

This week's indicators of B.C. economic activity are mixed, reflecting the weak growth expected to typify this economic recovery. International exports and new motor vehicle sales declined in November, while non-residential building permits and housing starts increased.

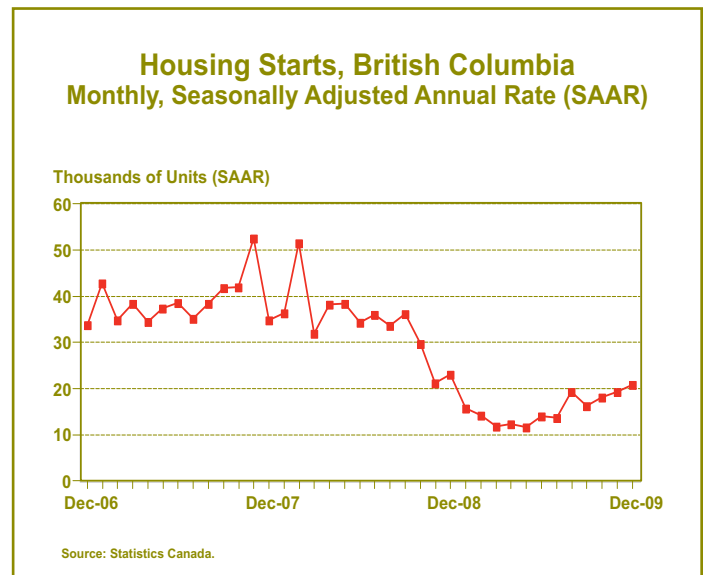
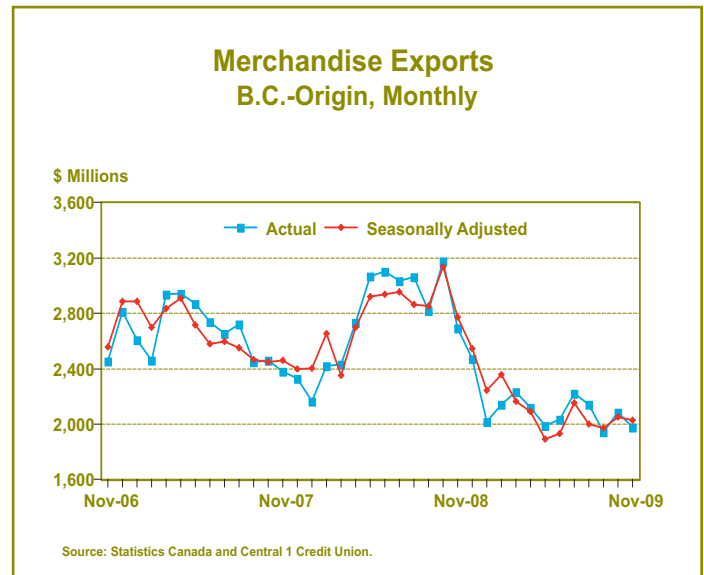
**International exports** of B.C.-origin goods edged down in November, according to the latest estimates from Statistics Canada. The 2008-09 global recession hammered international trade flows, which have been bouncing along a cyclical trough since January 2009. However, the world economy is recovering and resumed export growth is likely in the near term.

B.C.-origin goods exported internationally totalled \$2.03 billion in November, seasonally adjusted, down 1.1% from October. Agricultural goods and machinery/equipment led the month-over-month decline, which was partly offset by gains in industrial goods/materials and forest products.

Central 1 Credit Union forecasts export growth over the next five years but at an anemic pace, averaging about 5% in current dollars and less than 3% after inflation. The global economic recovery and higher commodity prices are positive factors for exports, but the high Canadian dollar and a weak recovery in U.S. housing starts will restrain the cyclical recovery in exports. Expansion into the Chinese market is also positive, but this takes time to develop and starts from a small base.

**Housing starts** in B.C. in December continued their slow upward rebound from the cyclical low reached in May 2009, according to the latest estimates from Canada Mortgage and Housing Corporation. Construction began on 20,800 housing units at a seasonally adjusted annualized rate (SAAR), up 8% from November.

A strong rebound in housing sales is driving higher housing prices and more investment in new construction. Record low mortgage rates and the fundamental attractiveness of home-ownership is bringing more first-time buyers into the market. A more active market in turn brings out more existing homeowners wanting to make a housing transaction. Investors are also more active in rising markets.



Housing is one of the first sectors, if not the first, to turn upward coming out of an economic recession. This time is no different except that the cyclical sales rebound is the strongest and sharpest on record, thanks to record-low mortgage rates. Some slowing of the sales rebound is likely in the short term, and over the next five years affordability for low-equity buyers will worsen, with higher prices and



mortgage rates. Annual housing sales will likely peak before 2014, though housing prices will probably keep rising until the next negative macro event or an adjustment process similar to that seen in 2007-2008.

Housing starts are forecast to keep expanding during the 2010-14 period on the strength of pent-up demand, existing homeowner turnover, additional investor demand, and new households from population and income growth. Housing starts will jump more than 50% in 2010 from last year's deep bottom and climb to more than 30,000 units in 2012 and almost 40,000 units in 2014.

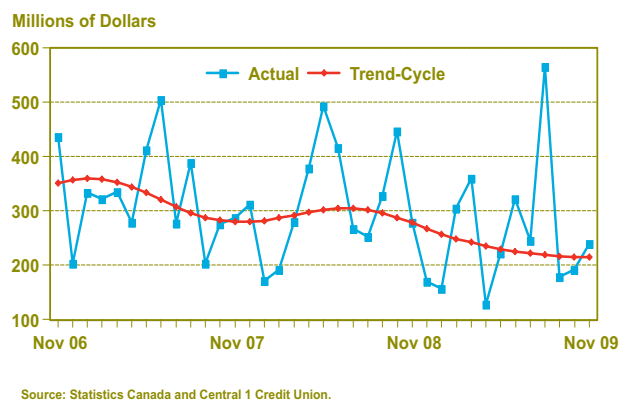
**Non-residential building permits** issued in B.C. increased in November for the second straight month, according to the latest estimates from Statistics Canada. Permit values totalled \$240 million in November, up \$48 million (25%) from October. Growth was led by permits for commercial buildings, while permits for industrial and government/institutional buildings declined. Regionally, growth was led by metro Vancouver, Kelowna and Victoria, while permits dropped in metropolitan Abbotsford.

Despite November's increase, the trend in non-residential building permits and investment spending remains slightly downward. In the first 11 months of 2009, permits totalled \$2.92 billion in B.C., down \$588 million (15%) year-over-year. Year-to-November permits for private-sector buildings are down, but have risen for public-sector buildings. Regionally, year-to-November permits are up in metro Kelowna and Victoria, but down in metro Vancouver and Abbotsford.

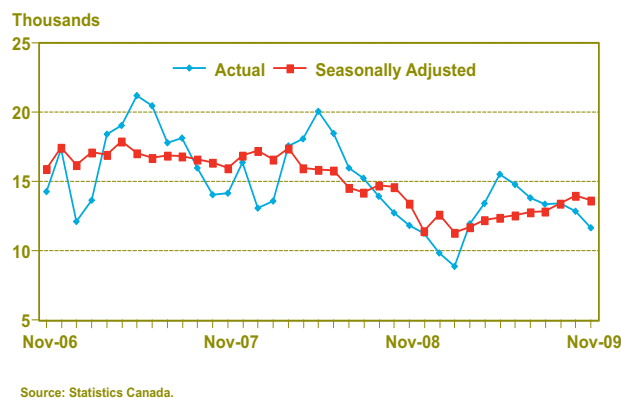
Vacancy rates in private-sector non-residential buildings are generally rising and effective rents are generally ebbing. Building construction is lagging the provincial economy through the recession. The outlook is for non-residential construction investment to decline 3% in 2010 following an estimated 20% drop last year.

Construction will be the leading or strongest-growing industry in the next five years, according to Central 1's latest forecast. Growth is led by the housing rebound and later by more non-residential construction related to major utility, transportation, and mining projects, along with new demand for commercial real estate. Construction GDP will jump by about 50% between 2009 and 2014, with employment up about 30%.

### Non-Residential Building Permits British Columbia, Monthly



### New Motor Vehicle Sales British Columbia and the Territories Units per Month



**New motor vehicle sales** in B.C. and the territories edged down 2.6% in November, according to the latest seasonally adjusted estimates from Statistics Canada. That is the first monthly decline since February, as sales have been rebounding this year from the declines of 2008. Even so, year-to-November sales remain down 31,200 units (18%) from the same period last year. Auto sales are forecast to continue rising this year.

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