

MLS® Sales Continue to Slide in July

Housing demand slowed to a crawl in July as the downtrend in residential sales activity accelerated. Based on data adapted from the B.C. Real Estate Association, residential unit sales in July fell 16% from June to an annualized rate of 57,200 units. Current sales are comparable to pre-financial crisis levels and those observed from 1998-2000.

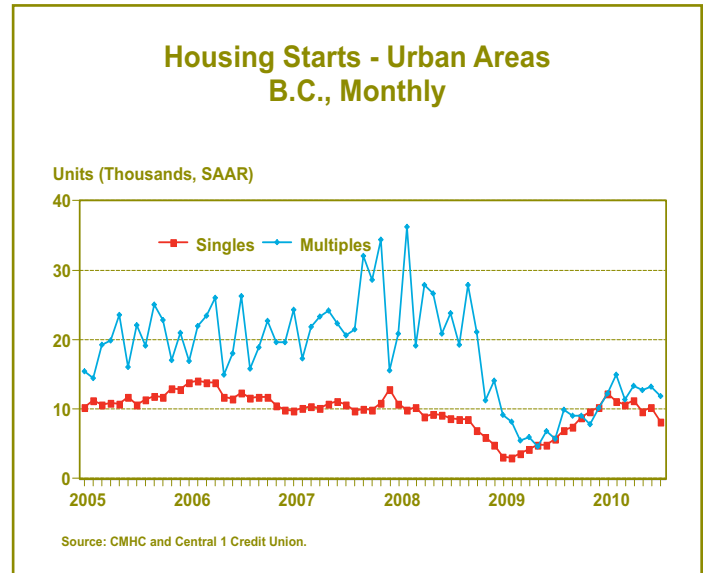
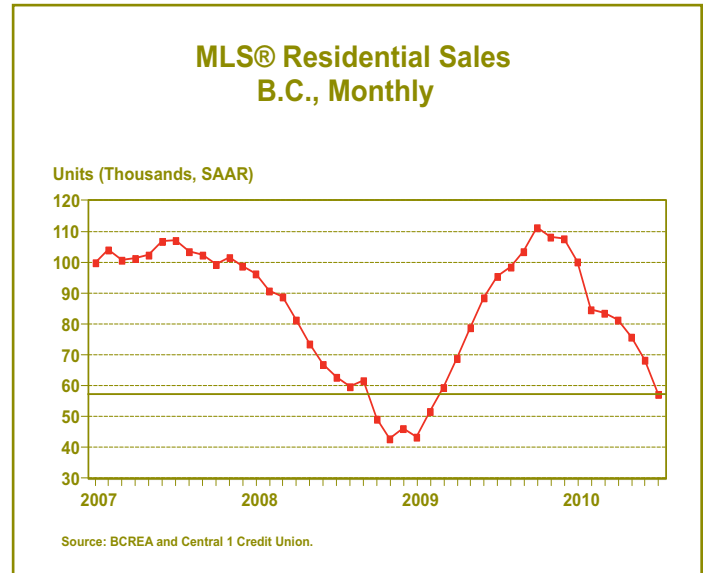
While a downtrend in housing activity was expected to persist for most of 2010 due to tighter mortgage insurance rules and signs that the economic growth trajectory is slowing, July's sales decline was excessive. It is possible that confusion regarding the applicability of HST to resale homes hurt sales during the month.

Moving forward, we expect housing activity to remain downbeat but gradually move higher during the fourth quarter. Elevated resale inventory levels and less buying activity will continue to put downward pressure on prices in the coming months, which will likely attract some fence-sitting buyers into the market. While home prices are expected to trend lower, the pace of price erosion will be slowed by declines in new listing activity.

Central 1 Credit Union forecasts B.C. MLS® sales will end the year 9% below 2009 levels, before rising 10% in 2011. B.C.'s peak-to-trough decline in the average price is forecast to range between 5% to 7%.

Housing Starts Decline Sharply in July

Seasonally adjusted housing starts in British Columbia fell sharply in July to an annualized pace of 22,800 units, down 15% from June. A decline in rural area activity and a drop in urban single-detached starts accounted for most of the pull-back. In B.C.'s



urban areas, single-detached housing starts fell 20%, while multiple-family activity dipped 10% from June.

Although the magnitude of July's decline was greater than expected, it is consistent with Central 1 Credit Union's forecast of lower new home activity in the near-term. A moderate downtrend in new home



starts, particularly in the single-detached sector, has persisted since the beginning of 2010, following a post-recession rebound in the second half of 2009.

Currently, there are few signs to suggest the new home market will strengthen substantially over the near-term. On the supply side, housing markets across the province remain well-supplied, with elevated levels of resale and standing new home inventory. Meanwhile, high, albeit declining, home prices, the HST on higher-priced new homes, tighter mortgage insurance rules, and uncertainty regarding the pace of economic recovery have constrained housing demand. These factors will continue to hold back housing construction, although we might see monthly volatility generated by the multiple-family sector, as the construction timelines of these projects are planned and pre-sold years in advance and are less dependent on current market conditions.

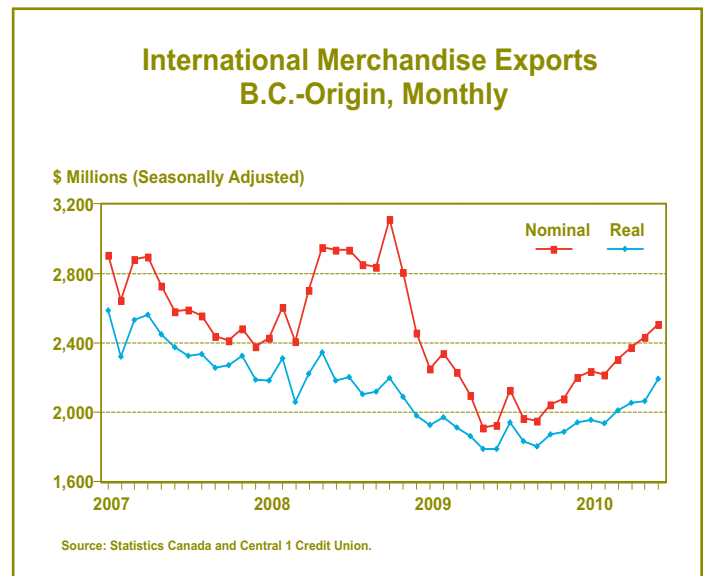
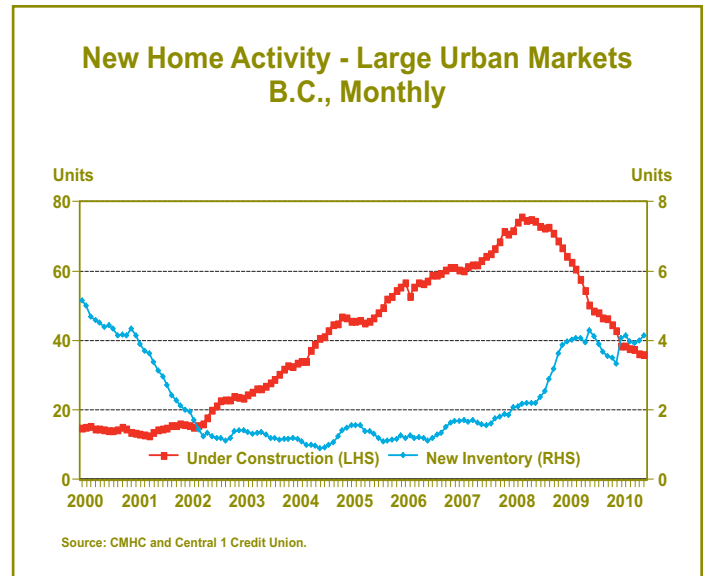
Central 1 Credit Union forecasts B.C. housing starts will reach 23,400 this year, up 55% from 2009, but below the province's 10-year average of 27,300 units.

While housing starts are expected to remain weak this year and into 2011, activity is forecast to recover significantly by 2012. Fewer new home starts over the mid-term will continue to drive down the number of units under construction. Meanwhile, the elevated levels of standing new-home and resale inventory will gradually be absorbed by a growing population, and by increased household formation as the economy improves. This will inevitably produce a greater demand for new homes.

International Exports Rise in June

International merchandise exports from British Columbia, adjusted for seasonal factors, rose for the fourth consecutive month in June, extending the uptrend exhibited over the previous 12-month period.

Based on data adapted from Statistics Canada, nominal international export volumes increased 3.1% from May to reach \$2.51 billion in June, representing the highest level since November 2008. Declines in price levels for most product groups during the month suggest that gains were primarily the result of higher export quantities. Constant-dollar or real export



volumes in June are estimated to have risen 6.1% on a monthly basis.

June's gains were generally widespread among product groupings, with seven of eight sectors recording increases. Among B.C.'s major export sectors, monthly nominal gains were strongest in forest products (7.4%), machinery/equipment (10.9%), and energy products (3.5%). Exports of industrial goods and materials lagged in June, dipping 8.1%.

While recent export activity is significantly improved from last year and remains on an uptrend as the economy gradually improves, a number of headwinds could constrain growth. The global economic recovery

might be losing momentum, with a growth slowdown emerging in the U.S. and China markets, which might affect demand for B.C. products. Meanwhile, with the Bank of Canada on a rate-tightening path, and the U.S. on hold, further upward pressure could be exerted on the Canadian dollar, and hurt Canadian export competitiveness.

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