

B.C. Economic and Housing Outlook

Mortgage Investment Association of
British Columbia

Tuesday, January 24, 2012

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Outline:

- Review of 2011 B.C. forecasts
- European developments
- U.S. economy and forecasts
- Canadian forecasts
- B.C. key economic and housing indicators
- 2012 B.C. forecasts



Review of 2011 forecasts

Economic Forecasts	2010	2011 (f)	2011 (a)	Diff.	Trend
BC employment, % chg.	1.7	2.2	0.8	1.4	N
BC unemp. rate, %, avg.	7.6	7.3	7.5	-0.2	Y
BC pop. growth*, % chg.	1.5	1.4	0.9	0.5	Y
BC retail sales, % change	5.3	6.1	2.0 ^o	4.1	N
Prime rate, %, average	2.59	3.56	3.00	0.56	Y
5-year mortgage rate, %av.	5.57	5.84	5.39	0.45	N

Notes: f - forecast, a - actual, *3rd Q. o - to October



Review of 2011 forecasts

Housing Forecasts	2010	2011 (f)	2011 (a)	Diff.	Trend
BC housing sales, % chg.	23.4	4.0	2.8	1.2	Y
BC housing starts* % chg.	70.6	2.0	3.0	-1.0	Y
BC res. sales price, % ch.	2.4	4.0	11.1	-7.1	Y
BC NHPI, % chg.	3.3	4.0	-0.3 ⁿ	0.7	N
BC rental vac. rate**, %	2.7	2.3	2.4	-0.1	Y

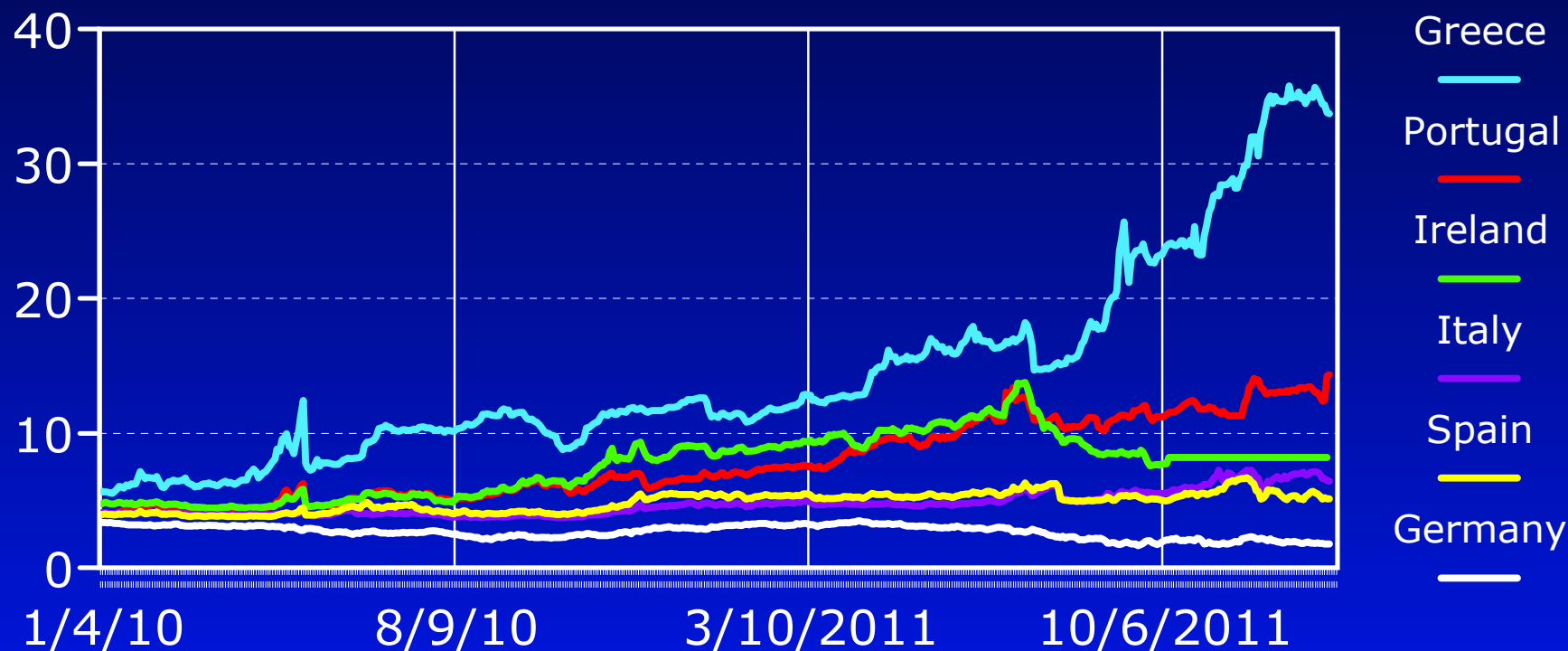
Notes: MLS sales and prices, f - forecast, a - actual, n - November, *Urban BC centres,
**Private sector.



Market pushing riskier sovereign debt bond yields higher

10-year Govt. Bond Yields, Selected European Economies

Per cent



Source: Bloomberg.

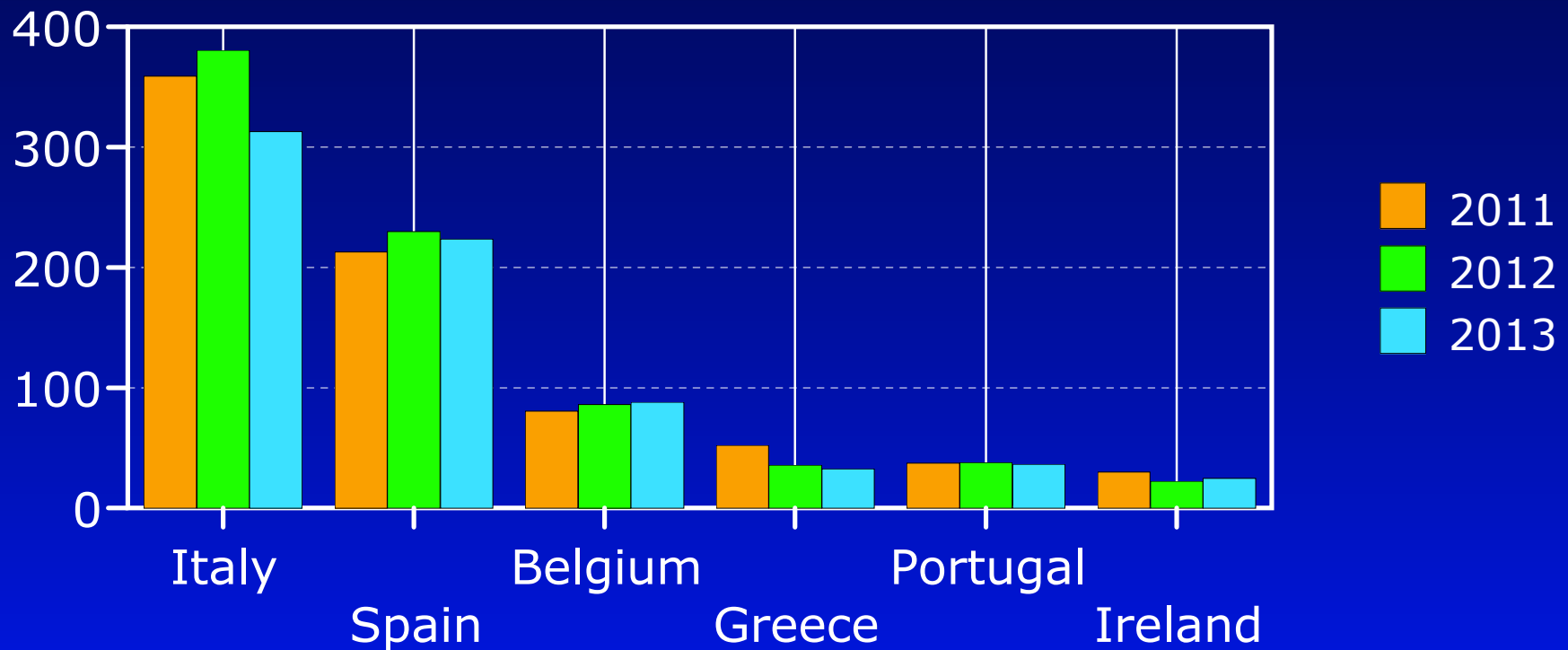
Latest: 01/18/2012



Italy, Spain have highest funding needs; in excess of €1 trillion in 2011-13

Gross Financing Needs, Selected European Economies

Euros - billions



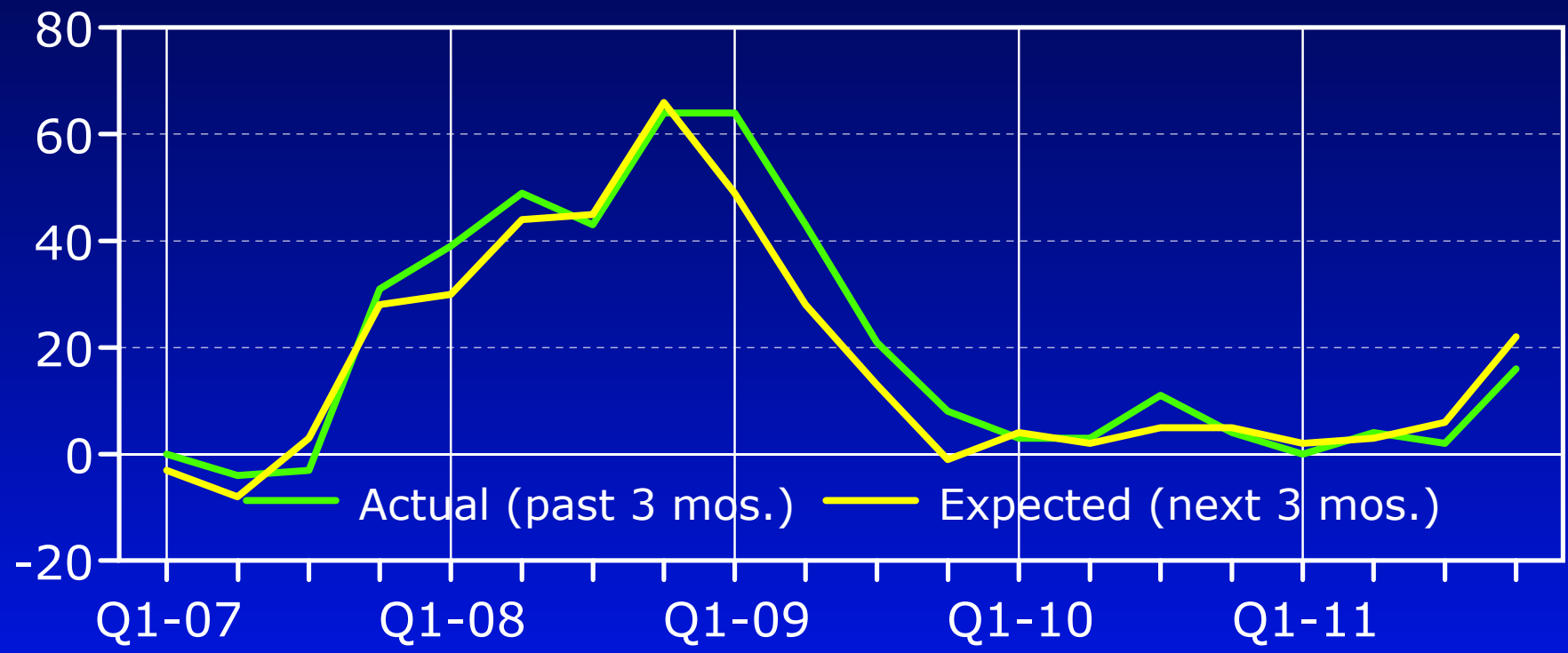
Source: IMF Fiscal Monitor Sept. 2011.



Tighter credit conditions for European business, credit squeeze underway

Credit Conditions for Business Enterprises, Euro Area

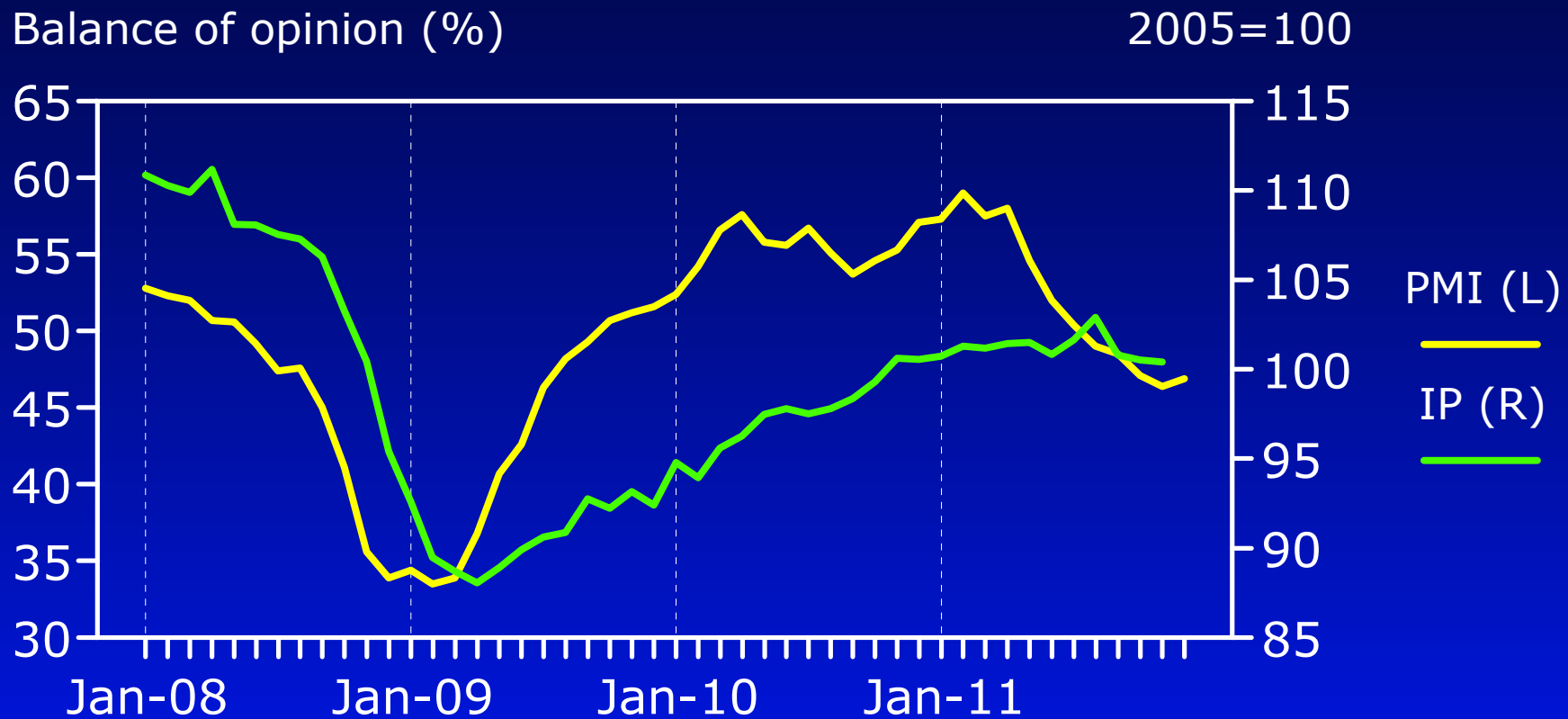
Net percentage of banks



Source: ECB Euro Area Bank Lending Survey. Latest: Q4-11 (October)

Europe in recession, manufacturing output contracting

Eurozone Manufacturing PMI and Industrial Production



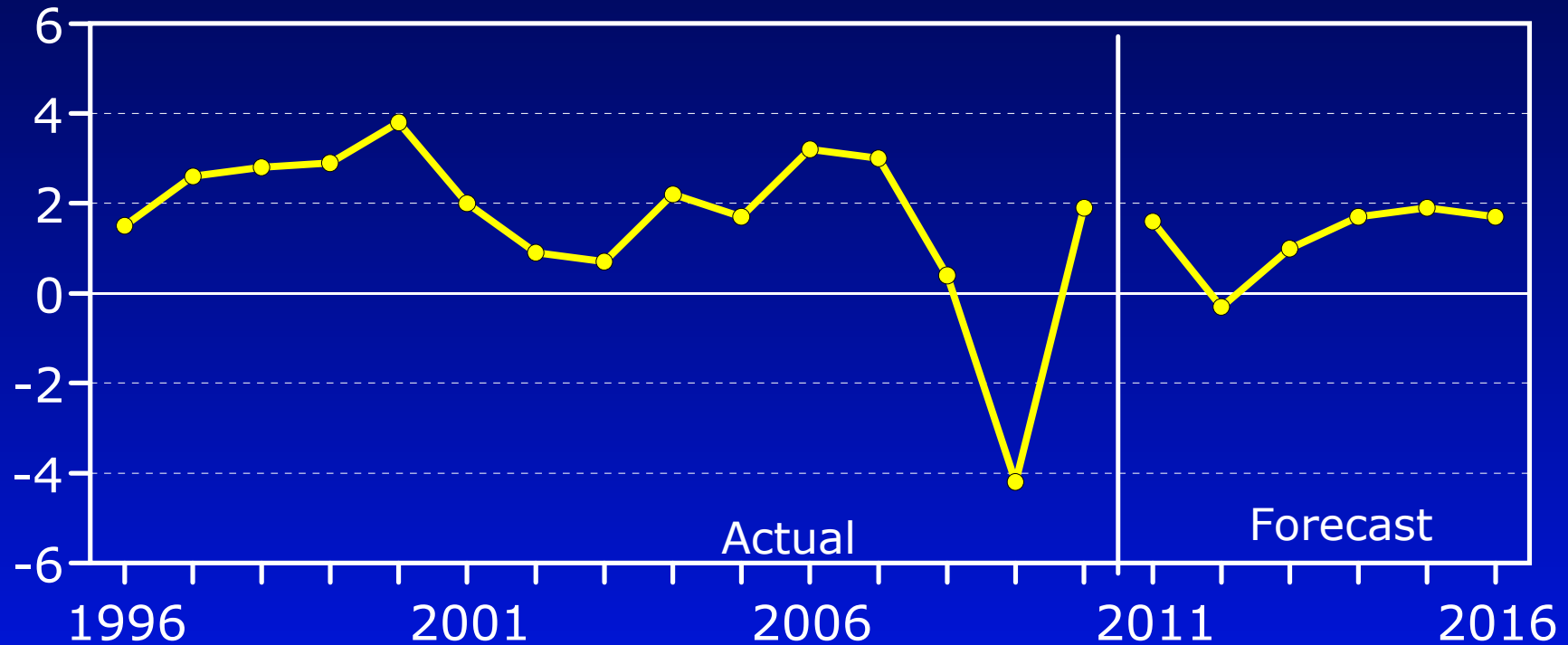
Source: Eurostat, Markit. Note: Seasonally adjusted. Latest: PMI Dec., IP Nov.



Mild recession in 2012, weak growth thereafter

Euro Zone Economic Growth - Consensus Scenario

Per cent change in real GDP



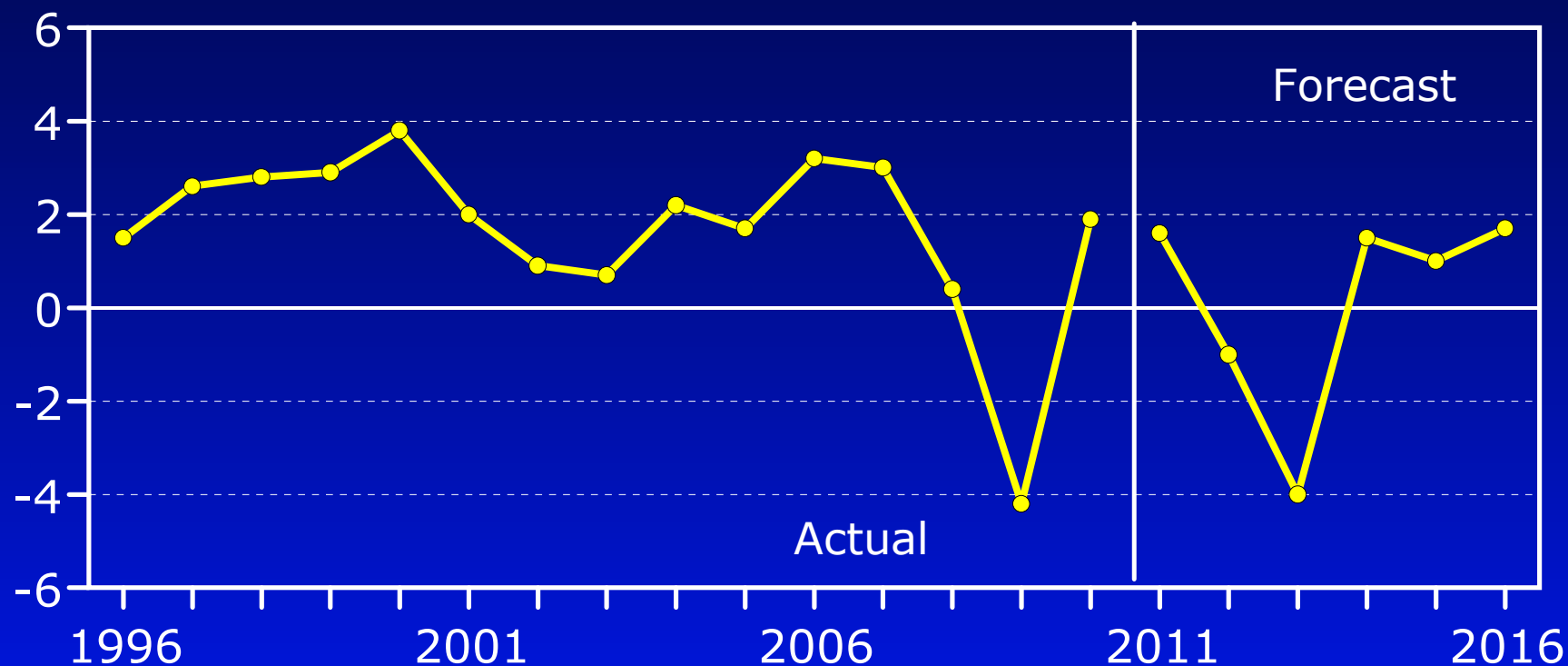
Source: Eurostat, Consensus Forecasts Dec. 2011. Latest actual: 2010



Deep and severe recession associated with banking crisis

Euro Zone Economic Growth, Banking Crisis Scenario

Per cent change in real GDP

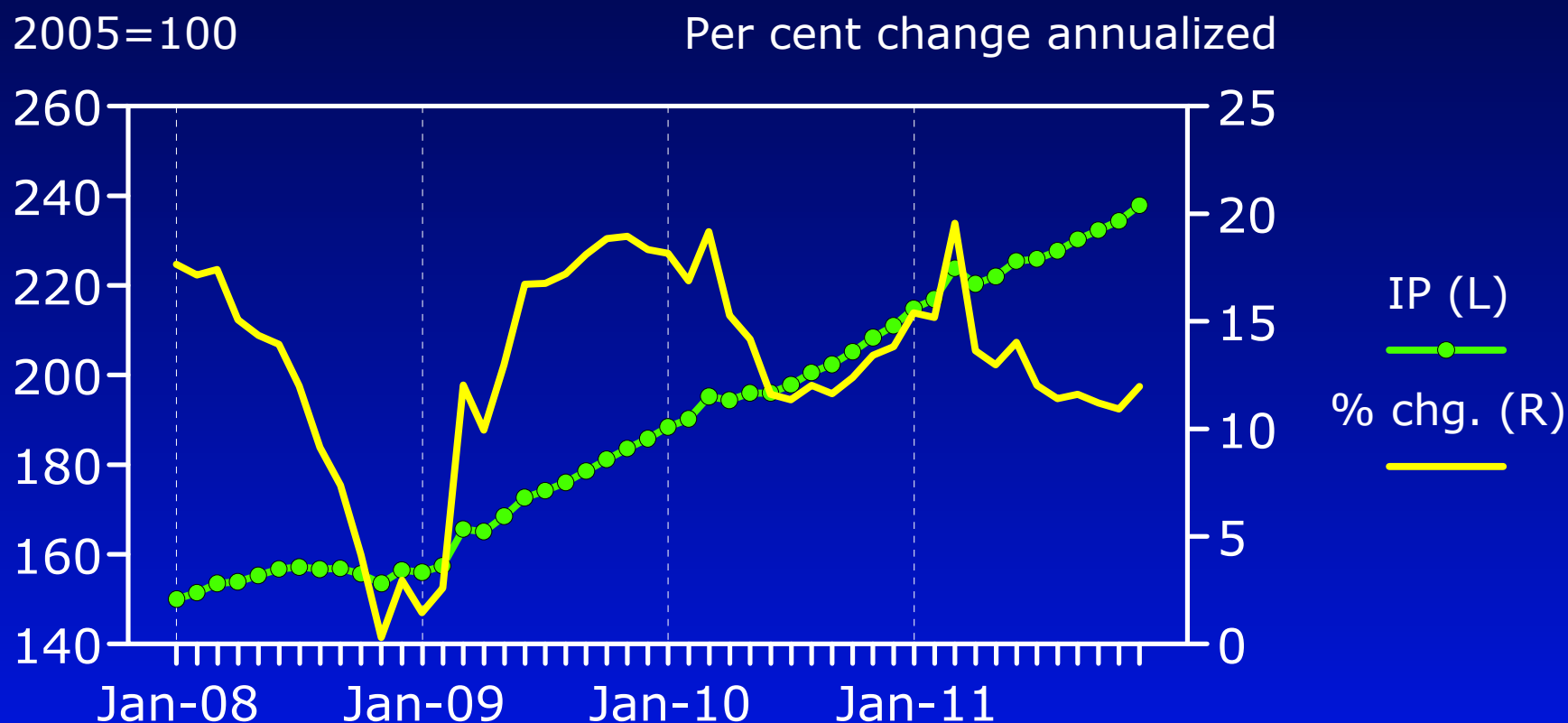


Source: Eurostat, C1CU forecasts. Latest actual: 2010



China's manufacturing expands at a slower pace in 2011

Industrial Production, China

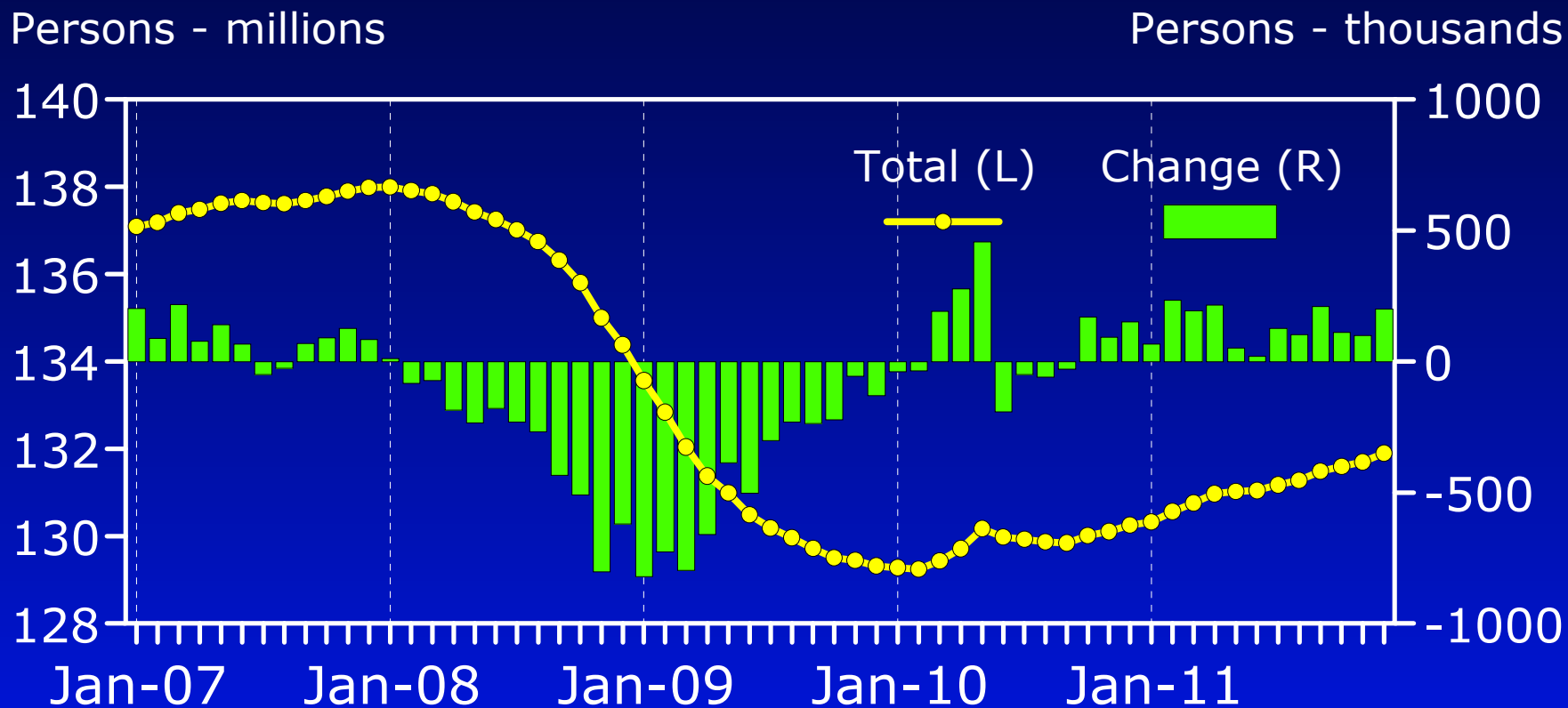


Source: World Bank. Note: Seasonally adjusted. Latest: Dec-11



U.S. employment rising; well below pre-recession levels

U.S. Payroll Employment, Total and Monthly Change



Source: U.S. BLS. Note: Seasonally adjusted.

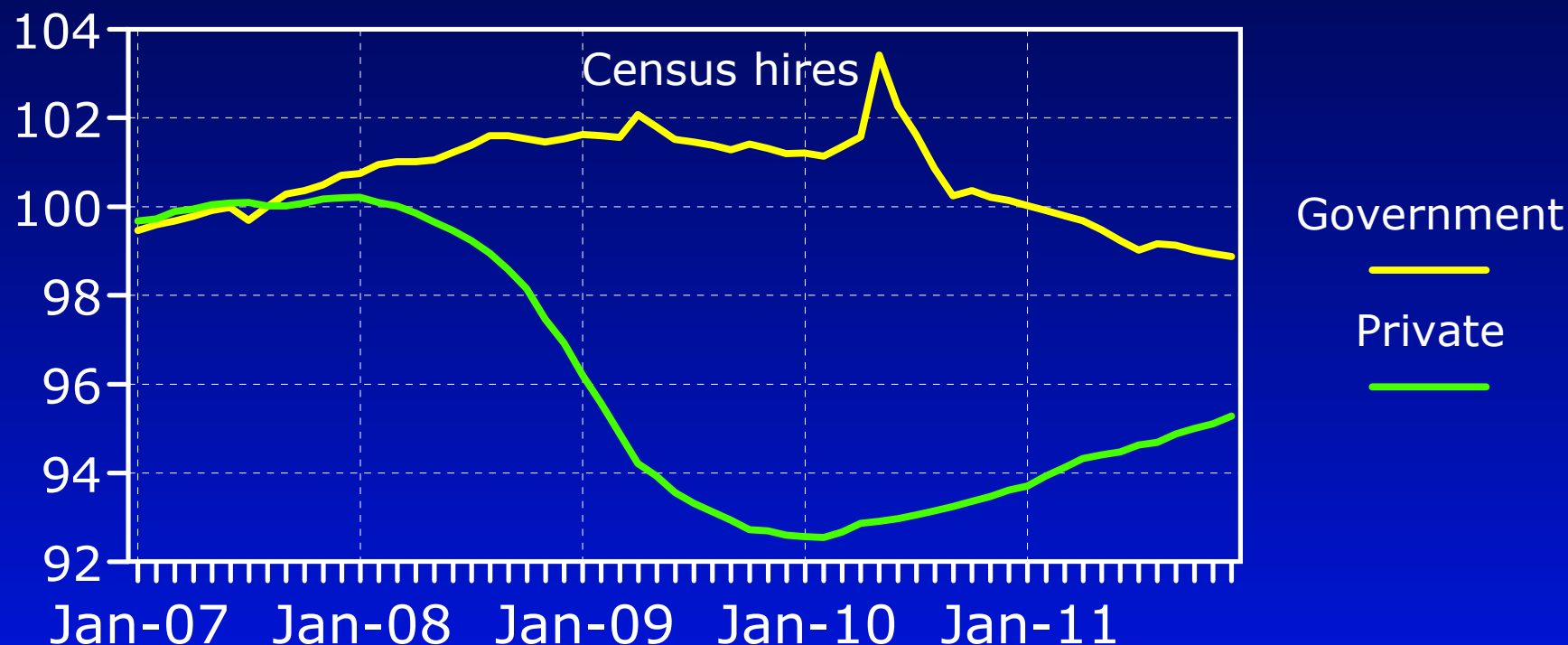
Latest: Dec-11



Government employment dropping, private sector expanding

U.S. Private and Government Employment Trends

2007=100



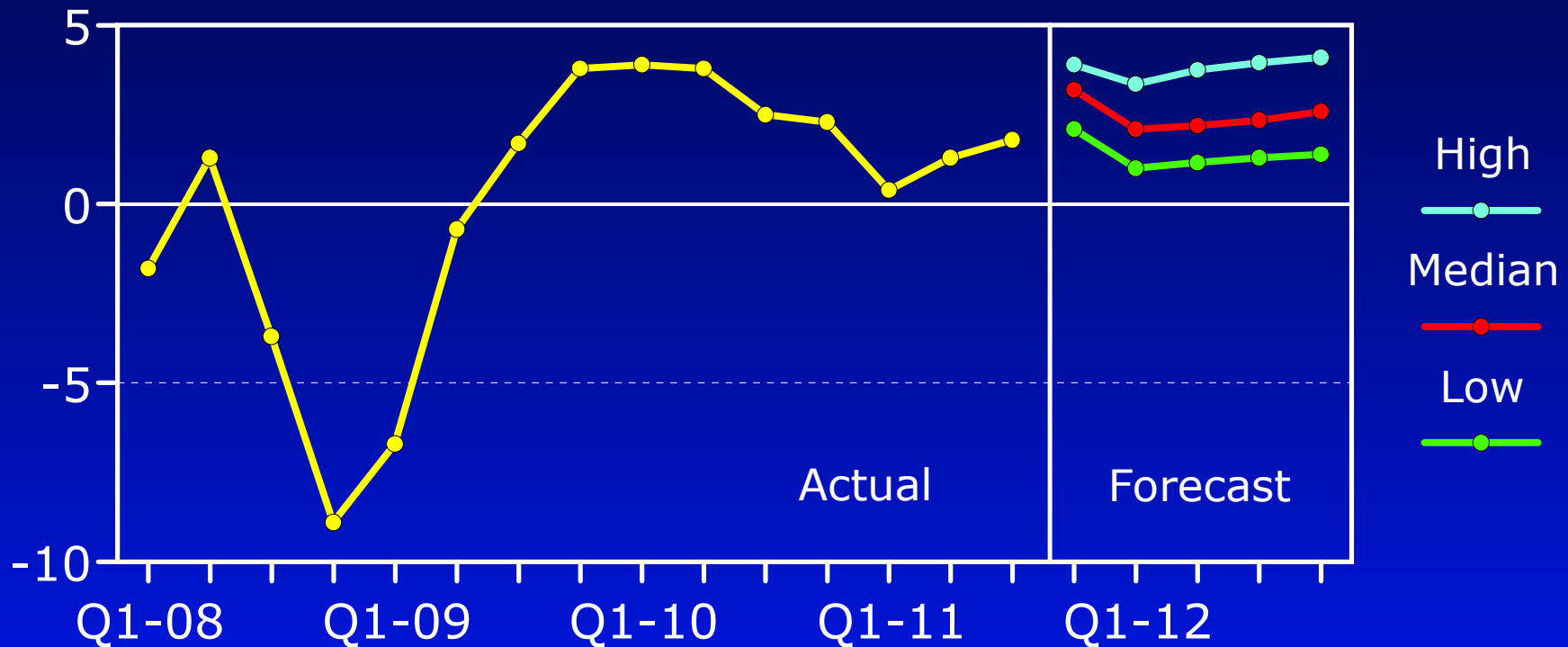
Source: U.S. BLS, C1CU. Note: Seasonally adjusted Latest: Dec-11



No recession forecast by economists, more sub-par growth in 2012

U.S. Economic Growth

Percentage change at annual rate in real GDP



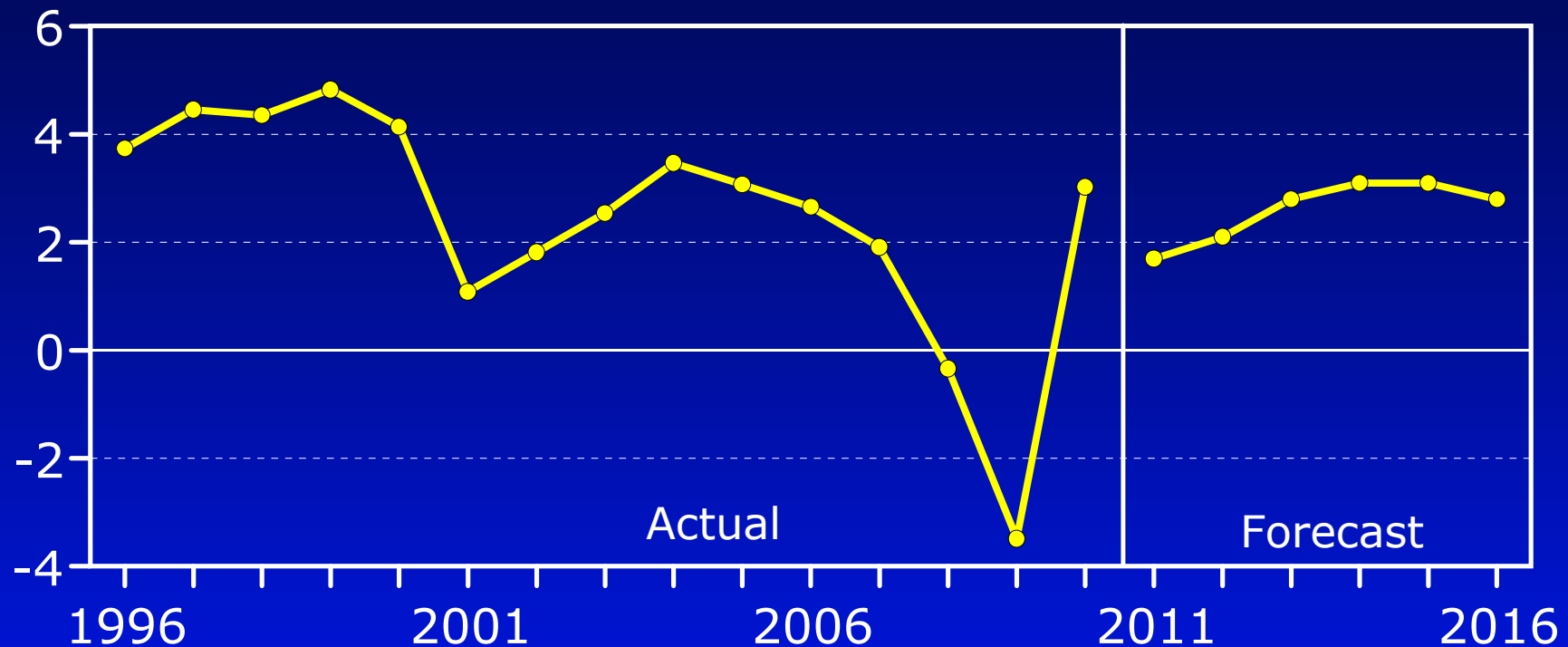
Source: U.S. BEA, WSJ January 2012 Survey. Latest actual: Q3-11



U.S. economy to grow above 3% after 2013

U.S. Long-term Economic Growth

Per cent change in real GDP



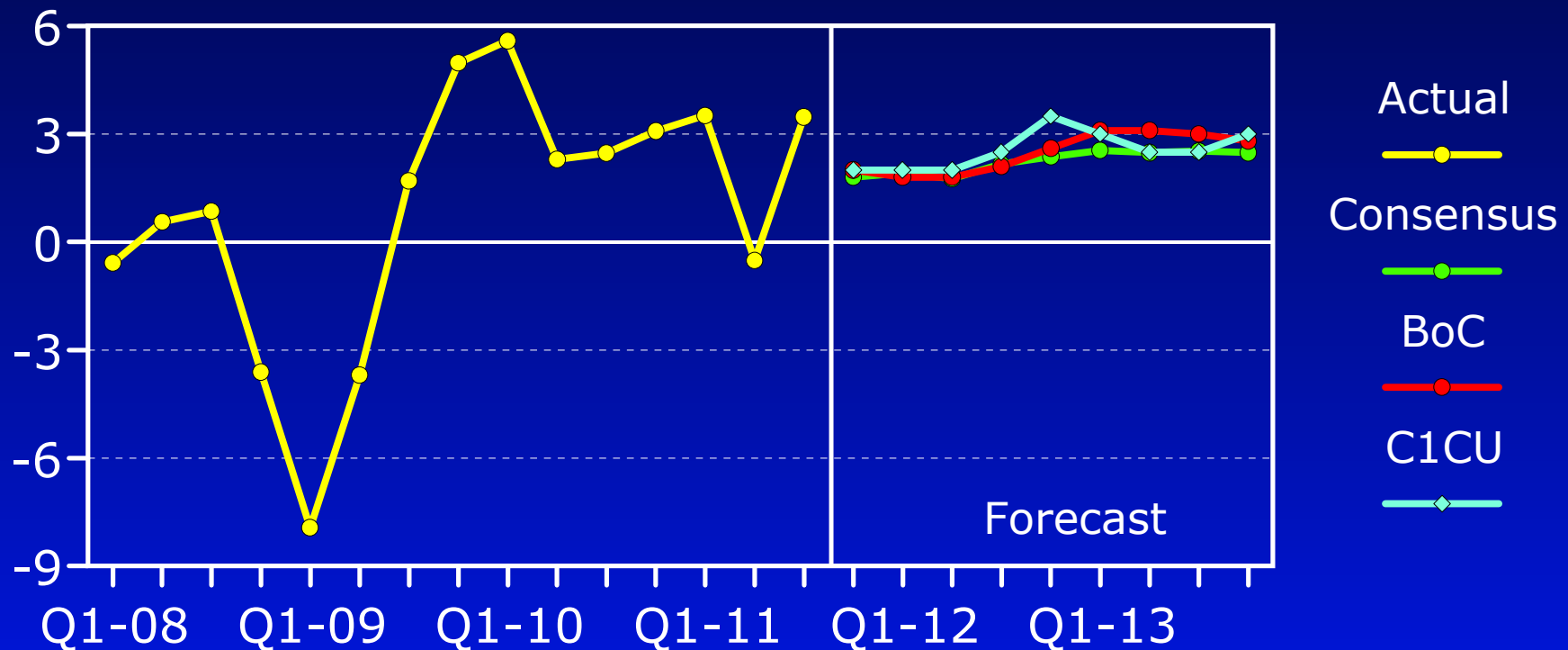
Source: U.S. BEA, Consensus Forecasts. Latest actual: 2010



GDP rebounds in Q3-2011 slows into 2012, below-trend growth in 2012

Canada's Economic Growth

Percentage change at annual rate in real GDP



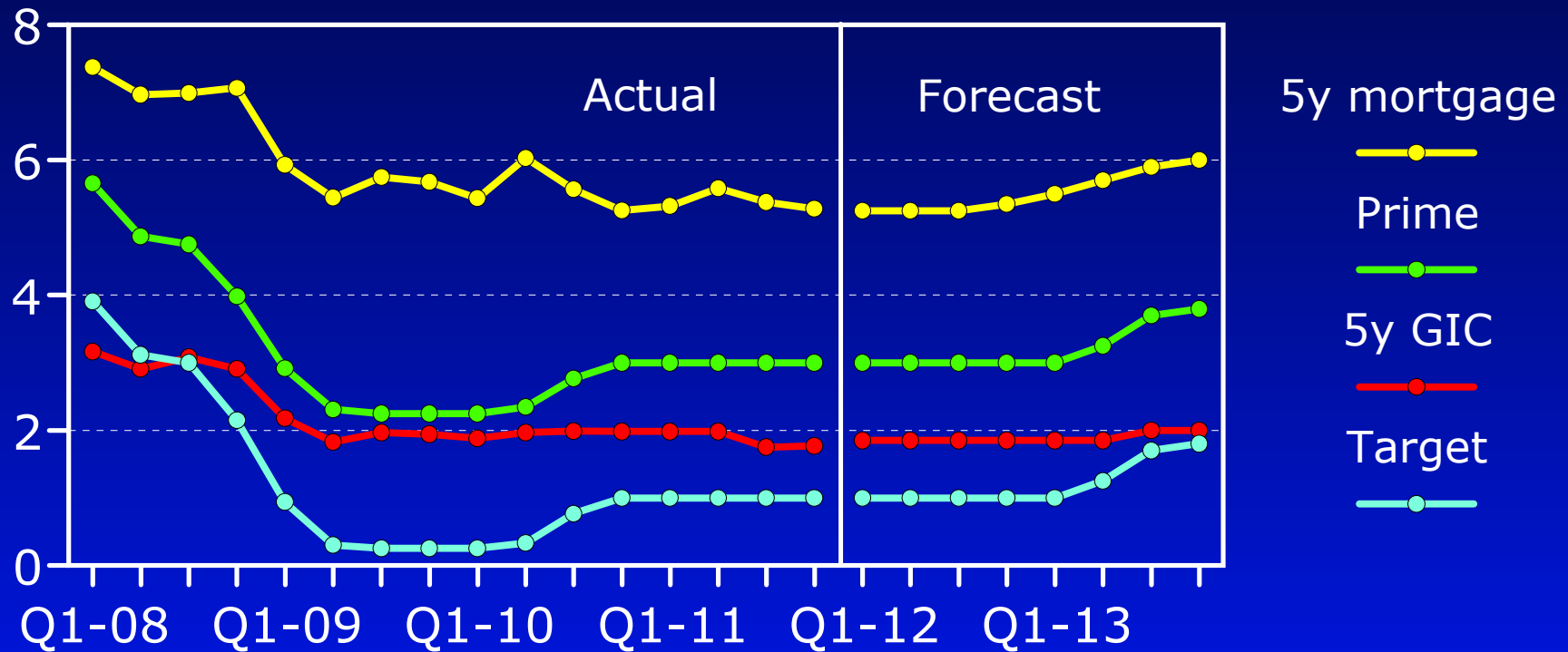
Source: Statistics Canada, Bank of Canada, C1CU. Latest actual: Q3-11



Low interest rates in 2012, Bank of Canada on hold until spring 2013

Interest Rate Forecasts, Quarterly

Per cent

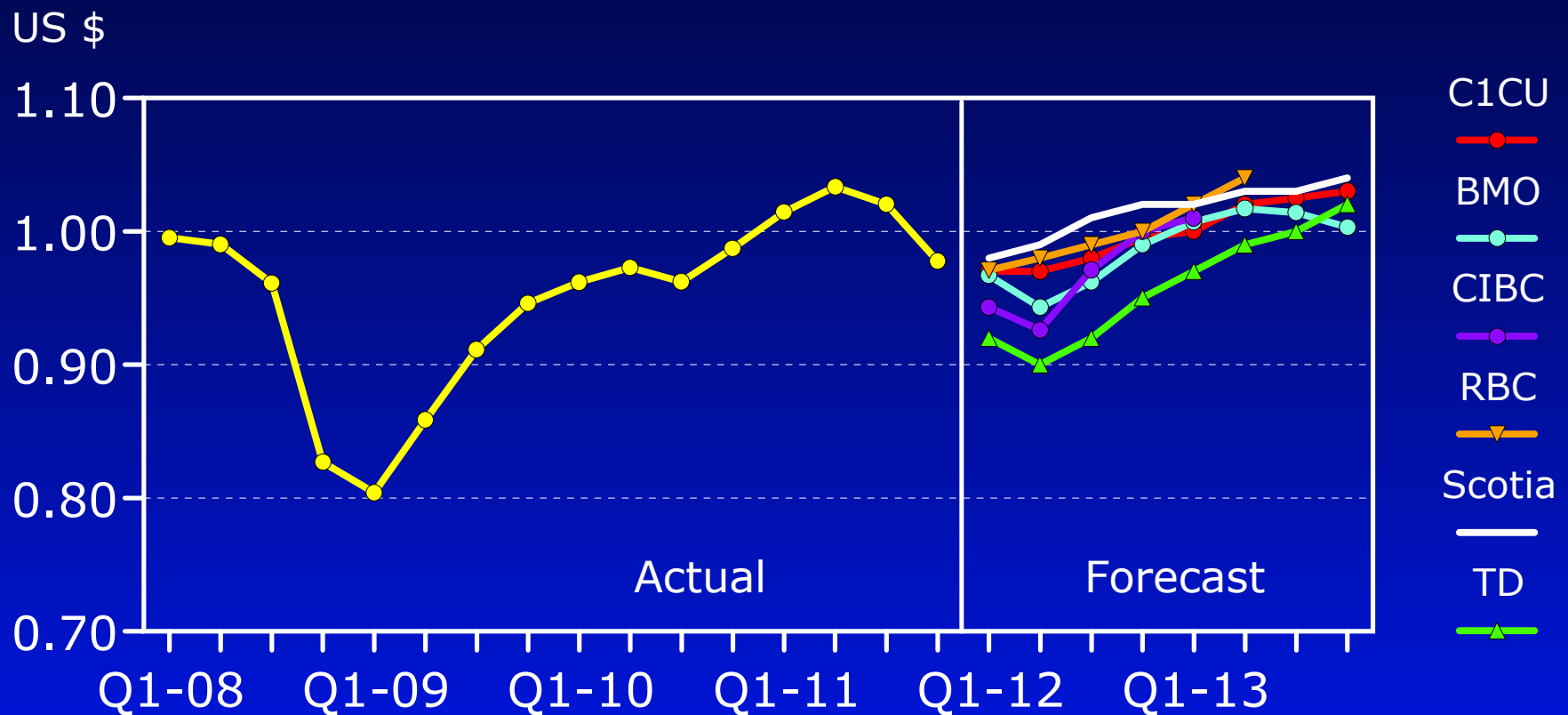


Source: Bank of Canada, C1CU. Note: Averages. Latest actual: Q4-11



Lower Canadian dollar in near term, rising later in 2012

Canadian Dollar Exchange Rate



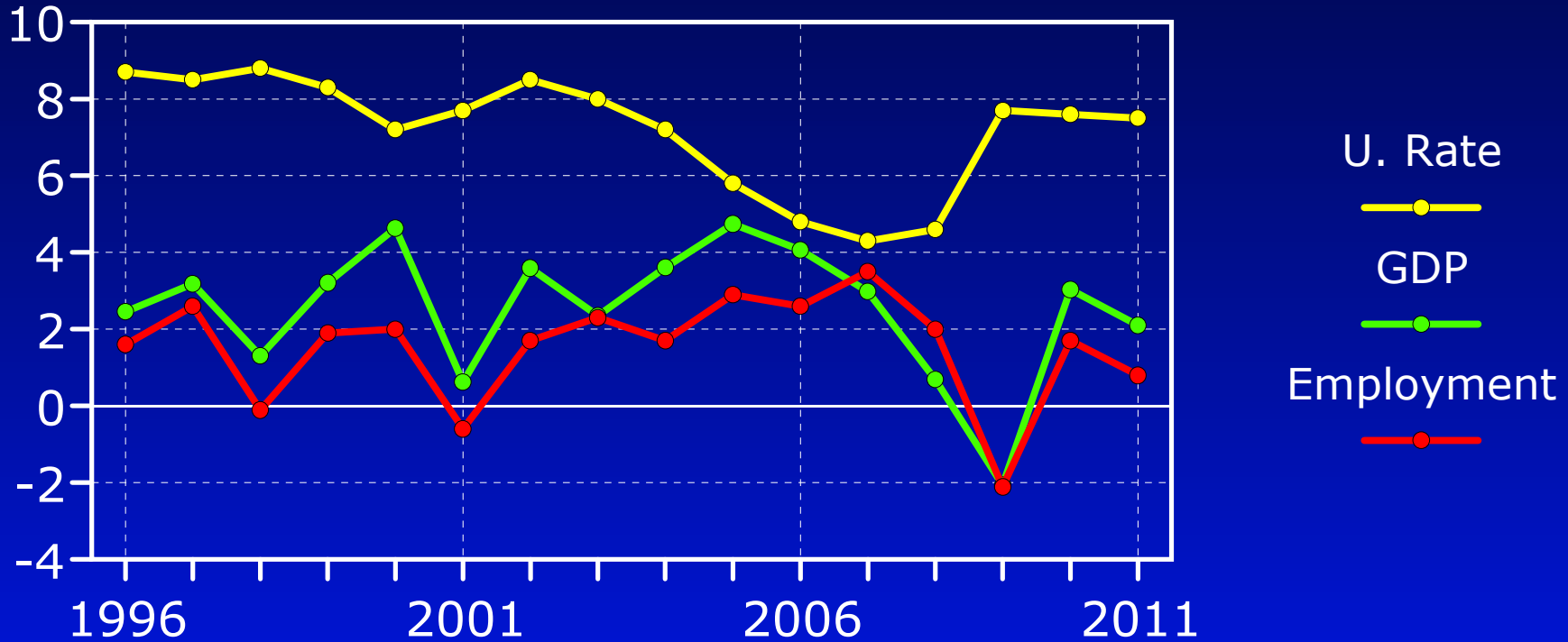
Source: Bank of Canada, C1CU survey. Latest actual: Q4-11



B.C.'s economic recovery slows in 2011

Key Economic Indicators, B.C.

Per cent



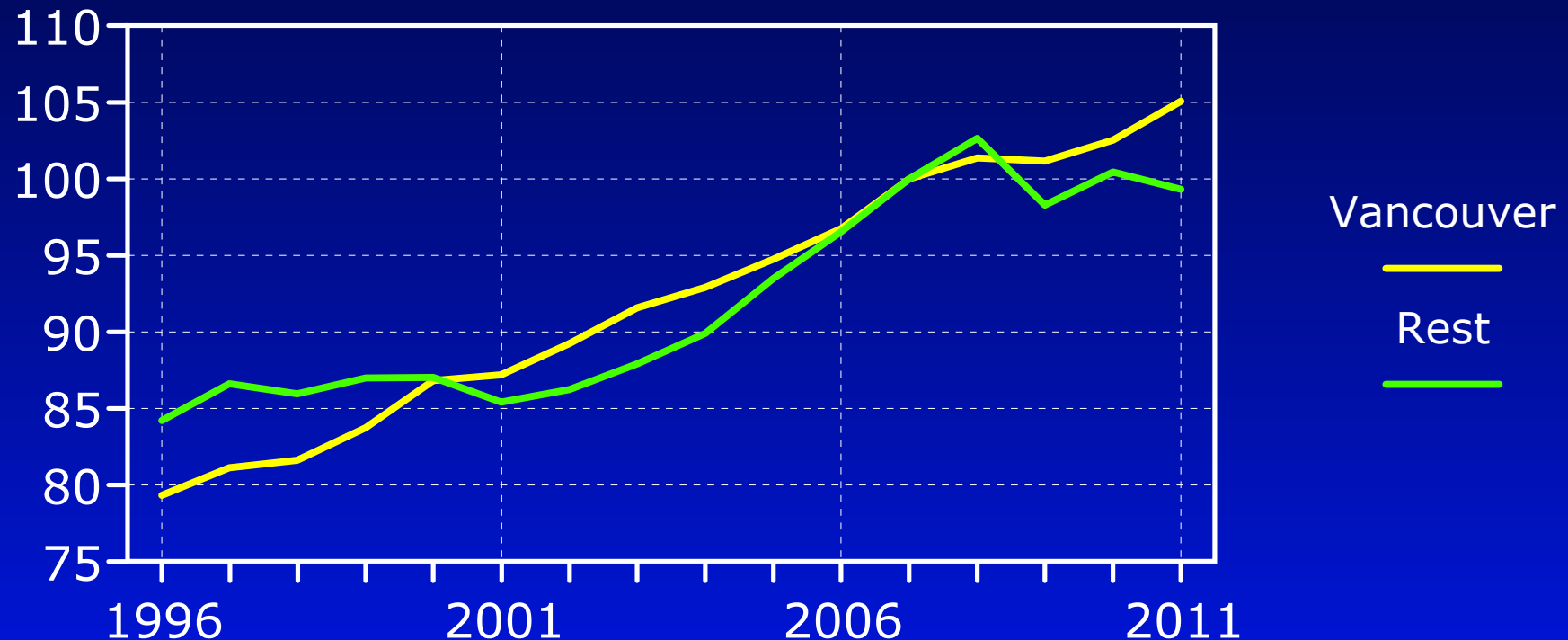
Source: Statistics Canada. Note: C1CU estimate for 2011 GDP



Job resurgence in Metro Vancouver, rest of B.C. lower since recession

Employment Trends, Metro Vancouver and Rest of B.C.

2007=100



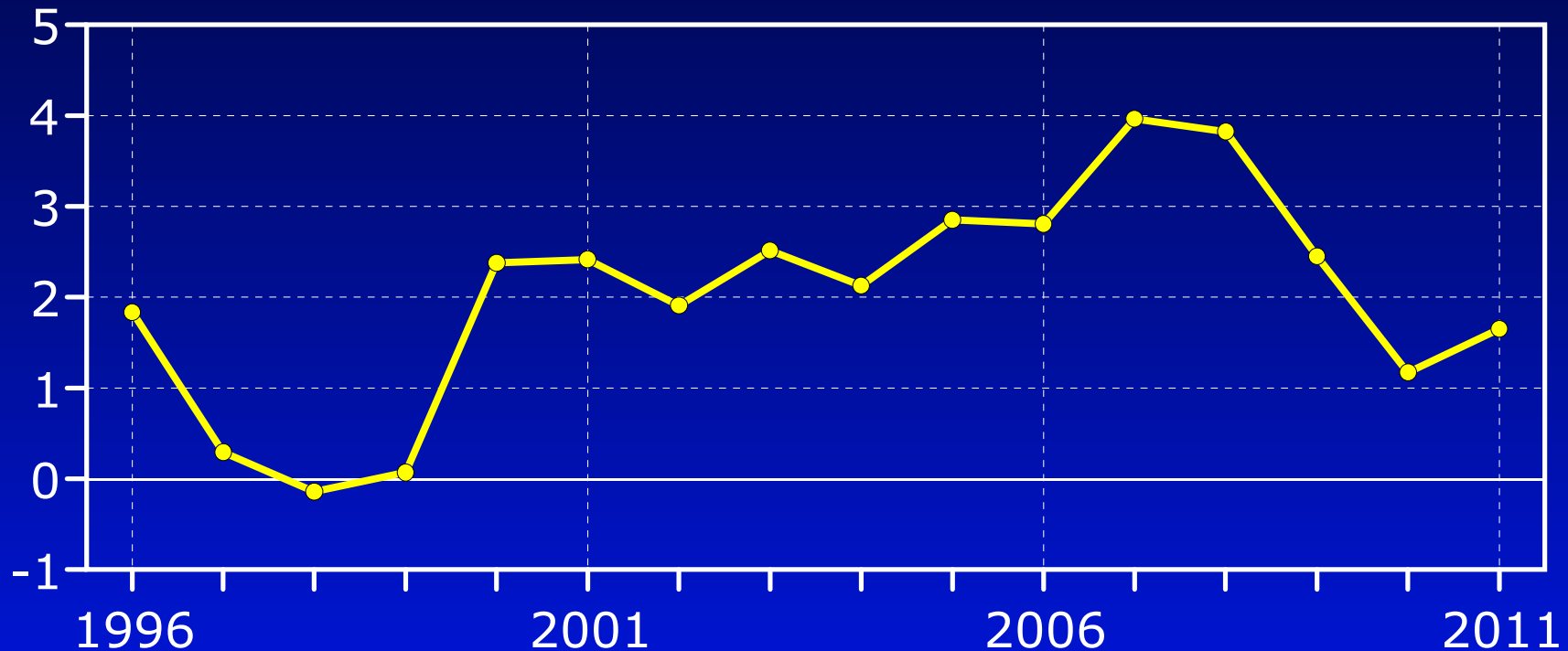
Source: Statistics Canada, C1CU.



Labour income advancing at modest pace

Change in Fixed-Weighted Average Hourly Earnings, B.C.

Per cent



Source: Statistics Canada.

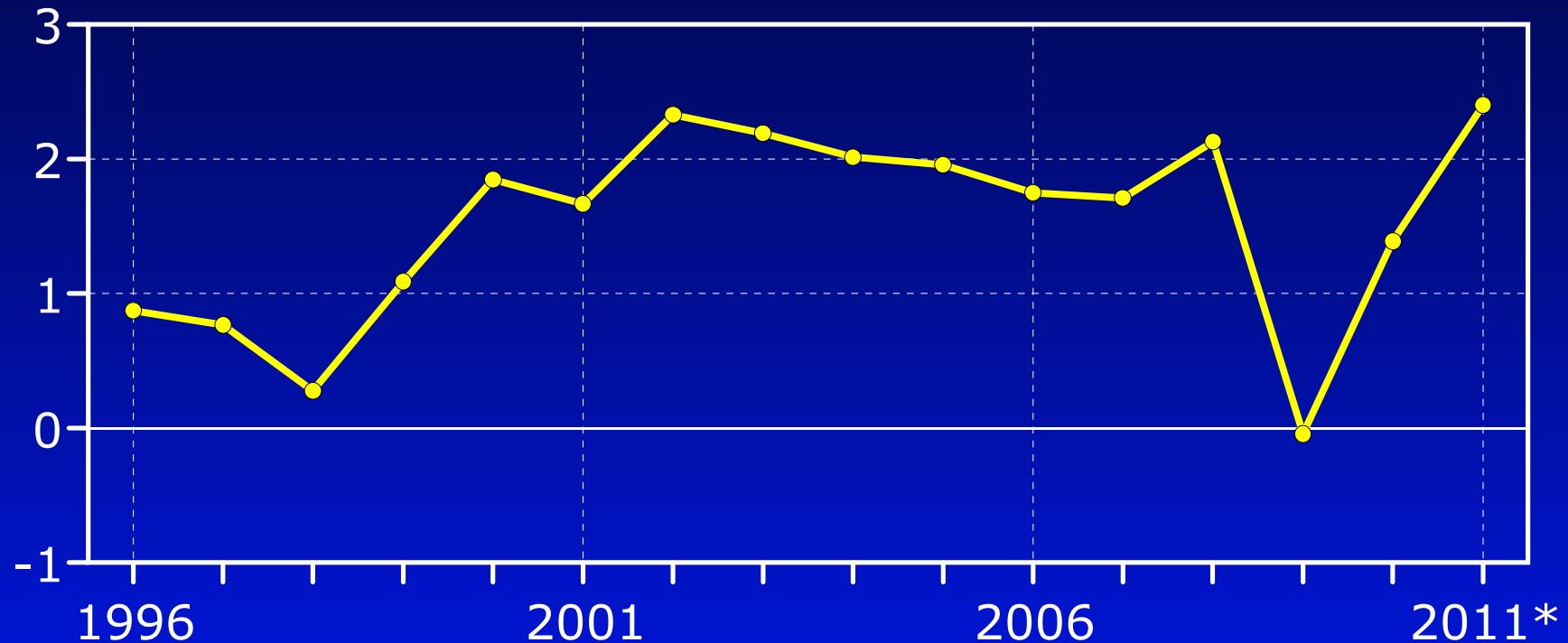
Latest: Average year-to-date Oct-11



Consumer price inflation up in 2011 mainly on energy and food

Change in Consumer Price Index, B.C.

Per cent



Source: Statistics Canada.

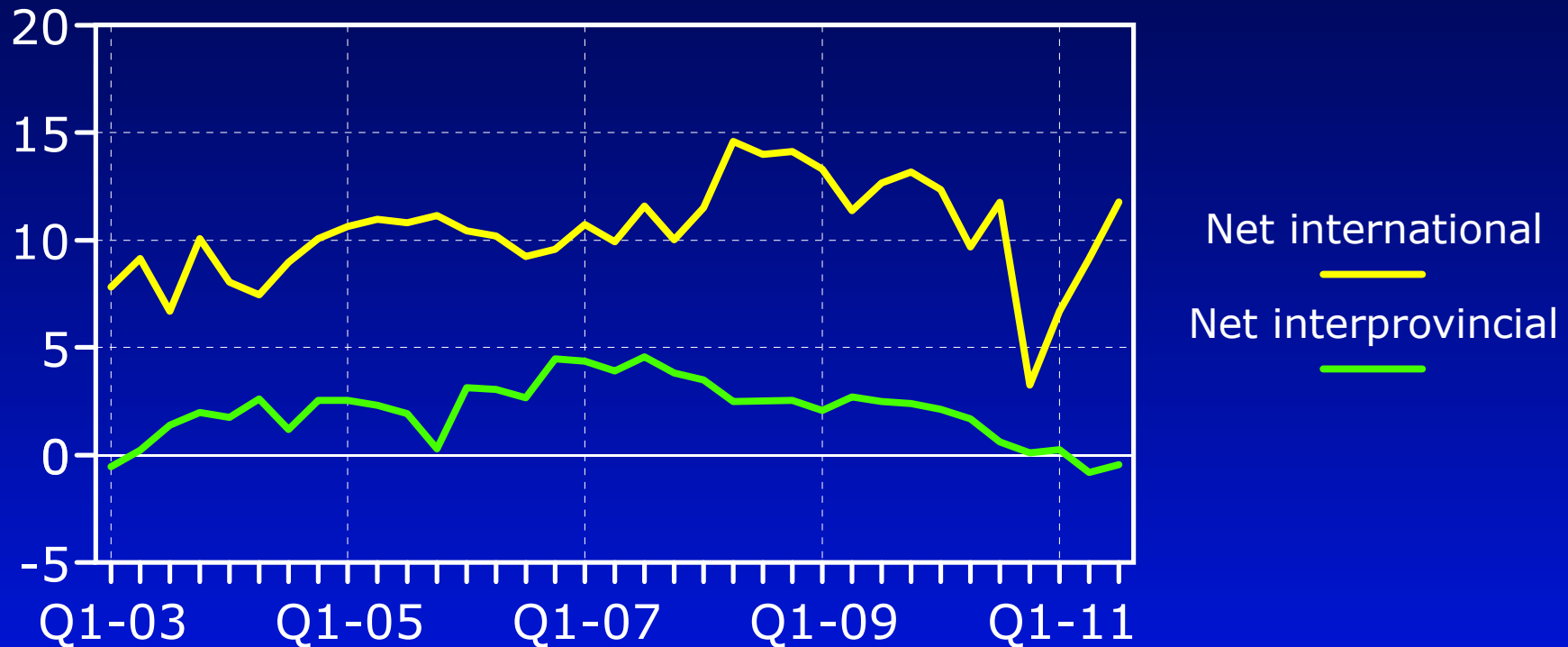
*Average year-to-date Nov-11



Interprovincial migration turns negative

B.C. Net Migration by Type, Quarterly

Persons - thousands



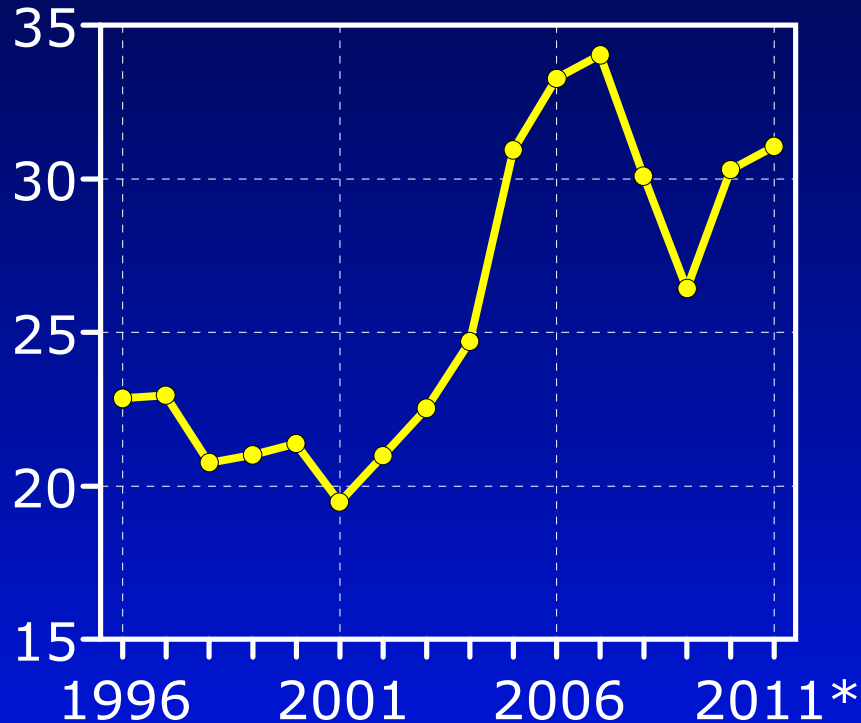
Source: Statistics Canada, C1CU. Note: Seasonally adjusted. Latest: Q3-11



New business formations up slightly in 2011

B.C. Business Incorporations

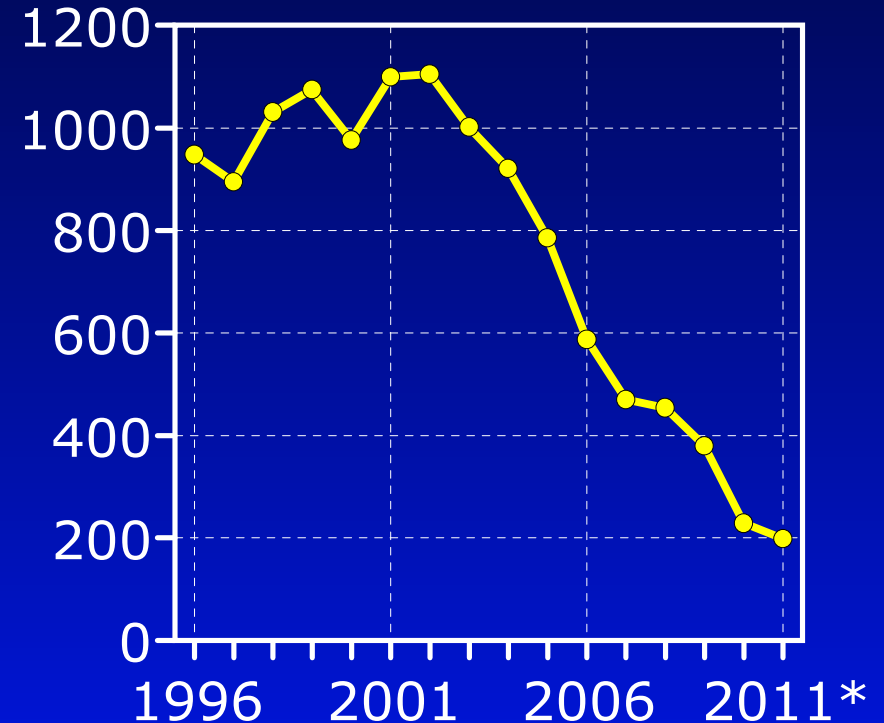
Number - thousands



Source: BC Finance. *12 mo. to Oct.

B.C. Business Bankruptcies

Number



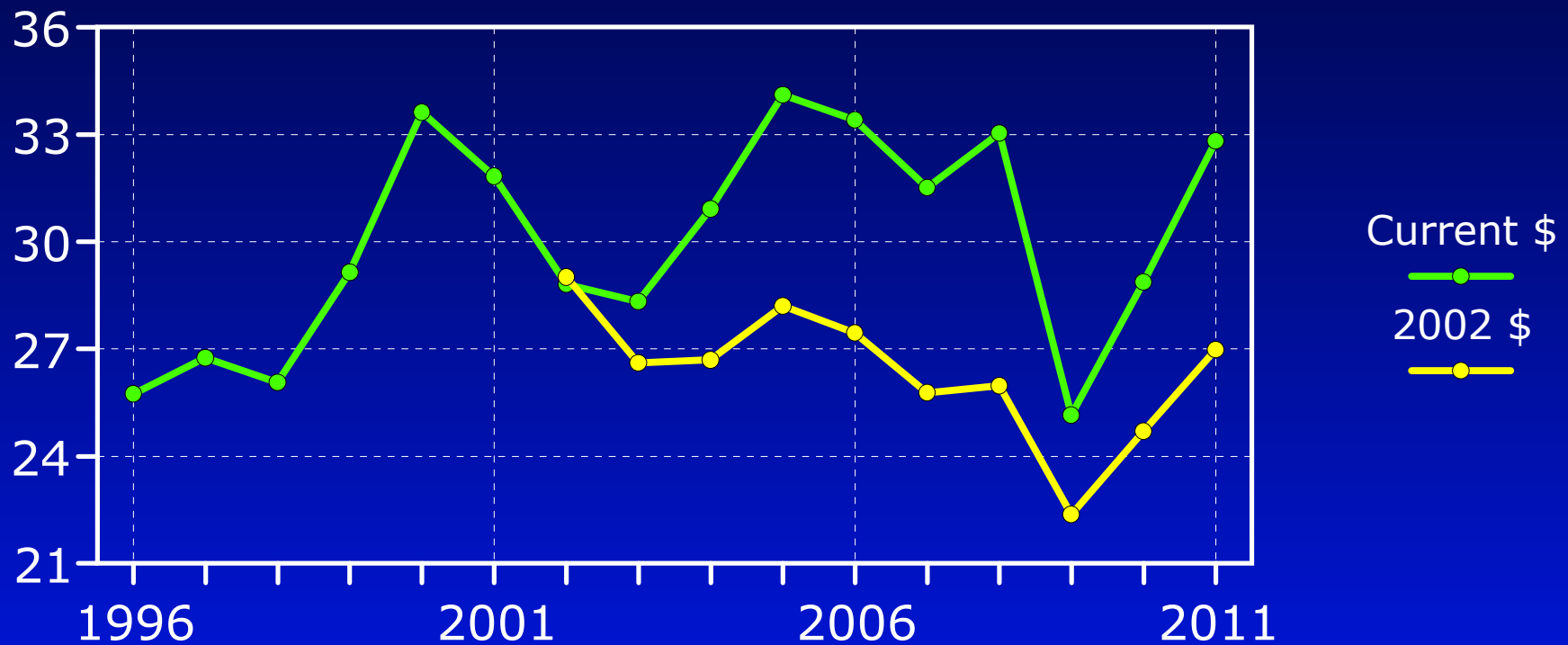
Source: OSB Canada. *12 mo. to Oct.



Exports rebound from recession low; China overtakes Japan for No. 2 market

B.C. International Merchandise Exports

Dollars - billions



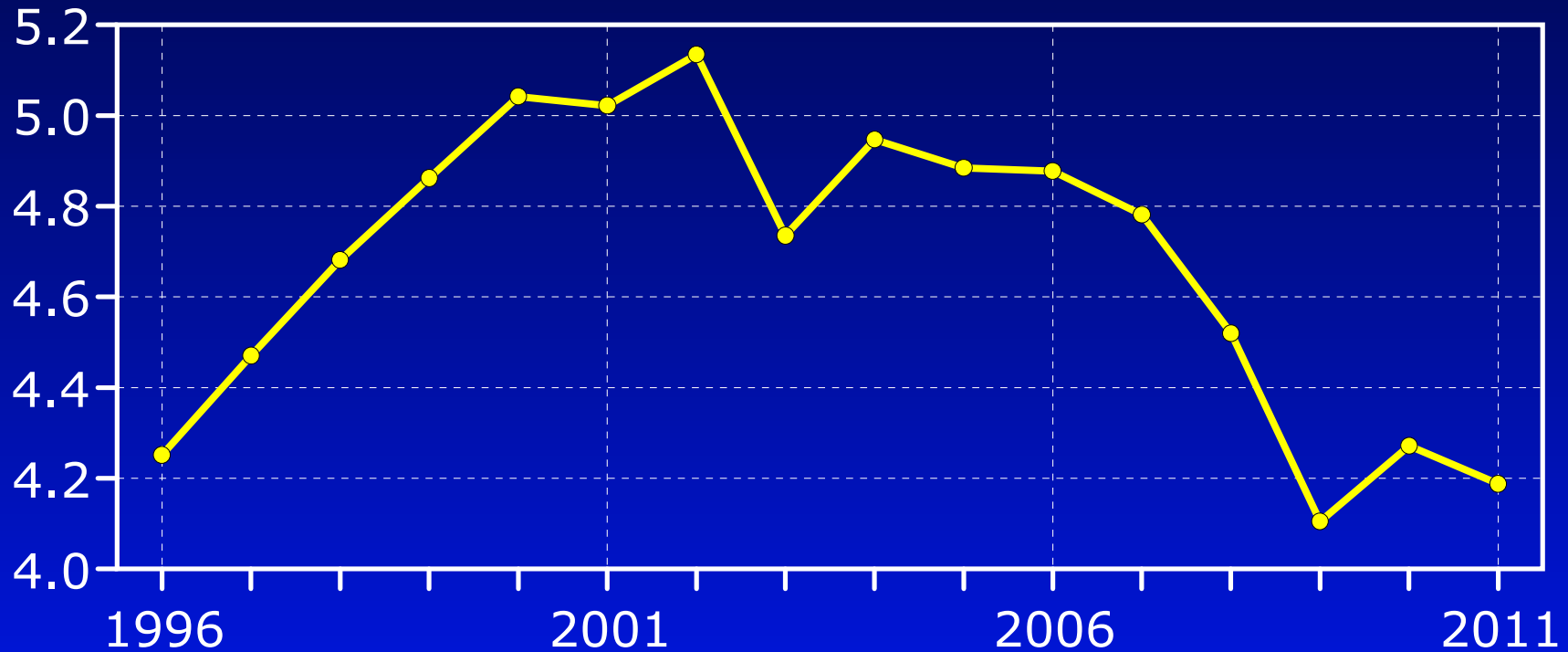
Source: Statistics Canada, C1CU. Note: 12 months ending Nov-11.



Tourist traffic at very low levels

B.C. International Tourist Entries

Persons - millions



Source: Statistics Canada.

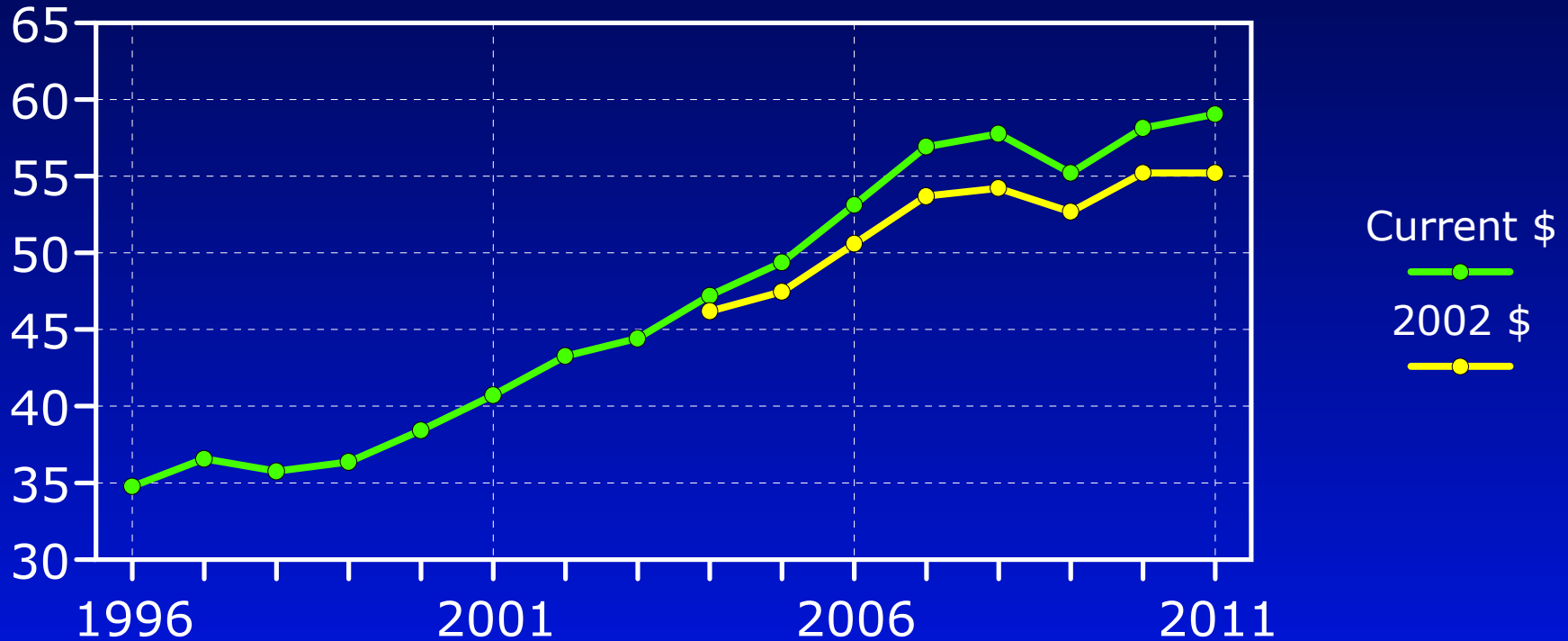
Note: 12 months ending Oct-11.



Lacklustre retail sales growth in 2011

B.C. Retail Sales

Dollars - billions



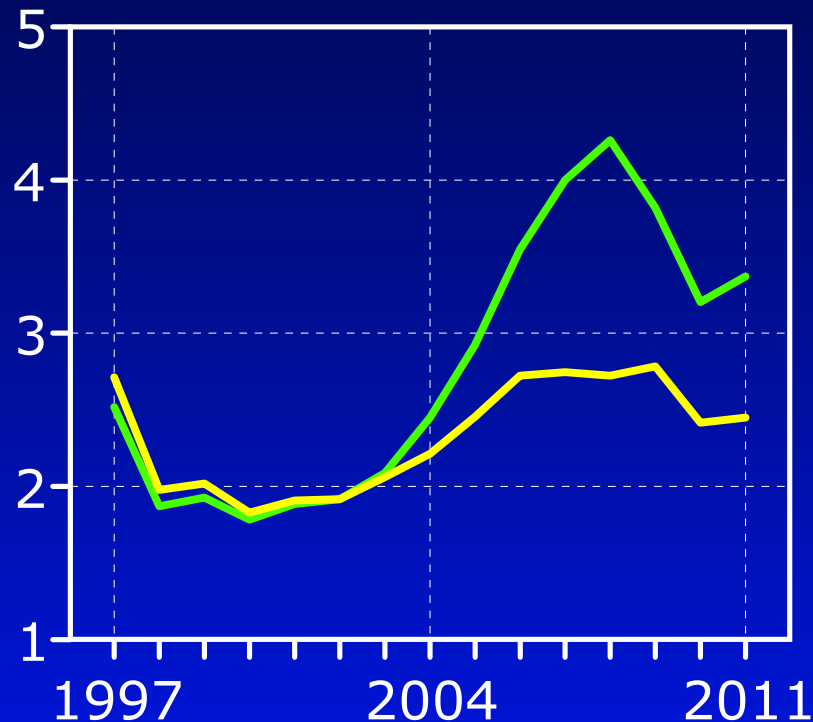
Source: Statistics Canada, C1CU. Note: 12 months ending Oct-11.



B.C. Non-residential Building Construction Investment Spending

Commerical and Industrial

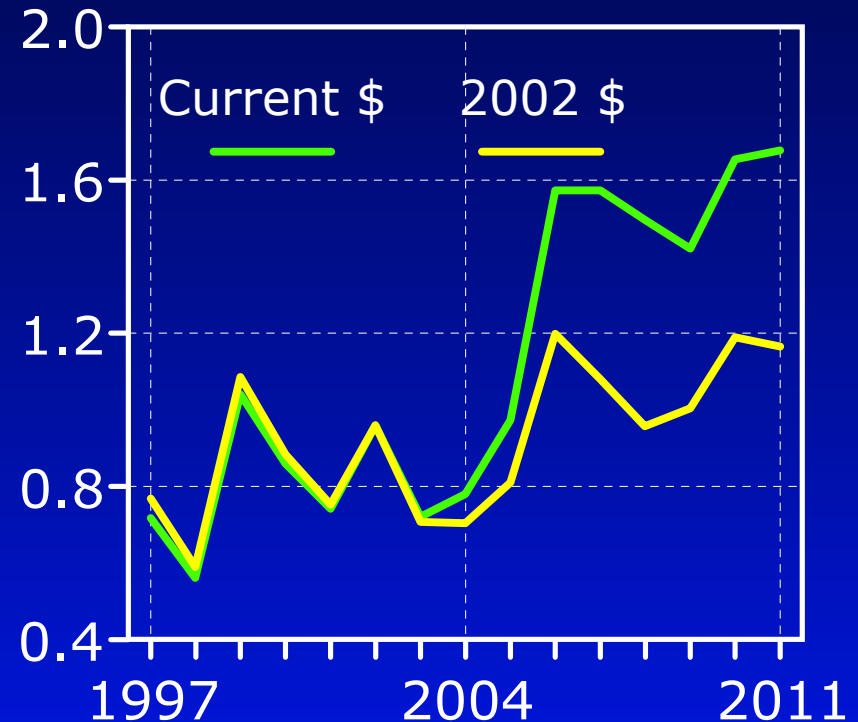
Dollars - billions



Source: Statistics Canada.

Institutional-Government

Dollars - billions



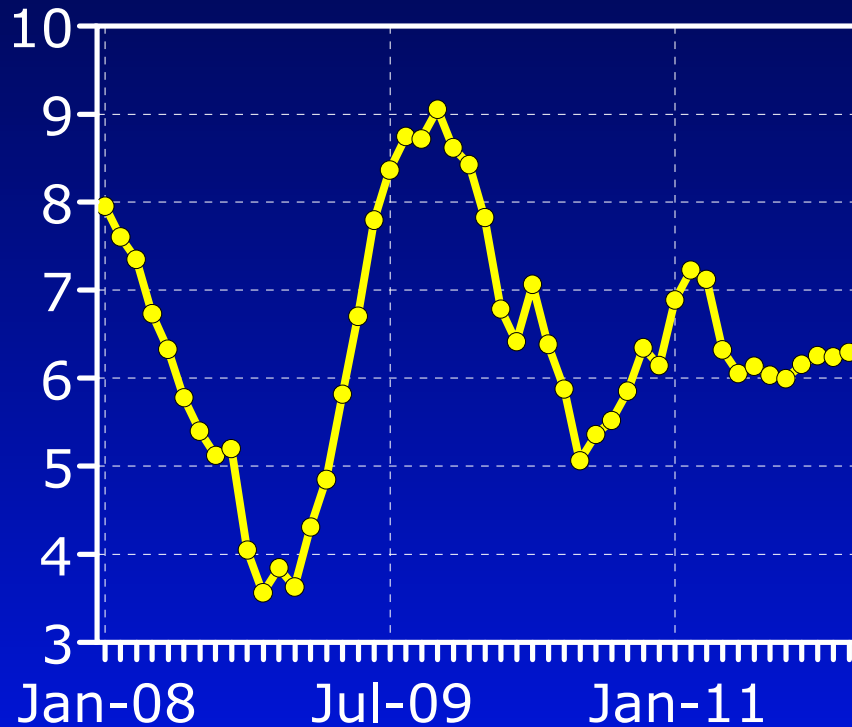
Source: Statistics Canada.



Housing sales holding at moderate levels

MLS Residential Sales, Monthly

Units - thousands, seasonally adjusted

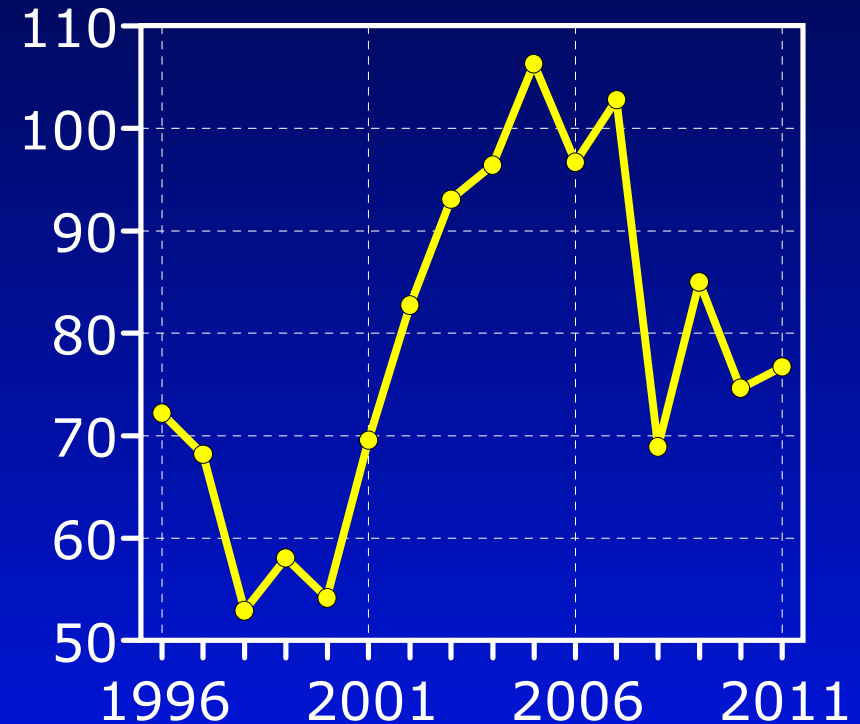


Source: CREA.

Latest: Dec-11

Annually, B.C.

Units - thousands

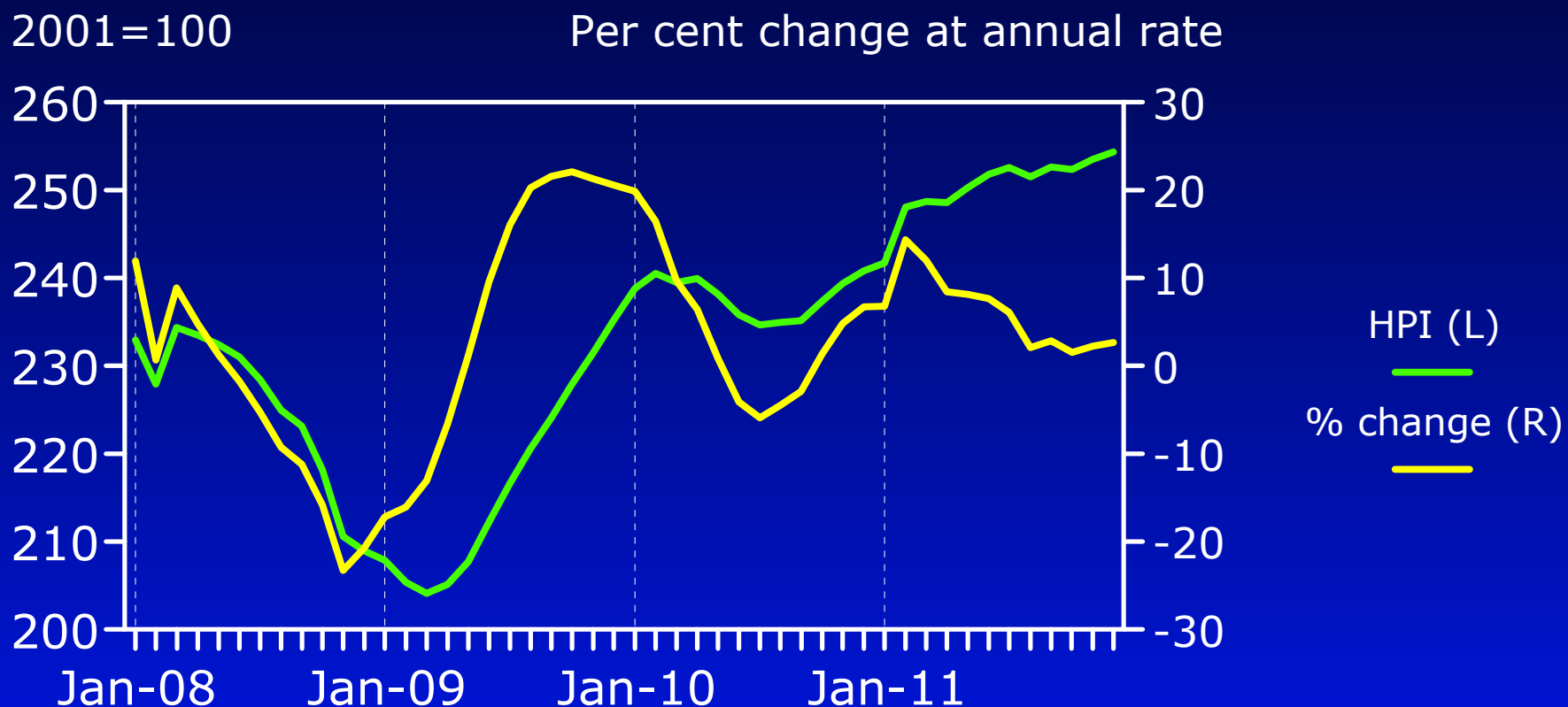


Source: CREA



Housing prices rising at slower pace in 2011

Lower Mainland MLS Housing Price Index



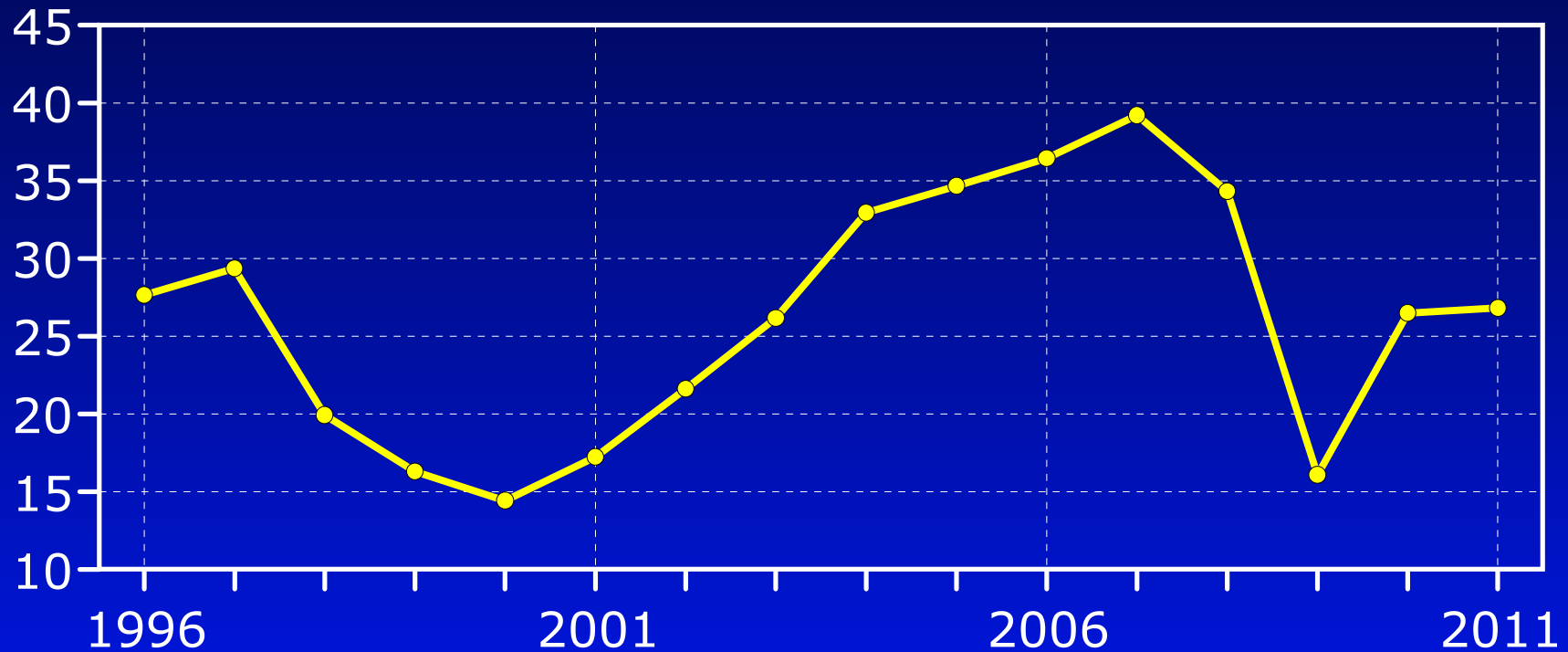
Source: REBGV, C1CU. Note: Seasonally adjusted. Latest: Dec-11



Moderate housing starts activity

B.C. Housing Starts

Units - thousands



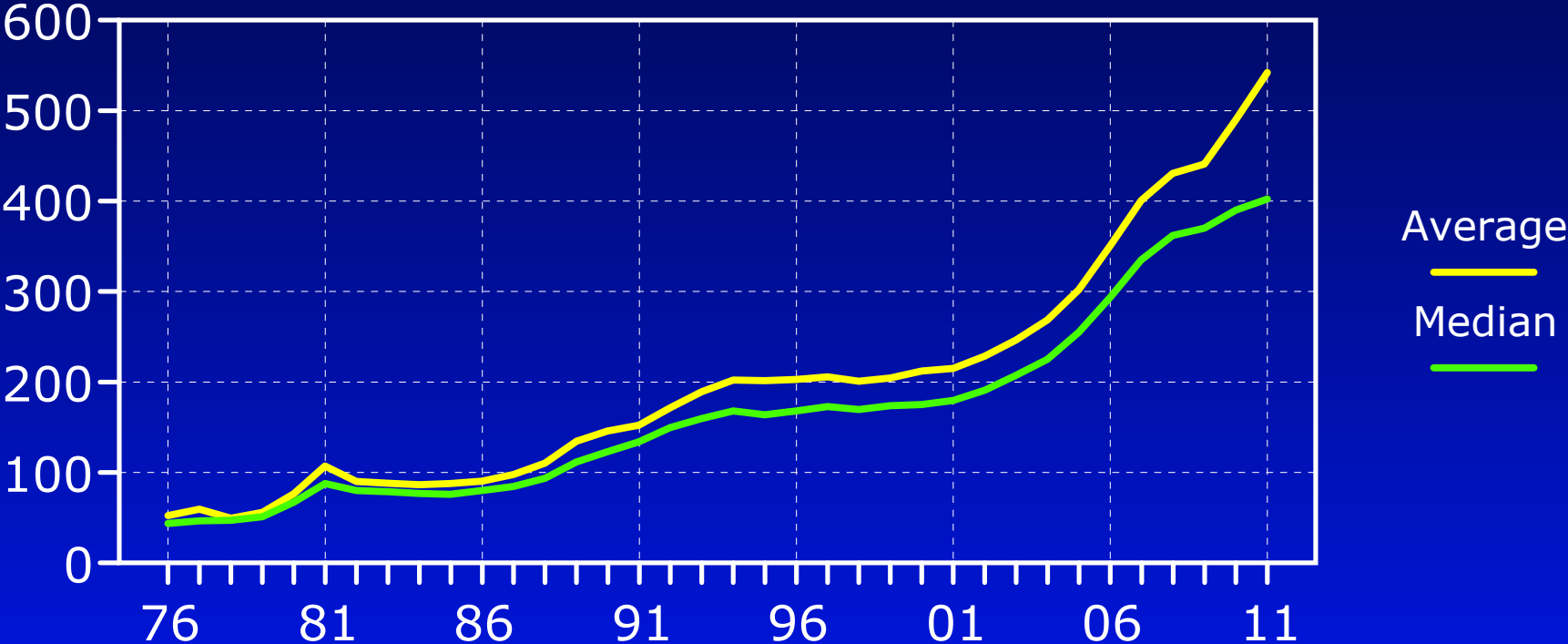
Source: CMHC.



Prices at record high, growing divergence between average and median prices

Residential Average and Median Sale Prices, B.C.

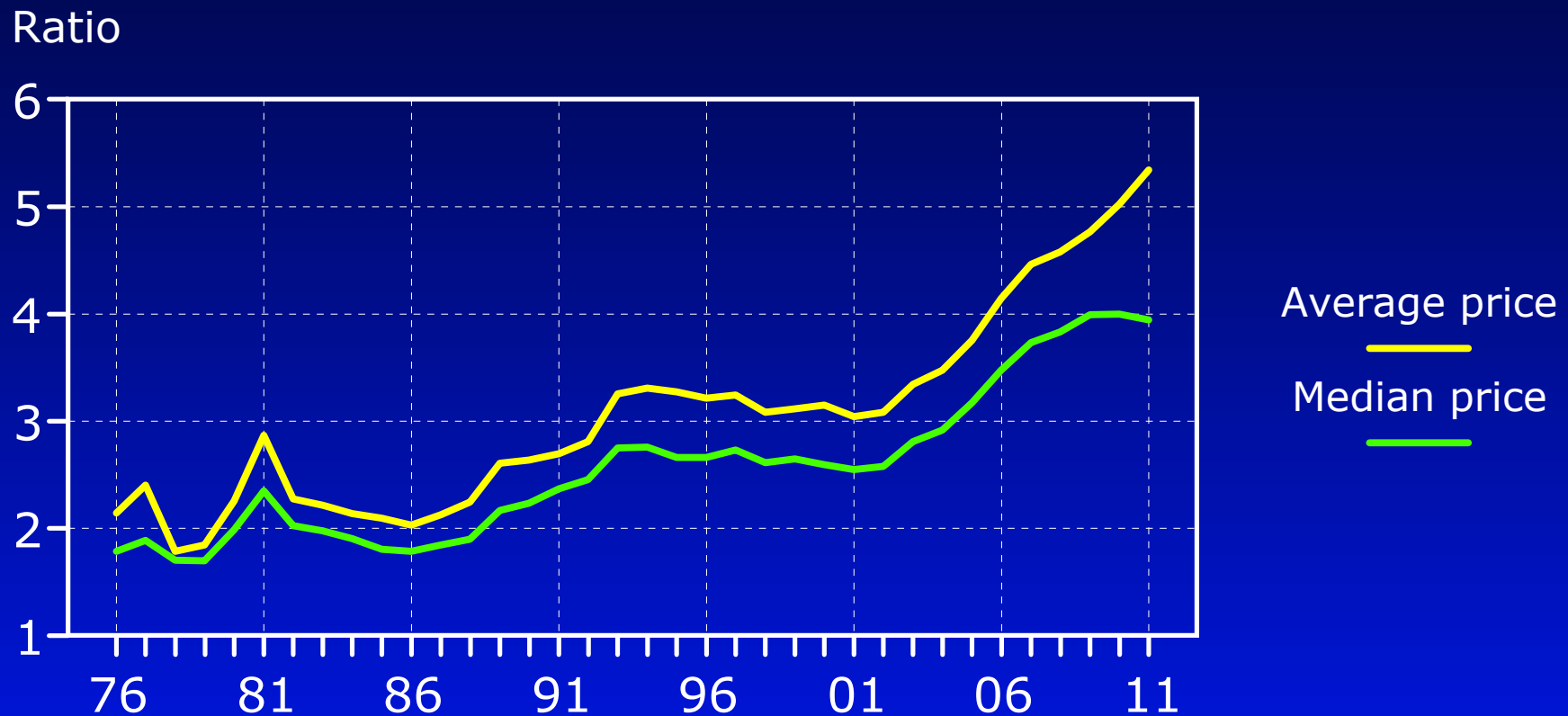
Dollars - thousands



Source: Landcor Data Corp.

Price-to-income ratios at record high; over-valued and reverts to mean?

Residential Price-to-income Ratios, B.C.



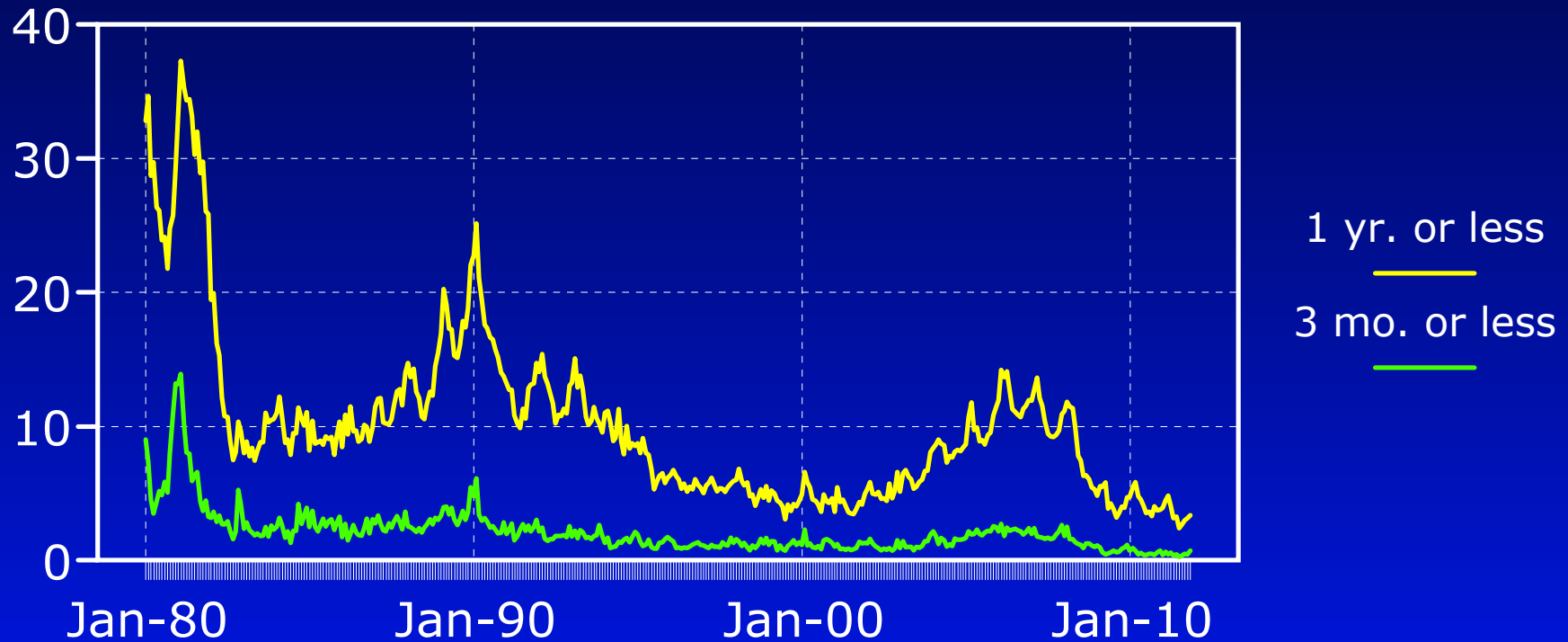
Source: C1CU. Note: Based on average total income of non-elderly families.



Low flipping activity in current market

Holding Period of Sales, B.C.

Per cent of sales



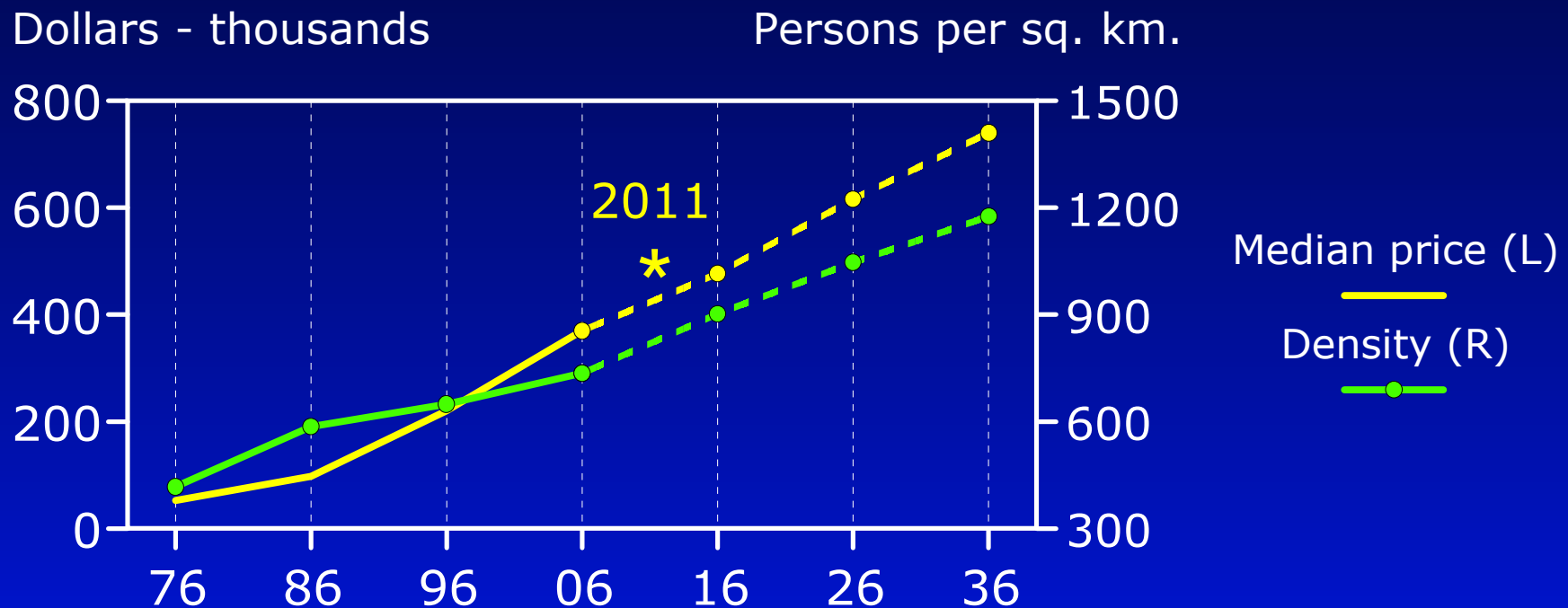
Source: Landcor Data Corp.

Latest: Nov-11



Long-term price trend upward due to rising demand in land-constrained market

Residential Median Sale Price and Population Density Metro Vancouver



Source: Statistics Canada, Landcor Data Corp., BC Stats for population projections
Note: Dashed lines are projections. Land area = 2,877.4 sq. km.



2012 economic forecasts

BC Economic Forecast	2010	2011	2012f
Employment, % chg.	1.7	0.8	1.4
Unemployment rate, %, ave.	7.6	7.6	7.4
Population growth, % chg.*	1.5	0.9	1.0
Retail sales, % chg.	-4.4	2.0 ^o	3.0
Prime rate, %, average	2.59	3.00	3.00
5-year mortgage rate, % av.	5.57	5.39	5.34

f = forecast * 3Q. o - October



2012 housing forecasts

BC Housing Forecast	2010	2011	2012f
Housing sales, % change	23.4	2.8	4.0
Housing starts, % change	70.6	3.0	-2.0
Average sales price, % chg.	2.4	11.1	7.0
Lower mainland HPI, % chg.	9.9	5.3	3.5
Pvt. rental vacancy rate, %	2.7	2.4	2.1

Notes: MLS sales and prices, Urban B.C. starts, f = forecast, n = November

