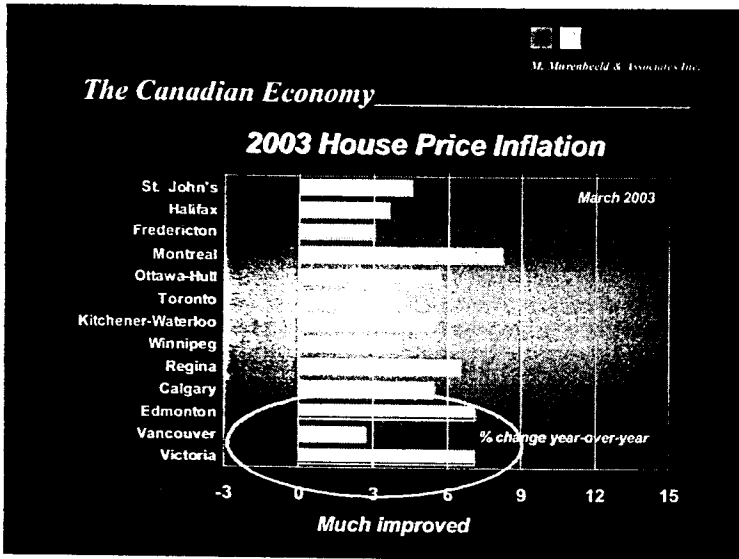
I mentioned in our reports at the time that it was a good time to buy property in Vancouver!



This is the same chart for 2002.

Note how price rises had evened out across the country. Price rises moderated out East, and picked up out West.

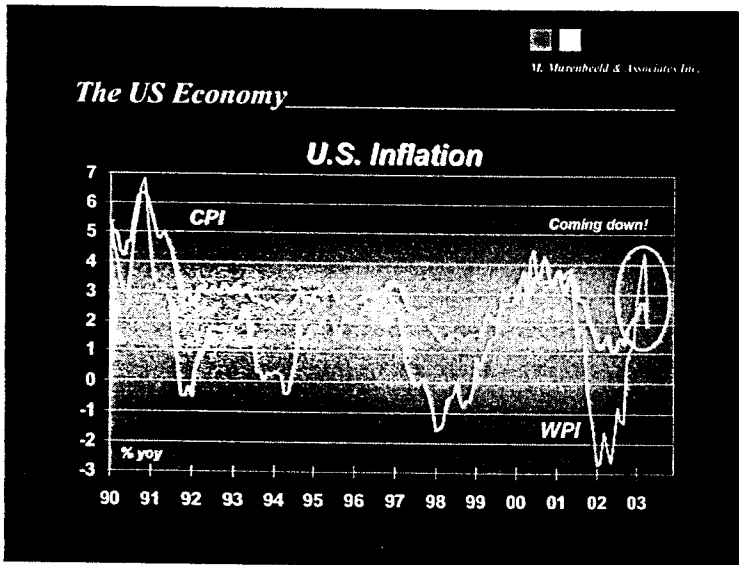
Even Victoria, despite government cutbacks and layoffs, started to show some price improvement.



This is the chart for this year.

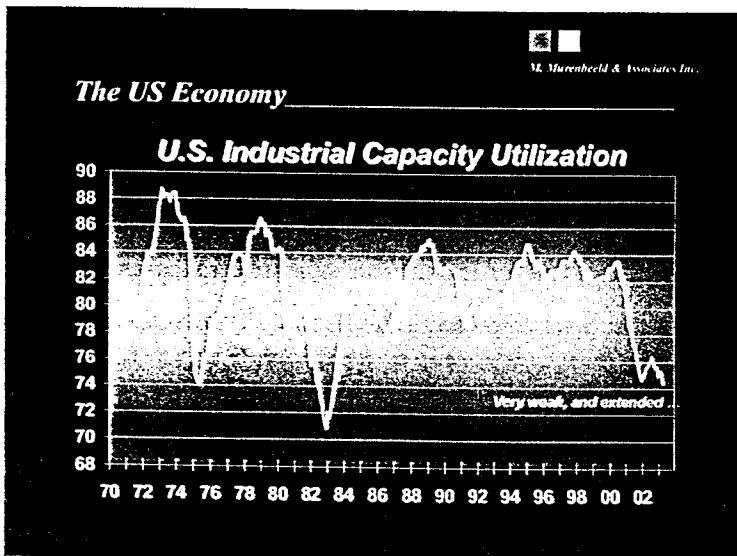
Note how the balance has shifted more to the West, with the exception of Montreal (where a change in government has been extremely salutary).

Please be advised that I have very recently sold three Condo properties (in Toronto, Vancouver, and Victoria)!



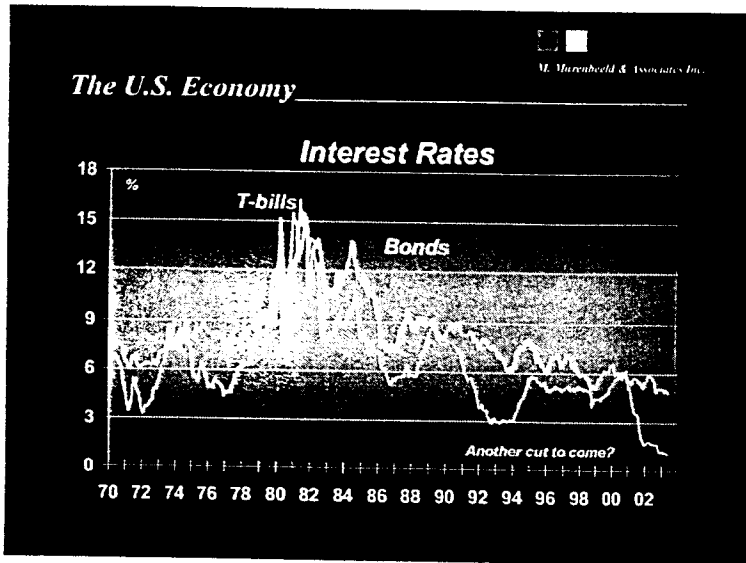
Unlike the Bank of Canada, the Federal Reserve did not react to the recent rise in inflation rates. It correctly regarded these price pressures as temporary.

Note how inflation in the US has started to decline again.



Indeed, the Fed is – and should be – far more concerned with the low capacity utilization rate of the US economy.

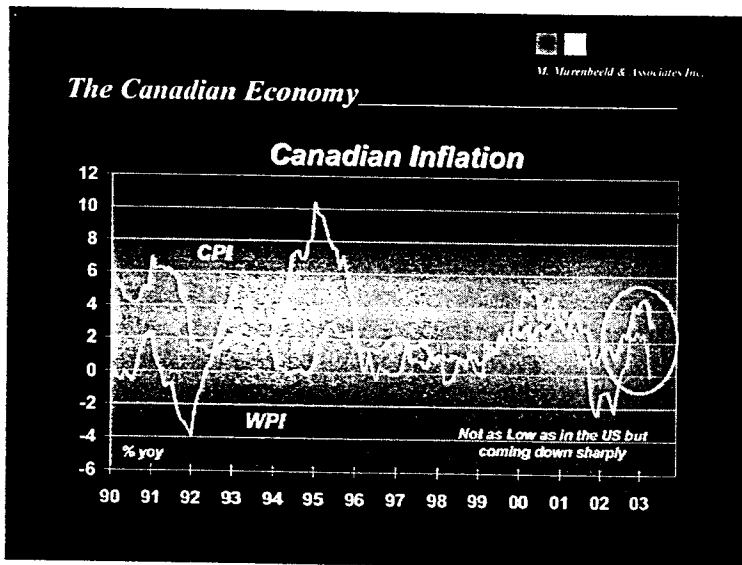
The low rate means that there is excess capacity, and that demand is insufficient to employ all the capacity. In this situation inflation is not likely to be a permanent phenomena.



It follows that we expect the Fed to retain the current “easy” monetary policy stance for some time to come.

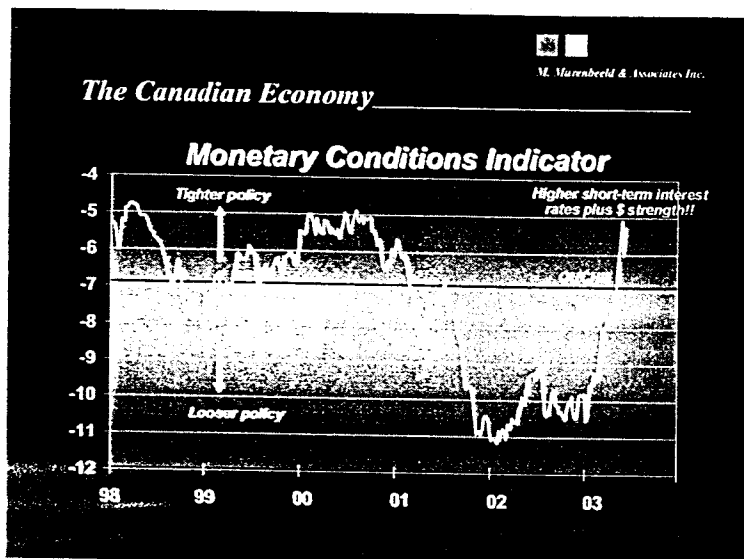
If there is a risk furthermore that the consumer might stop spending despite the low interest rates – for whatever reason – then the Fed will not only have been wise in not raising rates in response to higher (temporary) inflation rates, but it will also be cutting rates further.

If/when it runs out of room to cut rates, it will “print” money directly through buying bonds!



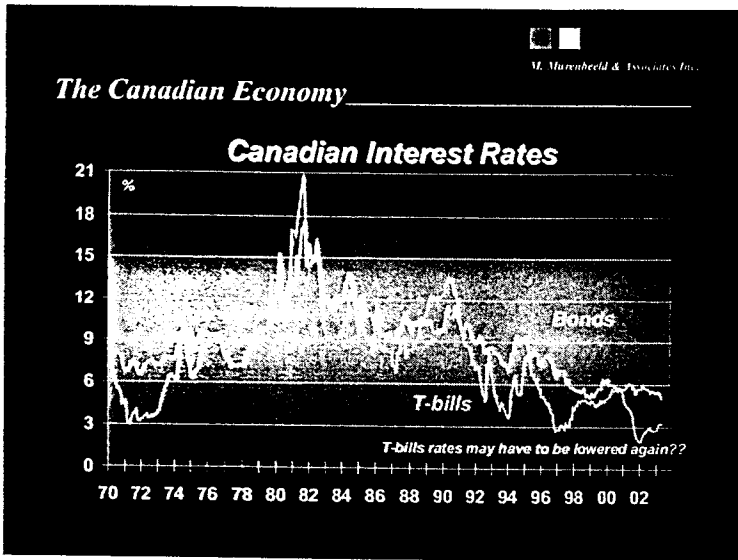
The Bank of Canada’s target range for inflation is 1-3%. With the inflation rate having moved up recently, the Bank of Canada decided that holding back on raising rates would risk higher inflation down the road – and send the markets the wrong signal.

Of course, now that inflation rates are heading lower again, the Bank should be ready to cut rates this Fall. (This is in fact what we have forecasted for most of this year to date.)



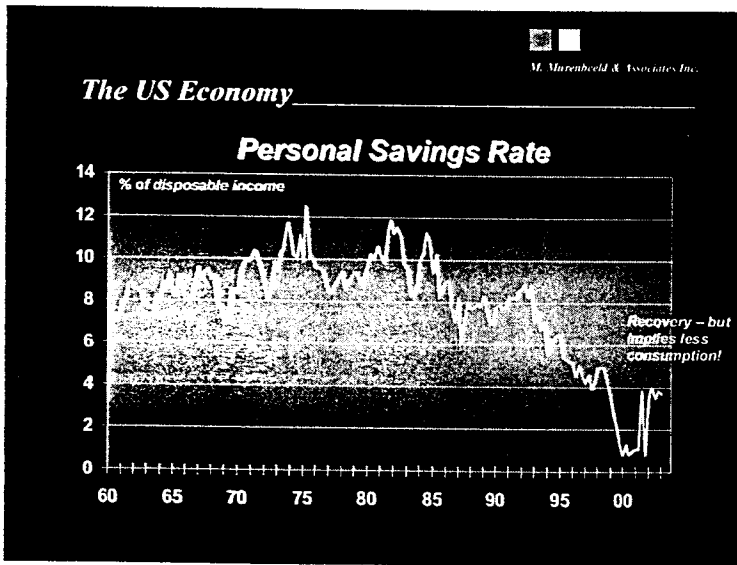
The fact is, with the Dollar rising so sharply, monetary conditions in Canada have tightened dramatically.

We expect this tightening to weigh on the economy, as exporters find their profits squeezed. Canada becomes less competitive in the US market as the Dollar rises.



This chart shows that T-bill rates have been rising this last year. Bond yields have drifted lower however.

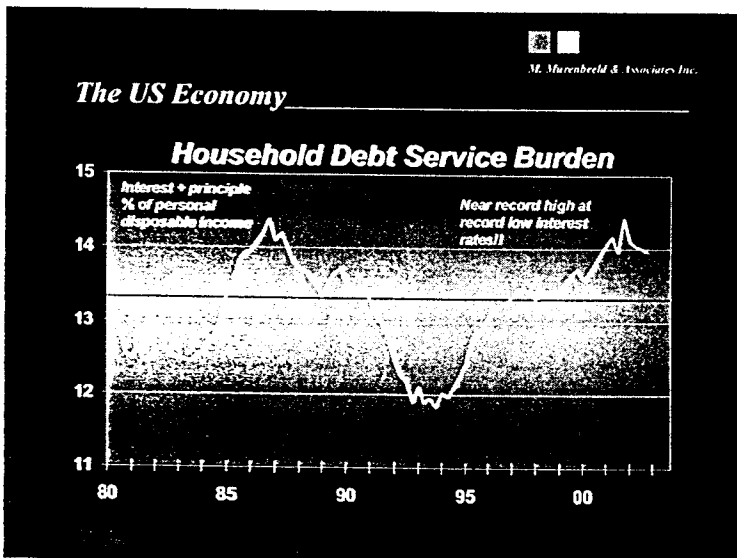
If the economy slows as we predict, short-term interest rates will decline again, and long-term rates should decline further.



This chart, and similar charts for Canada, capture the essence of our concerns about the North American economy.

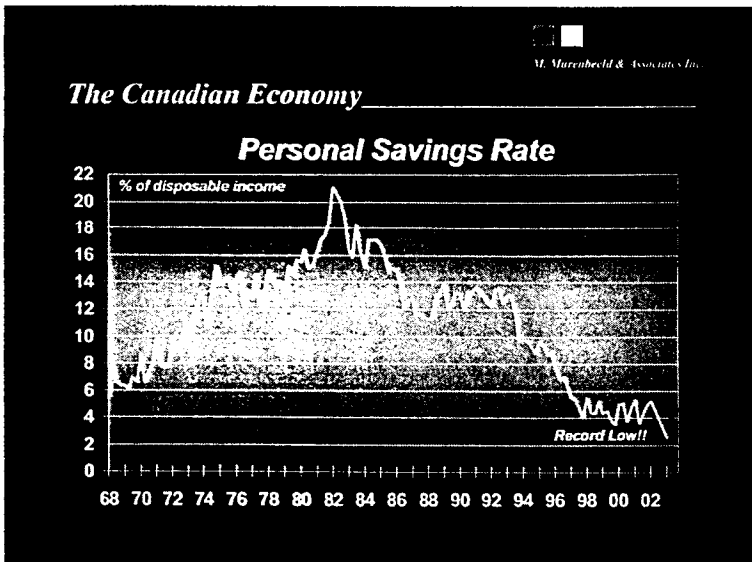
Household savings rates are low. As these rise – which they should do – spending will naturally moderate. To keep households spending, the Fed will want to keep monetary policy extremely “easy”.

But what if the consumer stops spending, regardless of low interest rates?



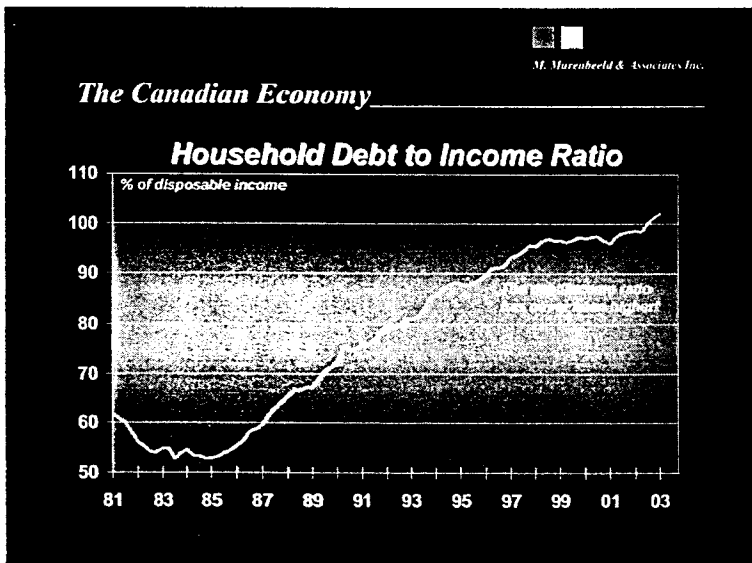
This chart shows that the US household debt service burden – even with these record low interest rates – is near an all-time high.

This fact alone practically rules out an early hike in US interest rates.



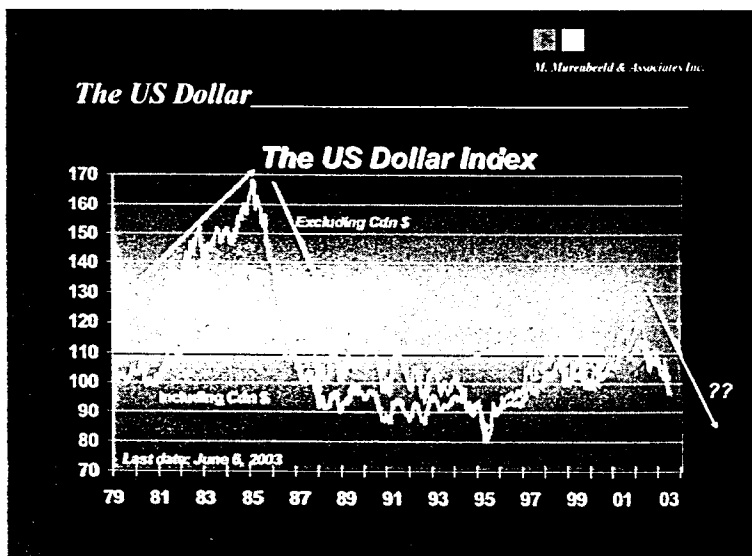
The picture is, if anything, more depressing for the Canadian consumer. The personal savings rate (% of disposable income) is at a low point – with no sign of an immediate upturn..

Tax cuts would help in Canada, as they will in the US, because these would increase disposable income and allow for more savings.



Canada's household debt to income ratio hasn't stopped rising since the early 1980's. Here, too, an argument can be made that the household sector should take a "breather", pay down debt and increase savings.

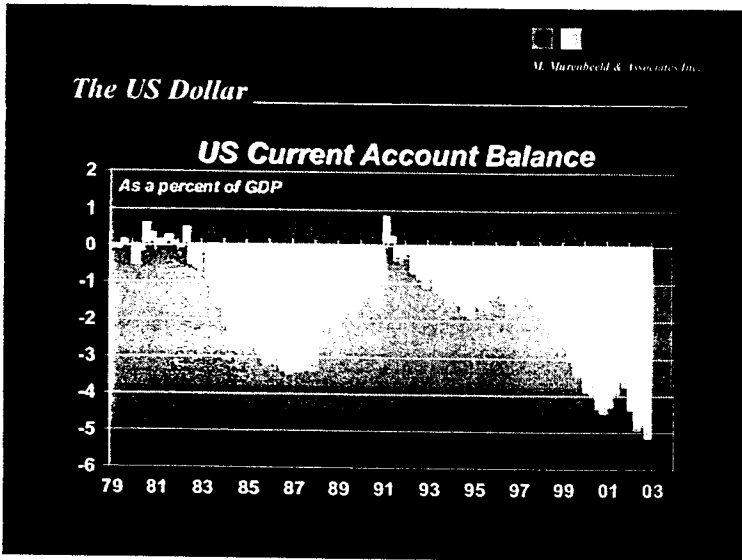
It follows however that when consumers do not consume, and the government runs a budget surplus, only a weak Dollar is left to help the Canadian economy. Ergo, our focus on the Dollar.



The US Dollar index is declining, finally. Not a moment too soon!

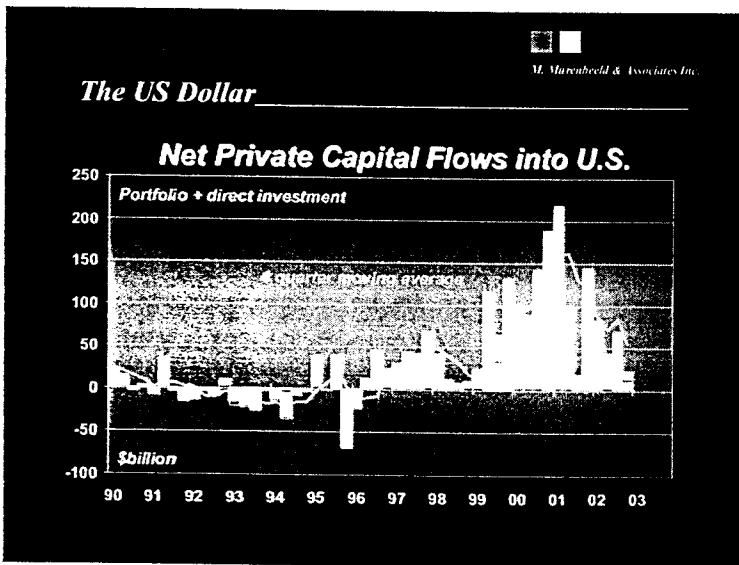
International capital flows no longer favour the US so heavily, which has allowed the current account deficit to exert a downward pull on the Dollar.

From an investment perspective, an overweight position in non-US assets is finally paying off.



This chart shows the state of the US current account deficit. As a % of GDP it now exceeds 5%.

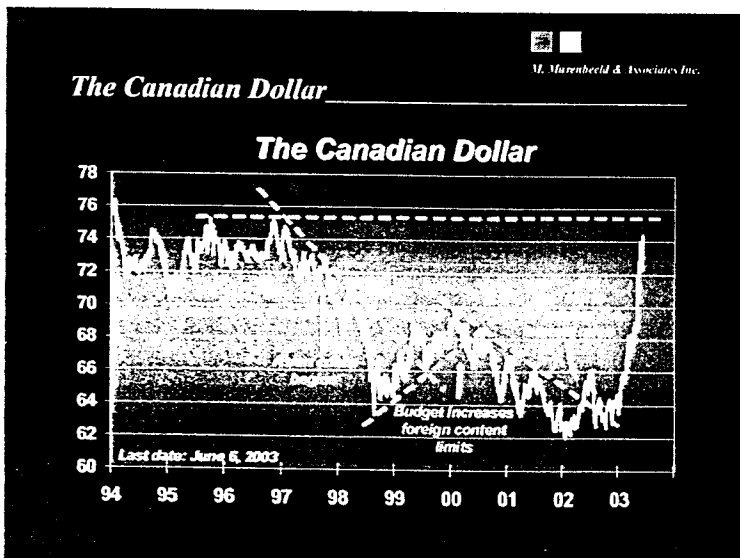
Research shows that when a current account deficit exceeds 5% a significant currency "correction" is required. Such a "correction" can take upwards of four years to be completed, furthermore.



This chart shows that private capital flows to the US have come down.

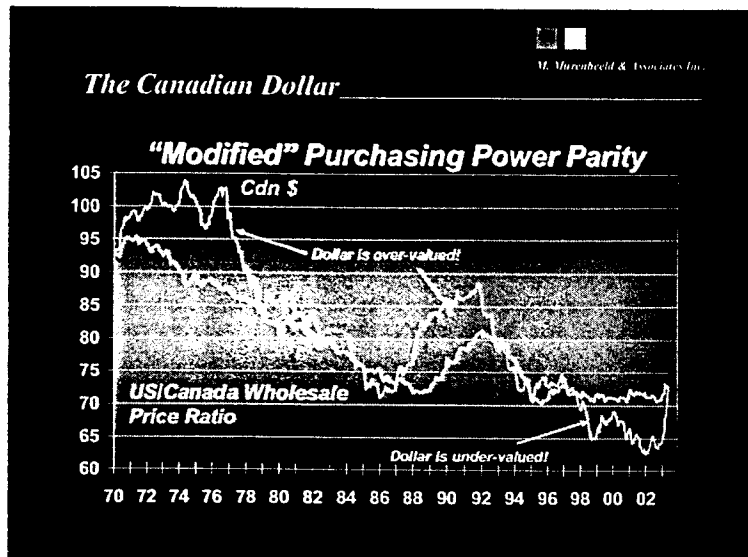
One cannot be certain that a new upturn will not commence – but the high likelihood that the US economy will be less robust than expected means many investors will look for opportunities outside the US.

Indeed, some have discovered Canadian bonds!! (George Soros)



Capital flows have turned inward – meaning Canadians are not investing abroad, and even selling foreign assets. This helps the Canadian Dollar immensely.

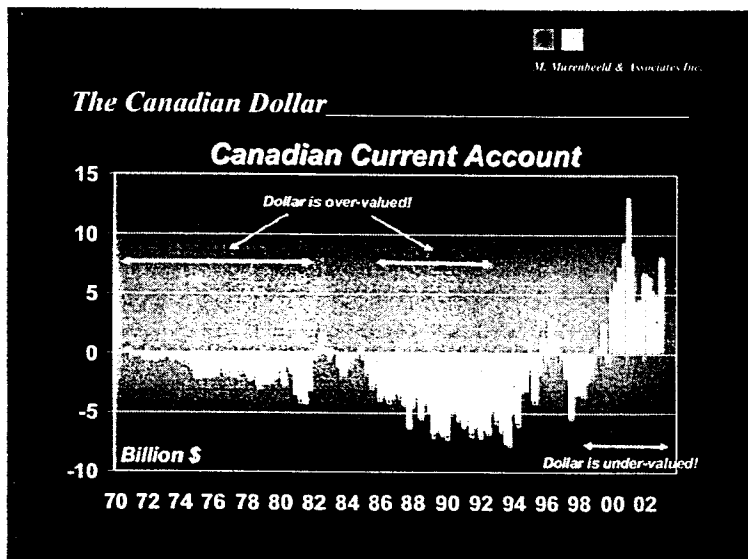
It should also be remembered that the Canadian Dollar was significantly undervalued, as the following chart attempts to show.



The Canadian/US wholesale price ratio is an excellent "trend" variable, around which the Dollar fluctuates.

When the Dollar is above "trend" the current account balance is invariably in deficit, and when it is below the balance is in surplus.

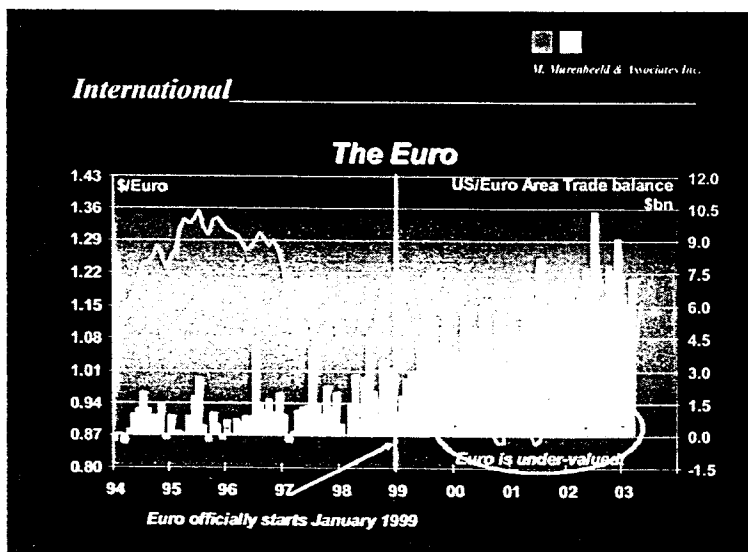
The chart suggests that the "fair" value of the Dollar is about 72 cents currently!



This chart shows that when the Dollar is "over-valued" the current account balance tends to drift into deficit. And when the Dollar is "under-valued" the current account balance tends to drift into surplus.

The Dollar has moved to a "neutral" position in recent days. Were it to move above 75 cents we'd expect the current account balance to shift into deficit.

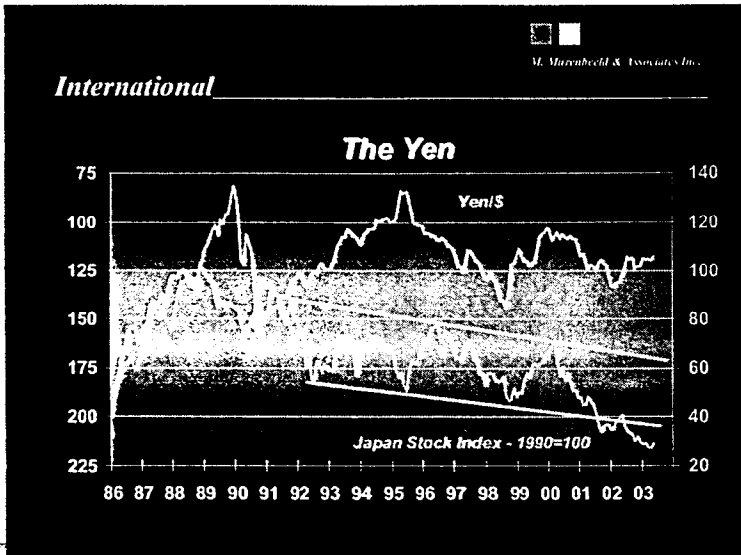
More foreign capital inflows could cause such a development!



The Euro was undervalued. It had declined by more than 20% since its introduction at the start of 1999.

While the trade surplus of the Euro Area with the U.S. has been rising, capital outflows from the Euro-Area kept the Euro depressed.

That is now changing!



The Yen has been very difficult to predict. The weak domestic economy suggests that the Yen should be devalued – so exports can lead the economy out of its malaise. But Japan’s trading partners, i.e., the US, do not want the Yen to weaken. Yet Japan can survive quite nicely with a 100 yen/\$ rate. Less clear is whether the Japanese economy can survive further declines in the stock market, and a restructuring of the banking sector.

Conclusion

M. Marenbeeld & Associates Inc.

1. Most Likely:
weak growth over next four quarters
low-lower interest rates
2. First Alternative:
US economy recovers momentum
inflation re-emerges
US interest rates rise significantly
3. Second Alternative:
US economy recovers momentum
inflation re-emerges
US interest rates rise significantly

Let’s now pull some of these thoughts together. Most likely, the Fed will cut rates again on the back of a weak domestic economy, and the Bank of Canada will follow suit this Fall.

Our bias is to make a “double-dip”/ “deflation” scenario our first alternative scenario. This scenario will require significant further monetary easing.

Our second alternative calls for strong growth going forward, and a recovery in corporate profit and investment. Interest rates will rise sharply in this scenario.

Numerical Forecast

M. Marenbeeld & Associates Inc.

	year-end	
	2003	2004
Canadian Dollar (74.0)	75.2	73.0
10-yr Bond yield (4.15)	3.90	4.25
Prime Rate (5.00)	4.75	5.00
US Dollar/Euro (1.17)	1.22	1.27
10-yr Bond yield (3.15)	3.00	3.50
Prime Rate (4.25)	3.75	4.00

This chart presents our “most likely” outcome, in numerical terms.

We expect the Canadian Dollar to remain quite robust, and the US Dollar to weaken further against the overseas currencies.

We expect bond yields to be quite low this year and next, and prime rates to decline somewhat on the back of discount rate cuts in Canada and the US.

If developments go to plan there is a chance that interest rates will be in an uptrend at the end of 2004.