

# Economic Outlook

## BOMA of B.C.

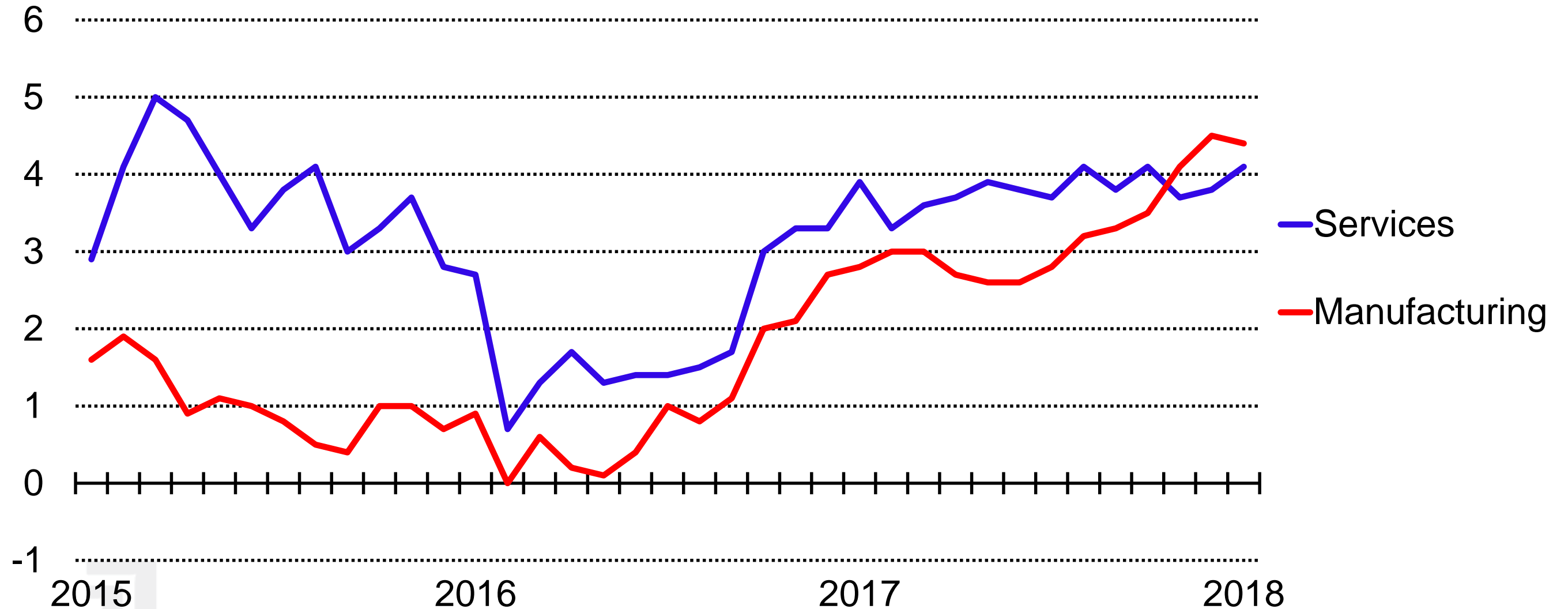
February 14, 2018

Helmut Pastrick  
Chief Economist Central 1 Credit Union

# Global economy improving

## JP Morgan Global Purchasing Managers' Indexes

0 = no change from prior month



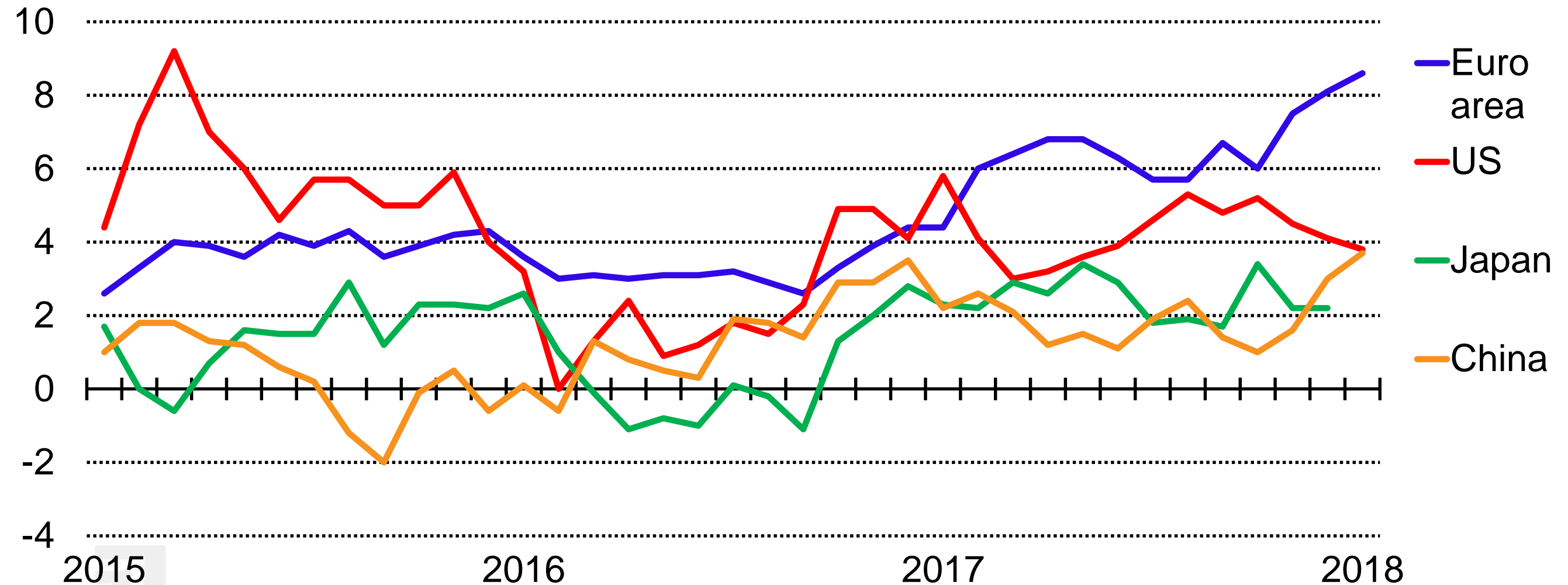
Source: Bloomberg. Note: Seasonally adjusted.

Latest: Jan. 2018

# Mostly synchronous upswings; Europe leads

## Markit Purchasing Managers' Indexes

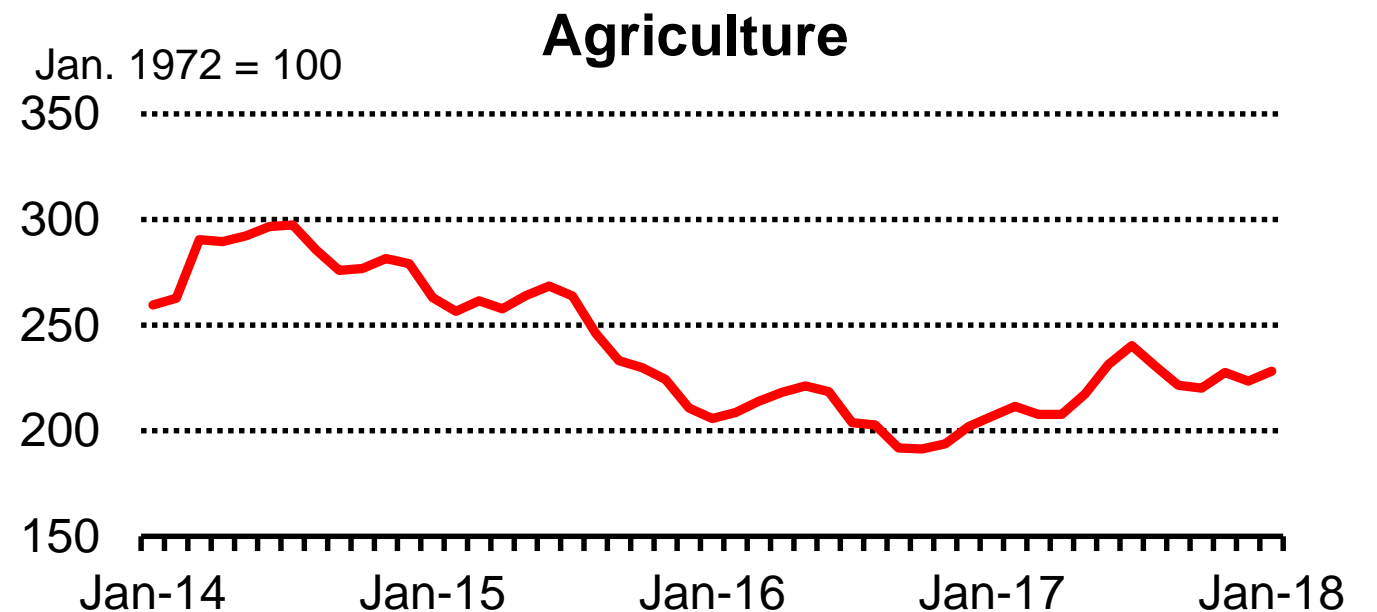
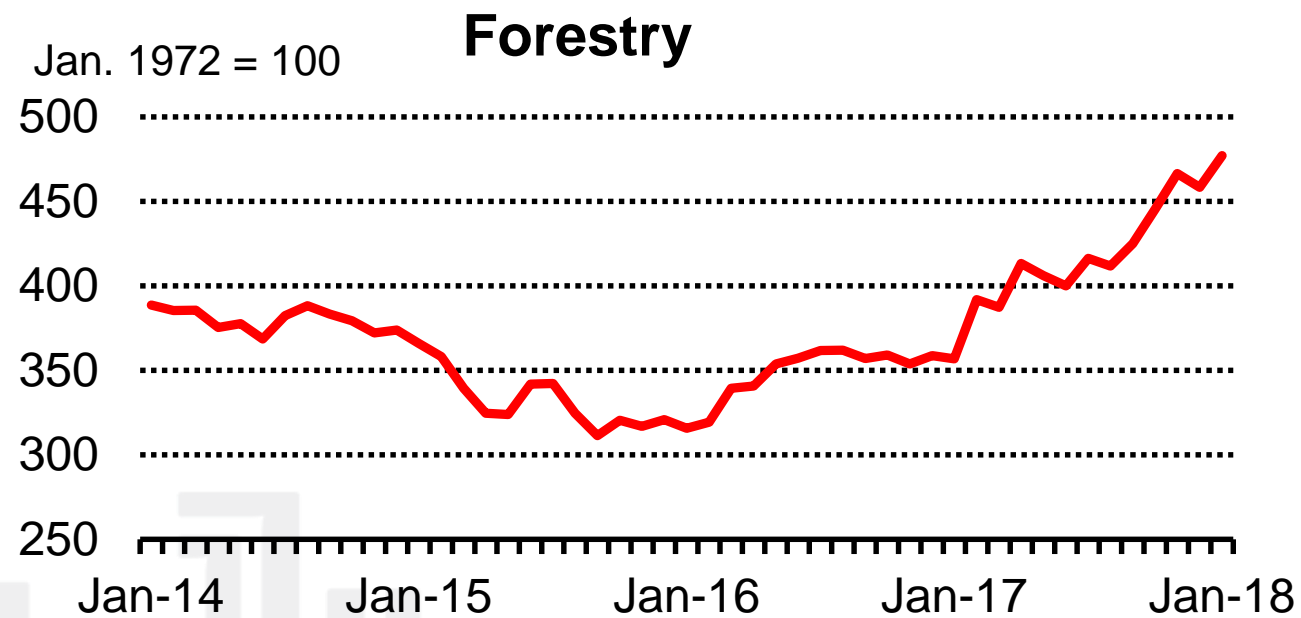
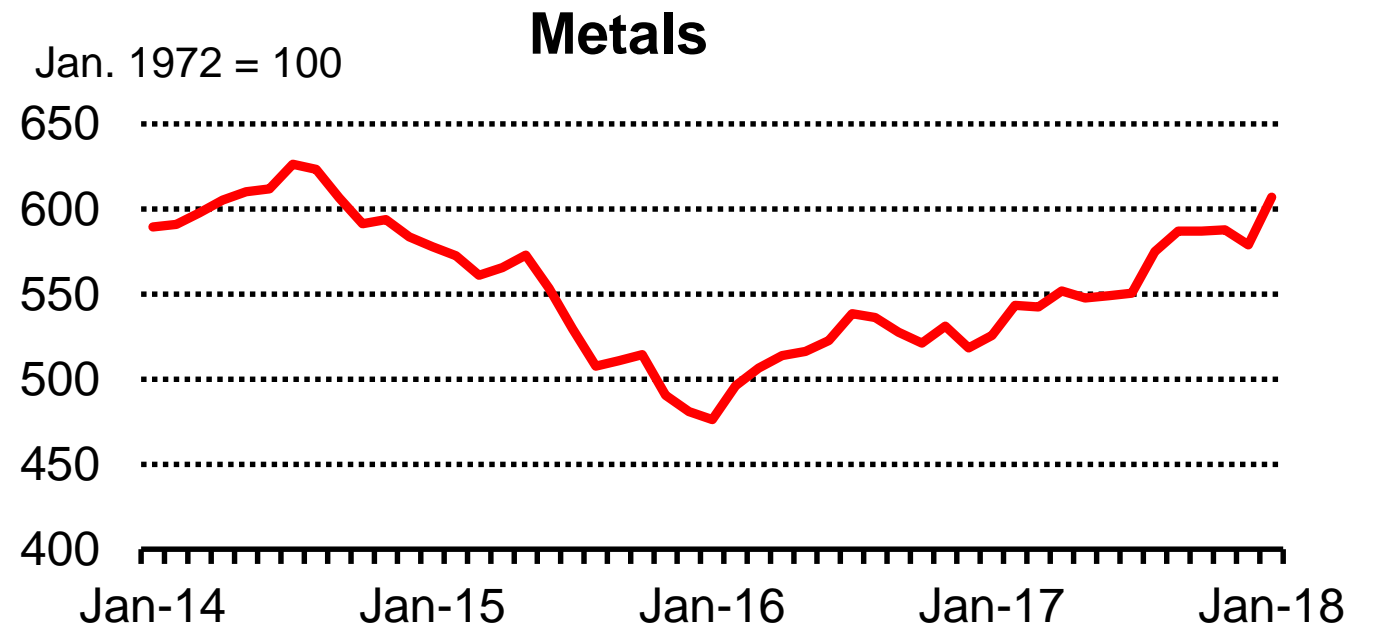
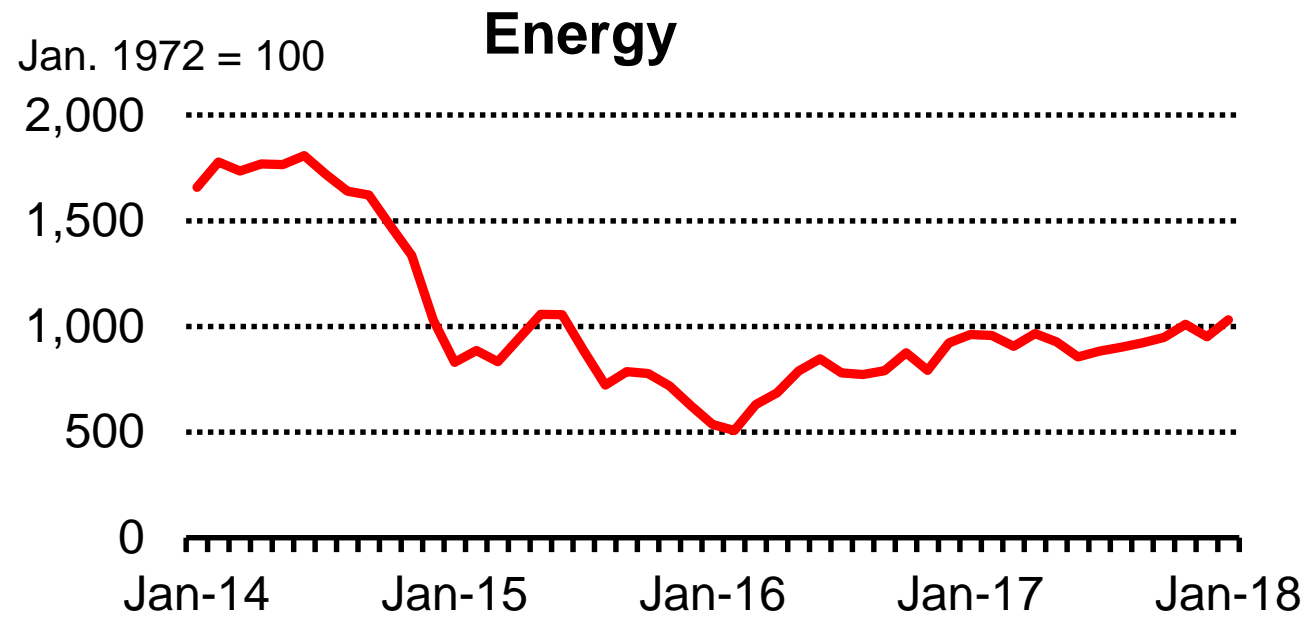
0 = no change from prior month



Source: Bloomberg. Note: Seasonally adjusted.

Latest: Jan. 2018

# Commodity price trends

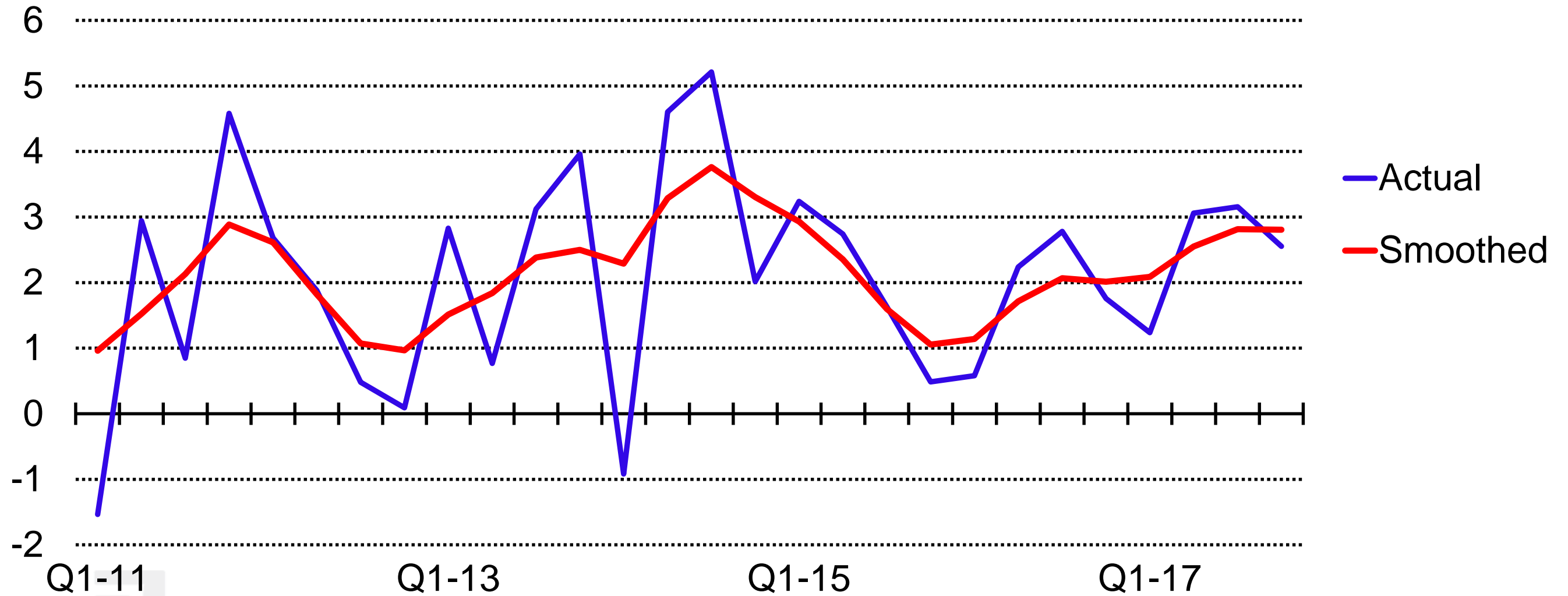


Source: Bank of Canada. Note: Product groups, in USD. Latest: Jan-18

# U.S. economy gains momentum from recent lows

## U.S. Real GDP

Per cent change at annual rate



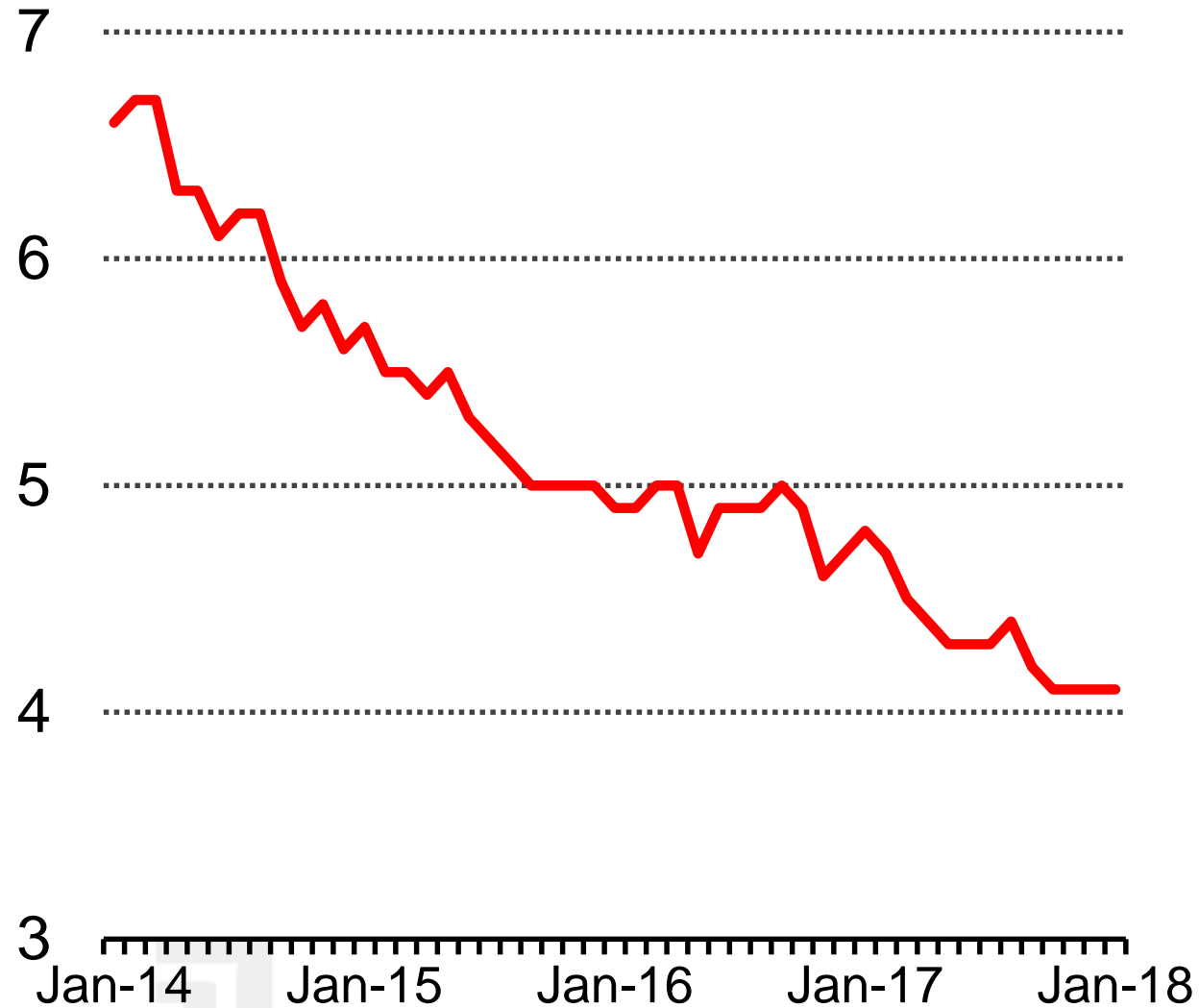
Source: U.S. Bureau of Economic Analysis, Central 1 Credit Union.

Latest: Q4-17

# Declining unemployment rate; wages rising faster

## Unemployment Rate: U.S.

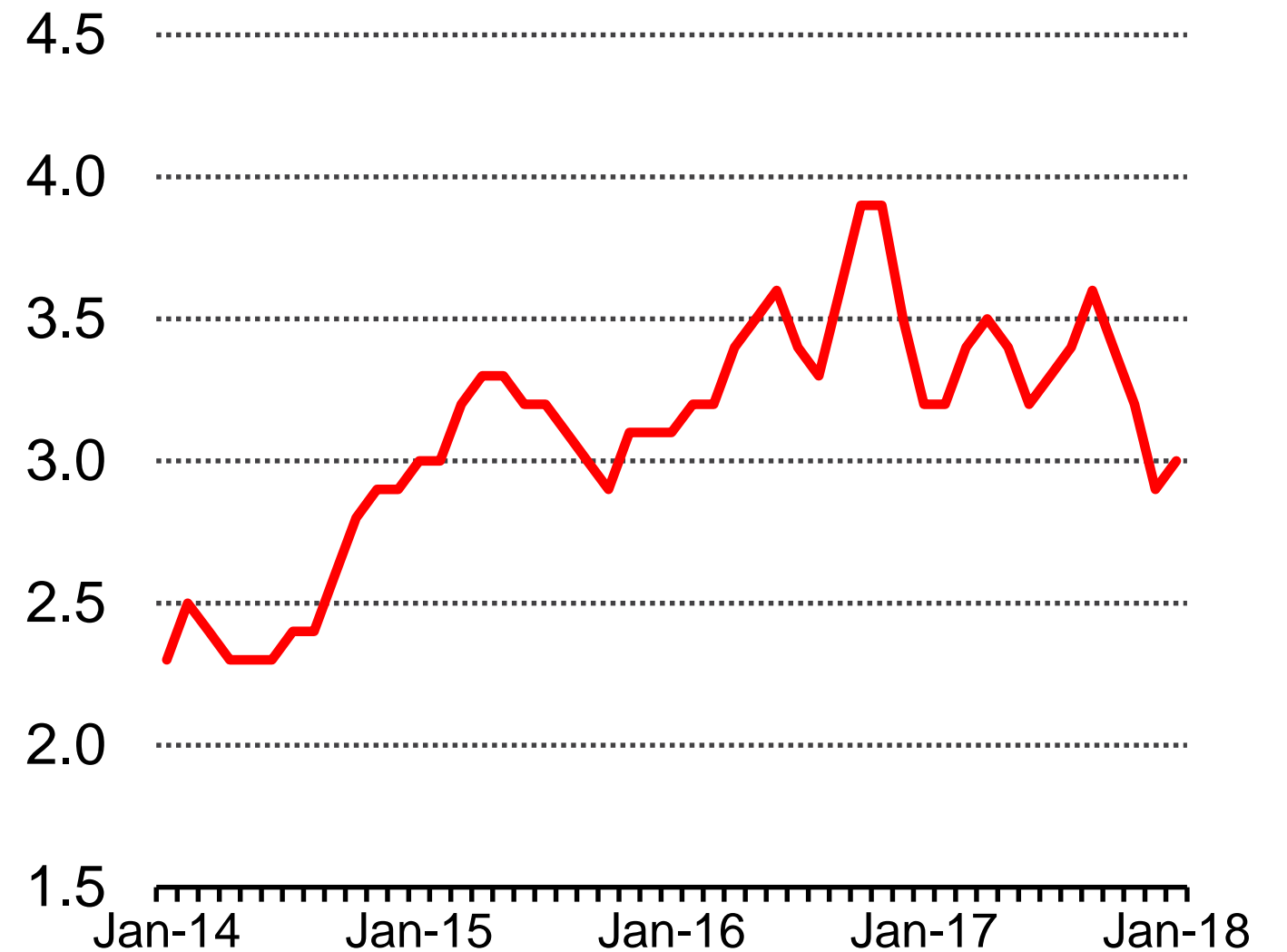
Per cent of labour force



Source: U.S. BLS. Note: Seasonally adjusted. Latest: Jan-18

## Hourly Median Wage Rate: U.S.

Per cent change, y/y

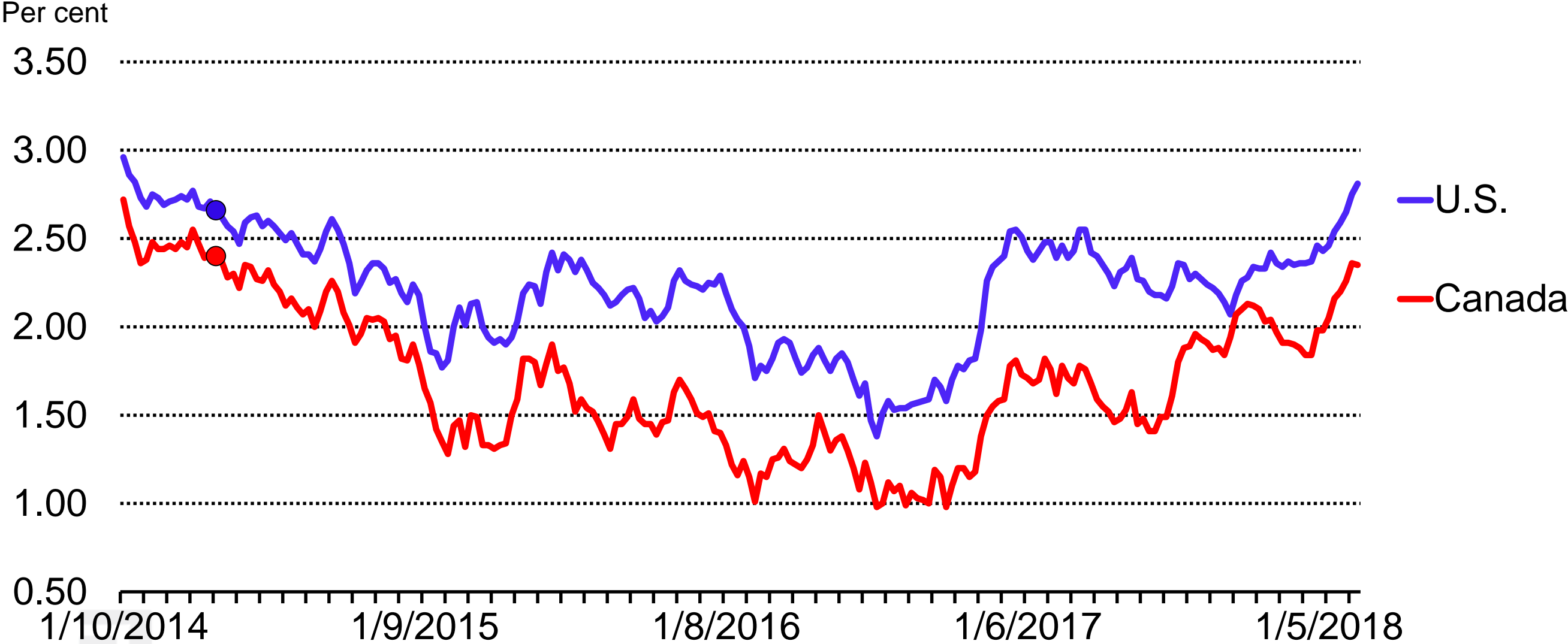


Source: FRB Atlanta.

Latest: Jan-18

# Bond yields rising

## Government 10-Year Bond Yields: U.S. and Canada

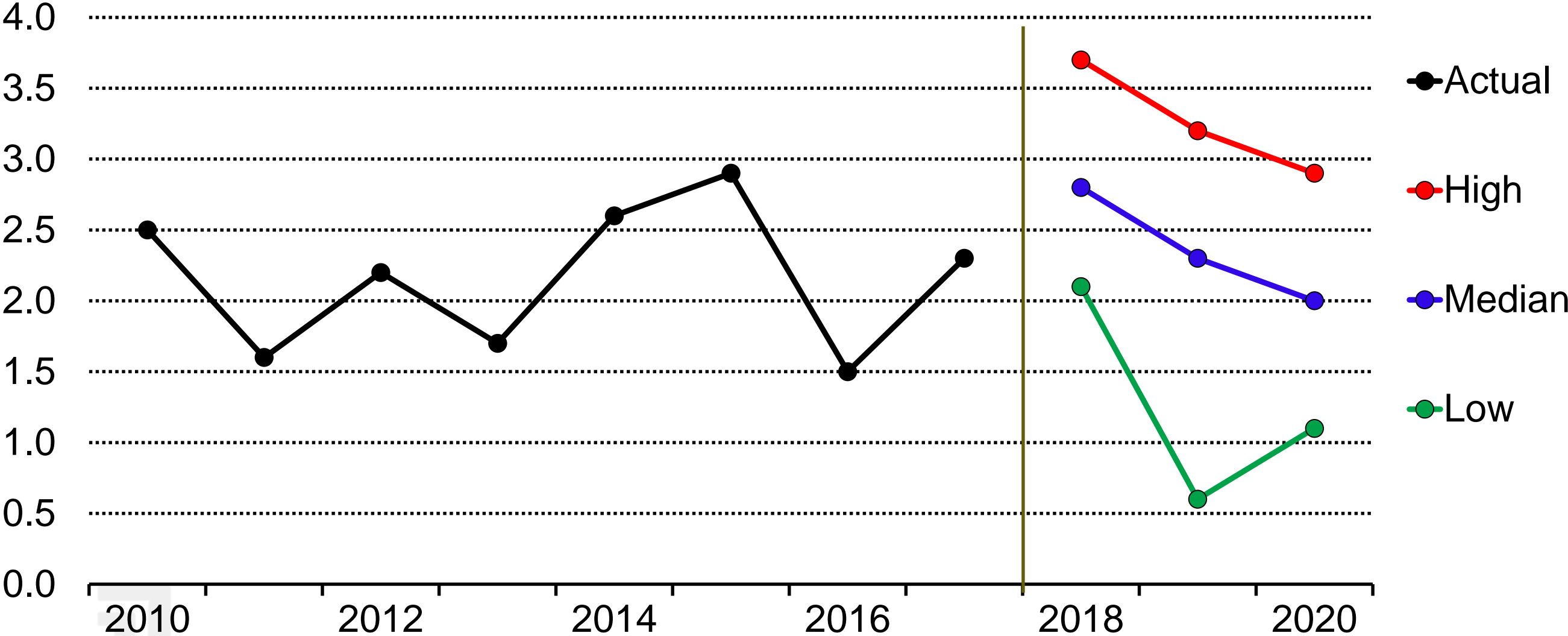


Source: Bank of Canada, FRED St. Louis Fed. Latest: Week of Feb. 7, 2018

# Substantial divergence in growth outlook

## U.S. Economic Growth Forecast Range

Per cent change in real GDP



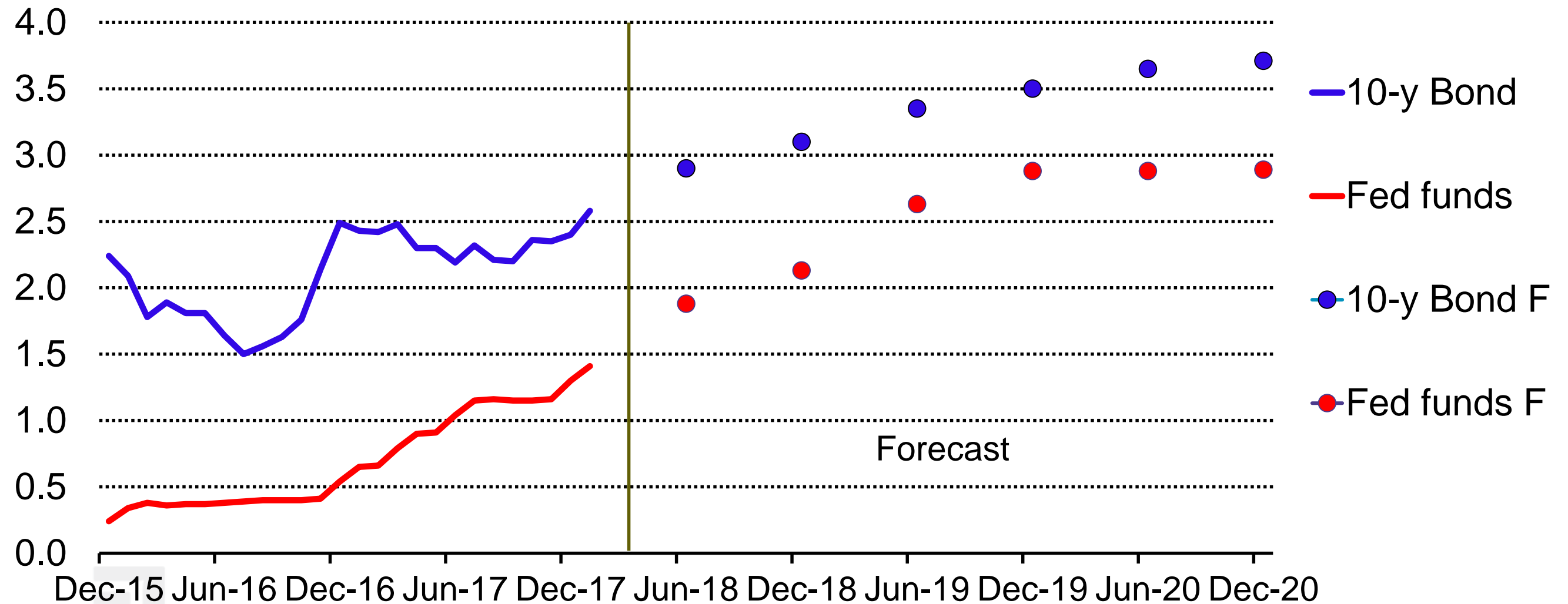
Source: U.S. BEA, WSJ Forecast Survey Feb. 2018.



# Fed rate increases: 3 in 2018; 3 in 2019

## U.S. 10y T-Bond Yield and Fed Funds Rate

Per cent

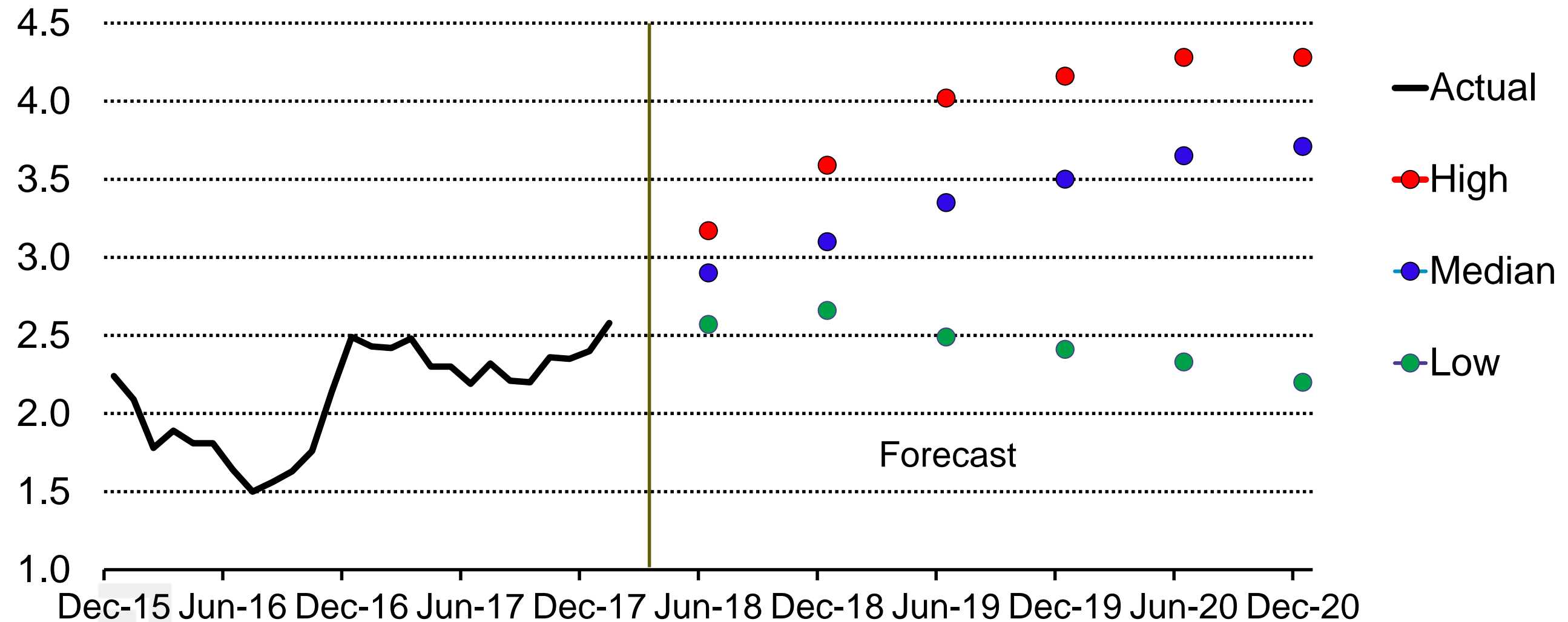


Source: U.S. Federal Reserve, WSJ Feb. 2018 forecast. Note: Actuals are monthly averages. F = Forecast

# Bond forecasts depend on economic forecasts

## U.S. 10 Year T-Bond Forecast Range

Per cent



Source: U.S. Federal Reserve, WSJ Feb. 2018 forecast. Note: Actuals are monthly averages.

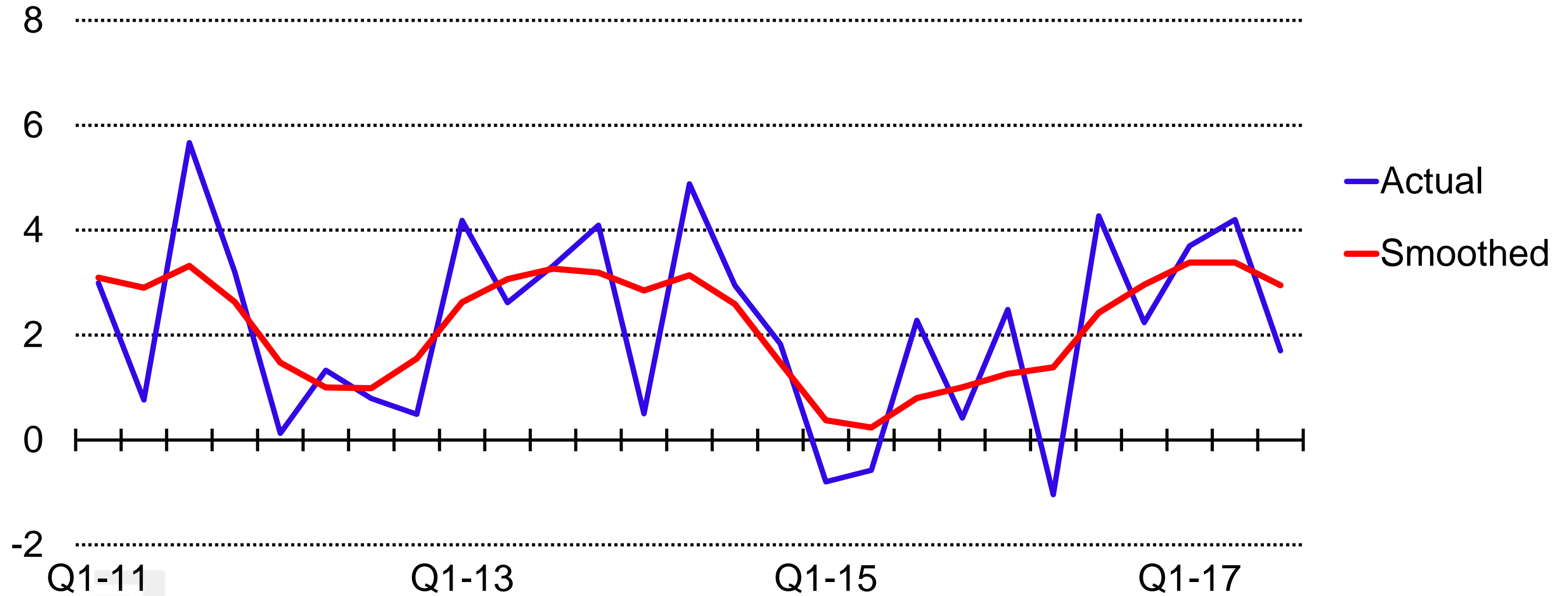
# The case for higher U.S. bond yields:

- Economic growth above potential resulting in rising inflation pressures
- Recent federal budget deal boosts spending
- Higher federal government deficit and debt
- Fed balance sheet normalization – selling bonds
- Long-term demographic funding needs for social security, medicare, etc.

# Strong rebound from oil recession of 2015

## Canada Real GDP

Per cent change at annual rate



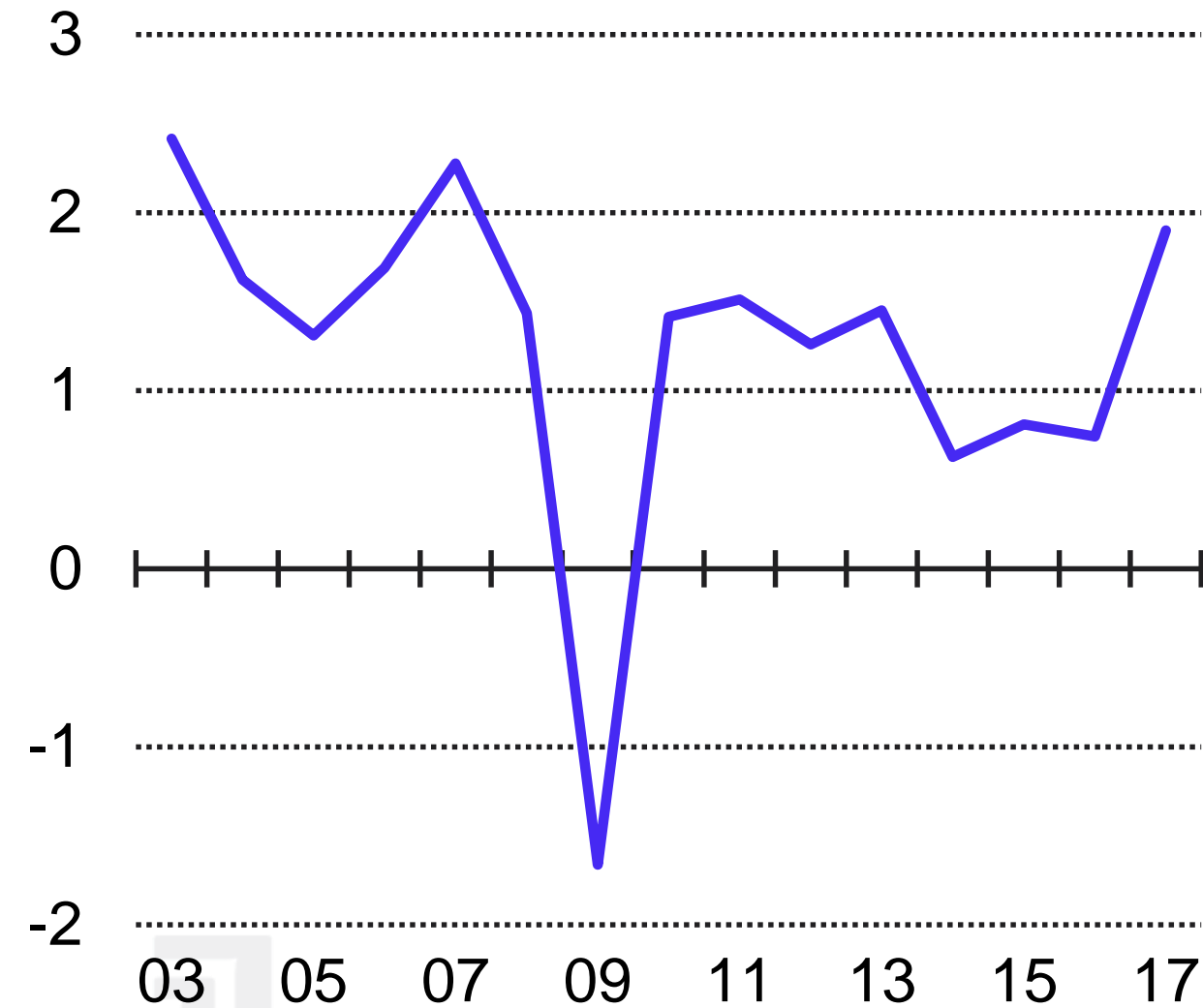
Source: Statistics Canada, Central 1 Credit Union.

Latest: Q3-17

# Large improvement in 2017

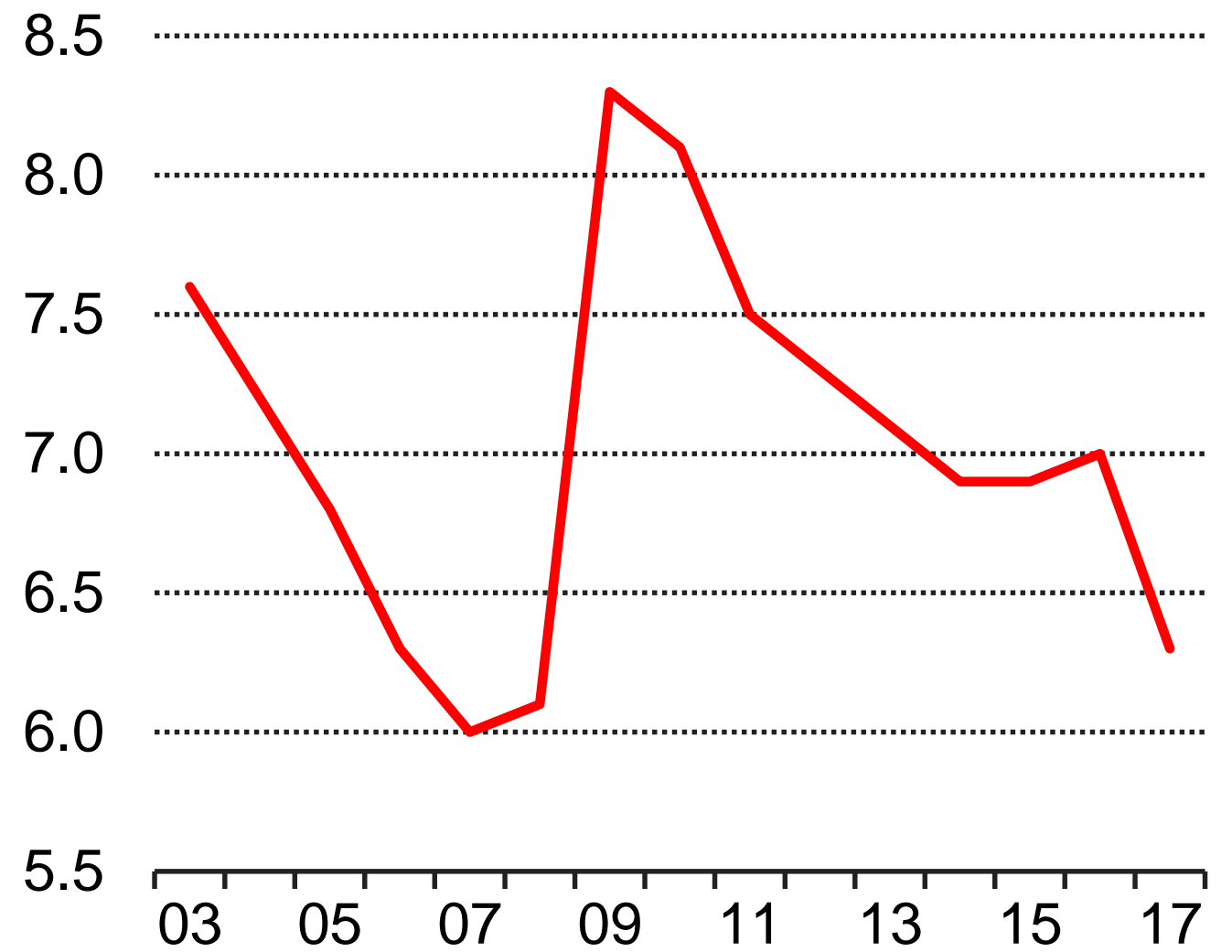
## Employment: Canada

Persons - millions



## Unemployment Rate: Canada

Per cent of labour force



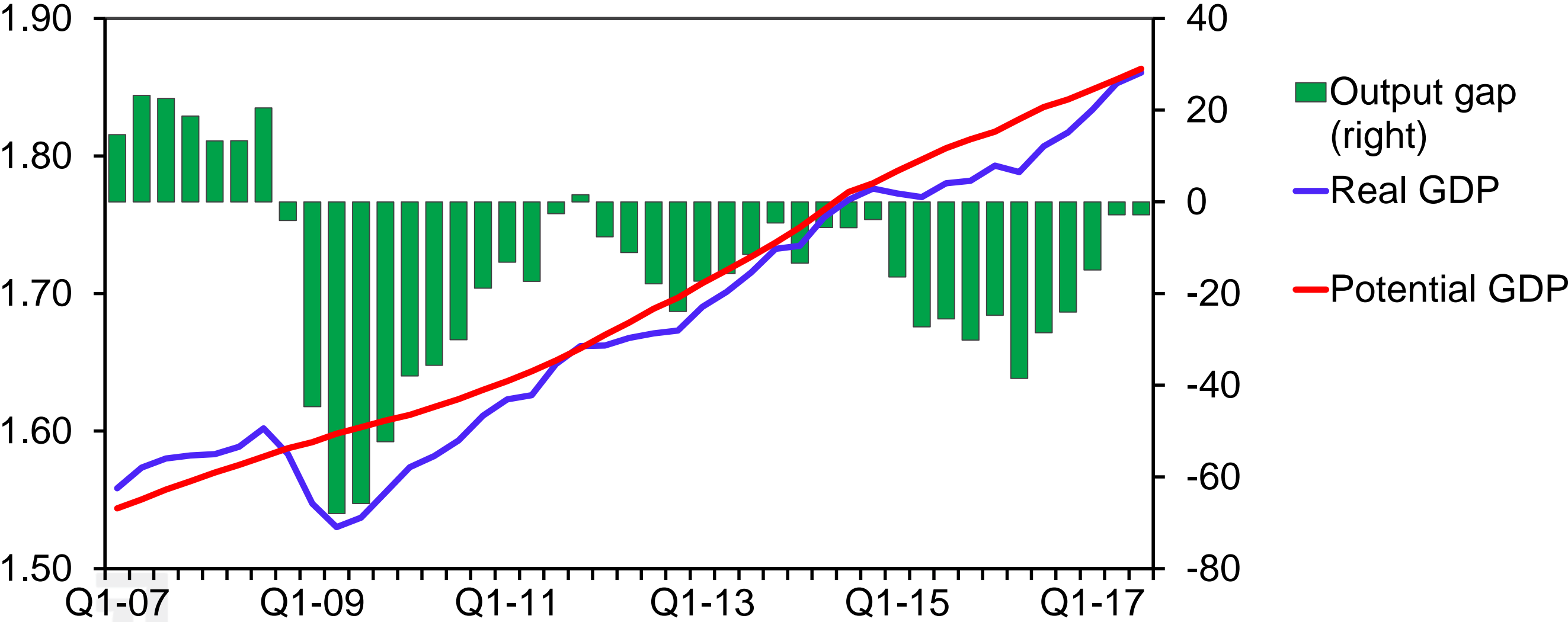
Source: Statistics Canada. Note: Annual averages.

# Economy approaching full capacity

## Actual and Potential GDP: Canada

Chained 2007 dollars – trillions

Chained 2007 dollars - billions



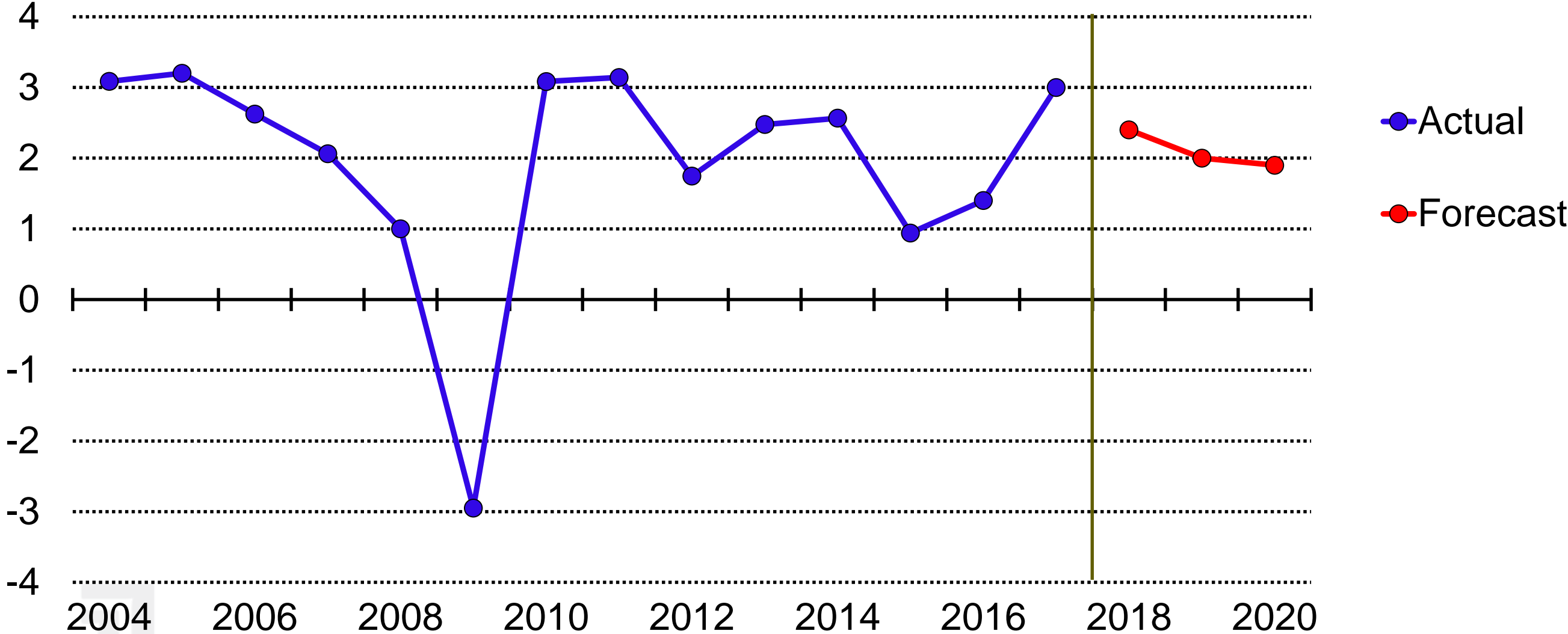
Source: Statistics Canada, Bank of Canada.

Latest: Q3-17

# Growth slows from oil-recession rebound

## Canada Economic Growth

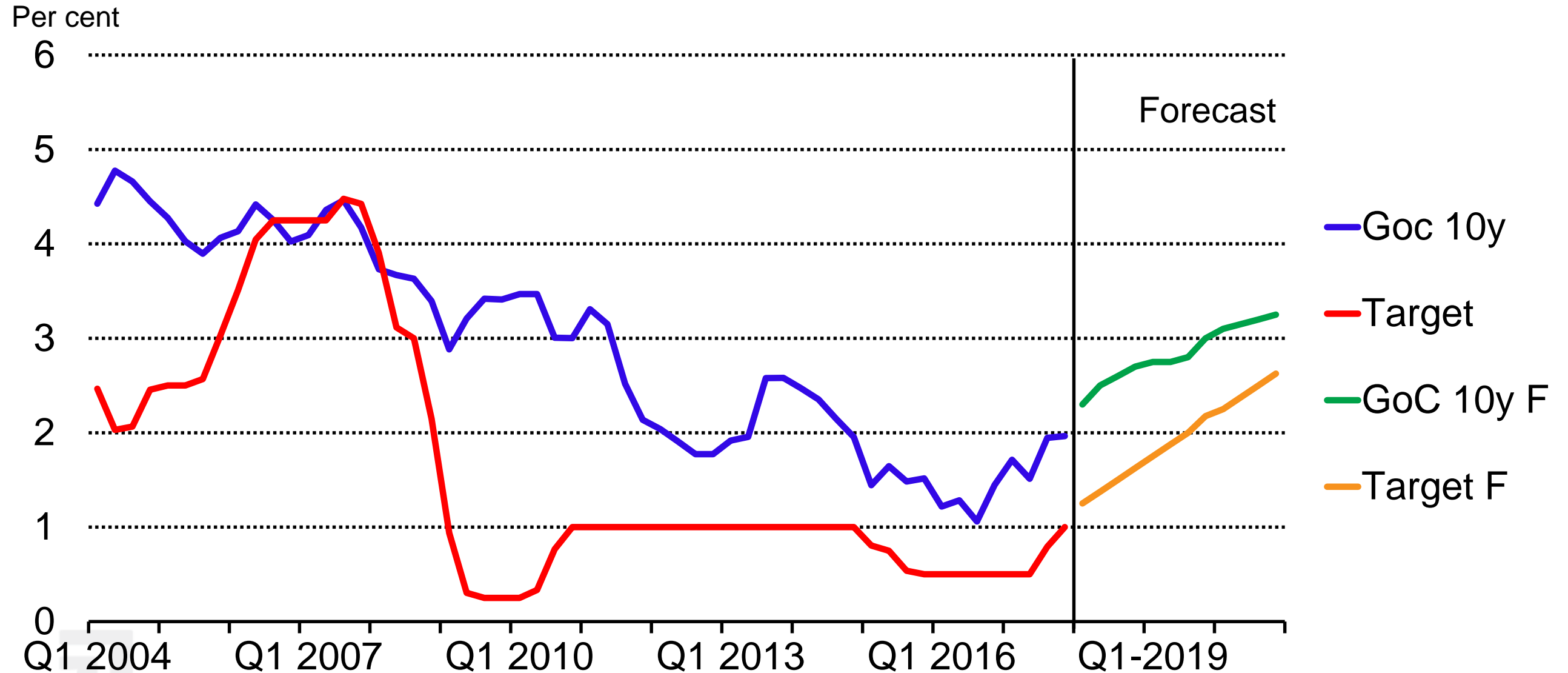
Per cent change in real GDP



Source: Statistics Canada, Central 1 Credit Union. Note: 2017 estimated, 2018 to 2020 forecast.

# Higher interest rates ahead

## Bank of Canada Target and 10y GoC Bond Yield



Source: Bank of Canada, Central 1 Credit Union. Latest actual: Q4 2017. Forecast Q1 2018 to Q4 2020.

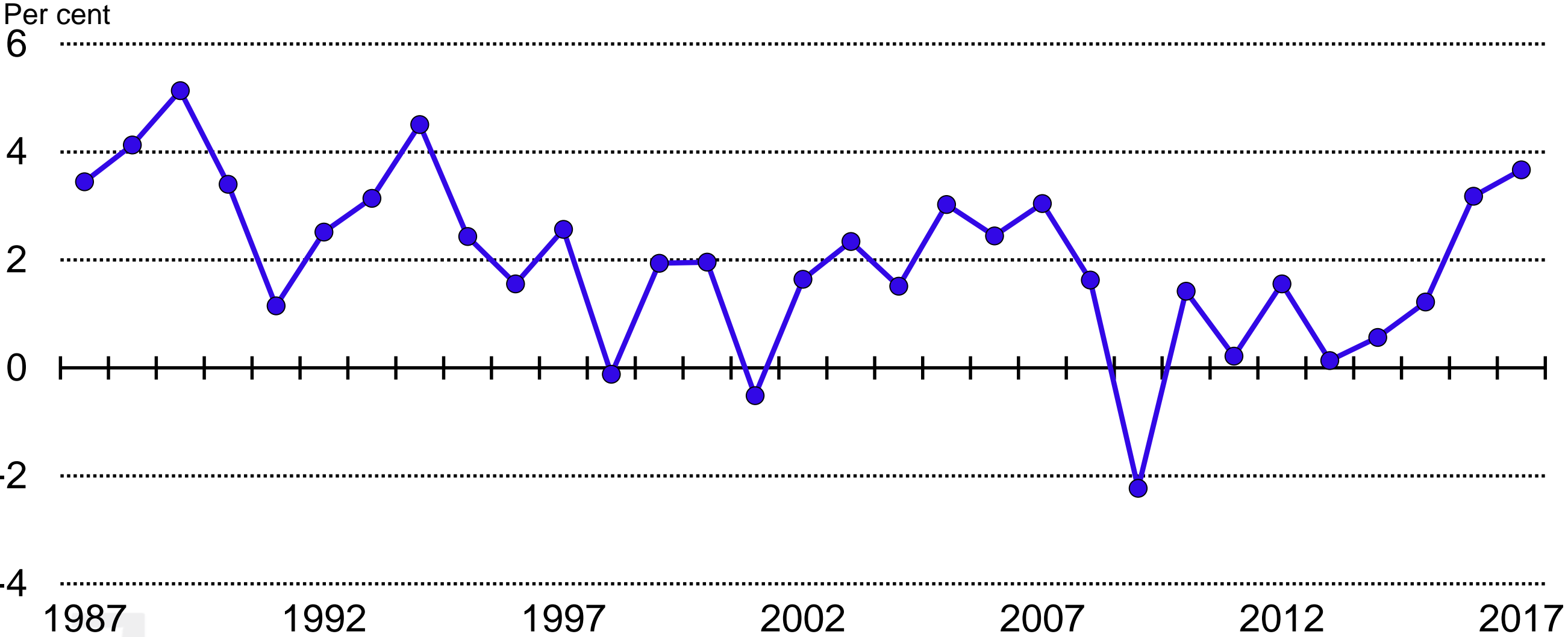


# NAFTA:

- After six negotiation rounds no significant progress
  - Round seven in March, additional round likely
  - Contentious items – rules of origin, dispute settlement, supply management, procurement, sunset clause
- If negotiations fail:
  - President issues written notice of withdrawal
  - Six month notice period
  - Congressional approval required?
  - Revert to CUSFTA or WTO MFN tariffs in effect?

# High growth past two years

## Employment Growth: British Columbia

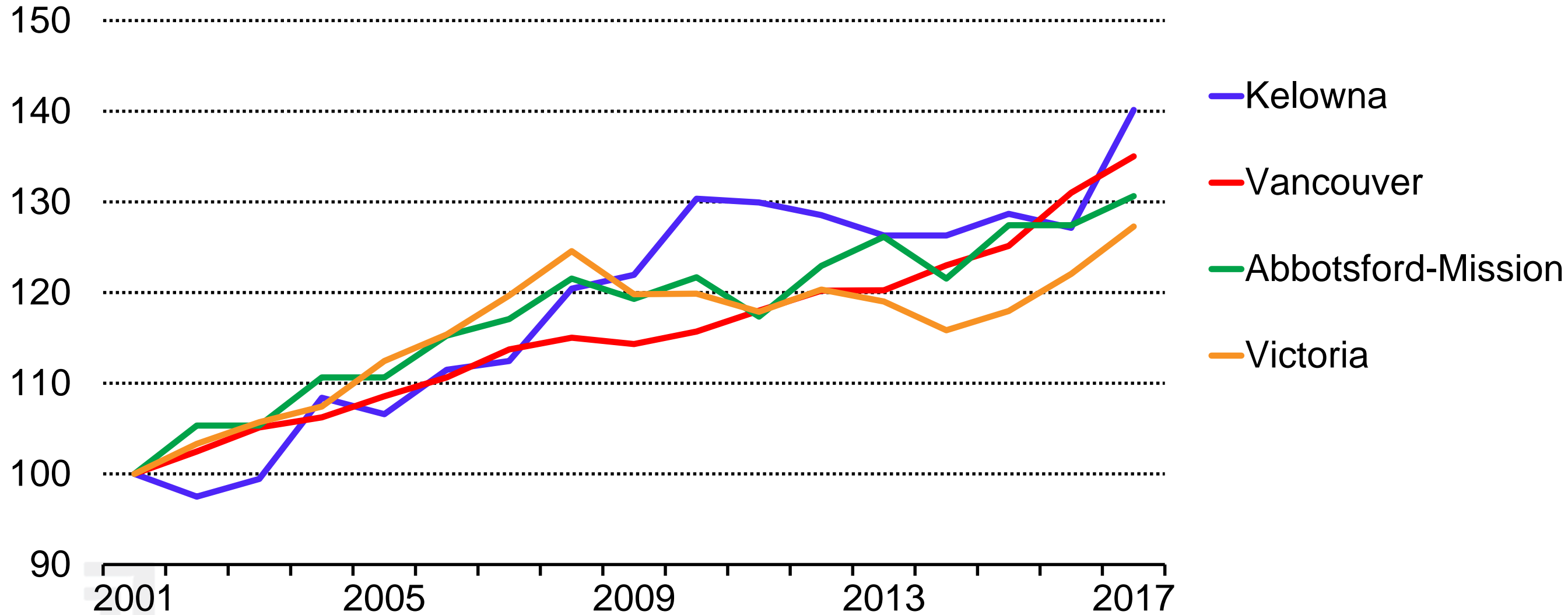


Source: Statistics Canada

# Growth occurring in all metro areas

## Employment Trends: B.C. Metro Areas

2001 = 100

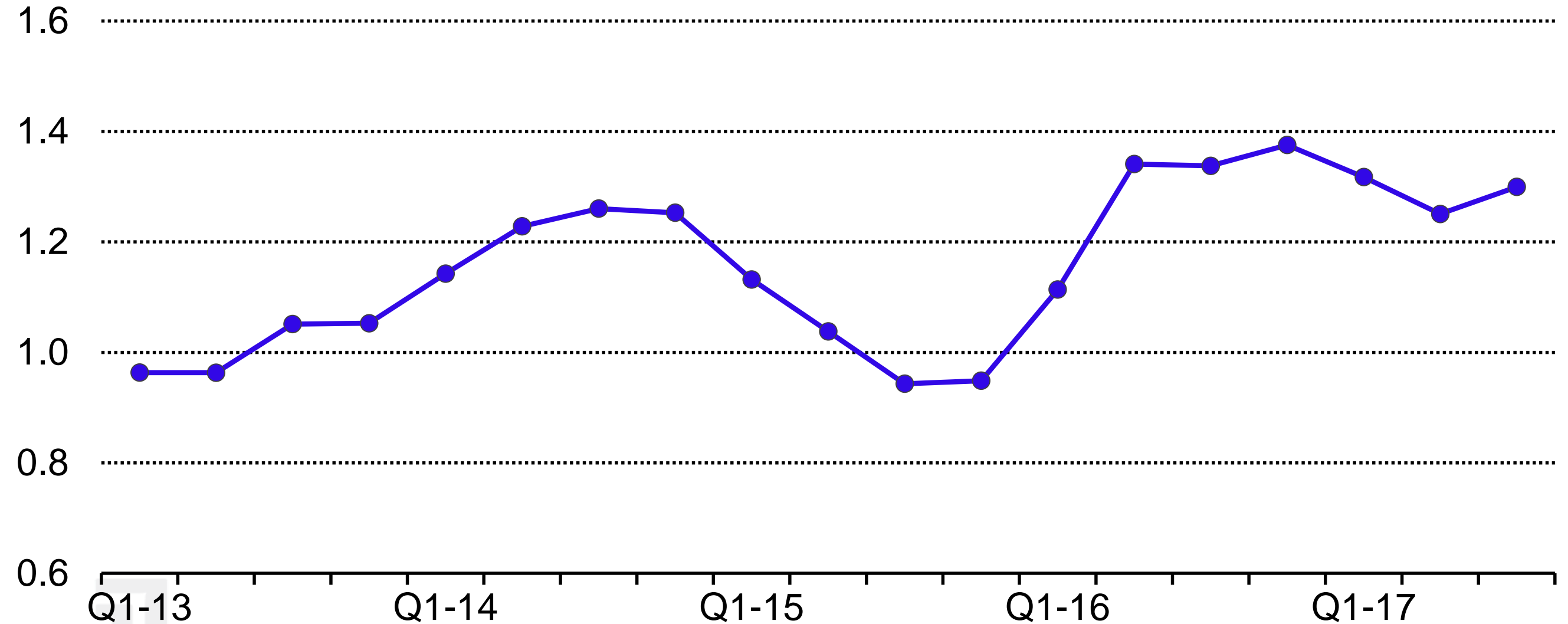


Source: Statistics Canada, Central 1 Credit Union.

# Growth holds up

## Population Growth Quarterly: British Columbia

Per cent change y/y



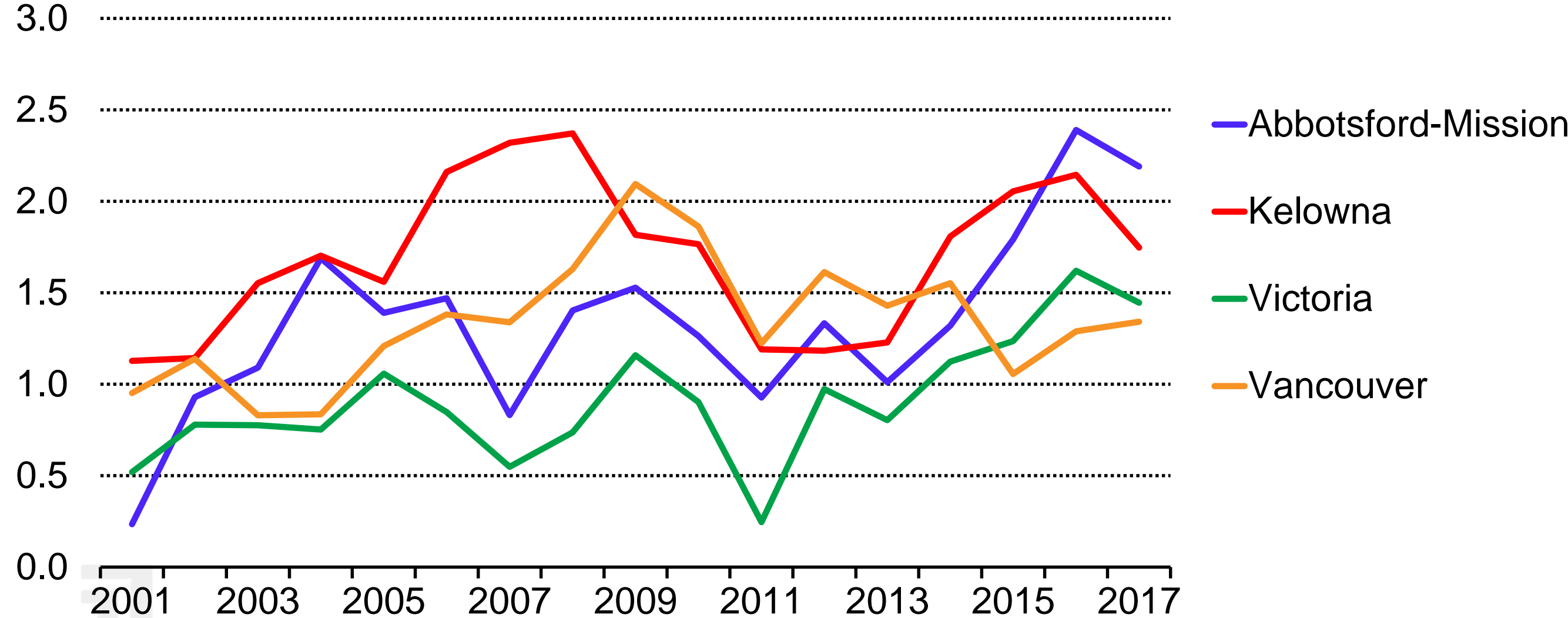
Source: Statistics Canada, Central 1 Credit Union.

Latest: Q3-17

# Growth at robust pace

## Population Growth: B.C. Metro Areas

Per cent change

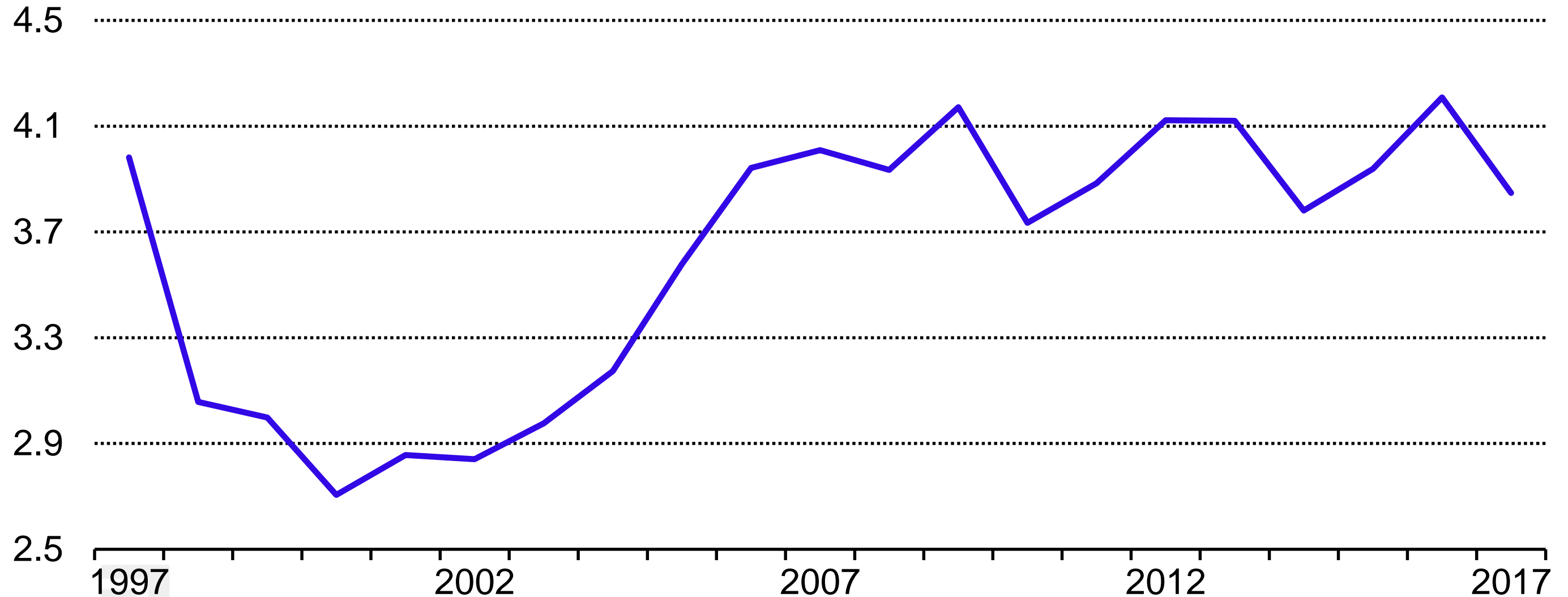


Source: Statistics Canada, Central 1 Credit Union. Note: Population as of July 1. Latest estimates are preliminary.

# Range-bound spending since recession

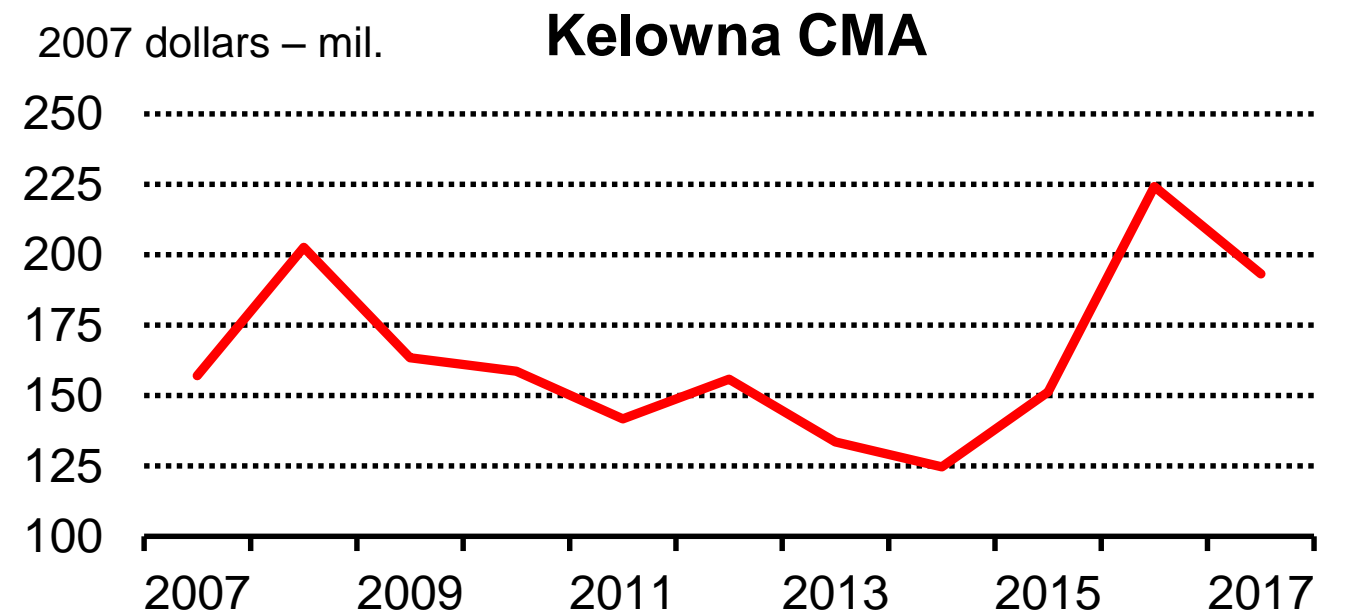
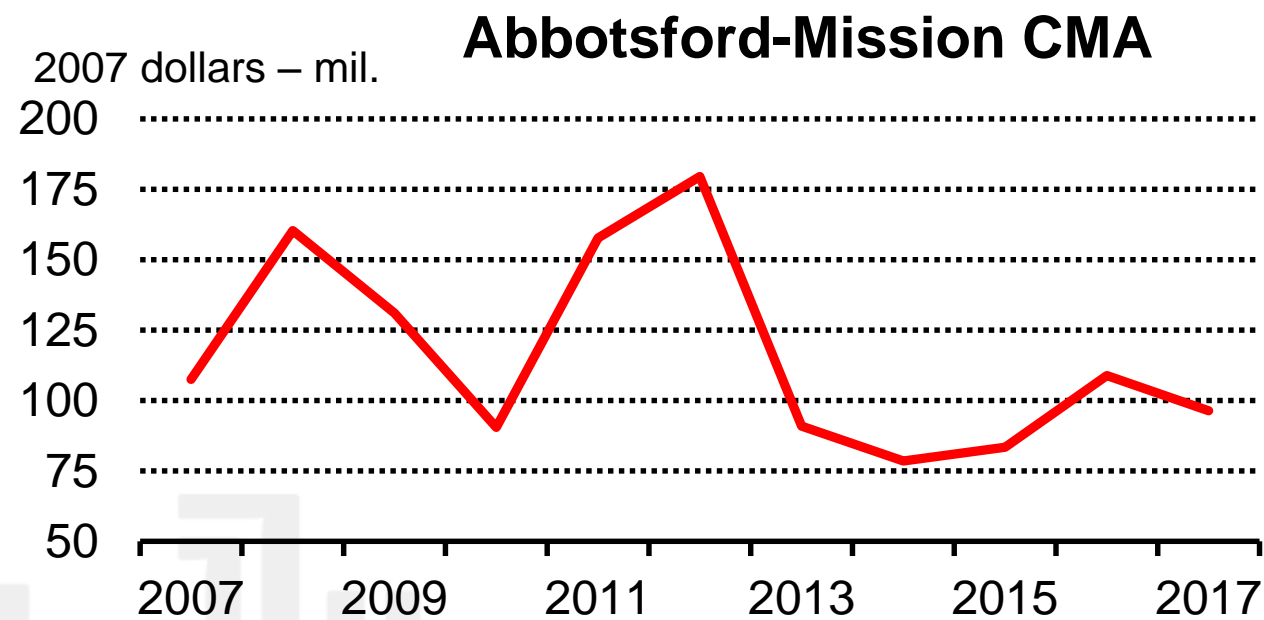
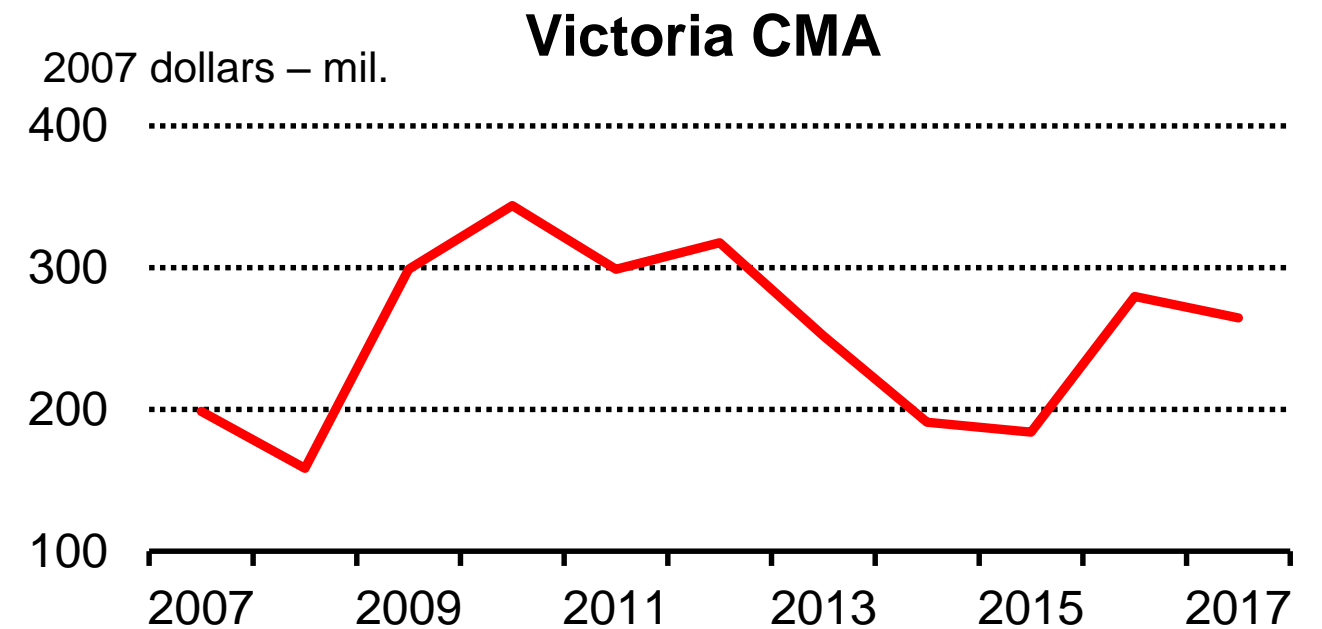
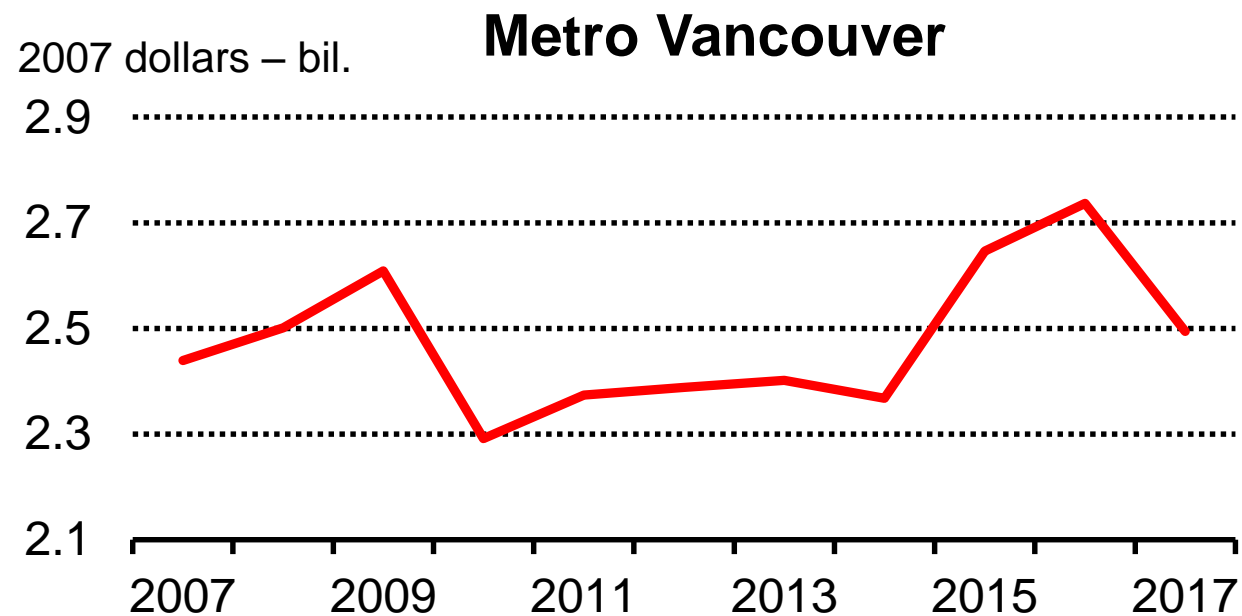
## Private Real Non-residential Building Construction Investment: B.C.

2007 dollars - billions



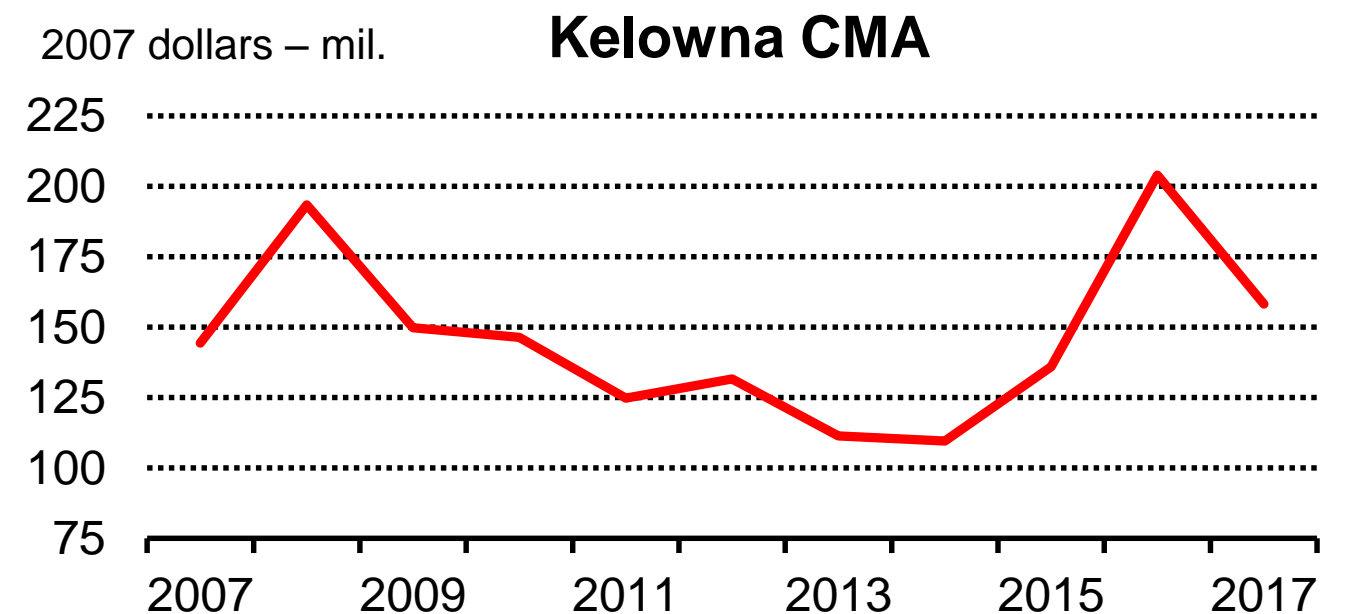
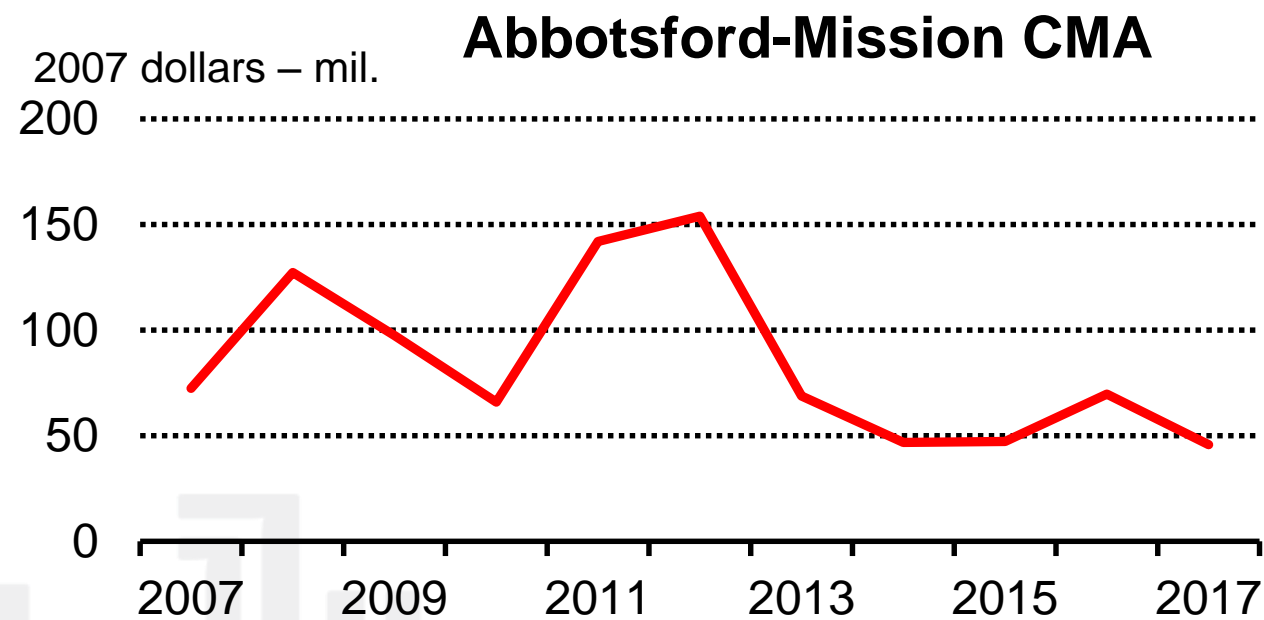
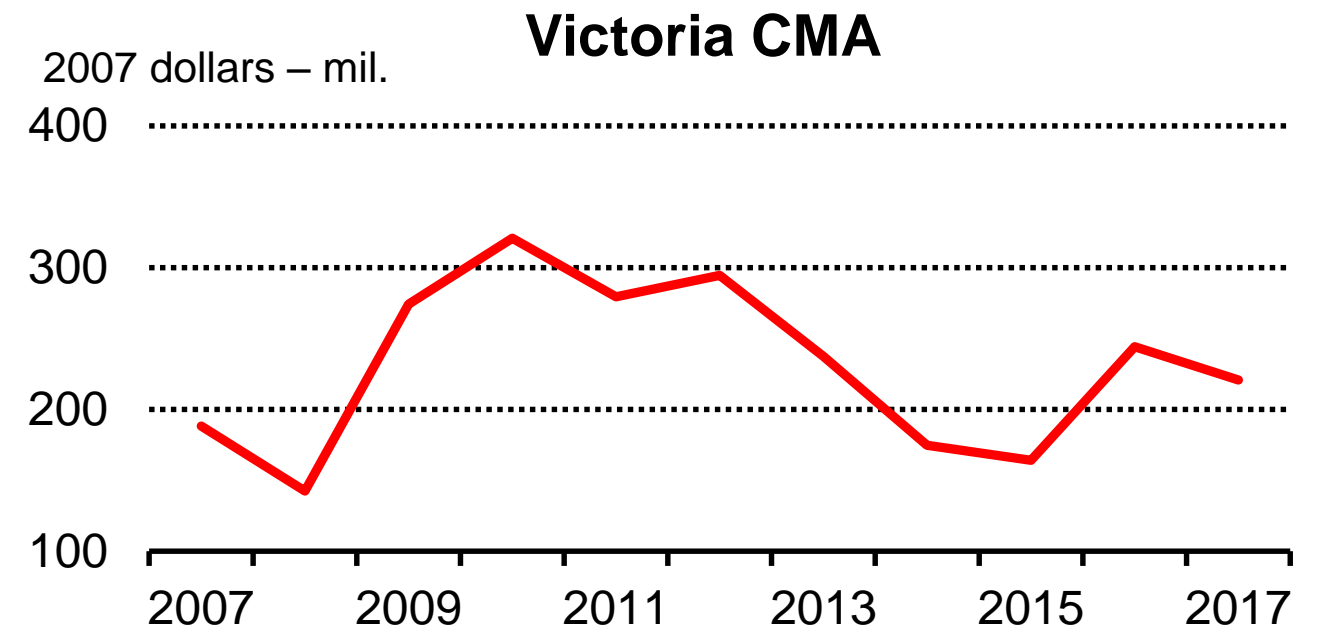
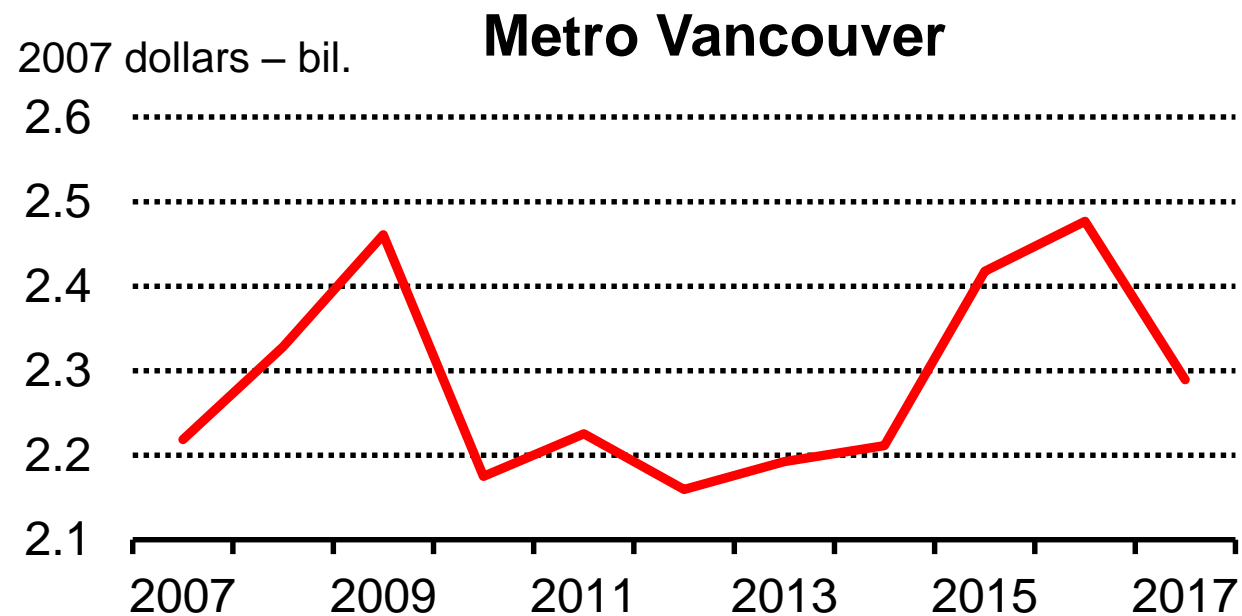
Source: Statistics Canada. Note: Private includes commercial and industrial.

# Private real non-residential building: B.C. metro areas



Source: Statistics Canada. Note: Private includes commercial and industrial.

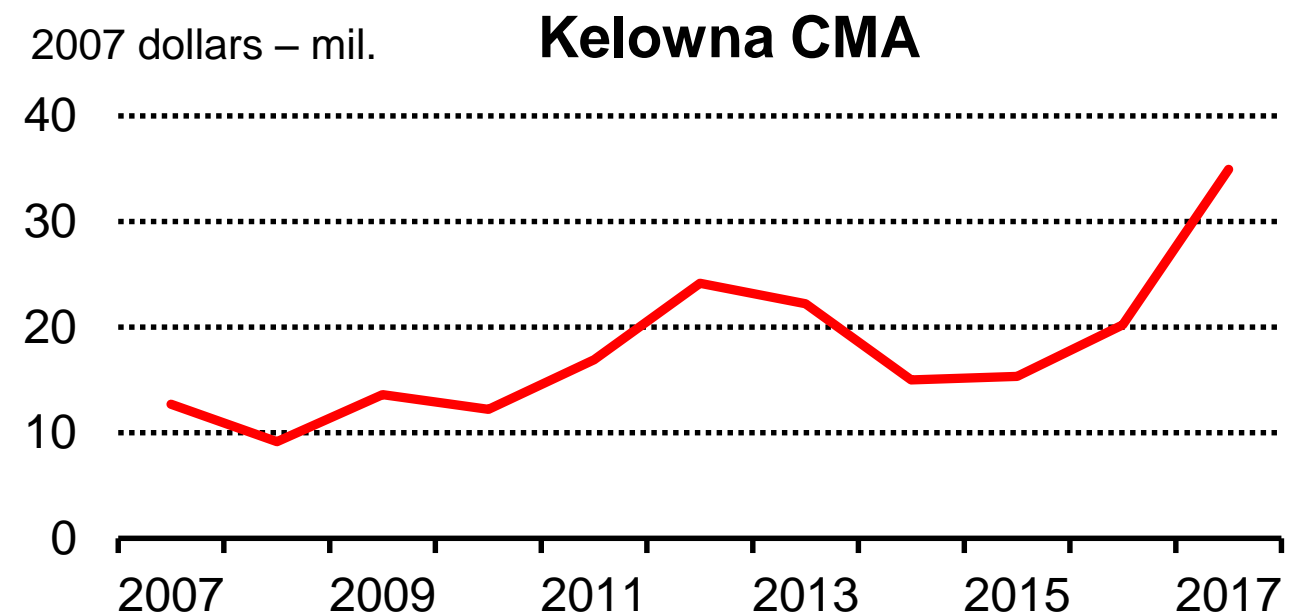
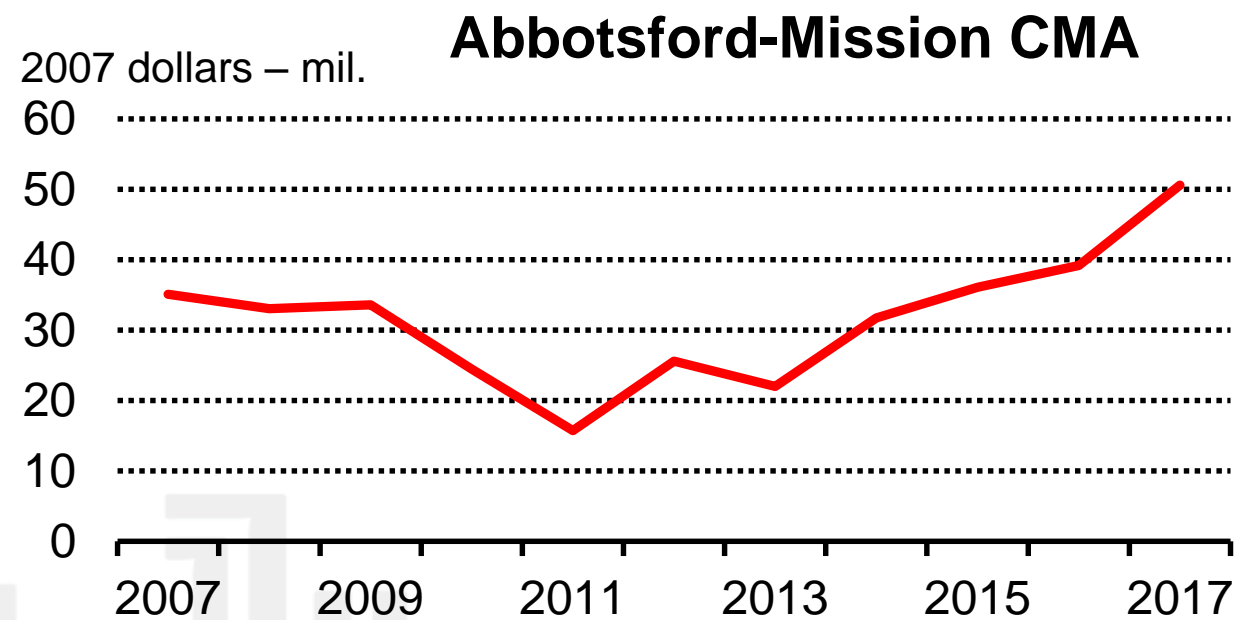
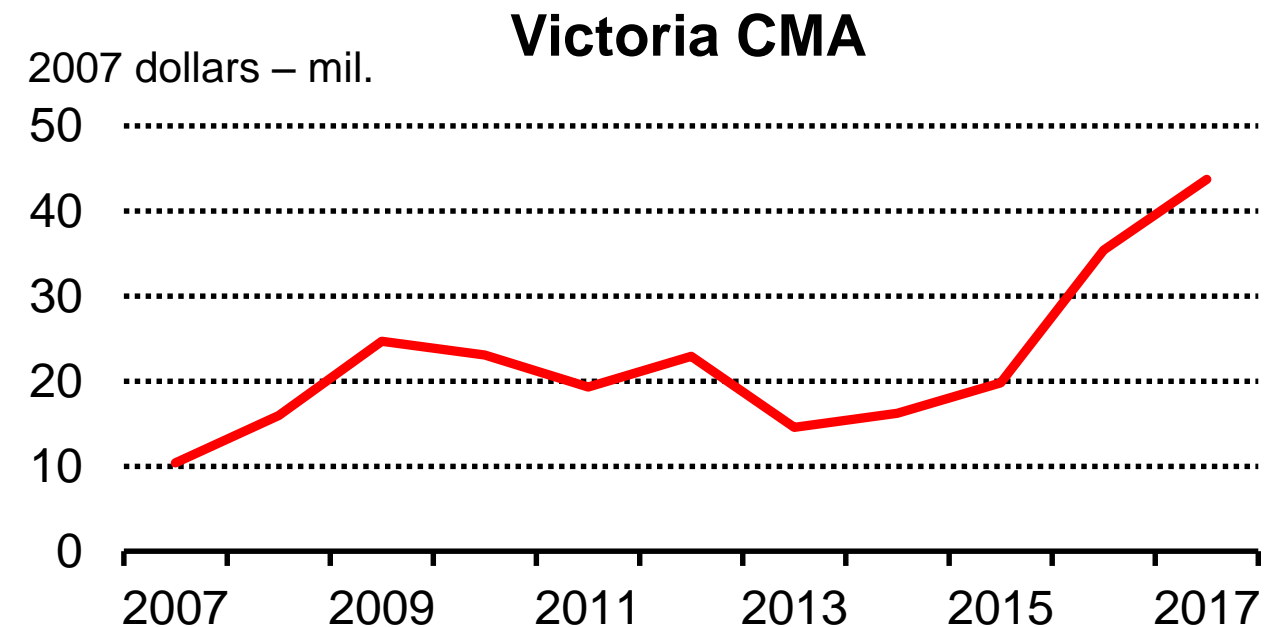
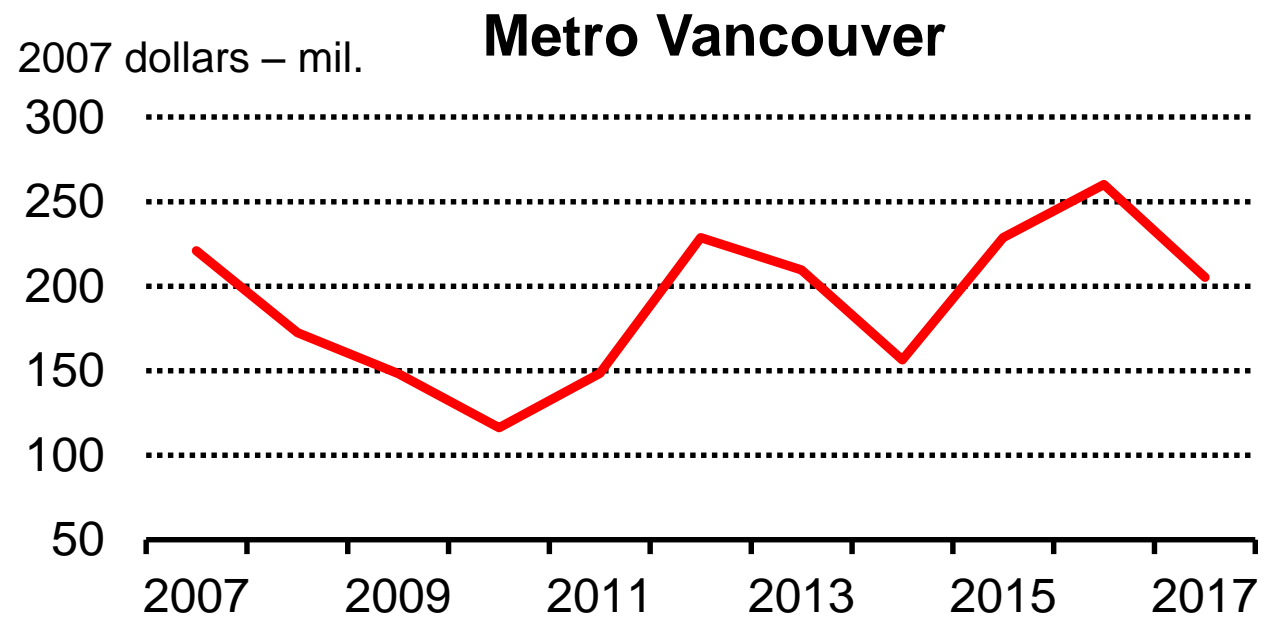
# Real commercial non-res. building: B.C. metro areas



Source: Statistics Canada. Note: Includes offices, hotels, warehouses, retail, restaurants, improvements



# Real industrial non-res. building: B.C. metro areas

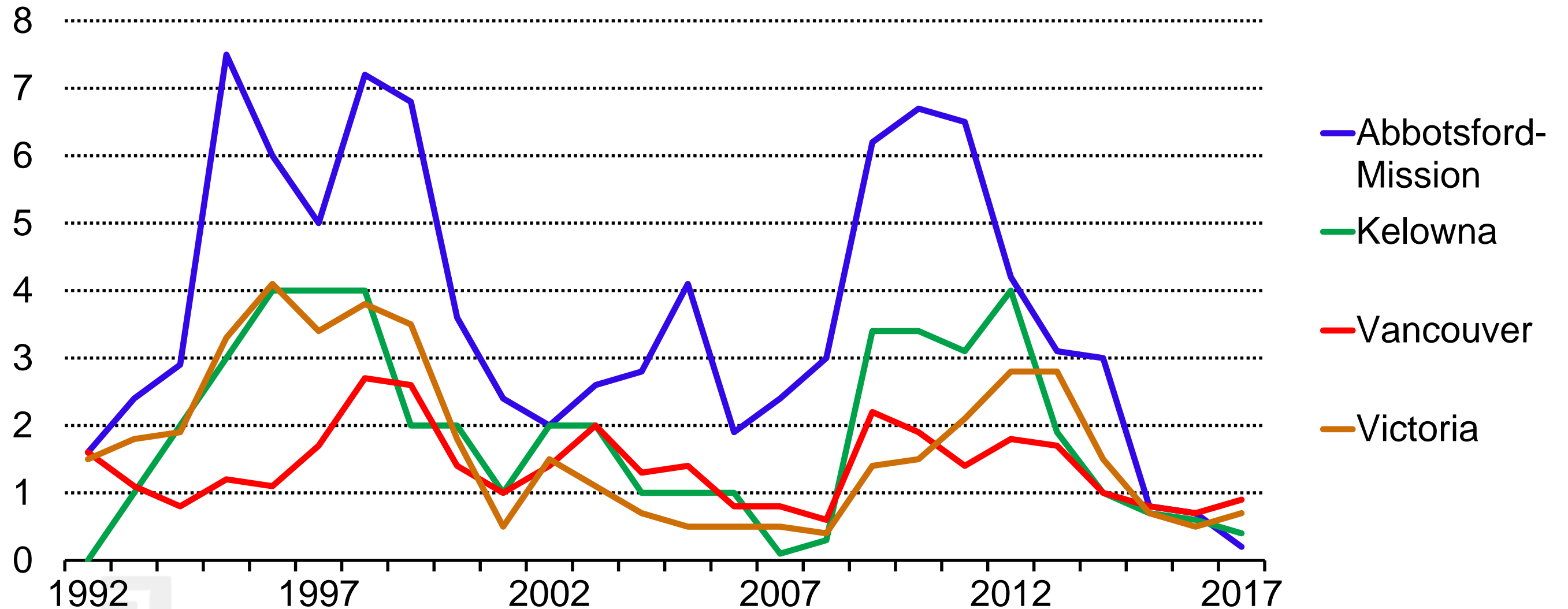


Source: Statistics Canada. Note: Includes factories, plants, transportation, utilities, mining, agriculture, improvements.

# Vacancy rates at cycle lows

## Rental Vacancy Rates: British Columbia Metro Areas

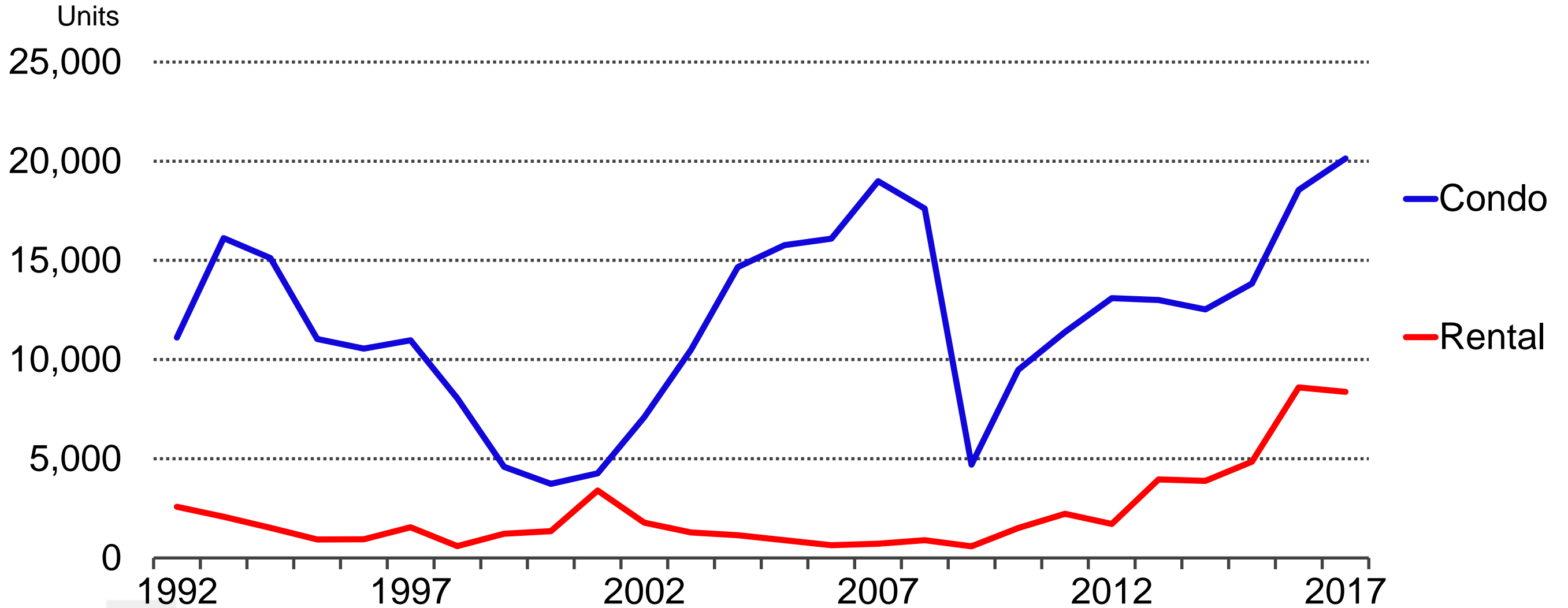
Units - thousands



Source: CMHC. Note: Private apartment and row structures, three units and over. As of October.

# Starts surge last two years

## Rental and Condominium Housing Starts: B.C. Metro Areas

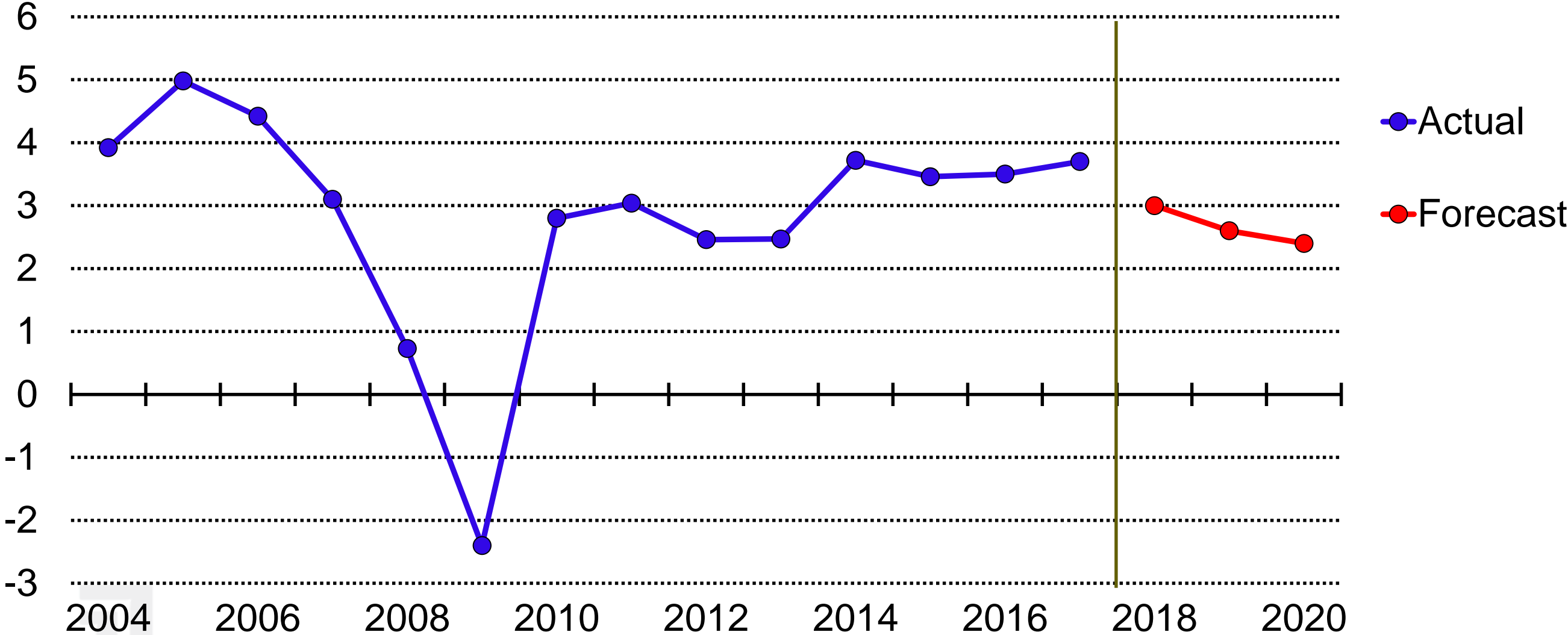


Source: CMHC.

# Mild overall growth slowdown in the offing

## B.C. Economic Growth

Per cent change in real GDP

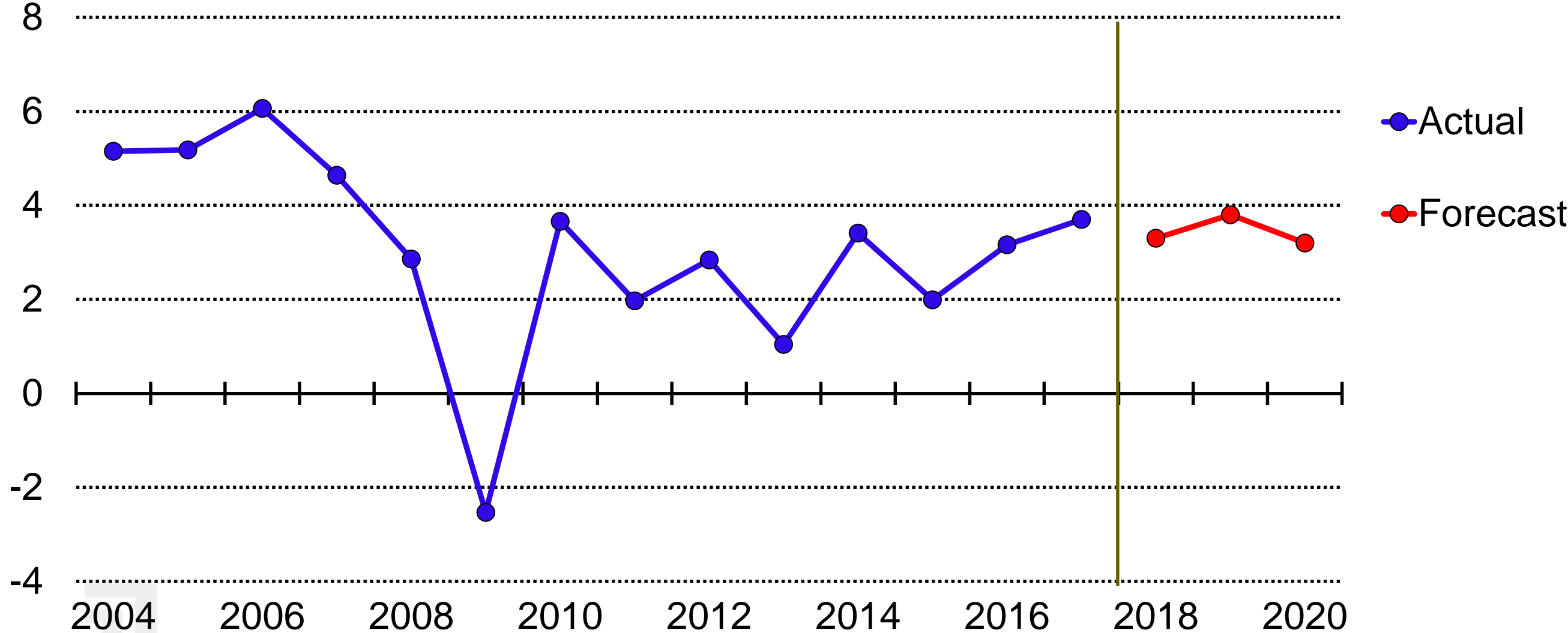


Source: Statistics Canada, Central 1 Credit Union. Note: 2017 estimated.

# Strong domestic demand

## B.C. Final Domestic Demand Growth

Per cent change in real final domestic demand

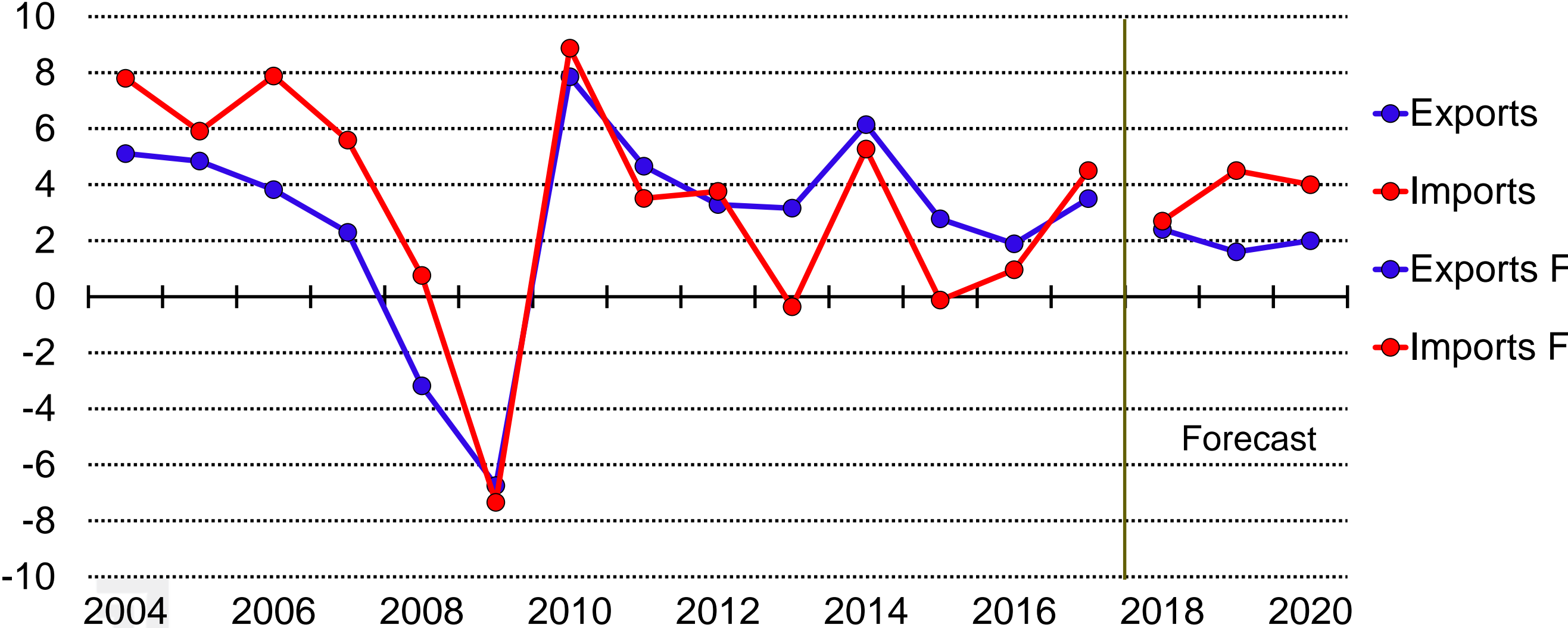


Source: Statistics Canada, Central 1 Credit Union. Note: 2017 estimated.

# Weaker trade performance

## B.C. Real Export and Import Growth

Per cent change



Source: Statistics Canada, Central 1 Credit Union. Note: 2017 estimated.

## Medium term risks:

- Geopolitical – North Korea, Iran Nuclear Deal, Middle East, Ukraine, South China Sea,...
- Trade policy – NAFTA, U.S.-China: U.S. duties on steel, aluminum, solar panels, etc.; China duties on sorghum, chicken products, etc.; intellectual property theft and forced technology transfers; tit-for-tat trade restrictions?
- Monetary, fiscal policy mistake

# Scenario for end of current housing market cycle:

## Economic recession or crisis event

- Economic recessions in 1957, 1960, 1974, 1982, 1990, 2008; housing recessions occurred in each instance.
- Price corrections varied from -10% to -35% depending on severity of economic recession and intensity of price increases.
- 60% probability.



# Scenario for end of current housing market cycle:

## Affordability squeeze, soft-landing

- Housing sales increasingly negatively affected by rising prices, higher mortgage rates, and tighter credit conditions during next two to four years. Additional federal policy tightening measures possible.
- Market balance steadily shifts to buyers; mild price correction.
- 40% probability.

# Long-term uptrend in housing prices

## Residential Median Sale Price: B.C. Metro Areas

Dollars

800,000

600,000

400,000

200,000

0

1976

1986

1996

2006

2016

— Vancouver

— Victoria

— Kelowna

— Abbotsford-  
Mission

Source: Landcor Data Corp.

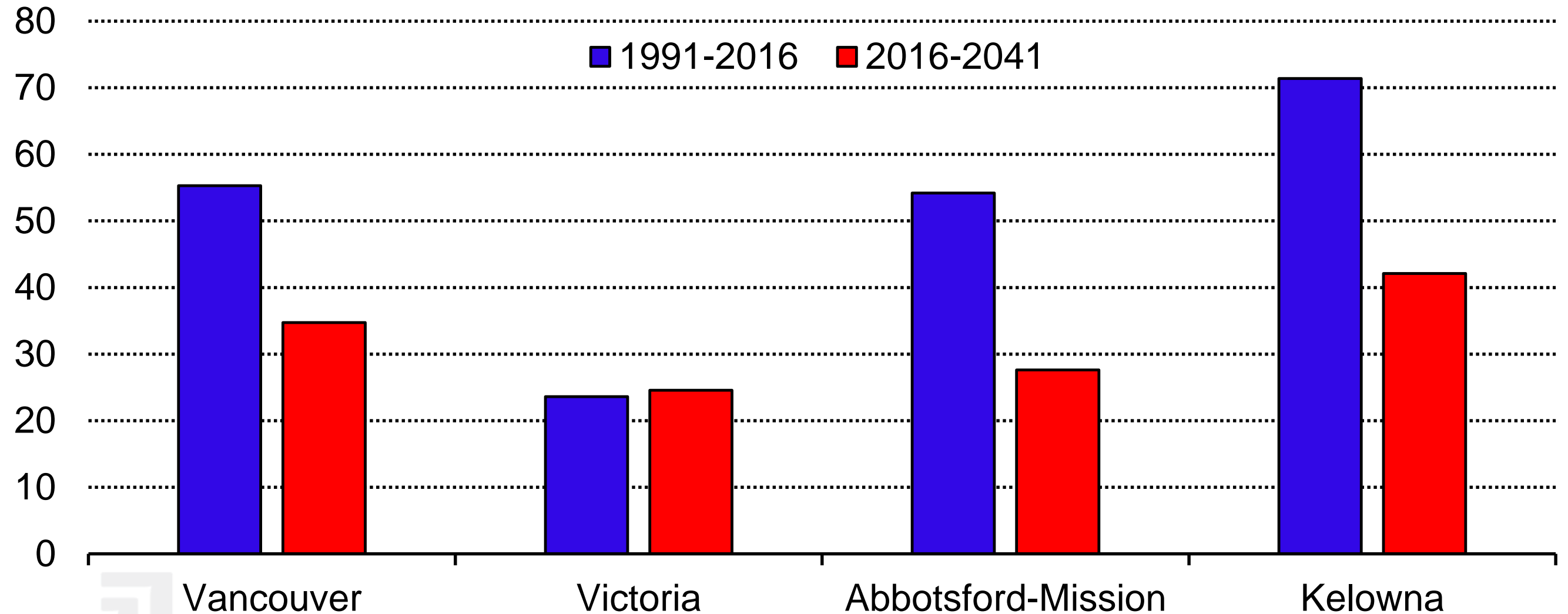
Latest: 2017



# Long-term growth prospects favourable

## Population Growth Projections: B.C. Metro Areas

Per cent change



Source: BC STATS. PEOPLE projection 2017 Aug.

# Beyond the cycle: the longer term to 2041

- Demand growth: High population and household increases
- Land availability is critical supply constraint; densification partial mitigation
- Fundamental demand-supply imbalance prevails.
- Long-term price uptrend continues – prices double next 25 years.
- Further deterioration in home affordability; prices/rents outstrip incomes; relatively more renters and more multi-units.

Thank you