

Economic and Housing Outlook

Macdonald Realty

Monday, January 23, 2012

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Central 1 Credit Union



Outline:

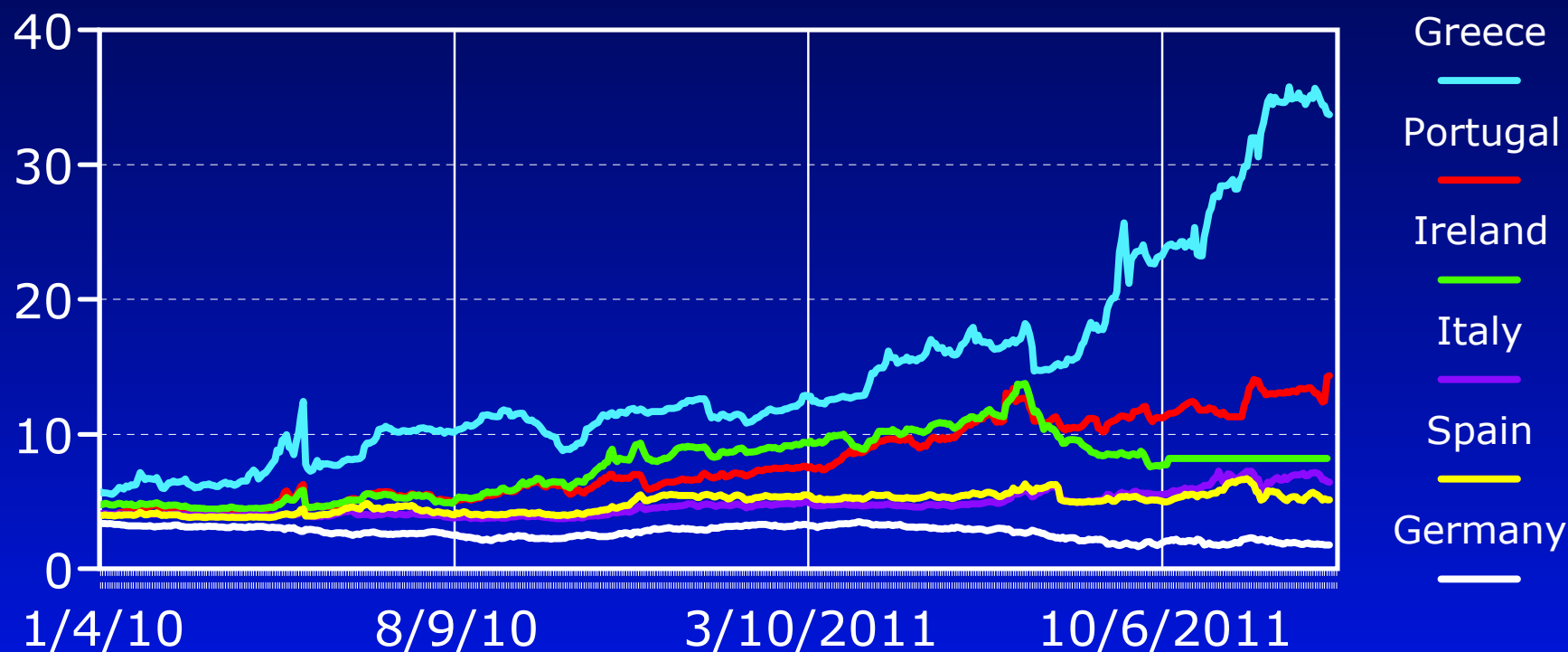
- European developments
- U.S. economy and forecasts
- Canadian economic forecasts
- B.C. and Metro Vancouver economic conditions
- Metro Vancouver housing
- Summary



Market pushing riskier sovereign debt bond yields higher

10-year Govt. Bond Yields, Selected European Economies

Per cent



Source: Bloomberg.

Latest: 01/18/2012



Market turns negative on Italy and Spain sovereign debt, France under pressure

10-year Govt. Bond Yields, Selected European Economies

Per cent



Source: Bloomberg.

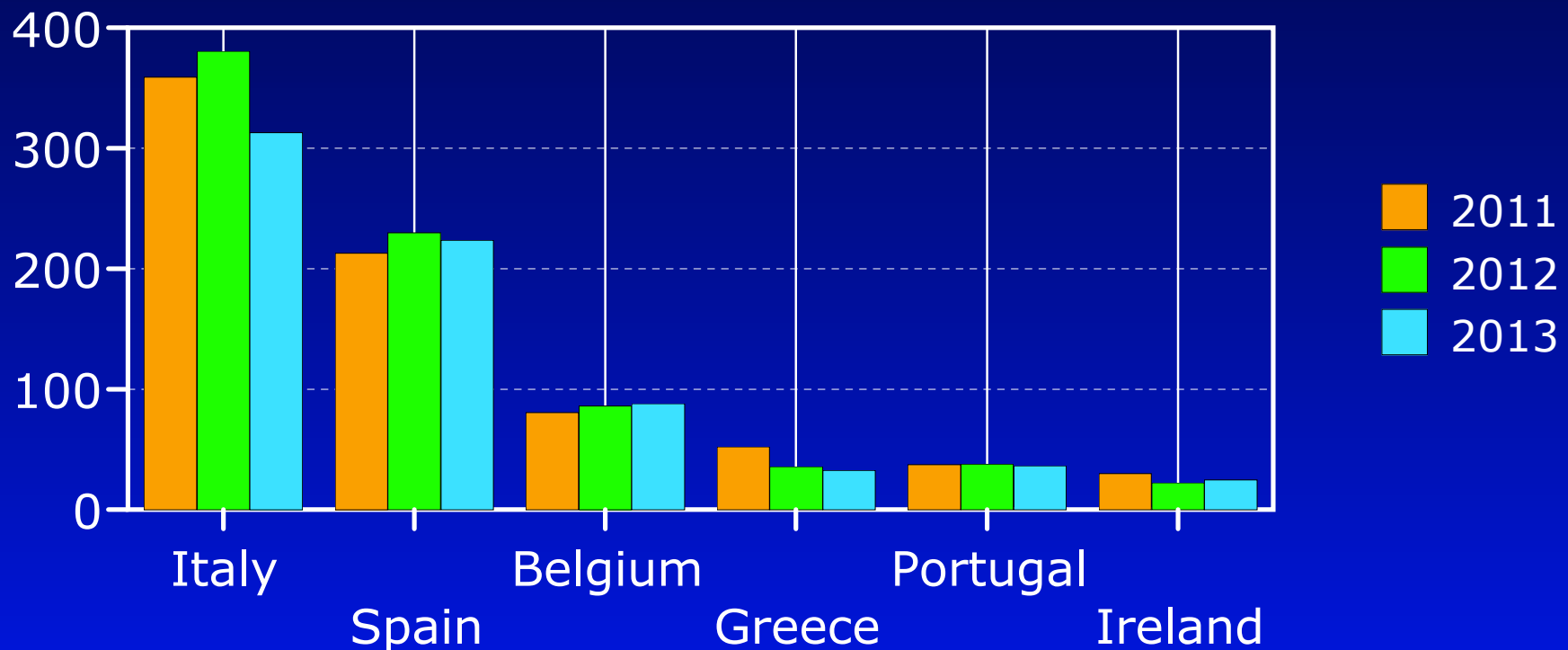
Latest: 01/18/2012



Italy, Spain have highest funding needs; in excess of €1 trillion in 2011-13

Gross Financing Needs, Selected European Economies

Euros - billions



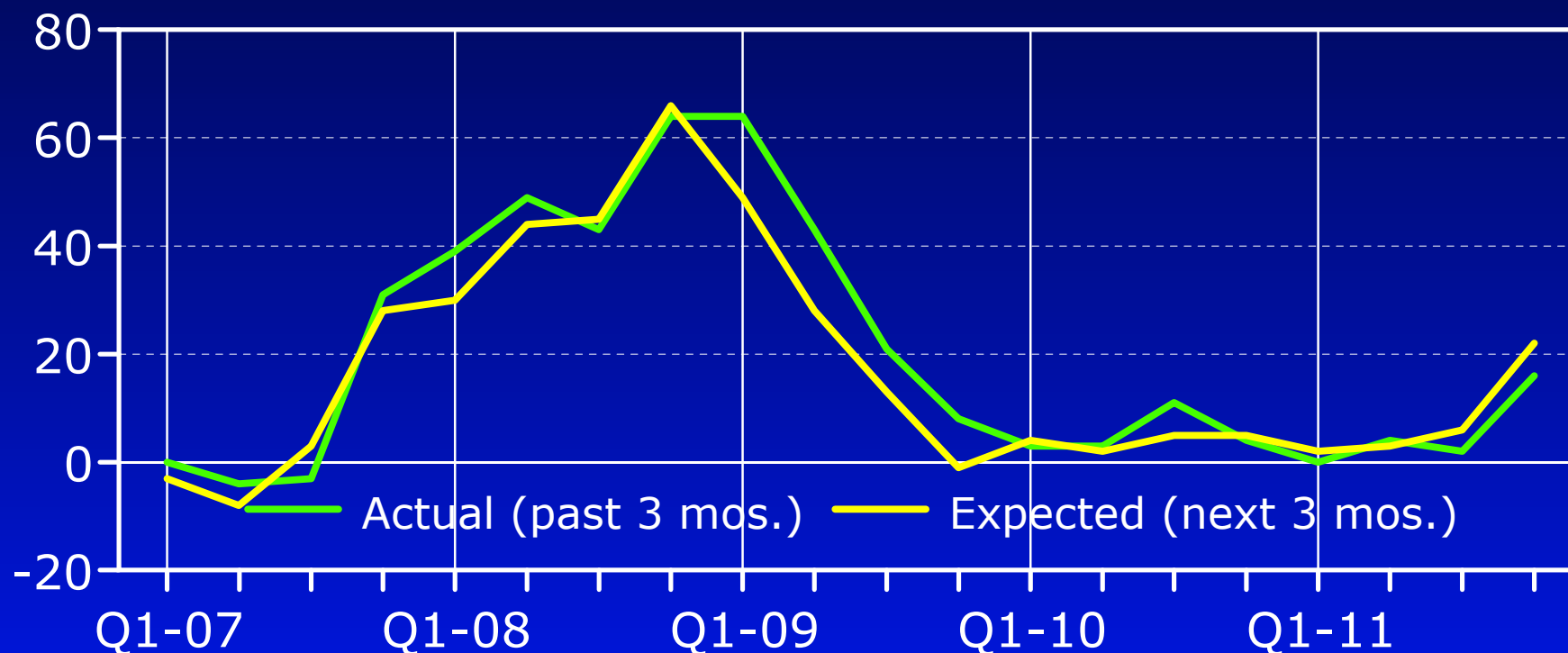
Source: IMF Fiscal Monitor Sept. 2011.



Banks are tightening credit conditions for European business

Credit Conditions for Business Enterprises, Euro Area

Net percentage of banks

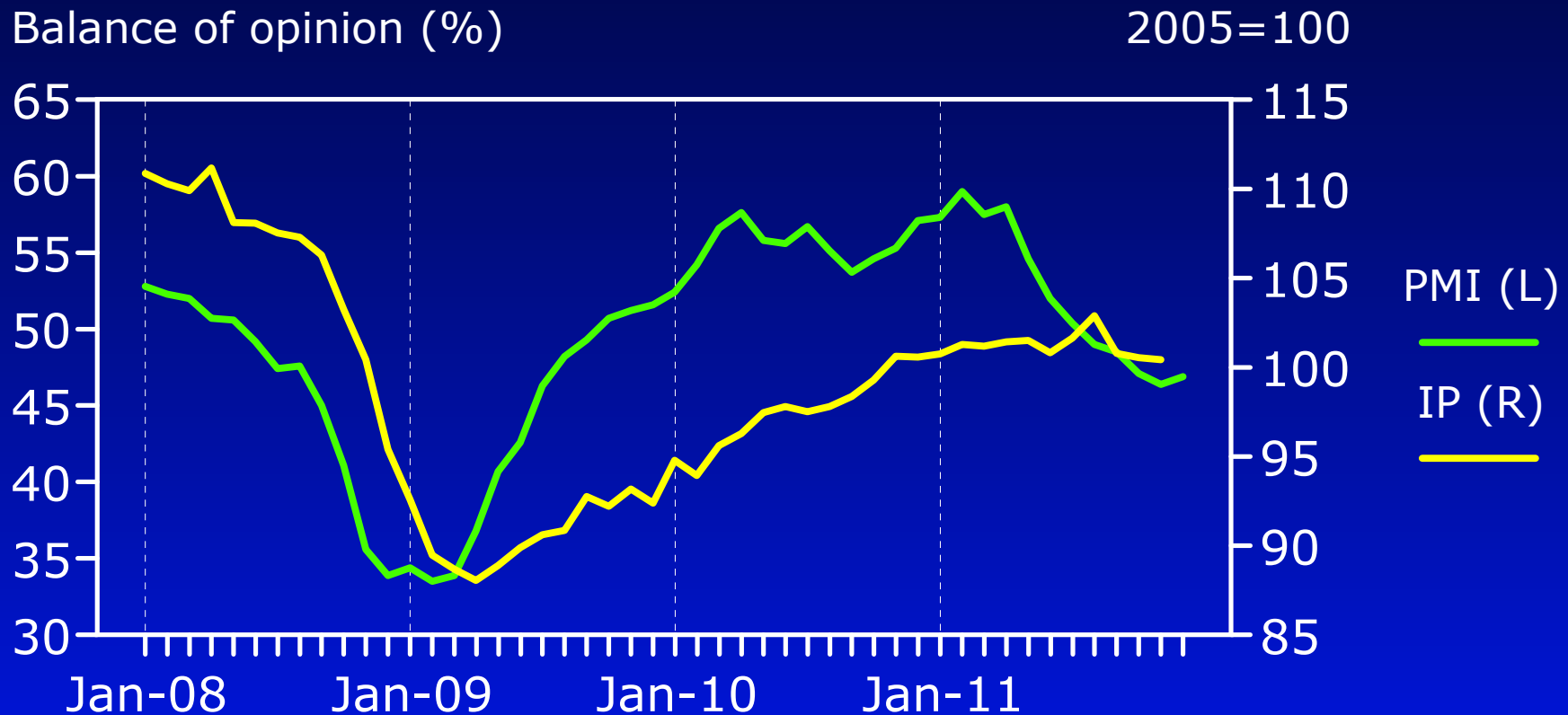


Source: ECB Euro Area Bank Lending Survey. Latest: Q4-11 (October)



Europe in recession, manufacturing output contracting

Eurozone Manufacturing PMI and Industrial Production



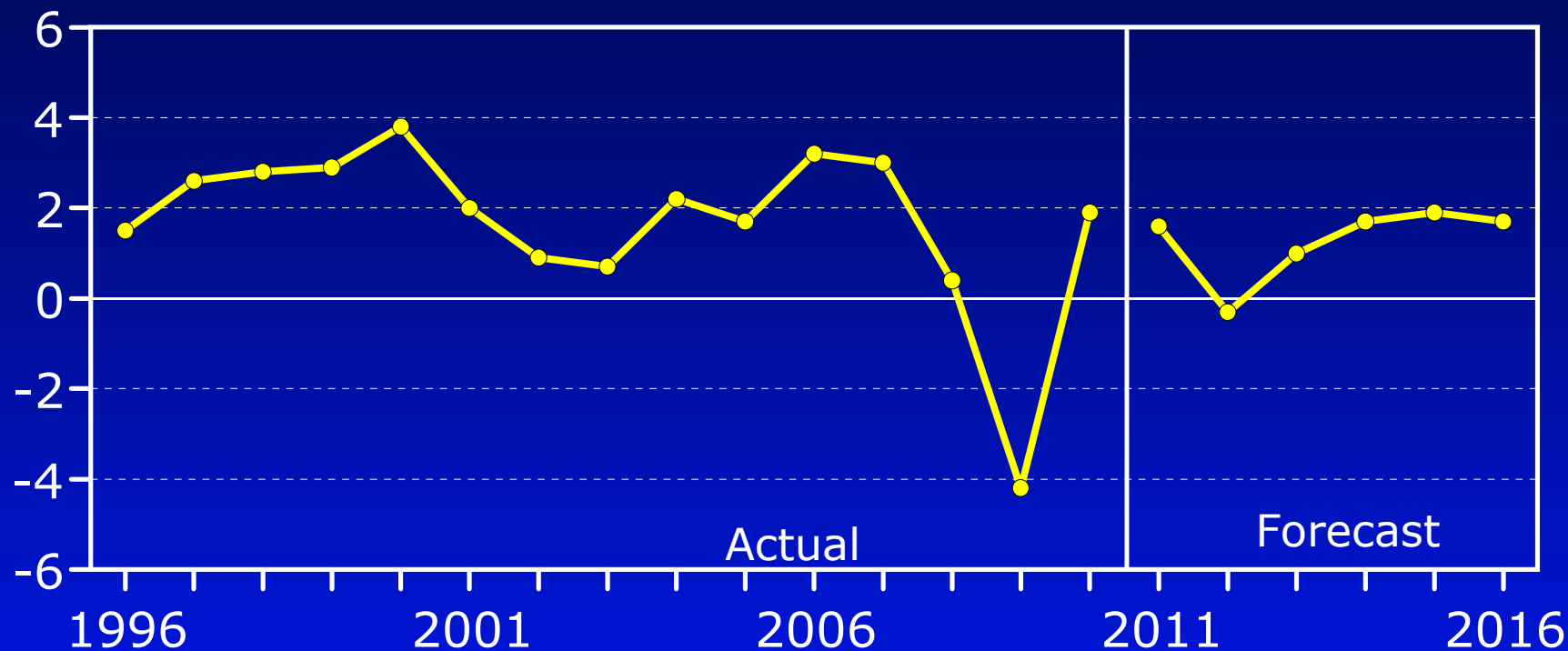
Source: Eurostat, Markit. Note: Seasonally adjusted. Latest: PMI Dec., IP Nov.



Mild recession in 2012, weak growth thereafter

Euro Zone Economic Growth - Consensus Scenario

Per cent change in real GDP



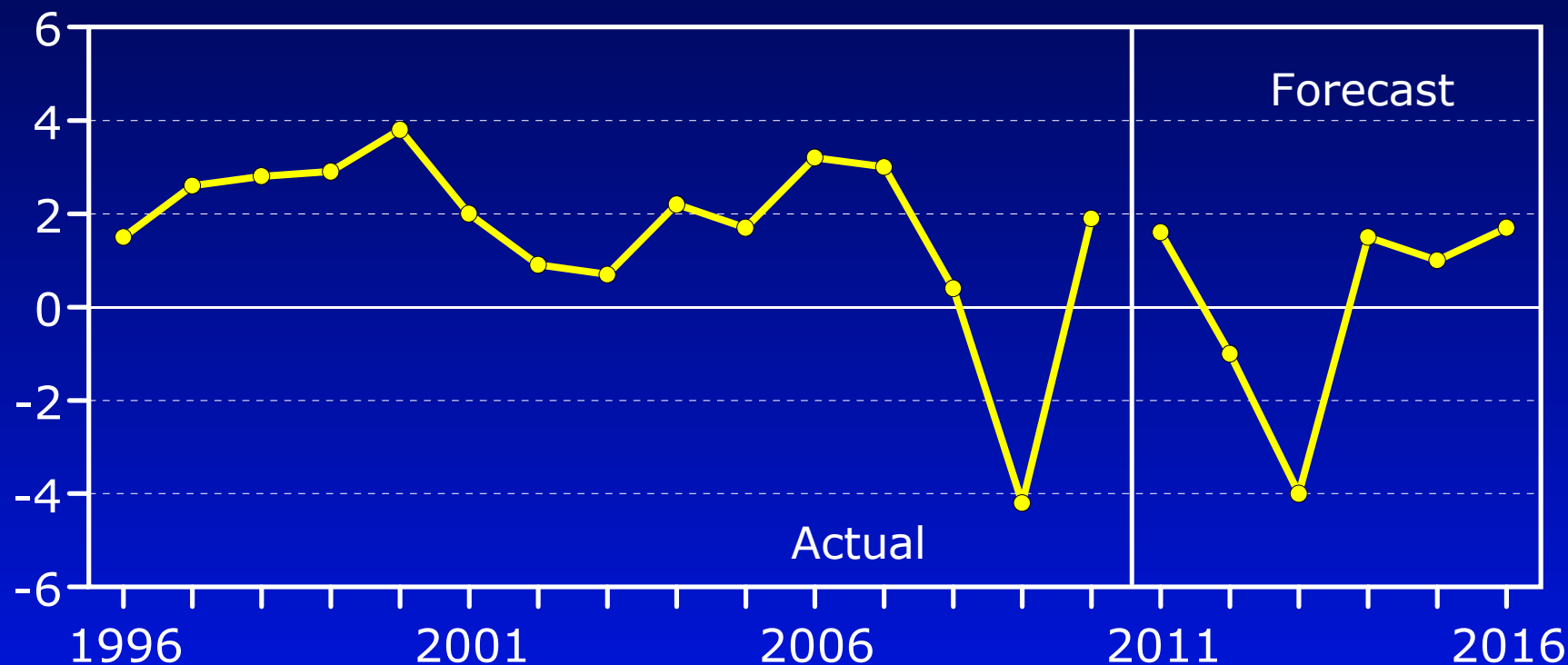
Source: Eurostat, Consensus Forecasts Jan. 2012. Latest actual: 2010



Deep and severe recession associated with banking crisis

Euro Zone Economic Growth, Banking Crisis Scenario

Per cent change in real GDP

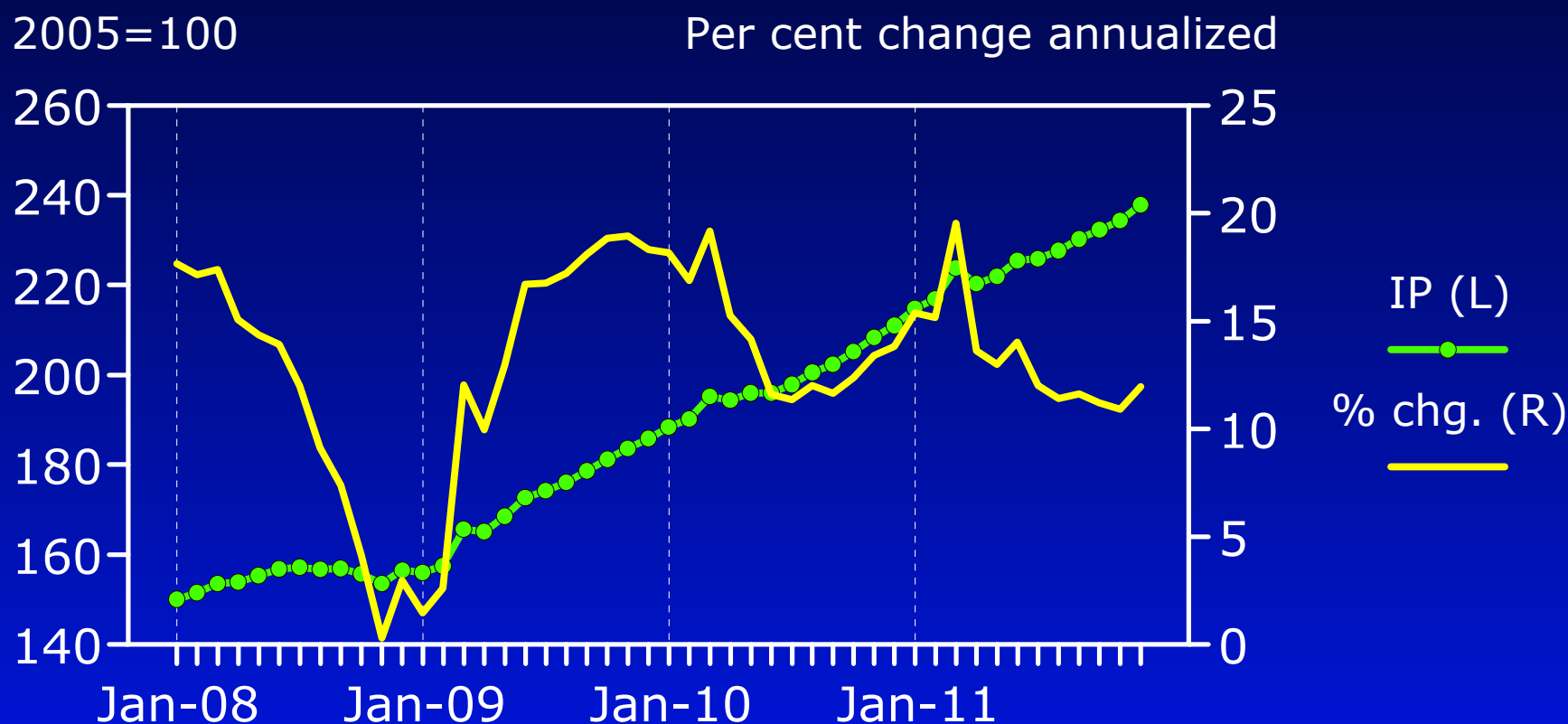


Source: Eurostat, C1CU forecasts. Latest actual: 2010



China's manufacturing expands at a slower pace in 2011

Industrial Production, China

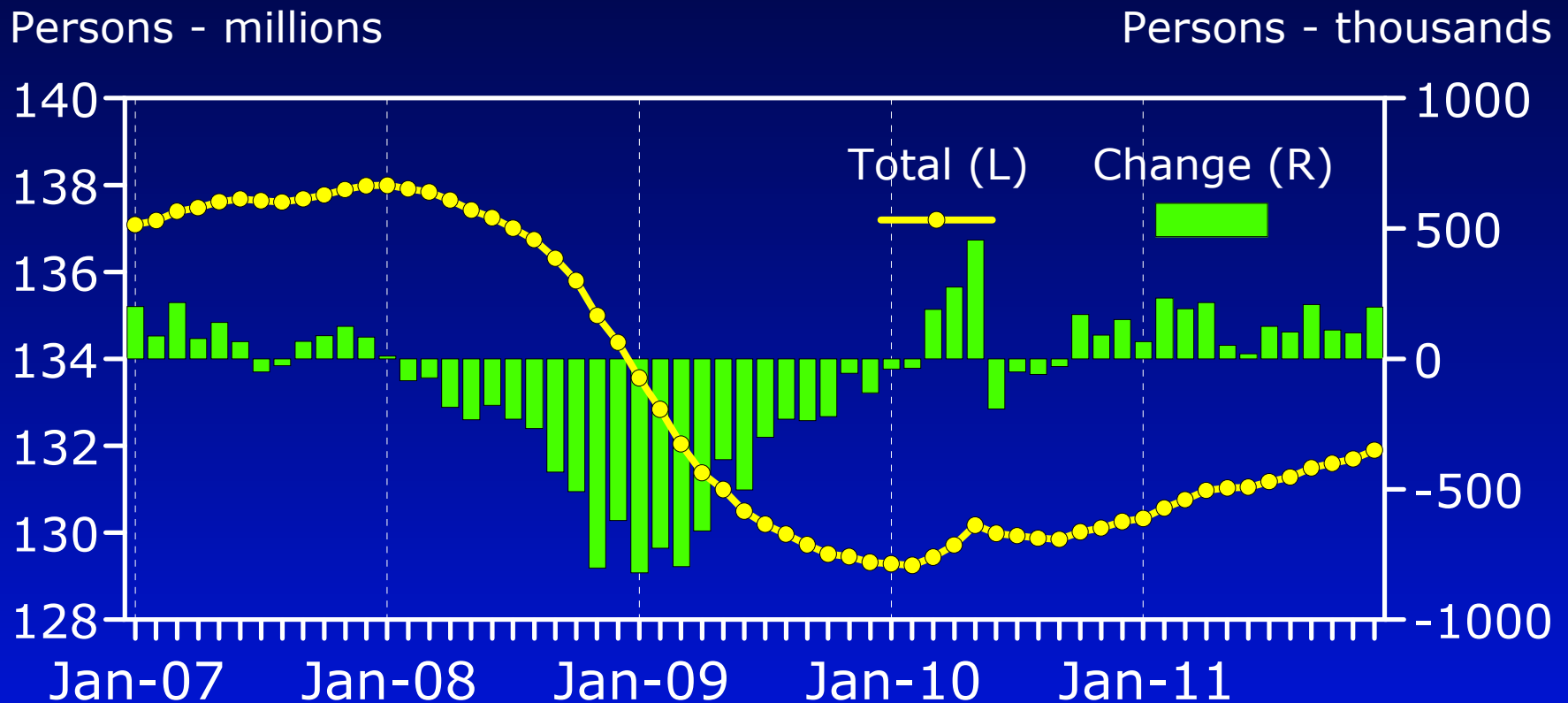


Source: World Bank. Note: Seasonally adjusted. Latest: Dec-11



U.S. employment rising; remains well below pre-recession levels

U.S. Payroll Employment, Total and Monthly Change



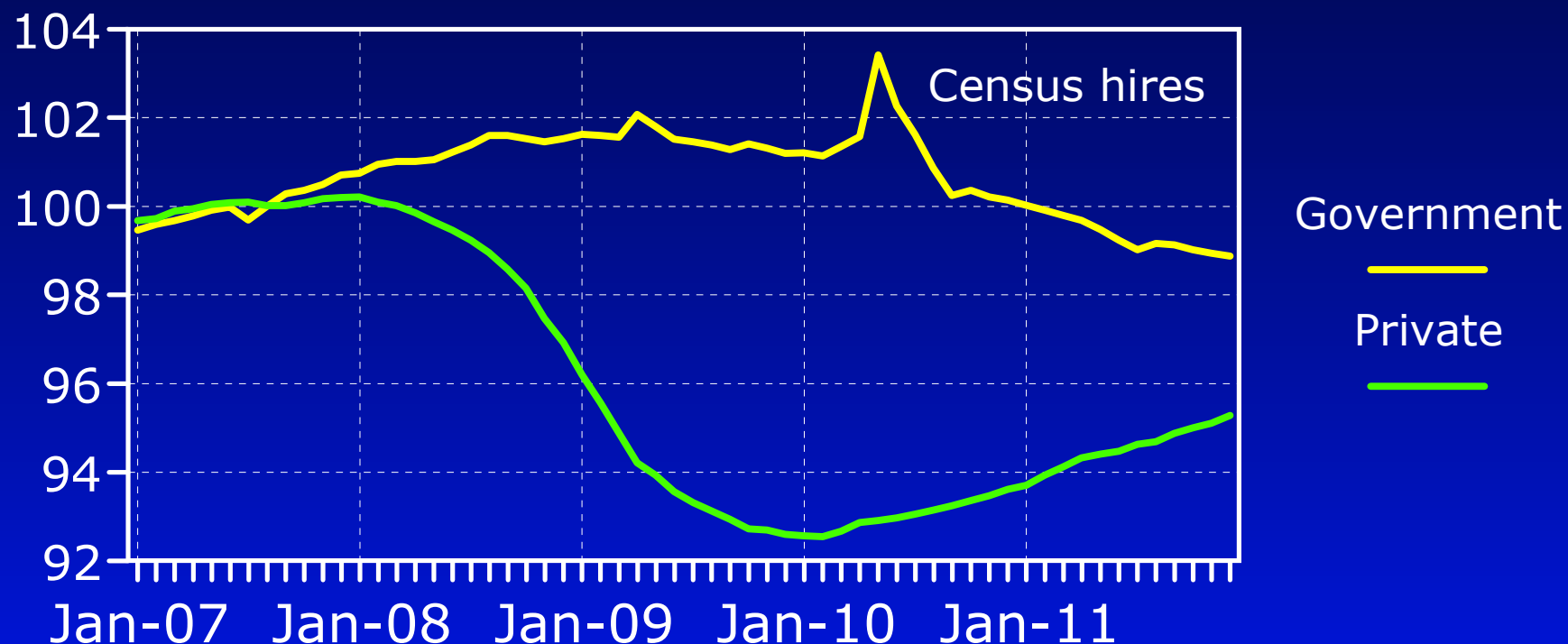
Source: U.S. BLS. Note: Seasonally adjusted. Latest: Dec-11



Government employment dropping, private sector expanding

U.S. Private and Government Employment Trends

2007=100



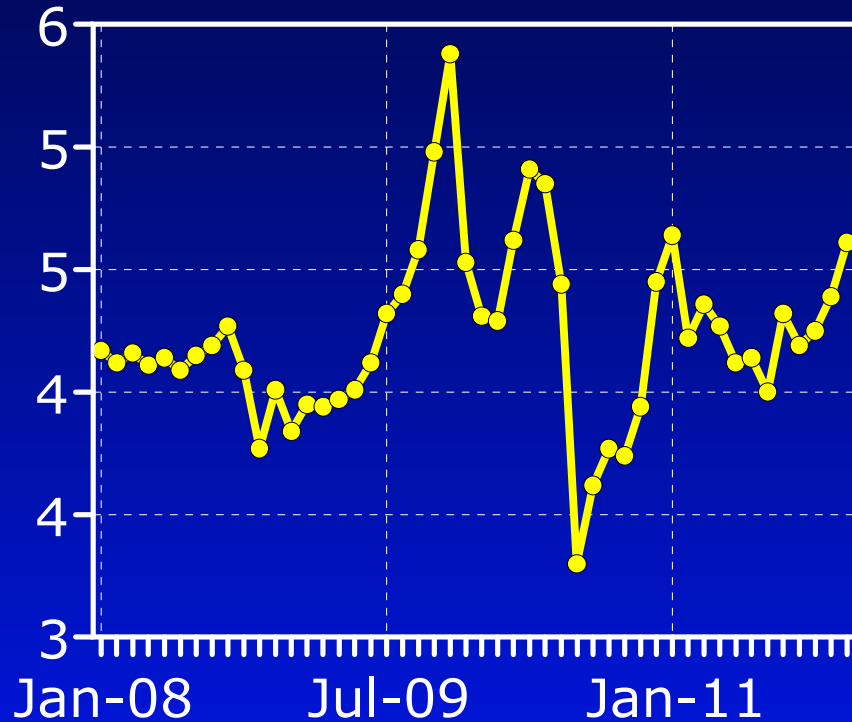
Source: U.S. BLS, C1CU. Note: Seasonally adjusted Latest: Dec-11



U.S. housing sales at or near cycle bottom

Existing Home Sales, Monthly

Units - millions, saar

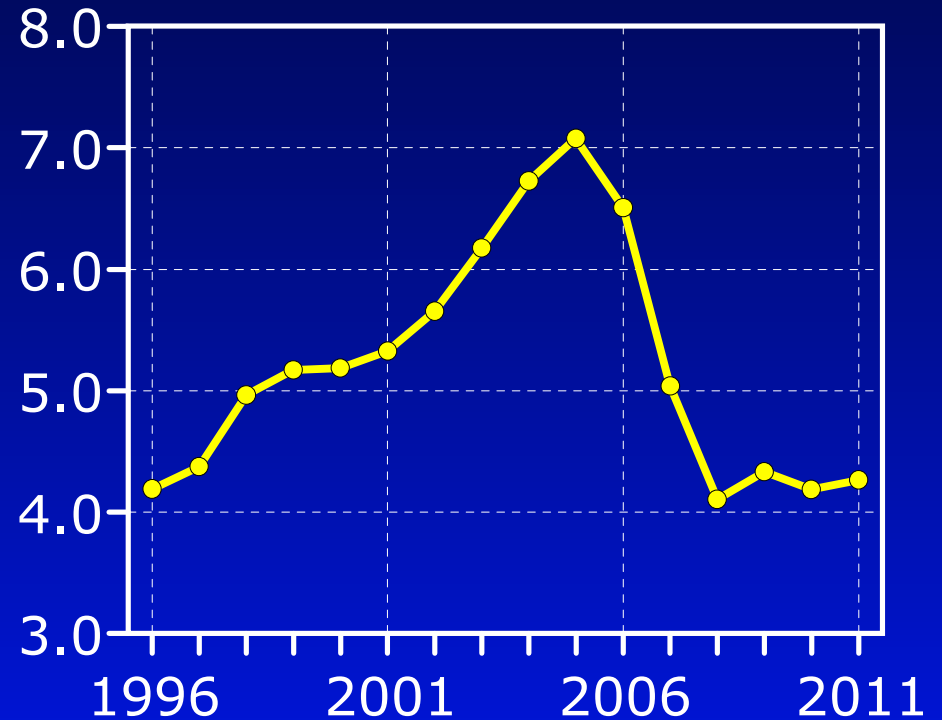


Source: NAR.

Latest: Dec-11

Annually, U.S.

Units - millions



Source: NAR



U.S. housing prices sliding lower

Median Sale Price, Monthly

Dollars - thousands

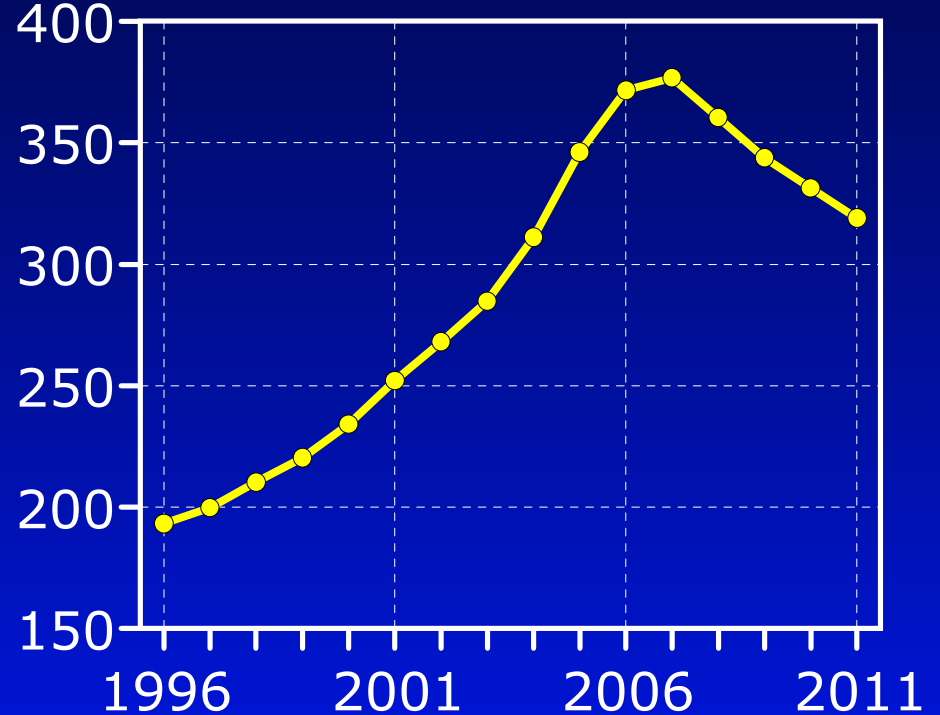


Source: NAR.

Latest: Nov-11

HPI Annually, U.S.

1980 Q1=100



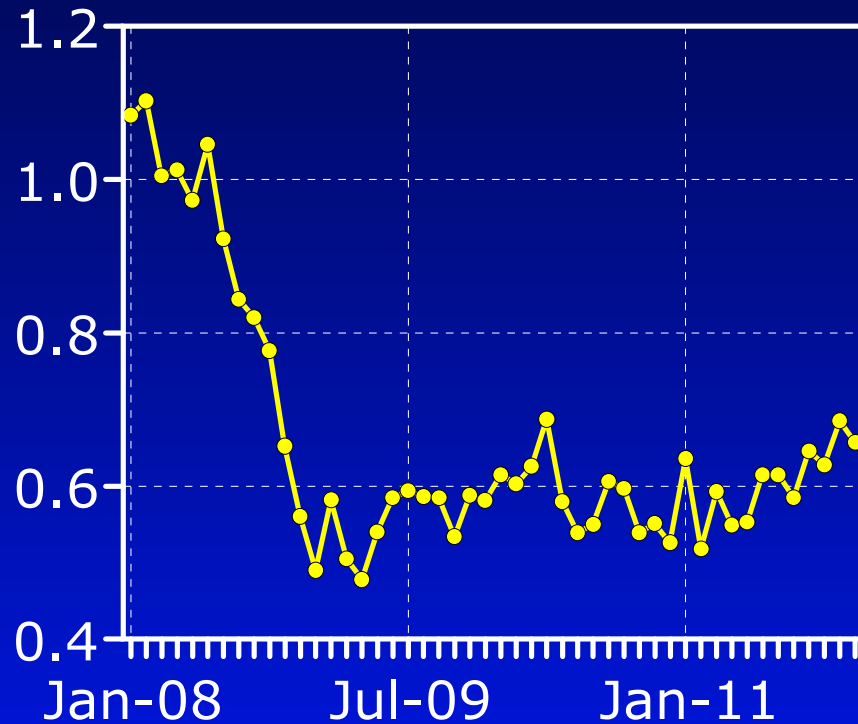
Source: FHFA. Latest: Q3-2011



U.S. housing starts at or near cycle bottom

Housing Starts, Monthly

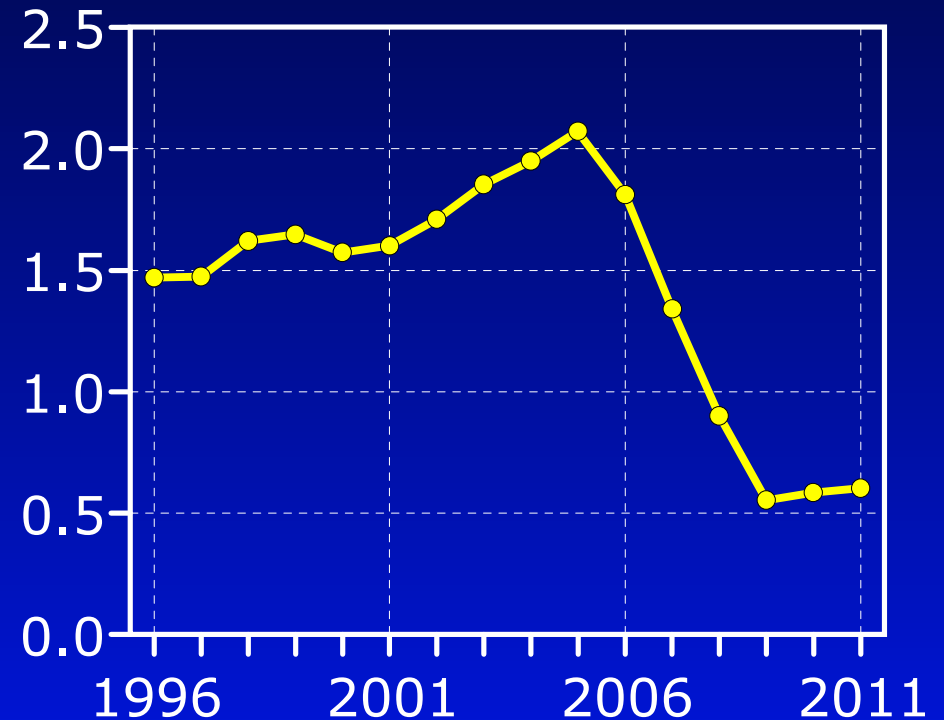
Units - millions, saar



Source: Census Bureau. Latest: Dec-11

Annually, U.S.

Units - millions



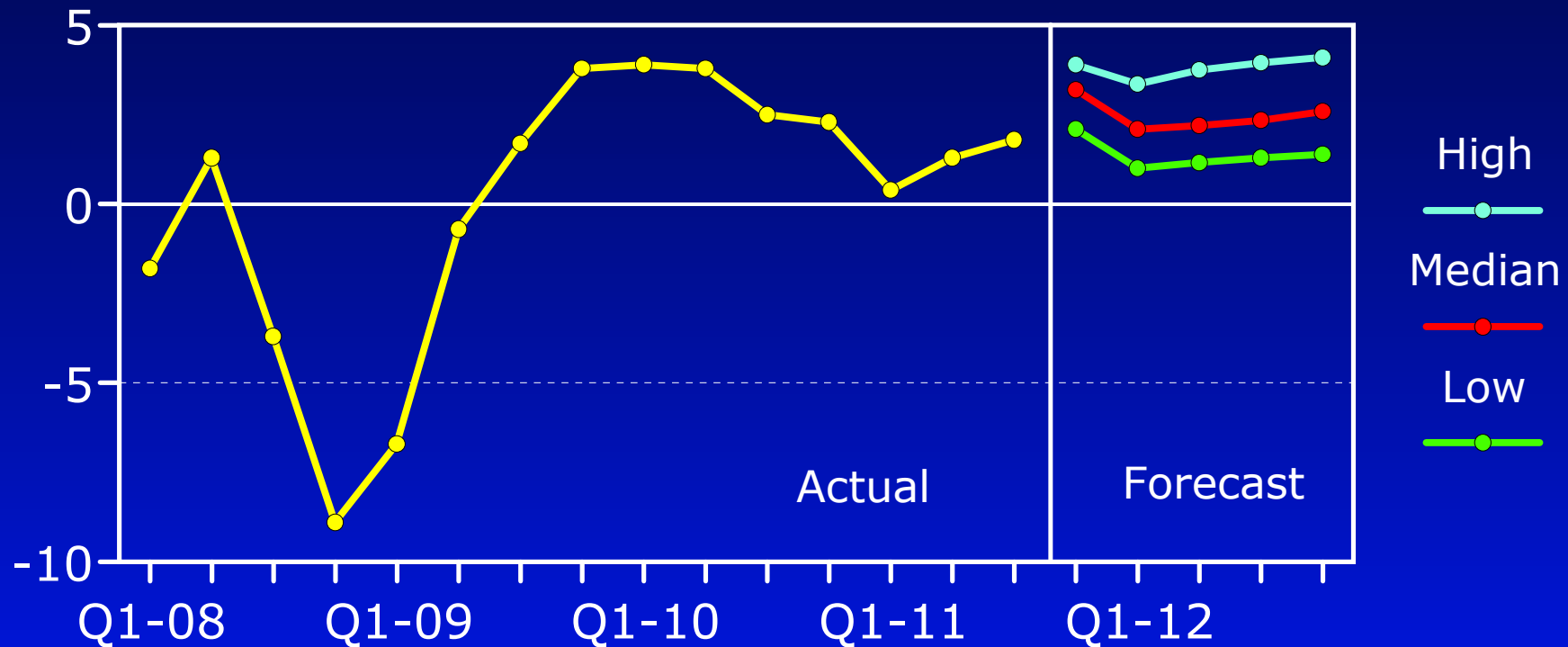
Source: Census Bureau.



No recession in forecast, more sub-par growth in 2012

U.S. Economic Growth

Percentage change at annual rate in real GDP



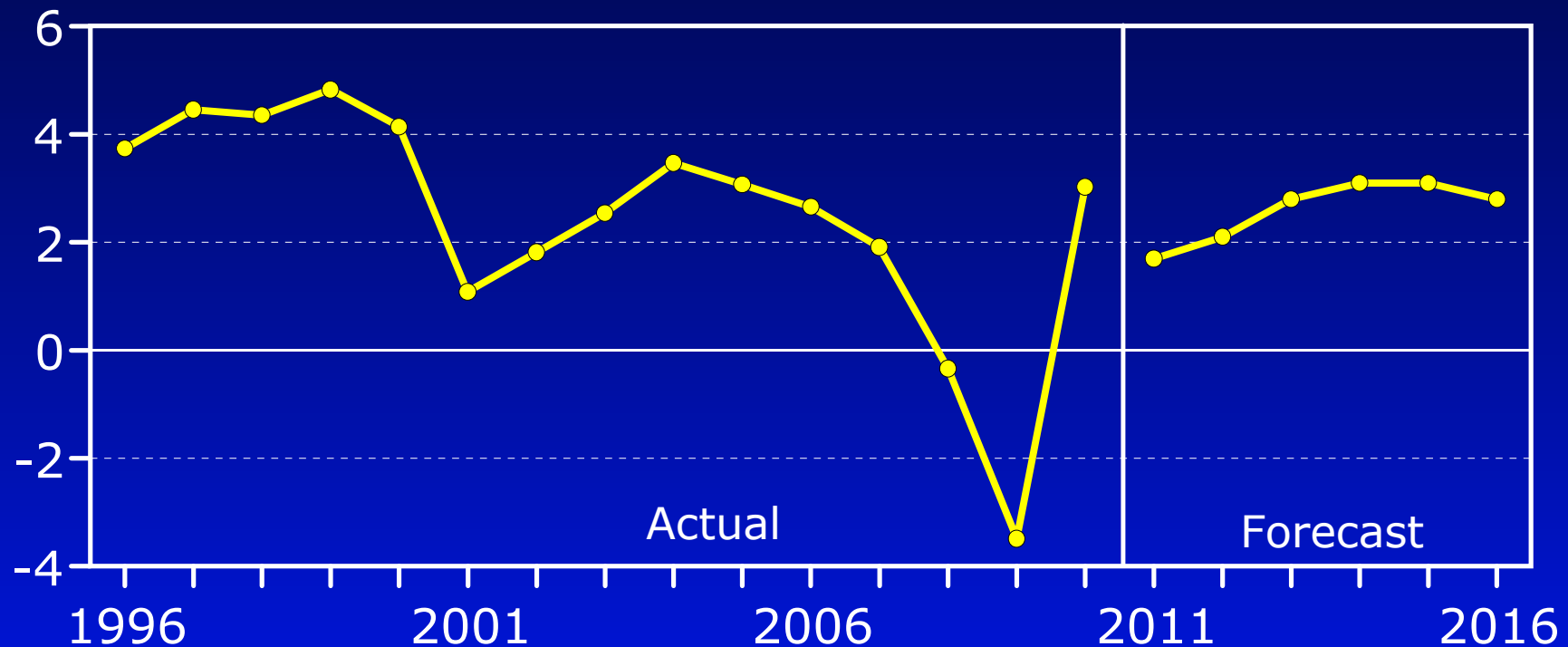
Source: U.S. BEA, WSJ January 2012 Survey. Latest actual: Q3-11



U.S. economy to grow above 3% after 2013

U.S. Long-term Economic Growth

Per cent change in real GDP



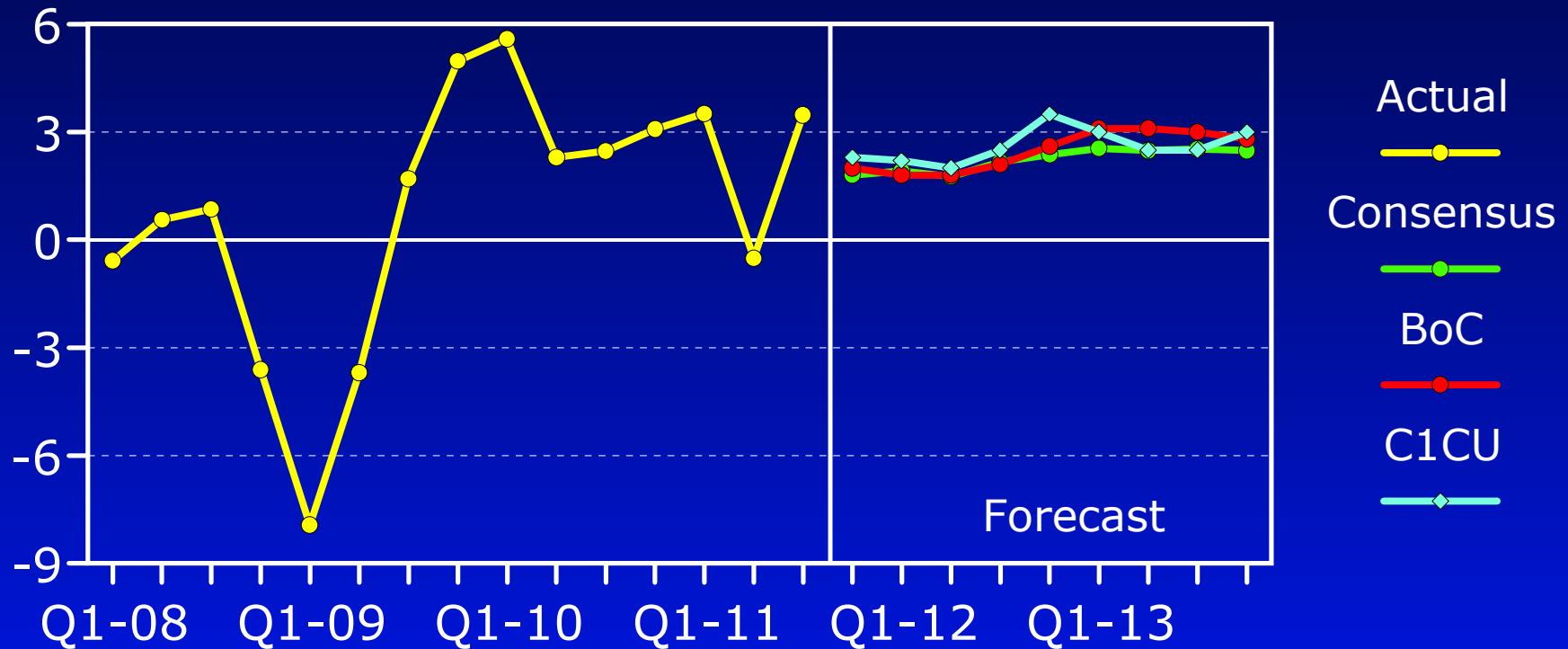
Source: U.S. BEA, Consensus Forecasts. Latest actual: 2010



GDP rebounds in Q3-2011 slows into 2012, below-trend growth in 2012

Canada's Economic Growth

Percentage change at annual rate in real GDP



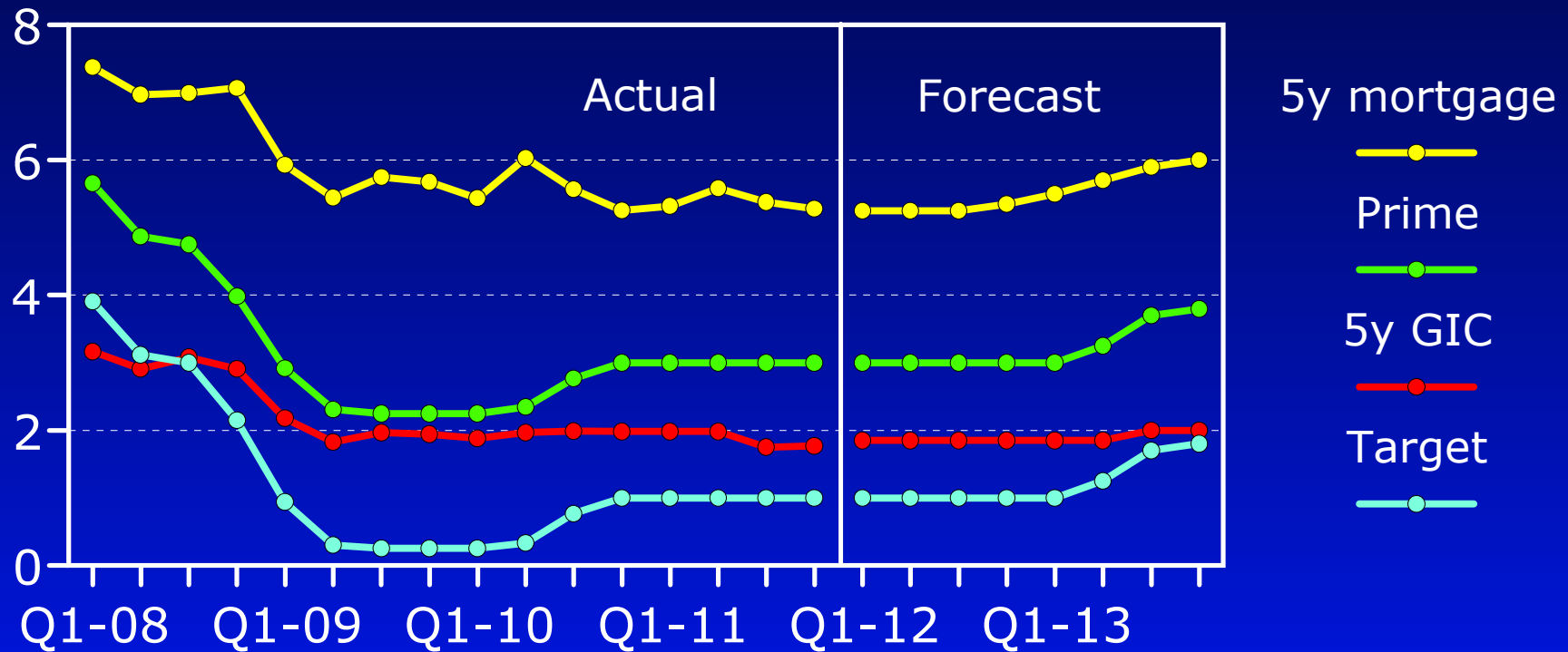
Source: Statistics Canada, Bank of Canada, C1CU. Latest actual: Q3-11



Low interest rates in 2012, Bank of Canada on hold until spring 2013

Interest Rate Forecasts, Quarterly

Per cent

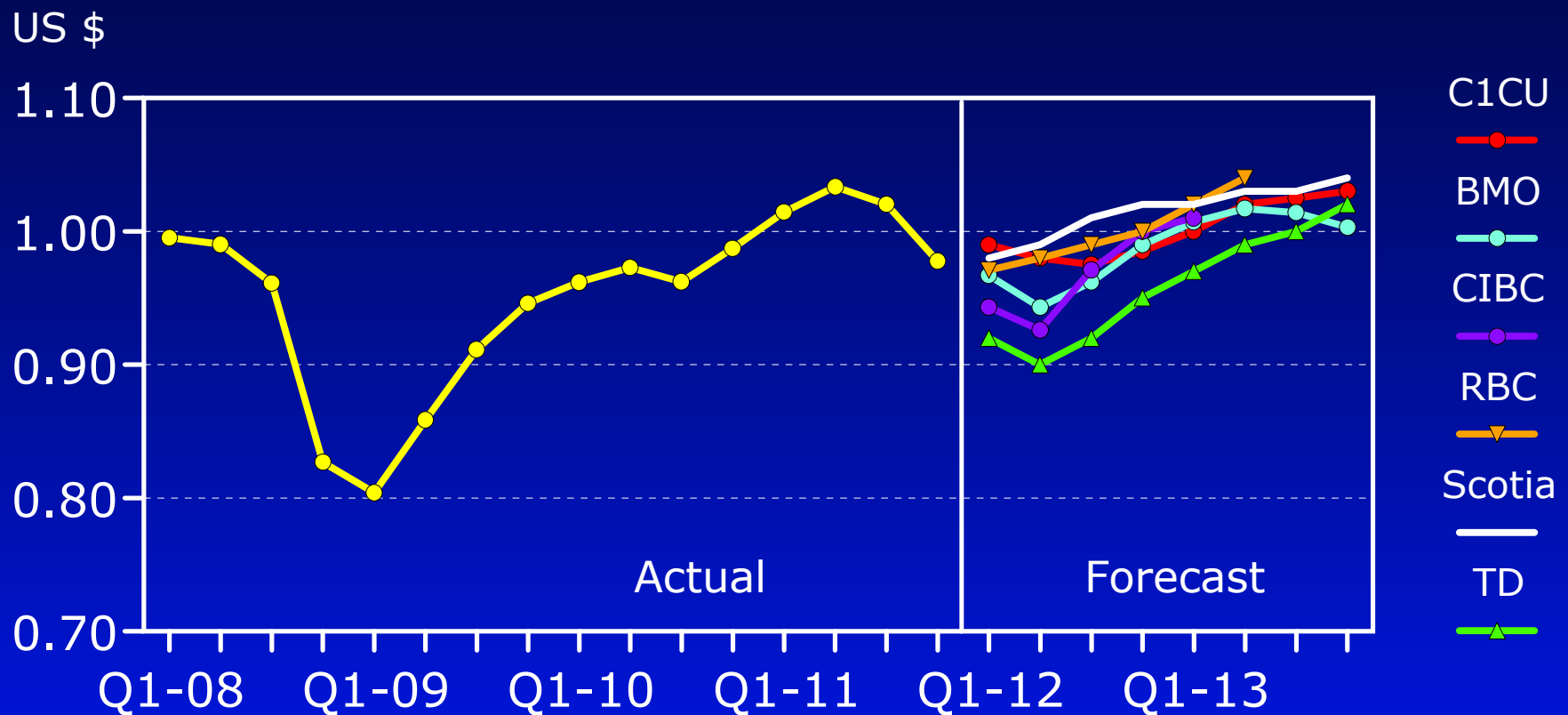


Source: Bank of Canada, C1CU. Note: Averages. Latest actual: Q4-11



Canadian dollar rising later in 2012

Canadian Dollar Exchange Rate



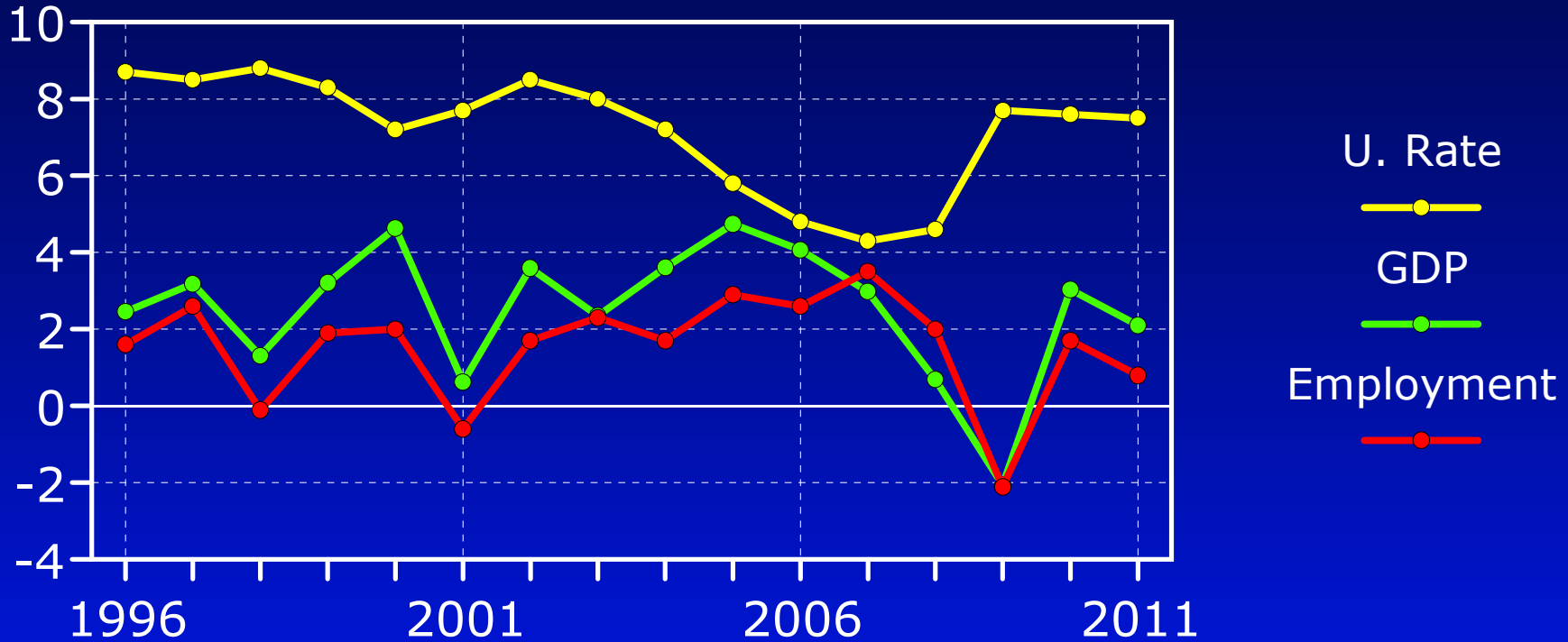
Source: Bank of Canada, C1CU survey. Latest actual: Q4-11



B.C.'s economic recovery slows in 2011

Key Economic Indicators, B.C.

Per cent



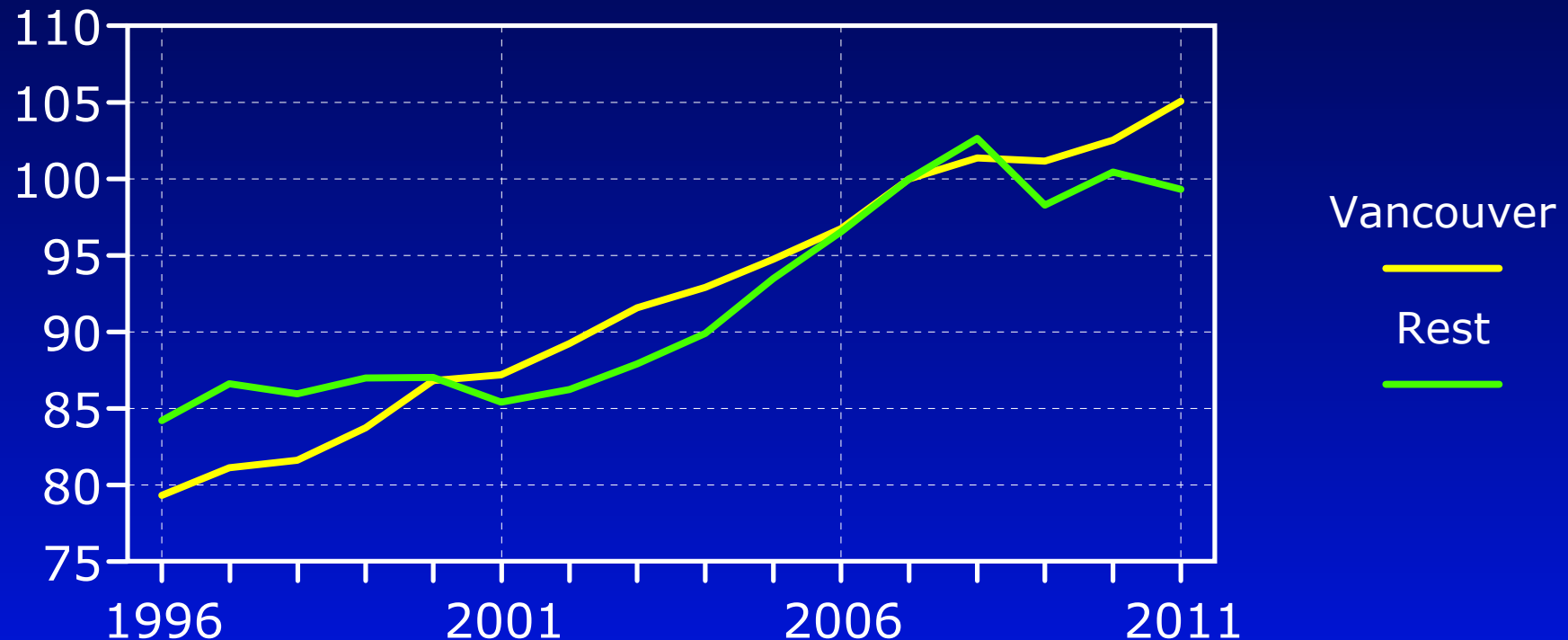
Source: Statistics Canada. Note: C1CU estimate for 2011 GDP



Job resurgence in Metro Vancouver, rest of B.C. lower since recession

Employment Trends, Metro Vancouver and Rest of B.C.

2007=100



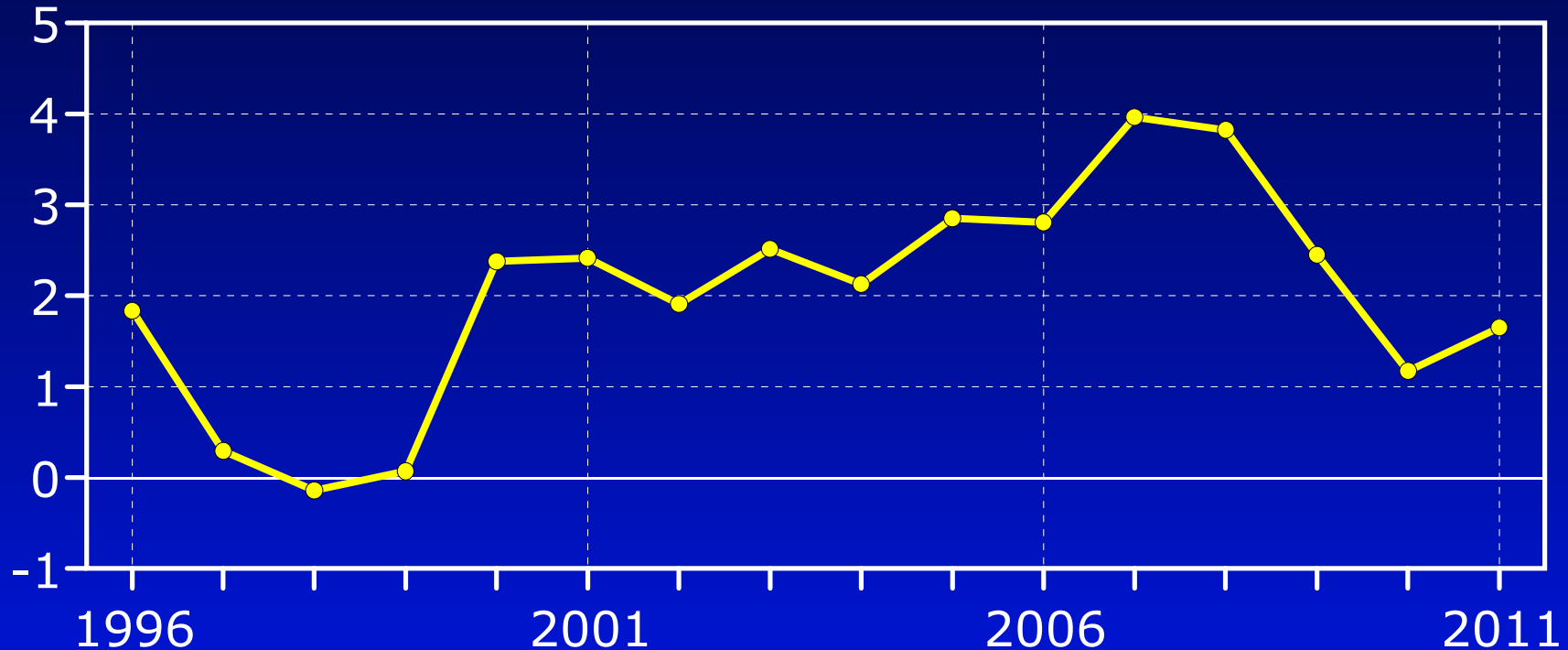
Source: Statistics Canada, C1CU.



Labour income advancing at modest pace

Change in Fixed-Weighted Average Hourly Earnings, B.C.

Per cent



Source: Statistics Canada.

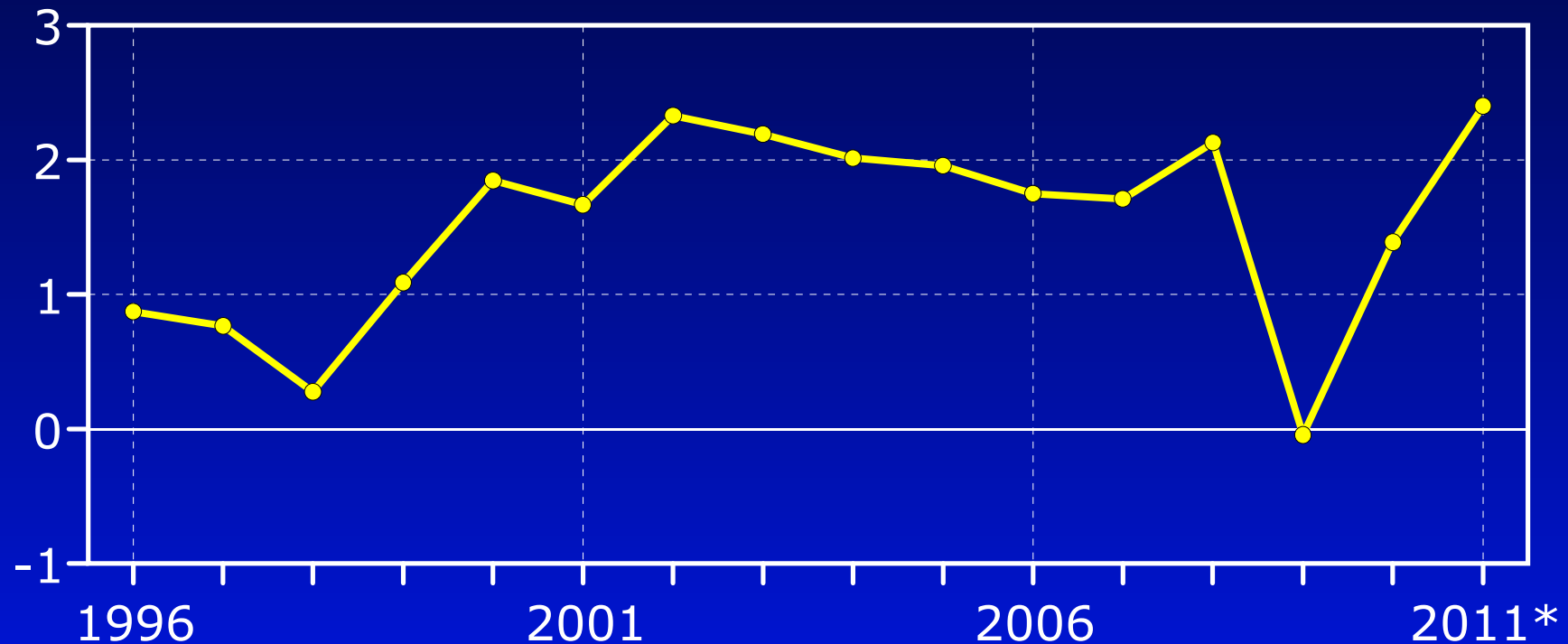
Latest: Average year-to-date Oct-11



Consumer price inflation up in 2011 mainly on energy and food

Change in Consumer Price Index, B.C.

Per cent



Source: Statistics Canada.

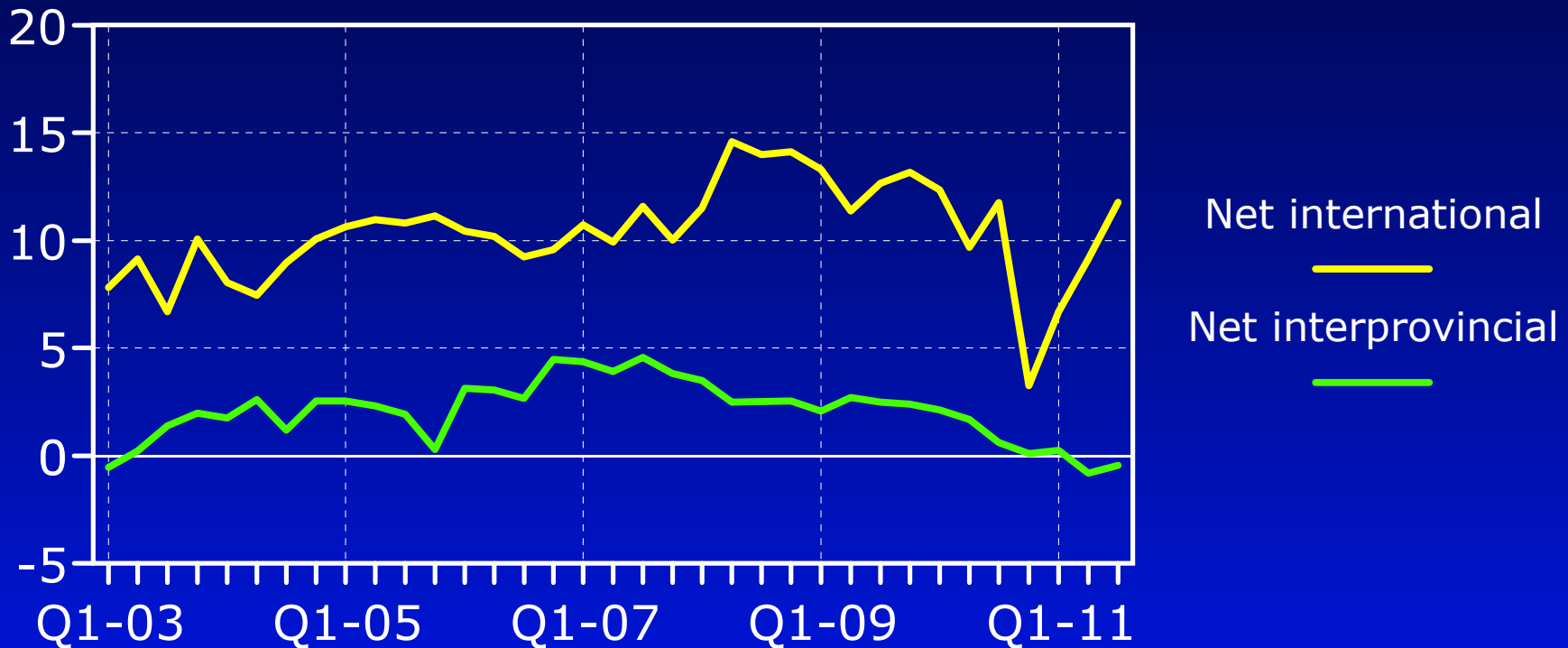
*Average year-to-date Nov-11



Interprovincial migration turns negative

B.C. Net Migration by Type, Quarterly

Persons - thousands

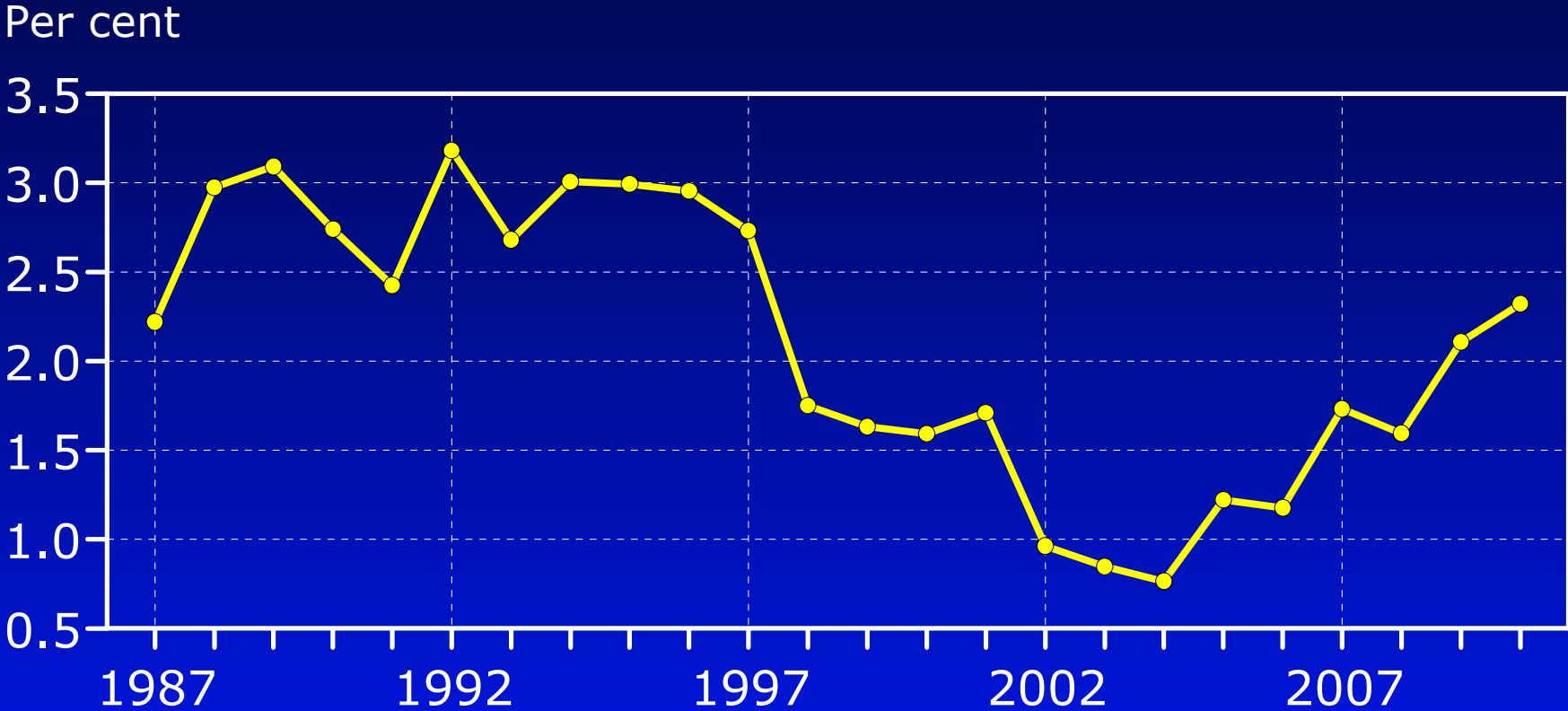


Source: Statistics Canada, C1CU. Note: Seasonally adjusted. Latest: Q3-11



Rising population growth since 2004, likely lower in 2011

Metro Vancouver Population Growth, Annually



Source: Statistics Canada.

Note: As of July 1.

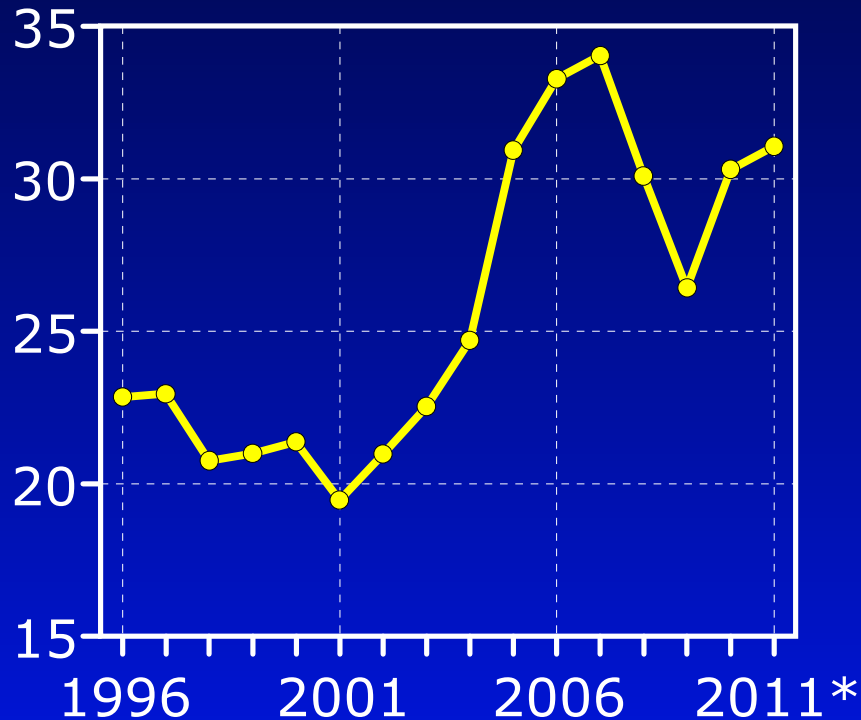
Latest: 2010



New business formations up slightly in 2011

B.C. Business Incorporations

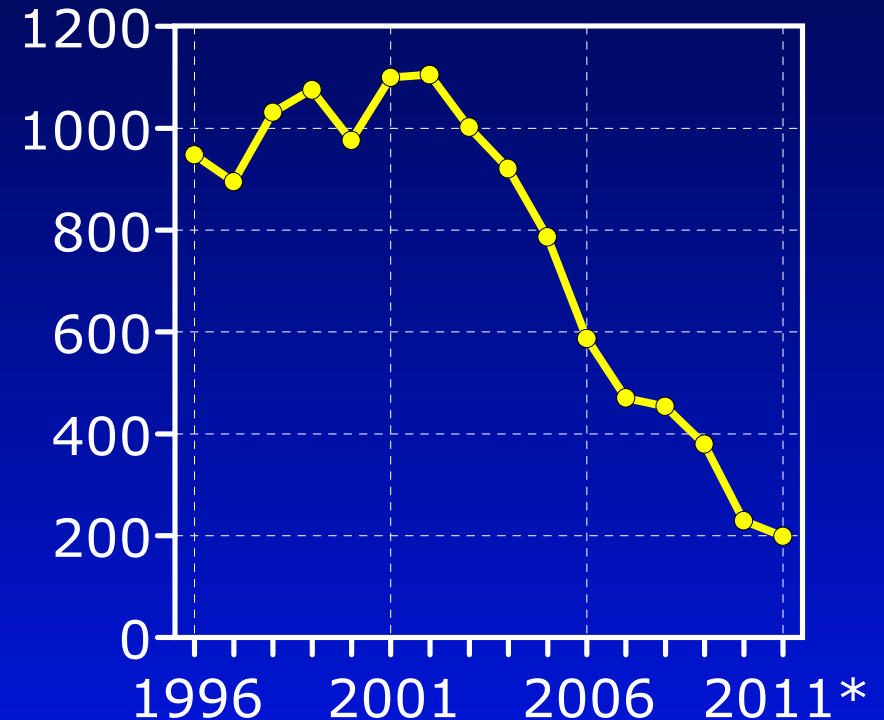
Number - thousands



Source: BC Finance. *12 mo. to Oct.

B.C. Business Bankruptcies

Number



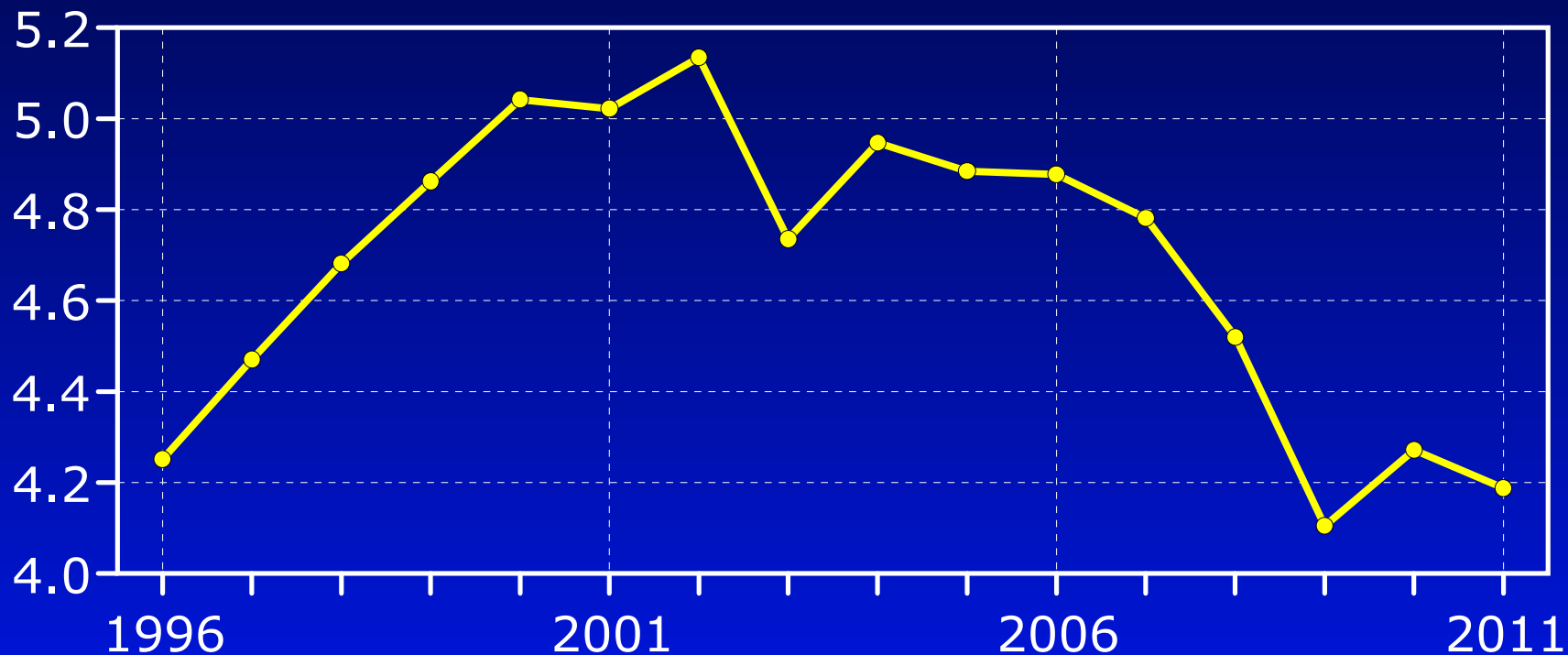
Source: OSB Canada. *12 mo. to Oct.



Tourist traffic at very low levels

B.C. International Tourist Entries

Persons - millions



Source: Statistics Canada.

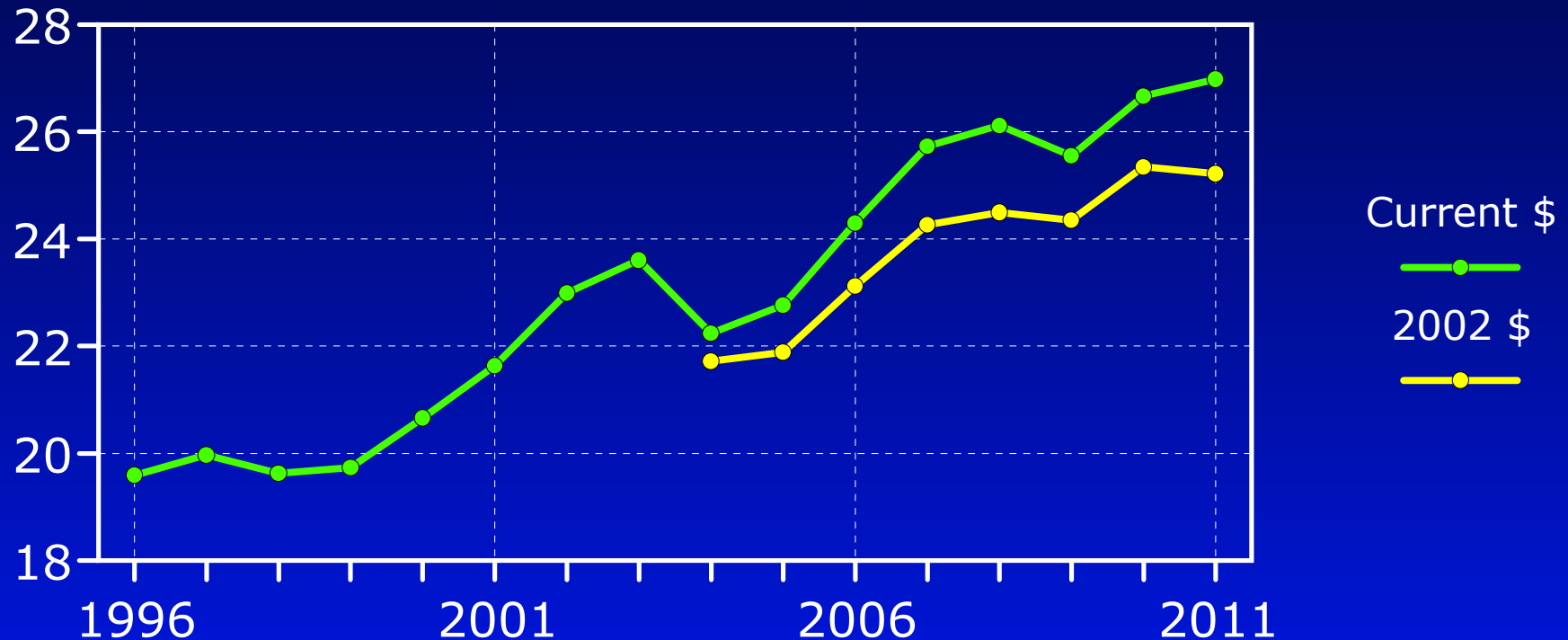
Note: 12 months ending Oct-11.



Lacklustre retail sales performance in 2011

Retail Sales - Metro Vancouver

Dollars - billions



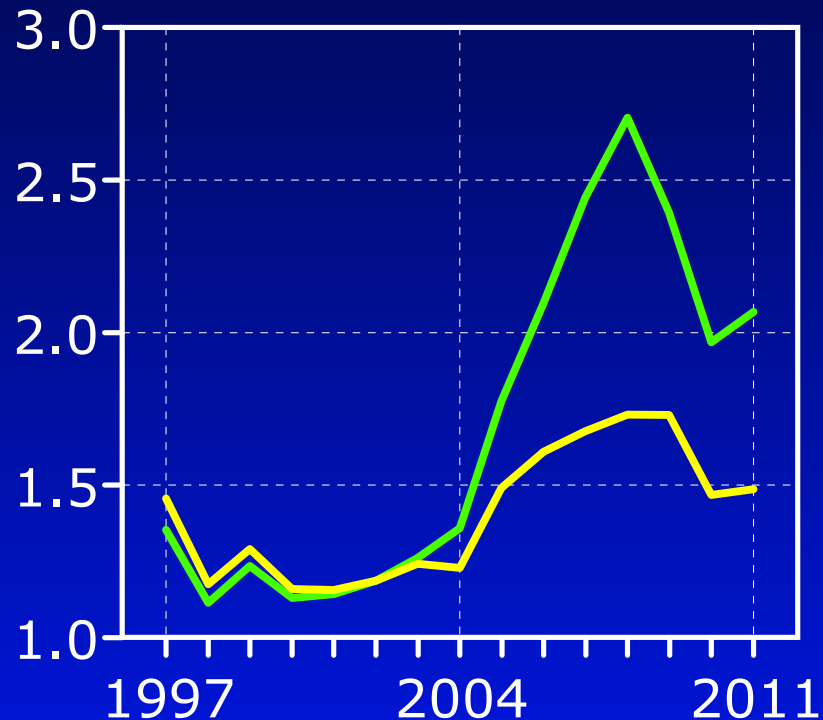
Source: Statistics Canada, C1CU. Note: 12 months ending Oct-11.



Metro Vancouver Non-residential Building Construction Investment Spending

Commerical and Industrial

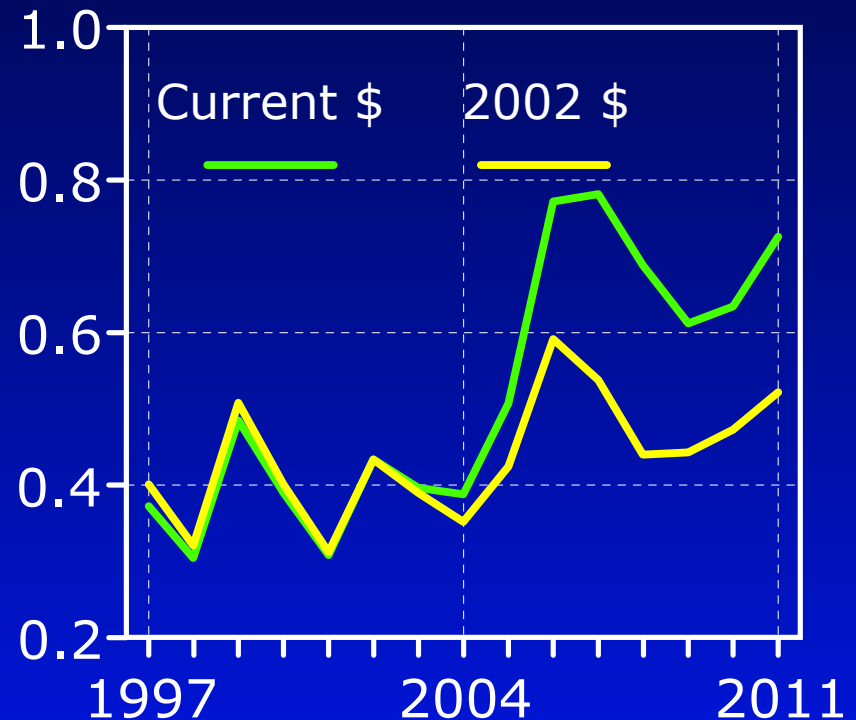
Dollars - billions



Source: Statistics Canada.

Institutional-Government

Dollars - billions



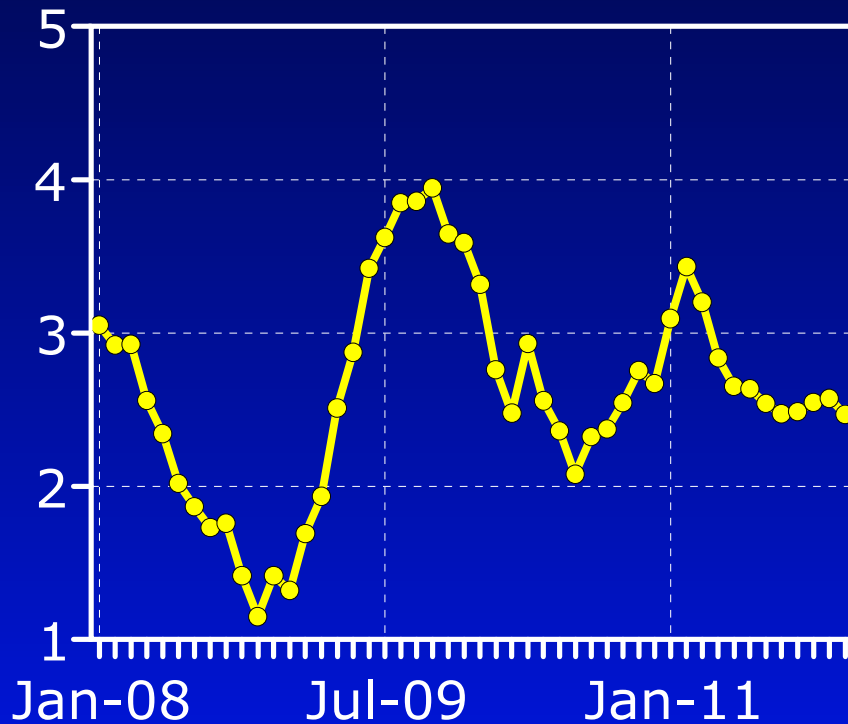
Note: Annual totals.



Housing sales holding at moderate levels

MLS Residential Sales, Monthly

Units - thousands, s.a.

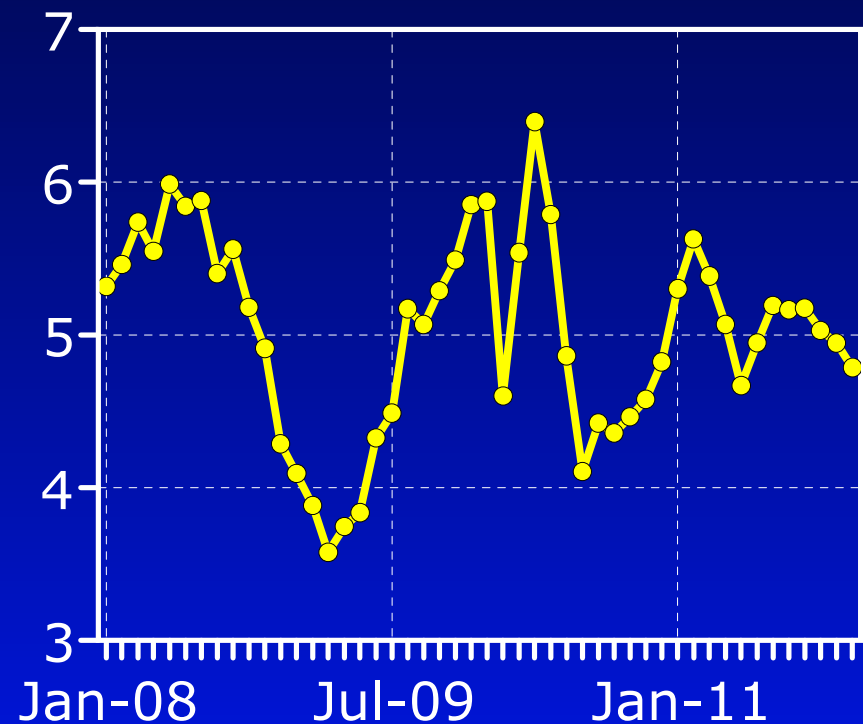


Source: CREA.

Latest: Dec-11

New Listings, REBGV

Units - thousands, s.a.

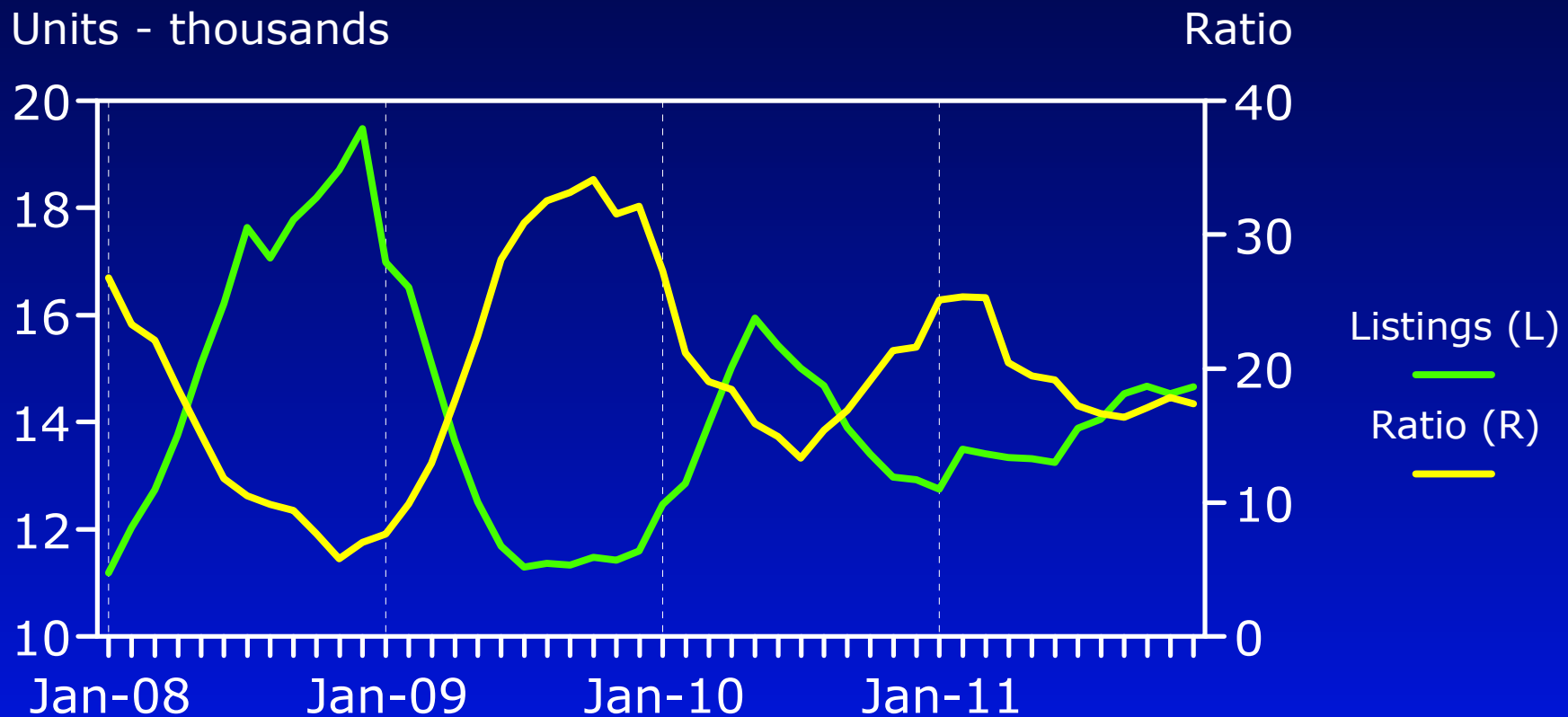


Source: CREA



Listings on market at normal levels relative to sales activity

Active Listings and Sales-to-active Listings Ratio

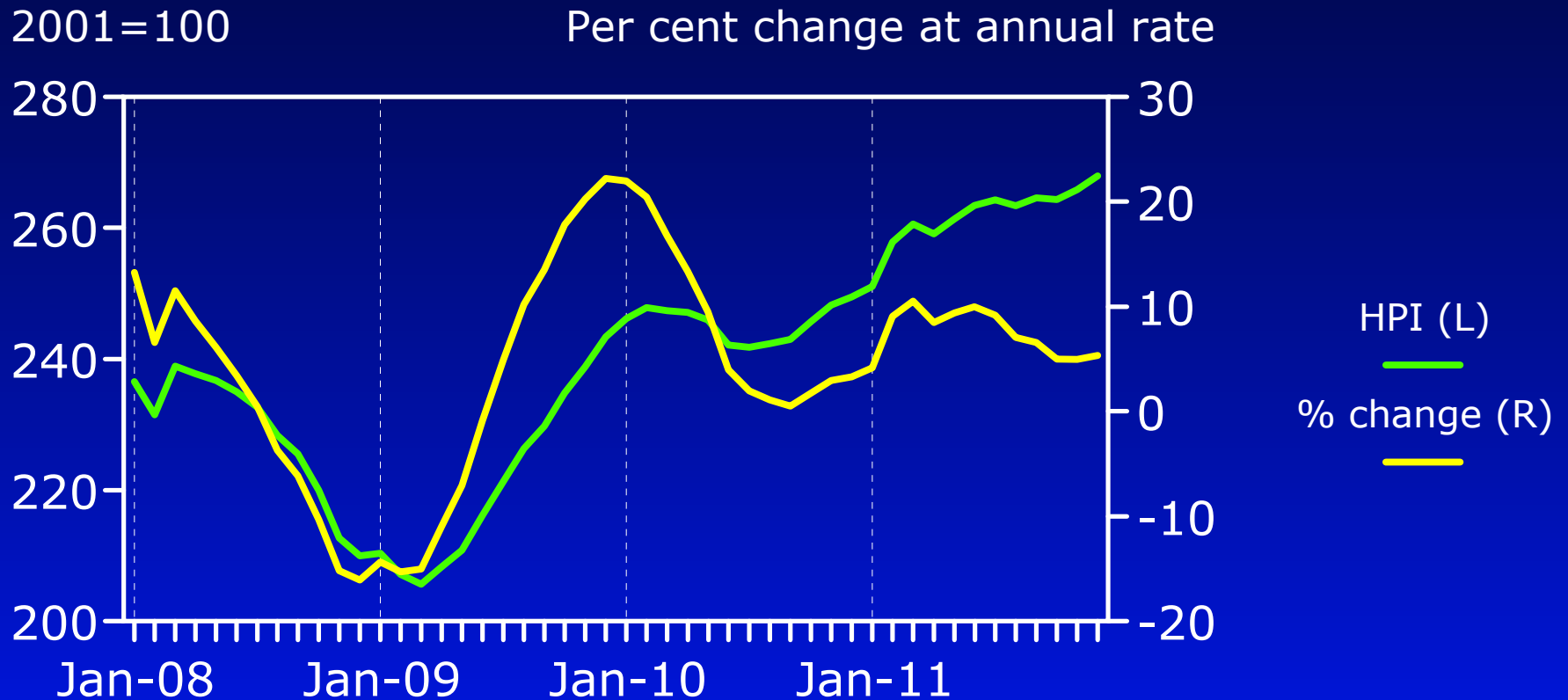


Source: REBGV, C1CU. Note: Seasonally adjusted. Latest: Dec-11



Home price rise slows during 2011

REBGV MLS Housing Price Index



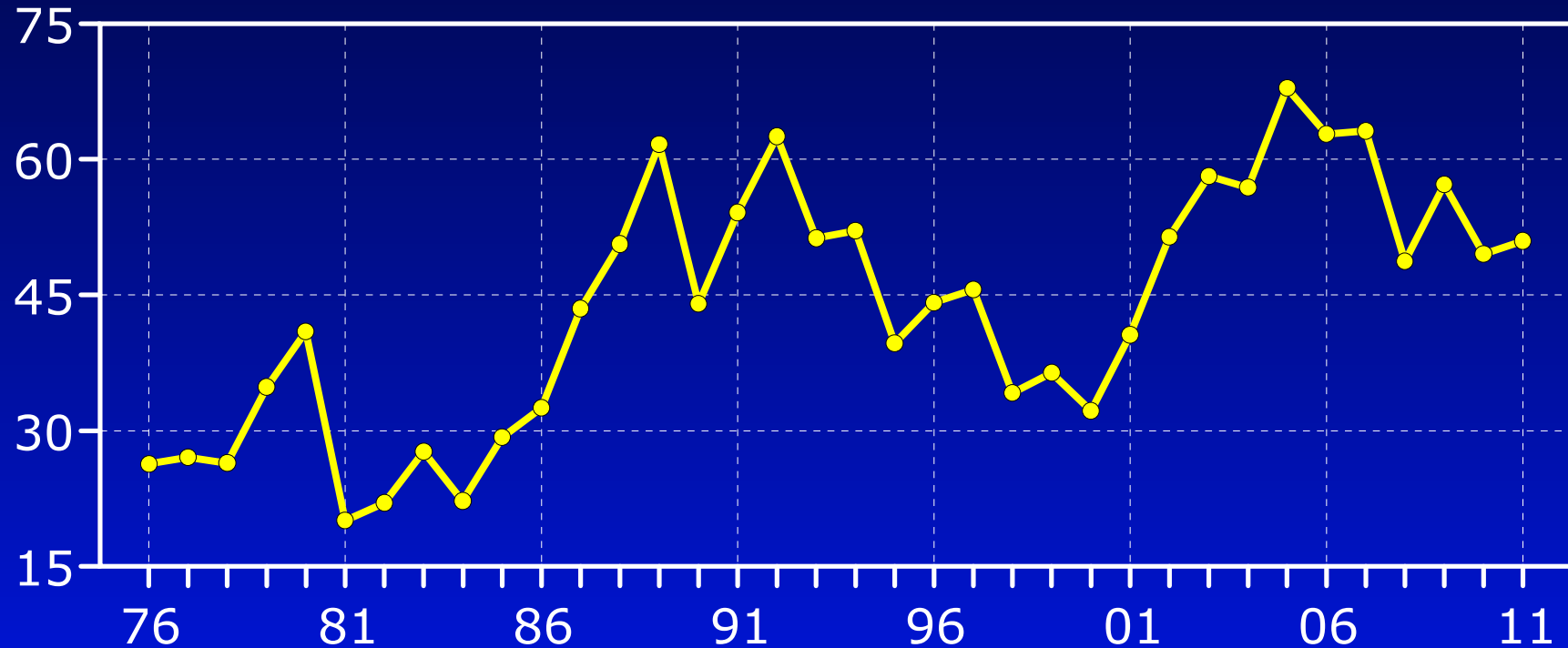
Source: REBGV, C1CU. Note: Seasonally adjusted. Latest: Dec-11



Sales at low point of cycle

Residential Sales, Metro Vancouver

Units - thousands



Source: Landcor Data Corp.

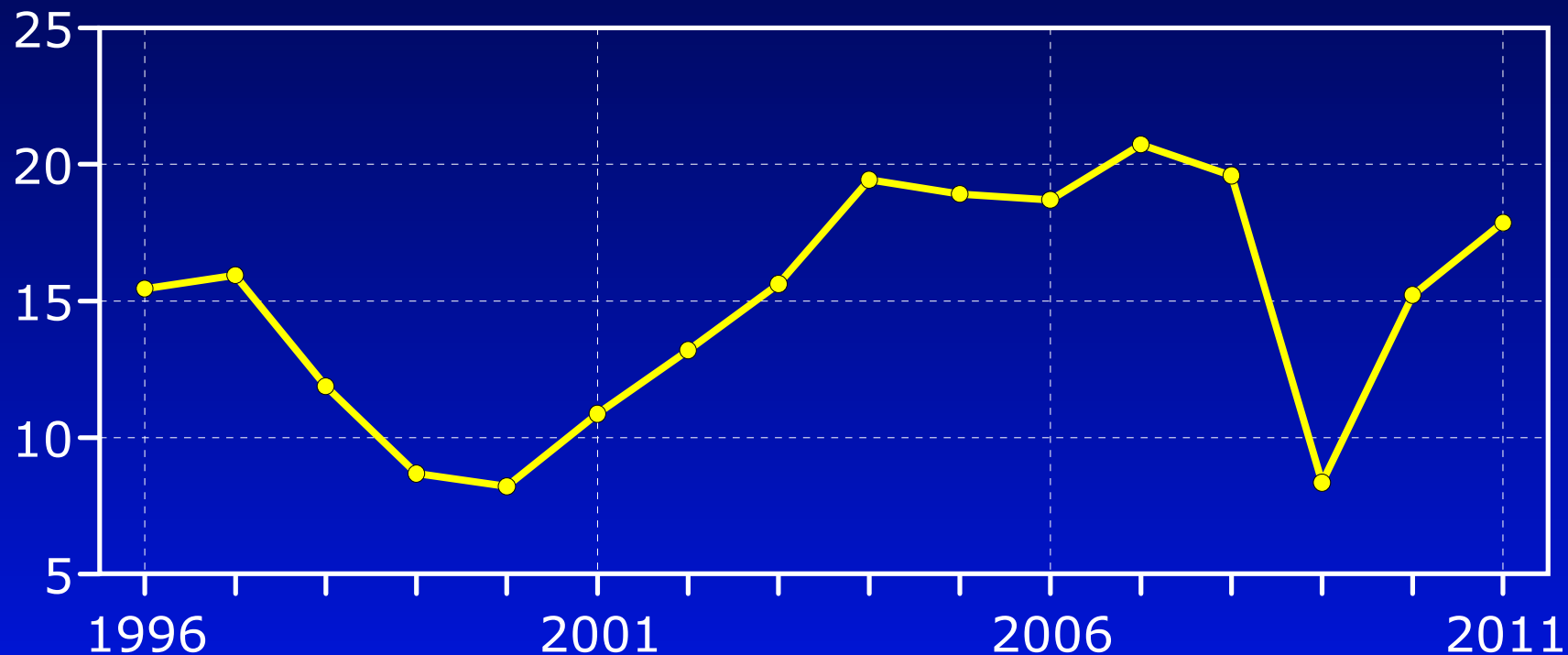
Latest: 12 months ending Nov-11



Housing starts rebound from recession low to above-average level

Metro Vancouver Housing Starts

Units - thousands



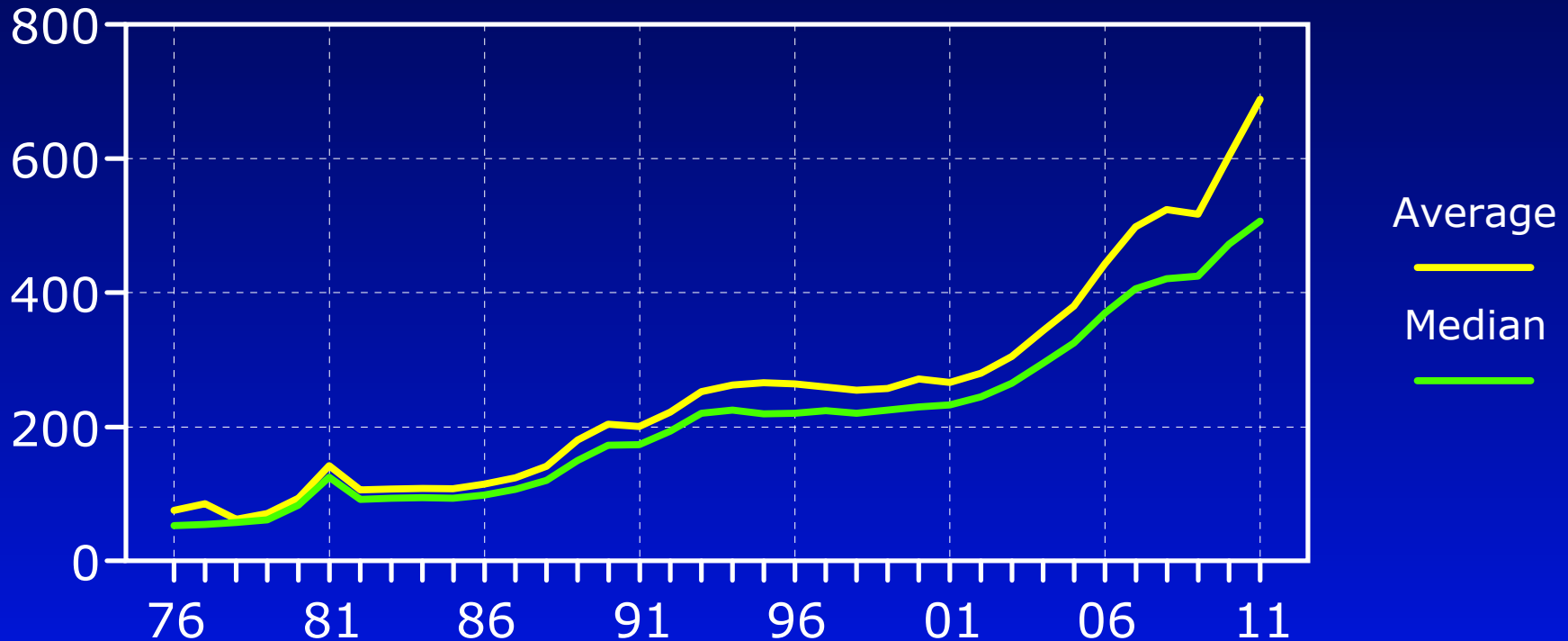
Source: CMHC.



Prices at record high, growing divergence between average and median prices

Residential Avg. and Median Sale Prices, Metro Vancouver

Dollars - thousands

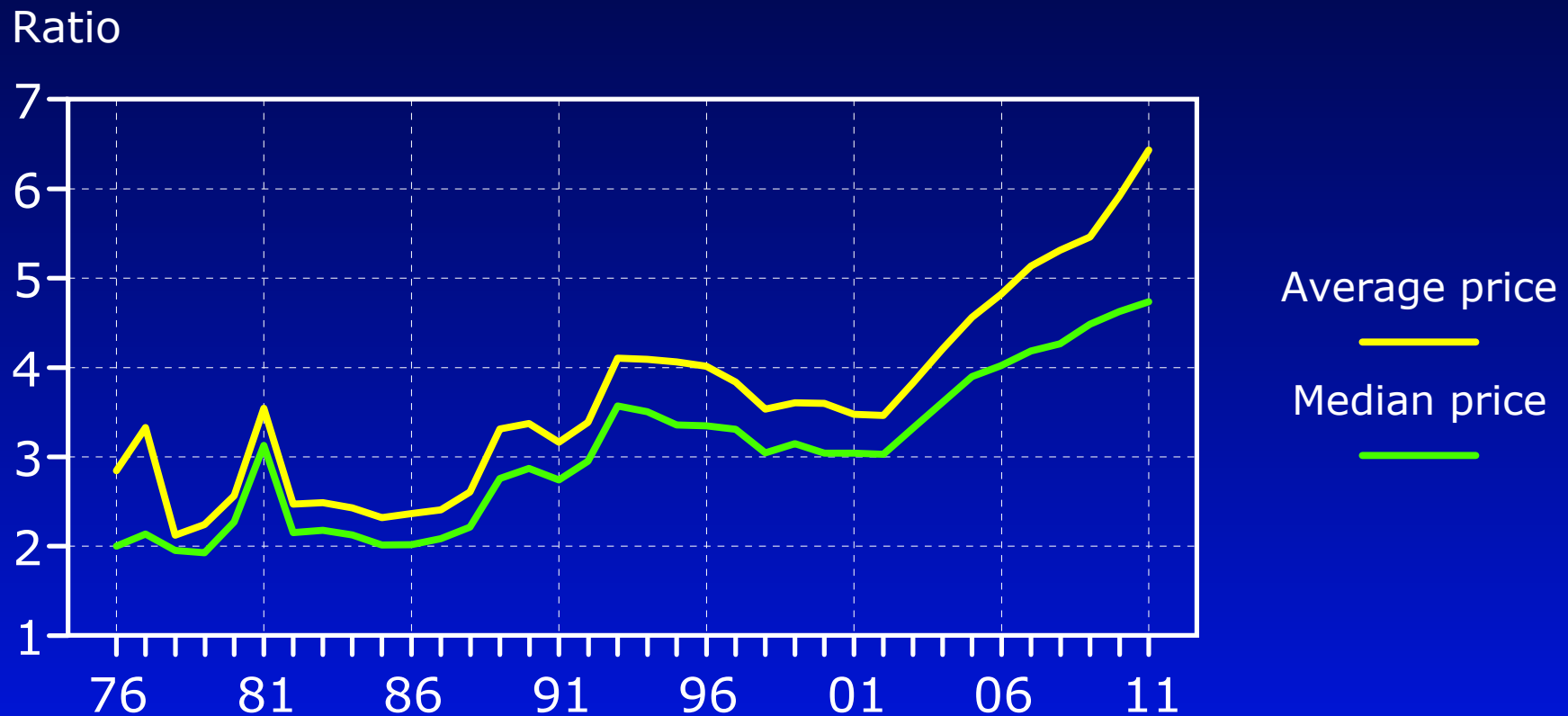


Source: Landcor Data Corp.



Price-to-income ratios at record high; over-valued and reverts to mean?

Residential Price-to-income Ratios, Metro Vancouver



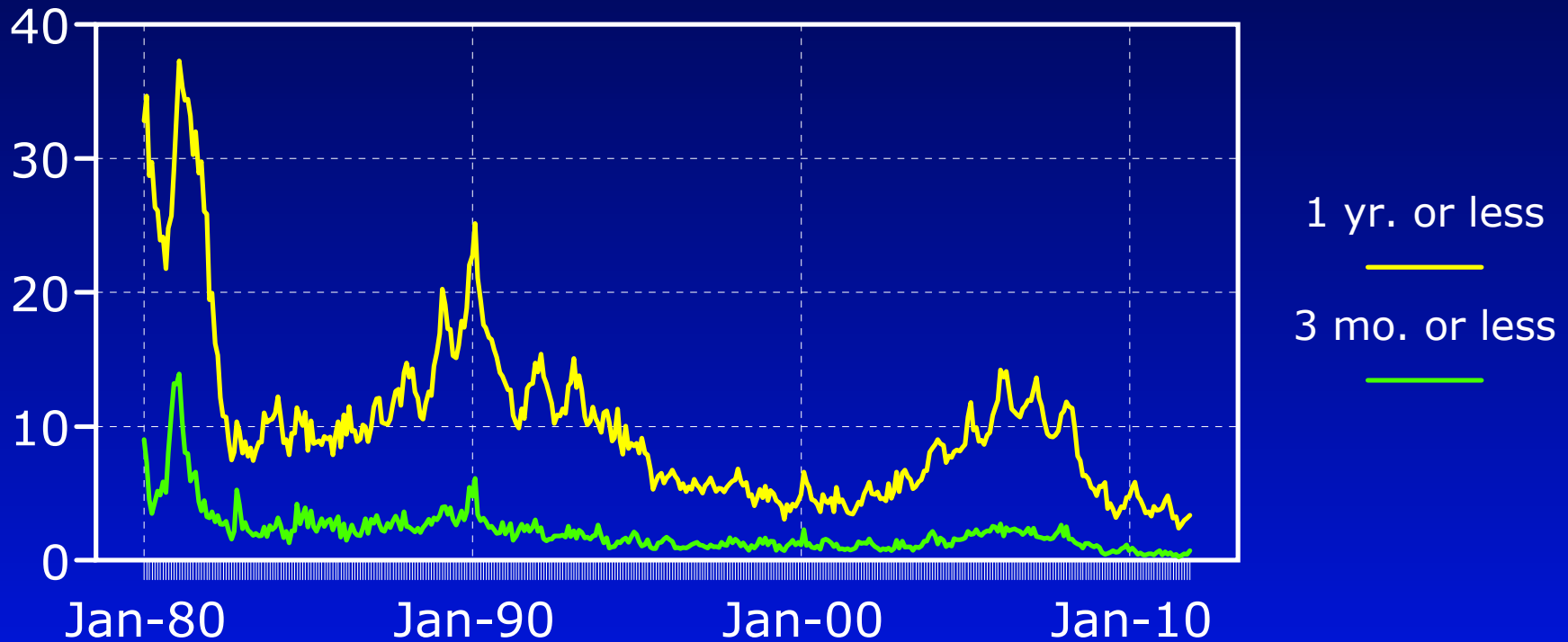
Source: C1CU. Note: Based on average total income of non-elderly families.



Low flipping activity in current market

Holding Period of Sales, Metro Vancouver

Per cent of sales



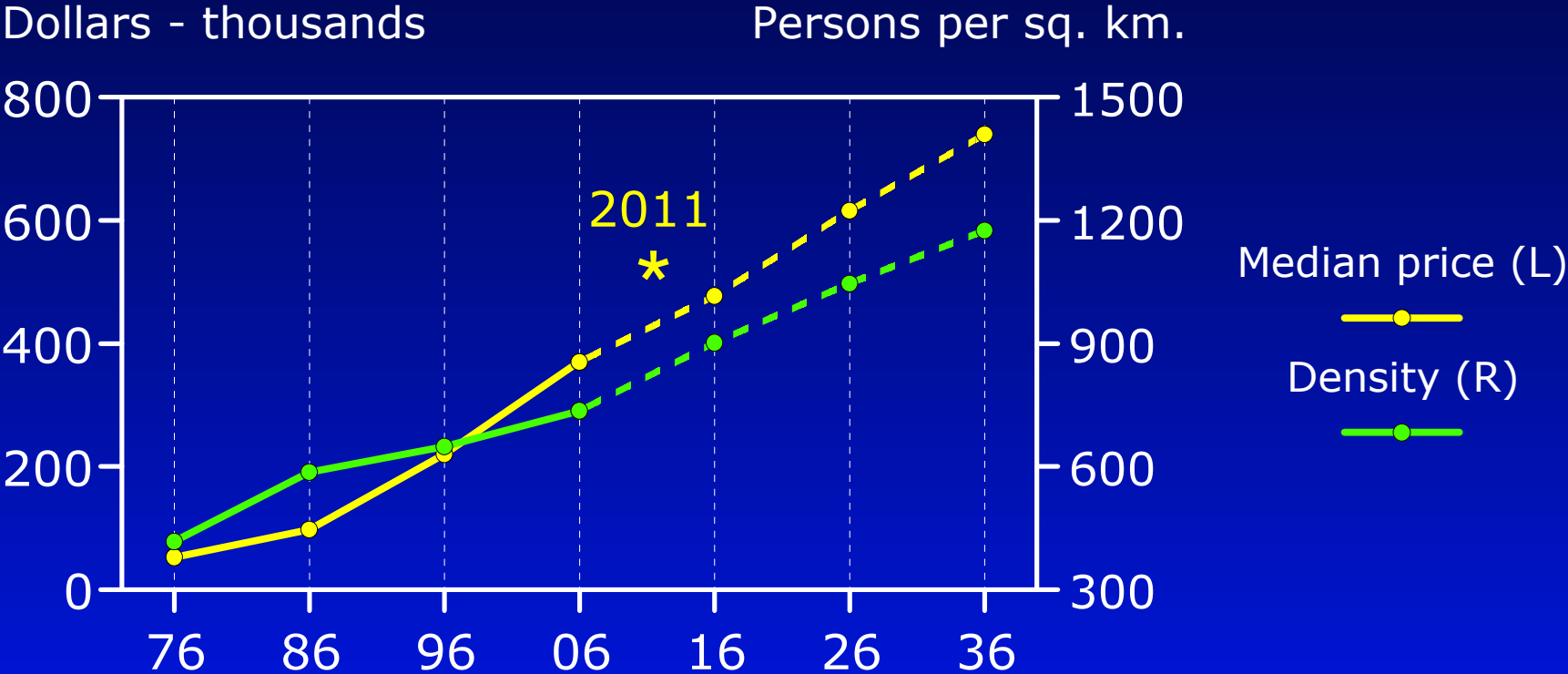
Source: Landcor Data Corp.

Latest: Nov-11



Long-term price trend upward due to rising demand in land-constrained market

Residential Median Sale Price and Population Density Metro Vancouver



Source: Statistics Canada, Landcor Data Corp., BC Stats for population projections
Note: Dashed lines are projections. Land area = 2,877.4 sq. km.

Summary:

- European debt-banking crisis largest risk; policymakers avoid euro and banking collapse
- U.S. economy grows below trend in 2012 and 2013 on fiscal drag and weaker exports
- Low interest rates in 2012-13
- B.C. economy grows at moderate pace in 2012-13; higher growth awaits global and U.S. resurgence
- Housing market activity range-bound near term; no recession, no bubble

