

**Housing Markets Wane in May**

The sheen is clearly off the housing market, with this week’s release of the MLS® data. As expected, **residential home sales** in British Columbia continued to trend lower in May. Sales fell for the seventh consecutive month, dipping 6.5% from April on a seasonally adjusted basis. Since reaching a market peak in October, annualized sales have fallen 30% to 75,500. The markets that led last year’s rise in activity, namely the Lower Mainland and Victoria, are now leading the downtrend.

On the supply side, B.C. recorded an unseasonal decline in the flow of new listings in May -- the first April to May decline since 2002. We expect to see a pattern similar to early 2008 emerge, where potential sellers hold back on listing their homes in response to higher inventory levels and price declines. However, month-end inventory levels will likely rise over the next few months as the new listings remain elevated and sales continue to trend lower.

The recent shift in market conditions in favour of buyers has already led to a dampening in price pressure this year. The average B.C. price level fell 4.7% in May, with price declines recorded in most markets. While a single-period average price level can be misleading, owing to the influence of extreme values and compositional changes in the type of homes sold in any given month, average price levels have exhibited a flat to declining trend in recent months.

Central 1 Credit Union expects the downtrend in sales activity to continue over the summer months, reflecting tighter mortgage insurance rules and a gradual uptrend in mortgage rates. The prime lending rate is currently forecast to rise to 3.25% by the end of 2010, while the five-year posted fixed-term rate is expected to rise to 6.15%. The provincial average price is forecast to decline by 5% on a peak-to-trough basis over the next four to six months.

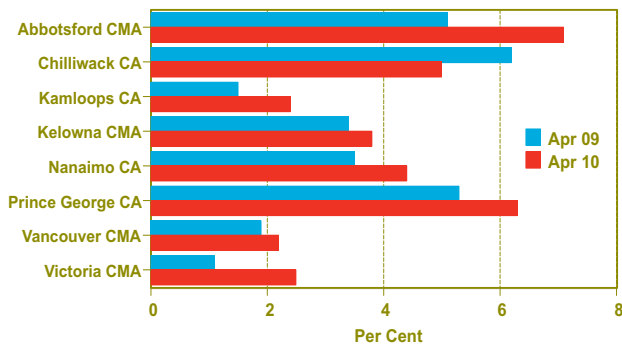
**Rental Market Softens in 2010**

Results from Canada Mortgage and Housing Corporation’s semi-annual **survey of the purpose-built rental market** suggest that rental demand softened over the past year as higher unemployment, particularly among young workers, and a weaker economy slowed the rate of household formation. In addition, existing renters may have found alternative housing in the competing investor-owned condominium rental stock or were induced into the ownership market by lower mortgage rates.

Among British Columbia’s larger urban areas (populations of 10,000+), 21 of 27 markets reported higher townhome and apartment vacancy rates in April 2010 from a year earlier. The aggregate figure for all urban areas rose from 2.5% in April 2009 to 3.2% this year. Among B.C.’s largest markets, the largest relative increase occurred in the Victoria and Abbotsford Census Metropolitan Areas, while



### Row and Apartment Vacancy Rate April 2010



Source: CMHC and Central 1 Credit Union

the Chilliwack Census Area was the only major market to report a drop in the vacancy rate. Additional slack in the rental market also impacted the rate of growth in market rents, which rose at a much slower pace in 2010. Average rents of properties in B.C. common to both the 2009 and 2010 survey samples rose by 2.2% this April, compared to 3.4% a year earlier.

### New Vehicle Sales Edge Down Again

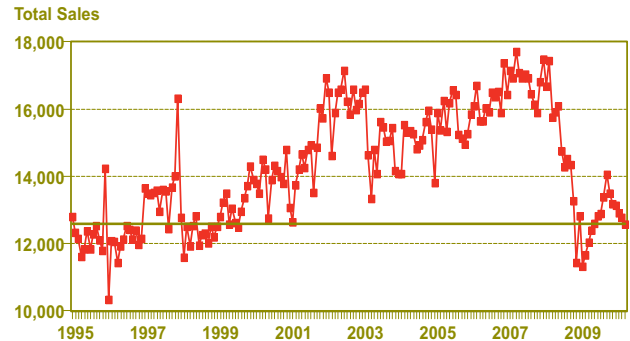
Seasonally adjusted **new motor vehicle sales** in the British Columbia and the Territories (B.C. &T) region dipped to 12,586 units in April, representing a 2% decline from March. Since rising modestly through most of 2009 on the strength of new truck sales, sales have declined for six consecutive months. Sales in both the passenger and truck markets have slipped at similar rates since October.

While new auto sales are a relatively small part of provincial economic activity, the figures do provide an indication of consumer demand, particularly when juxtaposed with other economic indicators. While vehicle sales remain above the recession troughs of early 2009, they are only at levels seen in the late 1990s, despite the population rising by more than 12% during the same period. When combined with recent downtrends in resale and new home activity, weak auto sales suggest that consumer demand for large-scale interest-rate-sensitive items has waned, which could be a drag on economic activity moving forward.

### Manufacturing Sales Slip in April

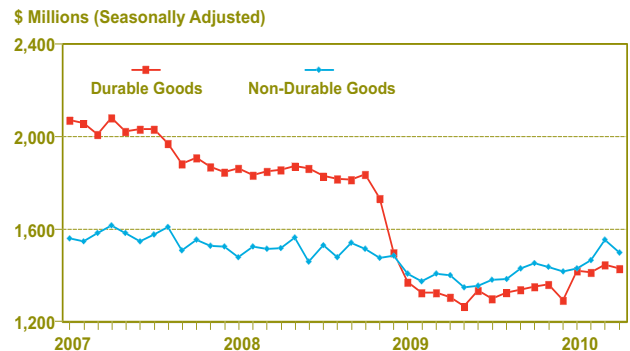
**Shipments of manufacturing goods** in British Columbia fell 2.5% on a seasonally adjusted basis to \$2.93 billion in April, marking the first monthly sales decline since January. While the underlying uptrend in shipments remains intact, reflecting the ongoing recovery in the global

### New Motor Vehicle Sales B.C. and Territories, Monthly



Source: Statistics Canada and Central 1 Credit Union.

### Sales of Manufactured Goods B.C., Monthly



Source: Statistics Canada and Central 1 Credit Union.

economy, shipments continue to lag pre-recession levels by a significant margin due to weak durable goods sales.

While durable goods shipments fell by a modest 1.3% in April, producers remain mired in a deep slump resulting from a higher Canadian currency and sluggish consumer and business demand in the U.S. The same factors are also reflected in weak manufacturing and equipment export activity. In April, durable goods shipments were only 75% of pre-recession levels. Shipments in the non-durable goods sector dipped by 3.6% after growing nearly 6% in March, but remain robust at near pre-recession levels.

Bryan Yu, Economist  
byu@central1.com  
604 742 5346