

**HIGHLIGHTS:**

- Consumer price growth in B.C. held steady in April at an annual rate of 1.6%.
- Home sales in B.C. dipped in April to the lowest level since September.
- International tourism visits to B.C. fell for a second straight month in March
- The upward trend in new vehicle sales continued into March and pushed activity to the highest level since mid-2008.
- B.C. lumber production rose to a multi-year high in February

## Inflation holds steady in April

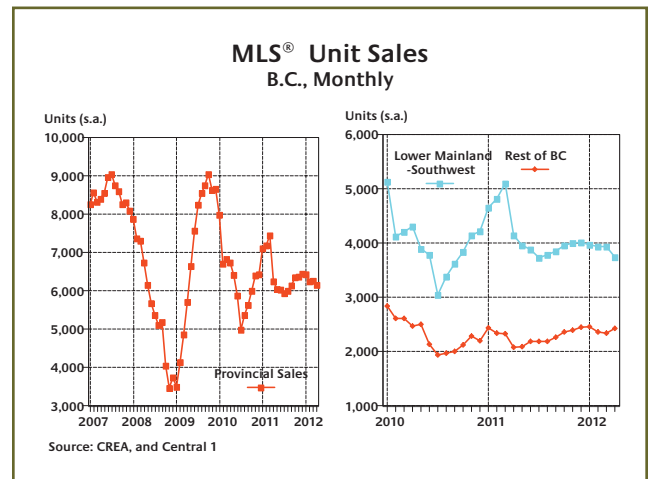
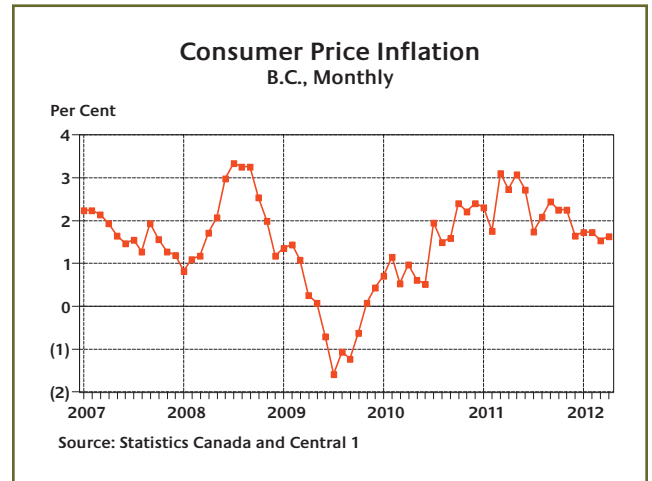
Consumer price growth in B.C. held steady in April at an annual rate of 1.6%, up slightly from the growth rate reported in March. B.C.'s inflation rate has generally trended lower since September providing some relief on consumer wallets. Relative to other provinces, consumer price inflation in B.C. was tame with only Alberta recording lower growth.

The chief tempering factors on consumer price index (CPI) growth in April included shelter costs which were up only 0.4% from April 2011, as index levels associated with replacement costs fell 3%, and natural gas prices also declined by 6.7%. The latter being a boon for consumers, but negative for the industry.

Meanwhile, year-over-year changes in health and personal care products were down slightly from the April of last year (-0.1%), while price levels related to recreation products fell 1.3%.

Product groups exhibiting stronger annual growth included food (2.5%), clothing and footwear (6.8%) and transportation (3.0%). Food prices have been flat in early 2012 following an upward trend in 2011, contributing to a downward trend in annual food inflation.

Gasoline prices were up 3.1% from the April 2011. While annual price growth has declined since late in the third quarter, gas prices have picked up this year following a fourth quarter decline. The gas price index surpassed the 2011 peak in April. If prices hold steady, which is reasonable given the summer driving season is nearly upon us, gasoline will likely exert

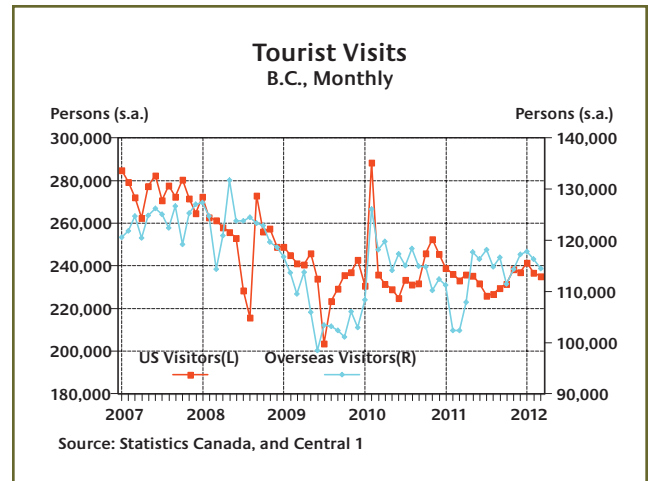
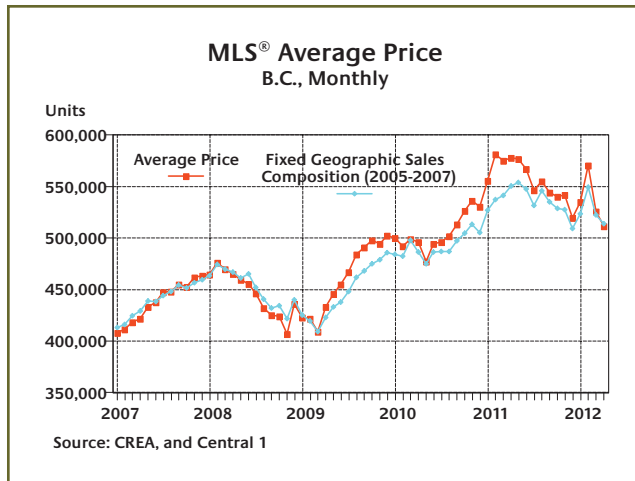


some upward pressure on annual general inflation this summer, reflecting price declines observed last year.

## Provincial MLS® sales dip on Lower Mainland activity

Home sales in B.C. dipped in April to the lowest level since September as a downshift in activity in the Lower Mainland-Southwest (LMSW) which includes Metro Vancouver and Fraser Valley regions offset gains in other regional markets. Total MLS® sales fell 1.8% from March to a seasonally-adjusted 6,160 units in April, extending the weaker sales pace observed since January.

Sales in the LMSW fell 5% from March, while the rest of the province gained 3%. Markets with the largest sales gains included Vancouver Island (excluding Victoria) which recorded a sales gain of 6%, the Kootenay (10%), and the northeast (10%).



Recent regional trends suggest stable to improving sales activity in B.C.'s central and southern interior markets, while sales on the Island may have also found a bottom following first-quarter decline. Although these markets (excluding Victoria) remain fully entrenched in a buyers' market -- a product of ongoing challenges in the recreational and retiree markets caused by economic uncertainty, low fixed-income returns, the elevated Canadian dollar and high new home inventories -- the supply-demand imbalance has firmed. Further demand-side improvements as the broader economy mends and a drawdown in new home inventory should generate support for home prices going forward.

B.C.'s bright spot for the housing market (and the economy) is the north. Sales continued to trend higher in April and are approaching pre-recession highs as resource-related investments and activity have driven demand and price levels higher.

Through April, provincial sales were down 9.7% from 2011, reflecting both tempered sales this year and a pull-forward in sales in early 2011 as sales surged prior to the implementation of tighter mortgage insurance rules. Declines have been strongest in the LMSW, which was down 16% from the first four months of 2011, while aggregate sales in the rest of the province were up 5%. Provincial year-to-date sales are the slowest since 2001 despite an exceptionally low interest rate environment (excluding recessionary 2009).

B.C.'s average MLS® price dropped to the lowest level since late 2010 in April, slipping 2.7% from March to a seasonally-adjusted \$511,530, which was 11% lower than one-year prior. However, this decline likely overestimates actual price movements given the impact that changing geographic and product composition has on average figures.

Implementing a fixed weight geographic composition on average price levels suggests a year-over-year price decline of about 6% rather than 11%. Additionally, past research has shown that a higher than normal proportion of high-priced homes sold in pockets of Metro Vancouver and skewed average price levels higher in early 2011, suggesting that some of early 2011 gains reflected product composition.

### International tourism pulls back in March, outlook remains weak

International tourism visits to B.C. fell for a second straight month in March after hitting a one-year high in January. Total seasonally-adjusted visits fell 1% from February to 349,600 entries. Overseas visits led the decline, dropping 1.6%, while U.S. visits fell by a more modest 0.7%.

Although tourist visits have outpaced the first quarter of 2011 by 6%, trend levels remain weak when compared to levels observed in the mid-2000s, largely reflecting the long-term downtrend in U.S. visitors. Tourism figures are expected to remain tepid through 2012 as U.S. travel demand continues to be restrained by challenging labour market conditions, relatively high Canadian dollar, and elevated gas prices. Meanwhile, a slowdown in Chinese economic growth, and greater uncertainty related to Europe could slow the flow of overseas visitors.

### More new cars drive off the lot in March

The upward trend in new vehicle sales continued into March and pushed activity to the highest level since mid-2008. Auto dealers in the B.C. and Territories recorded a seasonally-adjusted gain in sales of 1.4% from February to reach 15,050 units and pushed first quarter sales up 10% from the same period in 2011.

While B.C.'s economy is not dependent on the auto sector given a lack of production within the province, the trend provides a second-tier indicator of consumer confidence to spend on big ticket items and the pace of overall consumer spending.

The current uptrend is in line with Central 1 expectations of about 175,000 sales this year, up 9% from 2011, and speaks to recent labour market improvements, low financing costs and other industry incentives. However, subdued population growth, elevated debt levels, and a high number of vehicles per household built up during the phase of strong sales in the mid-2000s will constrain the pace of sales recovery.

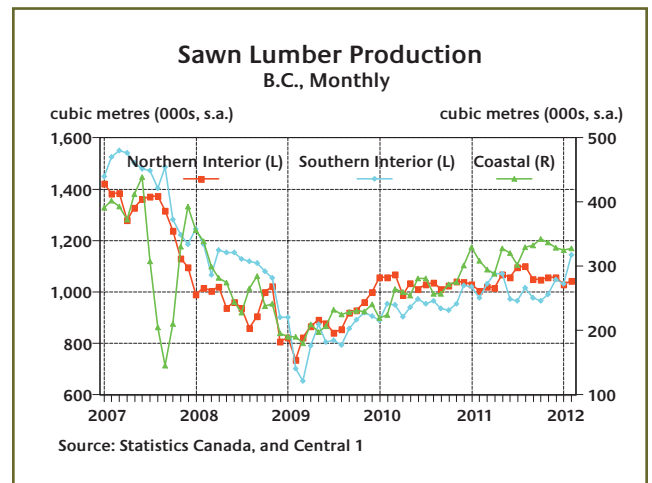
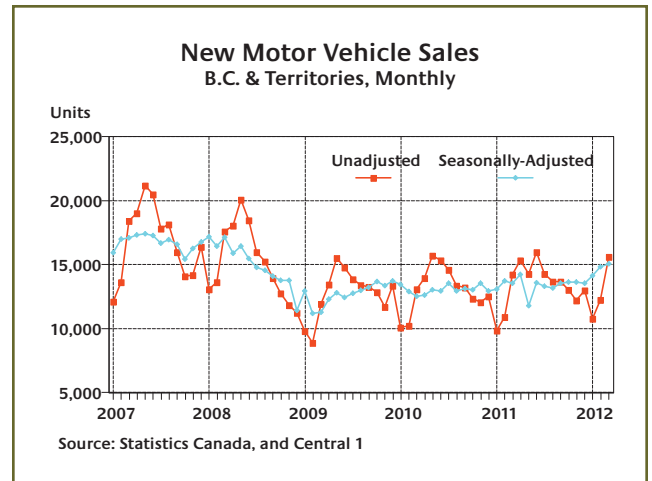
### Lumber production gains in February, but global factors weigh

B.C. lumber production rose to a multi-year high in February as sawmill output increased to a seasonally-adjusted 2.51 million cubic metres, up 5.4% gain from January. The province's southern interior led production gains with an 11% surge, while activity held steady on the coast and edged higher in the northern interior.

Underlying production trends have been slightly positive over the past year, reflecting a significant boost in Chinese export demand and a mild increase in shipments to the U.S. during the latter half of 2011. Following the first two months of 2012, year-to-date activity in 2012 was up 8% relative to the same period in 2011. Despite this gain, absolute production levels remain stunted and far from levels observed prior to the U.S. housing downturn.

More recent data suggests that lumber production may have hit a soft patch following February. March exports of softwood lumber edged slightly lower and look to have crested in the first quarter, reflecting a slowdown in Chinese economic growth and a tempering of gains in U.S. housing starts. Meanwhile, the devastating explosions that destroyed two mills in recent months and subsequent downtime taken at other mills in the province to remove accumulated sawdust for safety reasons may also prove to lower short-term output.

The impact of the Chinese growth slowdown on lumber exports is expected to be temporary. While the Chinese property market has slowed and price levels have declined due to government restrictions on lending and secondary home purchases, government policy has been enacted to improve affordability for first-time buyers. Additionally, the government has targeted construction of 36 million units of low-income housing by 2015 which should stabilize and



increase demand for lumber going forward.

While China is important, the key driver for a sustained increase in B.C. lumber production will be the timing and magnitude of an increase in U.S. demand, which will be determined by its housing market recovery. U.S. housing starts are expected to rise moderately this year and next before accelerating in 2014. The Wall Street Journal survey of economists for May show an average forecast of 750,000 US starts for 2012, up 20% from 2011, with a further gain of about 10% in 2013.

The combination of long-term demand growth from China and a rebound in the U.S. bodes well for future B.C. lumber demand and prices. However, it is likely the industry will face increasing supply-side constraints, reflecting the loss of available timber due to the Mountain Pine Beetle epidemic

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