

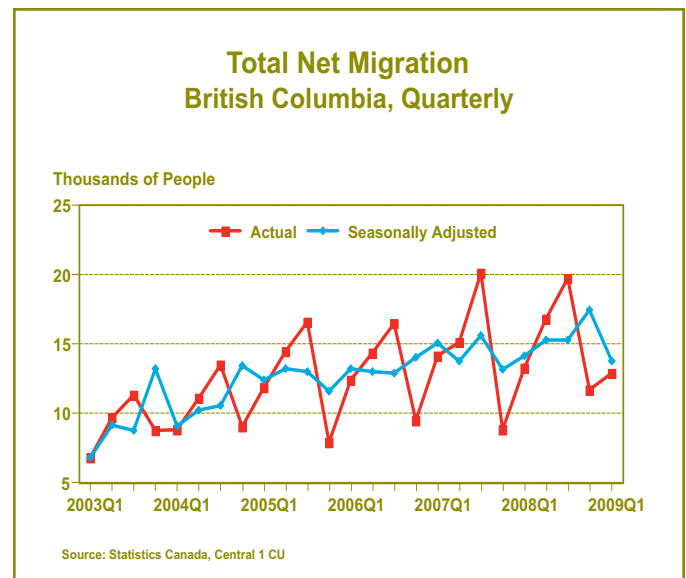
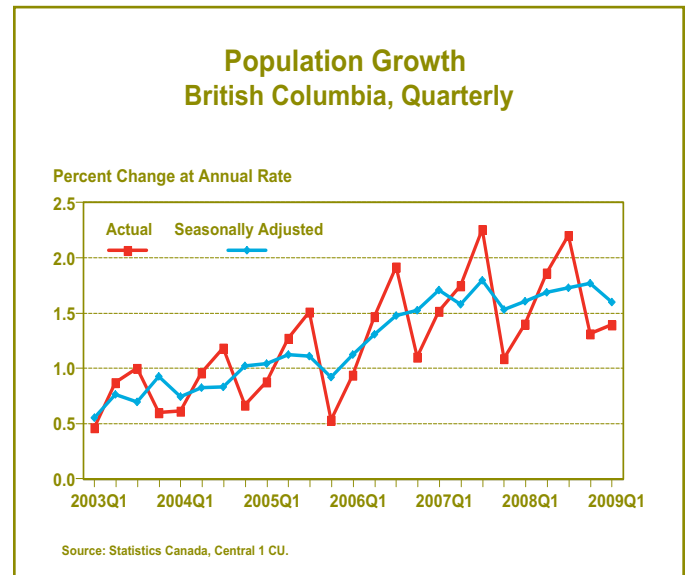
This week's news releases of key economic indicators continued to be less downbeat. In the United States, real consumer spending increased in May for the first time since January. The rise was led by a substantial gain in personal income, which in turn was driven by federal stimulus spending and transfers. U.S. households used most of the rise in income to increase savings (or decrease debt). This is expected given the declines in net worth over the past two years from lower stock and real estate values. Household net worth declined 2.6% in the first quarter.

The U.S. National Association of Realtors reported that sales of existing homes increased 2.4% in May, following a similar gain in April. These are the first back-to-back, month-over-month gains since mid-2005. Inventories remain high by historical standards, although they declined in May. The median sale price continued to edge up from the cyclical low seen in January. Recent sales statistics seem to indicate the U.S. resale housing market has reached a floor, although it remains too early to be highly certain that the worst is over.

In Canada, households' net worth declined 1.3% in the first quarter, a much slower rate of decline than in the last two quarters of 2008. The value of both financial and non-financial assets decreased due to declines in the stock market and lower real estate values.

In British Columbia, population growth slowed in the first quarter. Also, the latest Multiple Listing Service (MLS) housing market statistics revealed that this year's market resurgence continued in May.

British Columbia's **population** totalled 4,435,344 residents as of April 1 this year, according to the latest estimate from Statistics Canada. That's a gain of 73,956 residents (1.7%) from one year earlier. Year-over-year growth in B.C.'s population has averaged 1.67% for the past four quarters and has accelerated from 0.52% in the first quarter of 2003.



However, now that the economy is in recession, **net immigration flows** are slowing (and this is the main source of population growth in B.C.). On a seasonally adjusted basis, B.C.'s population growth rate in the first quarter of 2009 was 1.60% annualized. That's down from 1.77% in the fourth quarter of 2008, which likely marked the high point in the population growth rate for this economic cycle.



Both **international and interprovincial migration** slowed in the first quarter. Total net migration to B.C. was estimated at 13,758 new residents, seasonally adjusted. That's down from estimated growth of 17,473 in the fourth quarter of 2008. Net international migration declined from 15,695 in the fourth quarter to 13,116 in the first quarter, seasonally adjusted, while net interprovincial migration declined from 1,748 to 760.

Central 1 Credit Union forecasts B.C.'s population growth will slow over the next two years due to the recession and a below-average recovery. Even so, B.C.'s attractive natural endowments and stable political environment, combined with Canada's aging population, will continue to attract migrants.

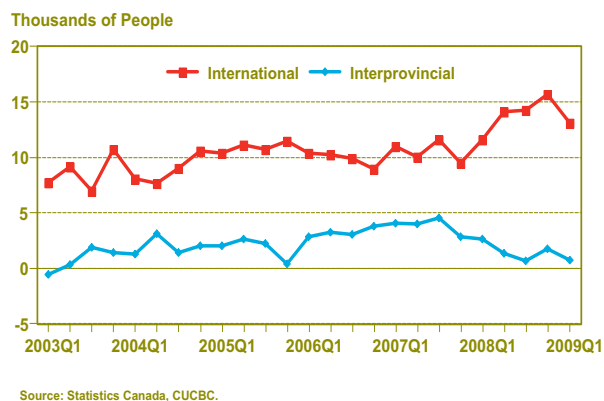
B.C.'s overall **residential property market** moved into balanced market conditions in May following 12 consecutive months of buyer's markets, based on Central 1 Credit Union's analysis of the latest Multiple Listing Service (MLS) indicators from the Canadian Real Estate Association (CREA). Market balance refers to approximate equilibrium in supply and demand, with neither buyers nor sellers having a bargaining advantage. Record low mortgage rates together with last year's price declines have driven up affordability and demand, while supply has come down from the highs of 2008.

The flow of new listings continues to plunge and is currently at its lowest level in at least six years on a trend basis. Sales, on the other hand, have trended up for the past five months. These factors brought the sales-to-new-listings ratio back up above 50% in May for the first time in 15 months. Normal, or balanced, market conditions tend to be in the 40% to 65% range on this indicator. The result has been a 2% increase in the average sales price trend over the past five months, following a 12-month peak-to-trough decline of 9% from January to December of 2008.

The past few months have seen declining and low mortgage rates, together with last year's housing price declines, improve affordability and raise demand in housing markets across B.C. Meanwhile, supply has come down from the highs of 2008. Will this market resurgence last?

Pent-up demand left over from last year's slowdown will ease, likely within a few months. Two- to five-year fixed mortgage rates are forecast to rise 30 to 40 basis points (bp) by year-end,

Net Migration Flows British Columbia, Seasonally Adjusted, Quarterly



disqualifying some low-equity buyers. Variable mortgage rates are forecast to rise by 25 to 50 bp in 2010. Housing prices will get back above trend, likely by the end of 2009, lessening demand from bargain-hunting market-timers. The influx of Asian and other foreign investors will slow once confidence in U.S. housing markets returns, likely in 2010.

These factors suggest the recent surge in MLS housing markets will probably cool by fall. Once the economy resumes growing, forecast for later this year or early 2010, housing markets will respond to real growth in employment and income. Economic growth through 2011 is forecast to be muted compared to past recoveries and B.C.'s long-term potential.

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