

Residential Investment Trends Higher in Q2

Residential investment in British Columbia edged upward during the second quarter. Based on data adapted from Statistics Canada, current dollar total residential investment rose 1.5% on a quarter-over-quarter basis, following a 5.5% increase during the first quarter. Year-to-date, residential investment in B.C. reached \$6.3 billion, up 4.6% from last year. However, total investment remained 20% below the same-period figure from 2008 and 7% below that of 2007.

New home construction was the primary contributor to second-quarter gains, reflecting the post-recession uptrend in single-family housing activity that persisted through much of 2009 before moderating in 2010. Investments in single-family homes rose 17.1% during the second quarter, while multiple-family dwellings rose 4.6%.

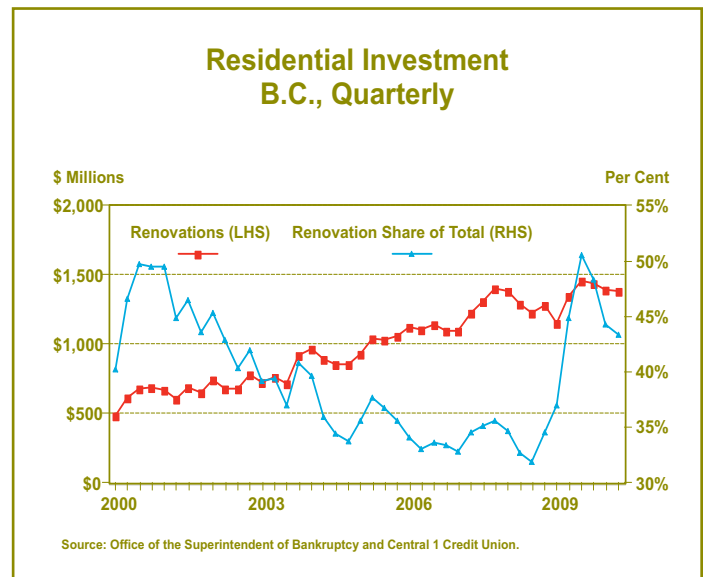
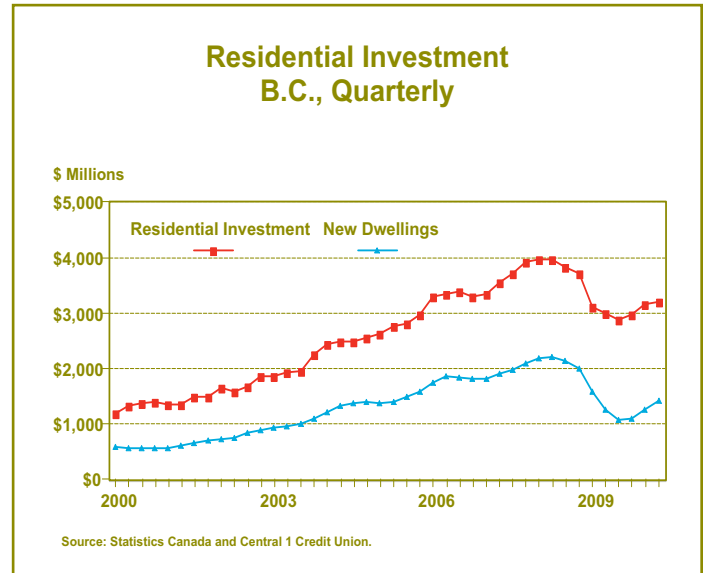
Moving forward, new home investment is expected to drop, reflecting the recent downtrend in housing starts and the continued decline in the number of homes under construction. While home dwelling investment rose, the significant downturn in resale home sales led to lower acquisition costs during the quarter. Central 1 Credit Union expects low resale activity to persist for the rest of the year, but forecasts a sales uptrend will take root during the fourth quarter, which should pull up acquisition costs.

Renovation activity edged down by a slight 0.6% during the second quarter. With the expiry of the federal government’s renovation tax credit, which was the catalyst for soaring renovation activity in 2009, renovation-related investments are expected to decline further in the quarters ahead.

Lumber Pulls Back in June, Flat in 2010

Sawn lumber production in British Columbia pulled back in June, dipping 2.2% on a seasonally adjusted basis to 2.2 million dry cubic metres. While coastal production surged 10% from May, gains were more than offset by declines of 6% and 4% in the northern and southern interior regions.

Since recording a 36% increase from recession lows during the latter three quarters of 2009, production



has stalled through 2010, reflecting the uneven pace of economic recovery and continued weakness in the U.S. housing market, despite increased demand from Asia. Monthly production activity this year has trended near 80% of the 15-year average, and is well below levels reached in 2005-2007.



B.C.'s forestry sector is unlikely to see a substantial improvement in near-term production levels. While B.C. increasingly taps Asian markets as export destinations, provincial production still tracks closely with trends in the U.S. new home market. In recent months, the modest uptrend in new home starts has reversed, reflecting the end of the U.S. federal home-buyer tax credit. Meanwhile, a high level of vacant homes and a weak labour market continue to constrain new housing demand. Over the longer term, stabilization in U.S. home prices, population growth, and a recovering economy are expected to drive up new home construction and thereby increase demand for B.C. lumber.

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