

Regional Economic Update

Kelowna Chamber of Commerce
Kelowna, B.C.

December 15, 2017

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Central 1 Credit Union

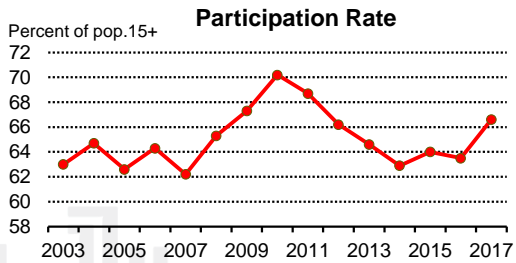


Outline:

- Kelowna economic, population, and housing market trends
- Housing needs from Census 2016
- Global and Canada economic forecasts
- B.C. and Kelowna economic and housing forecasts
- Housing cycle and the long-term



Labour market: Kelowna CMA

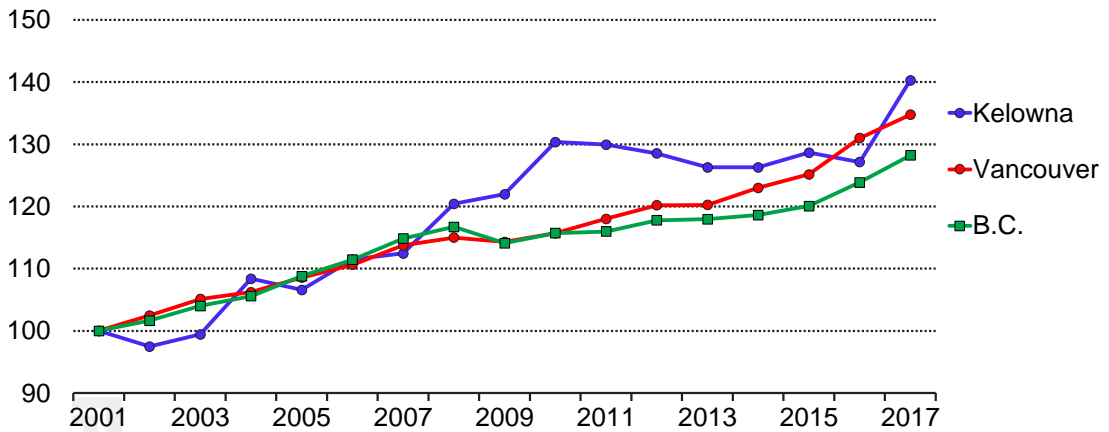


Source: Statistics Canada, Central 1 Credit Union. Note: 2017 is average to November.

Strong gain in 2017 – up 10%

Employment Trends: Kelowna, Vancouver, and B.C.

2001 = 100

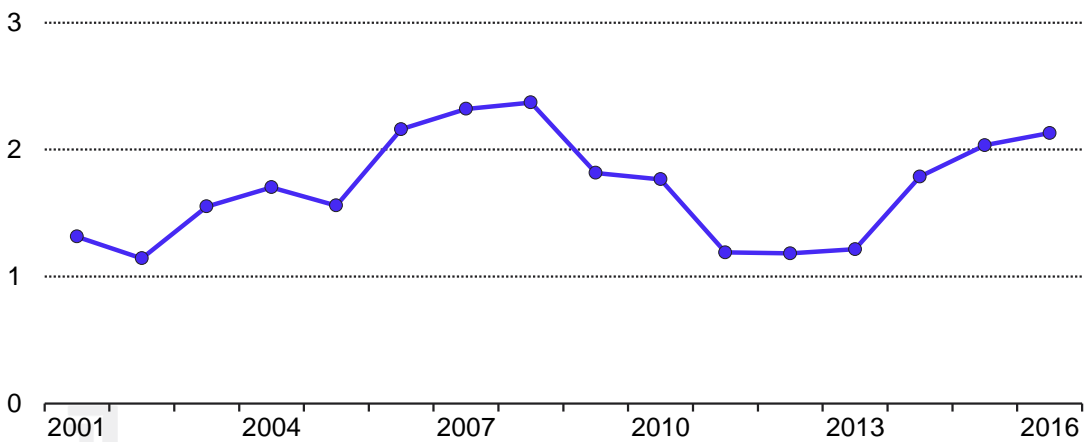


Source: Statistics Canada, Central 1 Credit Union. Note: Kelowna and Vancouver CMA (Census Metropolitan Area).

Growth picking up

Population Trend: Kelowna CMA

Per cent change

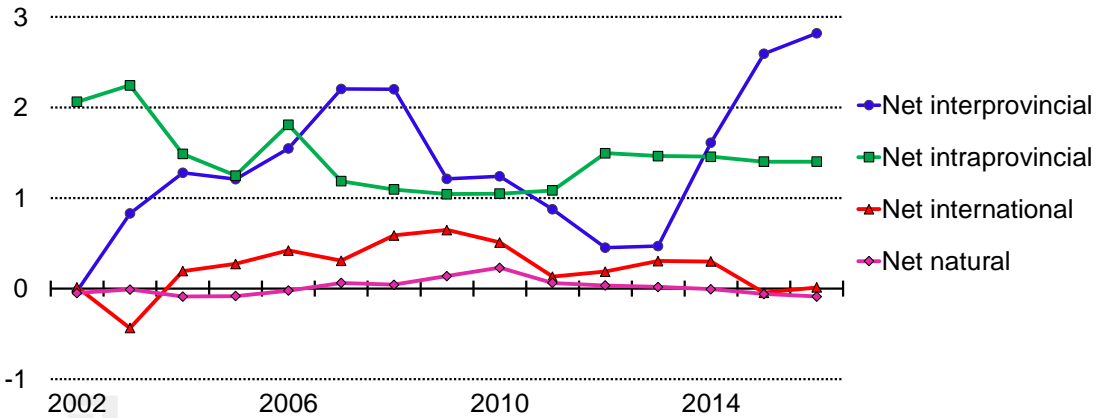


Source: Statistics Canada, Central 1 Credit Union. Note: As of July 1. Latest: 2016

Net migration trending higher

Population Growth Components: Kelowna CMA

Persons - thousands

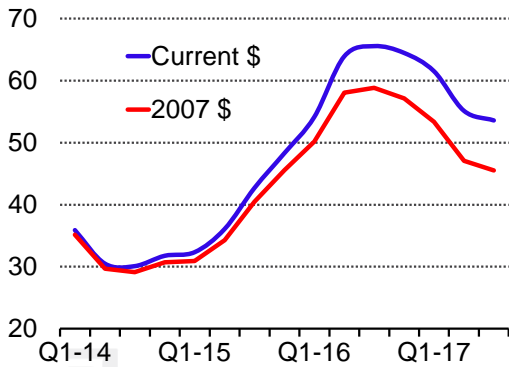


Source: Statistics Canada, Central 1 Credit Union. Note: As of July 1. Latest: 2016

Easing investment trend

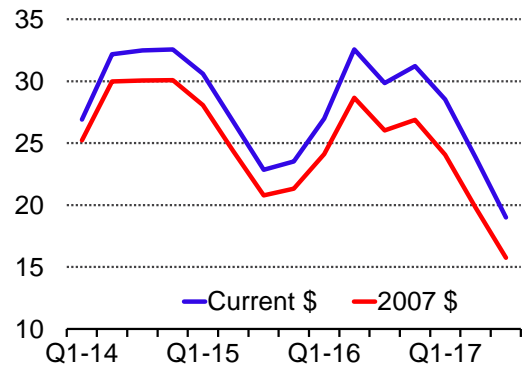
Private Non-residential Building Const.
Investment: Kelowna CMA

Dollars - millions



Public Non-residential Building Const.
Investment: Kelowna CMA

Dollars- millions

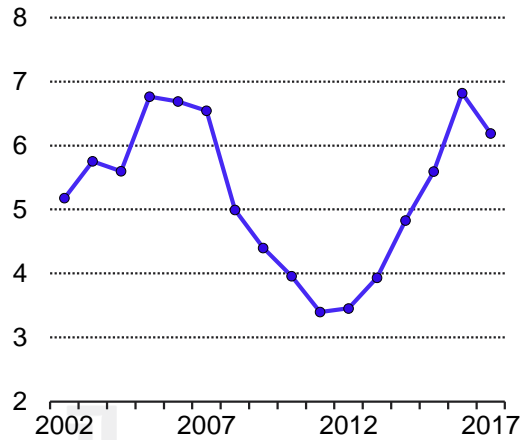


Source: Statistics Canada. Note: Seasonally adjusted. Latest: Q3-17

Cyclical upturn in housing

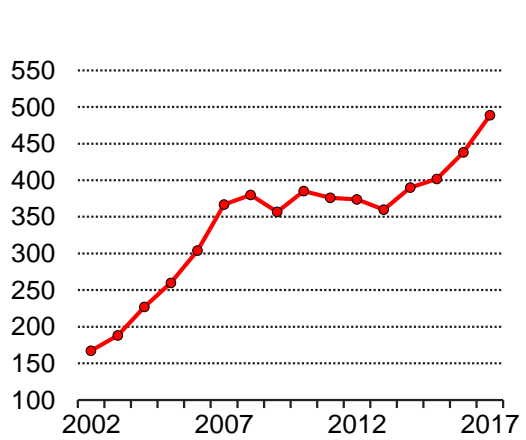
Residential Sales: Kelowna CMA

Units - thousands



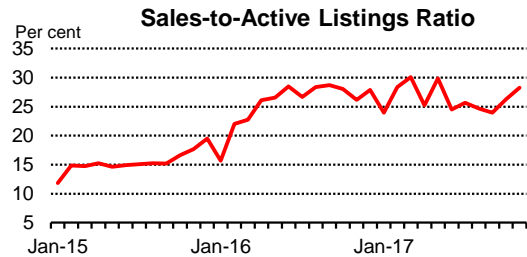
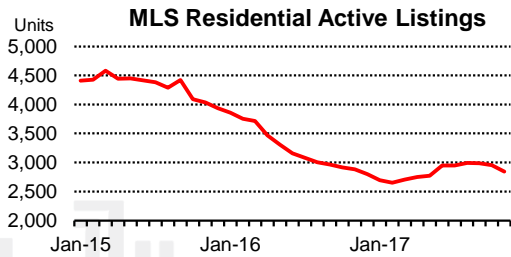
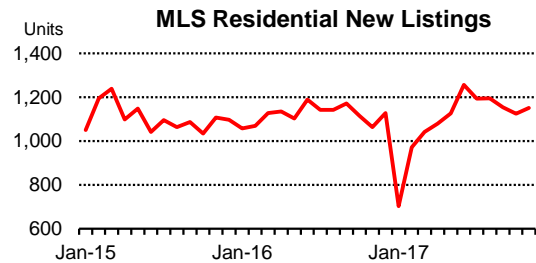
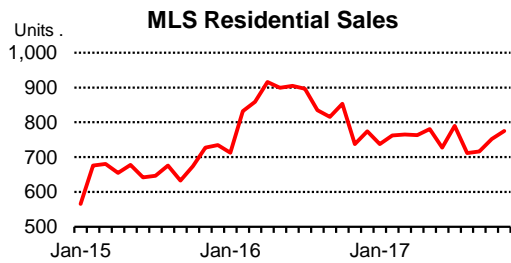
Median Sale Price: Kelowna CMA

Dollars - thousands



Source: Landcor Data Corp., Central 1 Credit Union Note: Arms-length transactions.

Housing market trends: Okanagan-Mainline REB

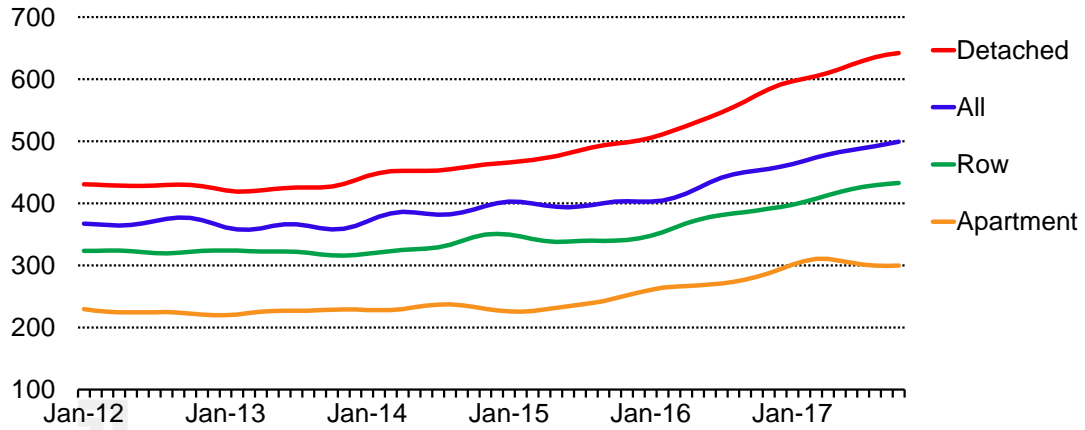


Source: CREA, BCREA, Central 1 Credit Union. Note: Seasonally adjusted. Latest: Nov-17

Prices rising

Median Sale Prices: Kelowna CMA

Dollars - thousands

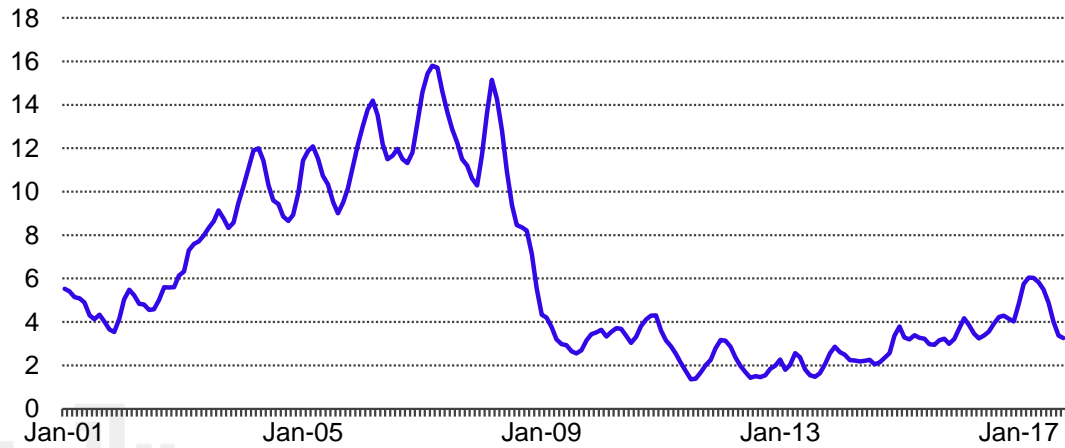


Source: Landcor Data Corp., Central 1 Credit Union. Note: Seasonally adjusted. Latest: Oct-17

Low speculative activity

Holding Period Flipping Indicator: Kelowna CMA

Per cent of sales held for less than one year



Source: Landcor Data Corp., Central 1 Credit Union.

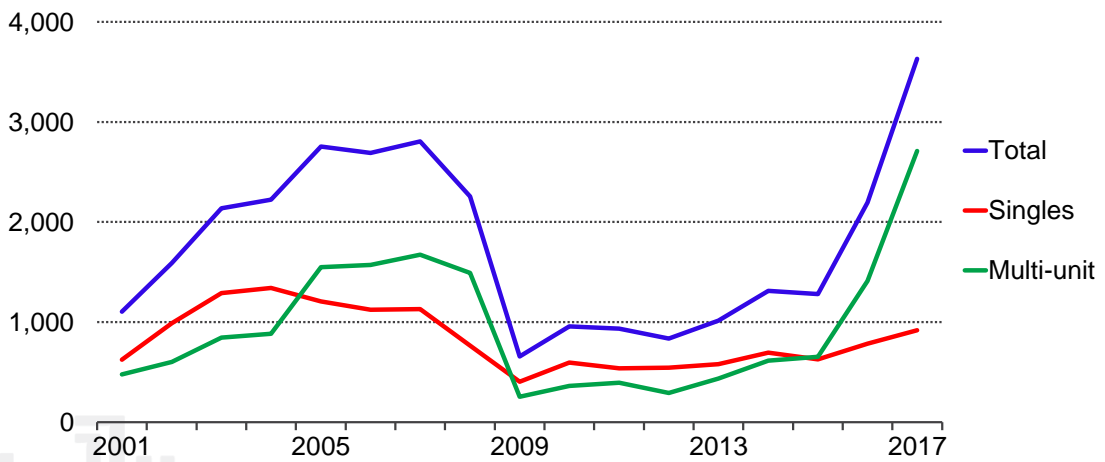
Latest: Oct-17

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Sharp upturn in 2017

Housing Starts: Kelowna CMA

Units

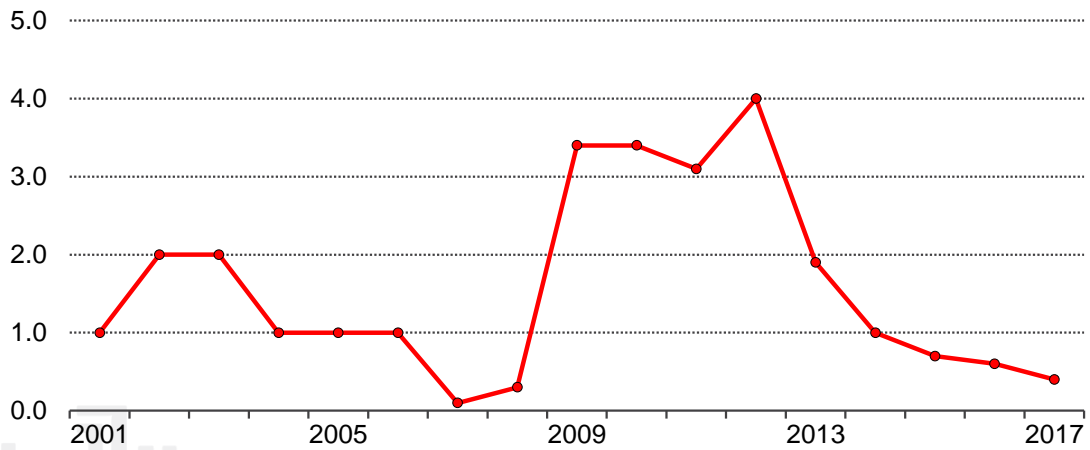


Source: CMHC. Note: 2017 is 12 months ending November.

Rental market tight

Rental Vacancy Rate: Kelowna CMA

Per cent



Source: CMHC. Note: Private row and apartment structures three units or more. As of October.

Affordability is greatest housing need

Housing need measures – Kelowna CMA	
Measure	2016
Unaffordable – all households	26.2%
Owner households	18.8%
Renter households	45.9%
Unsuitable	2.8%
Inadequate	4.5%
Source: Statistics Canada Census 2016, CMHC.	



Affordability is greatest housing need

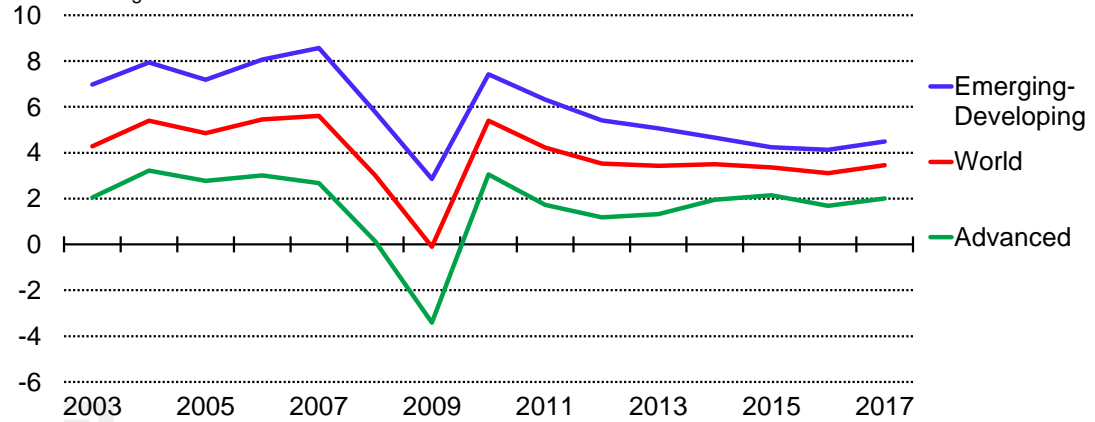
Core housing need by housing tenure: Kelowna CMA			
	Count	% Dist	Rate
Total – households in core need	7,435	100.0	10.2%
Unaffordable	6,265	84.3	8.6%
Unsuitable	105	1.4	0.1%
Inadequate	145	1.9	0.2%
Below three standards	920	12.4	1.3%
Source: Statistics Canada Census 2016, CMHC.			



Slowdown ended in 2016; firming growth in 2017

Economic Growth: World, Emerging-Developing, and Advanced Economies

Per cent change in real GDP



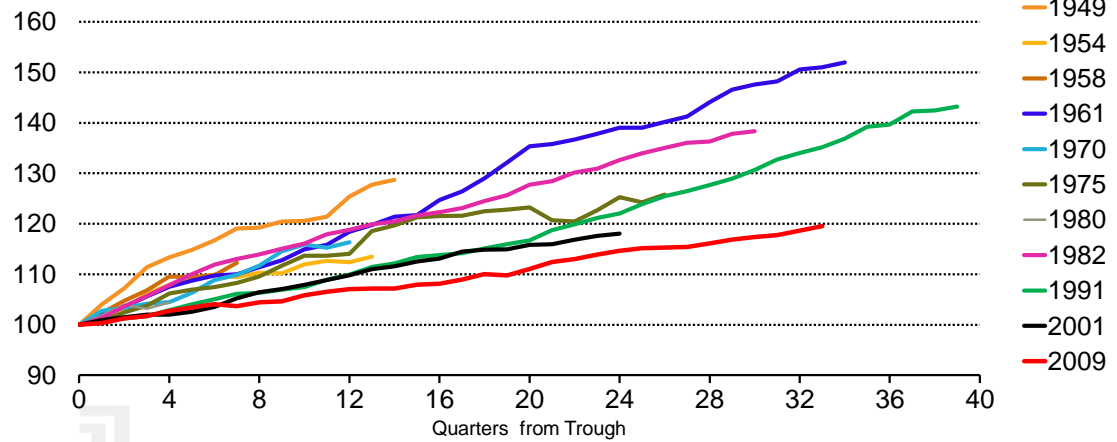
Source: IMF WEO Jul. 2017.

Latest: 2016 actual, 2017 forecast.

Current U.S. recovery is weakest in post-war era

Economic Recoveries: U.S.

Real GDP = 100 at cycle trough



Source: U.S. BEA, Central 1 Credit Union. Latest in 2009 recovery is Q3-2017.



Global growth upshift to continue

Key External Economic Forecasts					
Real GDP, % change	2015	2016	2017	2018	2019
World	3.4	3.2	3.6	3.8	3.7
United States	2.4	1.6	2.5	2.5	2.2
Japan	1.2	1.0	1.5	1.3	0.8
China	6.9	6.7	6.8	6.4	6.2
European Union	1.9	1.9	2.2	1.9	1.8
EM & DEs	4.3	4.3	4.6	4.9	5.0

Source: IMF Oct. 2017, Consensus Forecasts, Nov. 2017. Note: EM & DEs = Emerging Markets and Developing Economies.



Moderate growth ahead; gradual rate increases

Economic Forecasts: Canada					
Indicator	2015	2016	2017	2018	2019
Nominal GDP, % change	0.2	2.1	5.9	4.5	4.8
Real GDP, % change	0.9	1.5	3.2	2.2	2.1
Employment, % change	0.8	0.7	1.8	1.2	1.0
Unemployment rate, %	6.9	7.0	6.4	6.0	5.7
3-mo. T-bill rate, %	0.53	0.49	0.70	1.13	1.40
10-y GoC bond, %	1.52	1.25	1.95	2.20	2.50
U.S.- Canada FX, cents	78.2	75.4	77.1	77.8	78.3

Source: Statistics Canada, Central 1 Credit Union. Note: Annual averages.

Positive outlook; mild housing drag

B.C. Economic and Housing Forecasts					
Indicator	2015	2016	2017	2018	2019
Nominal GDP, % change	3.9	4.8	6.9	5.6	5.1
Real GDP, % change	3.5	3.5	3.7	2.7	2.6
Employment, % change	1.2	3.2	3.7	2.3	1.3
Unemployment rate, %	6.2	6.0	5.3	5.2	4.8
Population, % change	1.0	1.2	1.3	1.2	1.1
Housing sales, % change	21.6	15.1	-4.0	-3.5	-2.3
Median price, % change	7.3	8.4	7.5	5.0	3.2
Housing starts, 000s	31.4	41.8	40.9	40.1	39.6

Source: Statistics Canada, Landcor Data Corp., Central 1 Credit Union Nov. 2017



Improving prospects

Kelowna CMA Economic and Housing Forecasts					
Indicator	2015	2016	2017	2018	2019
Employment, % chg.	1.9	-1.2	10.0	-3.5	1.5
Unemployment rate, %	5.6	8.0	5.5	6.5	5.5
Population, % chg.	3.2	4.0	4.5	4.0	4.0
Housing sales, % chg.	15.6	21.7	-6.0	-5.3	-1.9
Housing price ¹ , % chg.	3.9	9.6	8.5	3.8	2.5
Housing starts, % chg.	-2.4	71.6	65.0	20.0	10.0

Source: Statistics Canada, Landcor Data Corp, Central 1 Credit Union. 1. Median sale price.



Scenario for end of current housing market cycle:

- Economic recession or crisis event:
- Notable economic recessions occurred 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.
- 70% probability.



Scenario for end of current housing market cycle:

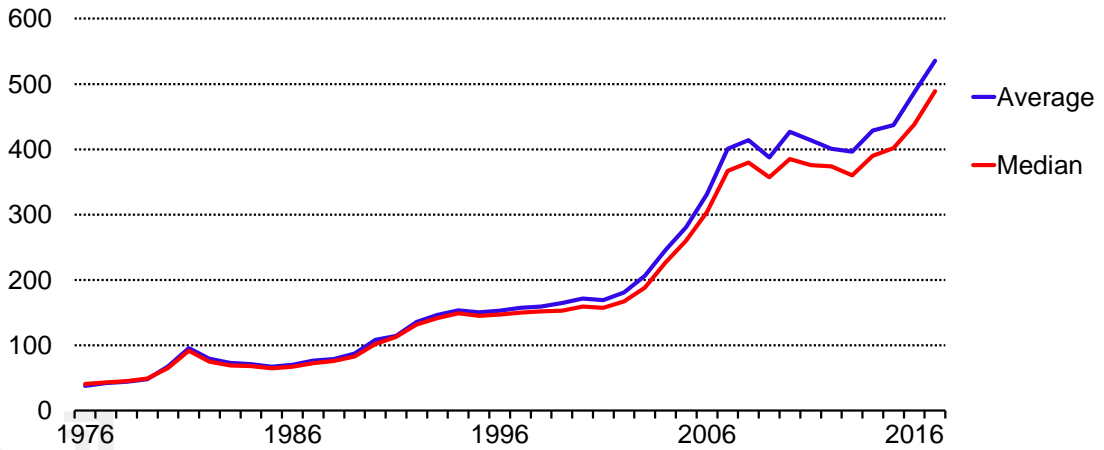
- Affordability squeeze, soft-landing:
- Housing sales increasingly negatively affected by rising prices, higher mortgage rates, and tighter credit conditions during next two to four years. Additional federal policy tightening measures possible.
- Market balance steadily shifts to buyers; mild price correction.
- 30% probability.



Long-term uptrend in housing prices

Residential Sale Prices: Kelowna CMA

Dollars – thousands



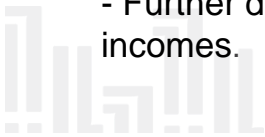
Source: Landcor Data Corp.

Latest: 2017 year-to-date Oct.

 Central 1 Economics

Beyond the cycle: the longer term to 2041

- Demand growth: Central Okanagan RD 40% population increase; 45% more households.
- 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.



Thank you

