

B.C. Economic Outlook

Vancouver Real Estate Forum - 2019

April 4, 2019

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Central 1 Credit Union

Outline:

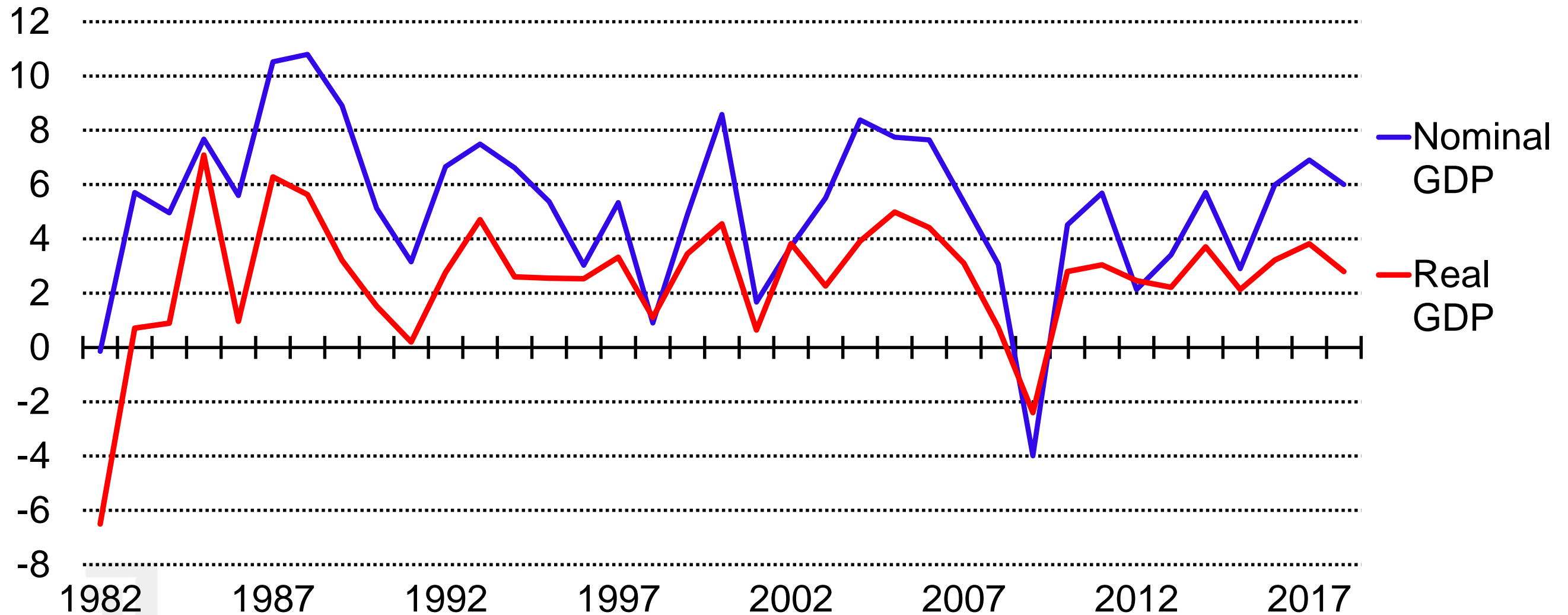
- Examine cyclical and long-term trends
- B.C. economic, population, and real estate activity
- Recession concerns and global outlook
- B.C. medium and long-term outlook

 central 1

B.C. economy's, two recessions since 1980; 5.5% and 3.1% average annual growth last 5 years

Economic Growth: British Columbia

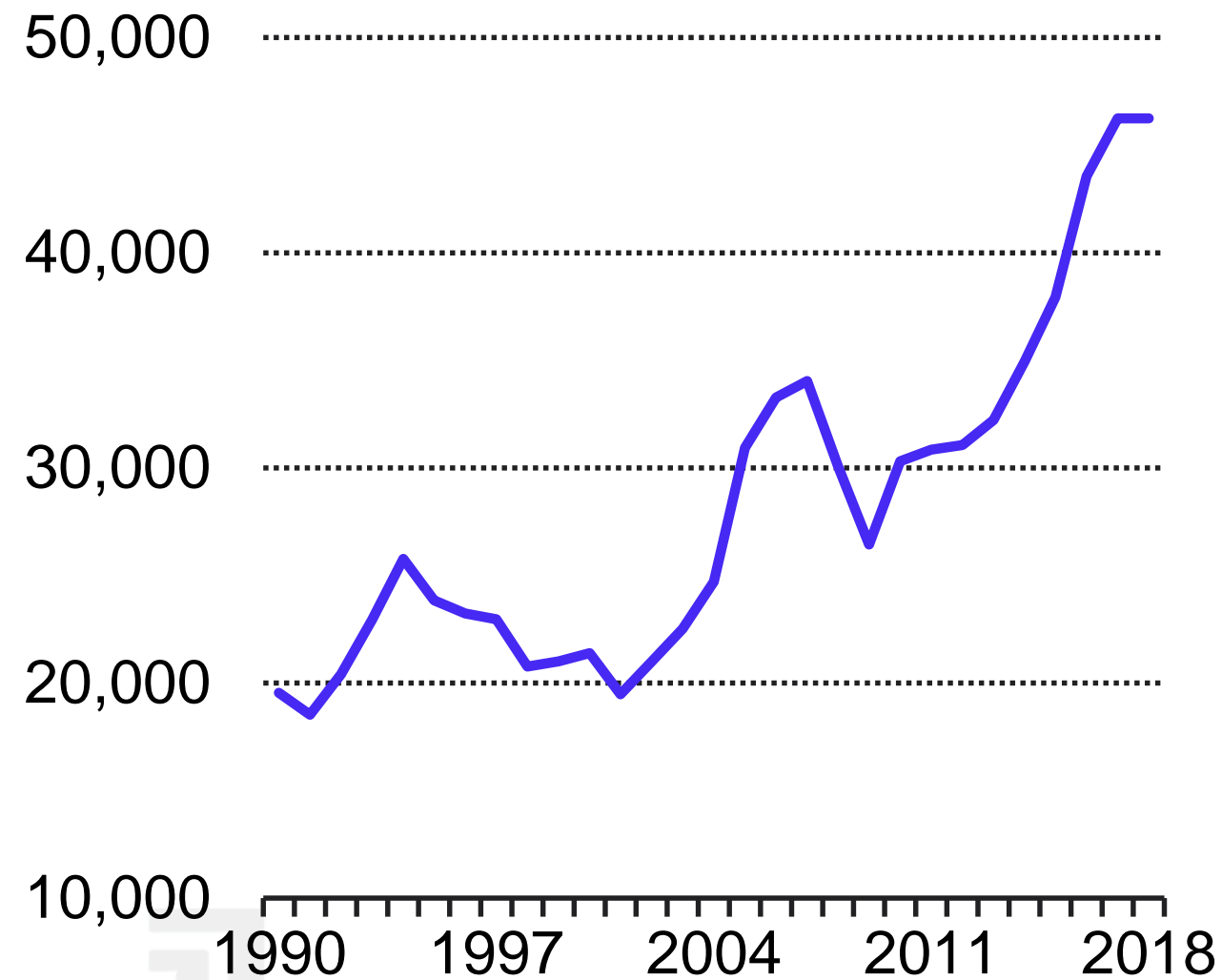
Per cent



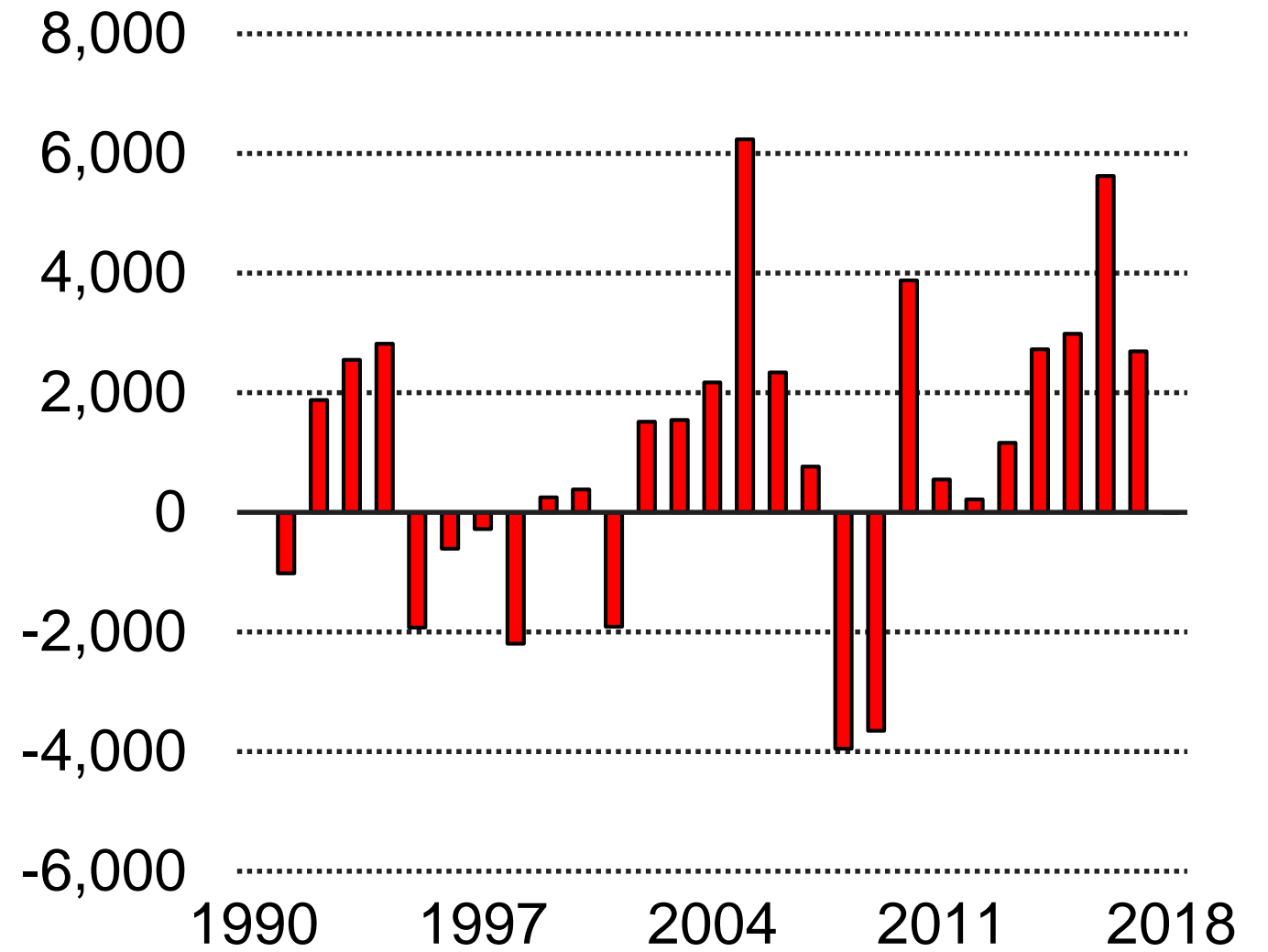
Source: Statistics Canada, Central 1 Credit Union. Note: GDP 2018 estimated.

Strong performance since 2012, no growth in 2018

Business Incorporations: B.C.



Change in Business Incorporations

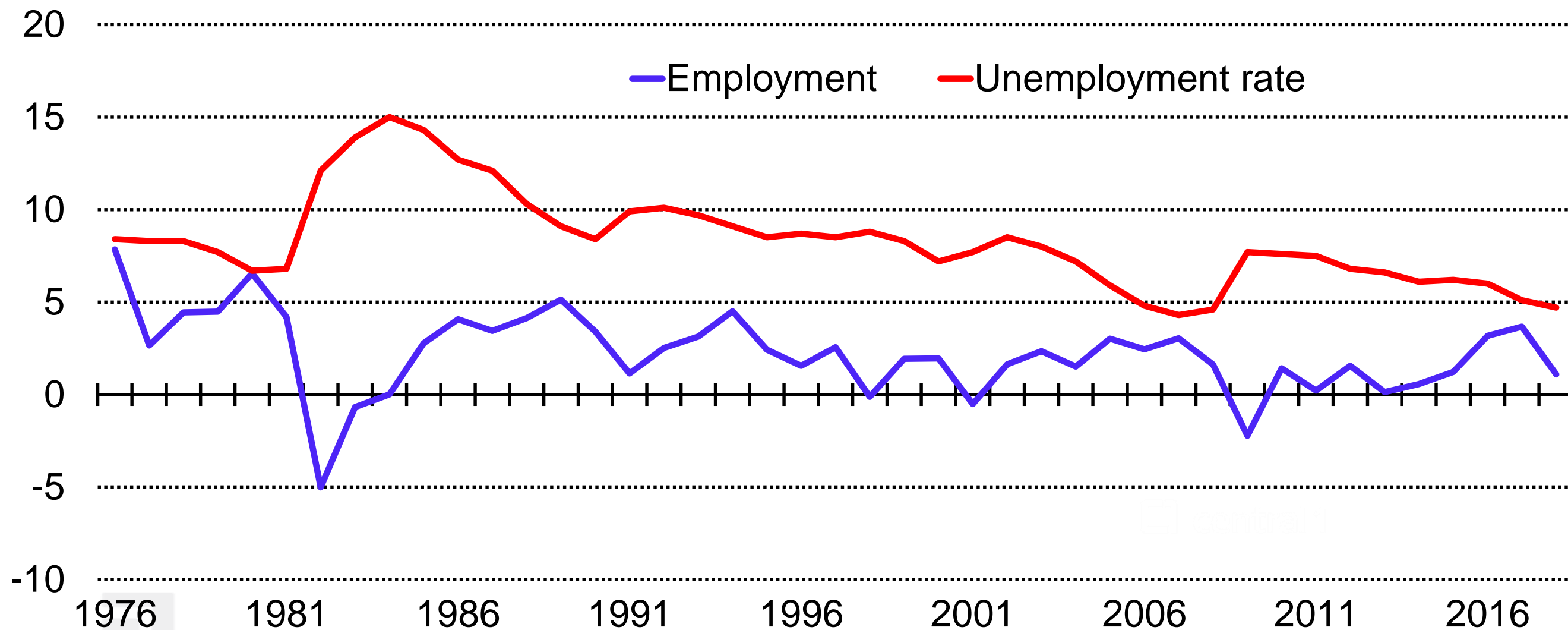


Source: BC Stats.

Labour market trends

Employment Growth and Unemployment Rate: British Columbia

Per cent



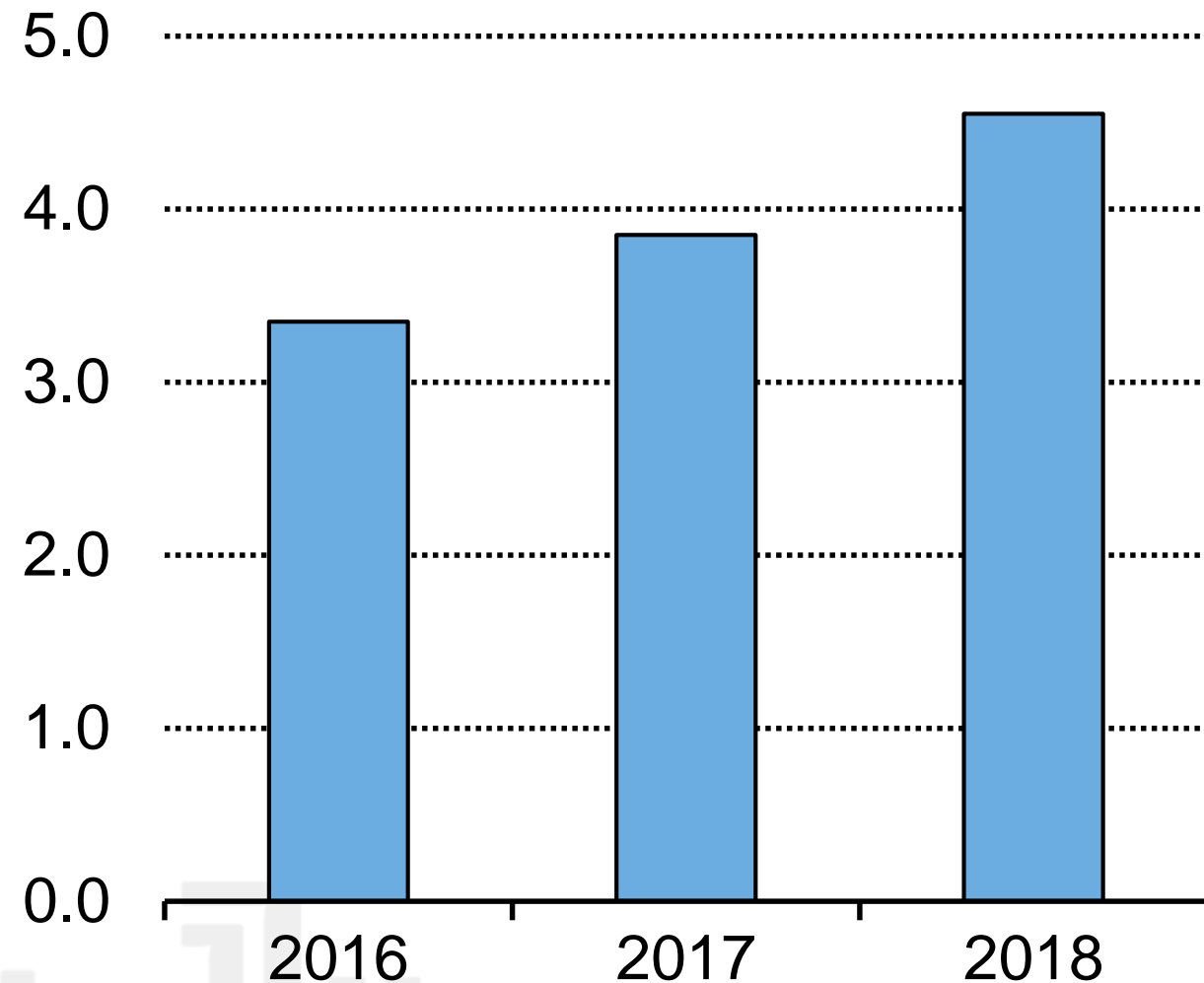
Source: Statistics Canada. Note; Annual averages.

Latest: 2018

Labour demand up; highest in lower mainland and in some industries

Job Vacancy Rate: B.C.

Per cent



Industries with high job vacancy rate:

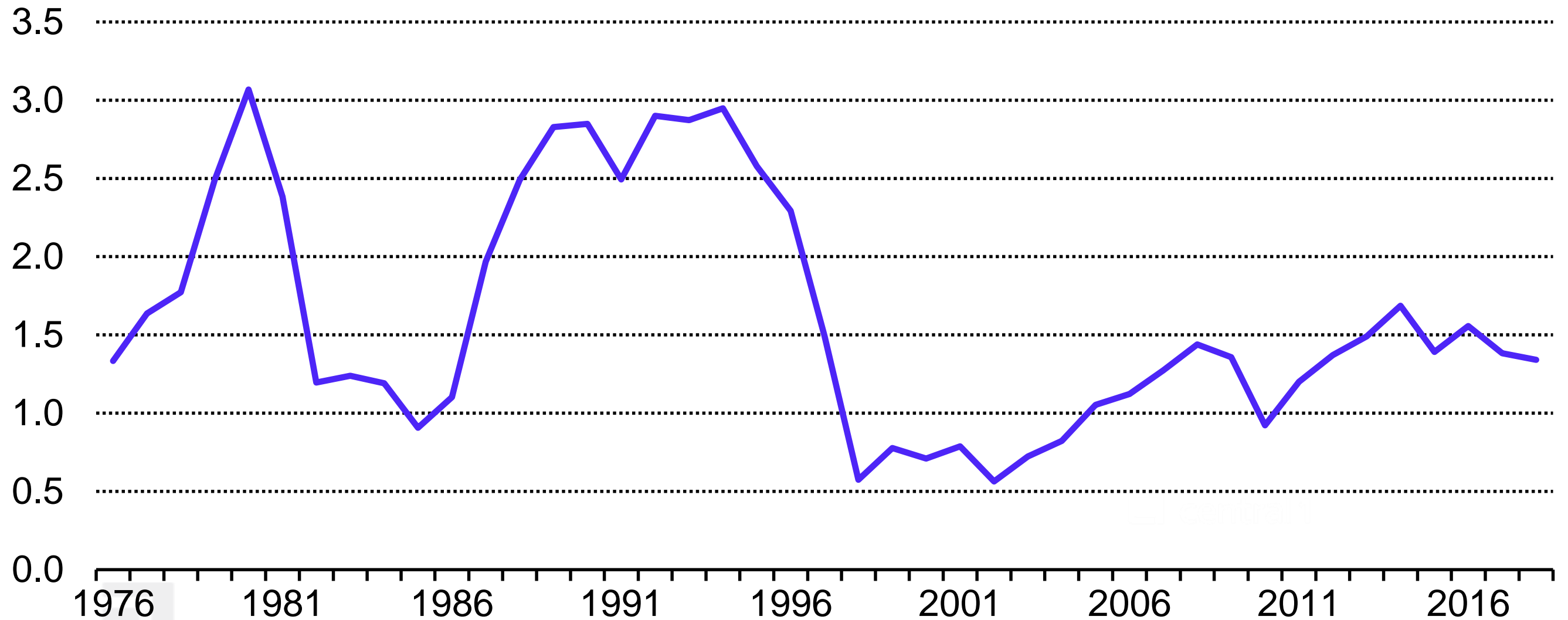
- Construction of buildings (7.3%)
- Truck transportation (13.5%)
- Agriculture (9.2%)
- Accommodation and food services (6.8%)
- Motion picture and sound recording (5.6%)
- Personal services (5.2%)

Source: Statistics Canada, Job Vacancy and Wage Survey. Note: Annual average.

Higher growth recently

Population Growth: British Columbia

Per cent

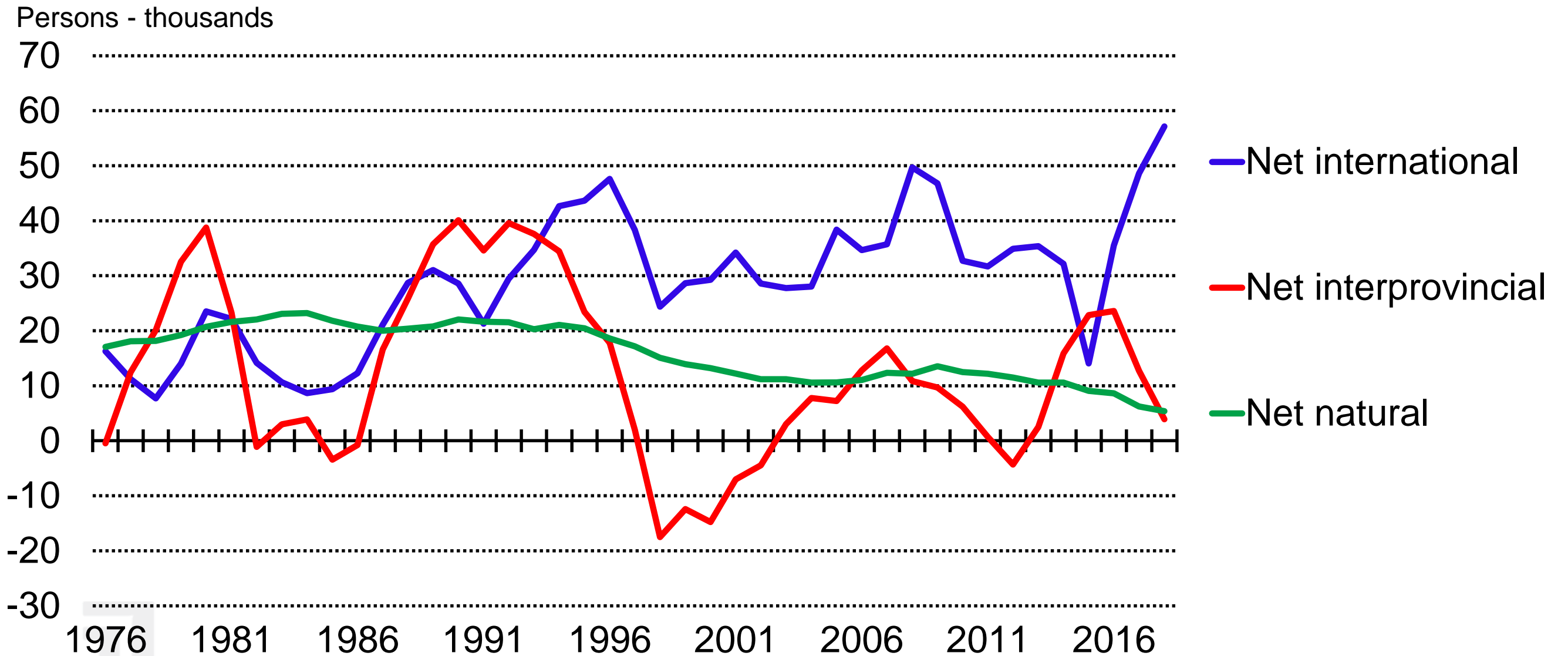


Source: Statistics Canada. Note: At yearend

Latest: 2018

International migration surges

Population Growth Components: British Columbia



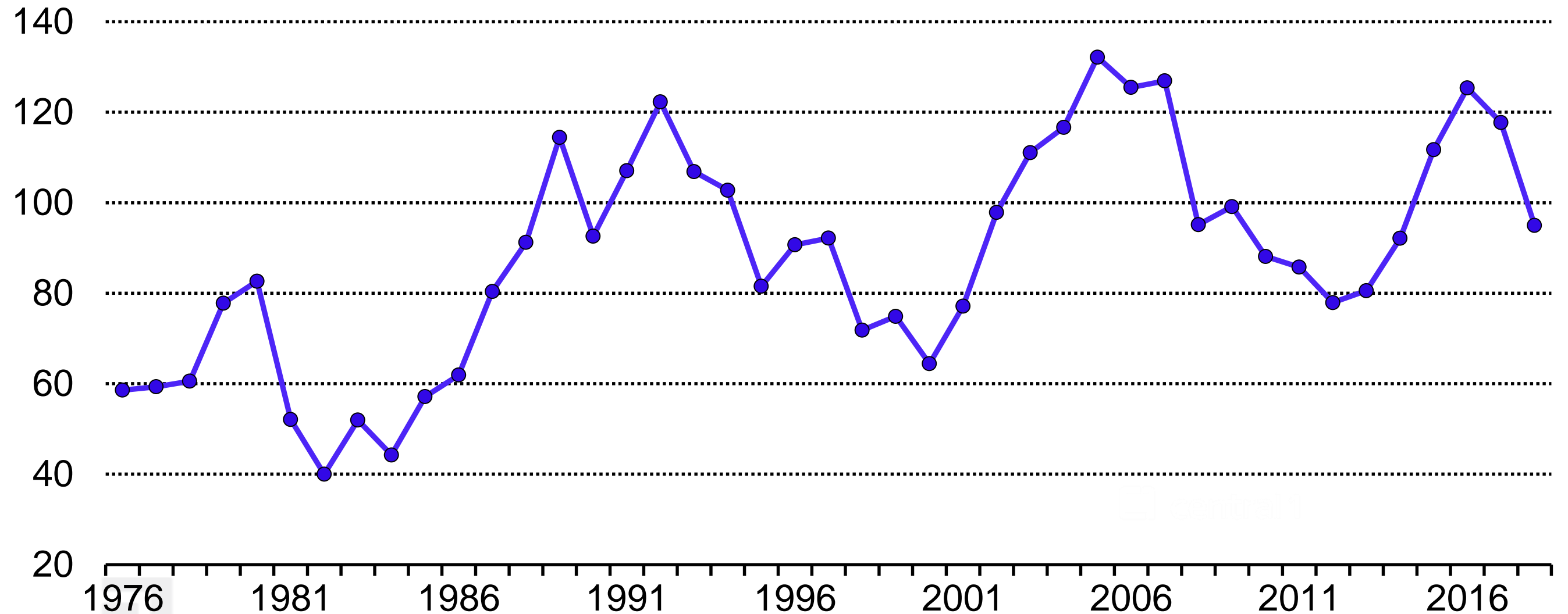
Source: Statistics Canada. Note: At yearend

Latest: 2018

Current housing sales cycle approaching bottom

Residential Sales: British Columbia

Units - thousands



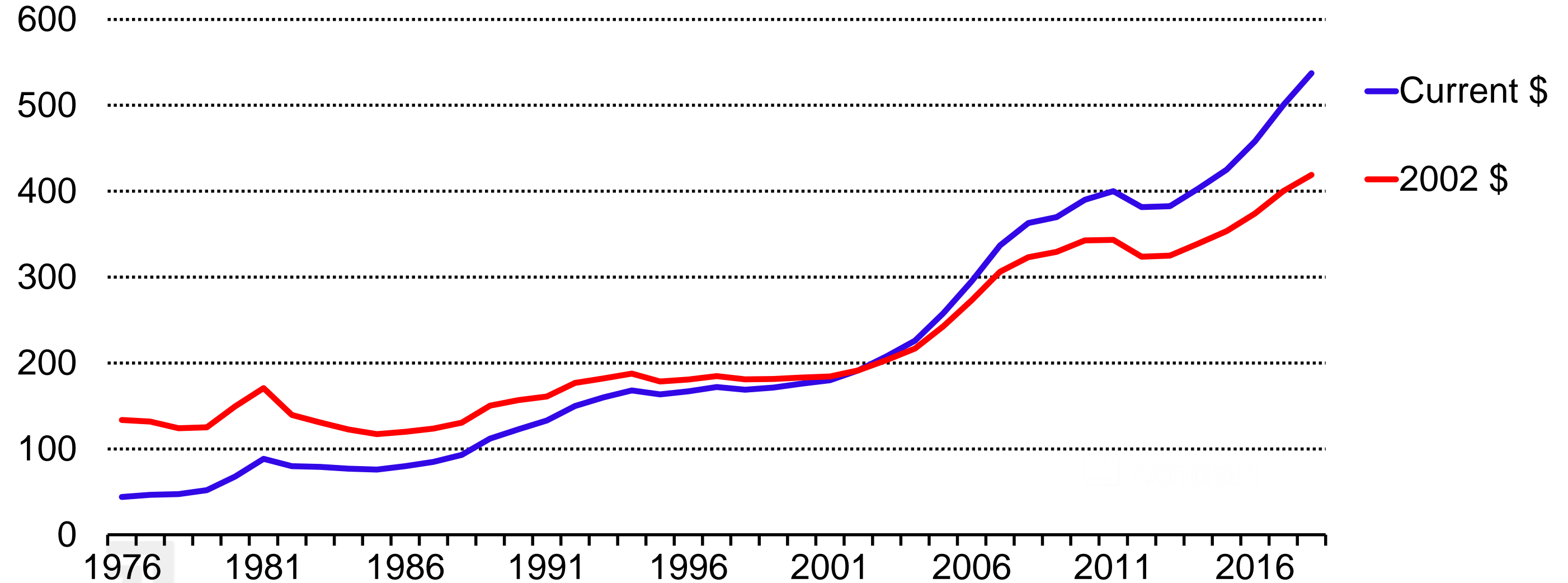
Source: Landcor Data Corp. Note: Arms length transactions only.

Latest: 2018

Long term rising trend

Residential Median Sale Prices: British Columbia

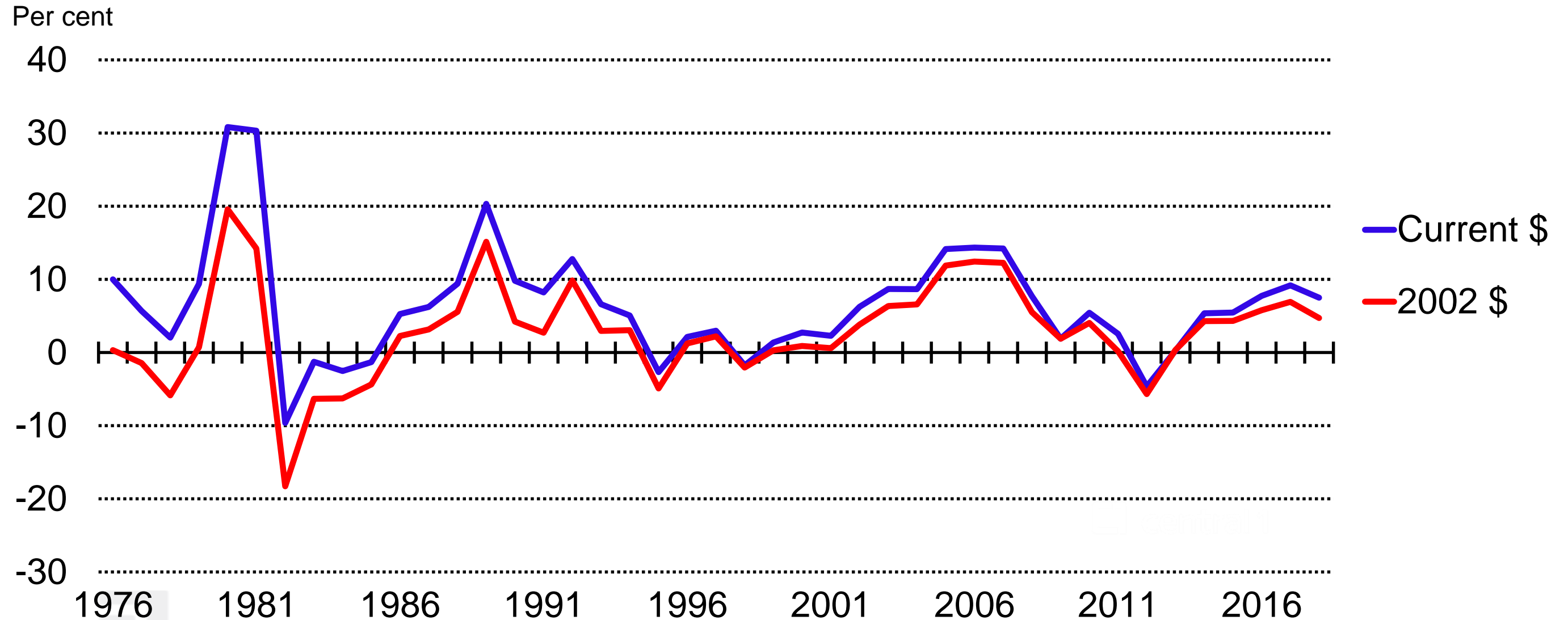
Dollars - thousands



Source: Landcor Data Corp, Central 1. Note: Arms length transactions only. Deflated by BC CPI. Latest: 2018

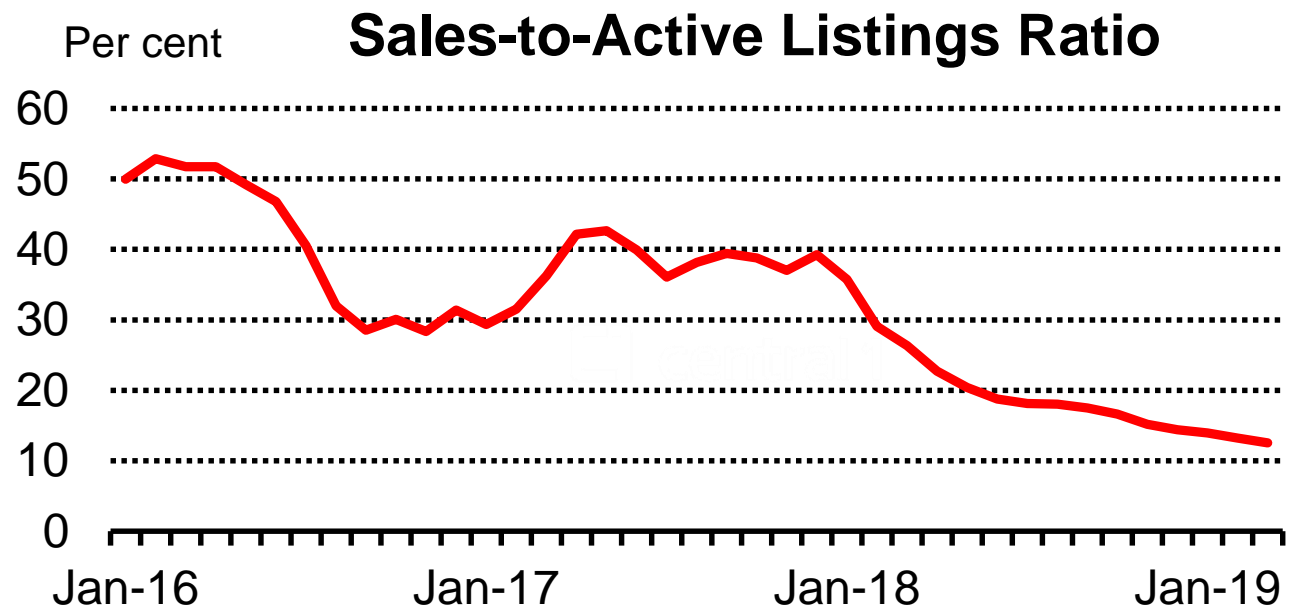
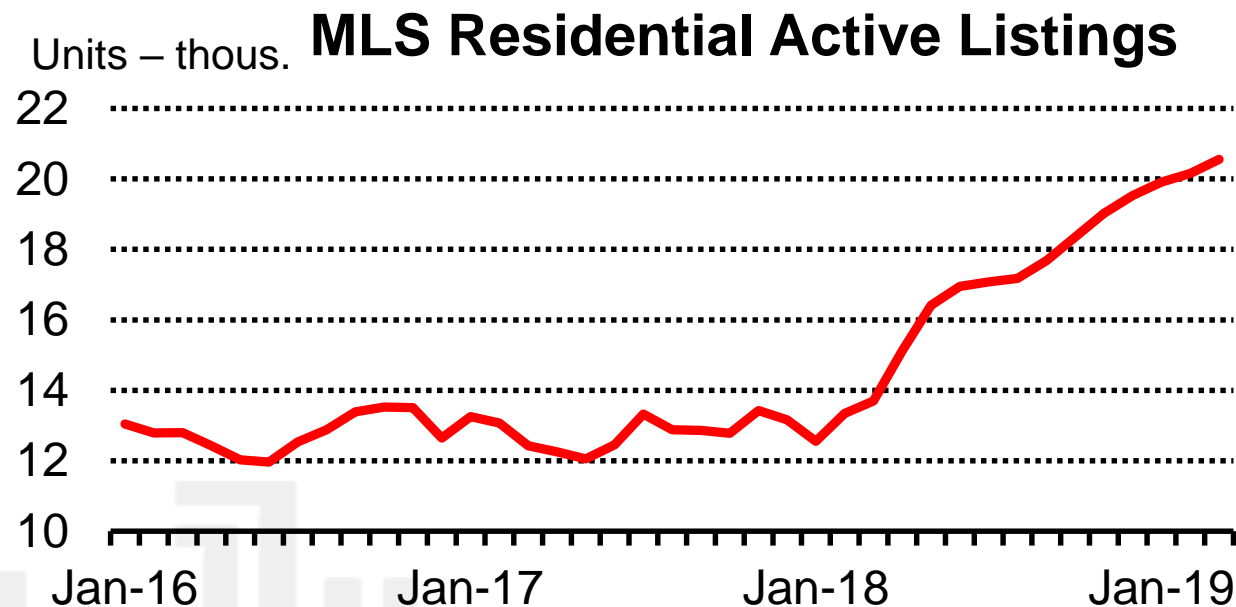
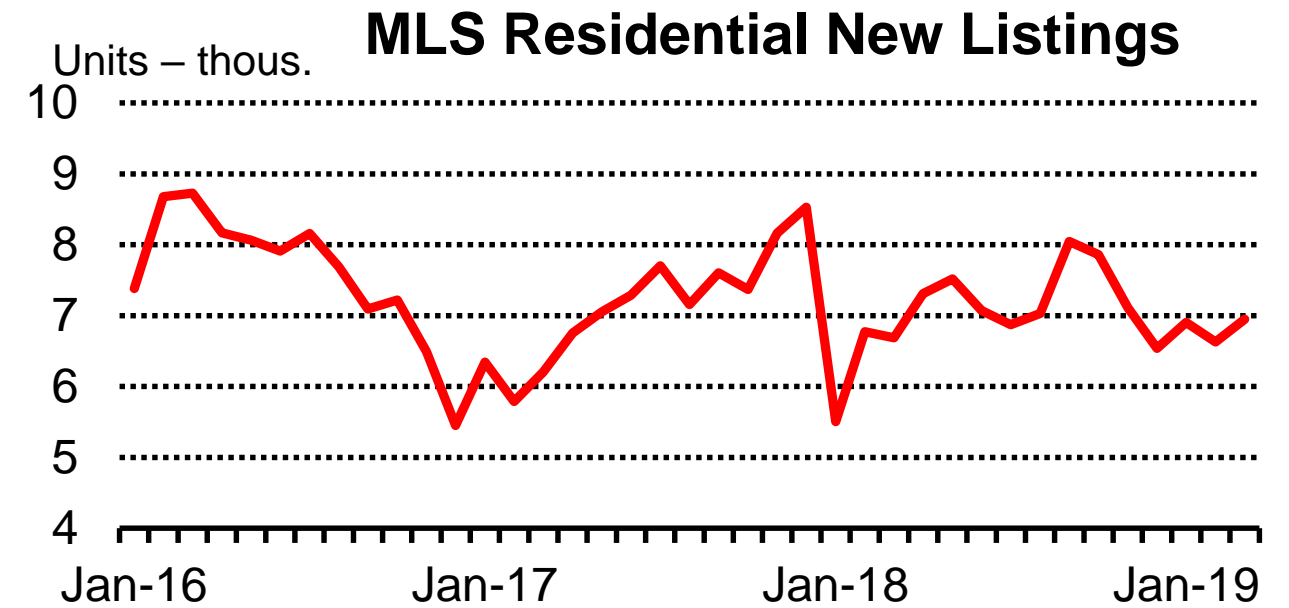
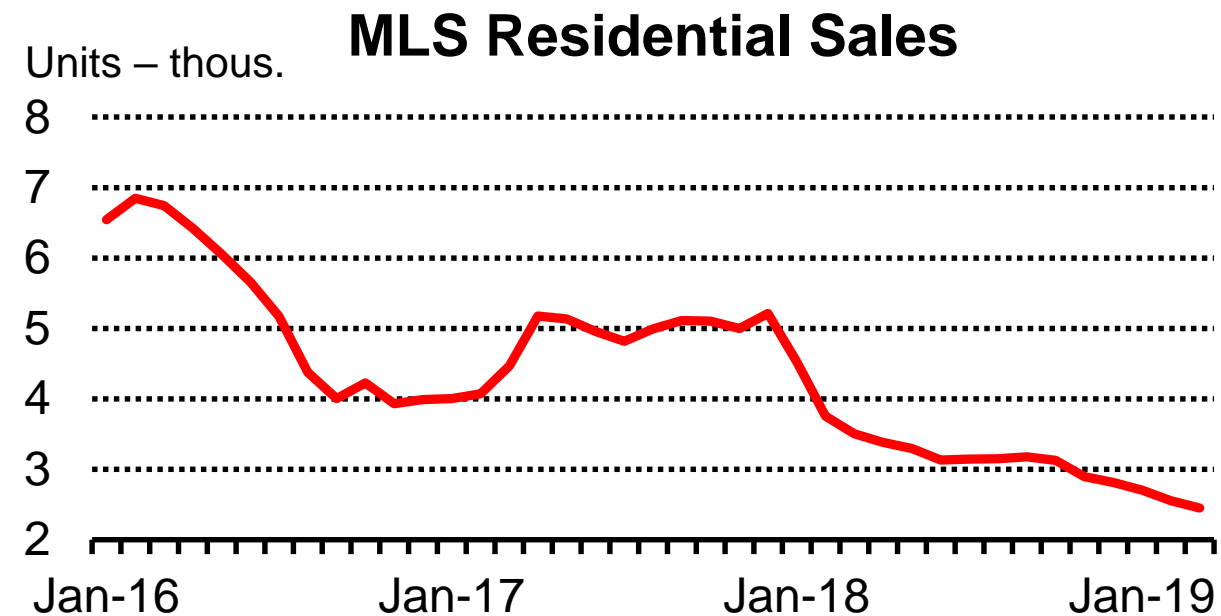
Current price cycle is mild and slowing

Change in Residential Median Sale Price: British Columbia



Source: Landcor Data Corp., Central 1 Credit Union. Note: Annual data. Deflated by BC CPI. Latest: 2018

Recent market trends: Lower Mainland

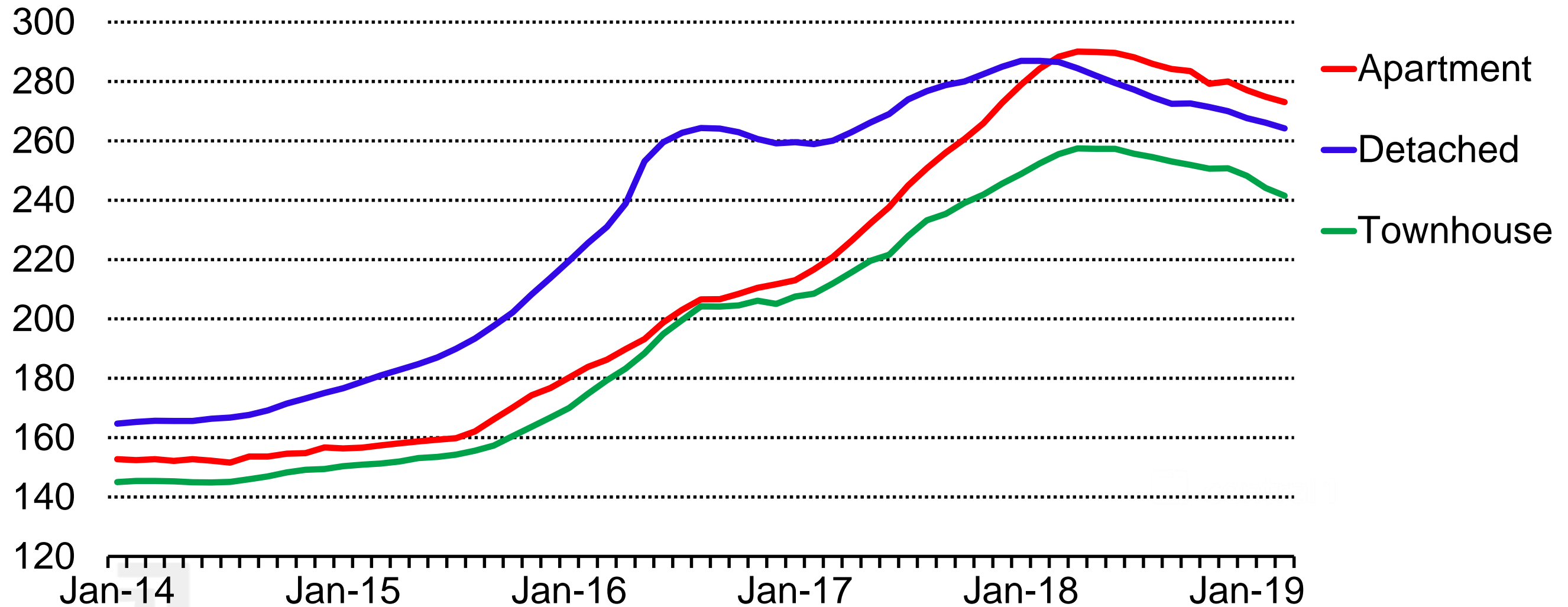


Source: CREA, BCREA, Central 1 Credit Union. Note: Seasonally adjusted. Latest: Mar.-19

Prices declining across housing types

MLS Home Price Index by Dwelling Type: Lower Mainland

Jan. 2005 = 100



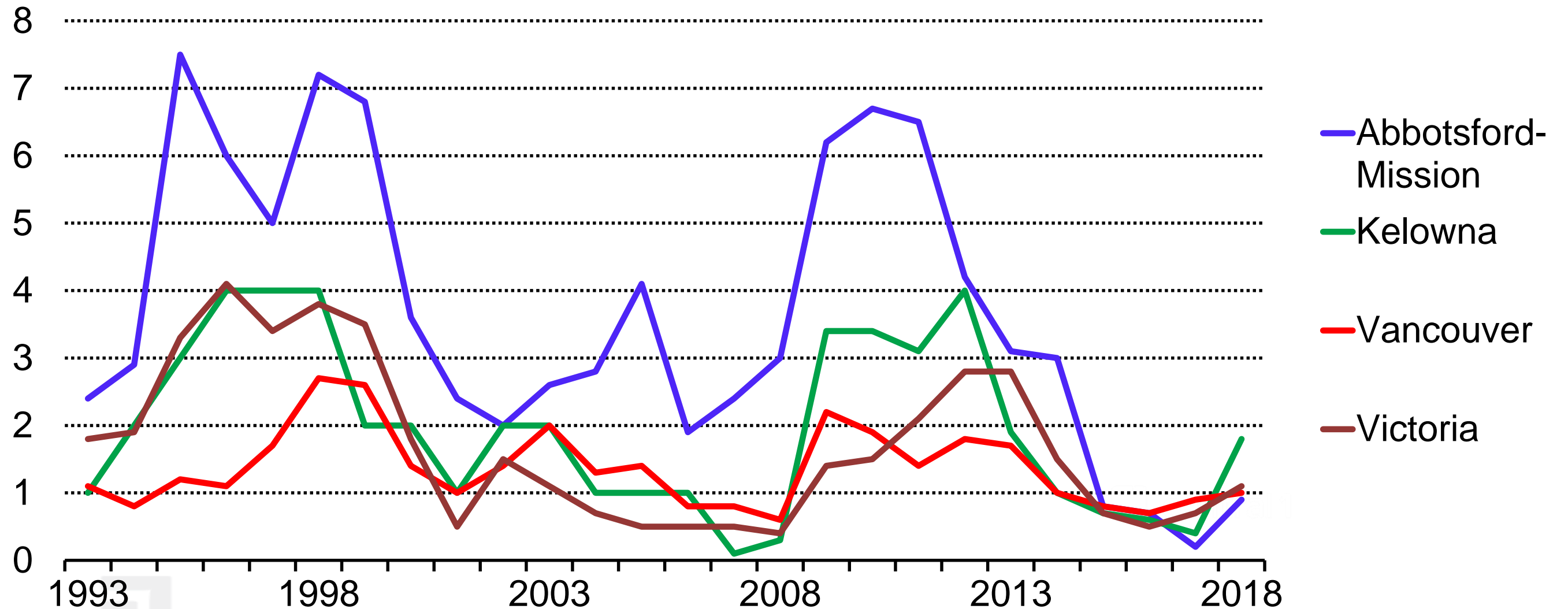
Source: CREA, Central 1 Credit Union. Note: Seasonally adjusted.

Latest: Mar-19

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.

Current housing market cycle:

- Policy-induced recession underway: B-20 guidelines, speculation and vacant home tax, foreign buyers tax, empty home tax, school tax on \$3m+
- Deteriorating purchasing affordability conditions from higher mortgage rates and prices contributing factors

First-Time Home Buyer Incentive:

- Introduced in Federal *Budget 2019*
- Shared equity mortgage loan; increases down payment, reduces borrowing cost of insured mortgage; repayable upon sale of home
- Up to 5% for existing home, 10% for new home
- Available to first-time buyers with household income under \$120,000
- Mortgage and incentive less than four times annual household income; (\$480,000 maximum price)

Proportion (%) of ownership sales in 2018 below \$500,000, B.C.

Dwelling type	New	Existing	Total
All residential	42.9	45.4	45.0
Detached	15.2	33.5	31.9
G-O Multi-unit	29.6	41.6	38.5
Apartment	60.0	55.7	56.9

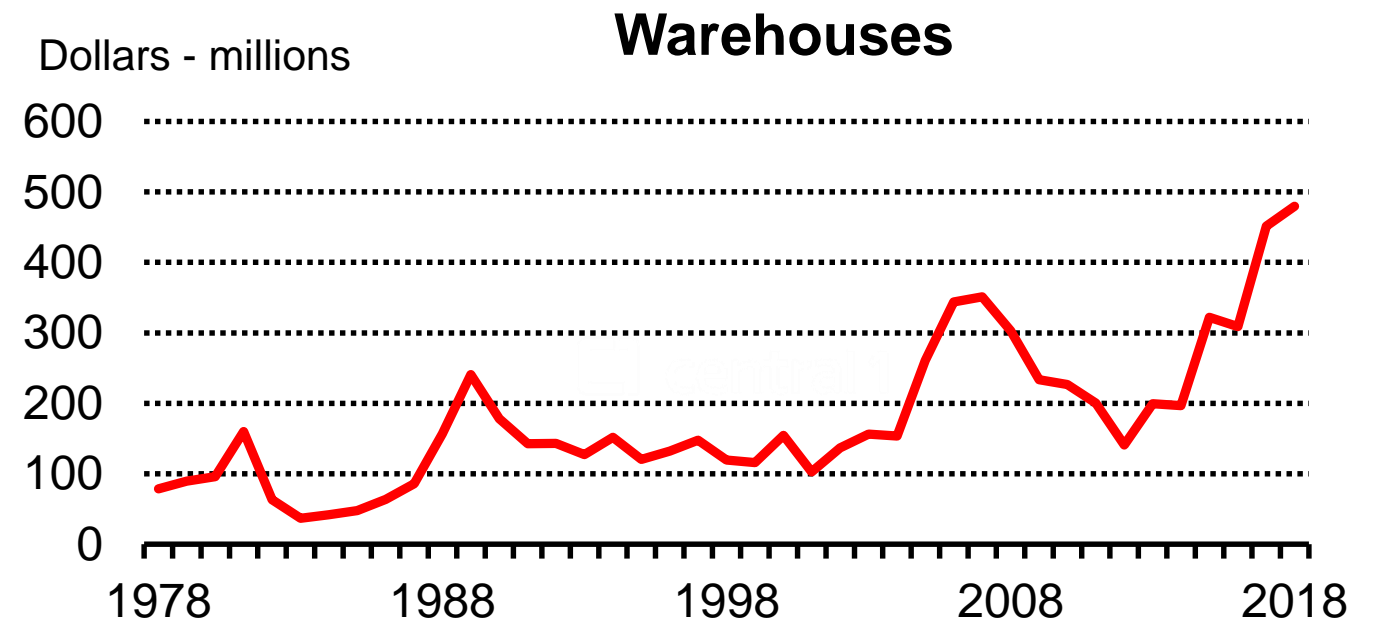
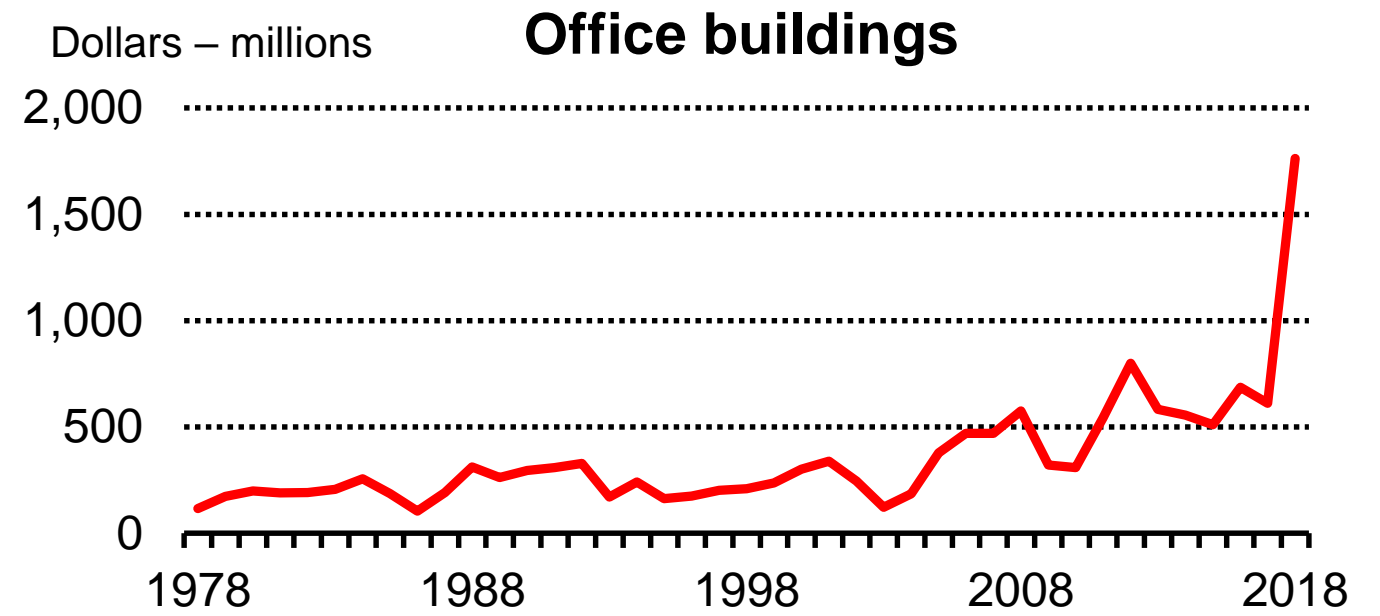
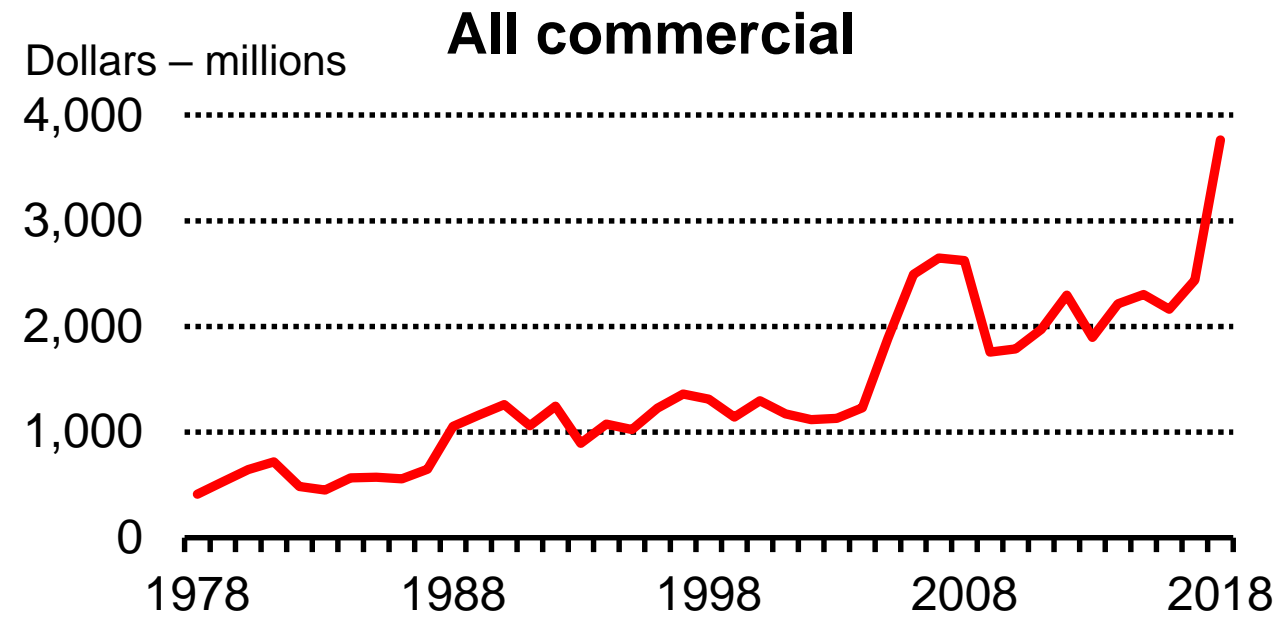
Source: Landcor Data Corp, Central 1 Credit Union.

Proportion (%) of ownership sales in 2018 below \$500,000, Metro Vancouver

Dwelling type	New	Existing	Total
All residential	40.7	21.3	26.3
Detached	0.3	0.2	0.2
G-O Multi-unit	12.4	11.3	11.6
Apartment	56.2	39.4	45.1

Source: Landcor Data Corp, Central 1 Credit Union.

Commercial building construction trends: B.C.



Source: Statistics Canada. Based on Building permits issued.

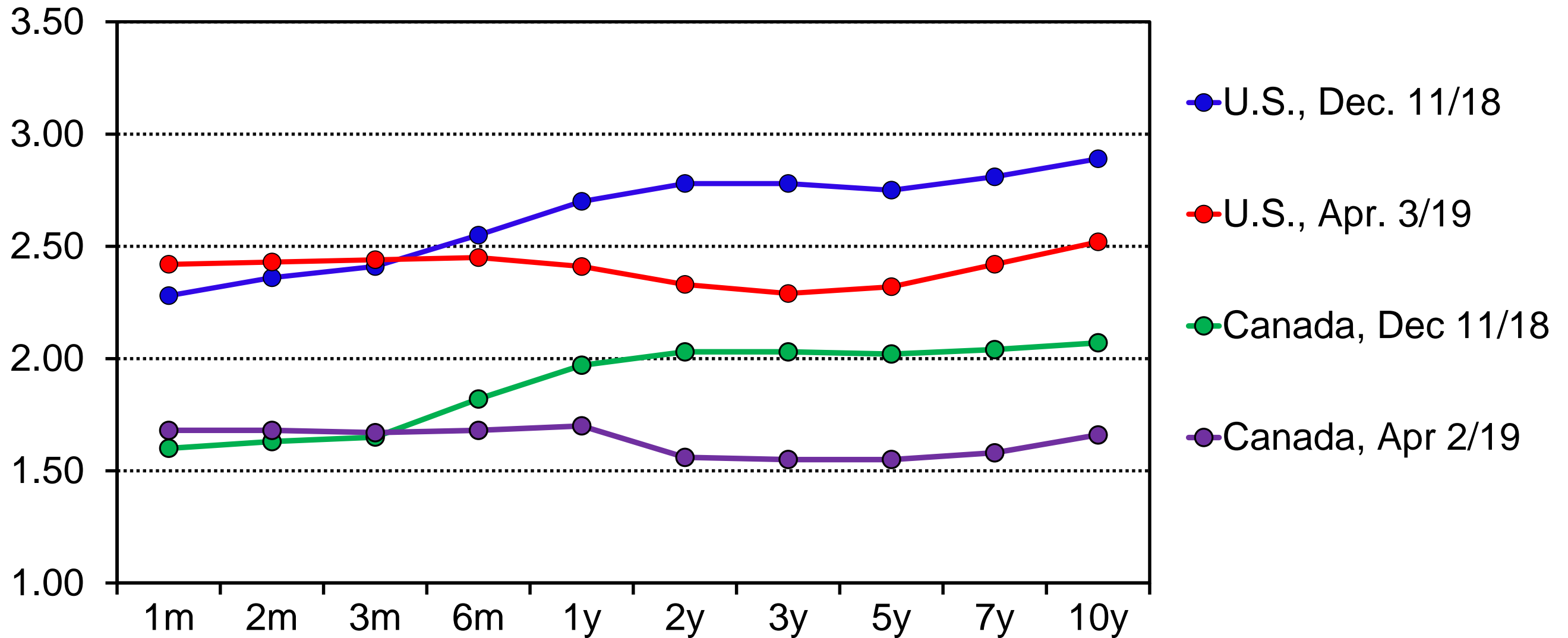
Recession risks:

- Trade war U.S.-China; U.S. auto tariffs
- Emerging market debt crisis – Argentina, Turkey, China...
- U.S. corporate debt bubble
- European banking crisis – Italy, Greece...
- Geopolitical crisis – N. Korea, Middle East, South China Sea...
- Monetary, fiscal, regulatory policy errors

Downshift and inversion; sign of recession ahead?

Government Bond Yield Curves, U.S. and Canada

Per cent

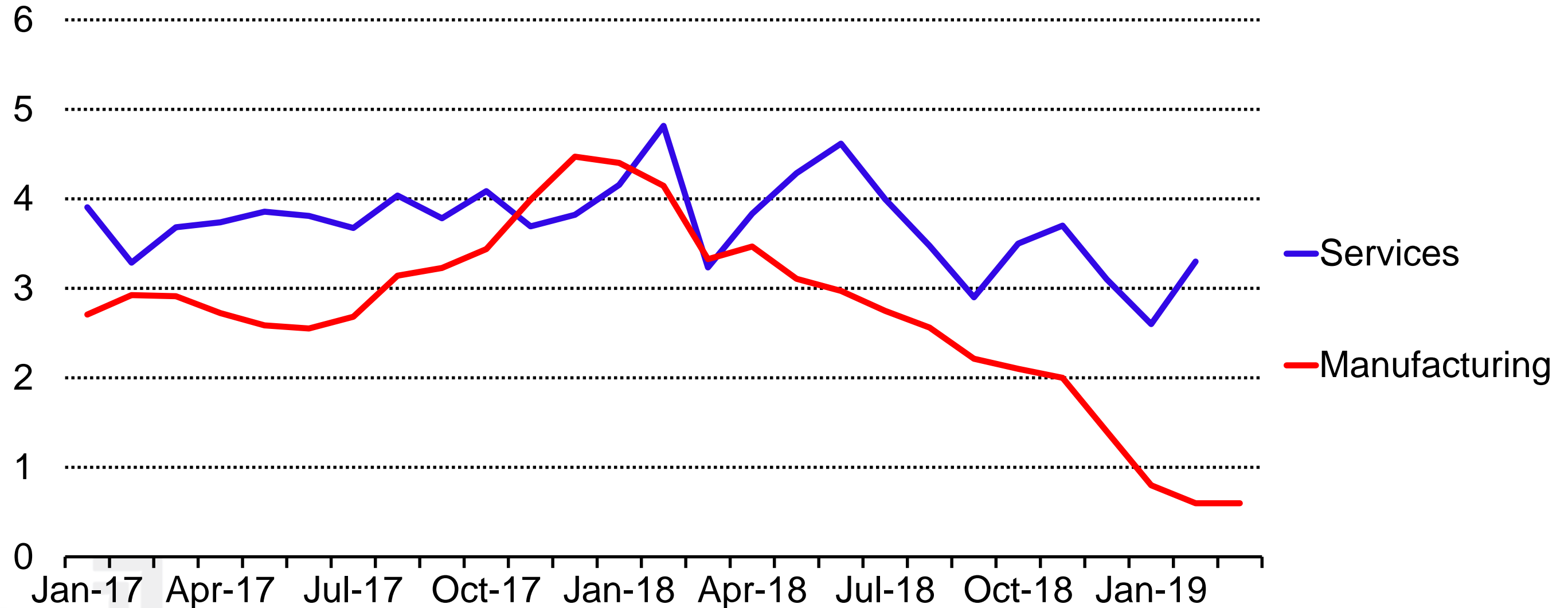


Source: U.S. Treasury, Bank of Canada.

Slower growth during 2018 and into 2019

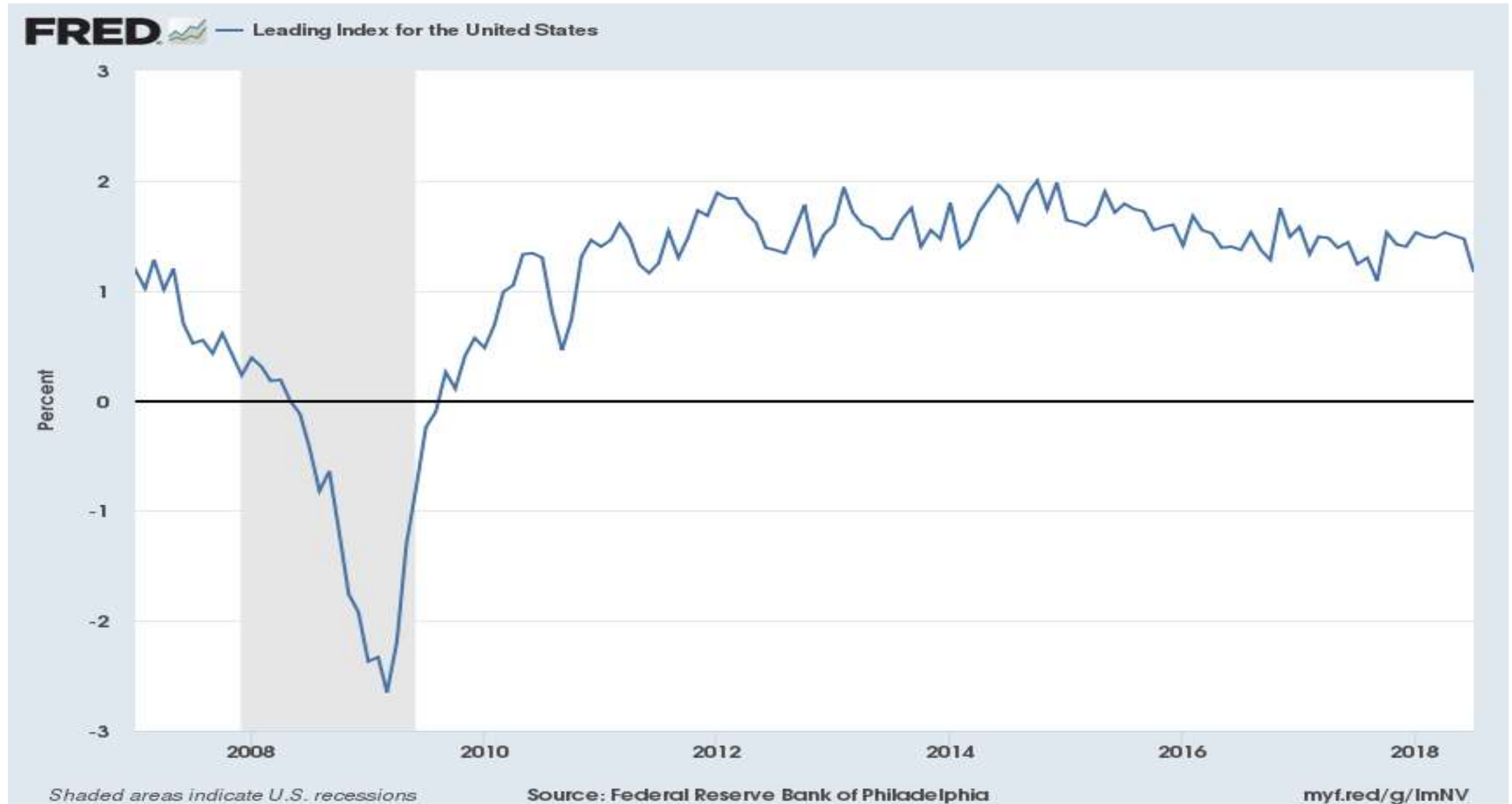
Global Purchasing Managers' Indexes

0 = no change from prior month



Source: JP Morgan IHS Markit. Note: Seasonally adjusted. Latest: Manufacturing – Mar., Services Feb-19

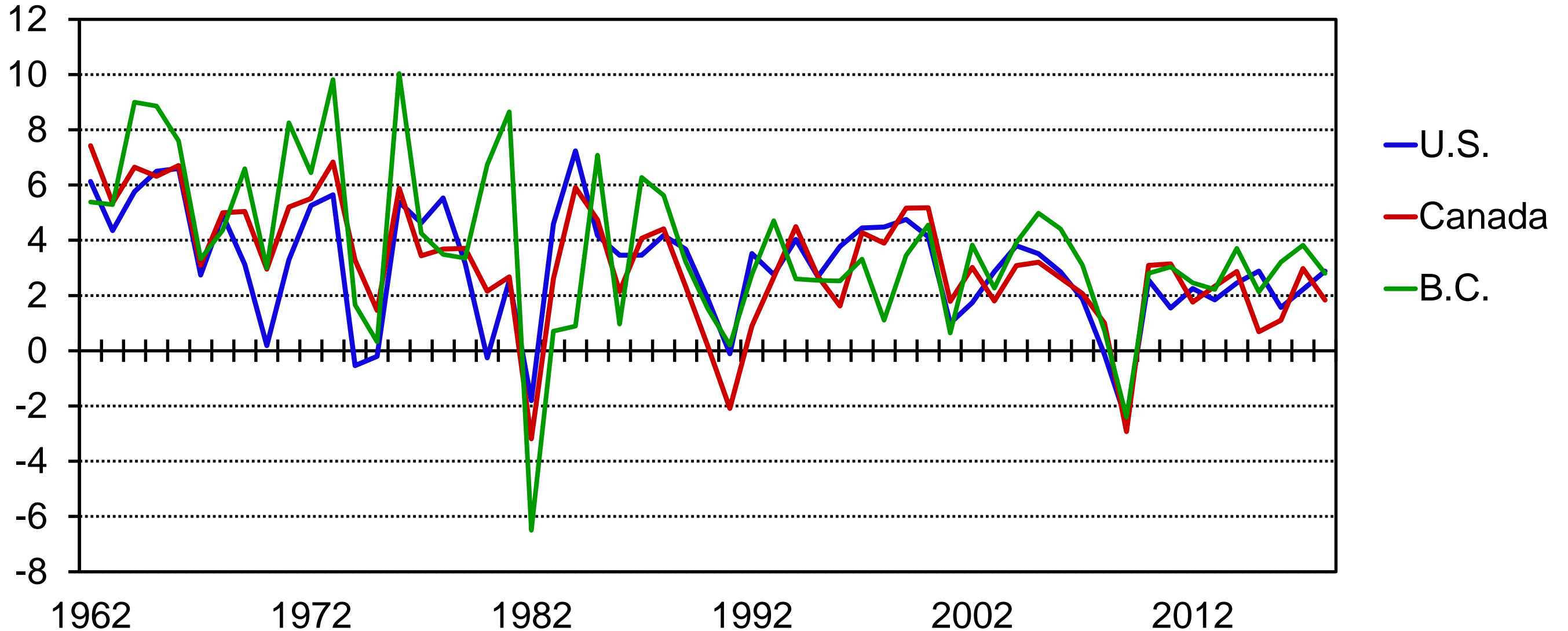
No recession signal for U.S. economy



B.C., Canada recessions occur with U.S. recession

Economic Growth: U.S., Canada, and B.C.

Per cent change in real GDP



Source: Statistics Canada, U.S. Bureau of Economic Analysis. Latest: 2018

External Forecast Summary

	2016	2017	2018	2019	2020	2021
U.S. real GDP, % change	1.6	2.2	2.9	2.2	1.8	1.7
Japan real GDP, % change	1.0	1.7	0.8	1.0	0.4	1.0
EU real GDP, % change	1.8	2.4	1.5	1.7	1.6	1.5
China real GDP, % change	6.7	6.9	6.5	6.2	6.1	5.9
WTI USD/barrel	43	51	65	59	62	64

Source: Consensus Forecasts, WSJ Forecast Survey, Central 1 Credit Union.

Canada Forecast Summary

	2016	2017	2018	2019	2020	2021
Canada real GDP, % change	1.5	3.0	1.8	1.6	1.7	1.5
Canada 3-month T-Bill, %	0.50	0.68	1.37	1.70	2.00	2.00
Canada GoC long-term bond, %	1.80	2.28	2.36	2.25	2.55	2.50
U.S.-Canada FX, cents/dollar	75.4	77.0	77.2	75.6	76.2	76.8

Source: Central 1 Credit Union.

central 1

B.C. Forecast Summary

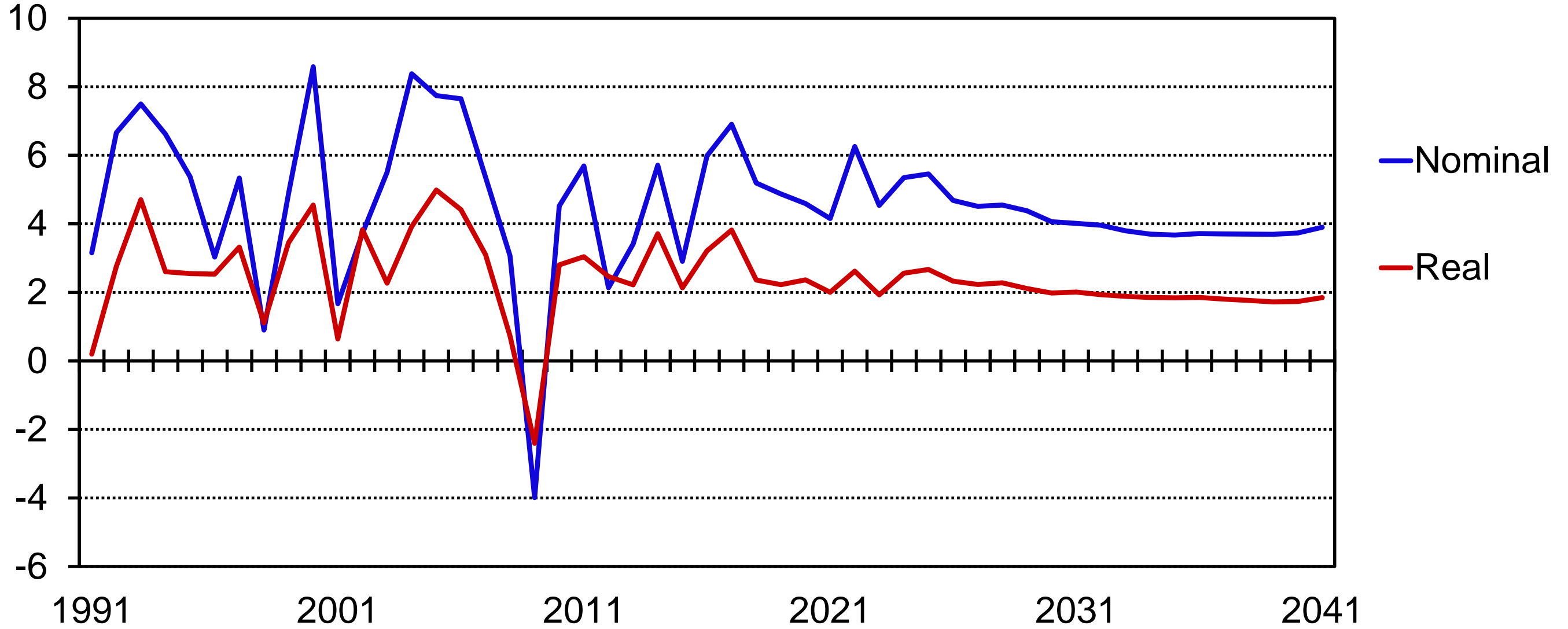
	2016	2017	2018	2019	2020	2021
Nominal GDP, % change	6.0	6.9	6.0	4.3	3.9	4.9
Real GDP, % change	3.2	3.8	2.8	2.1	2.4	2.9
Employment, % change	3.2	3.7	1.1	1.9	1.4	1.7
Unemployment rate, %	6.0	5.1	4.7	4.7	4.5	4.0
Personal income, % change	3.6	6.6	4.7	5.0	4.3	5.1
Population, % change	1.7	1.3	1.4	1.2	1.3	1.3
Housing starts, 000s	41.8	43.7	40.9	31.6	34.2	35.5
Retail Sales, % change	7.7	9.3	2.0	3.6	5.0	5.7
Consumer price index, % change	1.9	2.1	2.7	2.0	1.9	1.9

Source: Central 1 Credit Union.

Slower growth in longer term

Economic Growth: B.C.

Per cent change in GDP

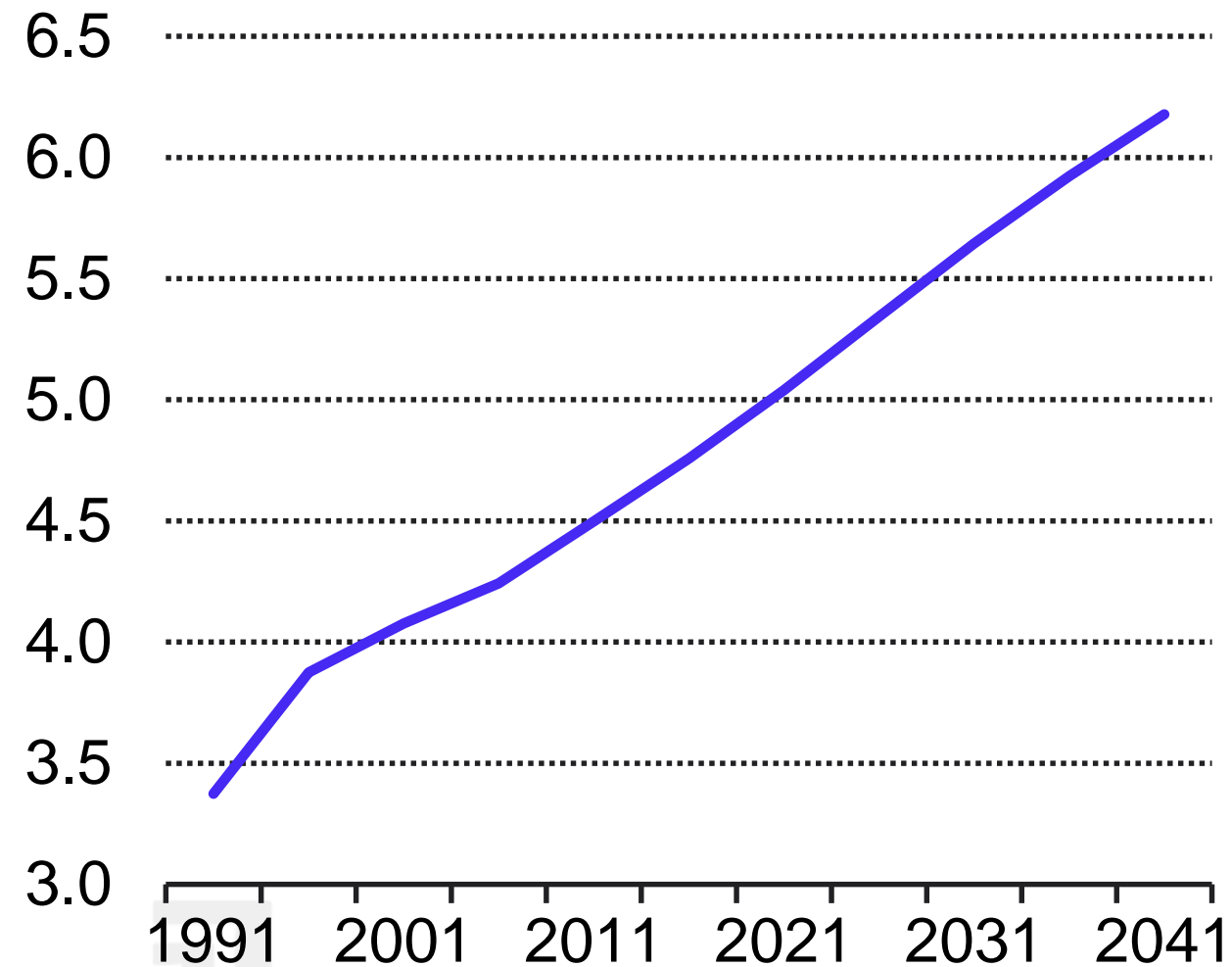


Source: Statistics Canada, Central 1 Credit Union. Forecast begins 2019.

Population outlook 2016 to 2041: B.C. +29.9%; Metro Vancouver +35.4%

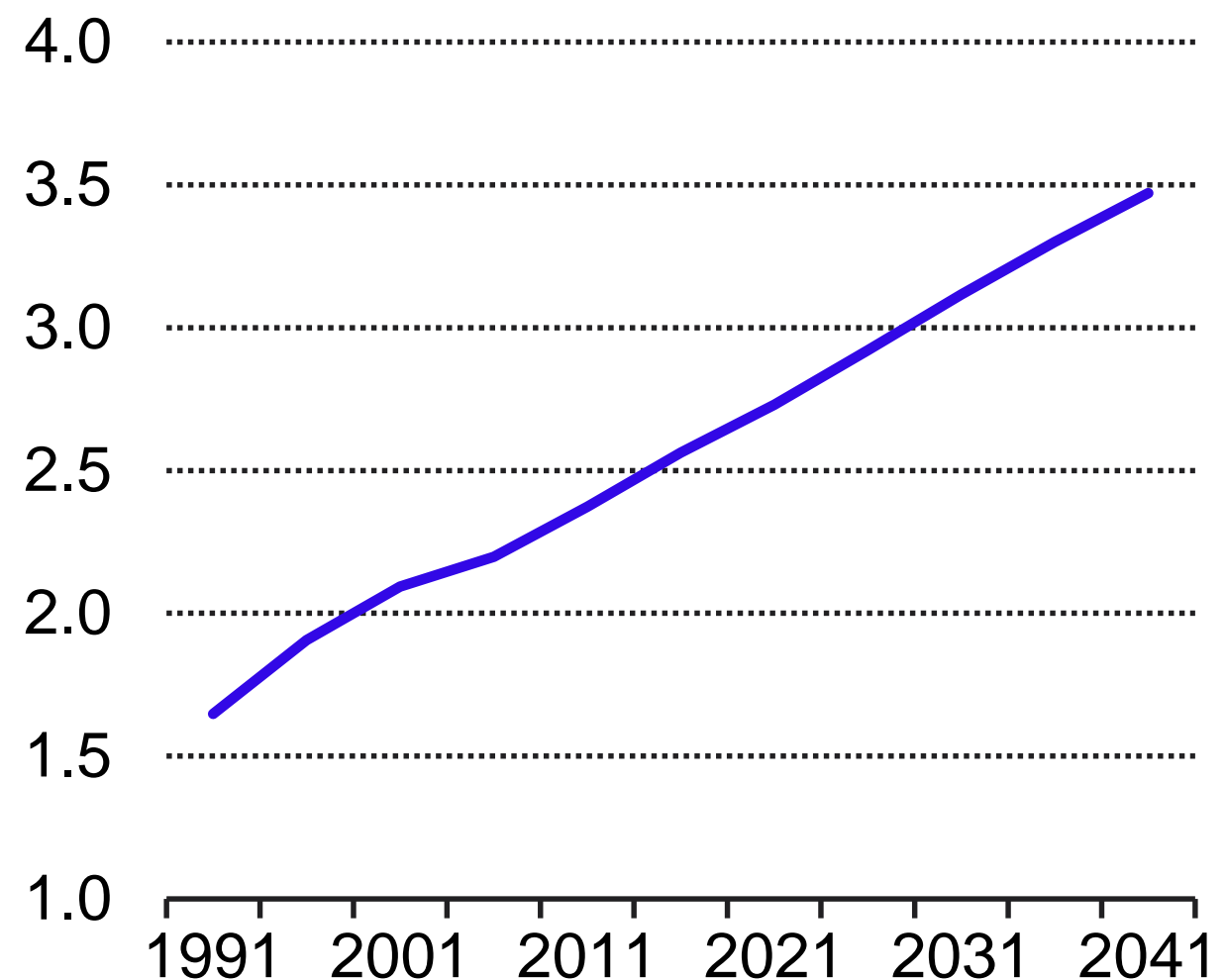
Population Projection: B.C.

Persons – millions



Population Projection: Metro Vancouver

Persons - millions



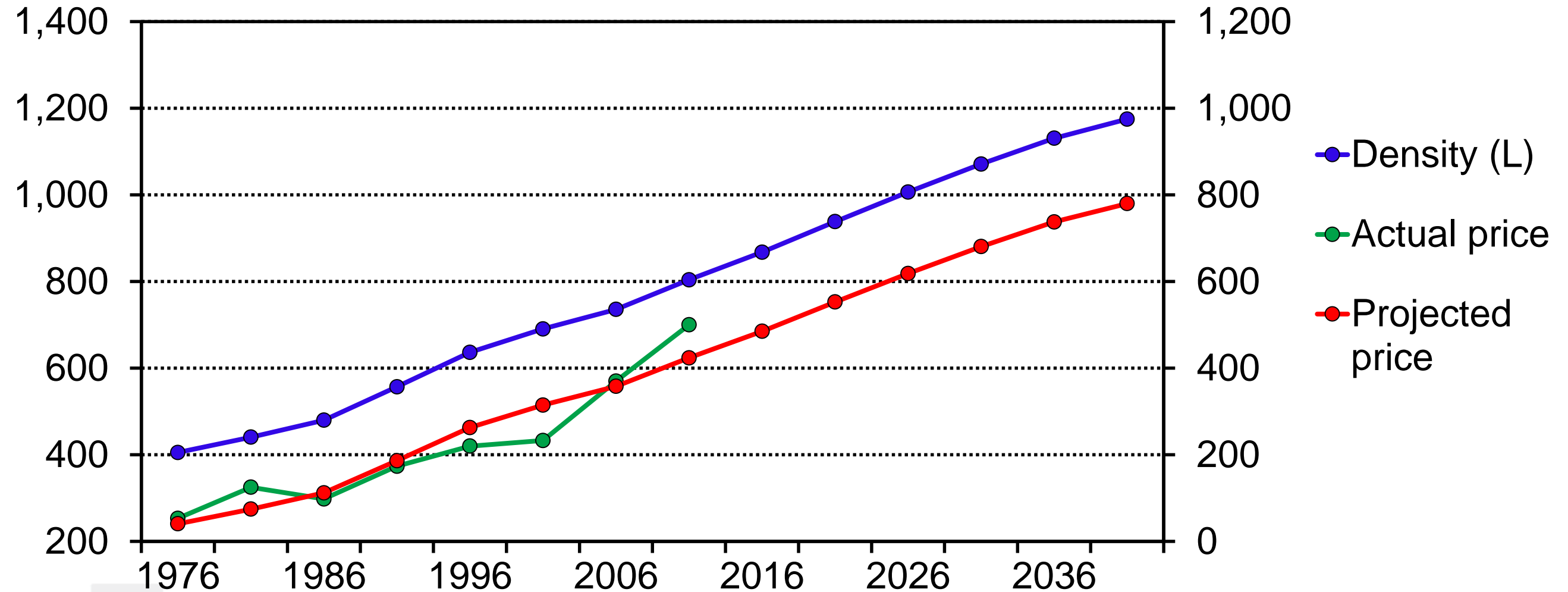
Source: BC Stats P.E.O.P.L.E. 28. Projection begins 2016.

More population, higher density > higher prices

Metro Vancouver Population Density and Residential Median Sale Price

Persons per square km.

Dollars - thousands



Source: Statistics Canada, C1CU forecasts. Latest actual: 2016, Forecast: 2021 to 2041

$R^2 = .89$

Summary:

- Cyclical and long-term considerations are important for real estate decisions
- B.C. housing recession underway
- Economic recession concerns depress financial markets and sentiment
- Current global and U.S. economy slowdown temporary; moderate growth in medium-term
- B.C. to see slower economic growth in 2019; positive medium and longer term outlooks for economy and real estate

Thank you