

Economic Outlook

Quantity Surveyors Society of B.C.

Thursday, October 8, 2009

Helmut Pastrick
Chief Economist
Central 1 Credit Union



Outline:

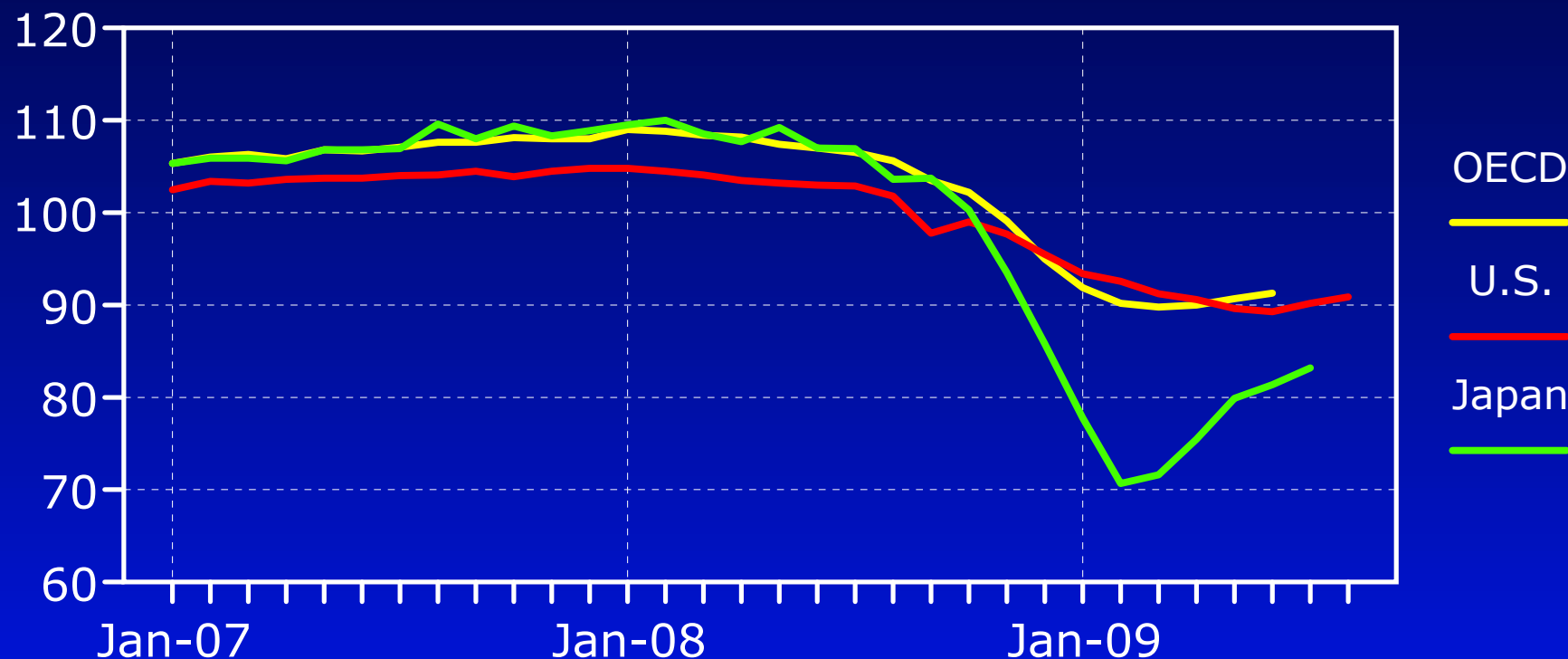
- Current trends and evidence of recovery
- Monetary and fiscal policy impacts
- Recovery prospects - temporary or sustainable growth or double-dip recession?
- Economic, interest rate, and currency forecasts
- B.C. and lower mainland economies
- Forecast issues and summary



Sharp fall in production following financial shock, turning up recently

Industrial Production, Selected OECD Countries

2005 = 100



Source: OECD.

Note: Seasonally adjusted.

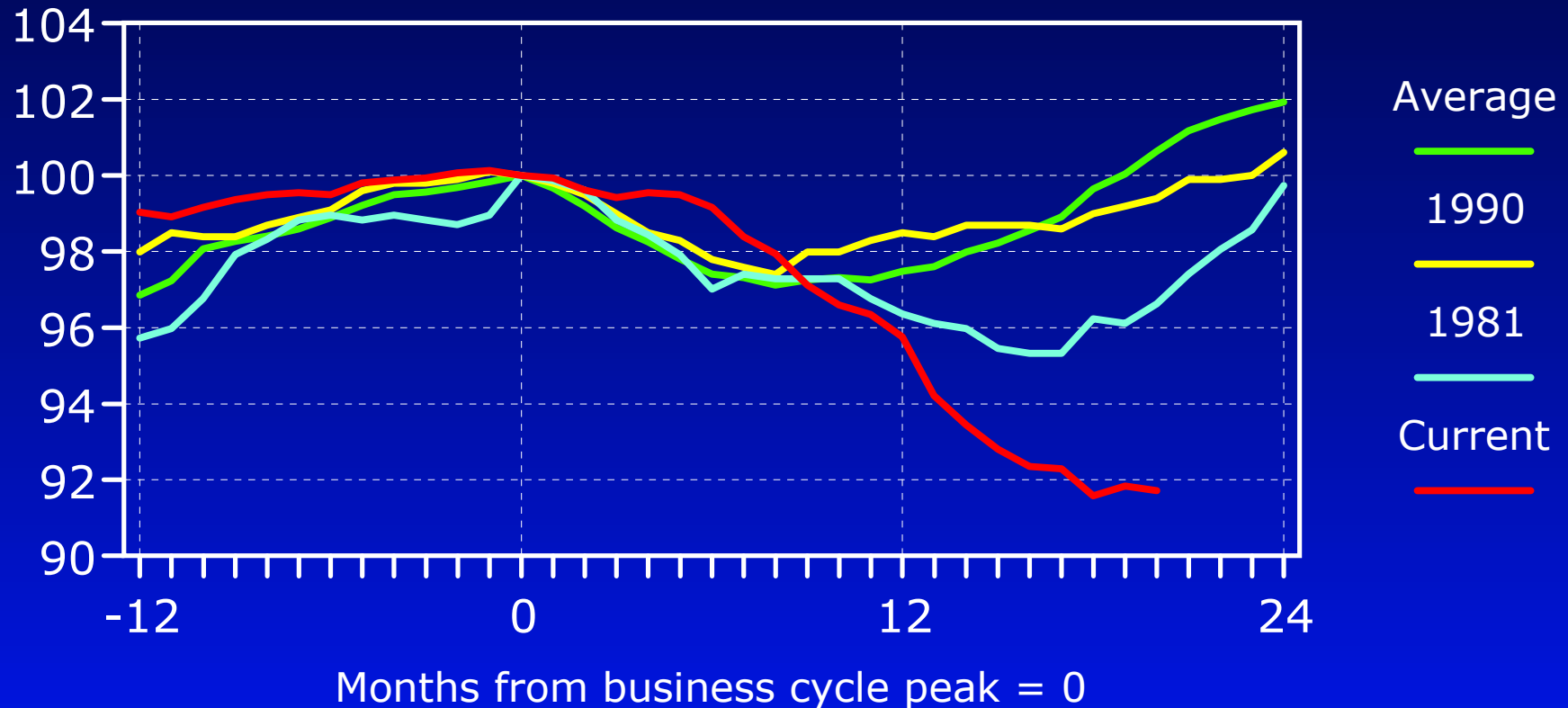
Latest: Jun-09 to Aug-09



Current U.S. recession longer, deeper than average; at turning point

U.S. Economic Recessions

Peak = 100



Source: ECRI, C1CU.

Latest current: Aug-09

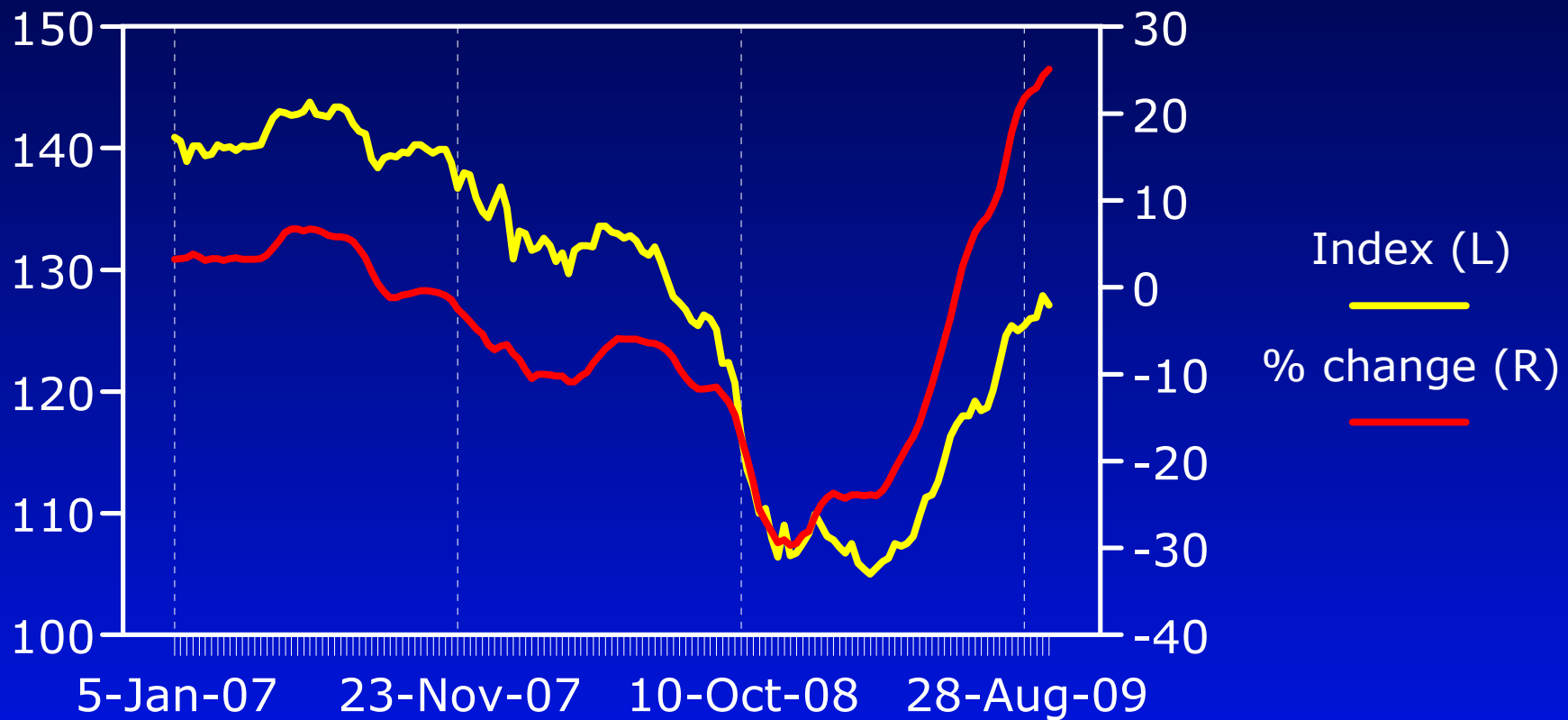


Leading index signals U.S. recession is over

U.S. Leading Economic Indicator, Weekly

1992 = 100

Percentage change at annual rate



Source: ECRI.

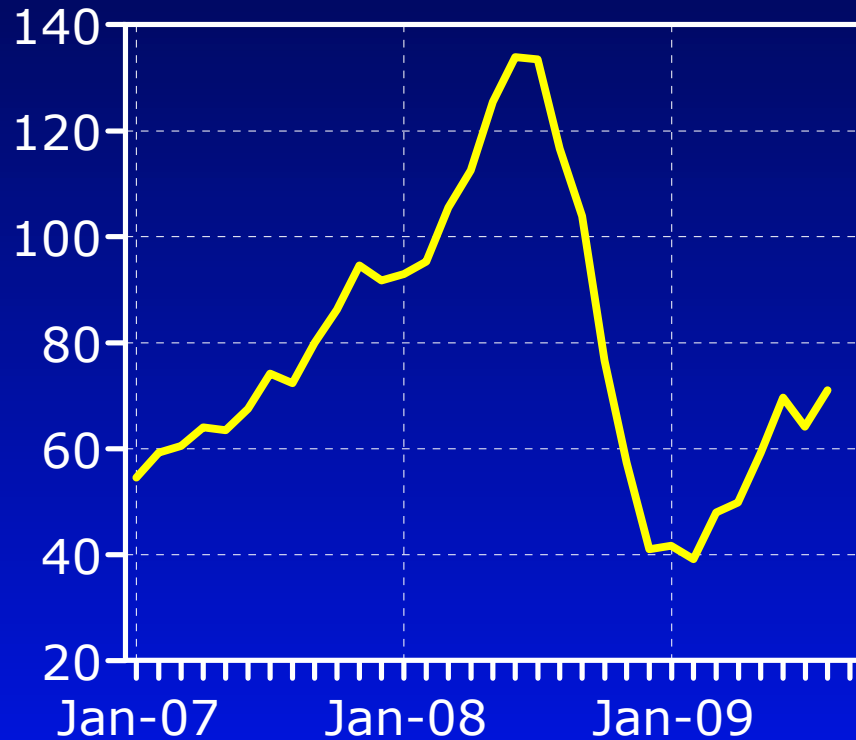
Latest: 25-Sep-09



Steep plunge in commodity prices during financial shock, strong rebound off lows

Crude Oil WTI Spot Price

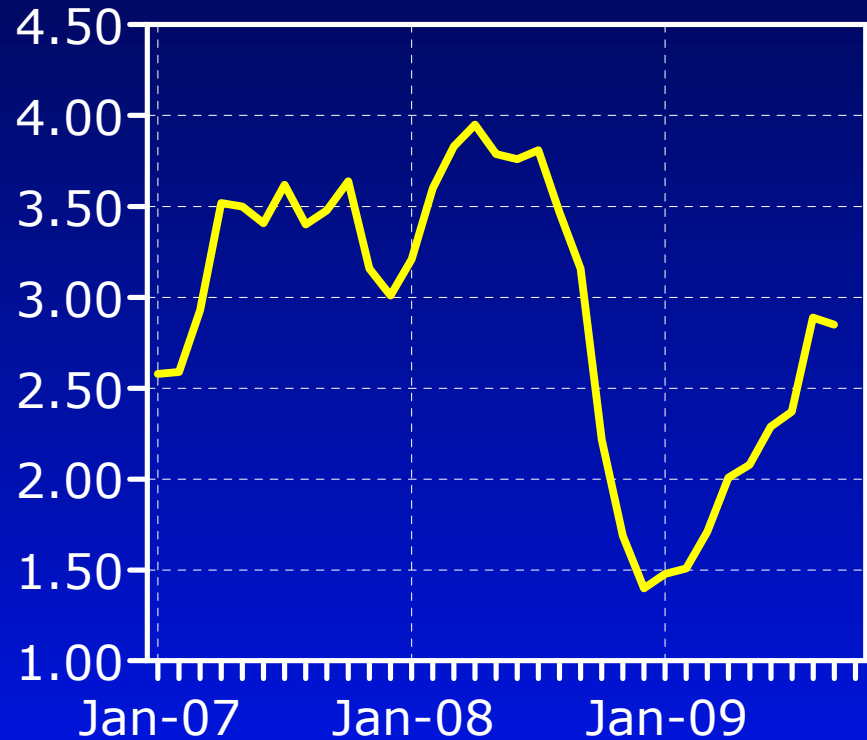
\$U.S. per barrel



Source: U.S. Federal Reserve, BC MEMPR.

Copper Spot Price

\$U.S. per lb.



Note: Mon. average. Latest: to Sept. 18-09



Sharp decline in equity markets, strong rally since early March

S&P/TSX Index, Weekly



S&P 500 Index, Weekly



Source: Yahoo Finance.

Latest: 9/29/09



Canadian dollar rebound on USD depreciation and rising commodity prices

U.S.-Canada Exchange Rate

U.S. dollar per Canadian dollar



Source: Bank of Canada. Latest: 10/01/09

U.S. Exchange Rate Index

Jan. 1997 = 100



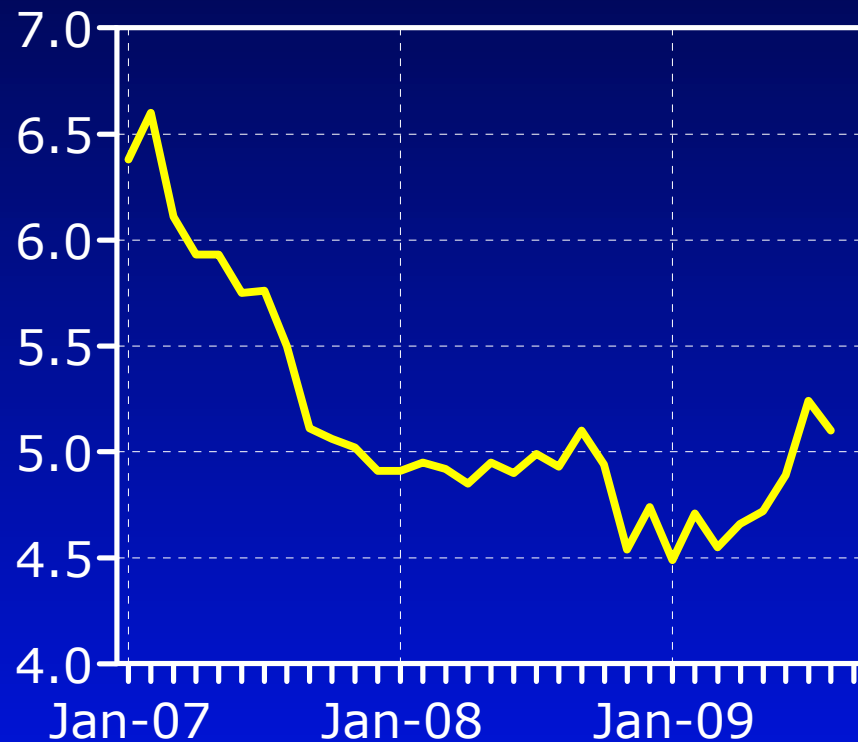
Source: US Fed. Reserve. Latest: 9/30/09



U.S. housing sales reviving, auto sales spike

U.S. Existing Home Sales

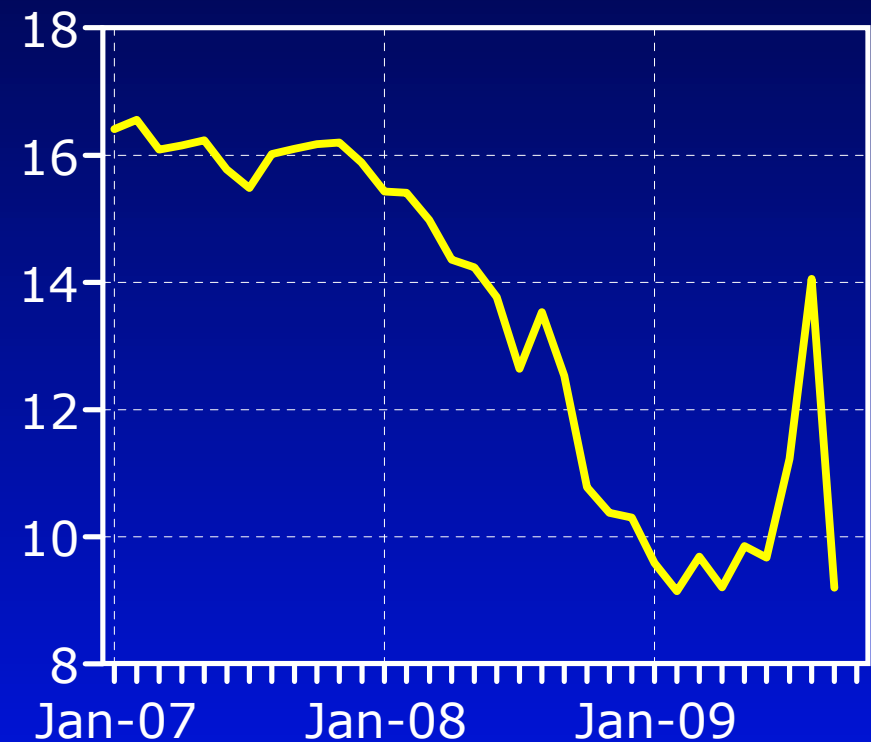
Units - millions



Source: NAR. Note: SAAR. Latest: Aug-09

U.S. Light Vehicle Sales

Units - millions



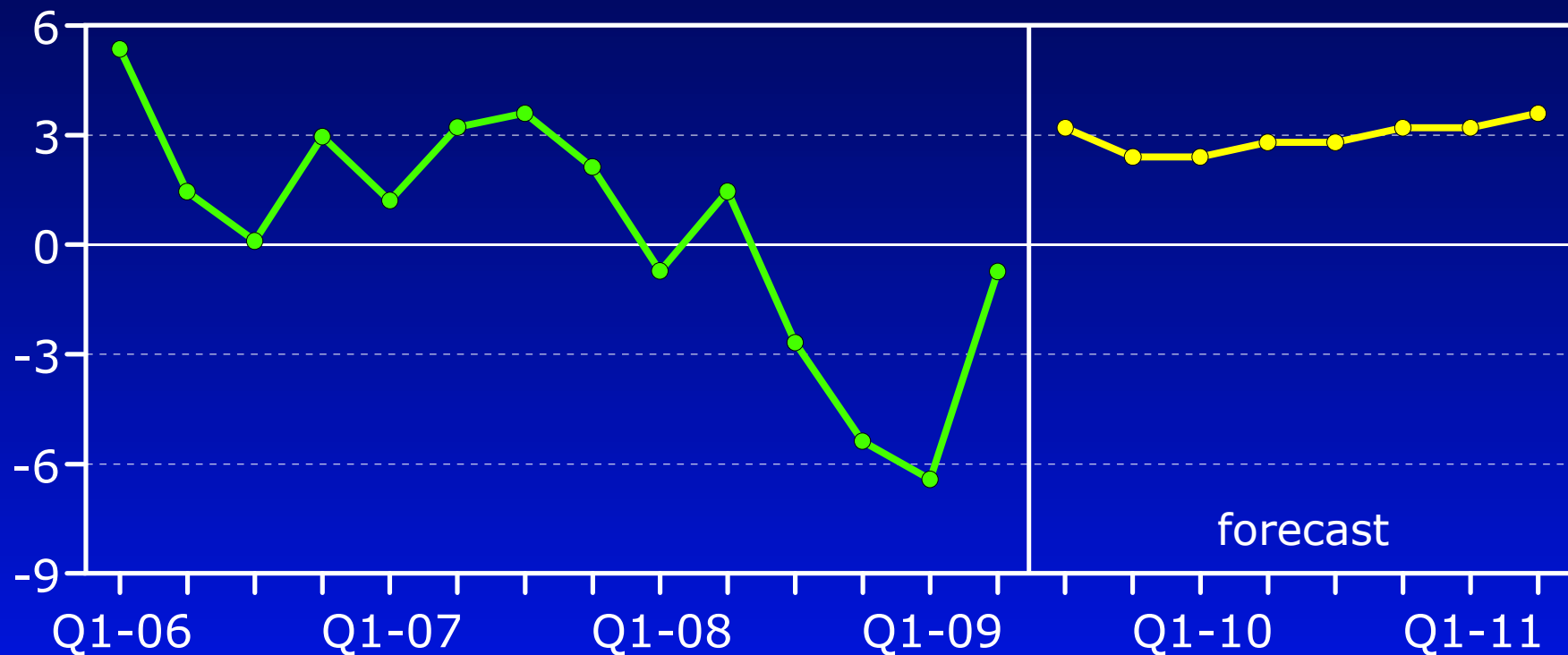
Source: US Federal Reserve. Latest: Sep-09



Consensus view sees recession ending in summer and below-average recovery ahead; odds of a double-dip recession low

Economic Forecast, U.S.

Percentage change at annual rate in real GDP



Source: US BEA, Consensus Forecasts Sept. 2009. Latest actual: Q2-09



Financial conditions easing in Canada

Financial Conditions Index, Weekly, Canada

0 = average last 10 years



Source: Bank of Canada.

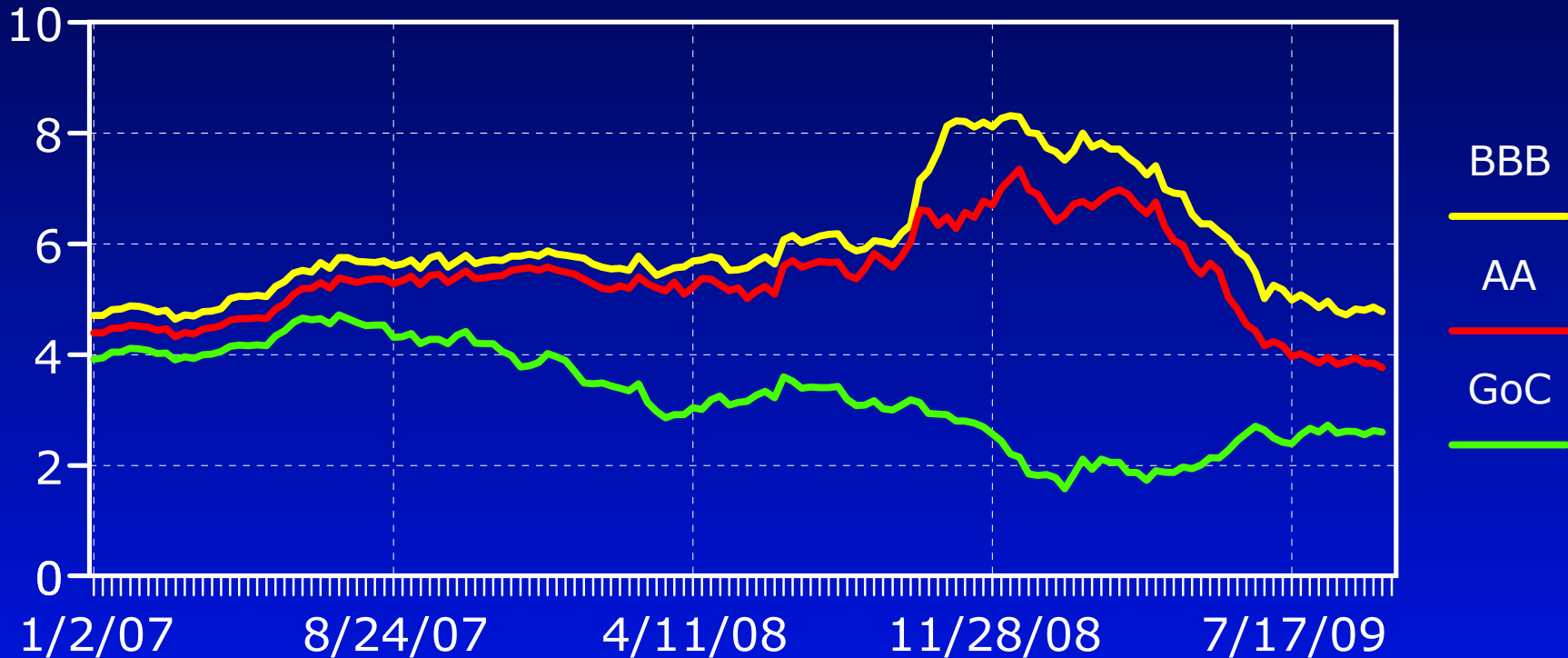
Latest: 9/04/09



High corporate borrowing costs and spreads coming down

Five-year Corporate and Government Bond Yields, Weekly

Per cent



Source: BMOCM, Bank of Canada.

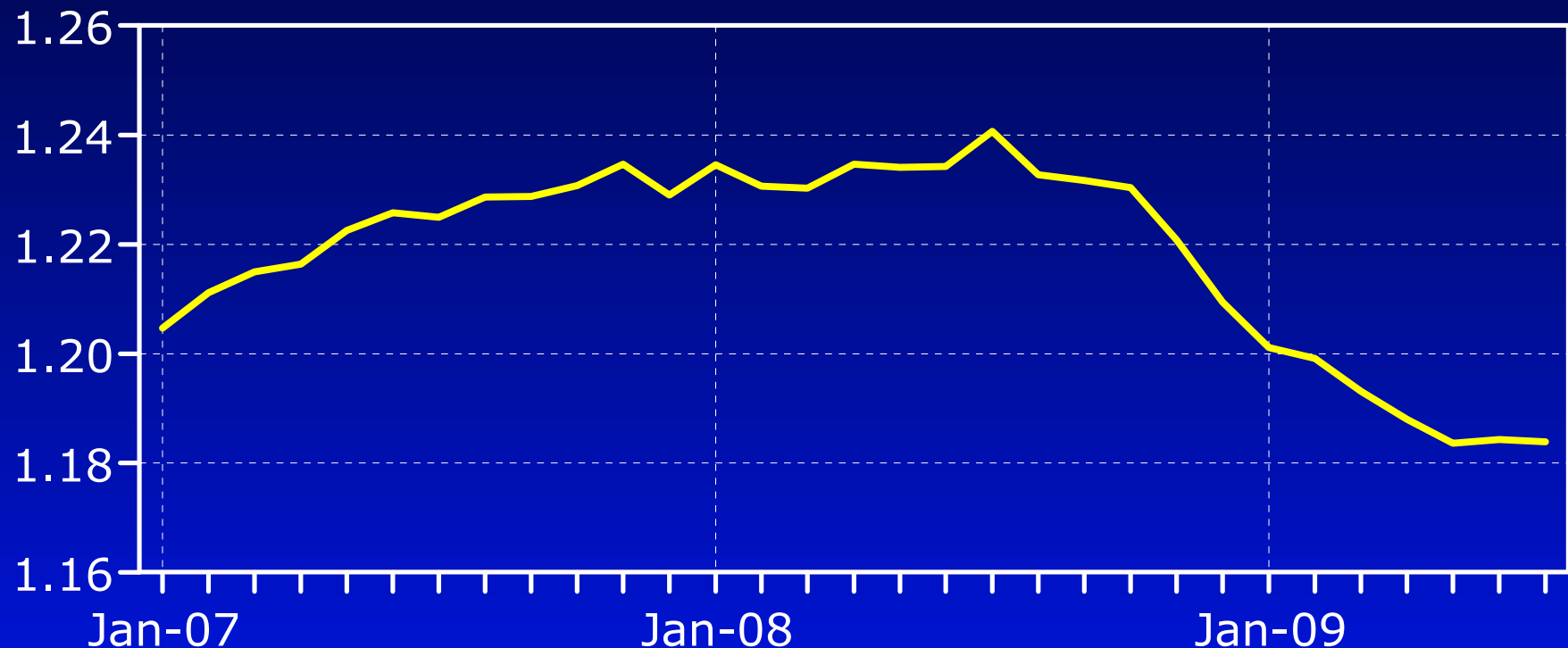
Latest: 9/25/09



Economic output no longer declining

Gross Domestic Product, Canada

Dollars - billions chained 2002

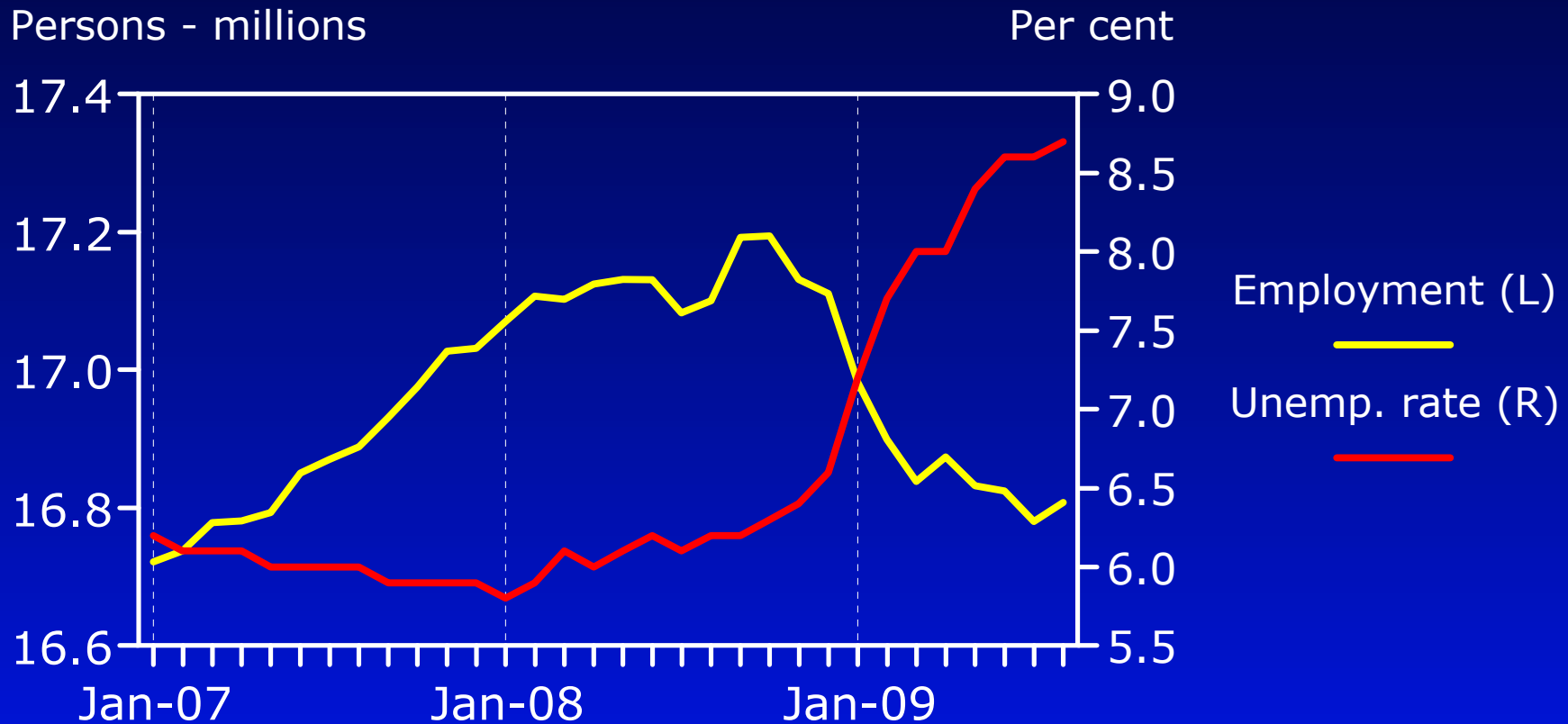


Source: Statistics Canada. Note: Seasonally adjusted annual rate. Latest: Jul-09



Sharp deterioration in national labour market since October 2008

Labour Market, Canada

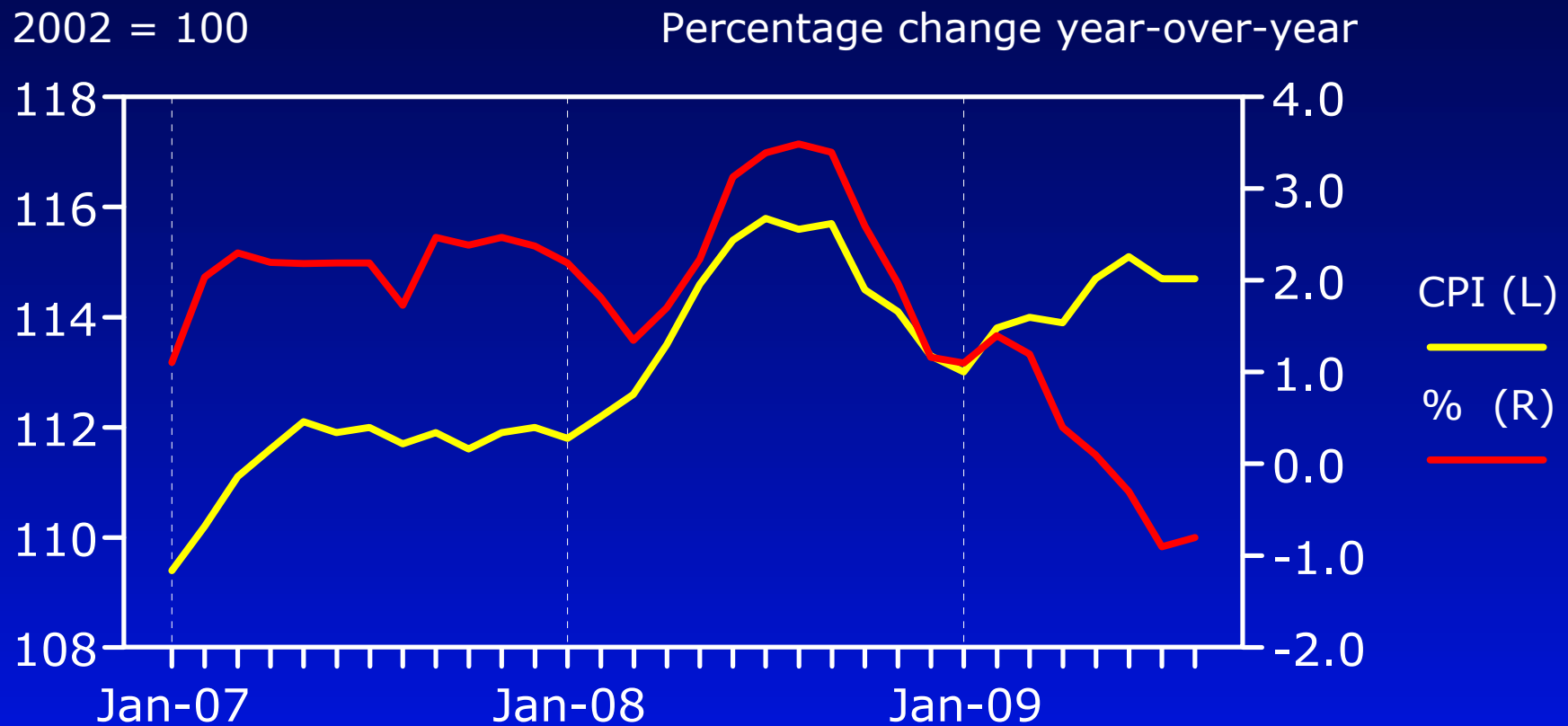


Source: Statistics Canada. Note: Seasonally adjusted. Latest: Aug-09



Total inflation rate dropping sharply due to lower energy prices

Consumer Price Index, Canada



Source: Statistics Canada.

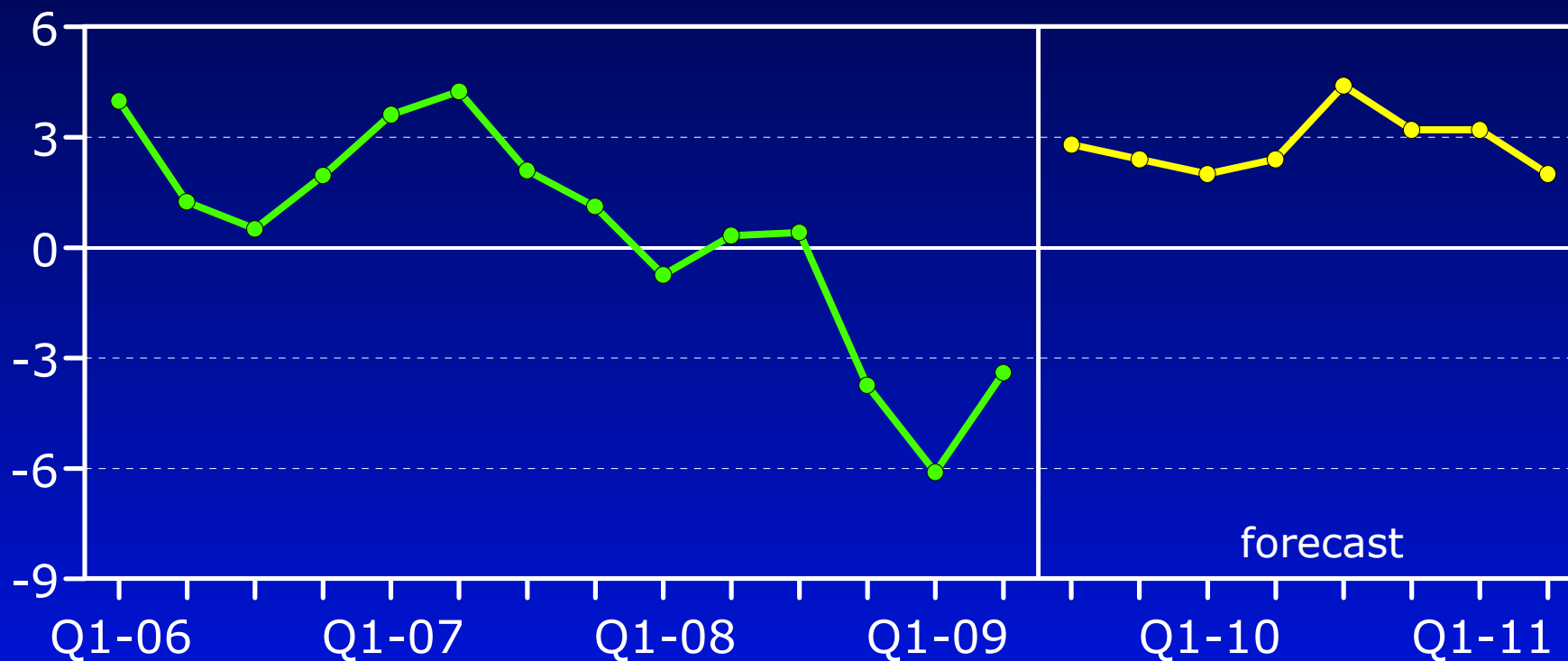
Latest: Aug-09



Canada's economic recovery profile similar to U.S. economy

Economic Forecasts, Canada

Percentage change at annual rate in real GDP



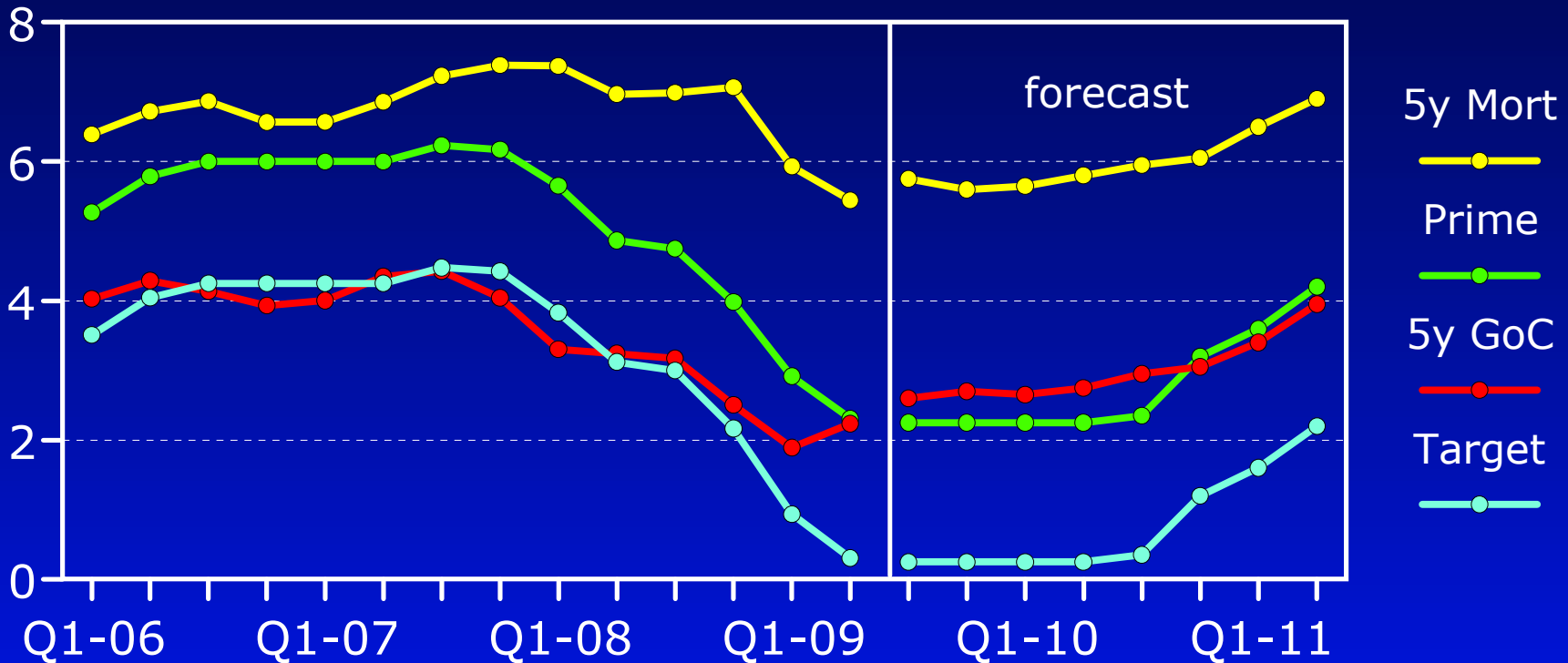
Source: Statistics Canada, Consensus Forecasts Sep-09. Latest actual: Q2-09



Rates begin climbing in later in 2010

Interest Rate Forecasts, Quarterly, Canada

Per cent

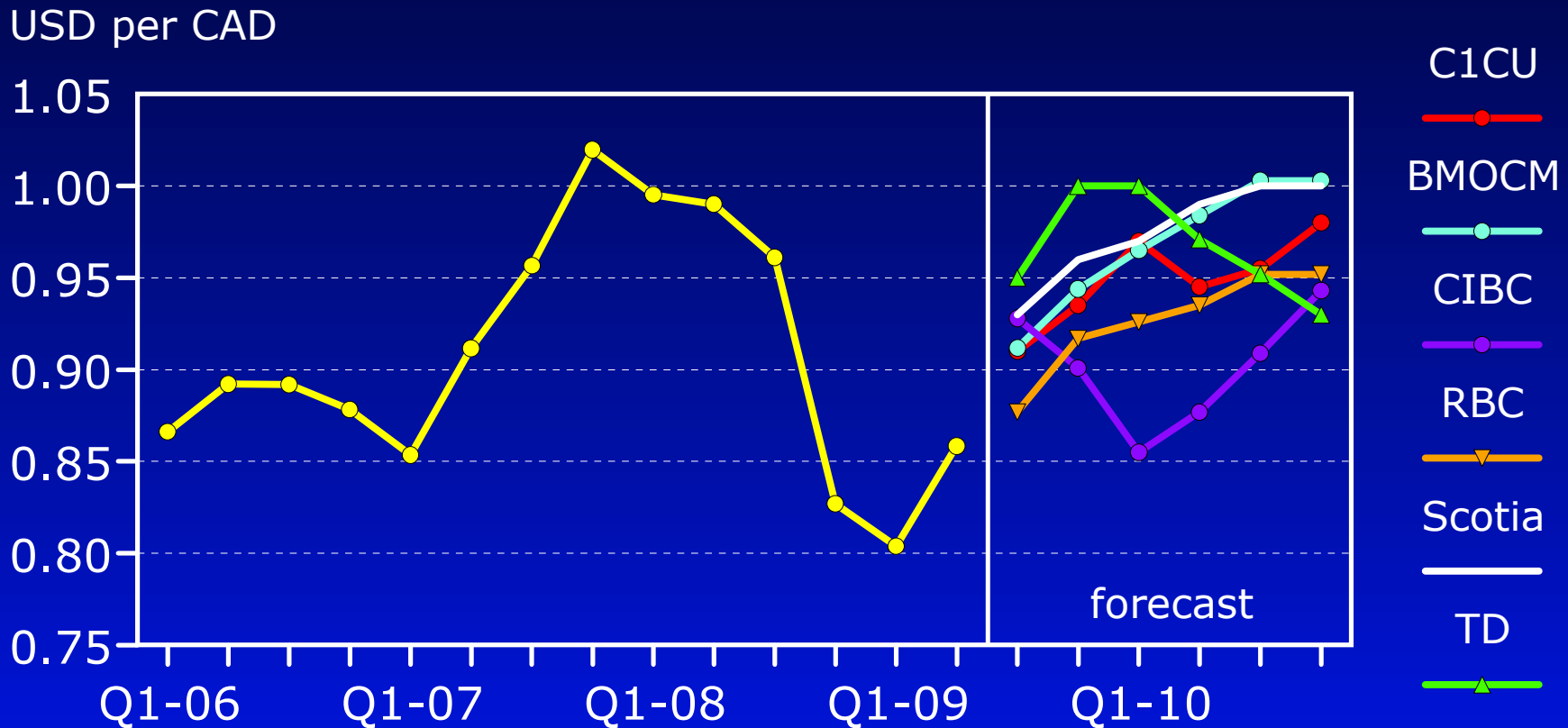


Source: Bank of Canada, C1CU. Note: Averages. Latest actual: Q2-09



Higher Canadian dollar expected in 2010

Exchange Rate Forecasts, Quarterly, Canada



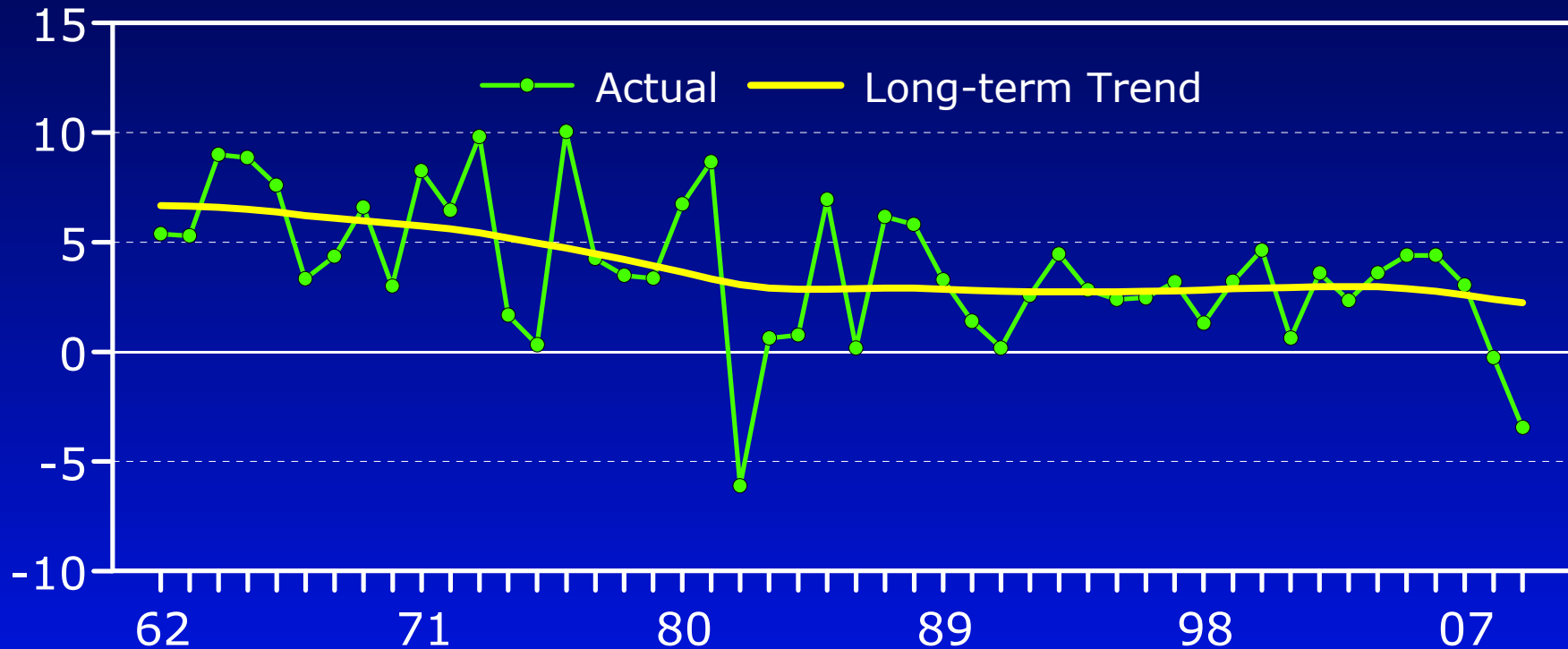
Source: Bank of Canada, C1CU. Note: Averages. Latest actual: Q2-09



Financial crisis causes first B.C. recession since 1991 and most severe since 1982

Economic Growth, B.C.

Percentage change in real GDP

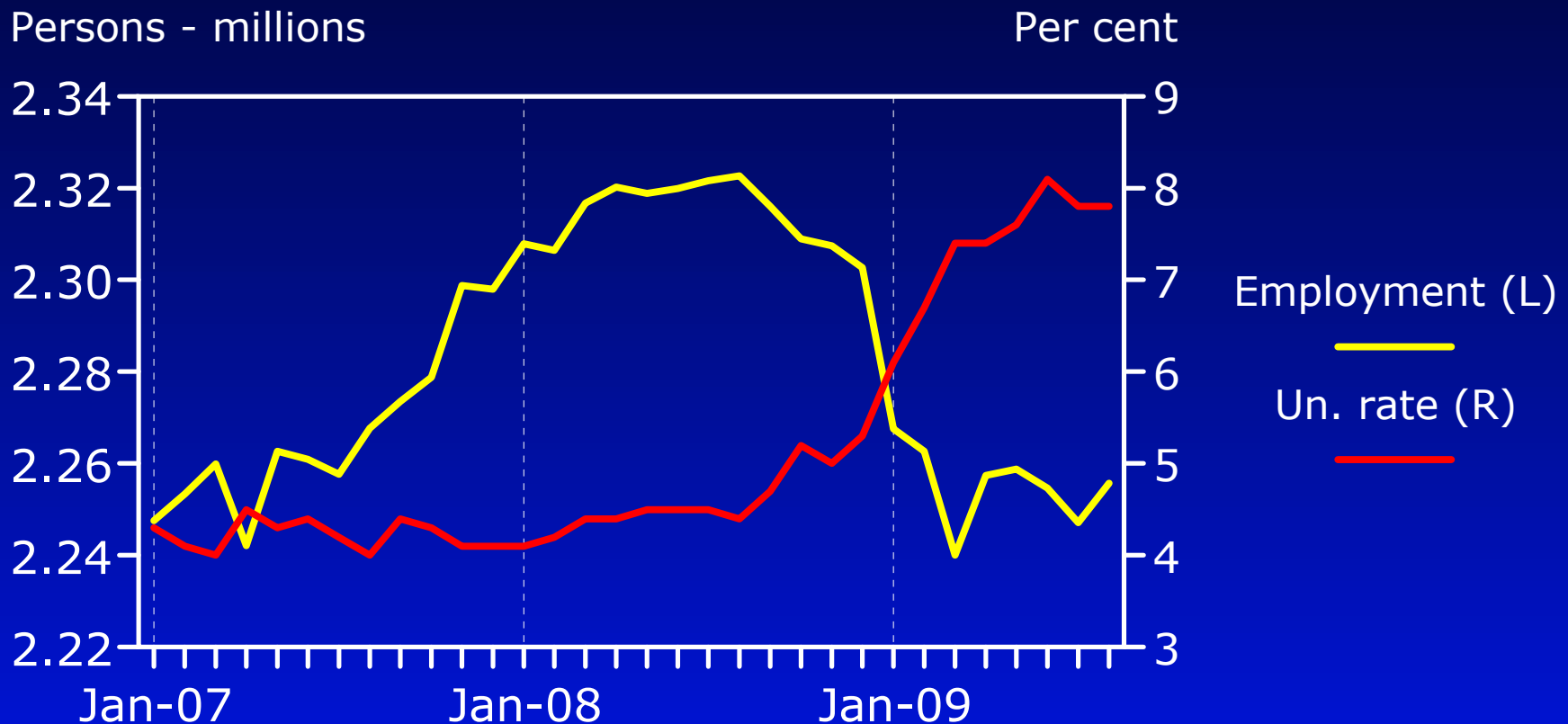


Source: Statistics Canada, C1CU. Latest actual 2008, 2009 forecast.



B.C. employment level stabilizing

Labour Market, B.C.

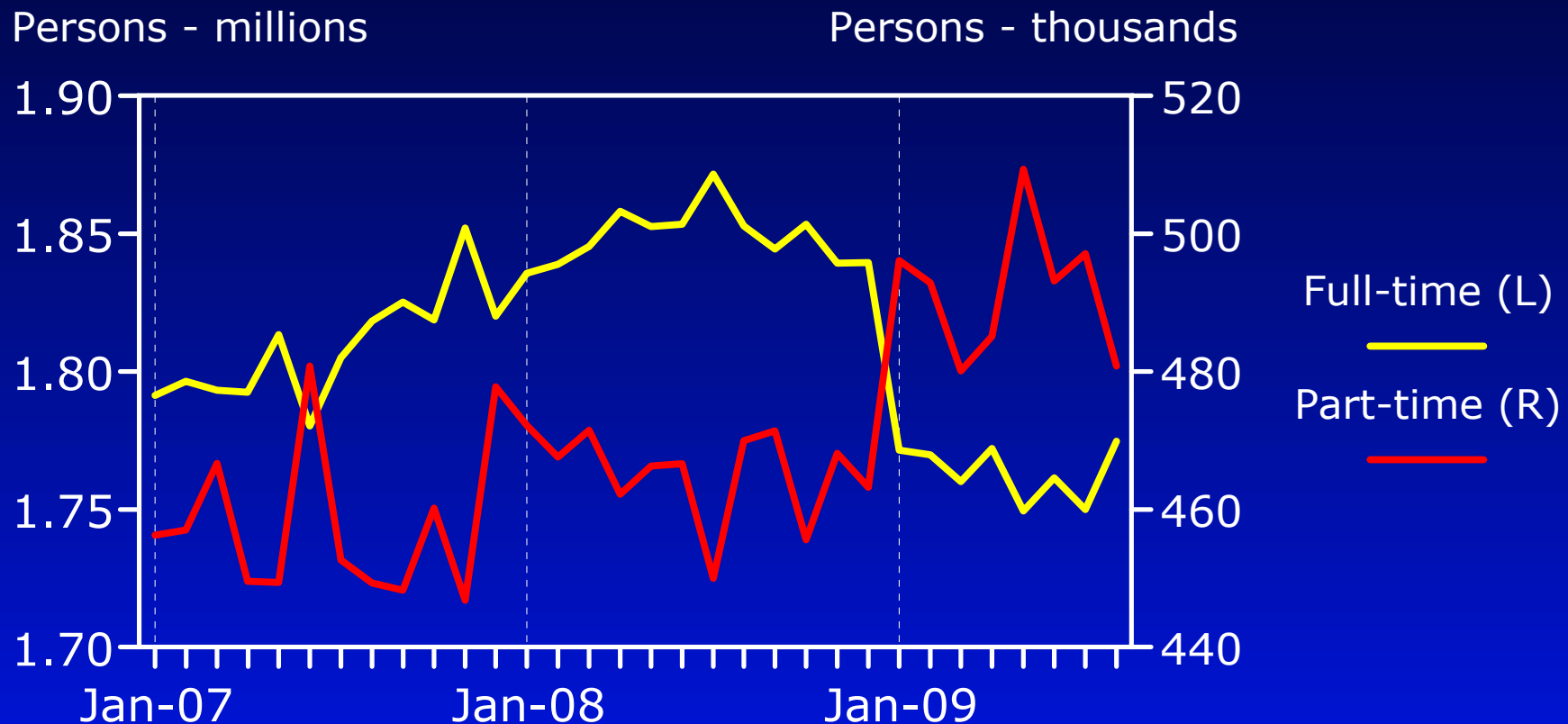


Source: Statistics Canada. Note: Seasonally adjusted. Latest: Aug-09



Full-time employment up, part-time down in latest month

Employment Status, B.C.



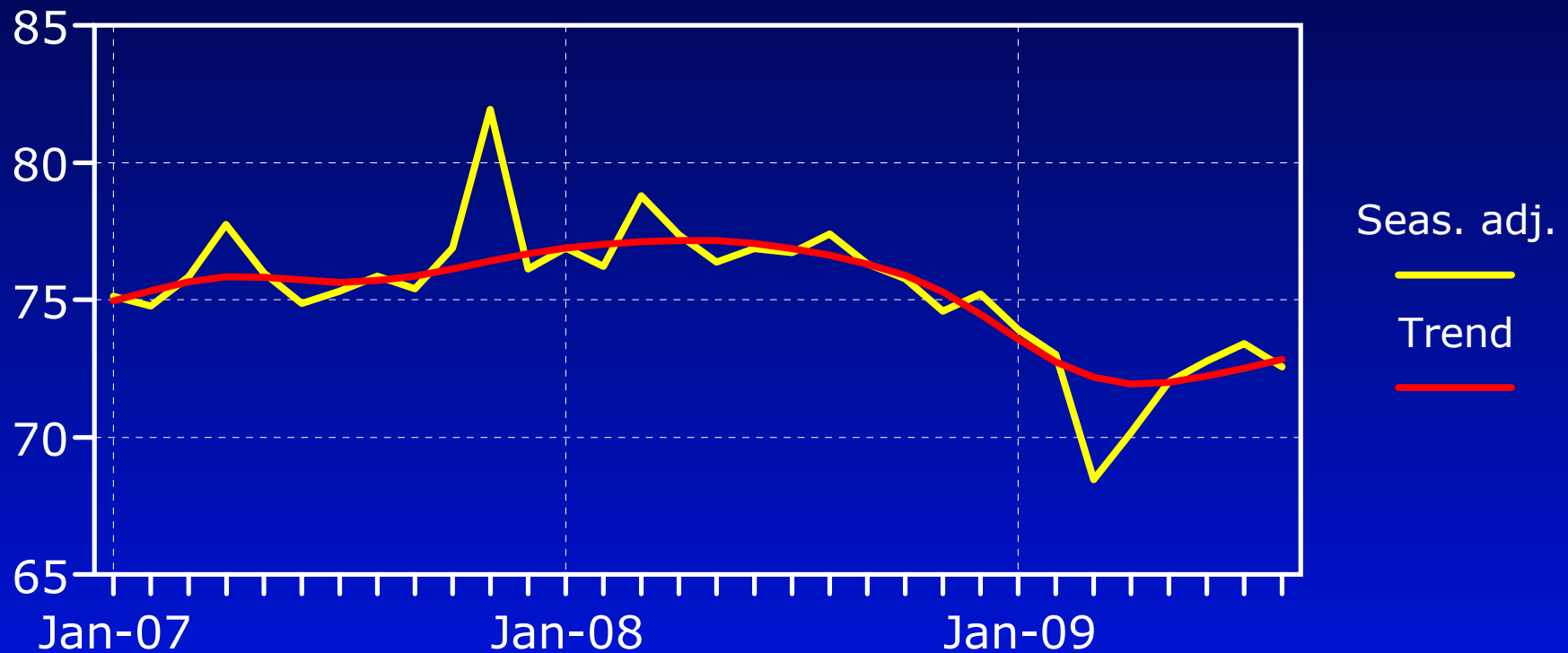
Source: Statistics Canada. Note: Seasonally adjusted. Latest: Aug-09



Hours worked trending higher

Total Actual Hours Worked, B.C.

Hours - millions



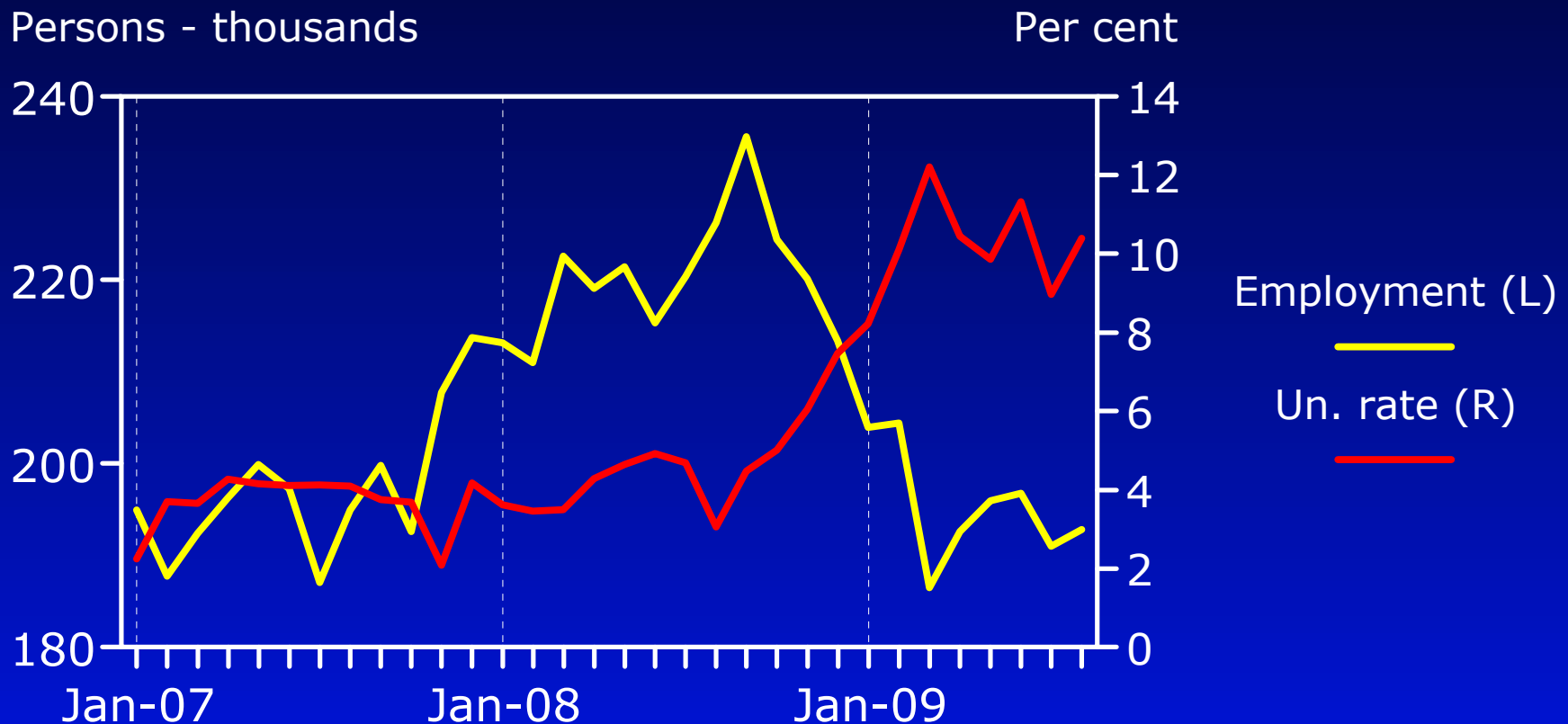
Source: Statistics Canada, C1CU.

Latest: Aug-09



Construction unemployment rate high but declining

Construction Labour Market, B.C.

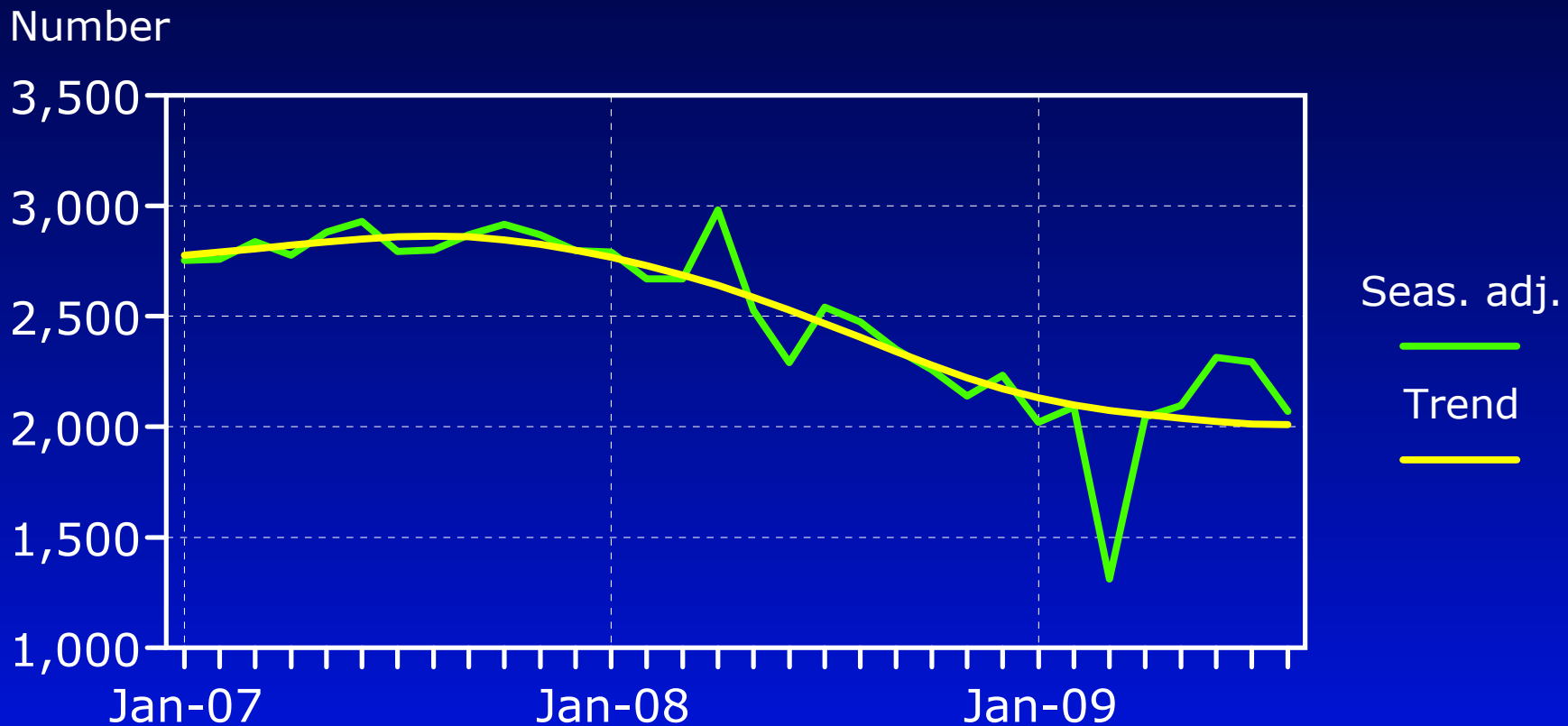


Source: Statistics Canada. Note: Seasonally adjusted. Latest: Aug-09



Decline slowing in business formations

Business Incorporations, B.C.



Source: BC Ministry of Finance, BC STATS.

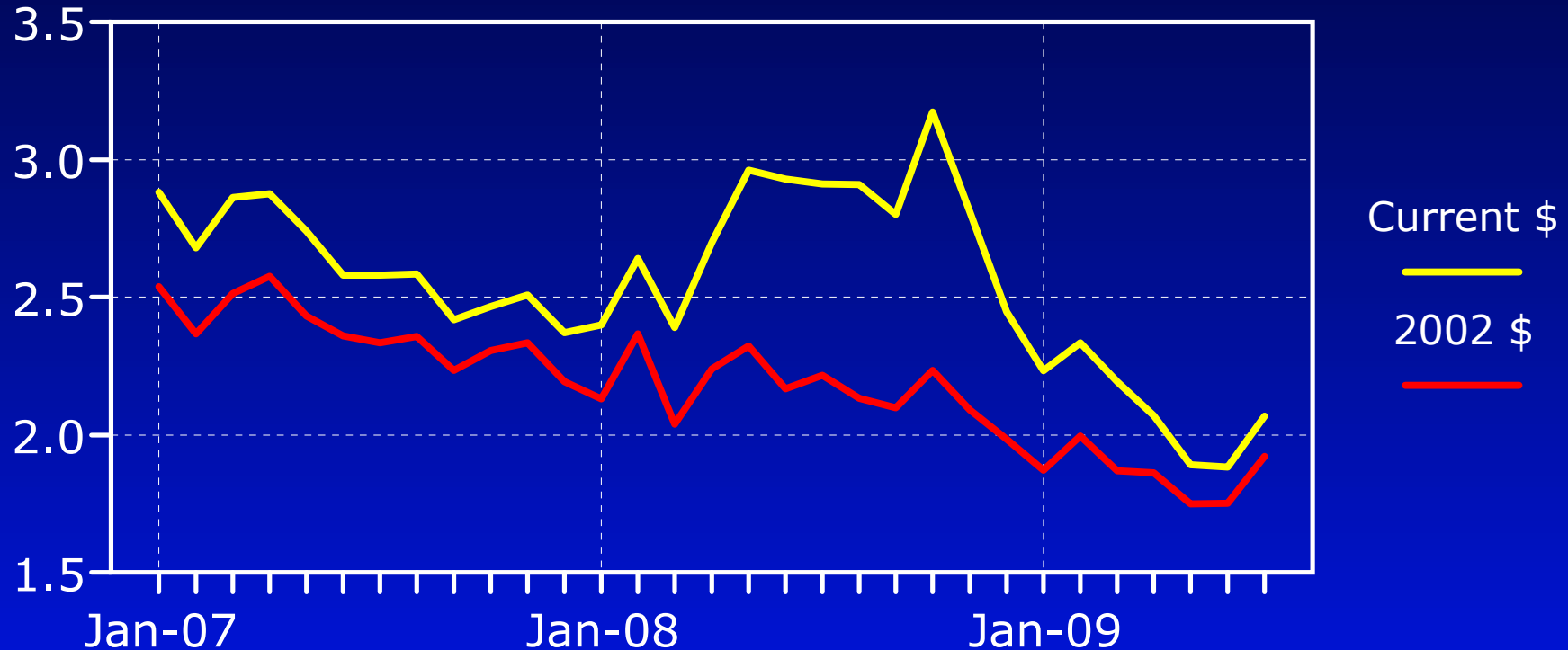
Latest: Aug-09



July exports turn up, cyclical recovery next?

International Merchandise Exports, B.C.

Dollars - billions



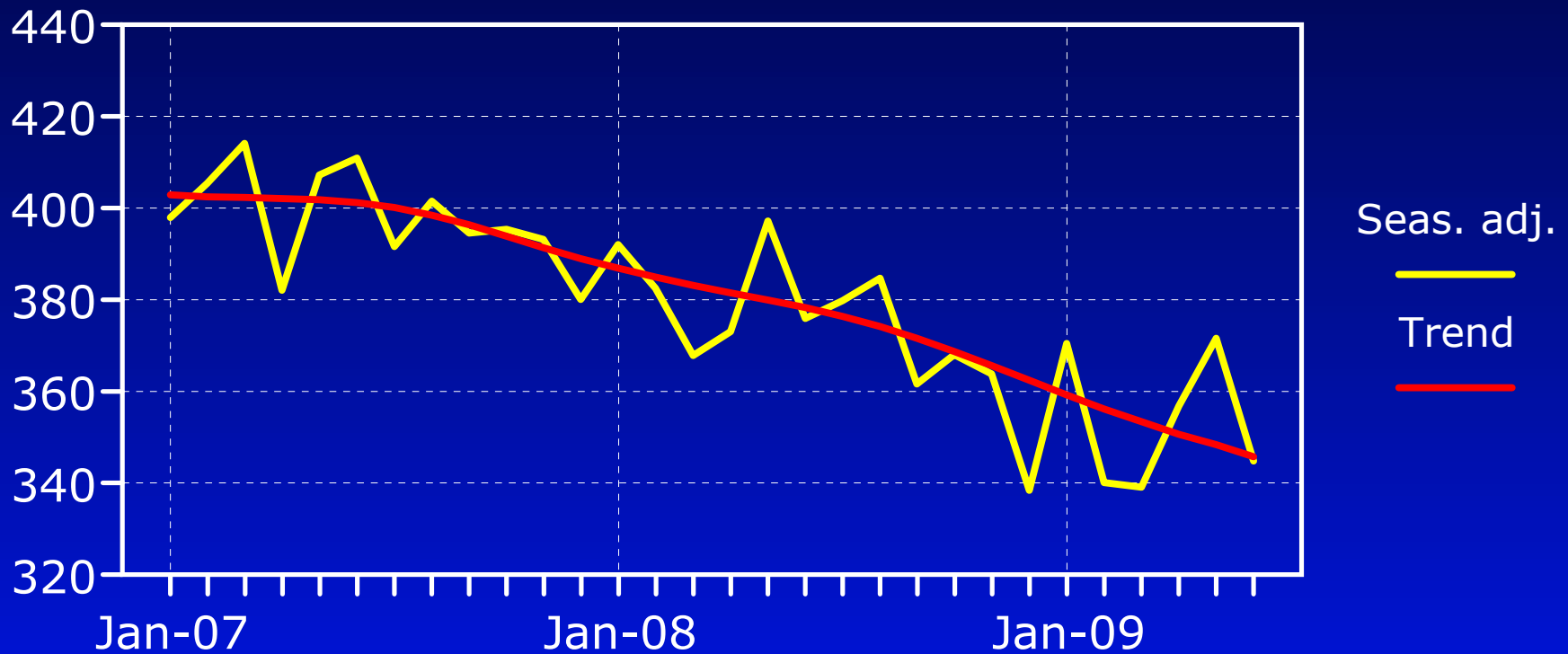
Source: Statistics Canada, C1CU. Note: Seasonally adjusted Latest: Jul-09



Tourists from other countries declining

International Tourist Entries, B.C.

Persons - thousands



Source: Statistics Canada, C1CU.

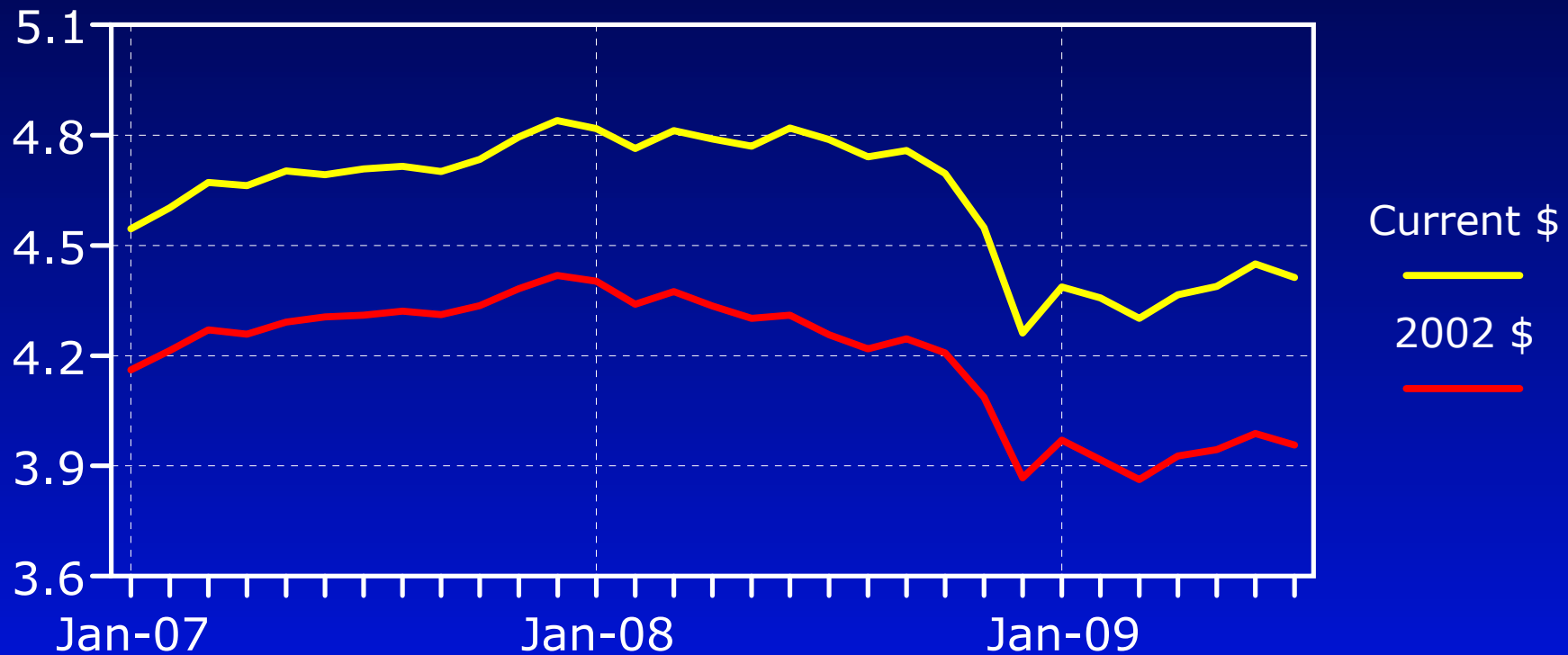
Latest: Jun-09



Retail sales stabilizing after sharp fall

Retail Sales, B.C.

Dollars - billions



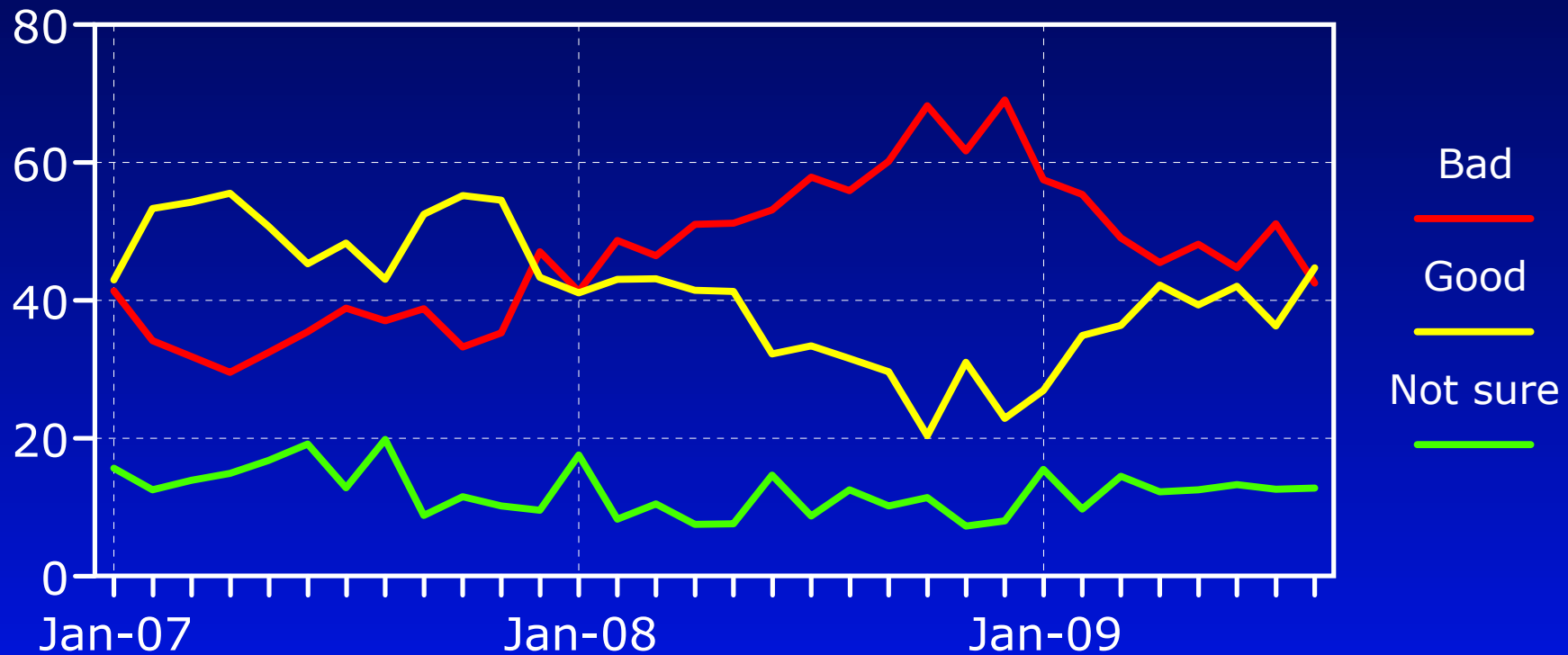
Source: Statistics Canada, C1CU. Note: Seasonally adjusted. Latest: Jul-09



Consumers view major purchases more favourably

Conditions for Major Purchase, B.C. Consumers, Monthly

2002 = 100



Source: Conference Board of Canada.

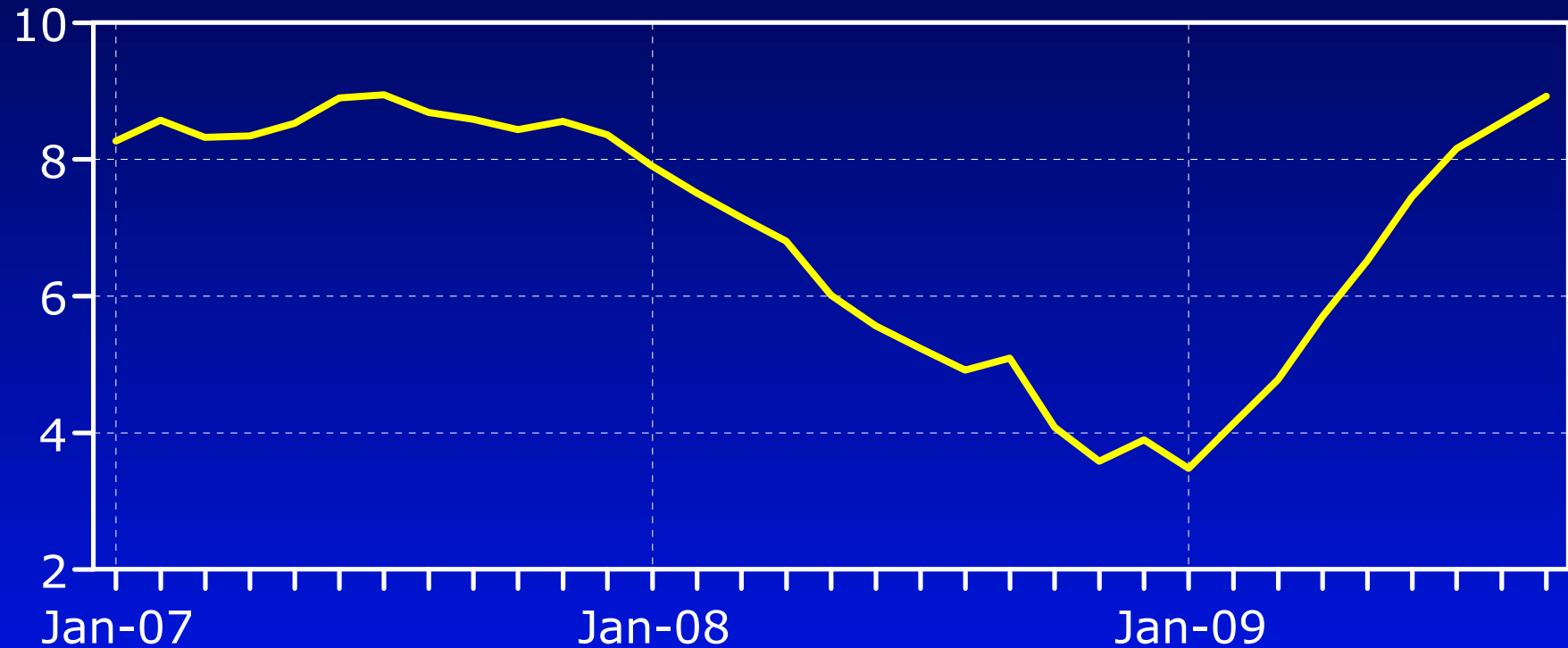
Latest: Aug-09



Housing sales rebounding

MLS Residential Sales, B.C.

Units - thousands



Source: CREA, C1CU.

Note: Seasonally adjusted.

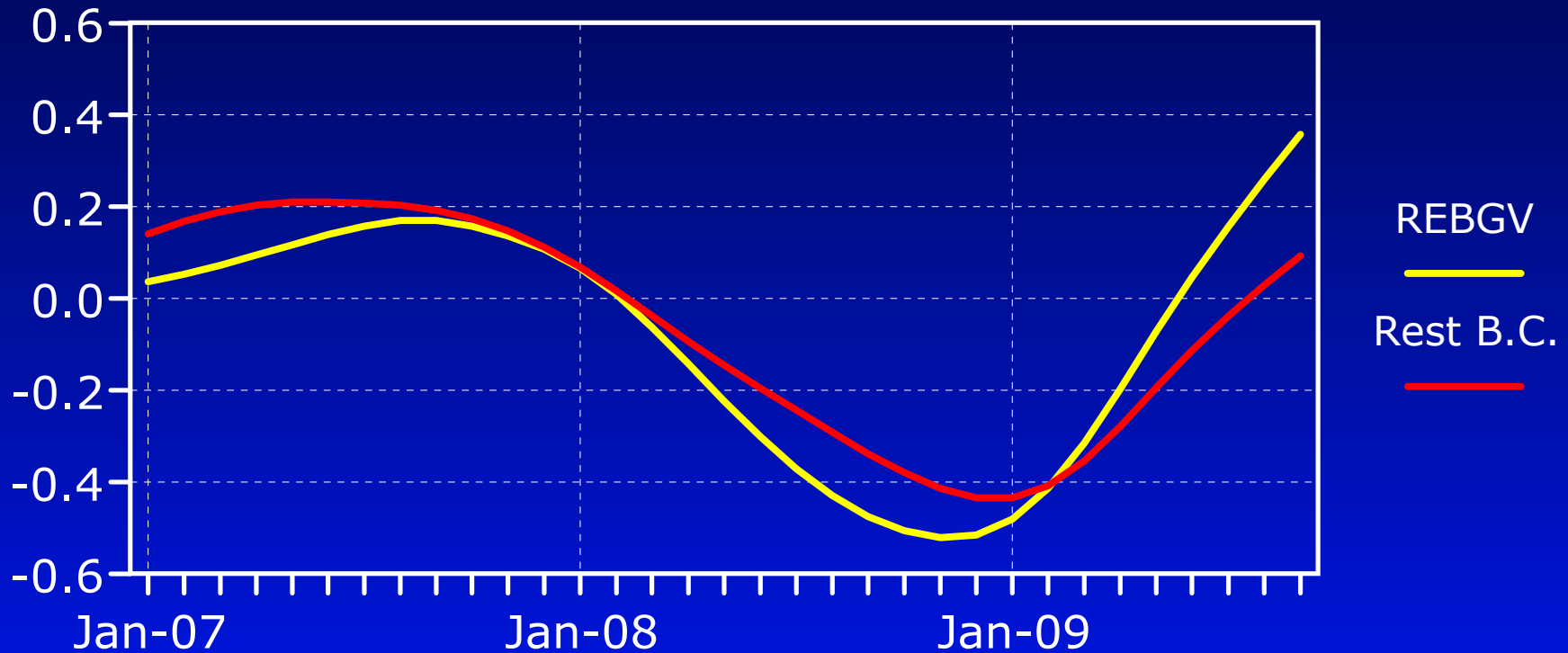
Latest: Sep-09



Housing sales recovery stronger in Greater Vancouver REB

MLS Residential Sales Cycle

Percent deviation from trend



Source: C1CU.

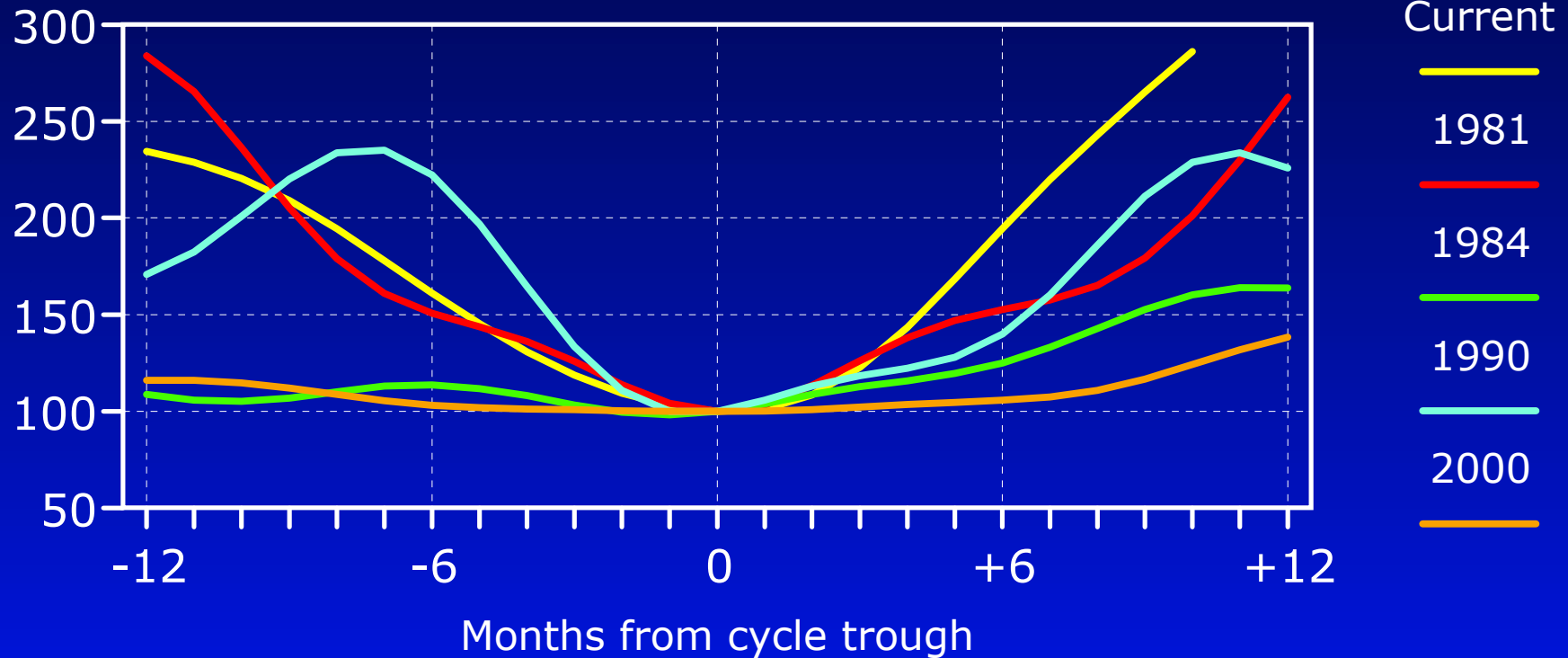
Latest: Sep-09



Current sales recovery strongest on record

MLS Residential Sales Cycle, Greater Vancouver REB

Trough = 100



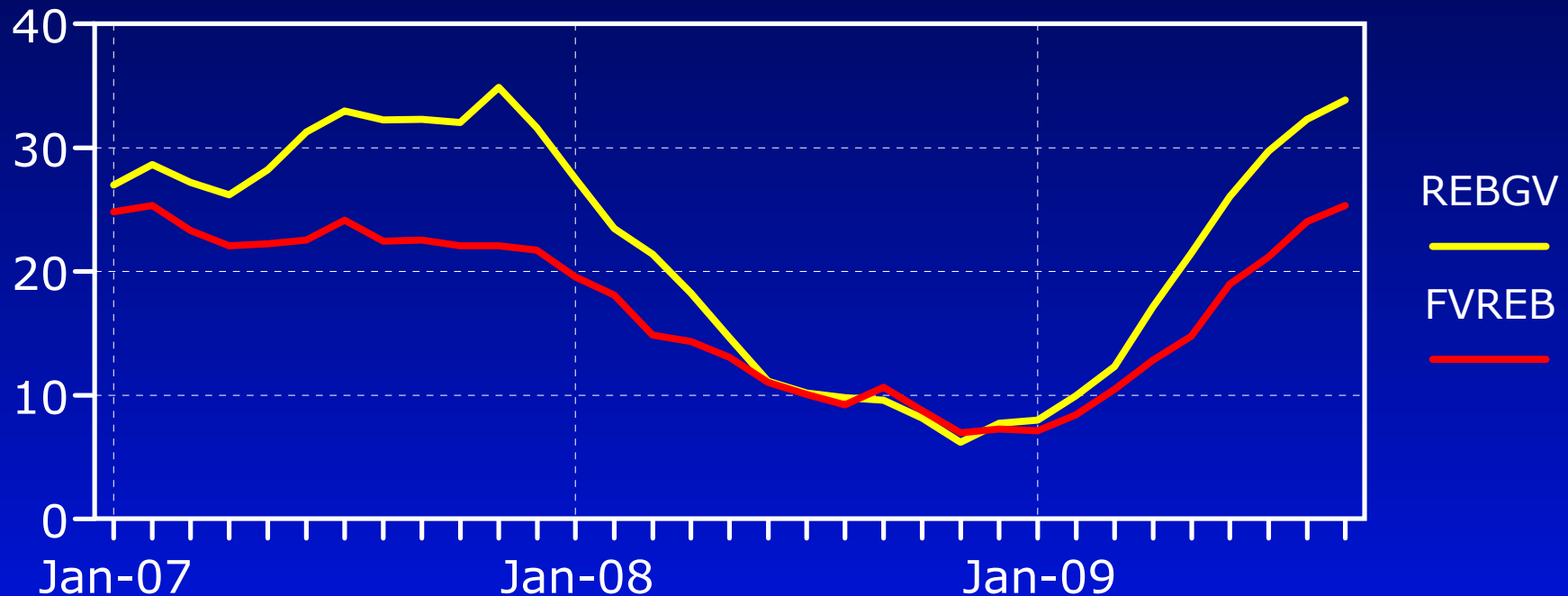
Source: C1CU.



Tighter housing market conditions

Sales-to-active Listings Ratio, Seasonally Adjusted,
Vancouver and Fraser Valley Real Estate Boards

Per cent

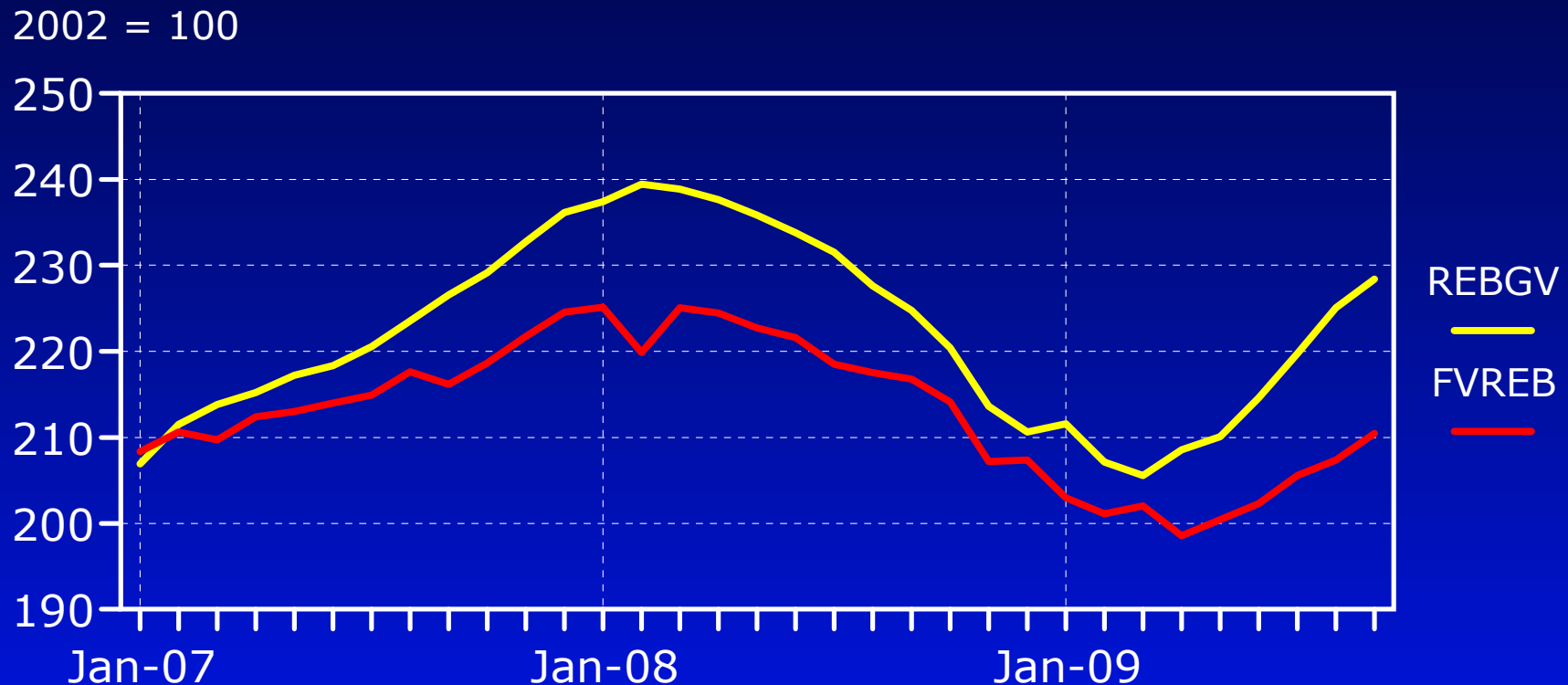


Source: REBGV, FVREB, C1CU. Note: Seasonally adjusted. Latest: Sep-09



Prices climbing, up 5 to 8% from low, off 5 to 7% from peak

MLS Housing Price Index, Vancouver and Fraser Valley Real Estate Boards



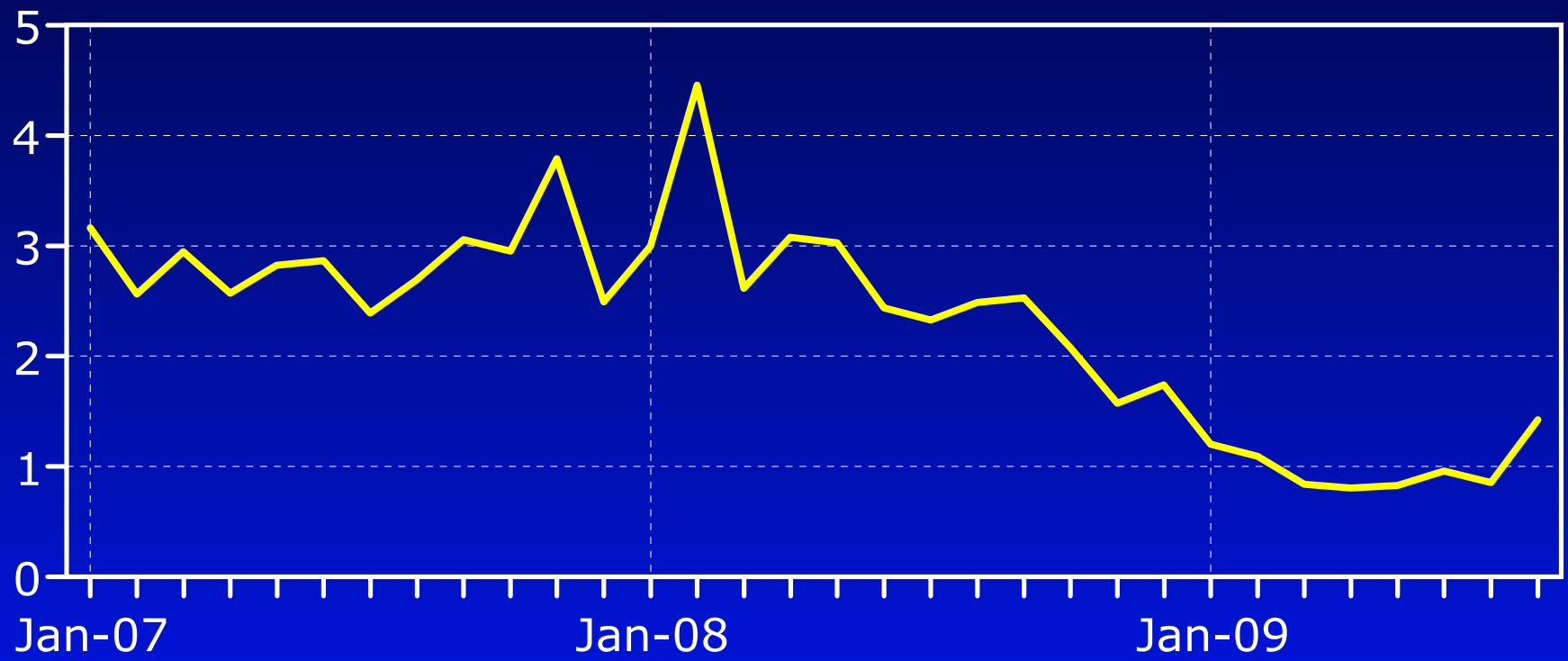
Source: REBGV, C1CU. Note: Based on seasonally adjusted price. Latest: Sep-09



New housing construction at cycle low, heading higher

Housing Starts, B.C. Urban Centres

Units - thousands



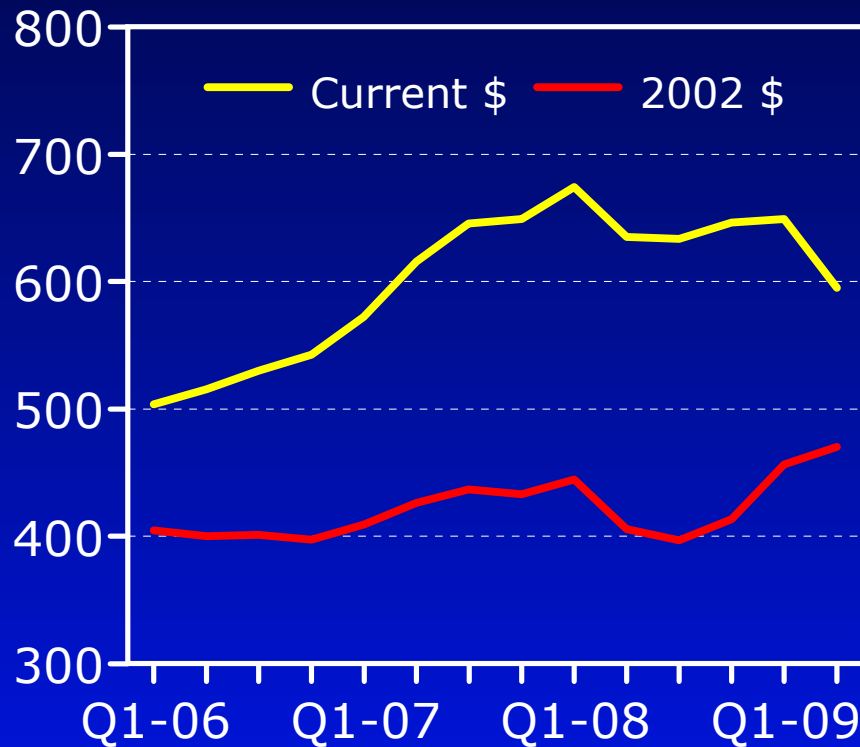
Source: CMHC, C1CU. Note: Seasonally adjusted

Latest: Aug-09

Non-residential building construction investment spending

Pvt. Construction, Vancouver

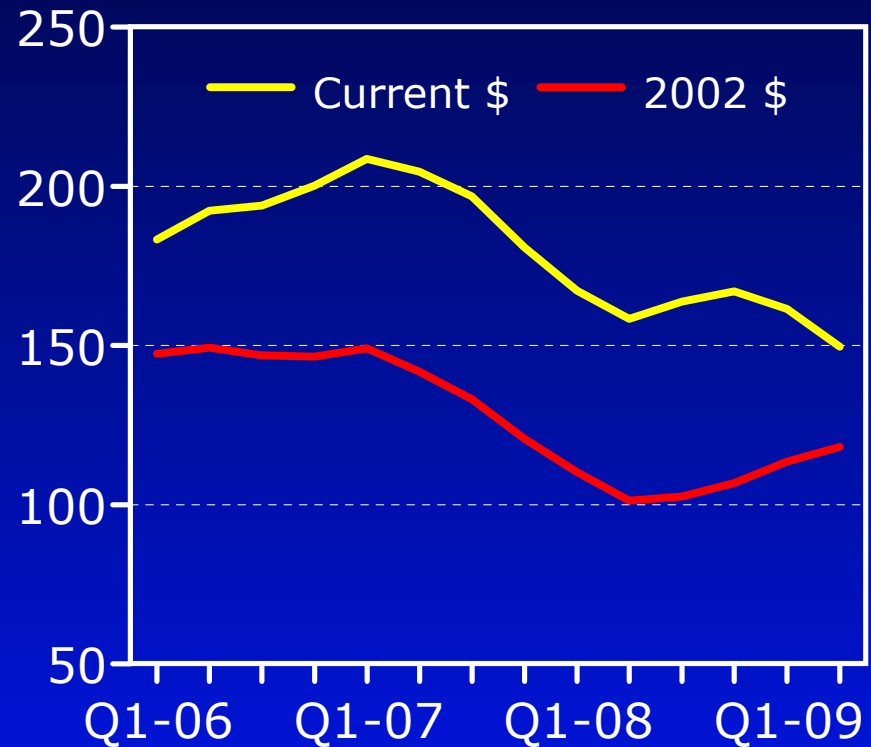
Dollars - millions



Source: Statistics Canada. Latest: Q2-09

Inst.-Govt. Const., Vancouver

Dollars - millions

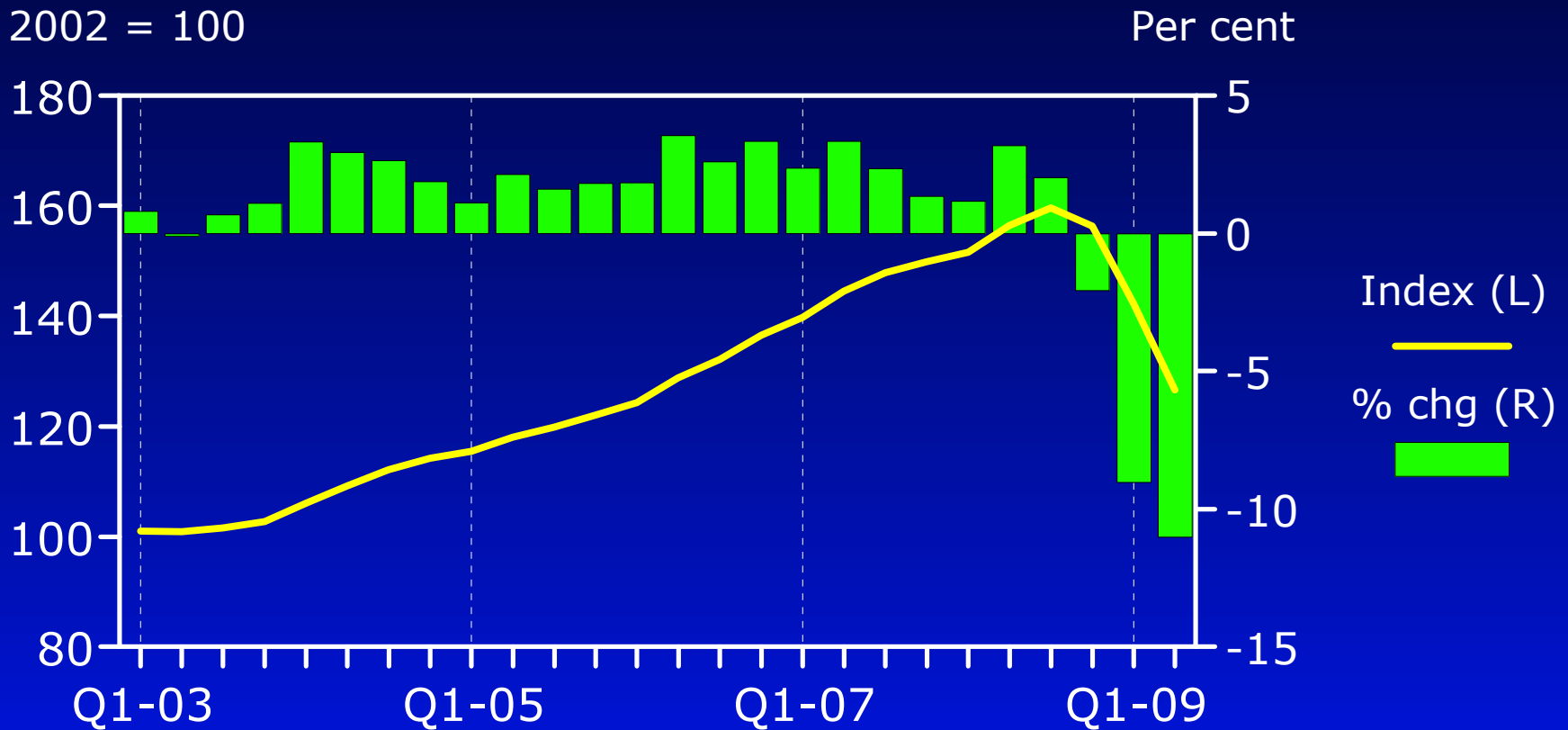


Note: Seasonally adjusted



Large drop in building construction costs

Non-residential Building Construction Price Index, Vancouver



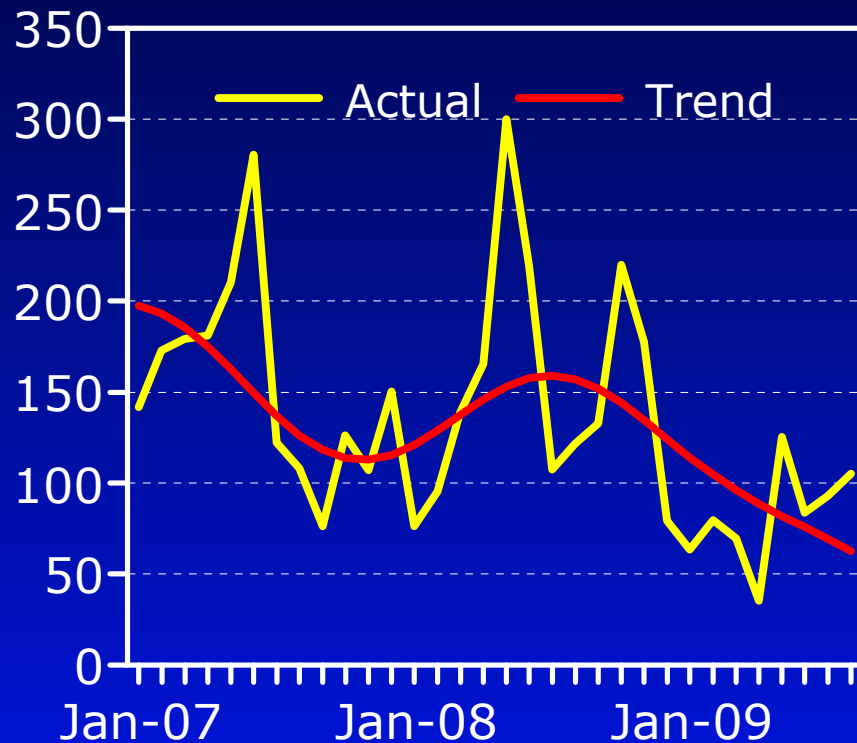
Source: Statistics Canada. Note: Q/Q % change Latest: Q2-09



Declining private building intentions, public spending rising

Pvt. Building Permits, Vancouver

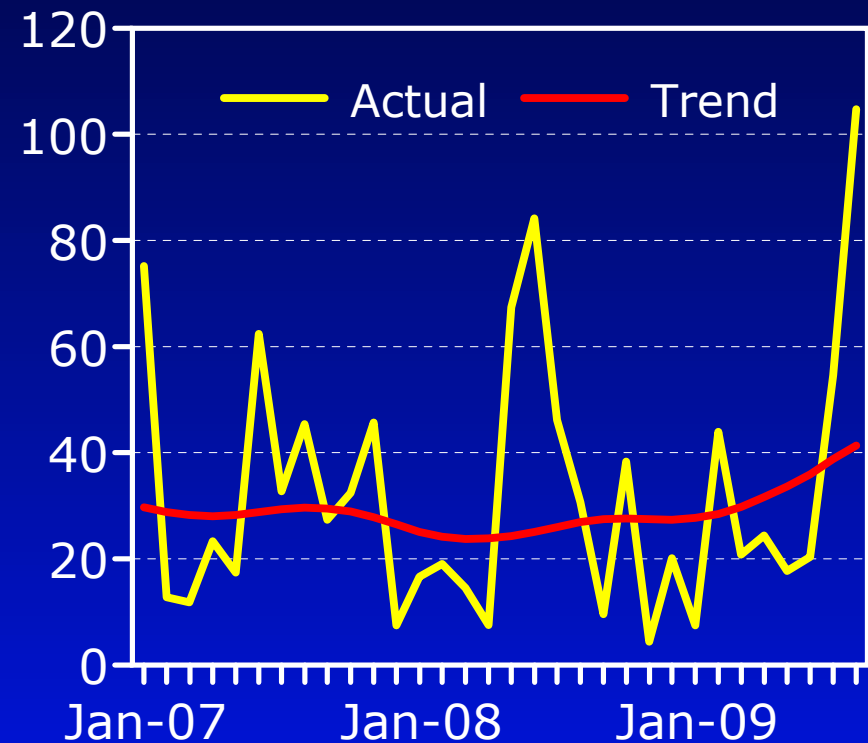
Dollars - millions



Source: Statistics Canada, C1CU.

Inst.-Govt. Building Permits

Dollars - millions



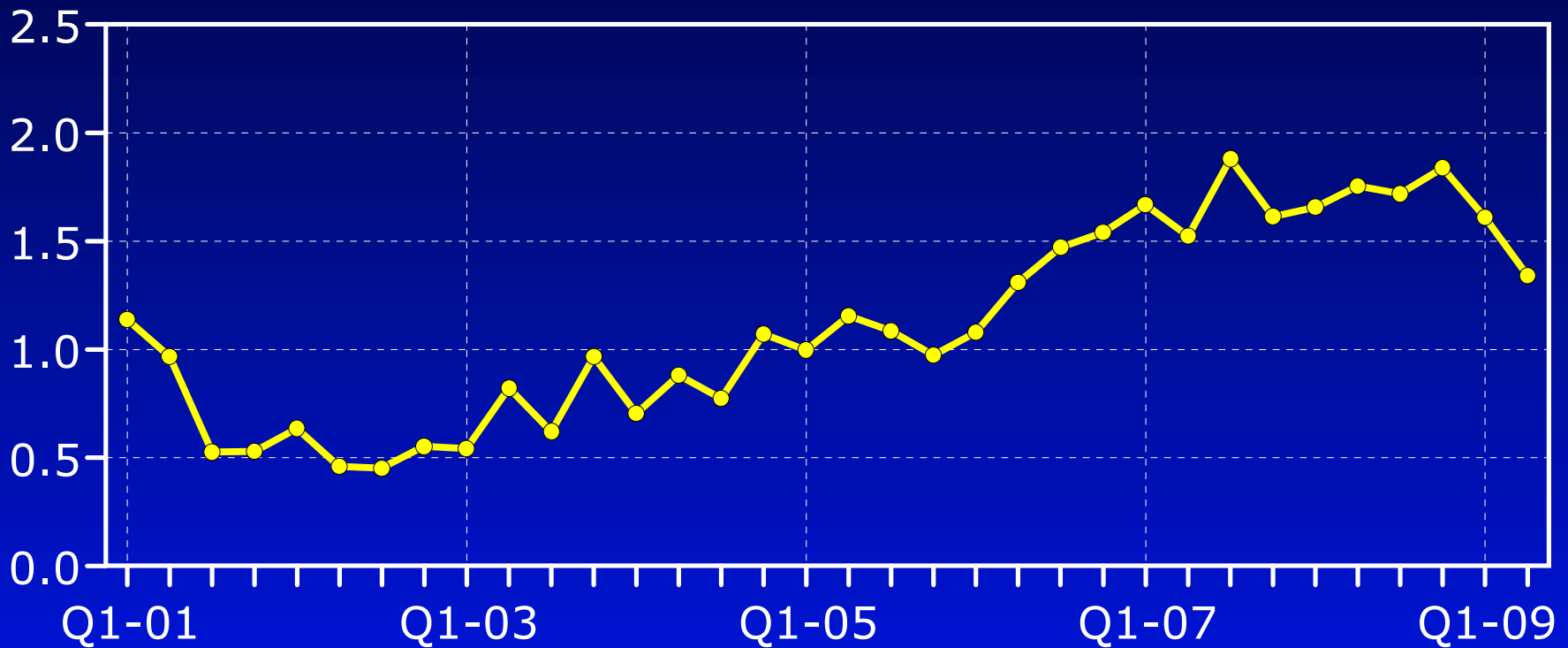
Latest: Aug-09



Population growth recedes

B.C. Population Growth Rate, Quarterly

Percent change at annual rate



Source: Statistics Canada, C1CU.

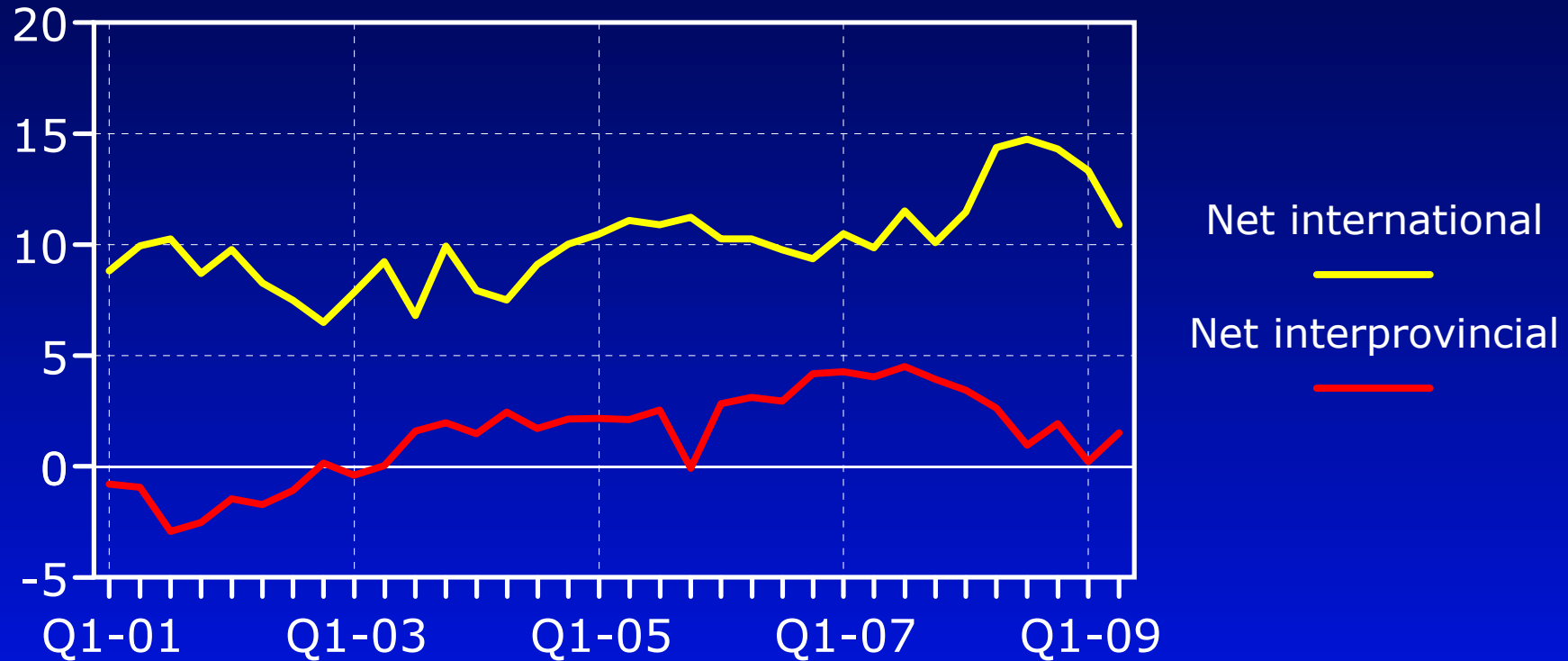
Latest: Q2-09



Lower migration behind slower population growth

Net Migration by Type, B.C., Quarterly

Persons - thousands



Source: Statistics Canada, C1CU. Note: Seasonally adjusted. Latest: Q2-09



B.C. economy in recession in 2009, Olympic bounce in 2010

Indicator	2008	2009f	2010f
Real GDP, % change	-0.3	-3.4	2.4
Nominal GDP, % change	3.5	-4.0	4.1
Personal income, % change	5.2	-1.6	3.3
Employment, % change	2.1	-2.5	1.8
Unemployment rate, %	4.6	7.8	7.5
Corporate profits, % change	2.2	-25.5	14.0

Source: Statistics Canada, C1CU forecast.



B.C. housing market posts further gains in next year

Indicator	2008	2009f	2010f
Population growth, % change	1.7	1.6	1.4
CPI, % change	2.1	0.4	1.7
Retail sales, % change	0.2	-7.2	3.5
Housing sales, % change	-33.0	26.0	12.0
Housing prices, % change	3.5	2.0	6.0
Housing starts, % change	-12.4	-55.0	50.0

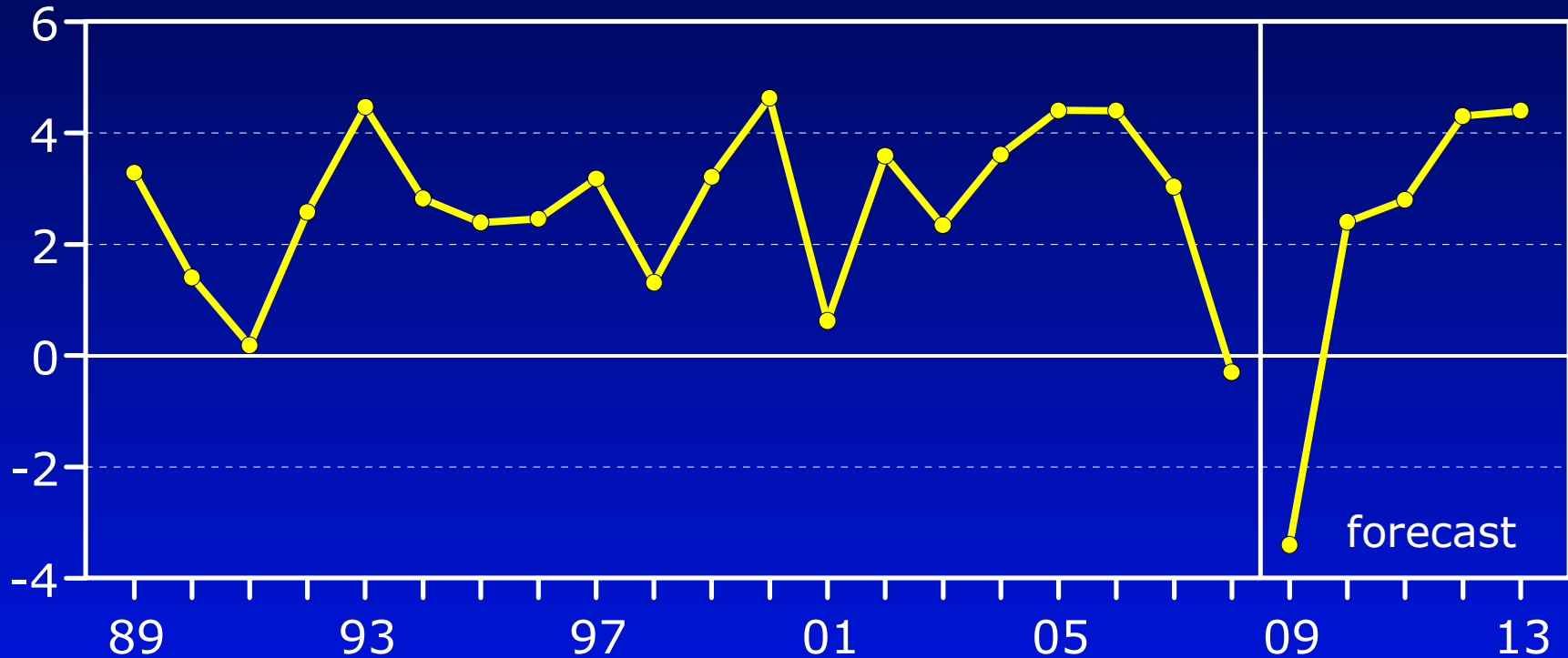
Source: Statistics Canada, CREA, CMHC, C1CU forecast.



Recession ends by 2010, above-average growth in 2012

B.C. Economic Growth to 2013

Percentage change in real GDP



Source: Statistics Canada, C1CU.



Forecast issues and summary:

- Policy-driven, temporary sources of growth
- Ongoing problems in some securitization markets
- Monetary policy actions - removing stimulus on a timely basis
- Inflation concerns re-ignite on rising commodity prices, high level of bank reserves
- Higher CAD worsens trade balance, restrains growth
- Recovery more variable than usual, below-average trend growth

