

Economic Update and Outlook

Mortgage Investment Association of British Columbia

January 16, 2018

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Outline:

- Review of 2017 forecasts
- B.C. economic and housing trends
- Macro economic trends and forecasts
- 2018 forecasts

Review of 2017 economic forecasts

Indicators	2016	2017f	2017a	Diff.	Trend
B.C. Employment, % change	3.2	2.0	3.7	-1.7	N
B.C. Unemployment rate, %	6.0	5.5	5.1	0.4	Y
B.C. Population ¹ , % change	1.3	1.4	1.3	0.1	N
B.C. Retail sales, % change	7.4	7.0	9.8*	-2.8	N
Prime rate, %	2.70	2.70	2.89	-0.19	N
5-yr mortgage rate, %	4.66	4.75	4.76	-0.01	Y

Source: Statistics Canada, C1CU. f = forecast, a = actual, 1. As of Oct. 1. * YTD Oct.

Review of 2017 housing forecasts

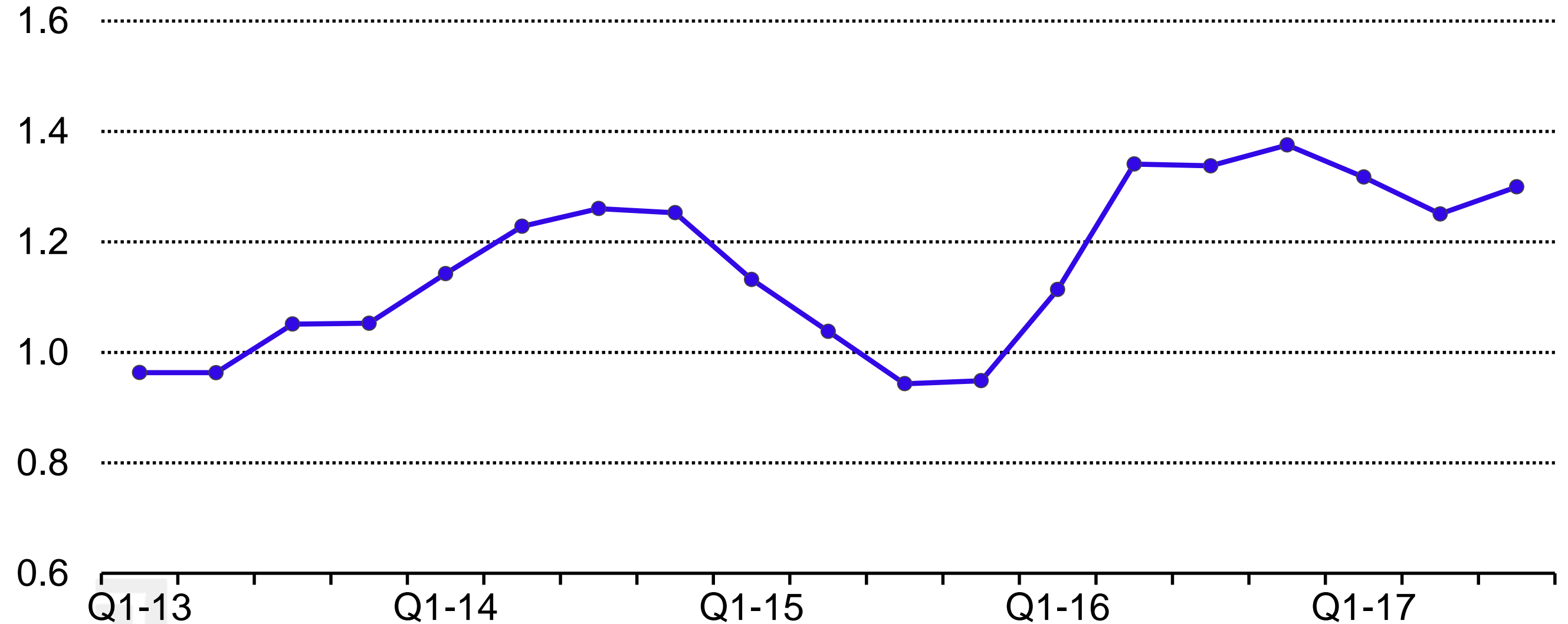
B.C. Indicators	2016	2017f	2017a	Diff.	Trend
Housing sales, % change	9.4	-12.0	-7.5	-4.5	Y
Housing starts, % change	33.1	-6.0	4.4	-10.4	N
Average sale price, % change	8.6	-3.0	2.7	-5.7	N
Lower Mainland HPI, % chg.	26.6	2.0	13.9	-11.9	Y
Private rental apt. vacancy rate ¹ .	1.3	1.0	1.3	-0.3	N

Source: CREA, CMHC, C1CU. f = forecast, a = actual. 1. As of Oct.

Growth holds up

Population Growth Quarterly: British Columbia

Per cent change y/y



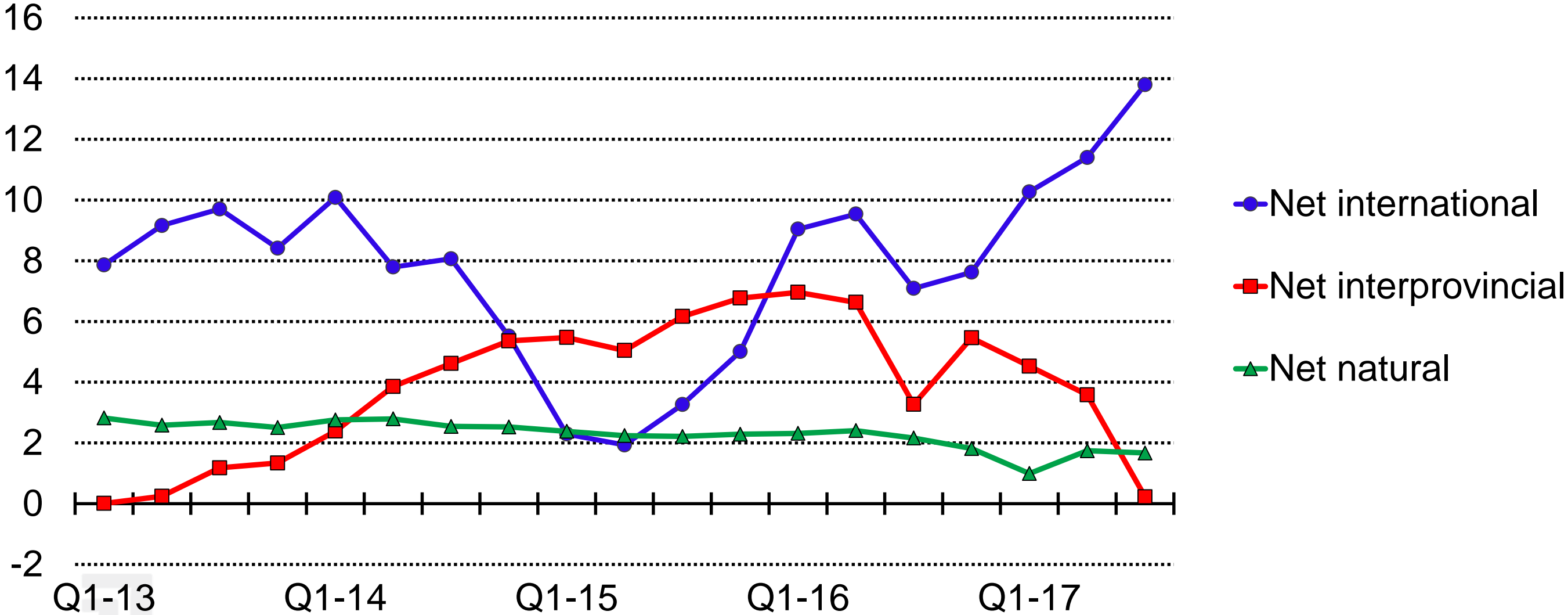
Source: Statistics Canada, Central 1 Credit Union.

Latest: Q3-17

International climbs; interprovincial falls

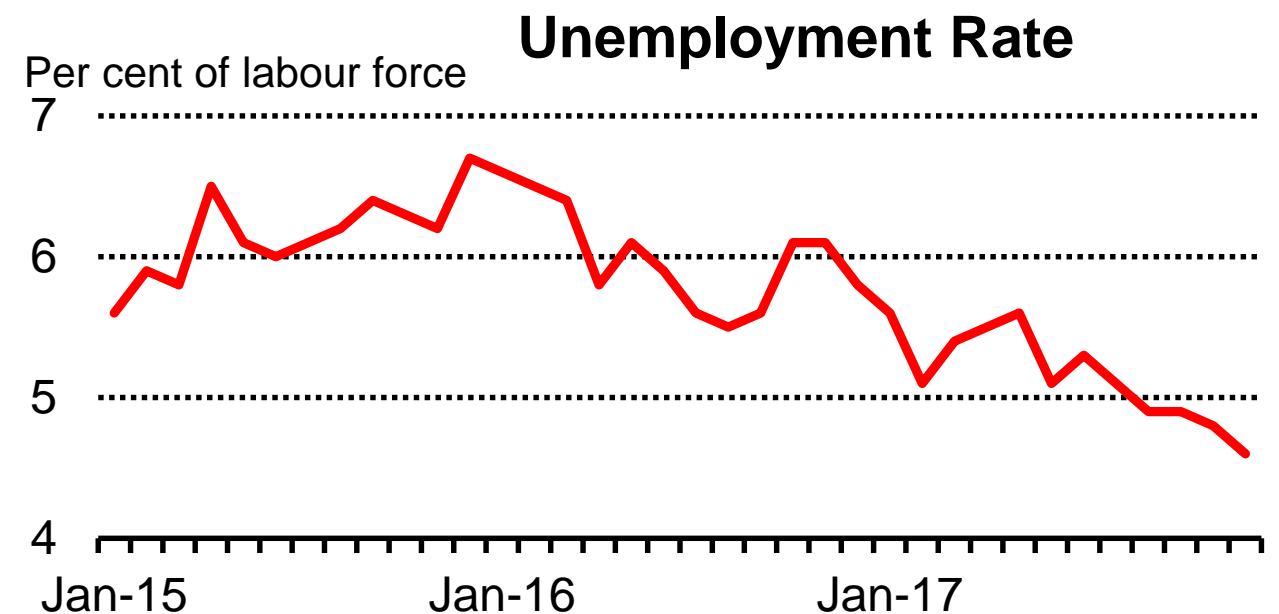
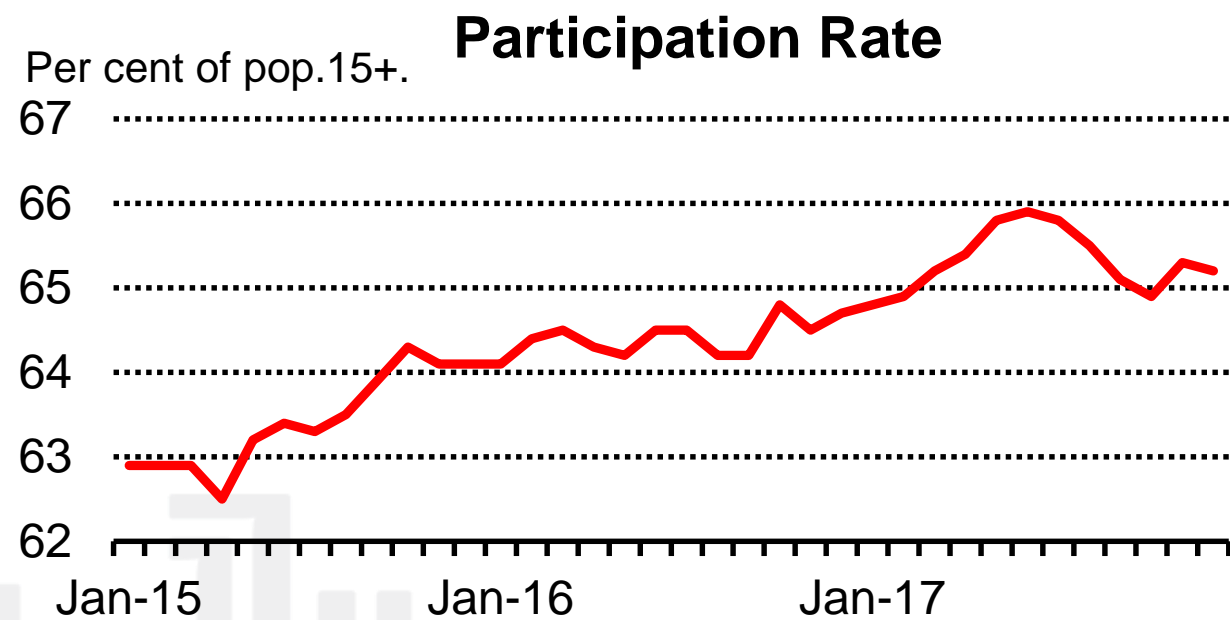
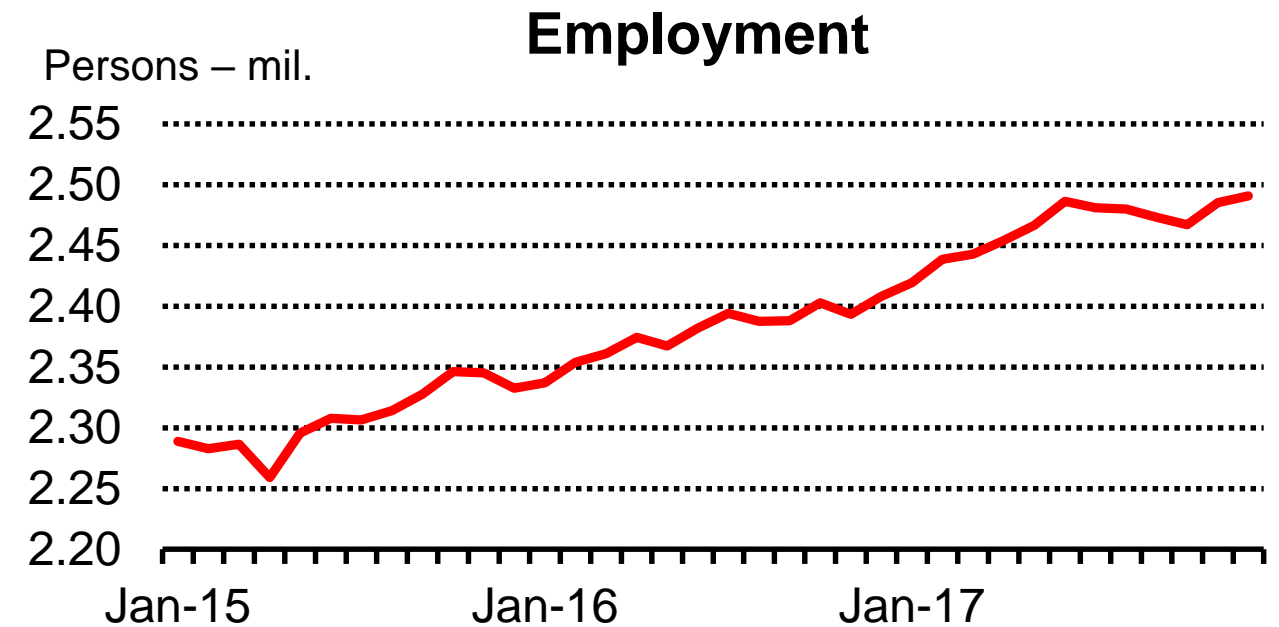
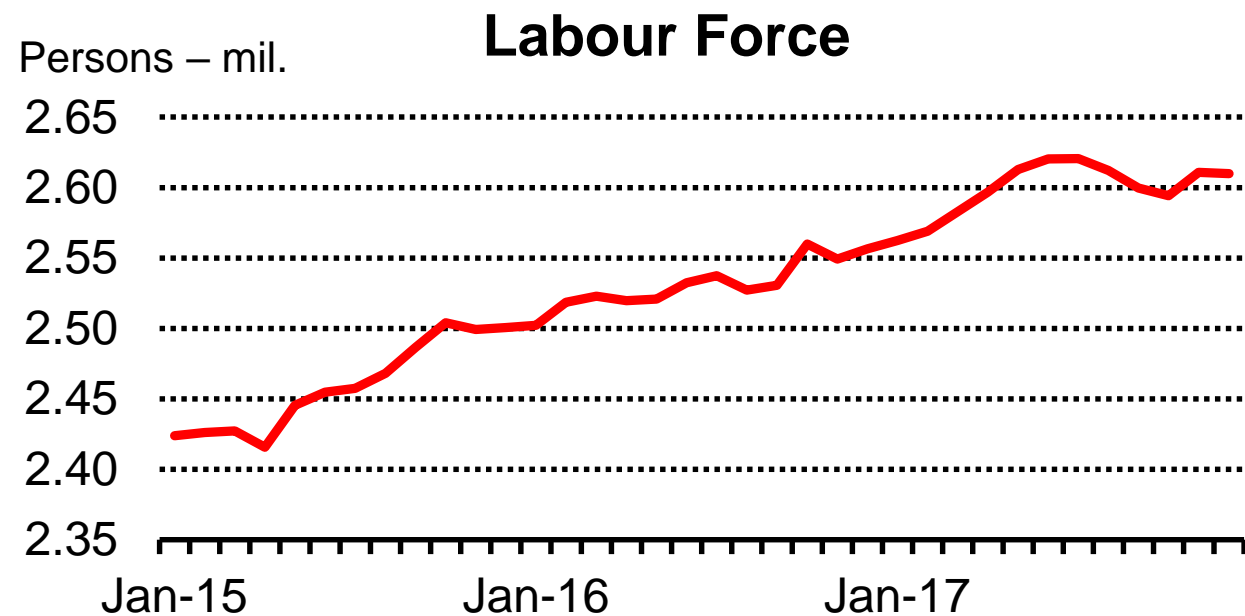
Population Growth Components Quarterly: British Columbia

Persons - thousands



Source: Statistics Canada, Central 1 Credit Union. Note: Seasonally adjusted. Latest: Q3-17

Labour market trends: B.C.

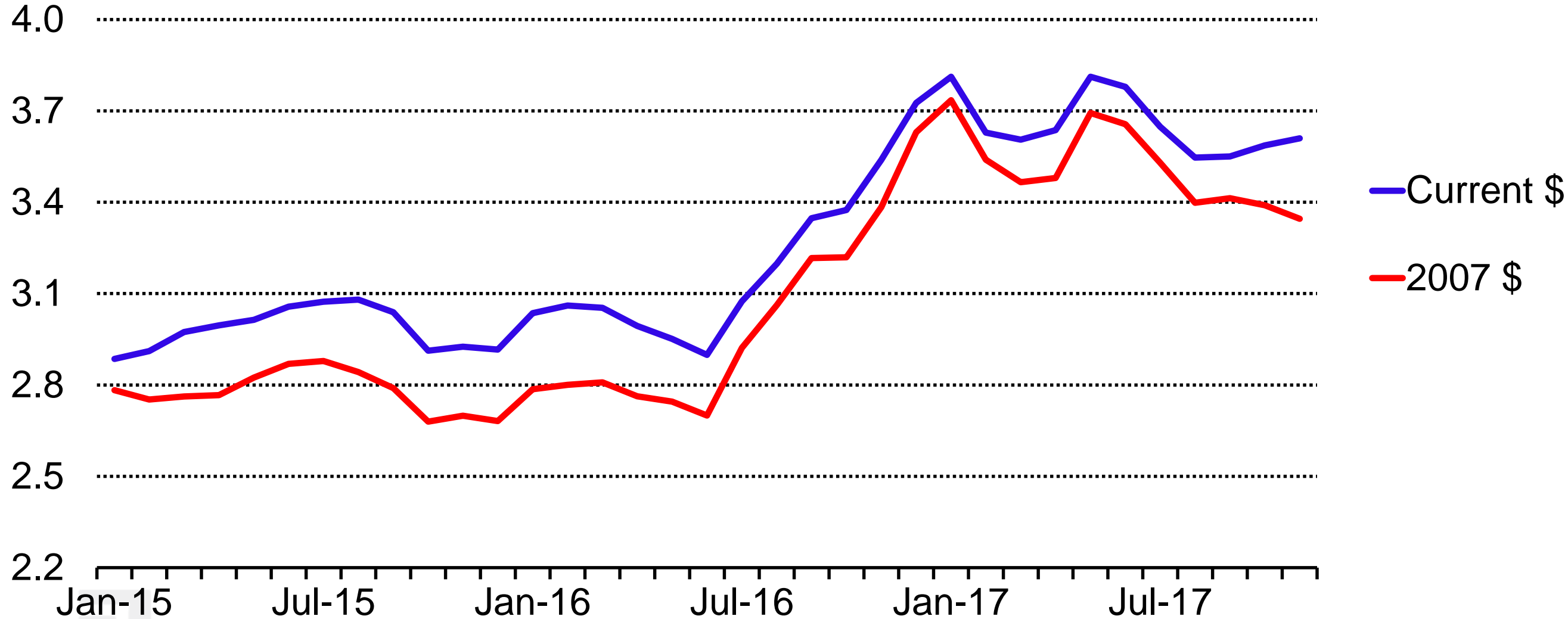


Source: Statistics Canada. Note: Seasonally adjusted. Latest: Dec-17

Exports stall following large energy gain

International Merchandise Exports: British Columbia

Dollars - billions

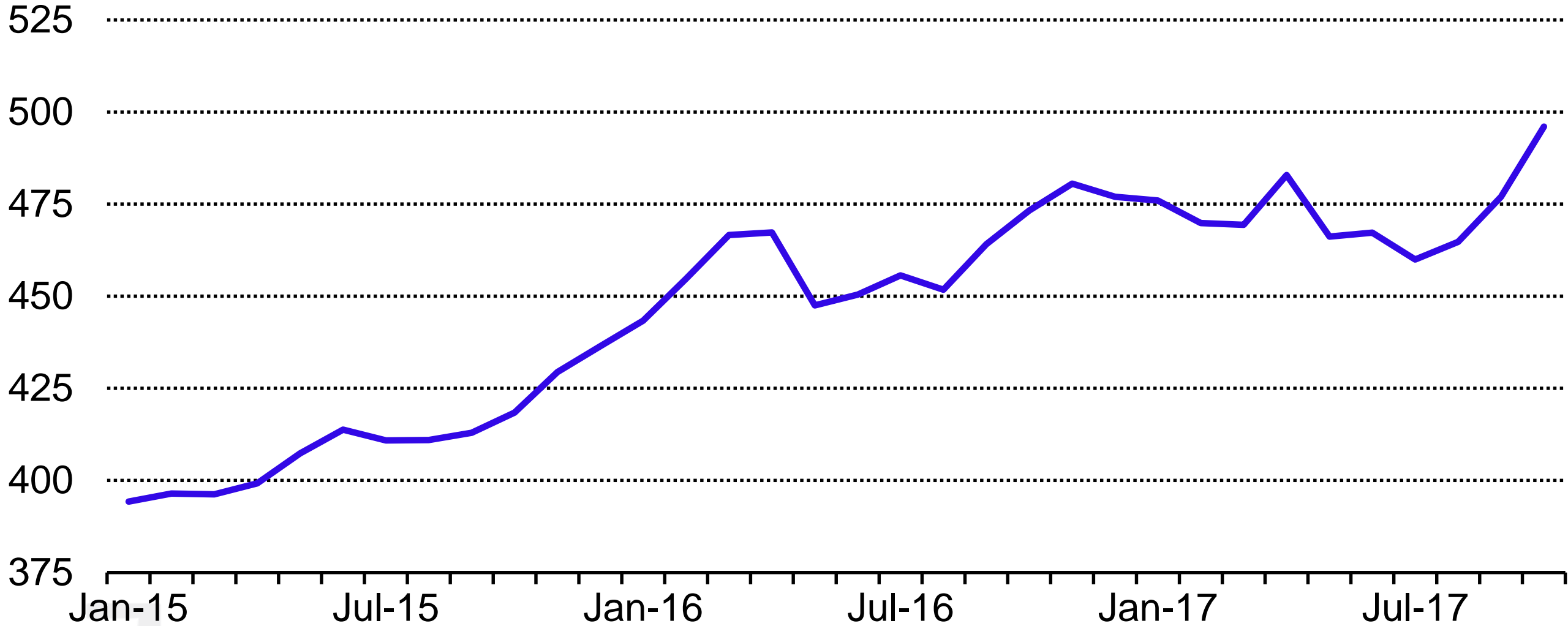


Source: Statistics Canada, Central 1 Credit Union. Note: Seasonally adjusted three-month moving averages. Latest: Nov-17

New highs

International Tourist Entries: British Columbia

Persons - thousands



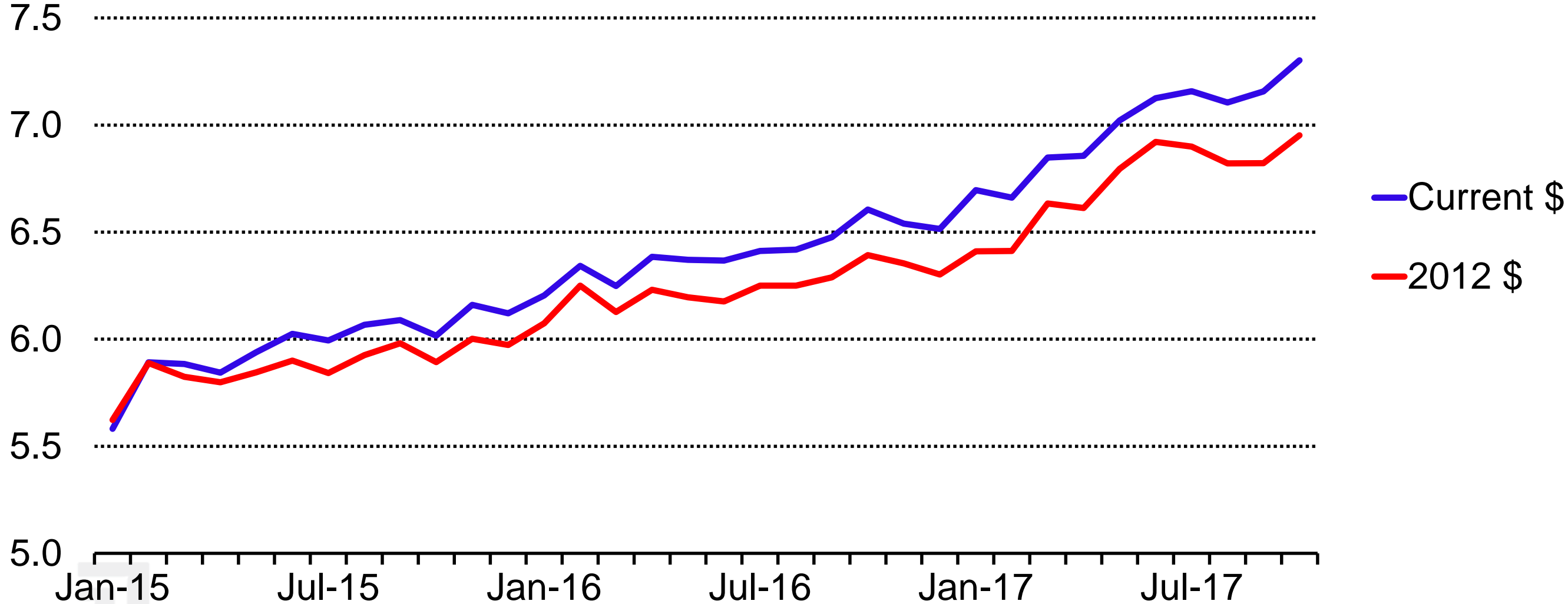
Source: Statistics Canada. Note: Seasonally adjusted.

Latest: Oct-17

Robust activity this year

Retail Sales: British Columbia

Dollars - billions



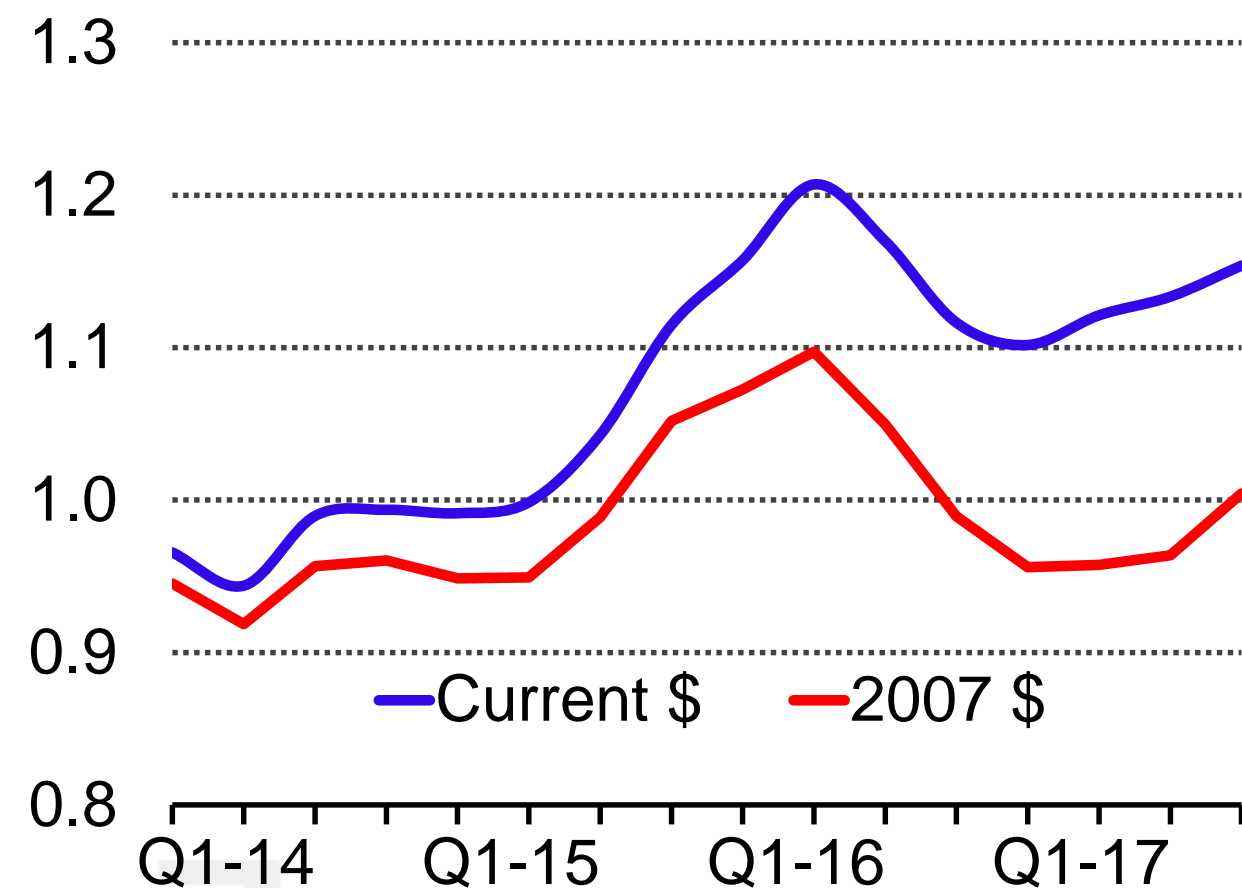
Source: Statistics Canada, Central 1 Credit Union. Note: Seasonally adjusted.

Latest: Oct-17

Investment turning up

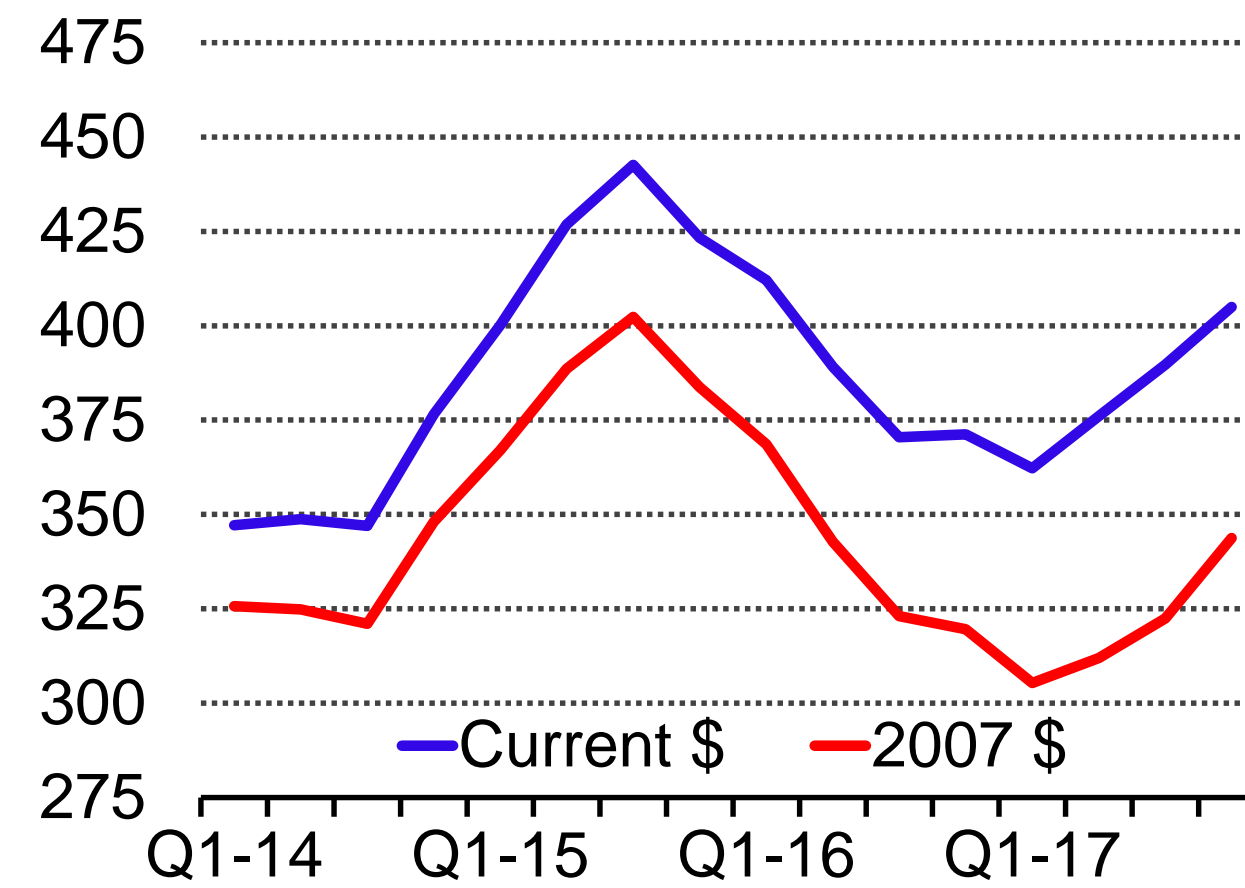
Private Non-residential Building Construction Investment: B.C.

Dollars - billions



Public Non-residential Building Construction Investment: B.C.

Dollars - millions

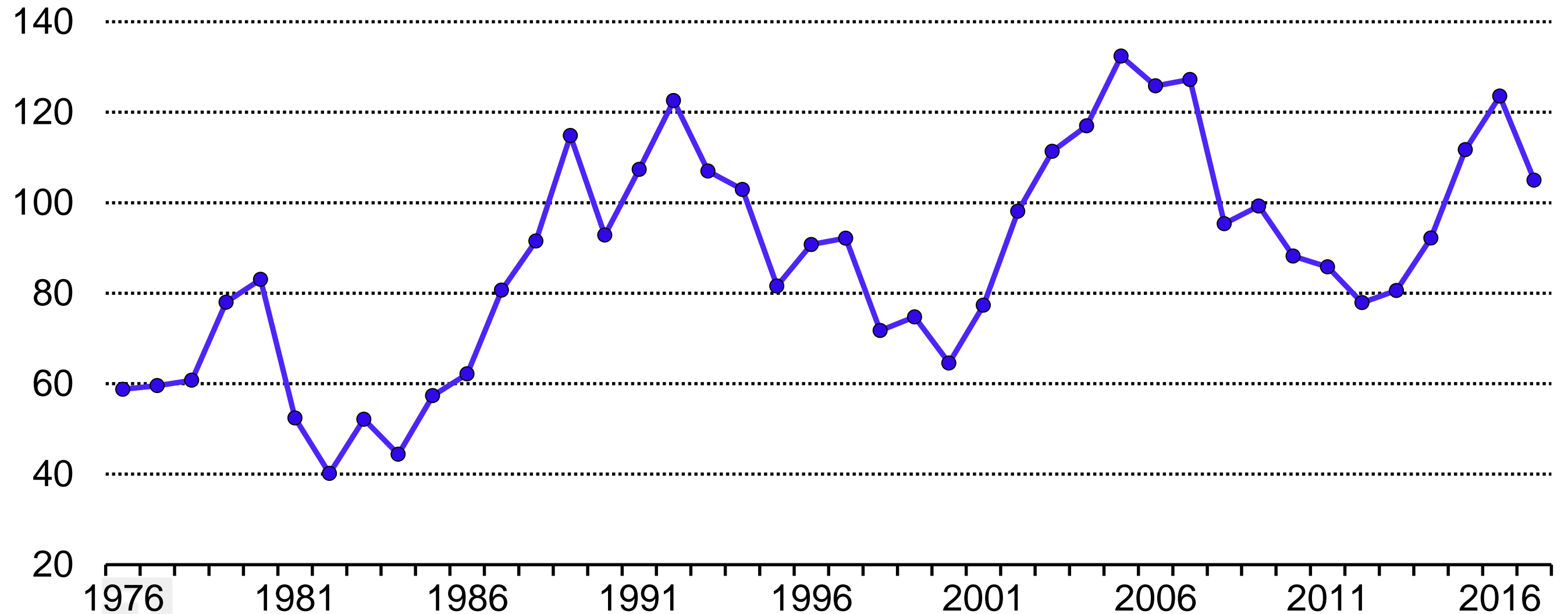


Source: Statistics Canada, Central 1 Credit Union. Note: Seasonally adjusted. Latest: Q4-17

Cyclical pattern – sales past peak

Residential Sales: British Columbia

Units - thousands

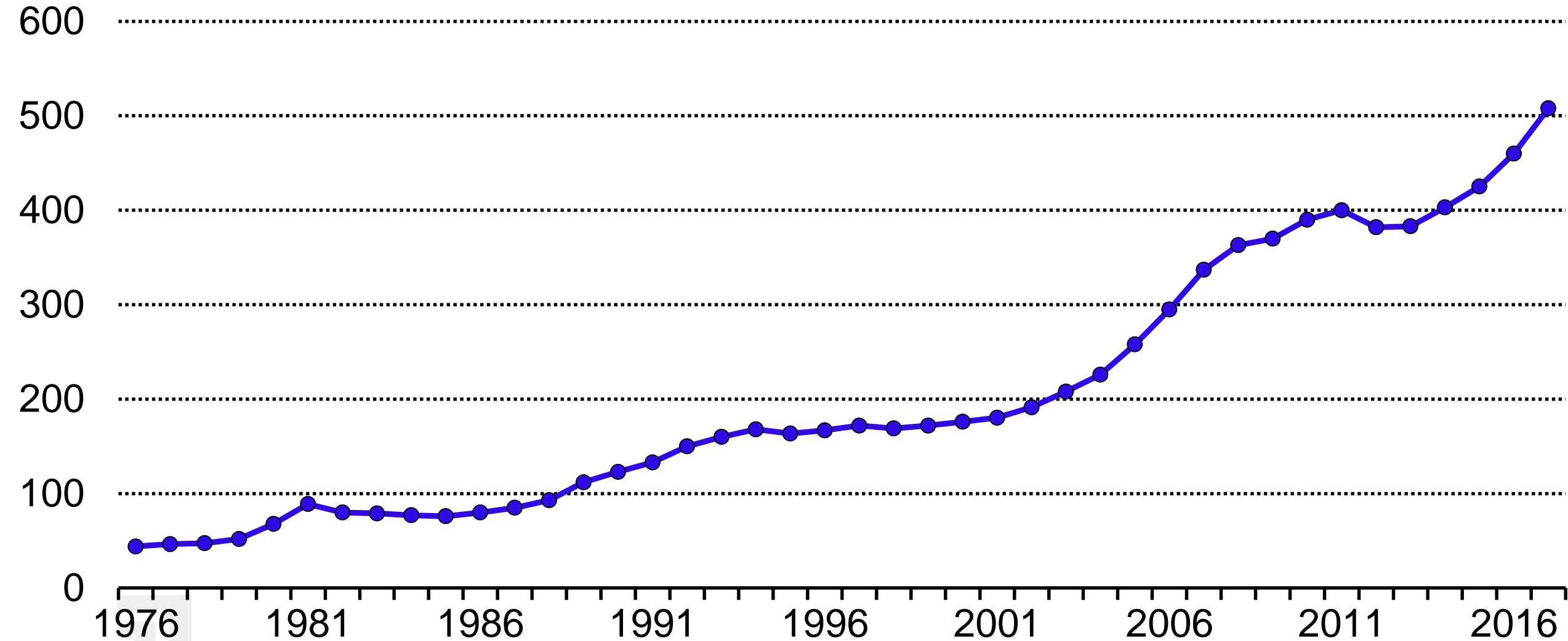


Source: Landcor Data Corp. Note: Arms length transactions only. Latest: 12 months ending November 2017

Long term rising trend

Residential Median Sale Price: British Columbia

Dollars - thousands

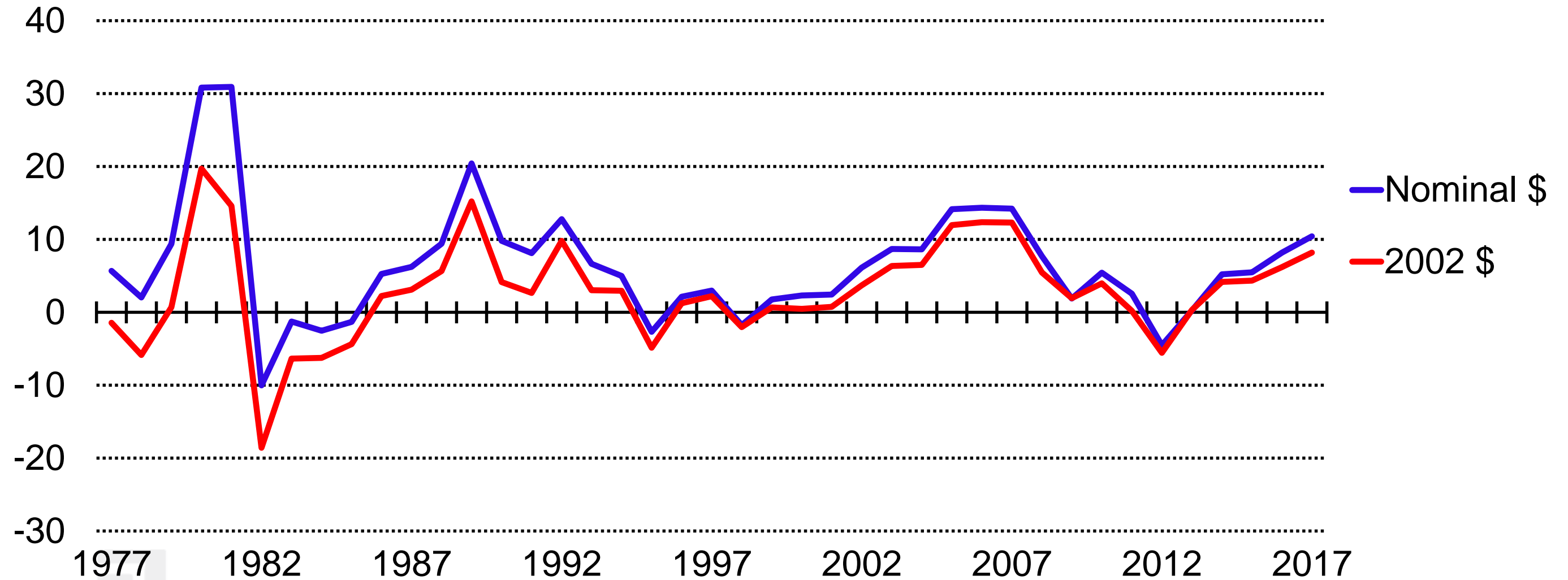


Source: Landcor Data Corp. Note: Arms length transactions only. 2017 is Jan. to Nov.

Price cycles

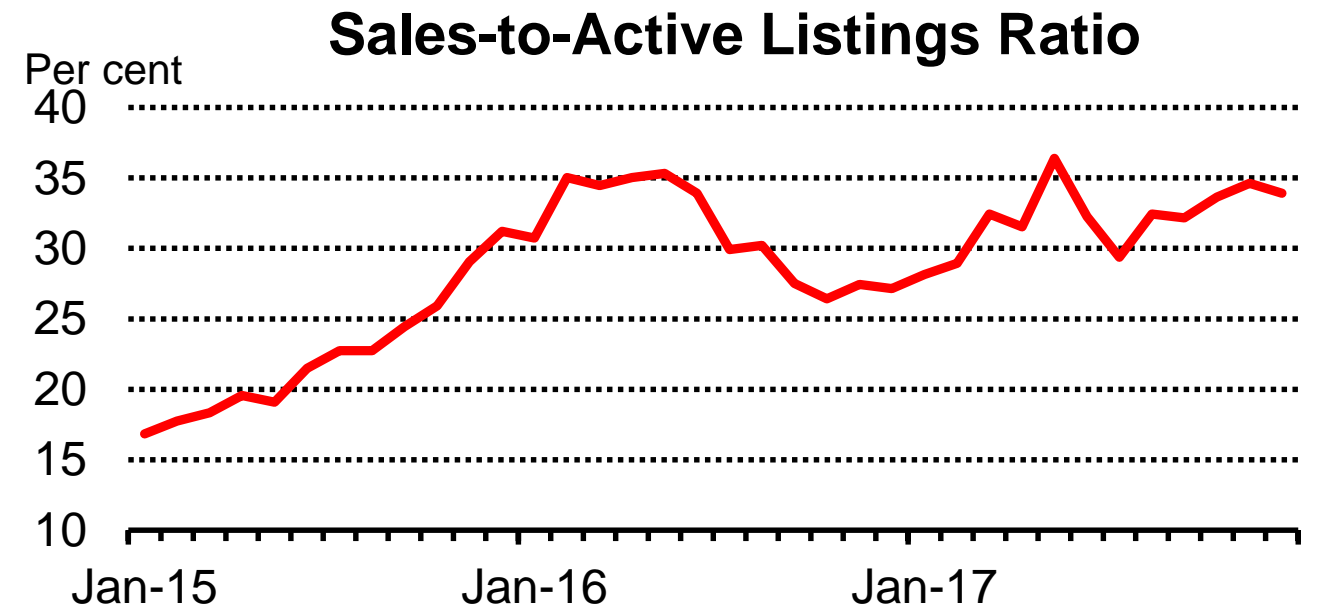
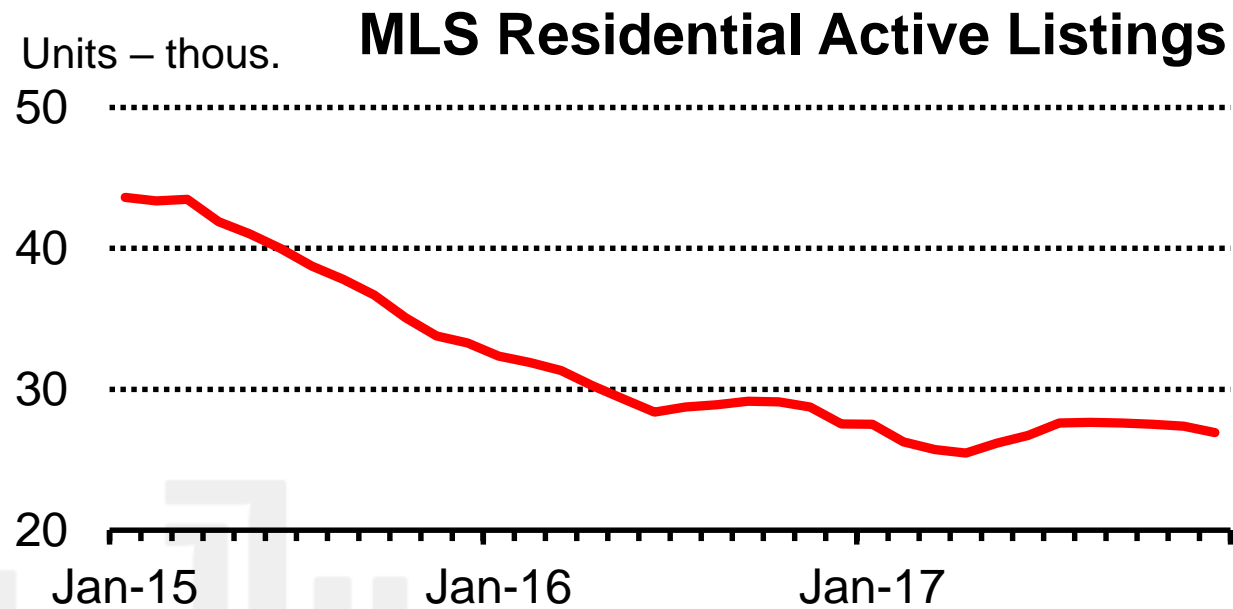
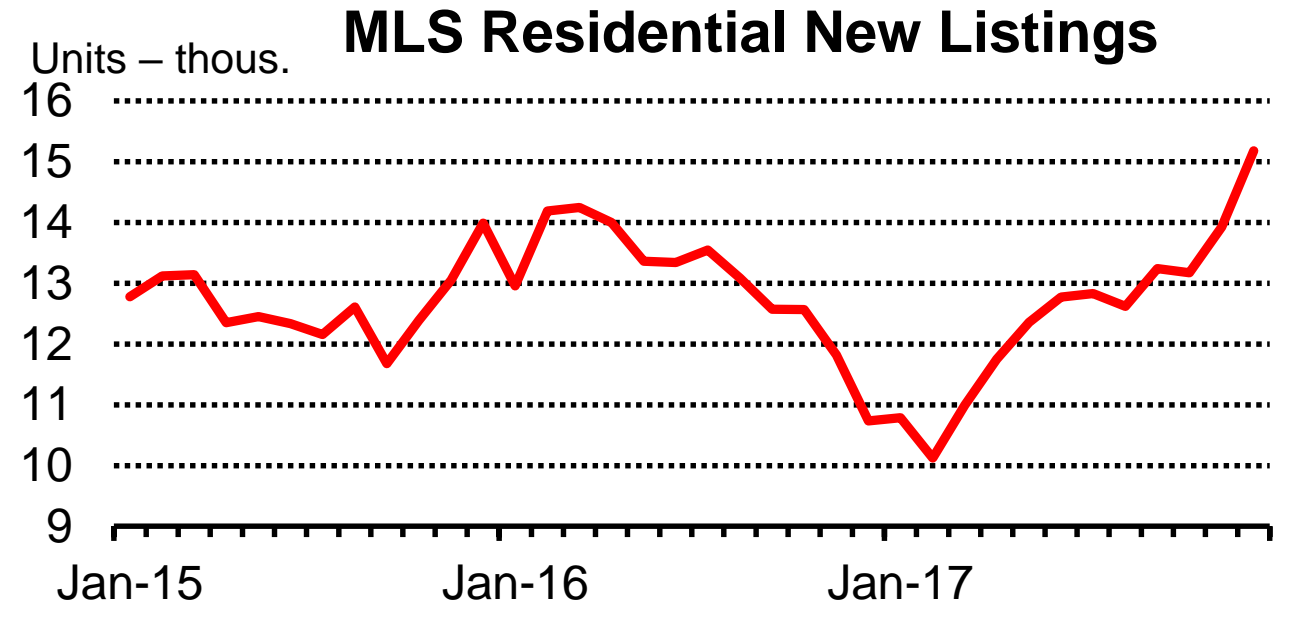
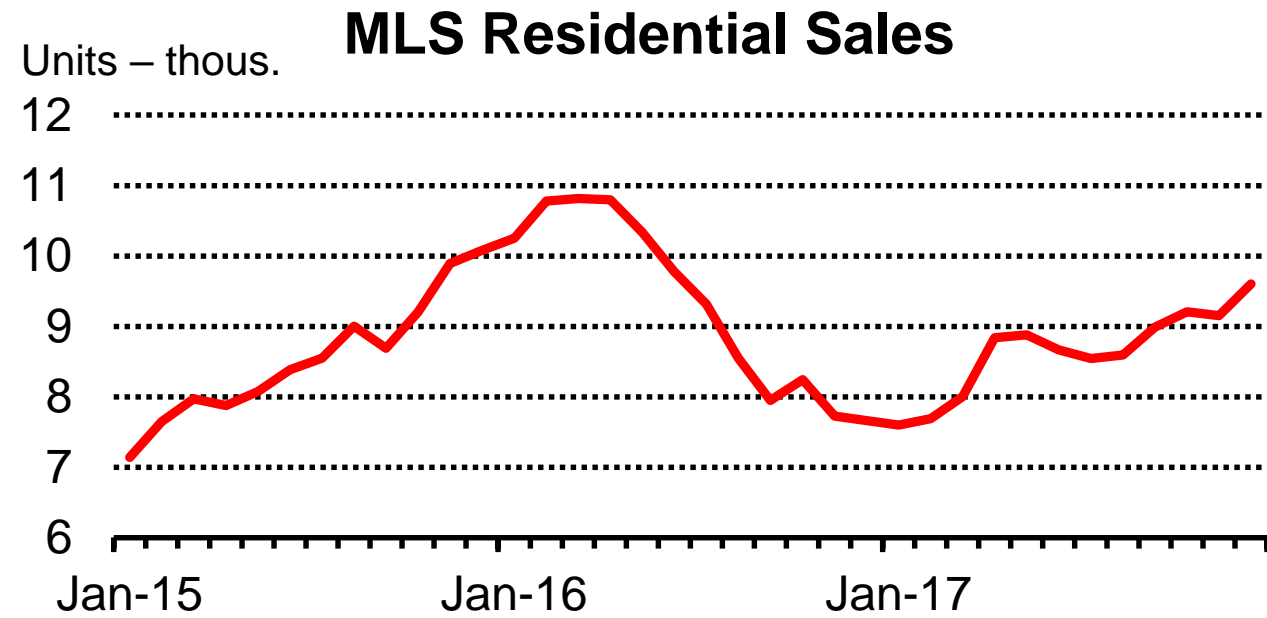
Change in Residential Median Sale Price: British Columbia

Per cent



Source: Landcor Data Corp., Central 1 Credit Union. Note: Annual data. Deflated by BC CPI.

Recent housing market trends: B.C.

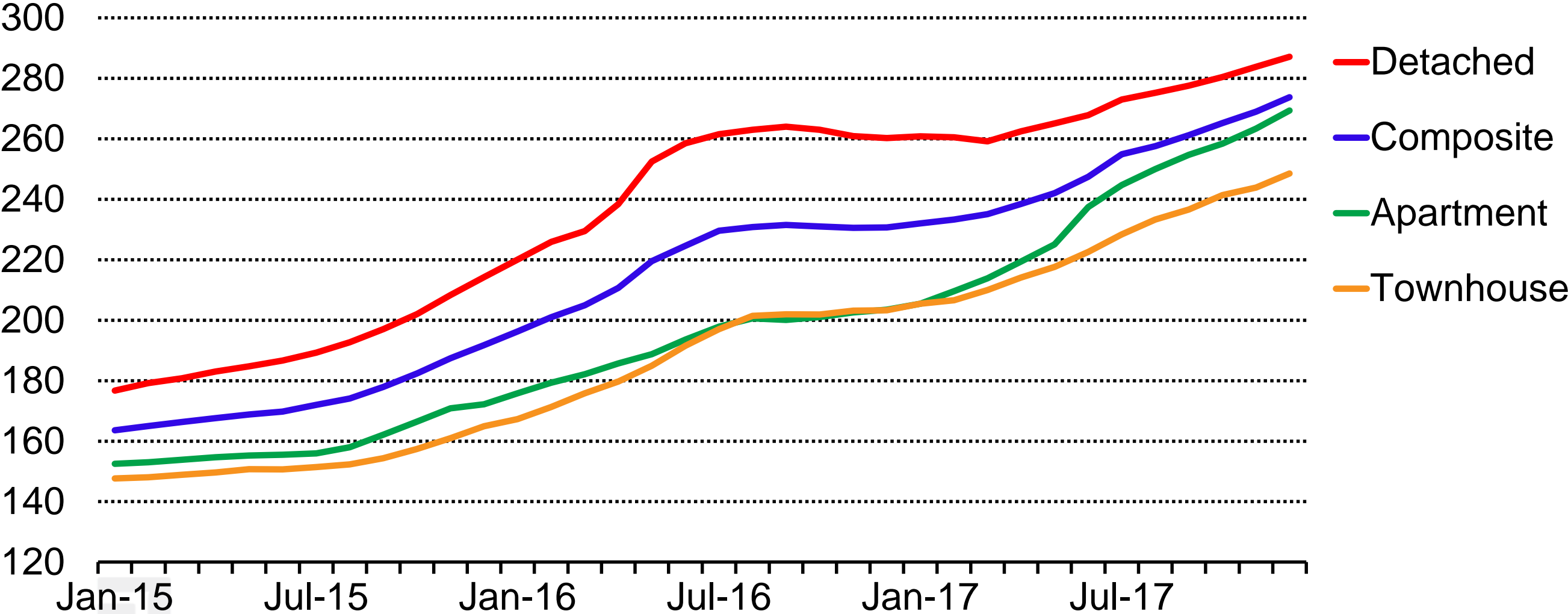


Source: CREA, BCREA, Central 1 Credit Union. Note: Seasonally adjusted. Latest: Dec.-17

Prices resume rising

MLS Home Price Index: Lower Mainland

Jan. 2005 = 100



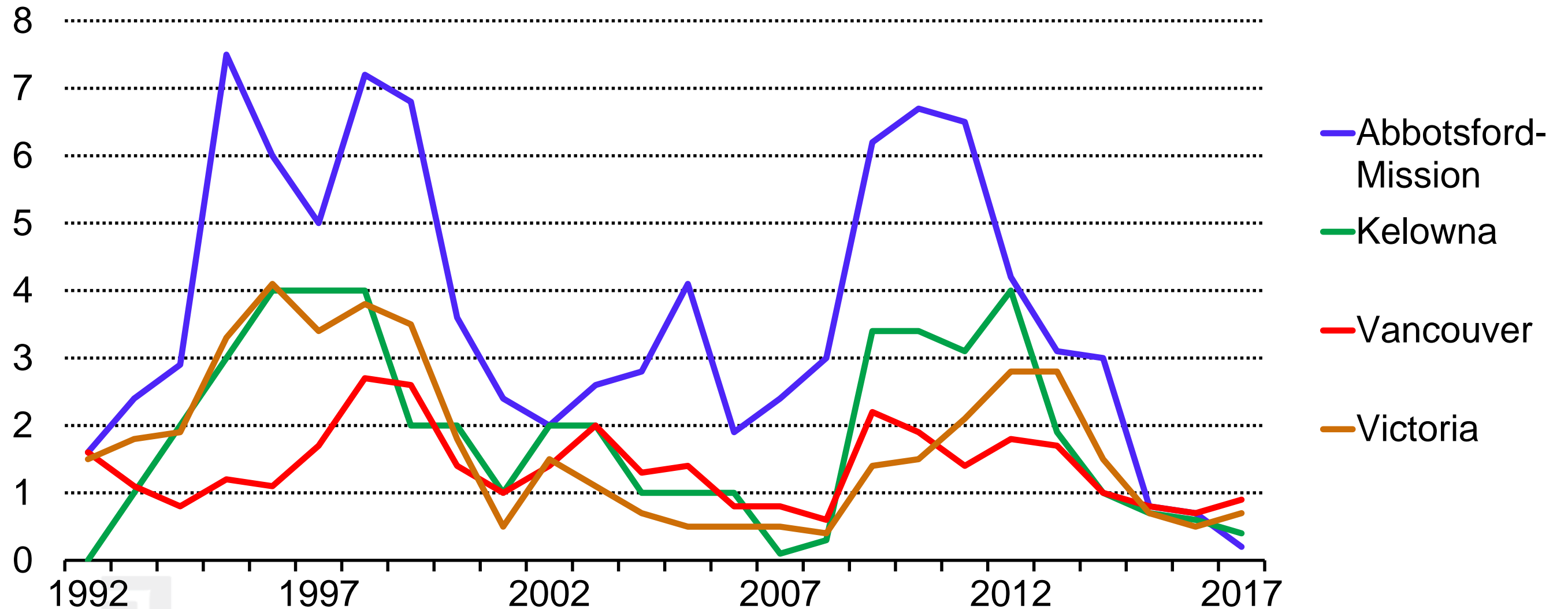
Source: CREA, Central 1 Credit Union. Note: Seasonally adjusted.

Latest: Dec-17

Vacancy rates at cycle lows

Rental Vacancy Rates: British Columbia Metro Areas

Units - thousands

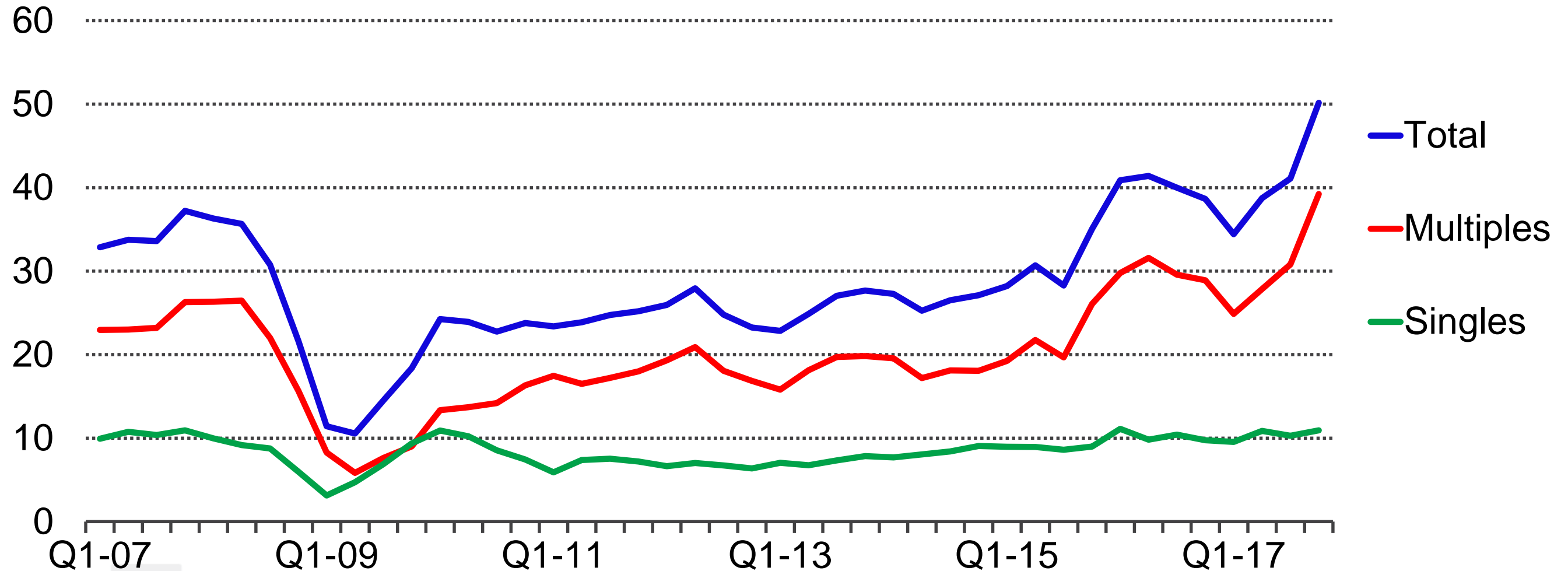


Source: CMHC. Note: Private apartment and row structures, three units and over. As of October.

Multi-unit starts surge during 2017

Housing Starts by Dwelling Type: B.C. Urban Centres

Units - thousands



Source: CMHC. Note: Seasonally adjusted at annual rate.

Latest: Q4-17

Scenario for end of current housing market cycle:

Economic recession or crisis event

- Notable 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.
- 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.

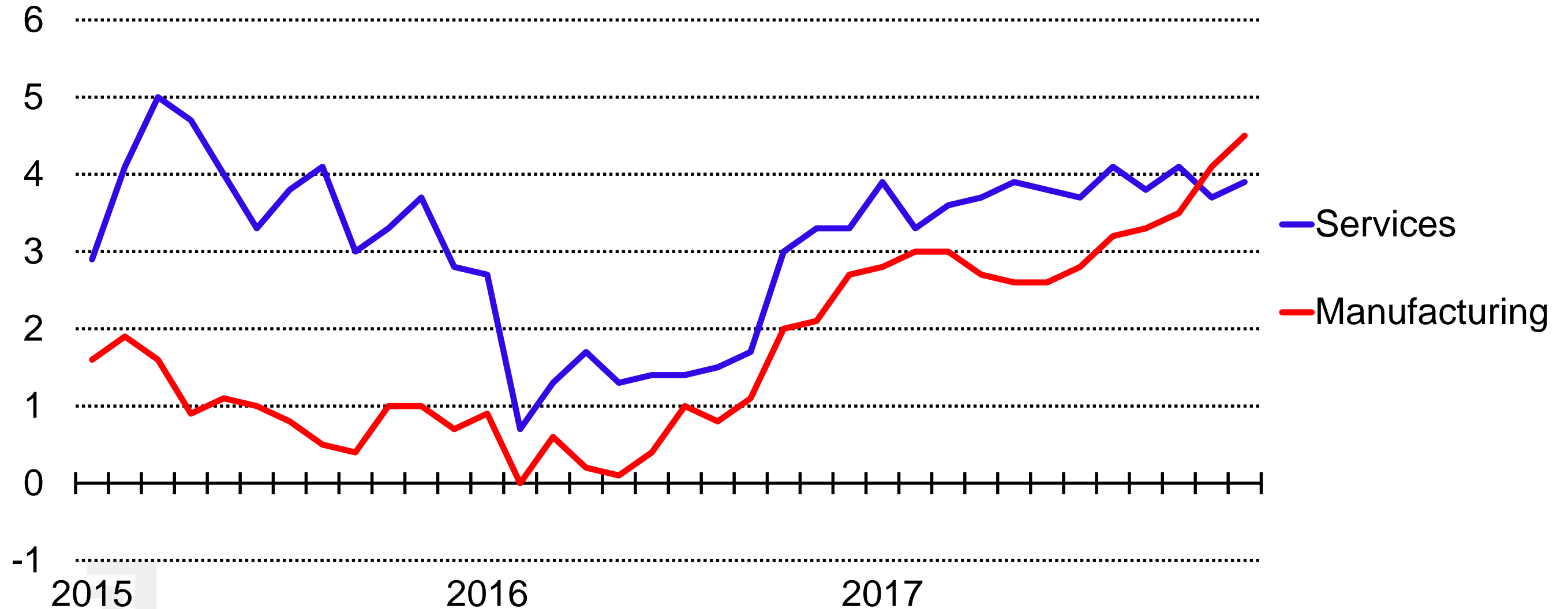
Beyond the cycle: the longer term to 2041

- Demand growth: B.C. 30% population increase; 35% more households.
- Land availability is critical supply constraint in metro areas; 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.

Global economy improving heading into 2018

JP Morgan Global Purchasing Managers' Indexes

0 = no change from prior month



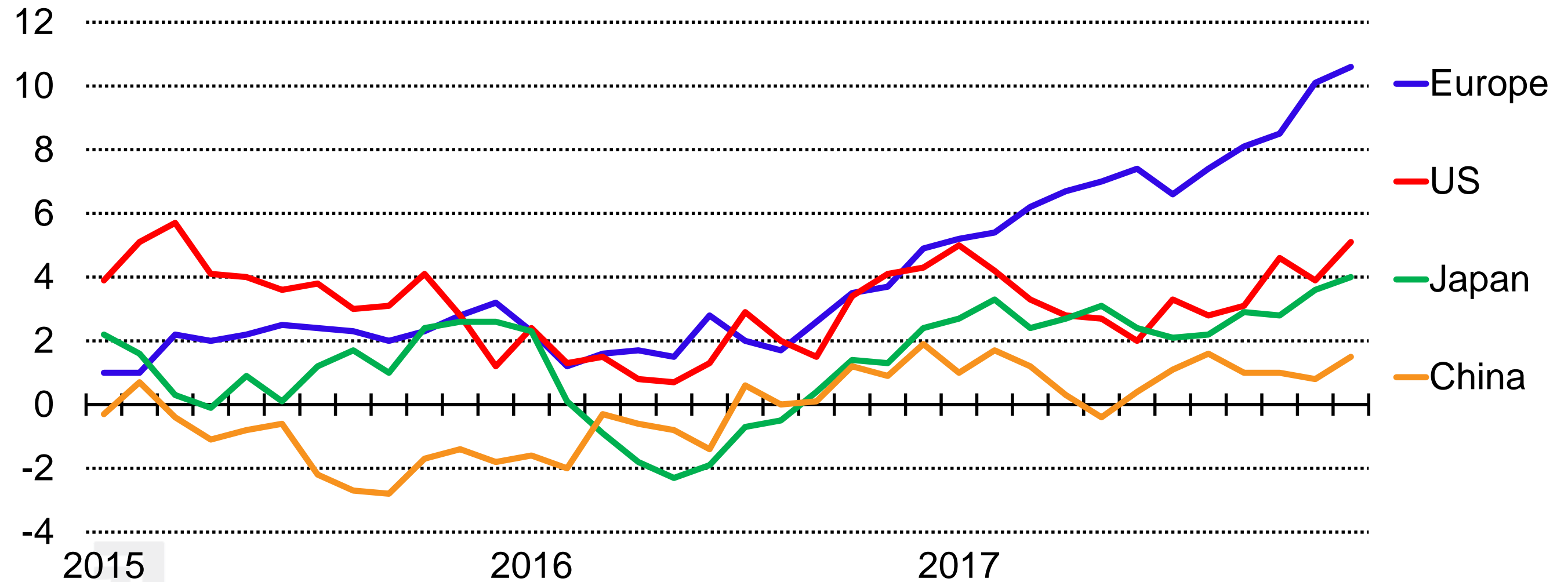
Source: Bloomberg. Note: Seasonally adjusted.

Latest: Dec. 2017

Mostly synchronous upswings in 2017; Europe leads

Markit Purchasing Managers' Indexes

0 = no change from prior month



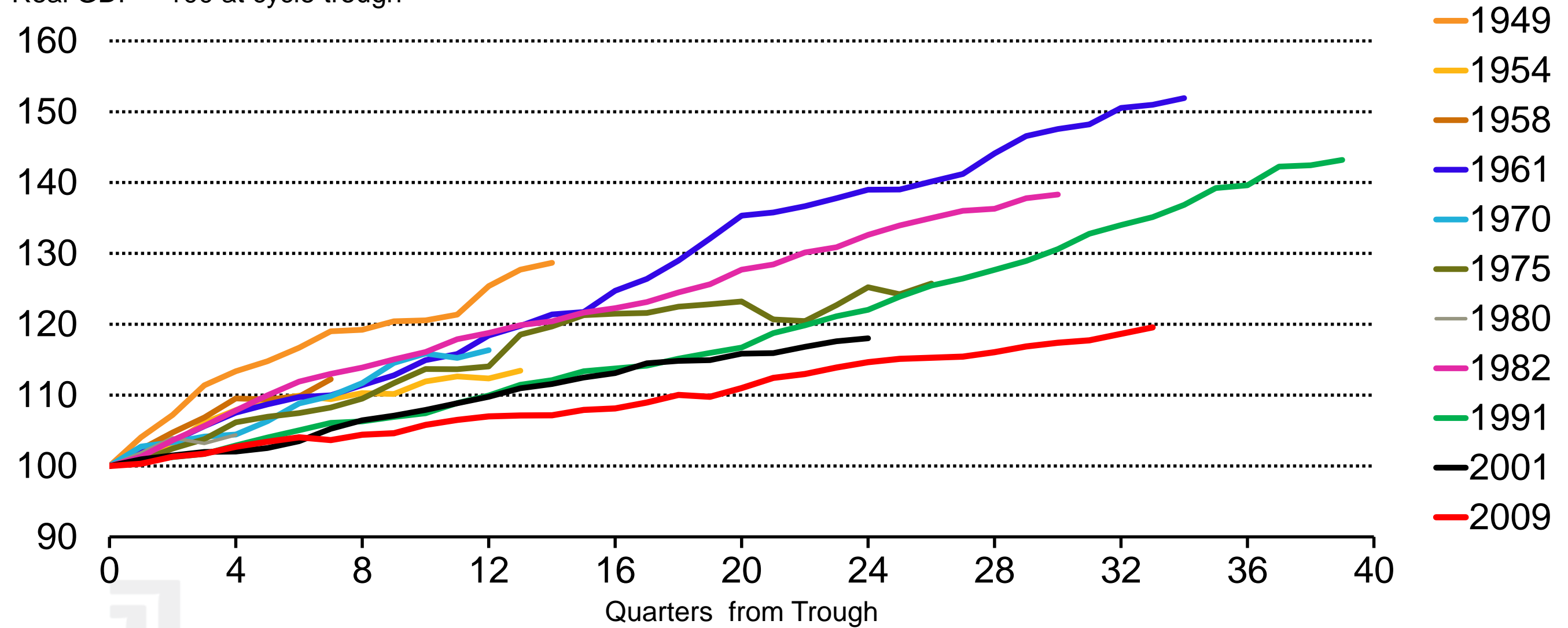
Source: Bloomberg. Note: Seasonally adjusted.

Latest: Dec-17

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

Economic Recoveries: U.S.

Real GDP = 100 at cycle trough

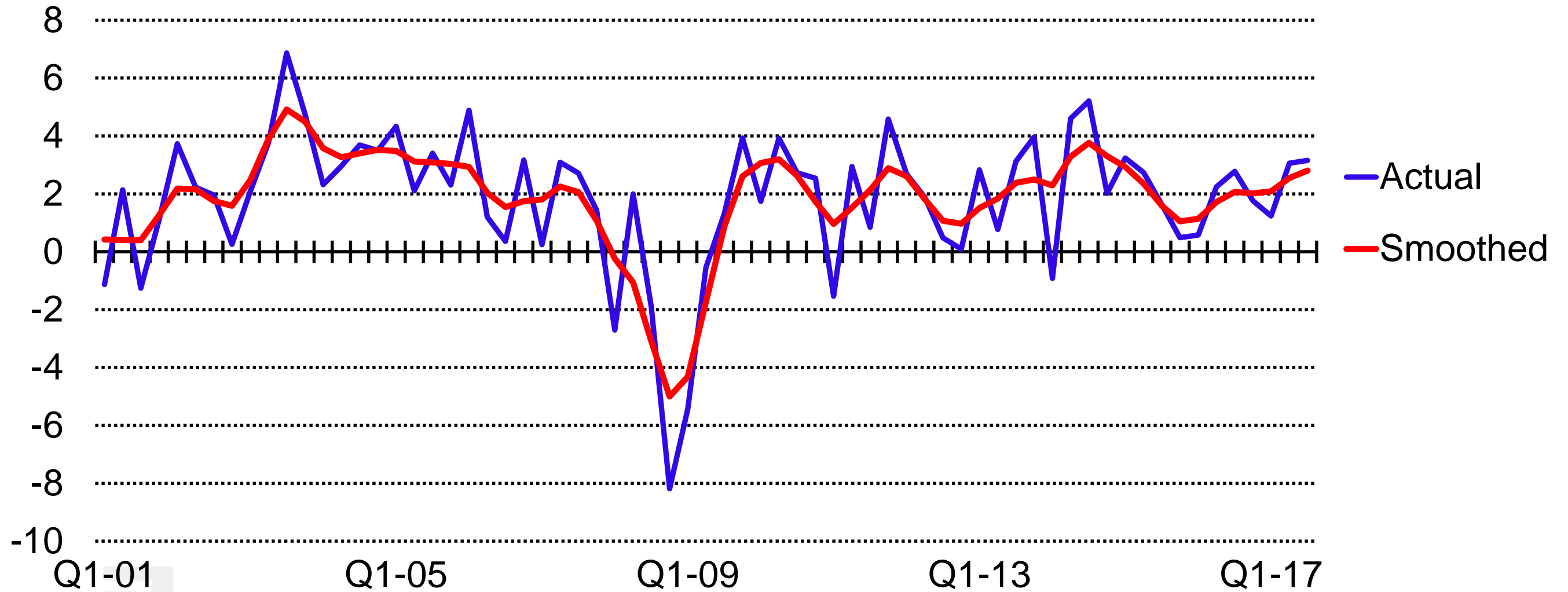


Source: U.S. BEA, Central 1 Credit Union. Latest in 2009 recovery is Q3-2017.

U.S. economy gains momentum from recent lows

U.S. Real GDP

Per cent change at annual rate



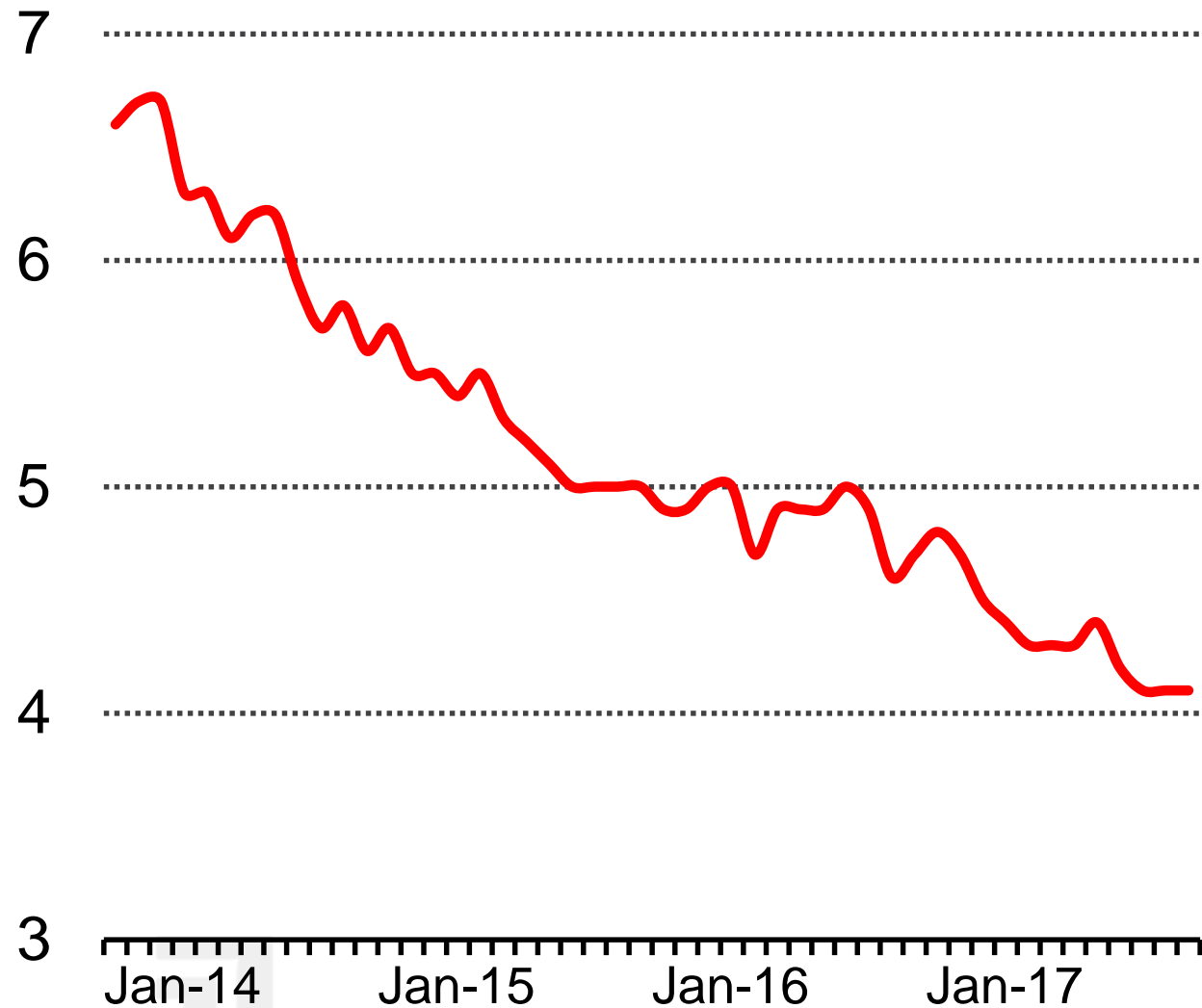
Source: U.S. Bureau of Economic Analysis, Central 1 Credit Union.

Latest: Q3-17

Lower unemployment rate; wages rising faster

Unemployment Rate: U.S.

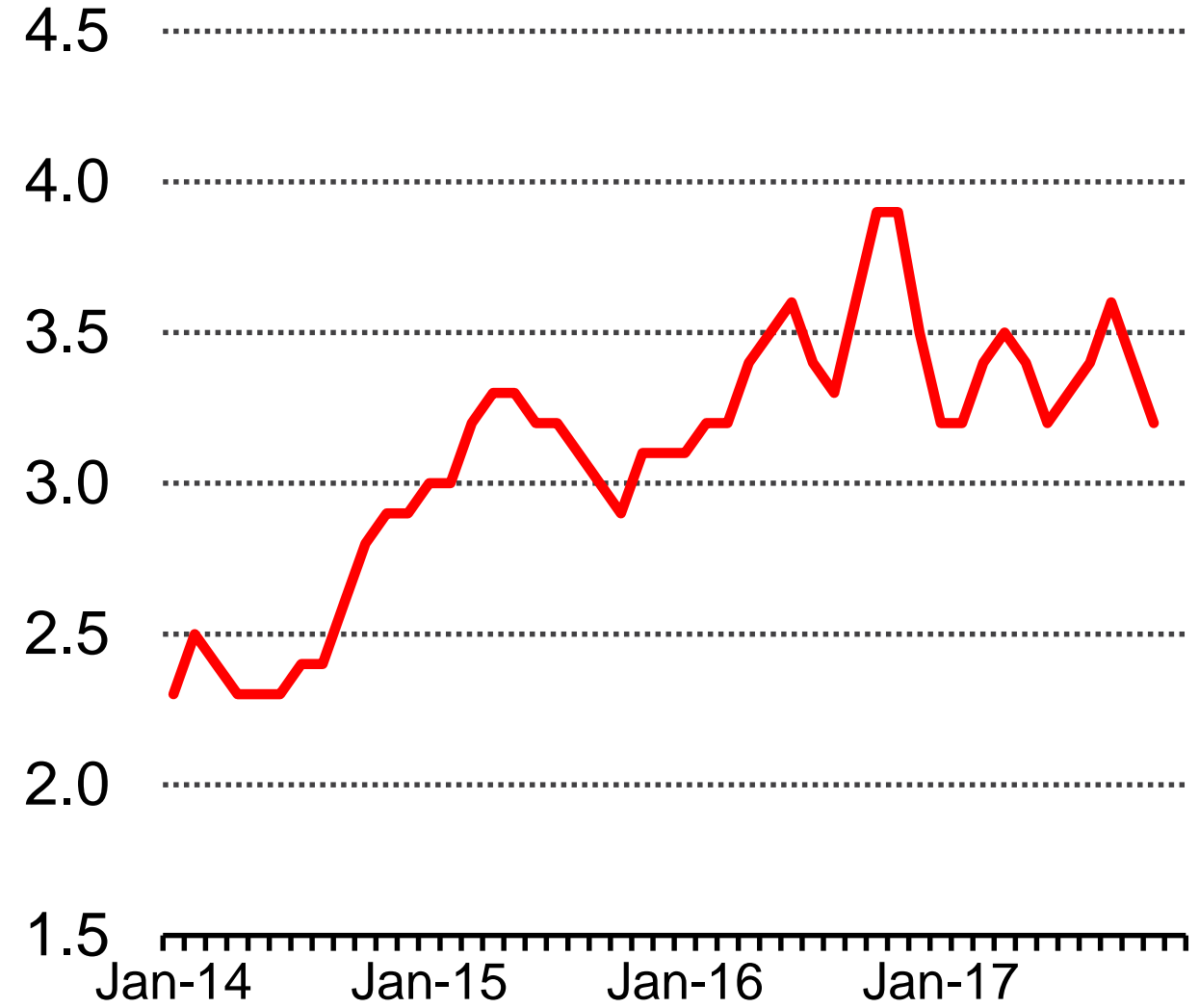
Per cent of labour force



Source: U.S. BLS. Note: Seasonally adjusted. Latest: Dec-17

Hourly Median Wage Rate: U.S.

Per cent change, y/y



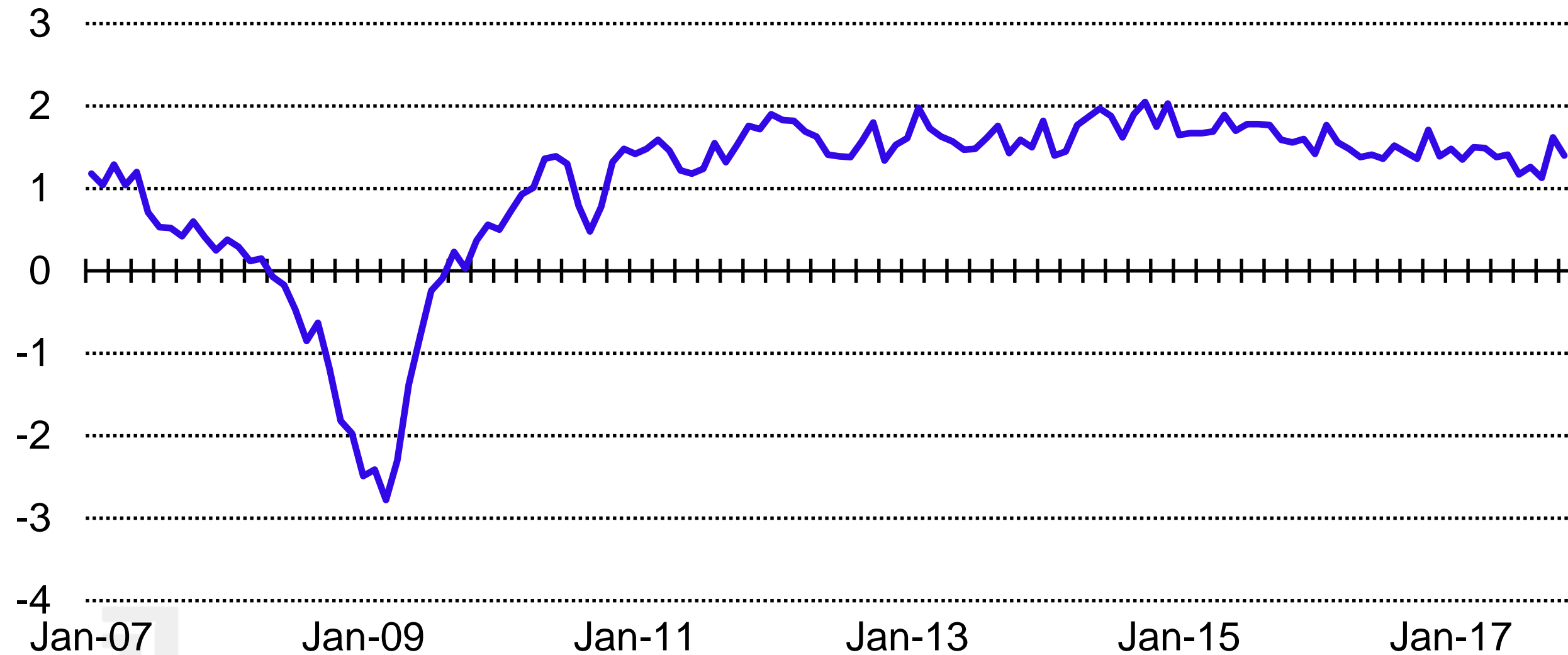
Source: FRB Atlanta.

Latest: Nov-17

No recession near term

U.S. Leading Economic Indicator

Per cent



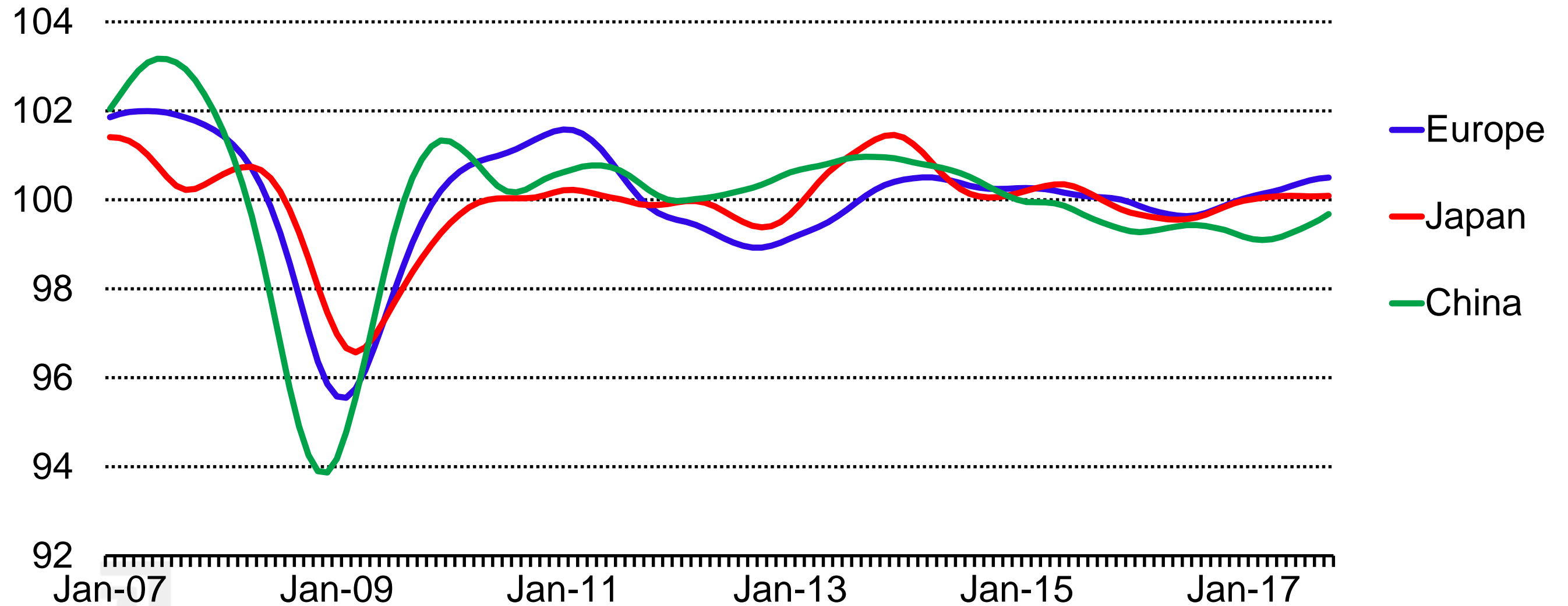
Source: Federal Reserve Bank of Philadelphia.

Latest: Nov-17

Recent firming

Composite Leading Indicator: Selected Areas

Long-term average = 100



Source: OECD.

Latest: Oct-17

Global growth upshift to continue

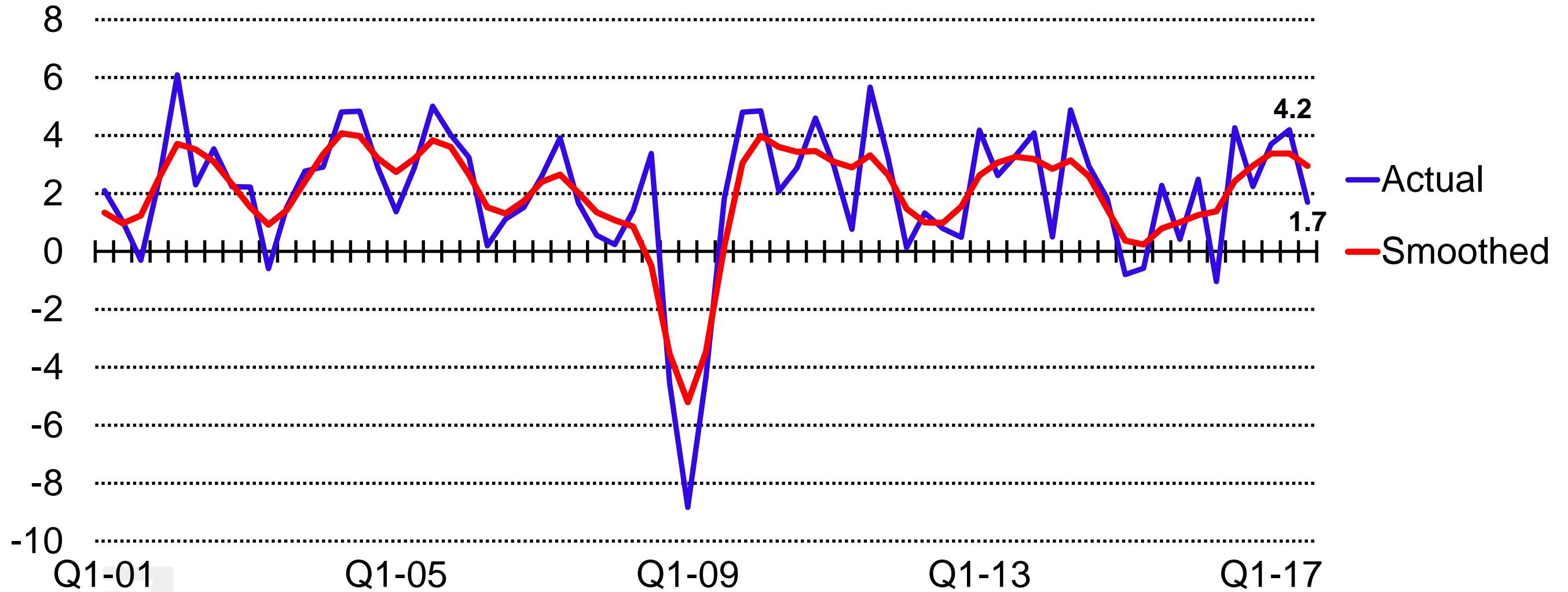
Key External Economic Forecasts					
Real GDP, % change	2015	2016	2017	2018	2019
World	3.4	3.2	3.6	3.8	3.7
United States	2.4	1.6	2.5	2.5	2.2
Japan	1.2	1.0	1.5	1.3	0.8
China	6.9	6.7	6.8	6.4	6.2
European Union	1.9	1.9	2.2	1.9	1.8
EM & DEs	4.3	4.3	4.6	4.9	5.0

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

Strong rebound from oil recession of 2015/16

Canada Real GDP

Per cent change at annual rate



Source: Statistics Canada, Central 1 Credit Union.

Latest: Q3-17

Moderate growth ahead

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	5.8	5.5
3-mo. T-bill rate, %	0.53	0.49	0.69	1.35	1.85
10-y GoC bond, %	1.52	1.25	1.95	2.40	2.85
U.S.- Canada FX, cents	78.2	75.4	77.1	79.0	81.5

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

NAFTA:

- After five negotiation rounds no significant progress
 - Round six late January in Montreal, round seven in March
 - 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?

After NAFTA:

- Shift to WTO MFN tariffs: U.S.A. 3.5%, Canada 4.2%, Mexico 7.1%
- Canada-US Free Trade Agreement (CUSFTA) of 1989 remains in force, though suspended by NAFTA.
- CUSFTA could come back into effect?

Economic impact estimates on Canada:

- Real GDP -0.5% to 2023, employment -25k to -50k, investment -0.9%, CPI -0.3%
- Negative for autos, fossil fuels, petrochemicals, business services, metal products, M&E, food, and others
- Ontario, Alberta, Saskatchewan, New Brunswick

2018 Economic Forecasts

B.C. Indicators	2016	2017	2018 f
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Unemployment rate, %	6.0	5.1	4.3
Population, % change	1.3	1.3	1.3
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Prime rate, %	2.70	2.89	3.60
5-yr mortgage rate, %	4.66	4.76	5.55

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2018 Housing Forecasts

B.C. Indicators	2016	2017	2018 f
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Private apt. rental vacancy rate, % , Oct.	1.3	1.3	1.0

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Thank you