

Economic Outlook

Kootenay Chapter,
Real Estate Institute of British Columbia

Tuesday, May 26, 2009

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Chief Economist
Central 1 Credit Union



Outline:

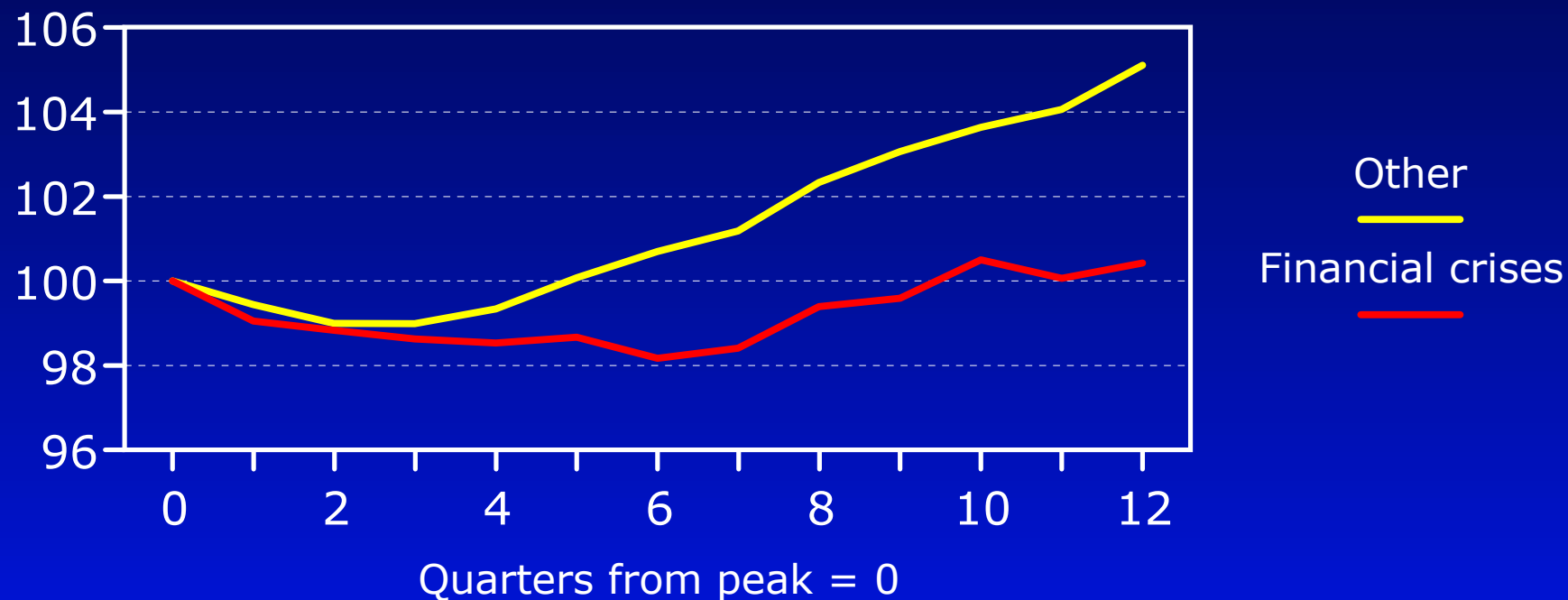
- Financial crisis and impacts
- U.S. and Canadian economies
- B. C. economy
- Regional economy and housing market
- Summary



Financial crises cause longer recessions and weaker recoveries

Output during recessions and recoveries associated with financial crises and other shocks

Median = 100



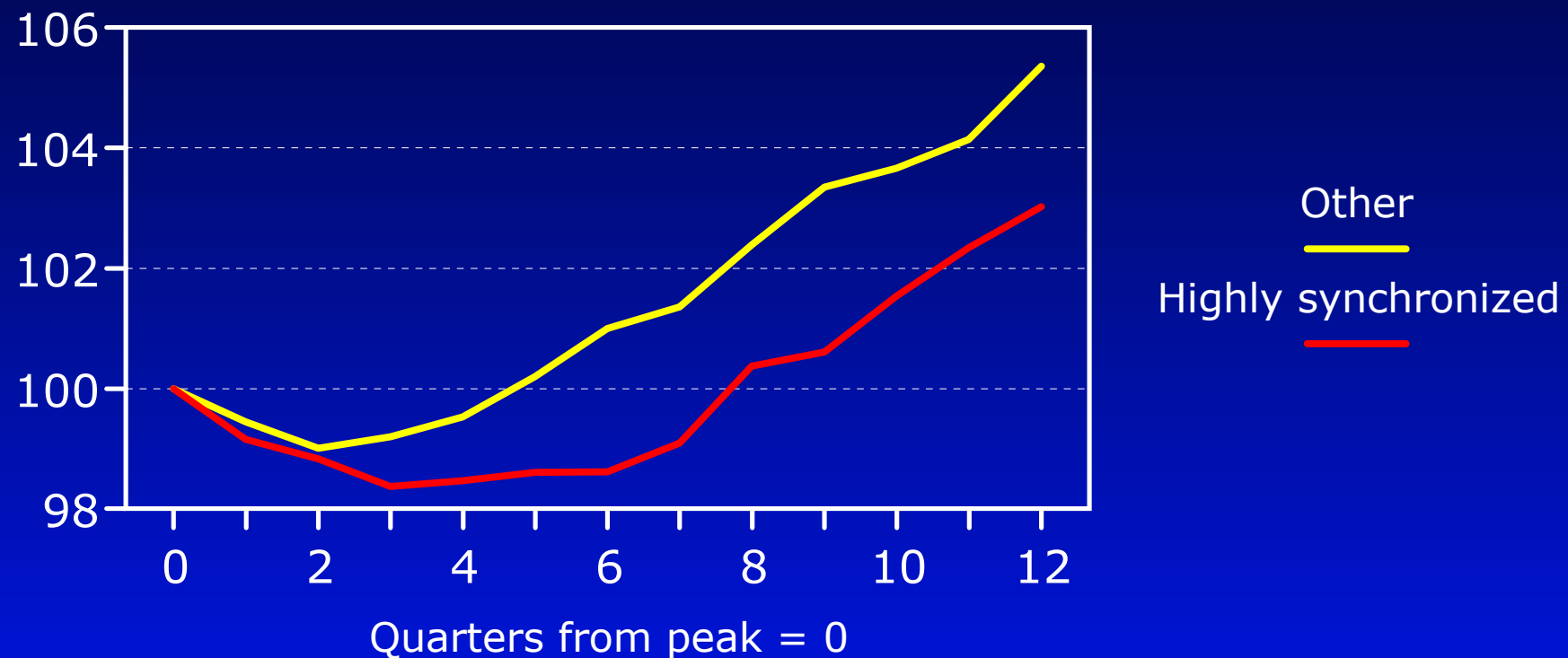
Source: IMF WEO April 2009.



Highly synchronized recessions more protracted and severe than other recessions

Output during highly synchronized recessions

Median = 100



Source: IMF WEO April 2009.



Financial conditions beginning to ease

Financial Conditions Index, Weekly, Canada

0 = average last 10 years

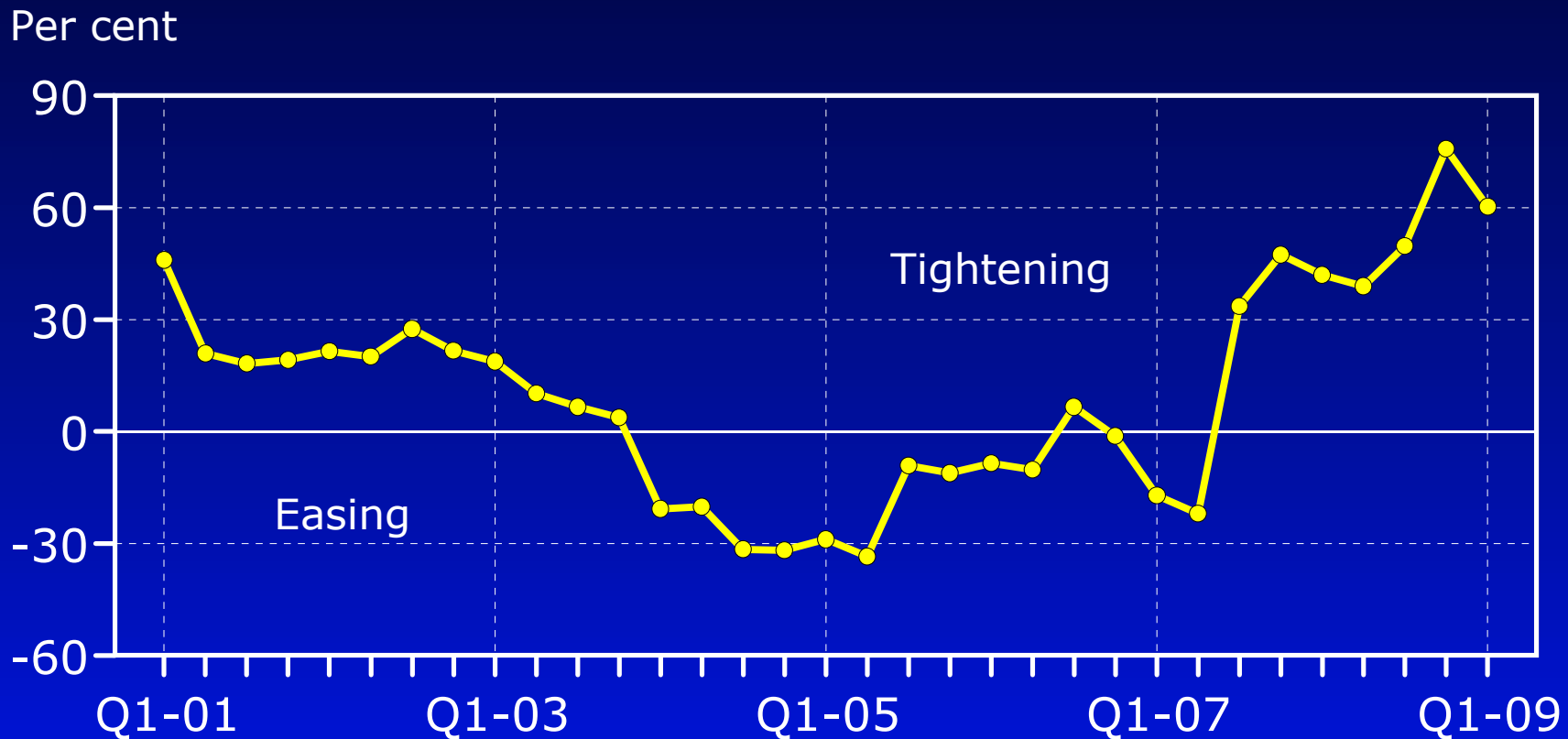


Source: Bank of Canada. Note: Up easing and down tightening. Latest: 5/1/09



Canadian businesses face tighter credit conditions

Overall Business Lending Conditions: Balance of Opinion



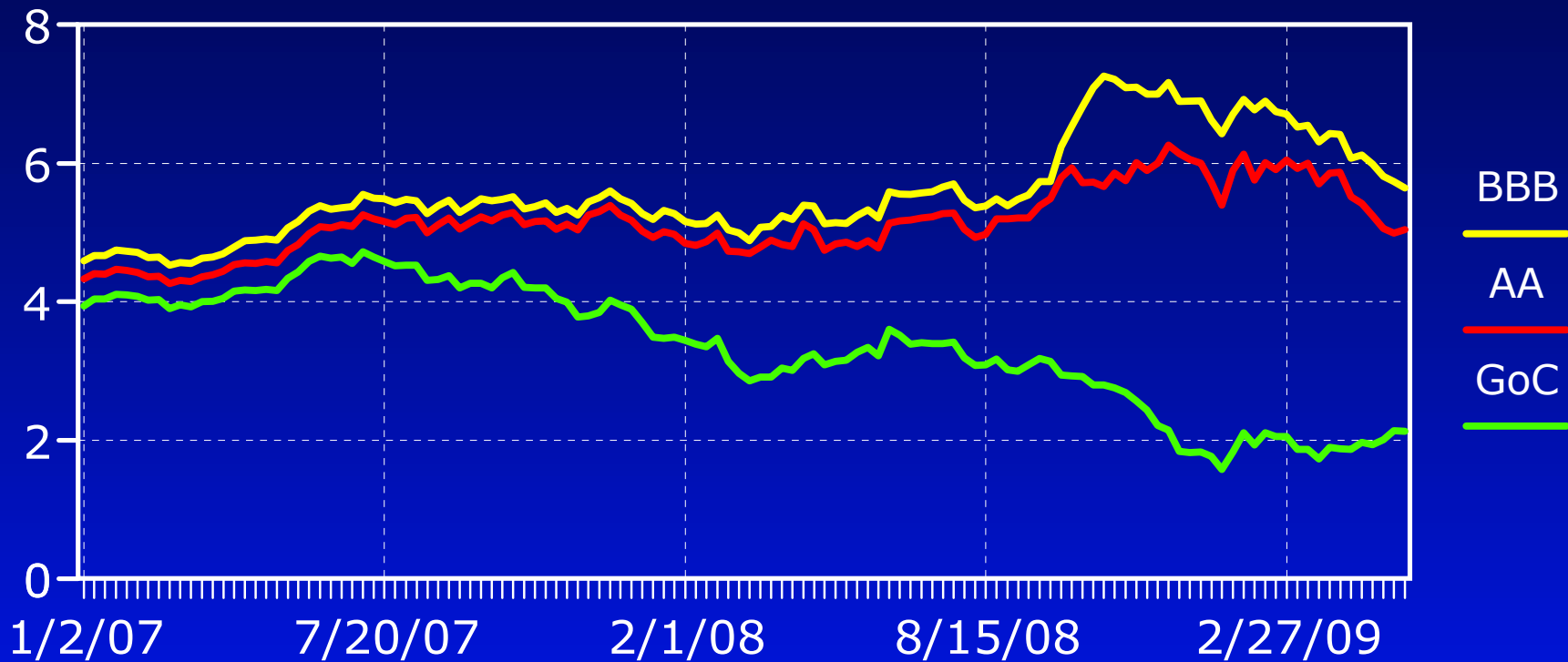
Source: Bank of Canada Senior Loan Officer Survey.



Investor flight to safety, very low yield on government bonds, still high corporate borrowing rates

Five-year Corporate and Government Bond Yields, Weekly

Per cent



Source: BMOCM, Bank of Canada.

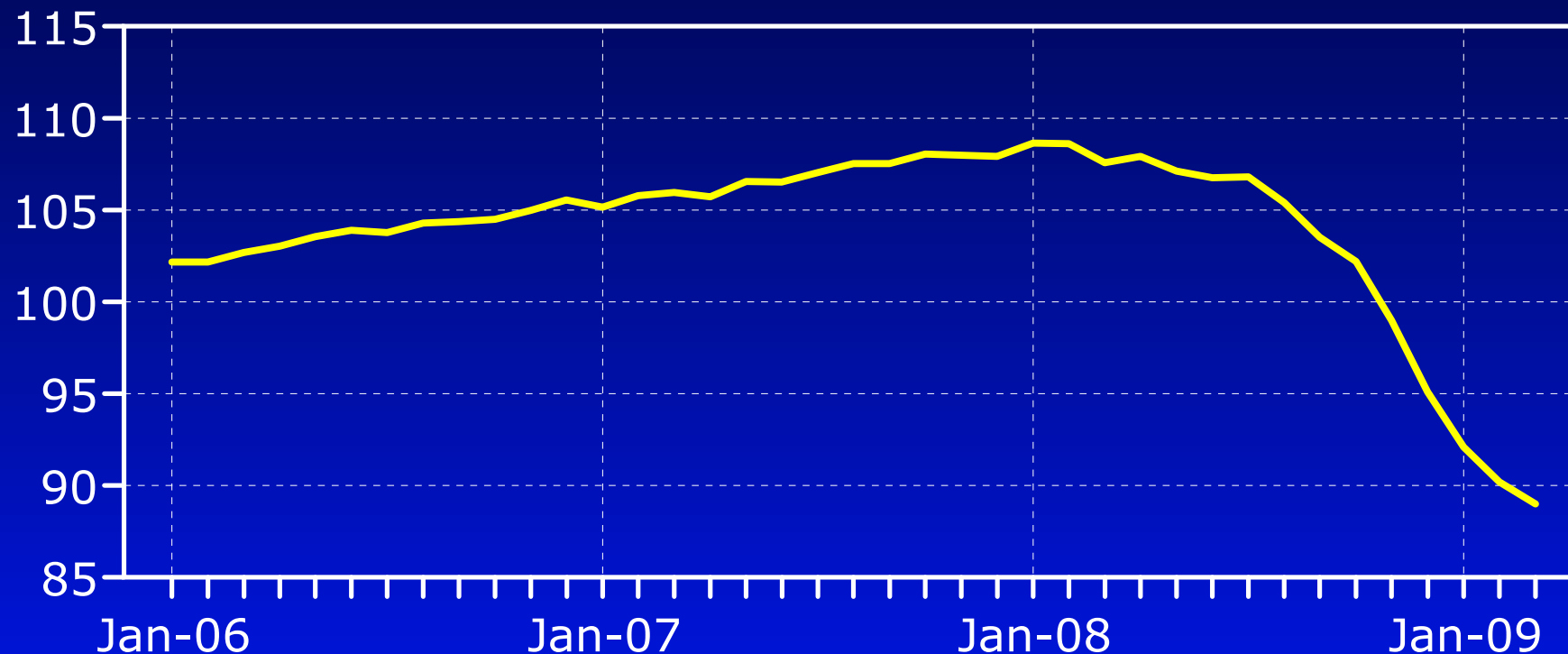
Latest: 5/15/09



Sharp fall in global production since July 2008, decline slowing

Industrial Production, OECD Total

2005 = 100



Source: OECD.

Note: Seasonally adjusted.

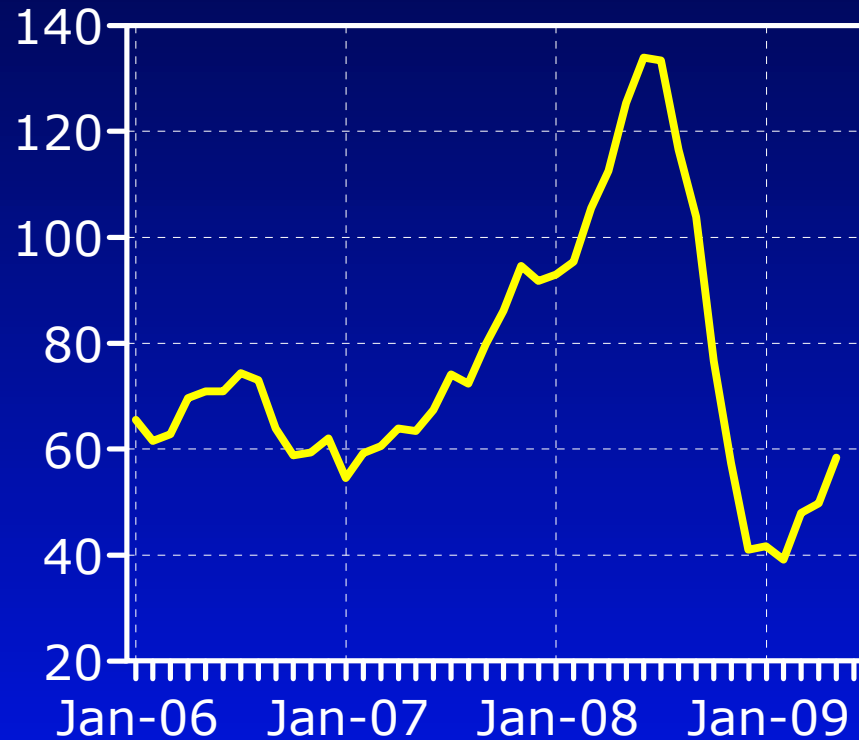
Latest: Mar-09 (preliminary)



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

Crude Oil WTI Spot Price

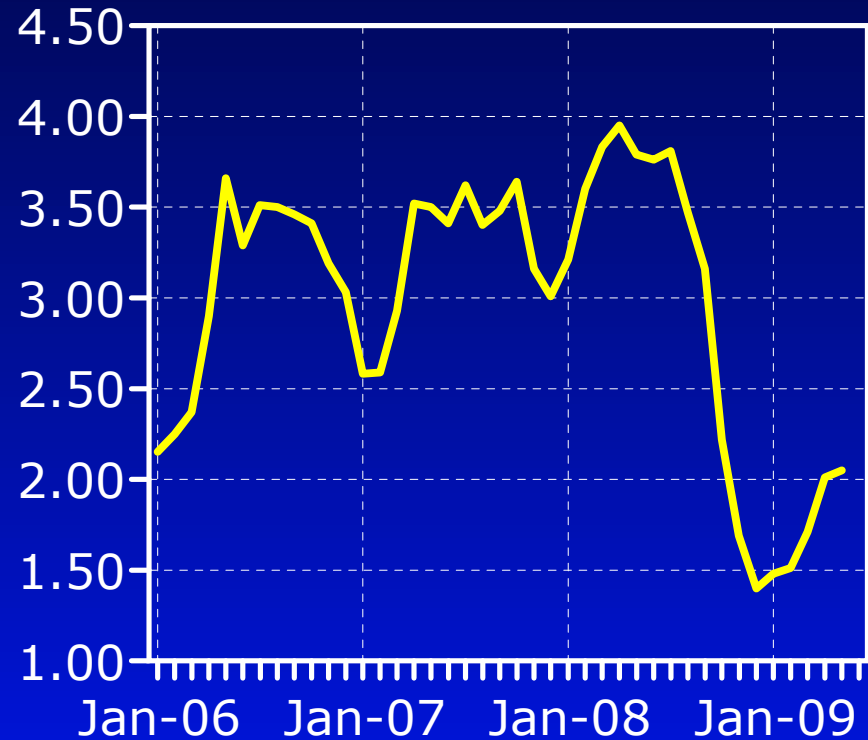
\$U.S. per barrel



Source: BC MEMPR.

Copper Spot Price

\$U.S. per lb.



Latest: Average to May 22.



Sharp decline in equity markets, strong rally since early March

S&P/TSX Index, Weekly



S&P 500 Index, Weekly



Source: Yahoo Finance.

Latest: 5/18/09



Canadian dollar falls, U.S. dollar rises during financial crisis; loonie rebounding on commodity prices

U.S.-Canada Exchange Rate

U.S. dollar per Canadian dollar



Source: Bank of Canada. Latest: 5/21/09

U.S. Exchange Rate Index

Jan. 1997 = 100



Source: US Fed. Reserve. Latest: 5/13/09

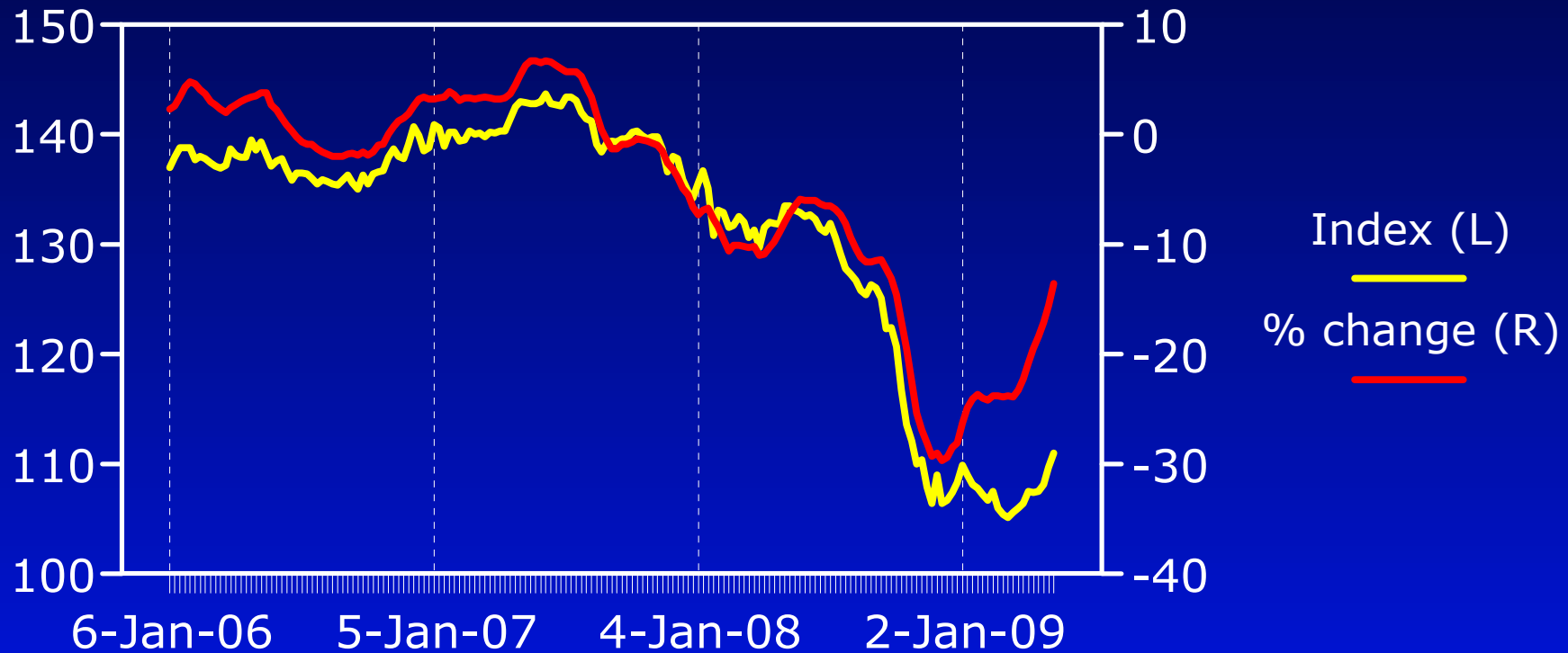


Leading index at 28-week high, recession ends in the summer

U.S. Leading Economic Indicator, Weekly

1992 = 100

Percentage change at annual rate



Source: ECRI.

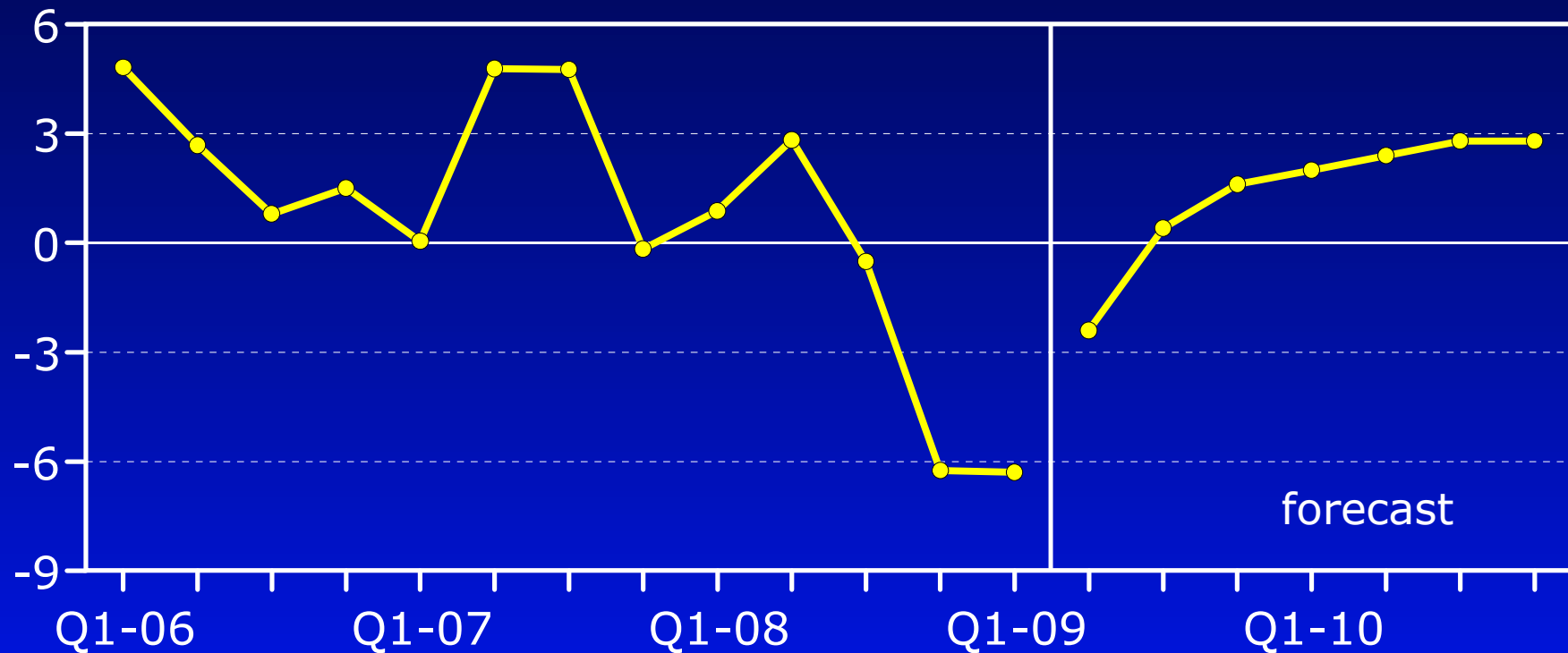
Latest: 8-May-09



Consensus view sees recession ending in summer and weak recovery ahead

Consensus Economic Forecast, U.S.

Percentage change at annual rate in real GDP

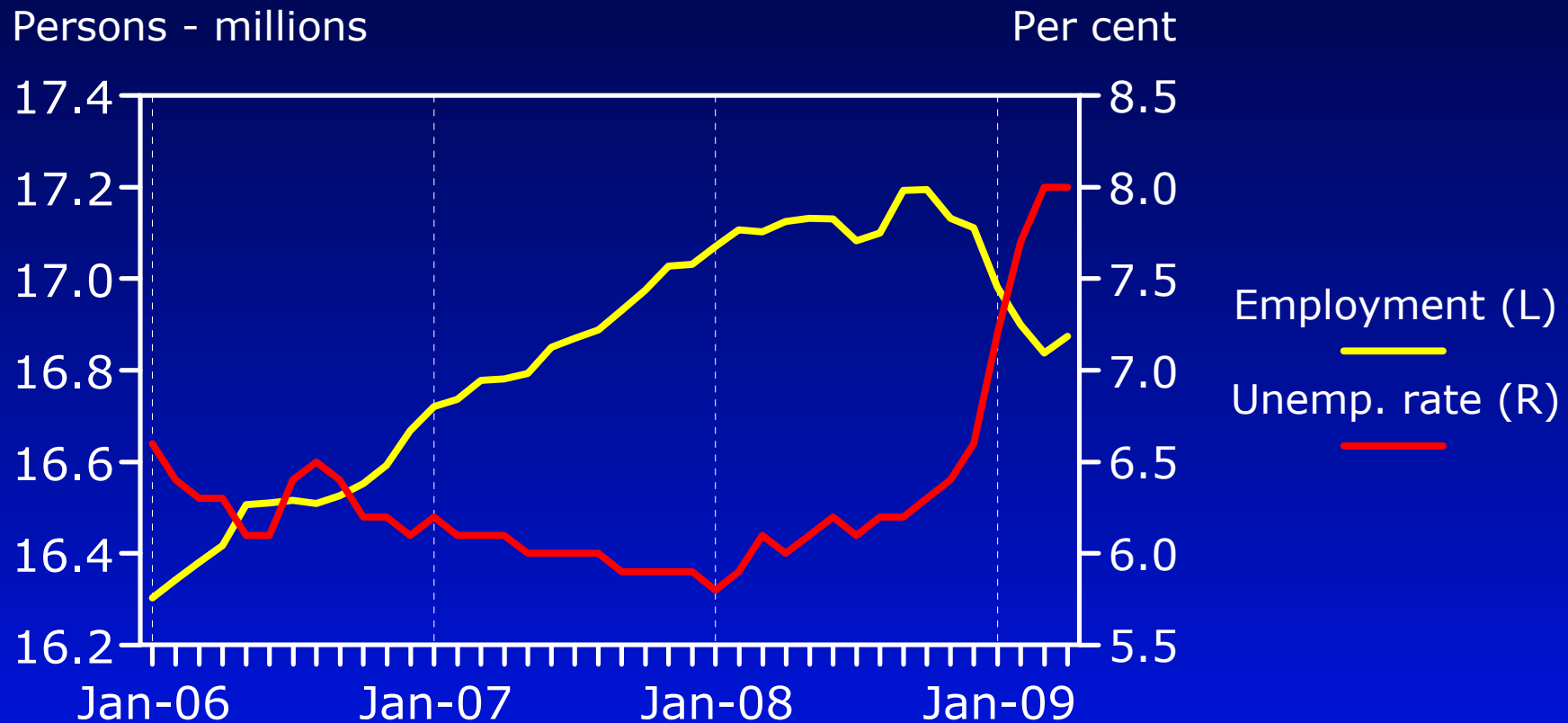


Source: BEA, Consensus Forecasts 2009. Latest actual: Q1-09



Sharp deterioration in national labour market since October 2008, unexpected gain in April

Canada Labour Market

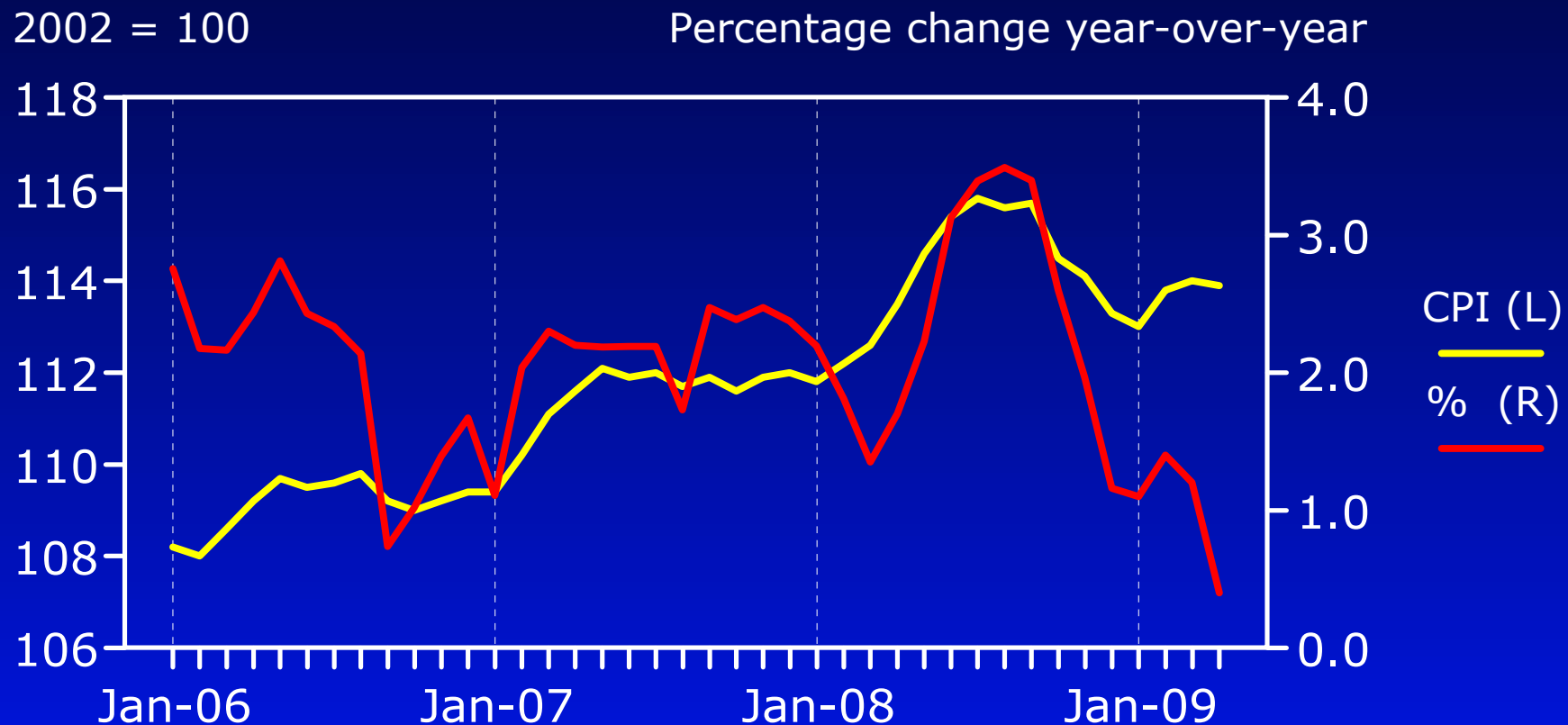


Source: Statistics Canada. Note: Seasonally adjusted. Latest: Apr-09



Total inflation rate dropping sharply due to lower energy prices

Consumer Price Index, Canada



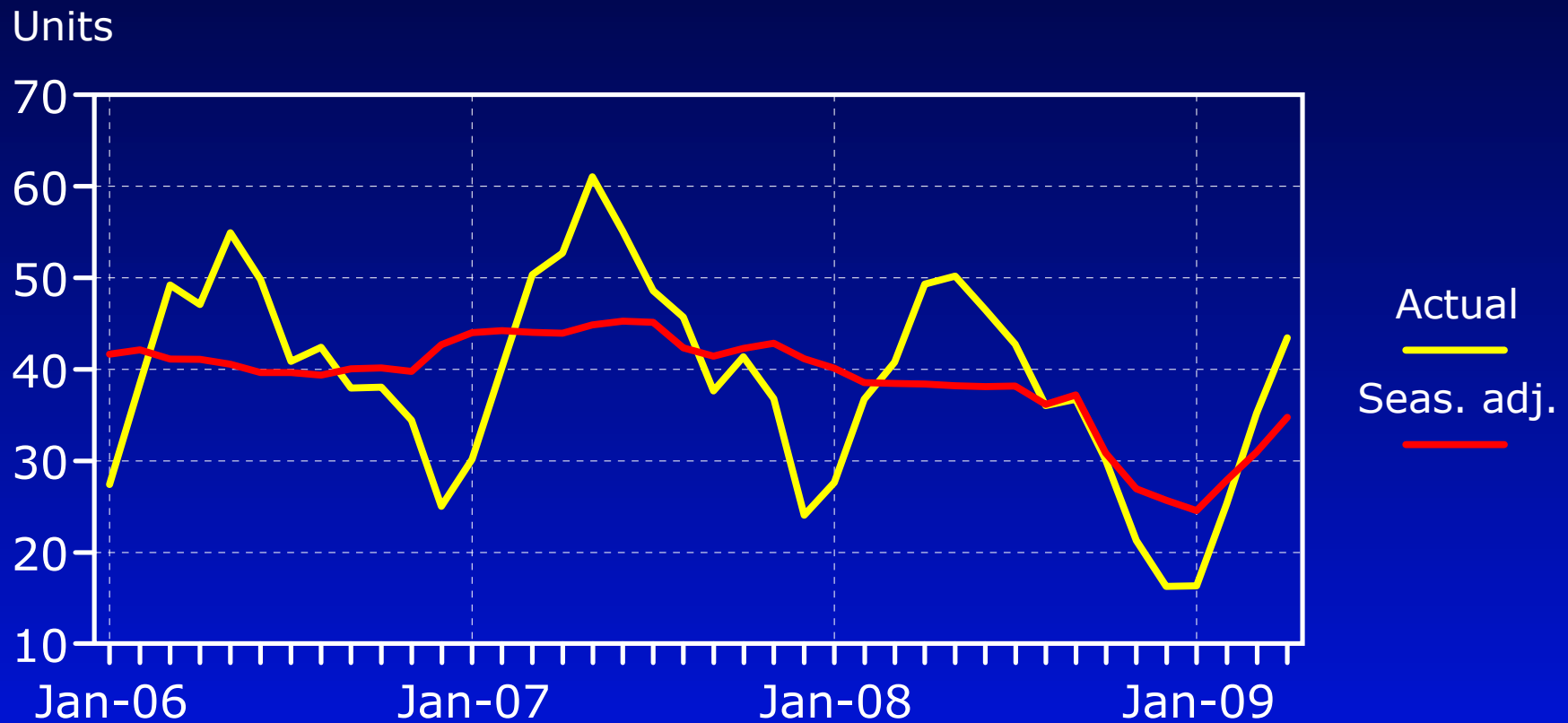
Source: Statistics Canada.

Latest: Apr-09



Canada's housing sales reviving

MLS Residential Sales, Canada



Source: CREA, C1CU.

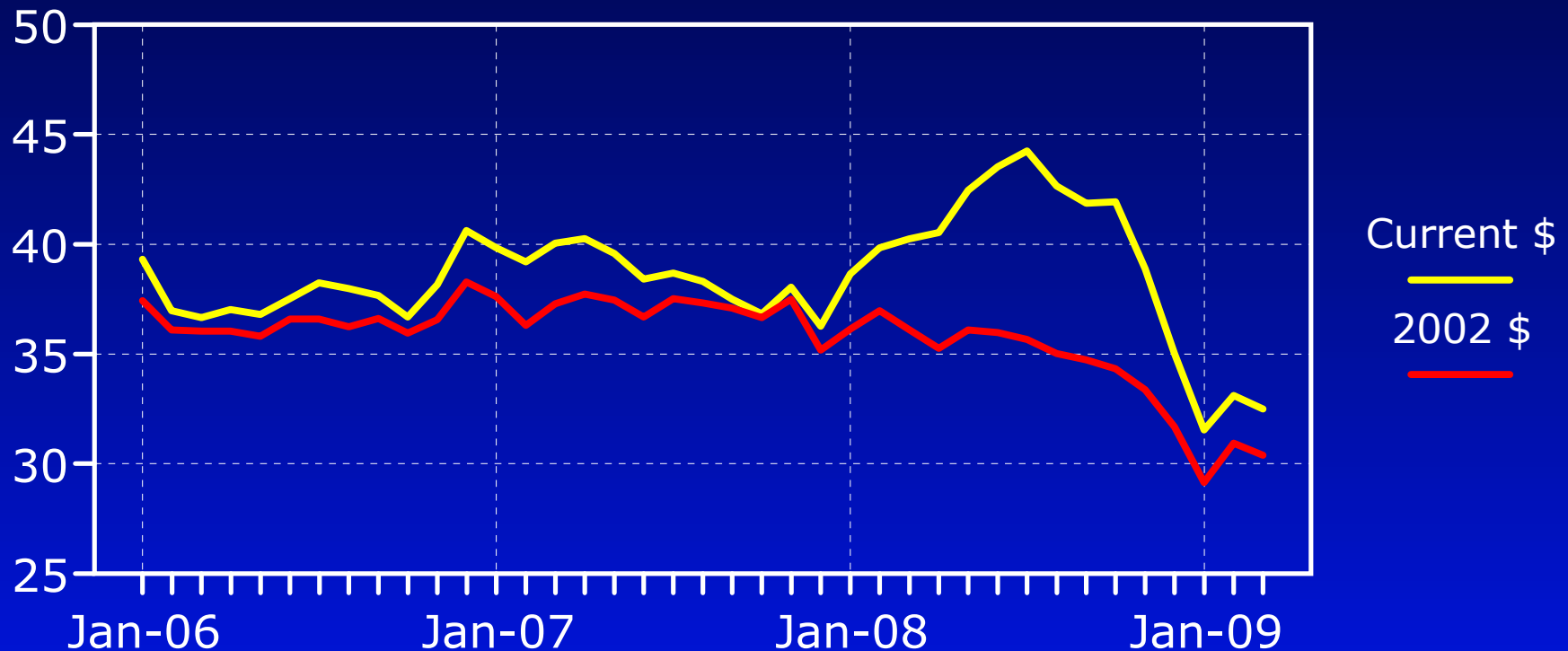
Latest: Apr-09.



Exports in cyclical decline

International Merchandise Exports, Canada

Dollars - billions



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

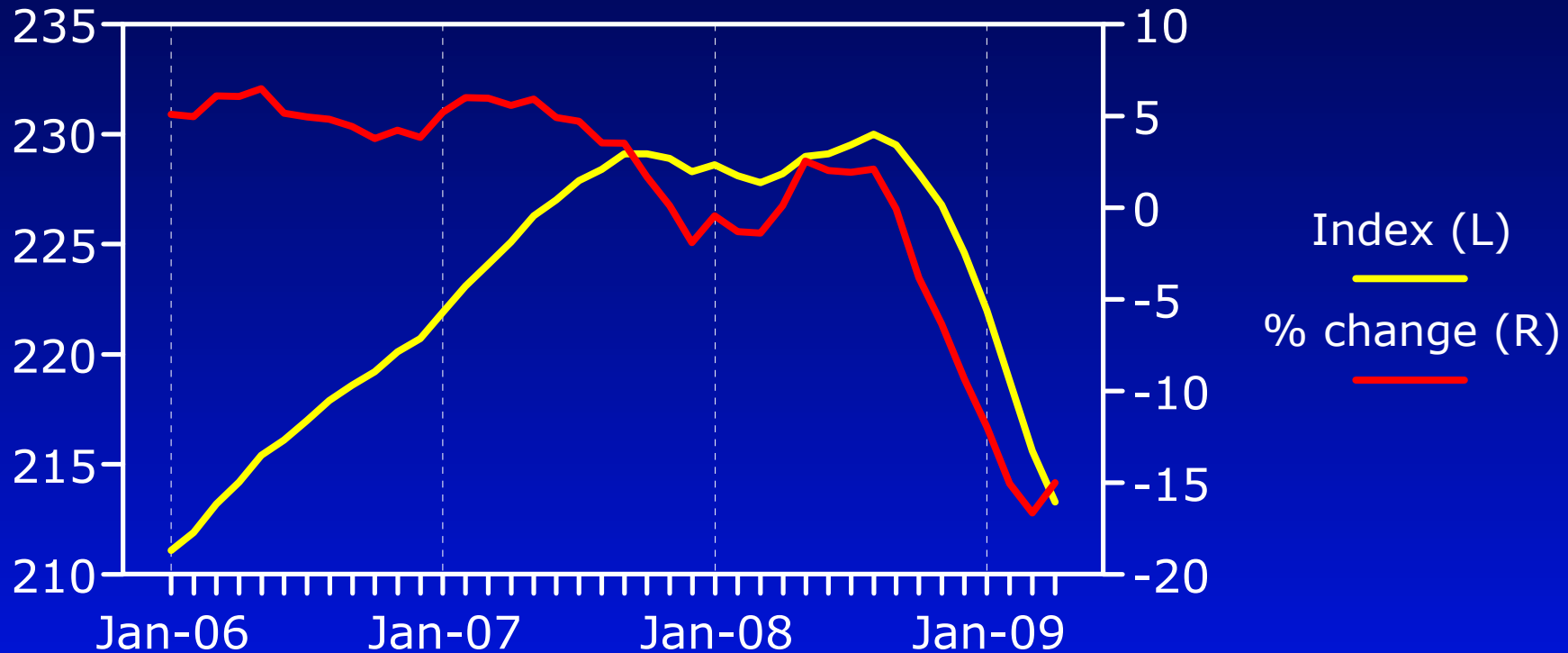


Canada's leading index showing little improvement

Leading Economic Indicator, Canada

1992 = 100

Percentage change at annual rate



Source: Statistics Canada.

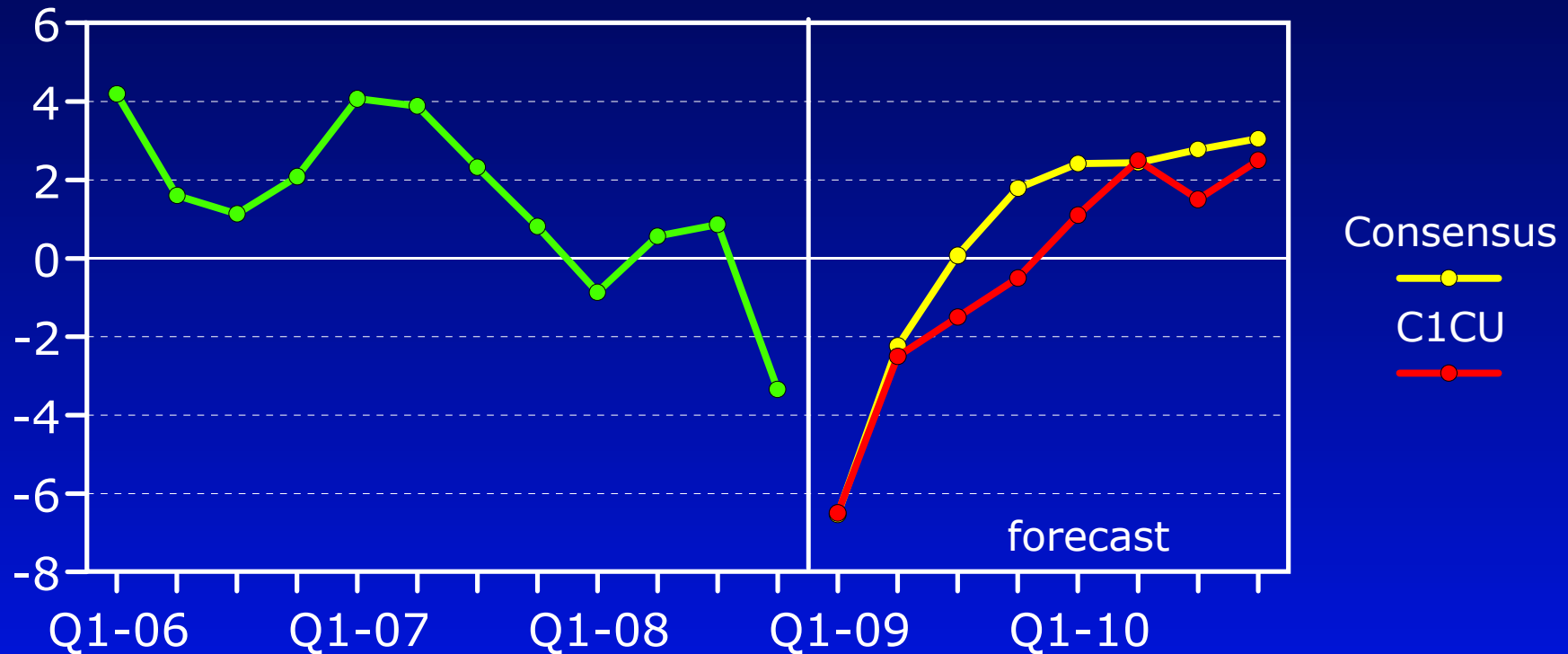
Latest: Apr-09



Canada's economic forecast closely tied to U.S. growth profile

Economic Forecasts, Canada

Percentage change at annual rate in real GDP



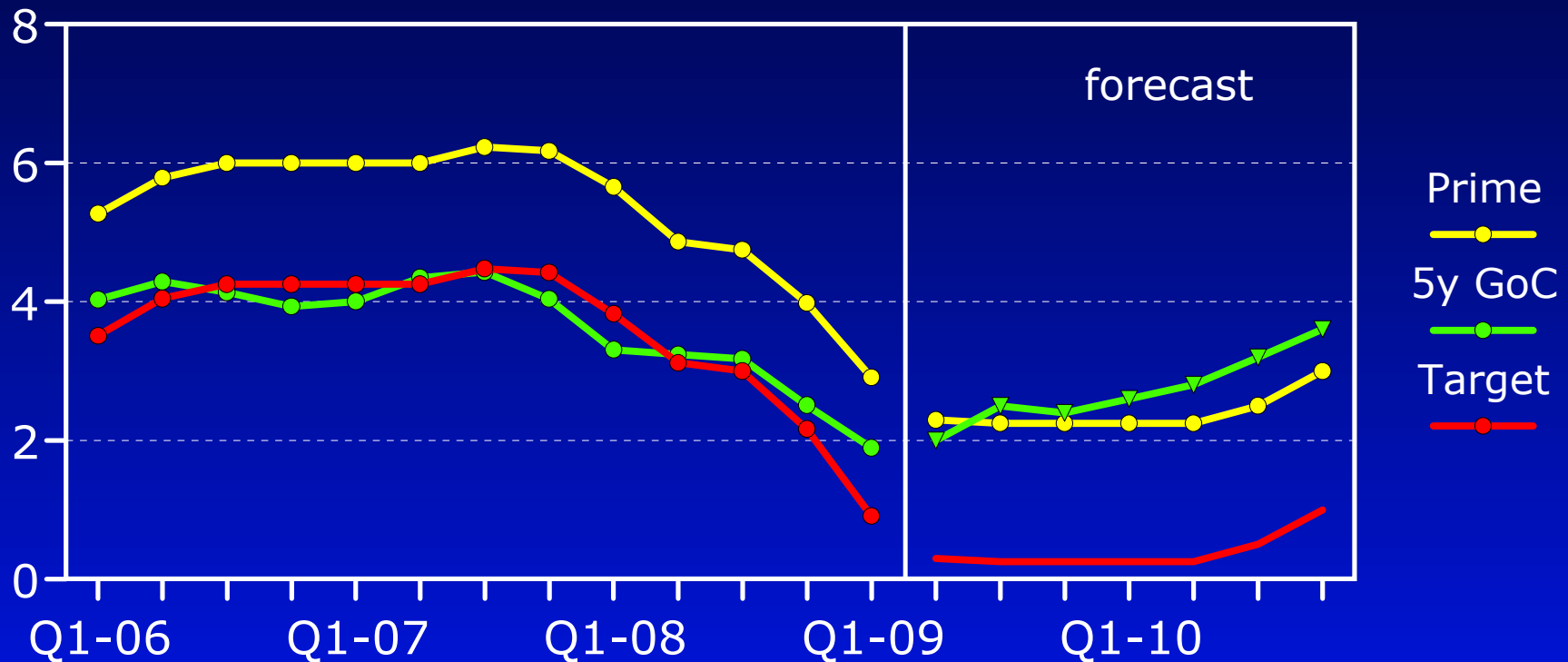
Source: Statistics Canada, C1CU Survey April 2009.



Rates begin climbing in 2010 led by longer-term

Rate Forecasts, Canada, Quarterly

Per cent



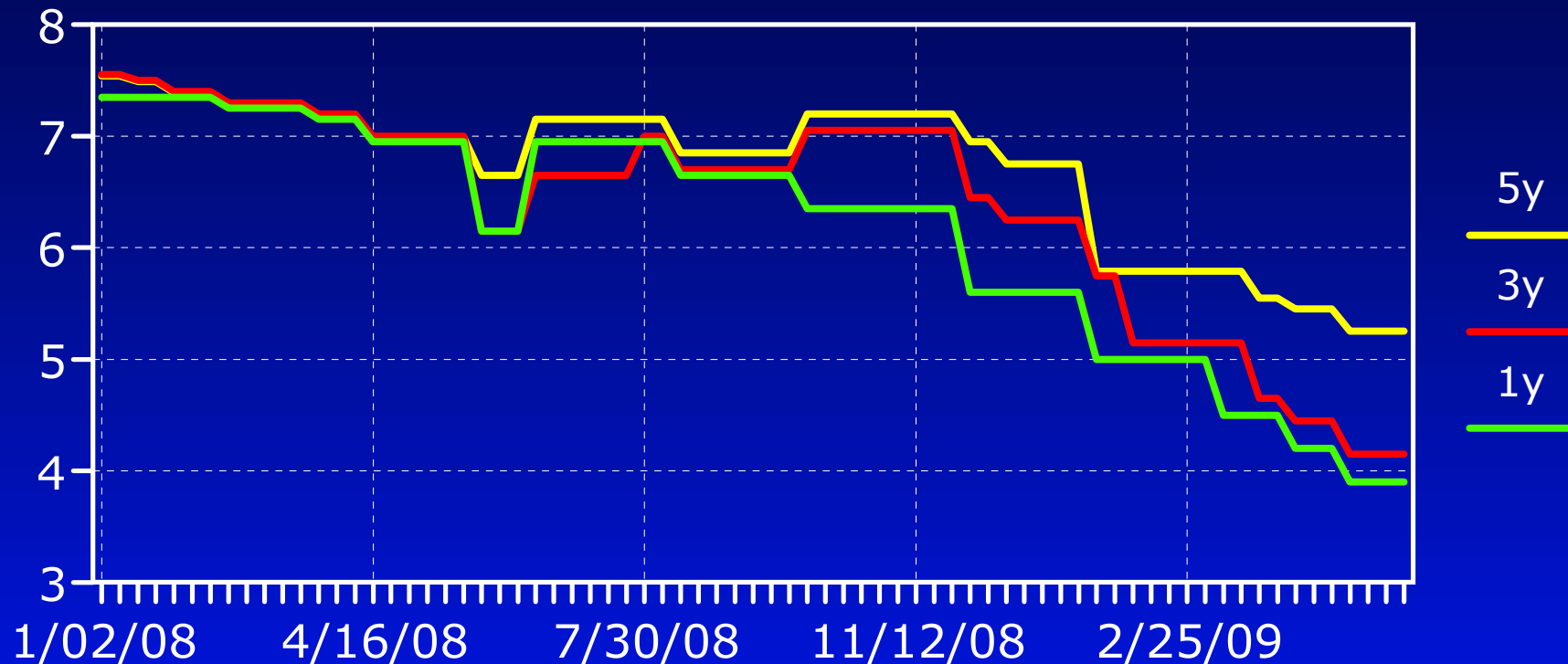
Source: Bank of Canada, C1CU. Latest actual: Q1-09



Mortgage rates down since November, further declines likely

Posted Mortgage Rates by Term, Weekly

Per cent



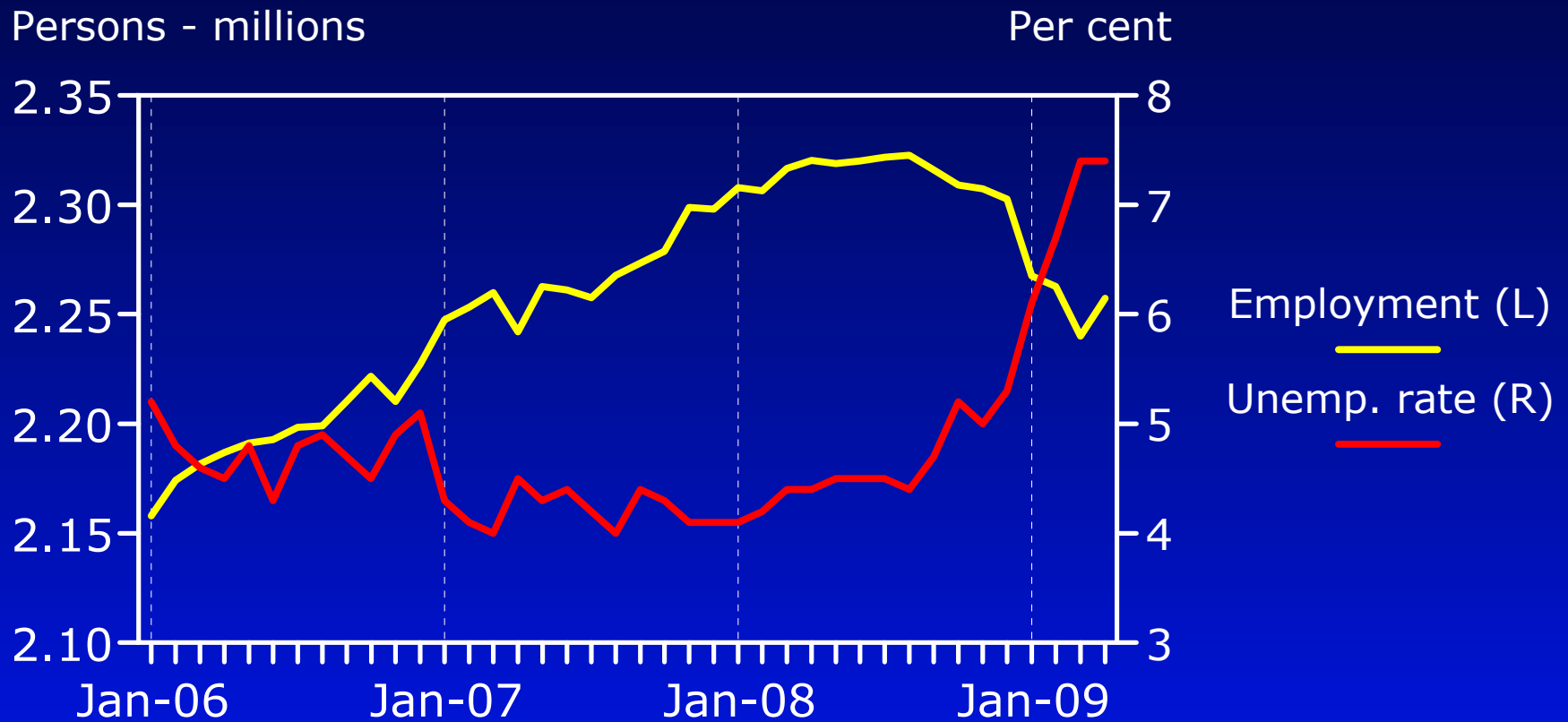
Source: Bank of Canada.

Latest: 5/20/09



B.C. employment down 65,300 or 2.8% from August 2008 peak

B.C. Labour Market

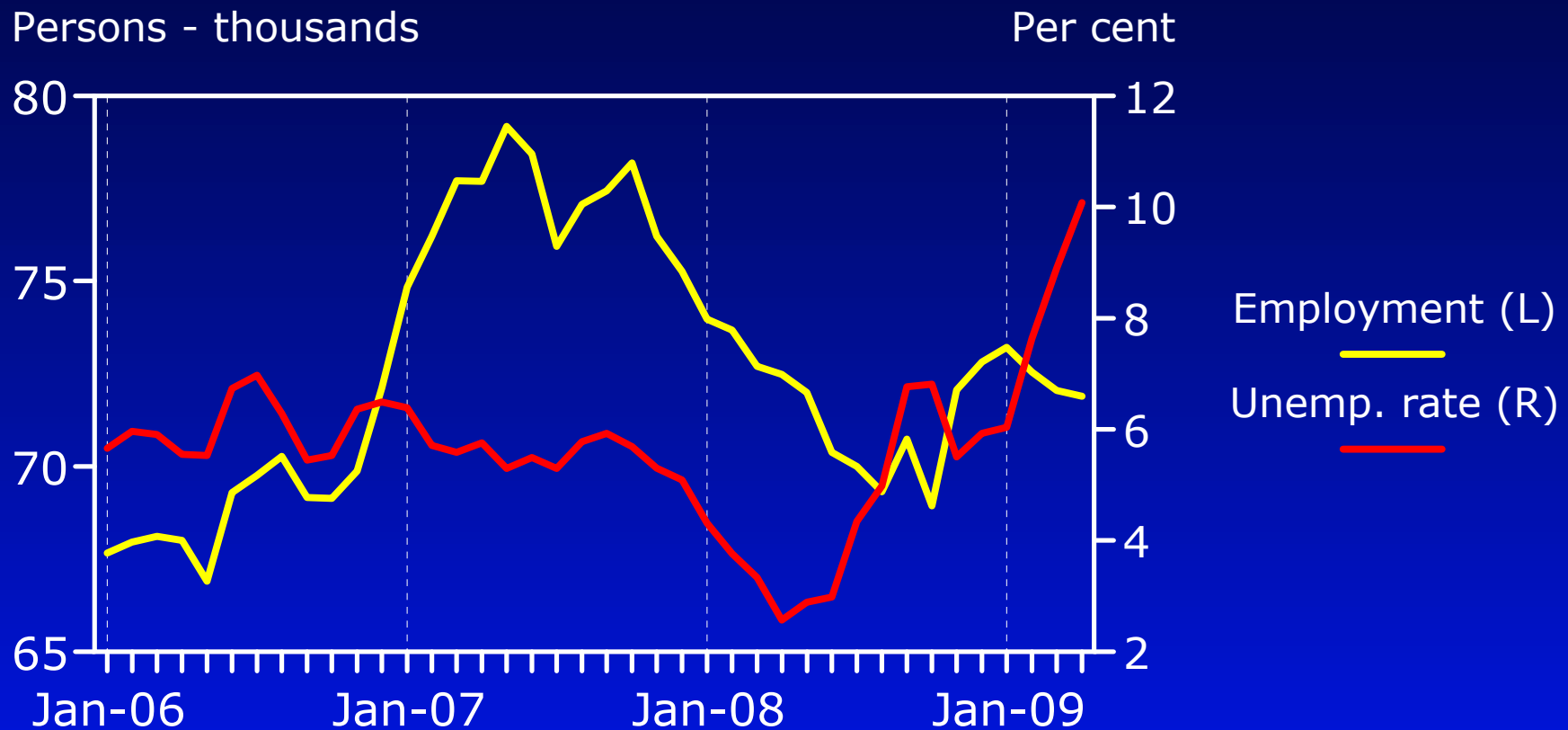


Source: Statistics Canada. Note: Seasonally adjusted. Latest: Apr-09



Unemployment rate sharply higher since mid-2008

Kootenay Region Labour Market



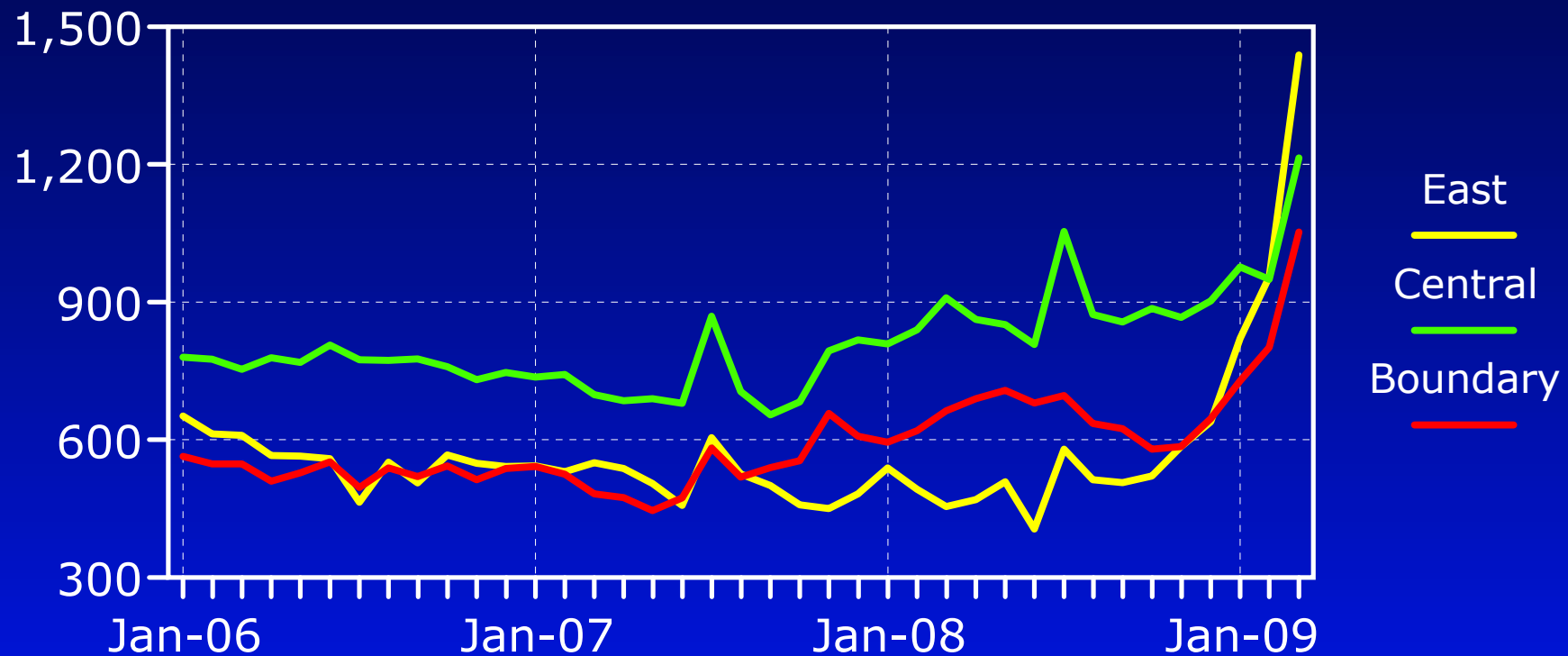
Source: Statistics Canada. Three-month moving average, seasonally adjusted. Latest: Apr-09



Unemployment sharply higher across region, largest jump in East Kootenay RD

E.I. Beneficiaries by Regional District, Kootenays

Persons - thousands



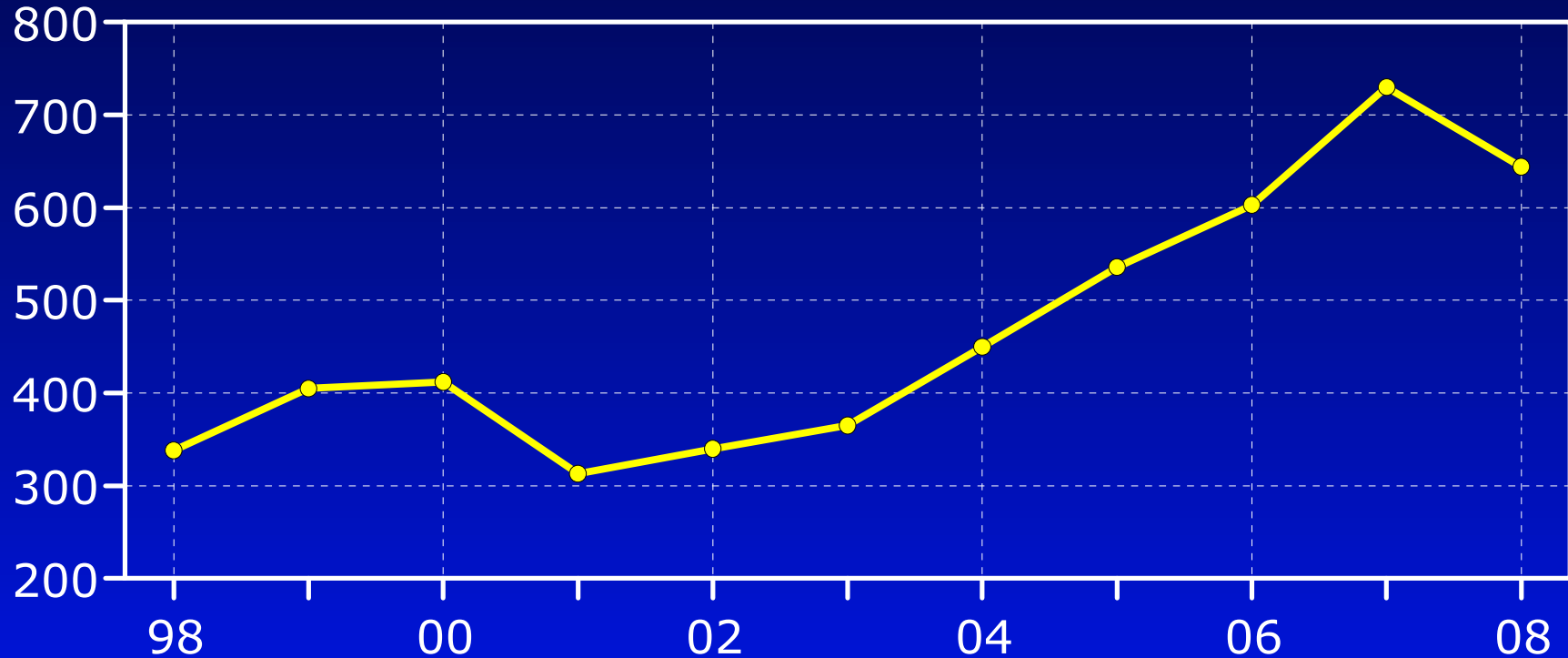
Source: Statistics Canada, C1CU. Note: Seasonally adjusted. Latest: Mar-09



Business start-ups at high level, declining in 2008

Business Incorporations, Kootenay D.R.

Number



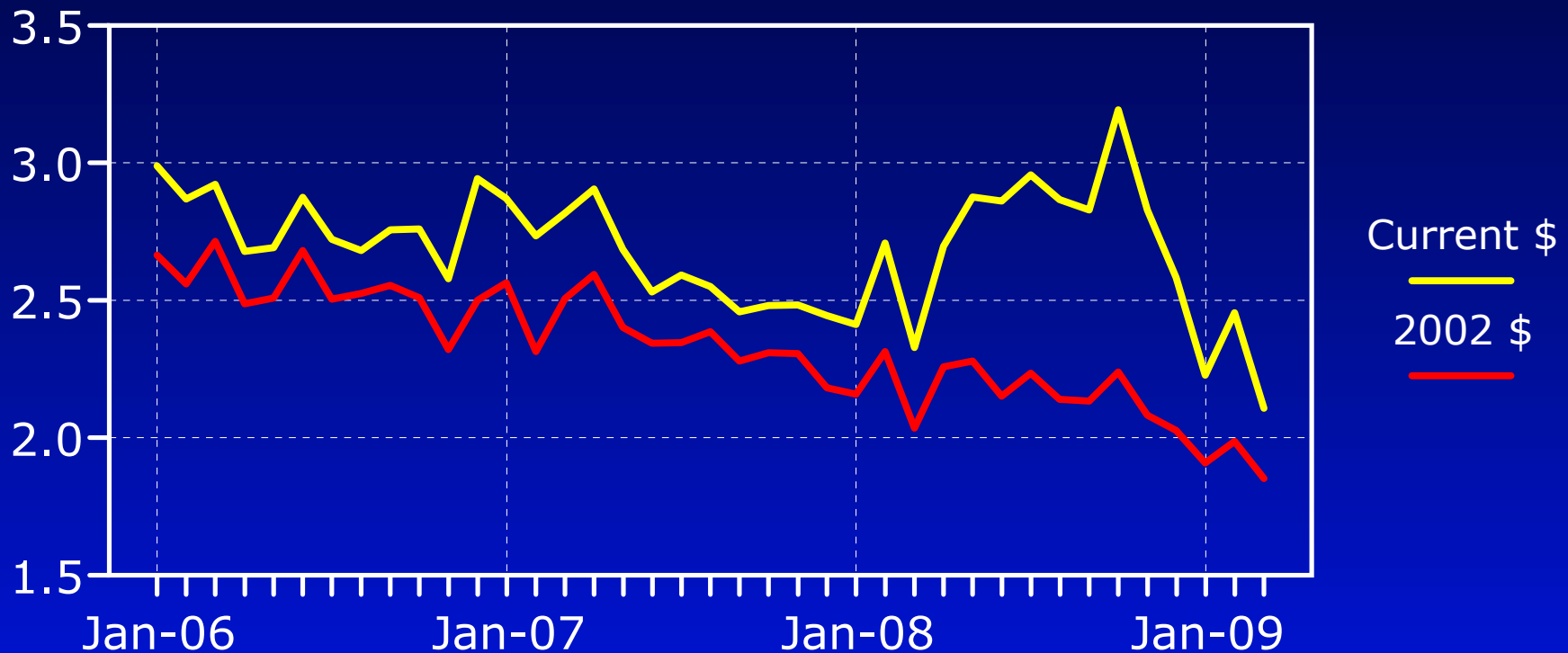
Source: B.C. Finance and Corporate Relations.



Goods exports continue declining

B.C. International Merchandise Exports

Dollars - billions



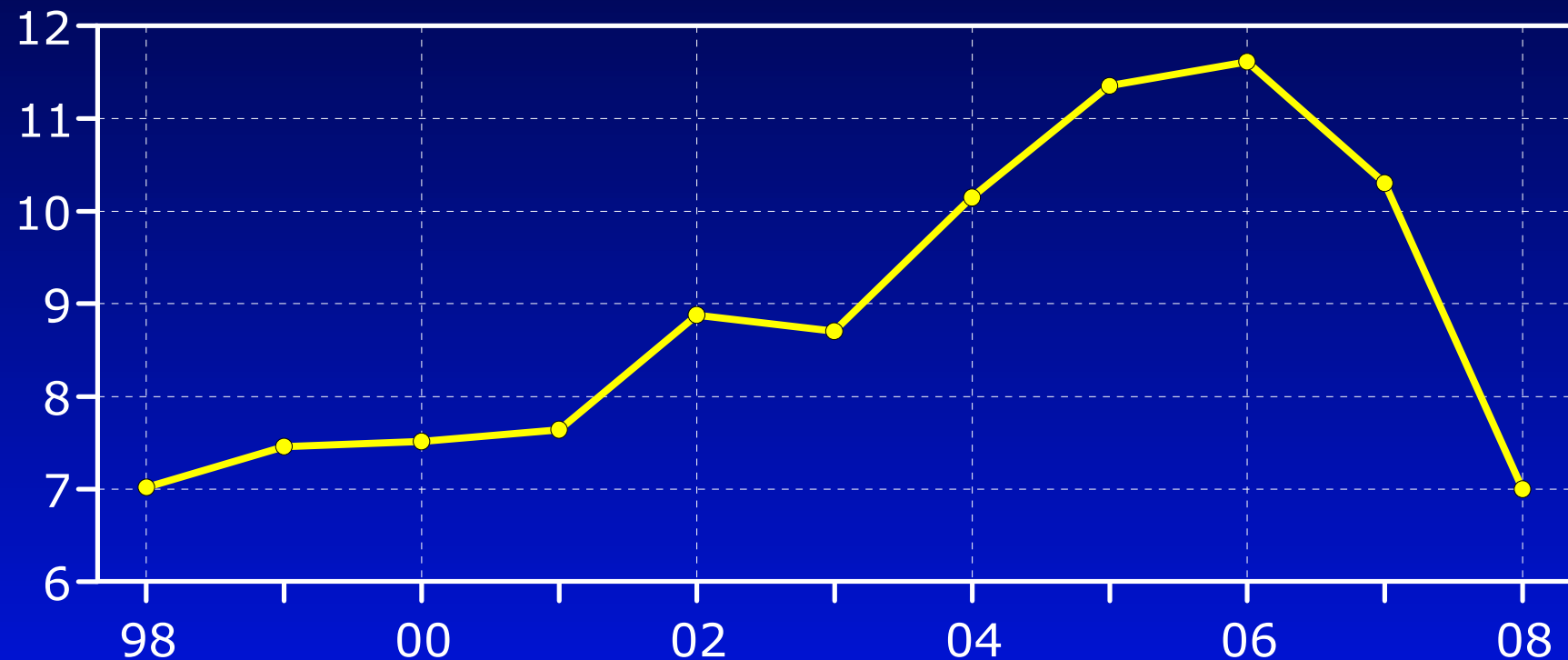
Source: Statistics Canada, C1CU. Note: Seasonally adjusted Latest: Mar-09



Large decline in region's lumber production

Sawn Lumber Production, Southern Interior

Cubic metres dry - millions



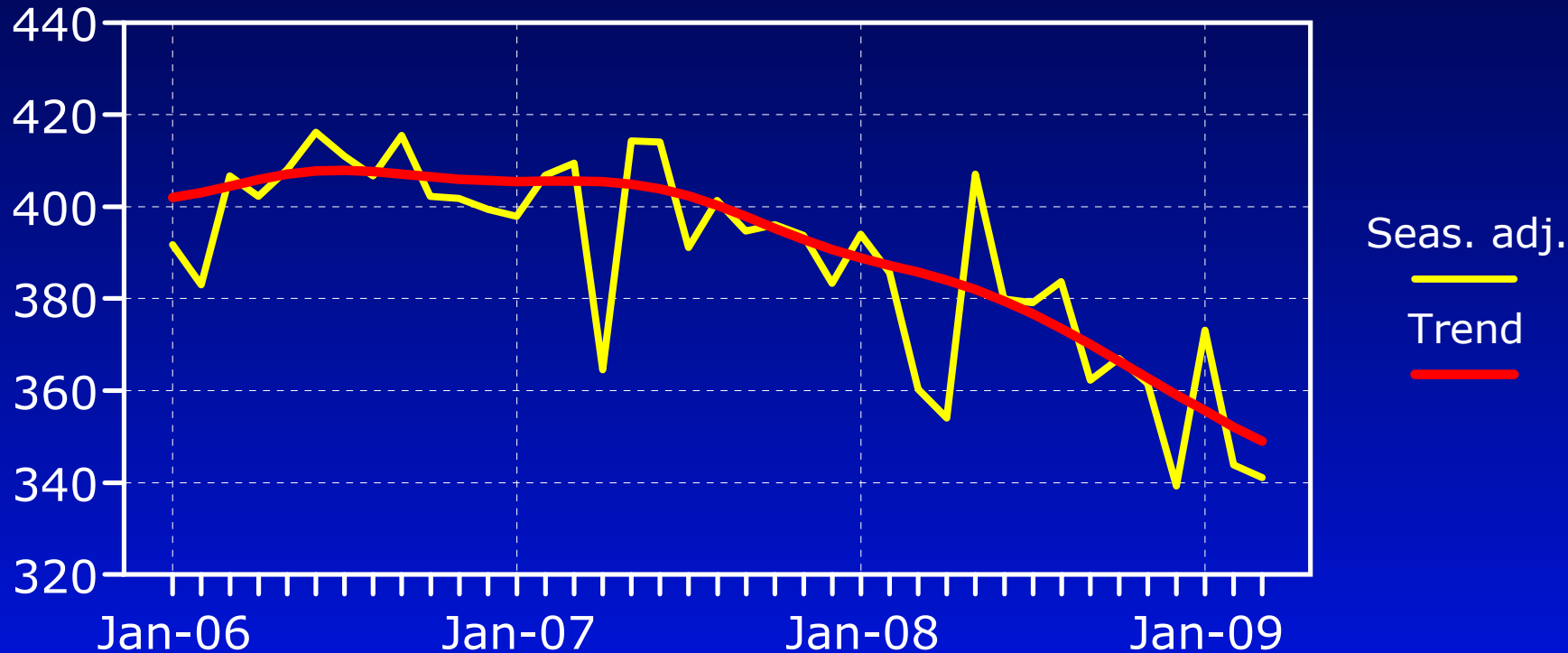
Source: Statistics Canada.



Tourist visits from other countries declining

B.C. International Tourist Entries

Persons - thousands



Source: Statistics Canada, C1CU.

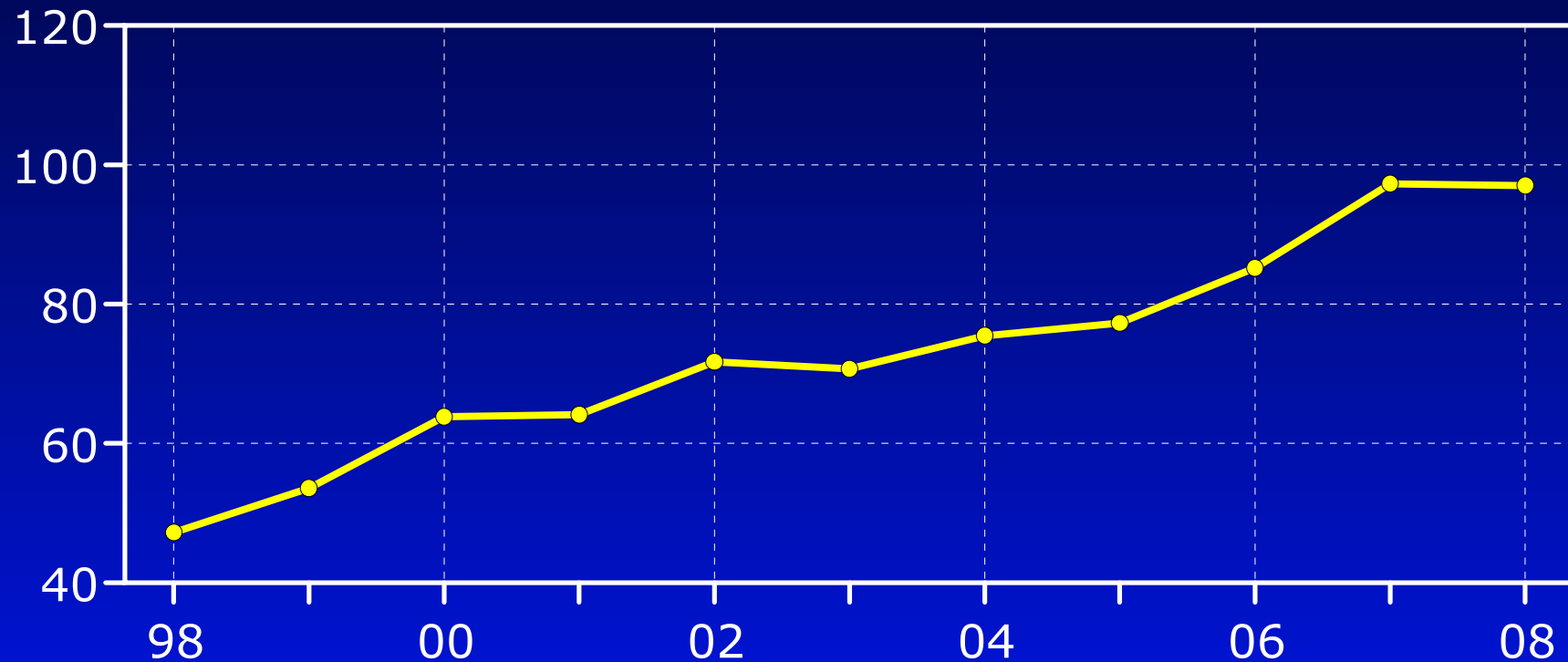
Latest: Mar-09



Tourism activity at near-term peak

Room Revenue, Kootenay DR

Dollars - millions



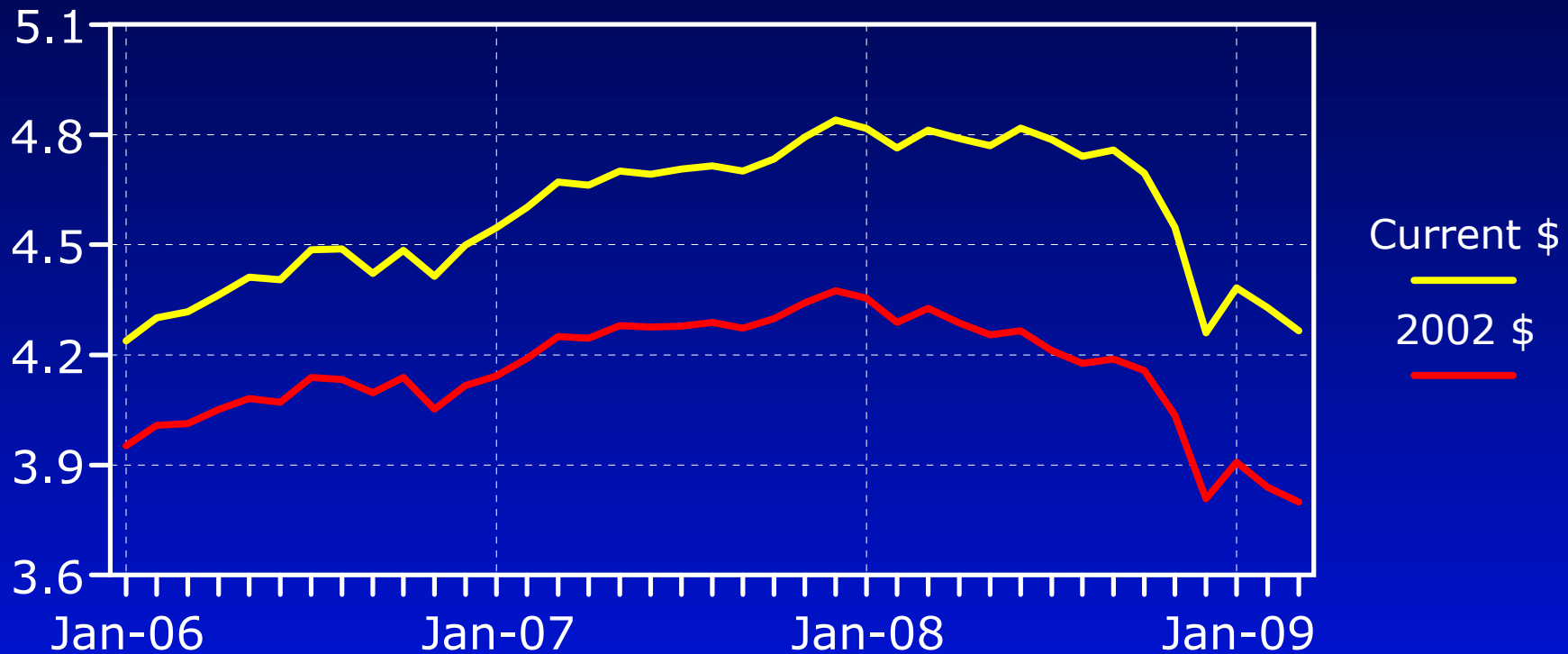
Source: B.C. Finance and Corporate Relations.



Retail sales turn down sharply

B.C. Retail Sales

Dollars - billions



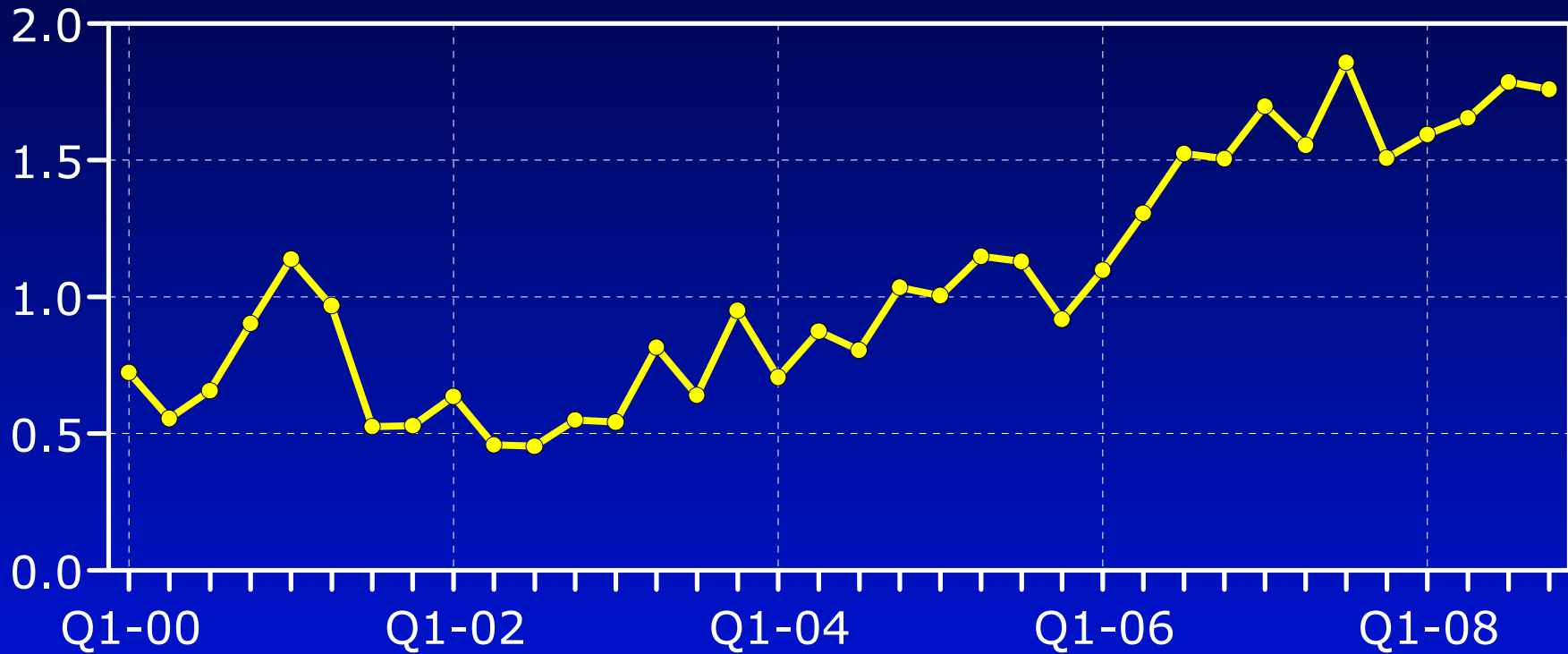
Source: Statistics Canada, C1CU. Note: Seasonally adjusted. Latest: Mar-09



Population growth plateaus

B.C. Population Growth Rate, Quarterly

Percent change at annual rate



Source: Statistics Canada, C1CU.

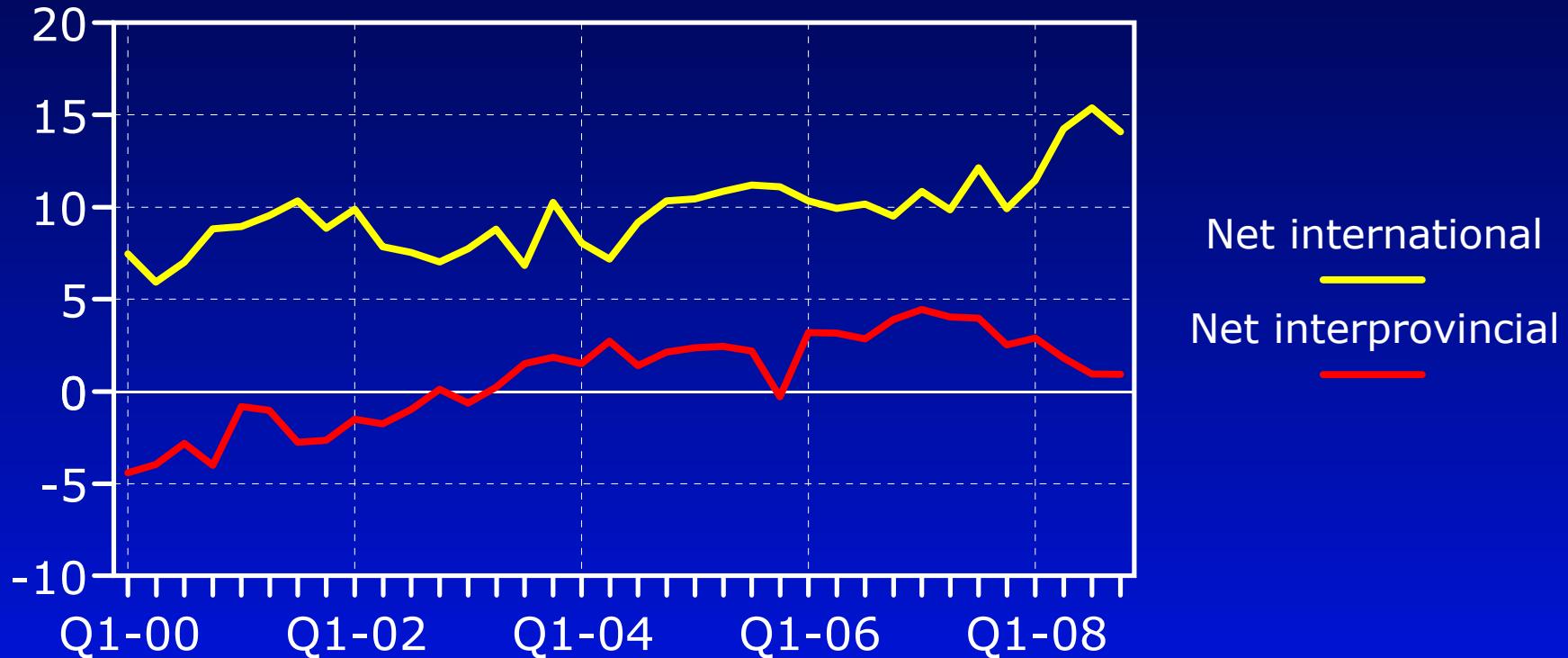
Latest: Q4-08



Interprovincial migration declining

Net Migration by Type, B.C., Quarterly

Persons - thousands

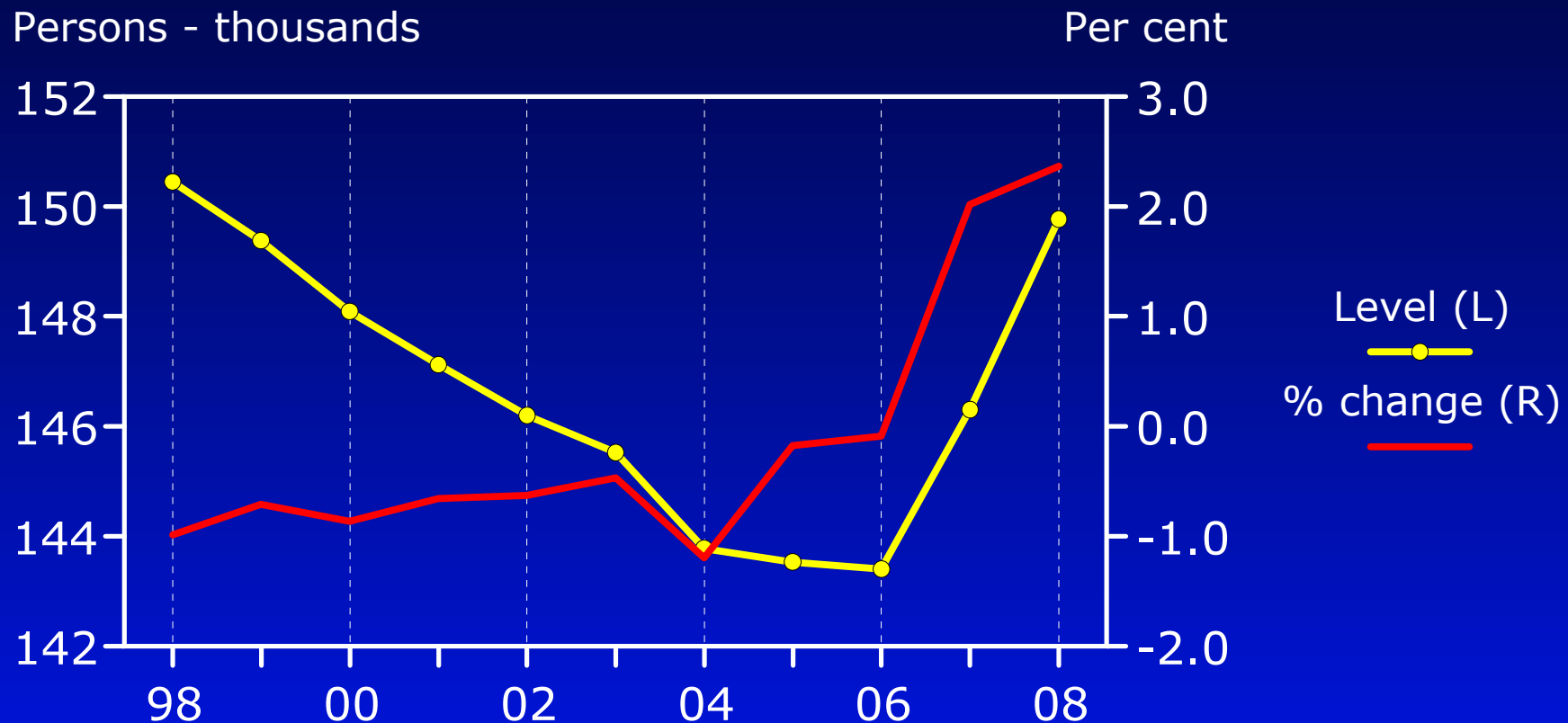


Source: Statistics Canada, C1CU. Note: Seasonally adjusted. Latest: Q4-08



Population growth turnaround since 2006

Population, Kootenay D.R.



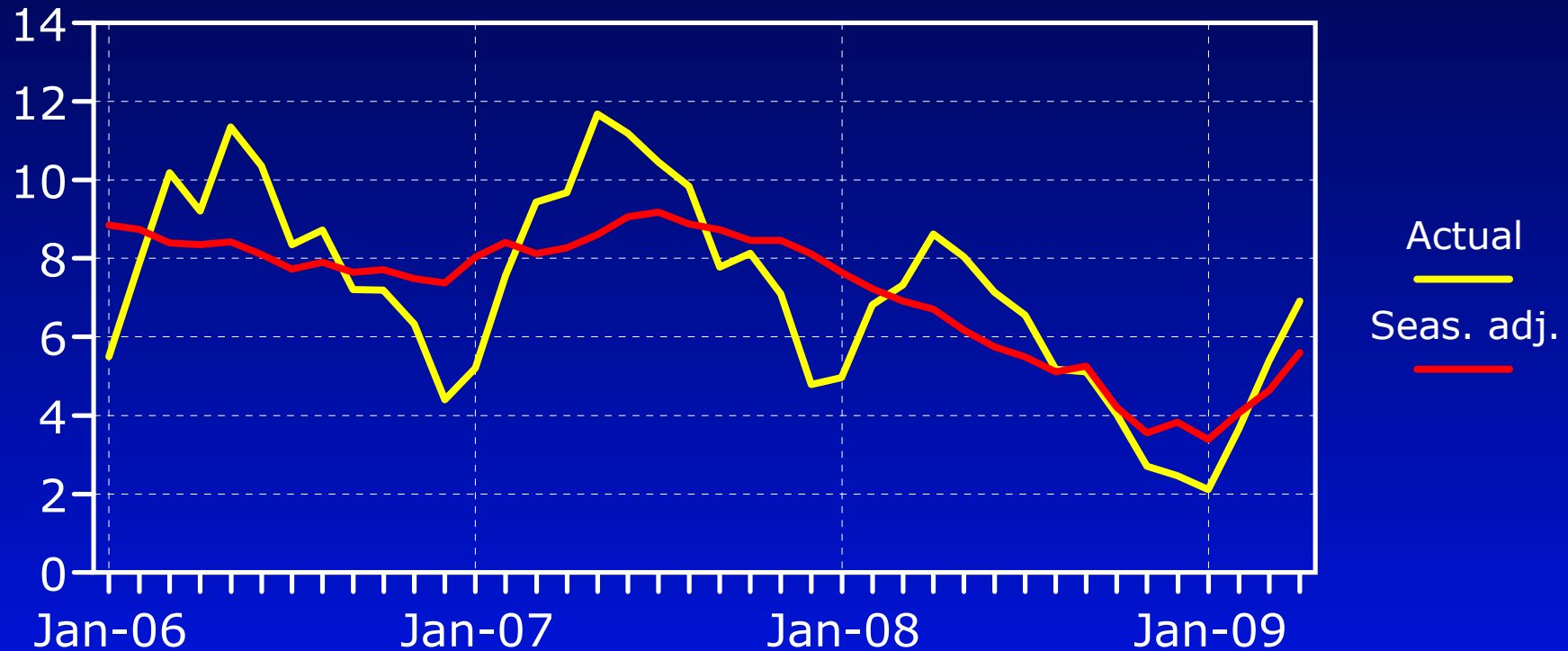
Source: B.C. STATS. Note: Population as of July 1, preliminary estimates.



Provincial housing sales revival underway

B.C. MLS Residential Sales

Units - thousands



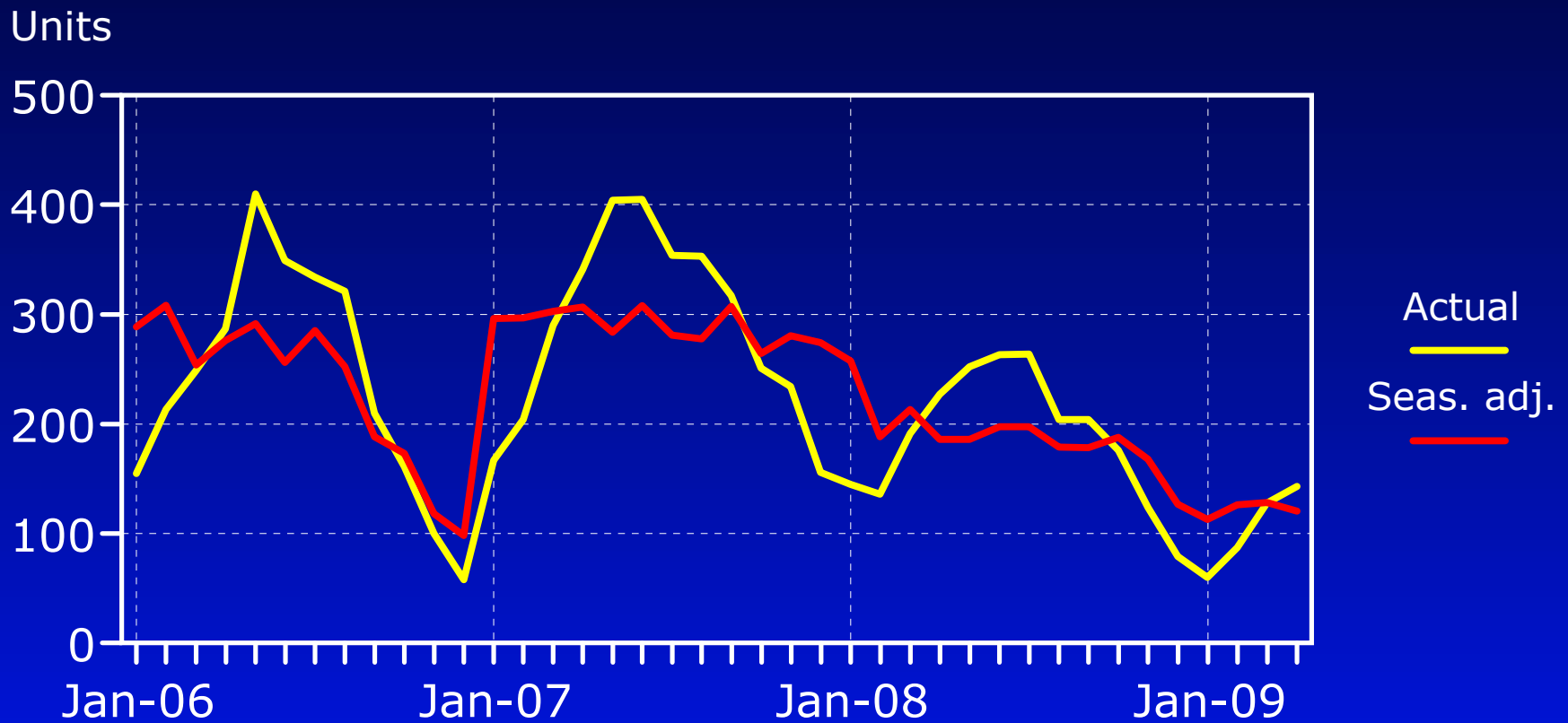
Source: CREA, C1CU.

Latest: Apr-09



Kootenay sales revival weak

Kootenay MLS Residential Sales



Source: CREA, C1CU.

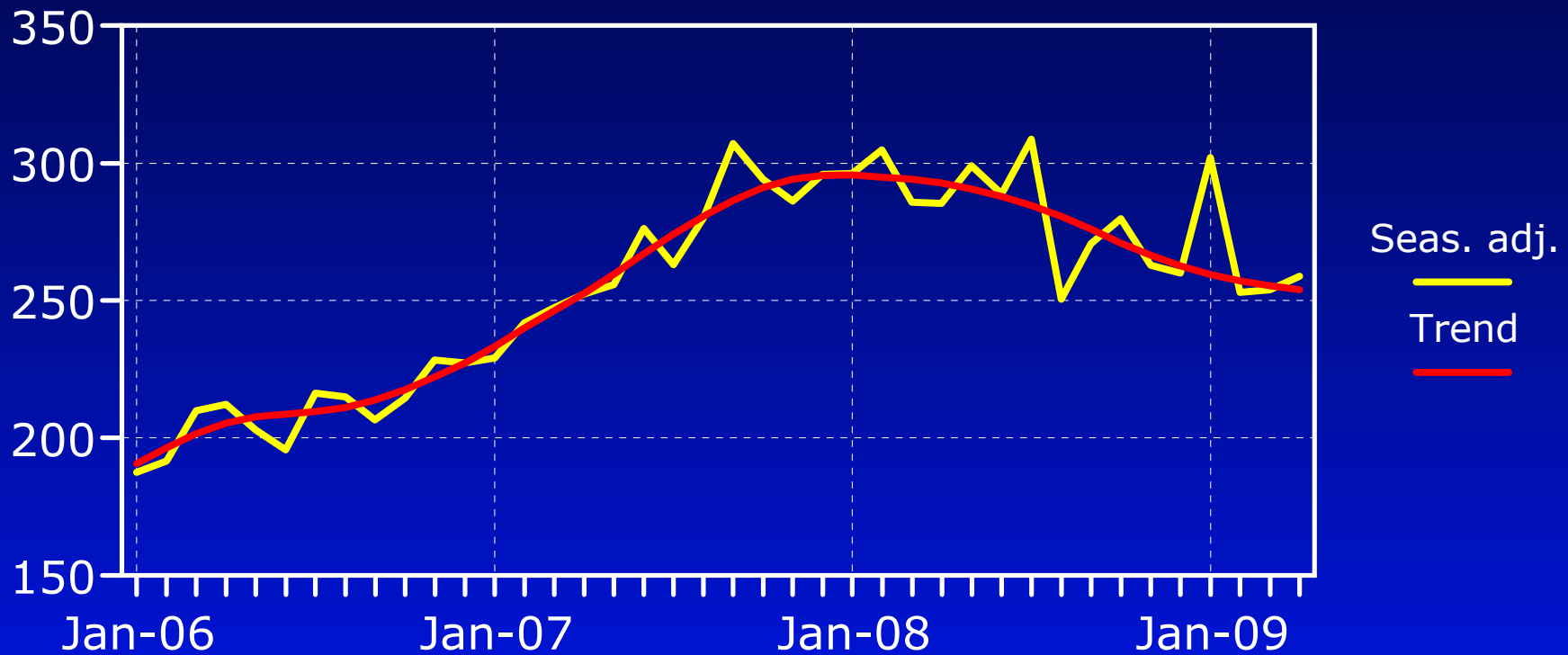
Latest: Apr-09



Housing prices trending down

Kootenay MLS Residential Average Sales Price

Dollars - thousands

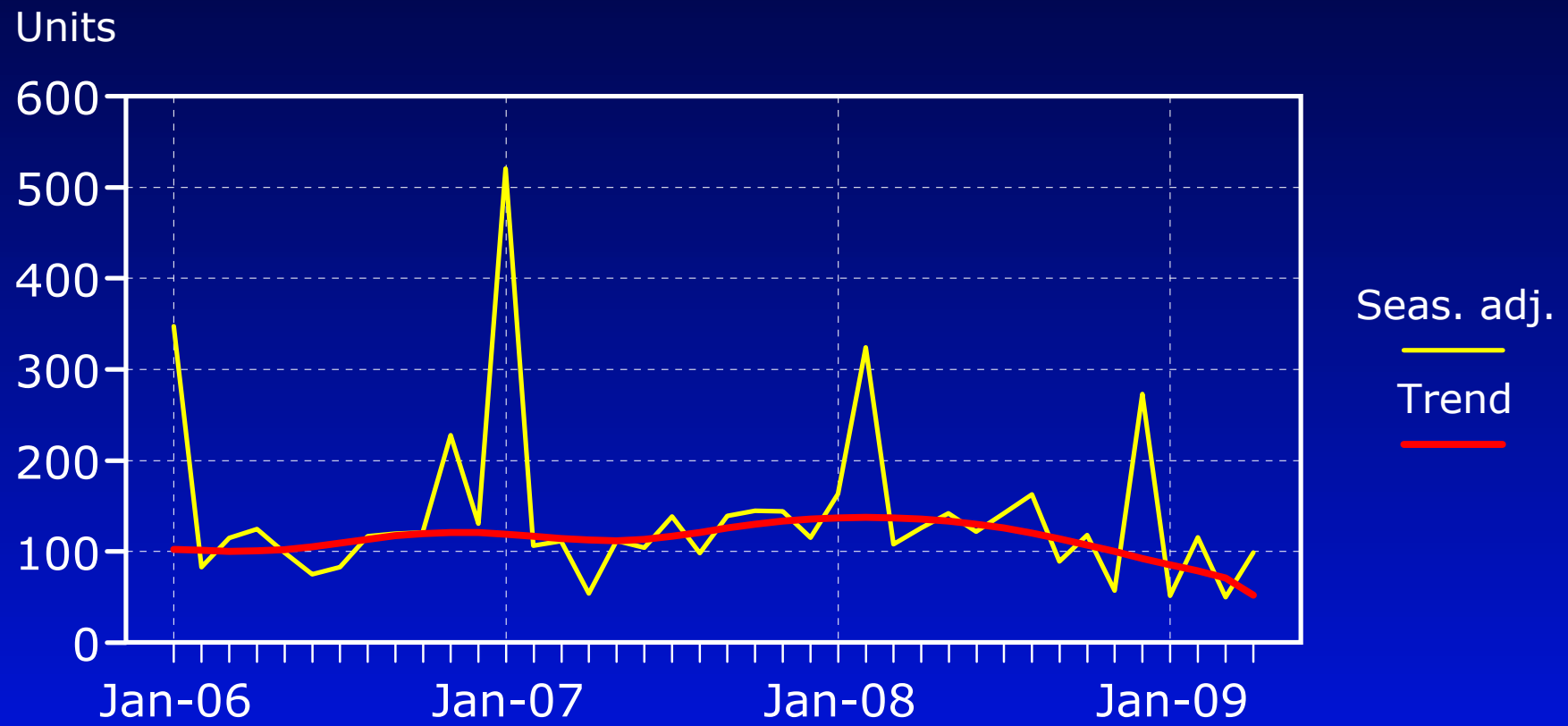


Source: CREA, C1CU. Note: seasonally adjusted.

Latest: Apr-09

New housing construction declining

Residential Building Permits Issued, Kootenay D.R.



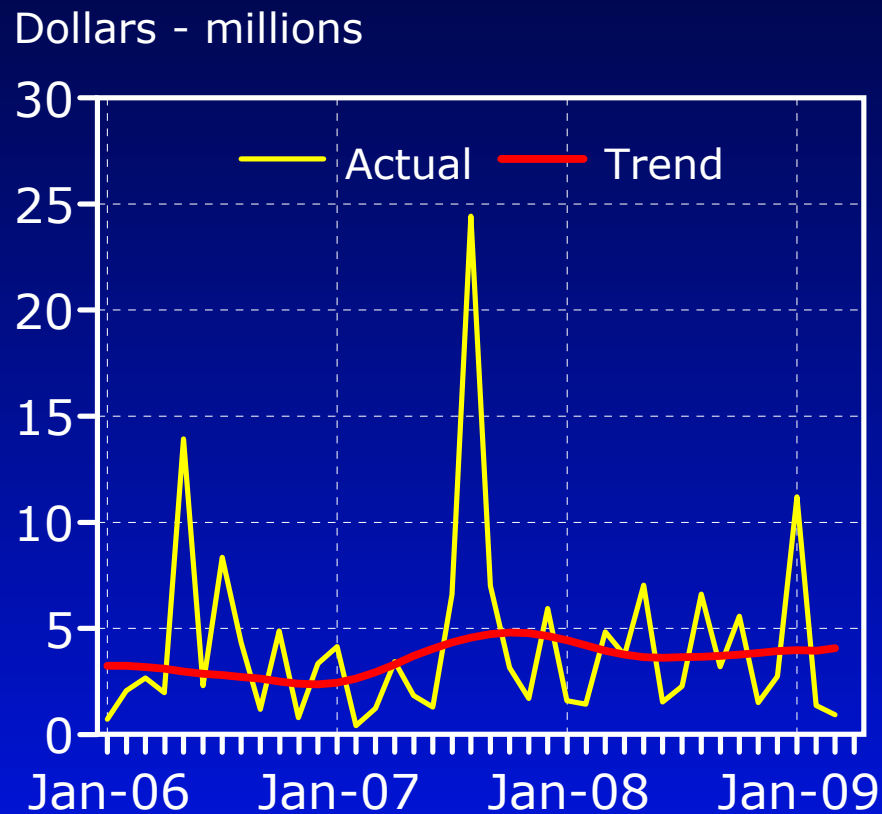
Source: Statistics Canada, C1CU.

Latest: Mar-09



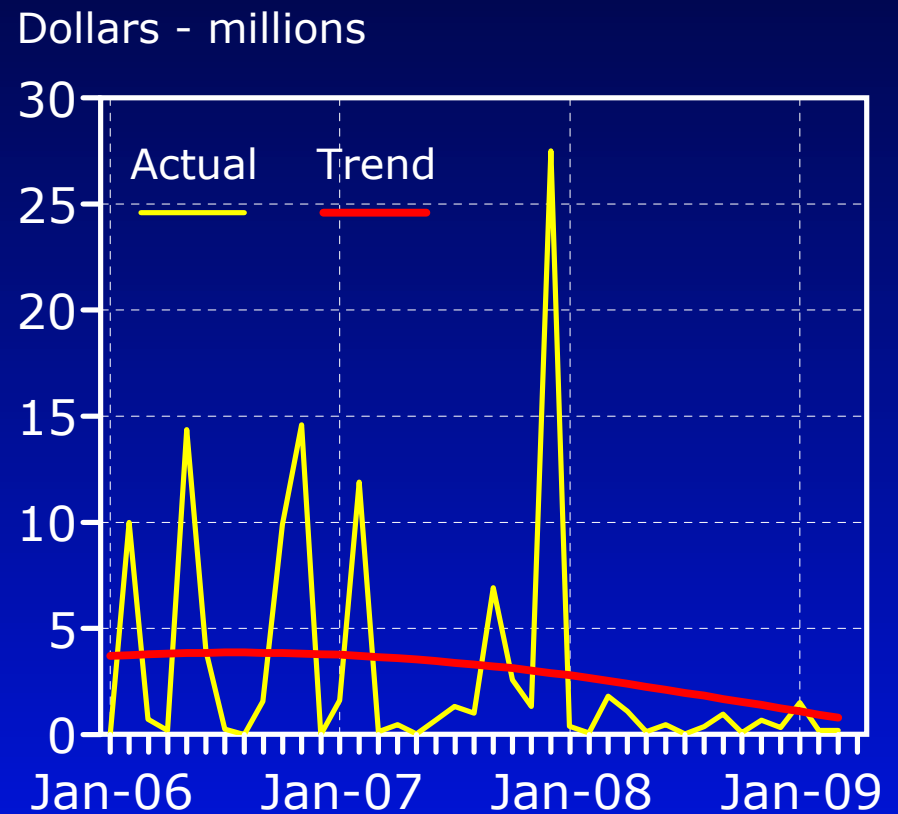
Regional non-residential building construction intentions

Private Building Permits



Source: Statistics Canada.

Government Building Permits



Latest: Mar-09



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

| Indicator | 2008 | 2009f | 2010f |
|-----------------------------|------|-------|-------|
| Real GDP, % change | -0.3 | -2.2 | 2.4 |
| Nominal GDP, % change | 3.5 | -4.4 | 3.5 |
| Personal income, % change | 5.2 | -3.7 | -0.6 |
| Employment, % change | 2.1 | -3.5 | 0.7 |
| Unemployment rate, % | 4.6 | 8.0 | 8.3 |
| Corporate profits, % change | 2.2 | -8.9 | 11.5 |

Source: Statistics Canada, C1CU forecast.



Modest gains in B.C. housing market next year

| Indicator | 2008 | 2009f | 2010f |
|-----------------------------|-------|-------|-------|
| Population growth, % change | 1.7 | 1.6 | 1.4 |
| CPI, % change | 2.1 | 0.4 | 1.3 |
| Retail sales, % change | 0.2 | -2.8 | 0.5 |
| Housing sales, % change | -33.0 | -9.0 | 15.0 |
| Housing prices, % change | 3.5 | -5.0 | 4.0 |
| Housing starts, % change | -12.4 | -55.0 | 8.0 |

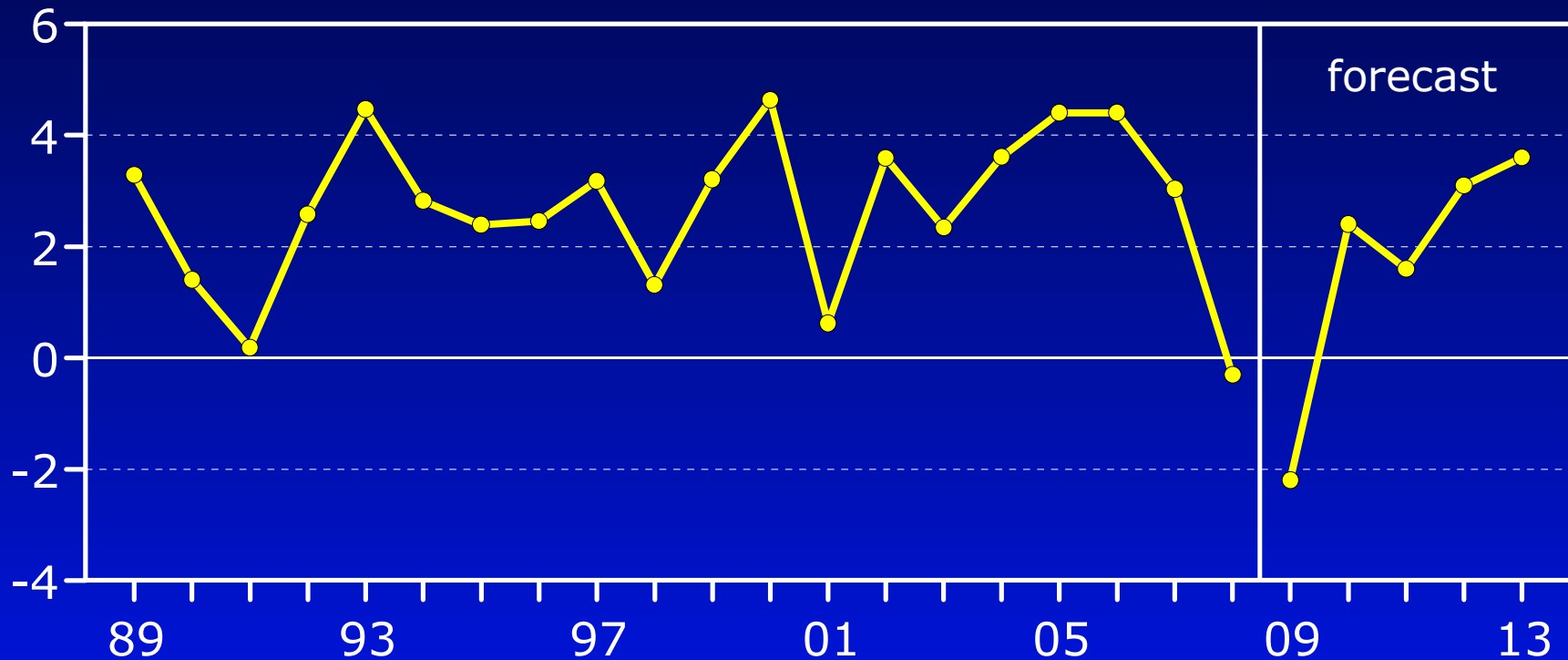
Source: Statistics Canada, CREA, CMHC, C1CU forecast.



Recession ends by 2010, return to normal growth in 2012

B.C. Economic Growth to 2013

Percentage change in real GDP



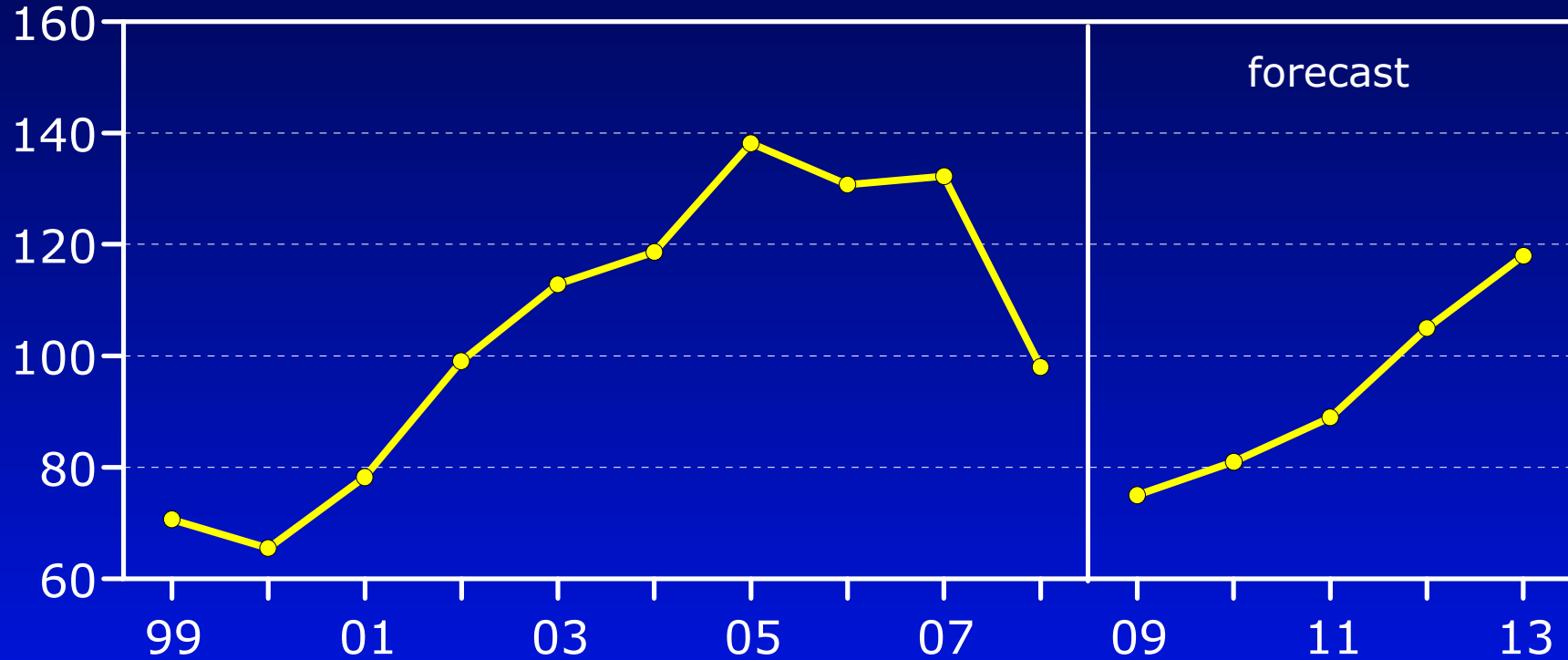
Source: Statistics Canada, C1CU.



Housing sales cycle bottom in 2009, moderate recovery 2010-11

B.C. Residential Sales, Annually

Units - thousands



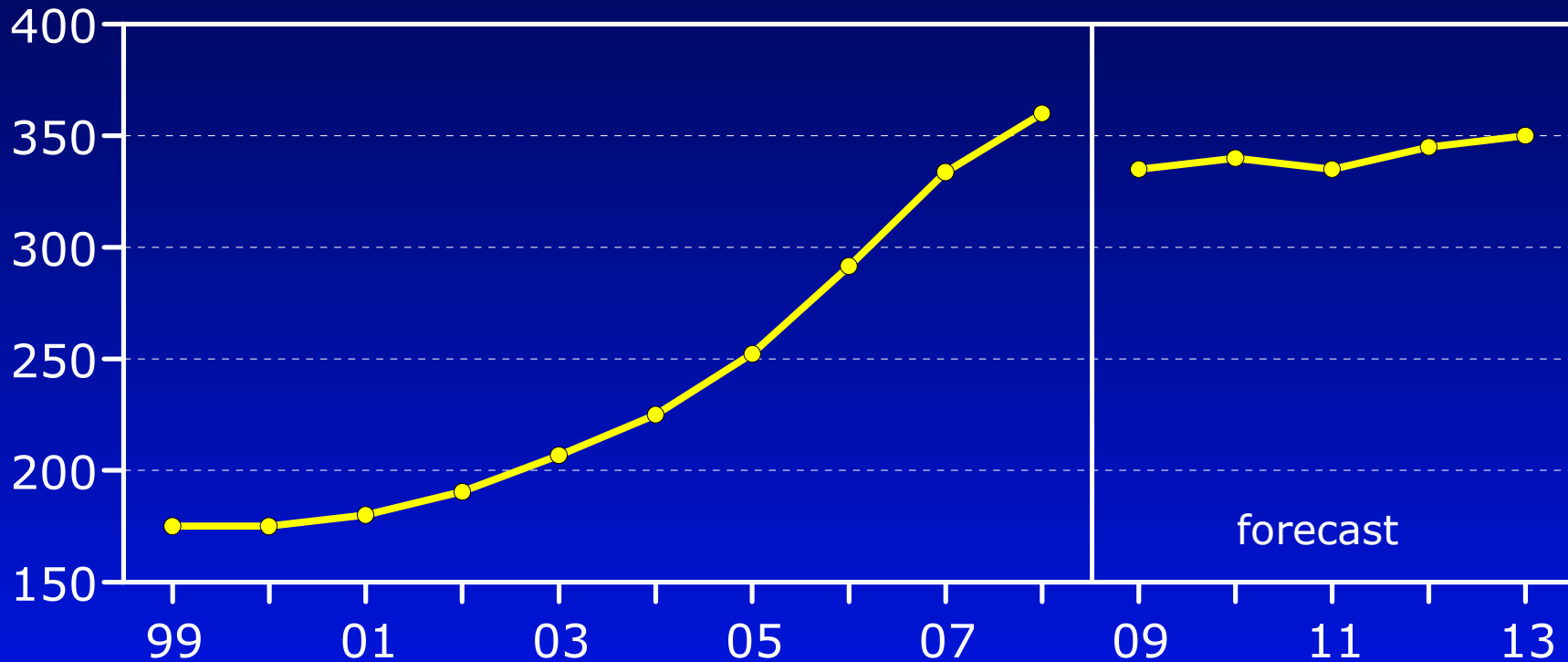
Source: Landcor Data Corp., C1CU.



Lower prices through 2009 and 2010, weak recovery to 2012

B.C. Residential Median Sales Price, Annually

Dollars - thousands



Source: Landcor Data Corp., C1CU.



Summary:

- Financial crisis results in longer recession and weaker recovery
- Credit markets improving but more needed
- Equity and commodity markets pricing in recovery
- Economic recession ends in 2009, U.S. leads Canada
- Below-average U.S. economic recovery
- Low interest rates in 2009, long-term rates turn higher first



Summary (cont'd):

- B.C. economy receives temporary boost from Winter Olympics
- Local economic decline extends through 2009
- Weak exports - forestry, mining, tourism
- Housing sales on weak uptrend
- Local economy back on growth path in 2010

