

Latest indicators confirm recession

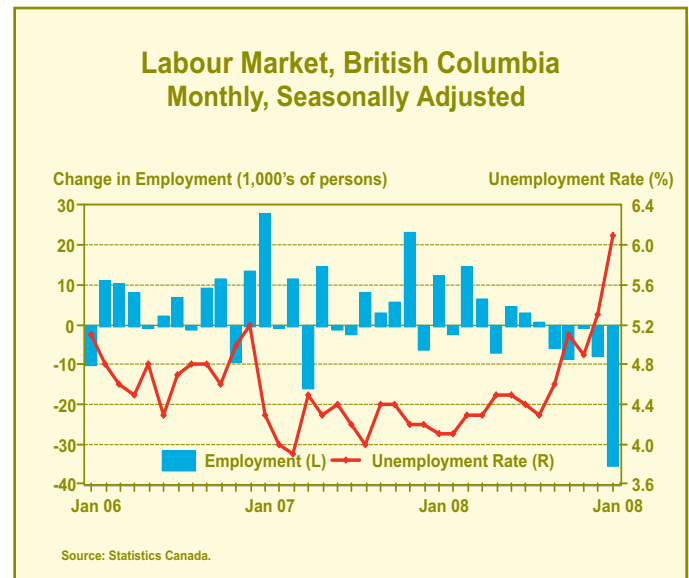
The economic recession both nationally and in British Columbia deepened during January and is accelerating. This phase of a downturn typically entails sharp and swift adjustments by companies to worsening market conditions to reduce output, and this time it is exacerbated by the series of financial shocks that happened in September and October last year. Practically all global production and investment indicators released since then are plunging and B.C.'s trade and financial links draw it into this vortex.

B.C.'s **labour market** weakened substantially in January, according to the latest estimates from Statistics Canada. Employment fell by 35,100 persons (-1.5%) from December, seasonally adjusted, the fifth consecutive monthly decline and the largest monthly drop since the current data series began in January 1976. Employment did plunge by 1.9% in June 1982, at the height of B.C.'s worst recession since 1961, but at that time the decline amounted to 24,700 persons.

Full-time employment dropped by an estimated 68,100 persons in January from December, as the total hours worked fell by 1.5%. Despite a decline in B.C.'s labour force in January, unemployment jumped by 17,800 persons, seasonally adjusted. That drove the province's unemployment rate up to 6.1% in January from 5.3% in December. That is the highest seasonally adjusted unemployment rate in B.C. since April 2005. Unemployment in January was estimated at 147,500 persons, seasonally adjusted.

Manufacturing and construction industries led the job reductions in January, but there were smaller declines in retail/wholesale trade and transportation/ warehousing. Declines in these sectors greatly outweighed gains in professional/scientific/technical and information/culture/recreation services.

Younger workers aged 15 to 24 years largely escaped the job losses in January, although the rate of part-time employment did increase as the average number of hours



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worked declined. Men aged 25 years and over saw employment fall by 1.7%, while women aged 25 years and over saw a 1.3% drop in jobs.

In Metropolitan Vancouver, employment declined by an estimated 12,700 persons in January, seasonally adjusted. Job losses were proportionately heavier in some of B.C.'s development regions, especially the Northeast and North Coast-Nechako regions.

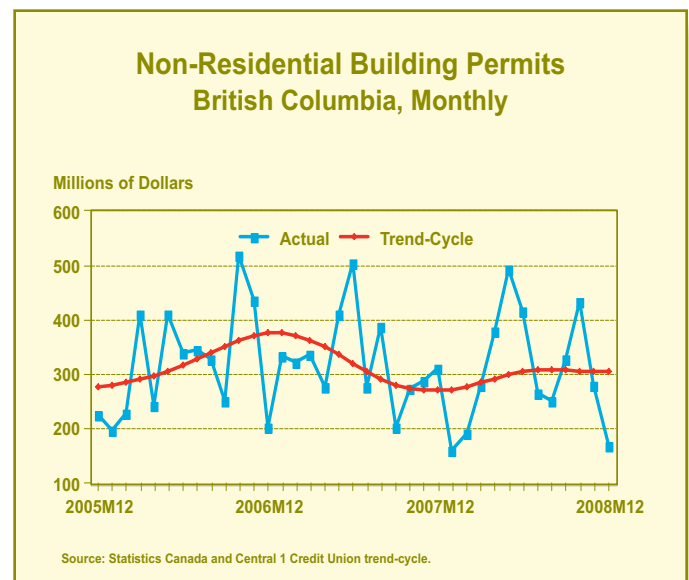
Central 1 Credit Union expects further job losses in B.C. over the next several quarters, as the recession works its way through the real economy. Bear in mind that employment is a lagging indicator of economic performance, usually trailing three to six months behind changes in aggregate expenditures and other broad measures of production. Central 1 expects average employment will decline by 56,000 this year from 2008 (-2.4%) and the unemployment rate will average 7.2% compared to 4.6% last year.

Non-residential building permits ended 2008 on a flat-line trend that is down only slightly from the cyclical highs seen in the two previous years. Permit values for non-residential buildings issued by B.C. municipalities totalled \$3.66 billion last year, down only 7% from \$3.93 billion in 2007. Non-residential building construction is another lagging indicator of economic output, and the outlook is for substantially lower investment in this sector in 2009 and 2010.

Last year saw permits issued for government buildings drop by 22% in value, as many of the facilities for the 2010 Olympics neared or reached completion. Permits for industrial buildings fell 10% while permits for commercial buildings slipped by a mere 1%. In metropolitan Kelowna, non-residential building permits declined 22% in 2008 versus 2007, while permits inched down by about 3% in metropolitan Vancouver. In contrast, permits issued in metropolitan Abbotsford climbed 33% last year and metropolitan Victoria saw a 14% increase.

Central 1 Credit Union forecasts that non-residential construction spending in B.C., including both buildings and heavy engineering projects, will total around \$10.6 billion in 2009, down 22% from 2008. Lower corporate profits, weakening demand and tighter financing terms will drive this investment recession. Government plans to advance and expand infrastructure projects will only partly offset the dampened demand caused by the recession.

Housing activity in the Lower Mainland in January remained in recession mode as sales and prices declined. One positive development for stable prices is less supply, though this shift is in its early stages and market conditions fostering stable prices are many months away. The market is entering its seasonal sales upturn, but below-normal gains are likely.



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Housing sales declined 8% to 1,853 units seasonally adjusted in January from December in the Real Estate Board of Greater Vancouver and the Fraser Valley Real Estate Board areas. New MLS® residential listings in January held unchanged at 6,340 units, seasonally adjusted. The previous downtrend is intact and not broken by January's result, and a continuation of the downtrend is expected throughout this year.

Active listings dropped 11% in January to 25,387 units, seasonally adjusted, from 28,636 in December. This one of the largest monthly declines on record and the largest since this housing recession began. December's high marks the cycle peak and turning point. Market conditions remain very weak or grossly oversupplied. The sales-to-active listings ratio stayed at 7% or 14 listings for every sale. A normal market balance is considered around 20% or five listings to one sale.

The MLS® Housing Price Index (HPI) declined to 208.1, seasonally adjusted, in January from 209.6 in December. Since the March 2008 peak, the HPI is down 11%. A peak-to-trough price correction of 25% during this recession is foreseen and the market is about half-way through its adjustment process.

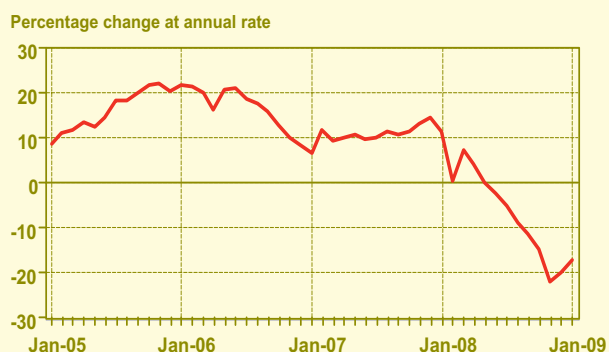
One bright spot for housing is lower mortgage rates. The five-year posted mortgage rate fell almost one full percentage point to 5.79% and is down from 7.54% in late December 2007. Rates are coming down further in 2009, with this rate seen falling to 5.00%.

Lower prices are ultimately positive for sales, but loss aversion among potential buyers is high during a price correction. Prices need to be seen at or near the bottom before low prices significantly stimulate sales. Further, an economic recession creates uncertainty among potential buyers about job and income security and causes lower population in-migration. The sales trend outlook for the next several months is down, though a seasonal pickup is underway.

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Change in MLS® Housing Price Index, Greater Vancouver and Fraser Valley



Source: REBGV, C1CU. Note: Based on seasonally adjusted HPI.