



Weekly economic Briefing

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February housing sales turn up

Housing sales turned upward in February after several months of decline from the mid-2003 high. Lower mortgage rates were the main cause, along with a return to normal seasonal weather after a cold January. The sales trend reversal was widespread and housing prices continued their upward climb to new highs as supply/demand conditions remained tight. More of the same is expected for March's market performance.

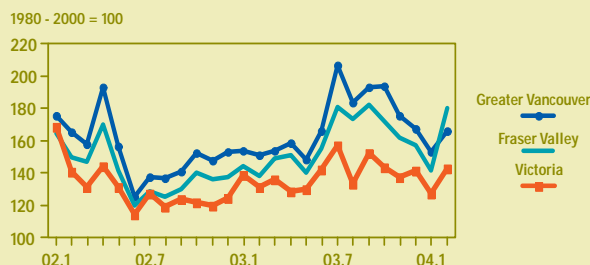
MLS® residential sales in the Real Estate Board of Greater Vancouver (REBGV) rose 8% in February to 3,173 units, seasonally adjusted, the largest monthly increase since last July. Sales in the Fraser Valley Real Estate Board (FVREB) surged 27% higher to 1,630 units, seasonally adjusted, the largest monthly gain four years. The market rebound was more subdued in the Victoria Real Estate Board (VREB), with a 12% increase to 649 units, seasonally adjusted.

Detached house sales in the REBGV posted a 13% increase in February, a significant reversal after four consecutive monthly declines. Attached condominium unit sales climbed 11% to 528 units, seasonally adjusted, while apartment sales rose 8% to 1,265 units, seasonally adjusted.

Condominium unit sales have shown the strongest relative gains since this housing upswing began in mid-2000. Apartment con-

February sales rebound

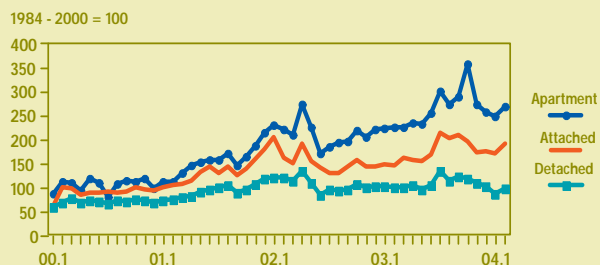
Residential MLS Sales Trends - Greater Vancouver, Fraser Valley and Victoria Real Estate Boards



Source: FVREB, REBGV, VREB, CUCBC. Latest: Feb.
Note: MLS - Multiple Listing Service. Data are seasonally adjusted.

Demand for condominium units up the most

Residential MLS Sales Trends by Housing Type, Real Estate Board of Greater Vancouver



Source: REBGV, CUCBC. Latest: Feb.
Note: MLS - Multiple Listing Service. Data are seasonally adjusted.

dominium sales have more than doubled, while attached or row condominium sales have nearly doubled. In stark contrast, detached or house sales are up by less than 50%, probably because the higher cost of detached homes makes them less affordable to buyers, particularly first-timers who are a significant impetus to this market.

In the FVREB and the VREB, as well as in other areas in the province, the contrast in the types of housing sales would be less pronounced because of lower prices for detached housing, but the observed REBGV trends generally apply. (Sales data by housing type for areas other than the REBGV are less readily available)

Housing prices are up between 15 to 20%, according to the REBGV's Housing Price Index (HPI), with apartment unit prices at the high end of that range and detached units at the low end. In the VREB, price performance by housing type is reversed, with single-family units up 23% and condominium units up 14%. FVREB's HPI price increases are more uniform across the three main housing types, at around 15%.

Recent decreases in mortgage rates will push the sales trend higher in the coming months. Add in the recent change by Canada Mortgage and Housing Corporation (CMHC) to insure no-down-payment mortgages, and sales to first-timers will increase. Borrowers are normally required to have a minimum 5% down-payment from their own resources to purchase a home. However, CMHC has expanded eligible down-payment sources to include lender incentives and borrowed funds, for example.

Our forecast for B.C. MLS residential sales calls for a 6% gain to over 98,500 units in 2004, with the average sales price rising by 15% to over \$303,000. February's market report supports this forecast and, if anything, suggests even higher increases.

Commercial building boosting non-residential construction

Non-residential construction is on a moderate upswing as more commercial buildings are initiated. B.C. building permits data show the value of commercial permits were up by more than \$27 million in January from December, more than \$5 million higher on a trend basis.

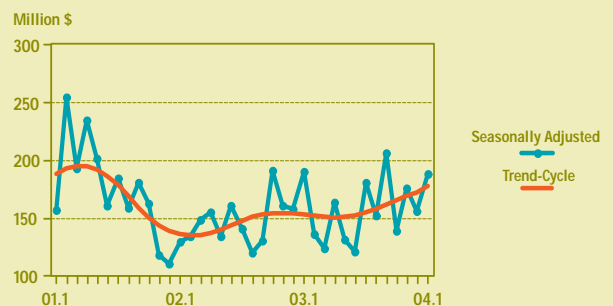
Government-institutional and industrial building permits declined in January, continuing a trend that began a few months earlier. Total non-residential building permits rose to \$137.3 million from \$124.5 million in December.

The increase in commercial construction in the past 10 months is not widely spread across types of structures or uses. It is mainly centred in hotel/restaurant, recreation, and warehouse building construction. Office construction has provided a more recent boost, but that is likely temporary given the high vacancy rate. Permits for construction in the trade and services sector are slipping, but that's after a recent high.

Industrial building permits are expected to trend higher during the year. Construction investment intentions for 2004 are up for utilities, wood manufacturing, and the combined agriculture, forestry and fishing category. The recent announcement of an oriented strand-board (OSB) mill in Fort St. John is an example of future industrial permits activity.

Rising construction trend

BC Non-Residential Building Permits



Source: Statistics Canada, CUCBC.

Latest: Jan.

Government-institutional building will likely decline this year, based on the recently released investment intentions survey and the 2004 provincial budget. There is considerable annual volatility in this type of construction, with a 19% gain seen in 2003, a 42% plunge in 2002, and a 48% jump in 2001. This year could see a drop of 20%.

The total value of B.C. non-residential building permits is forecast to rise between 4% and 6% this year to about \$2 billion, the highest level since 2001.

The last cut?

Was the Bank of Canada's March 2 rate cut its last, or will there be another? The bank's statement left its next decision dependent on incoming economic data, and hence open to a cut. The market is assigning a low probability to another cut in the next few months, but is expecting a rate hike by December. Economic forecasters are somewhat divided on whether or not there will be another rate cut, though the majority is not expecting one.

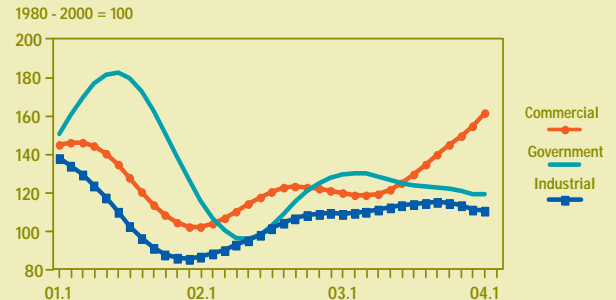
How the economy and inflation unfolds in the next six weeks is the key to whether the bank stands pat or cuts on April 13. There is only one more CPI report (for February) due to come out before that date, and that should produce no surprises, with a core inflation rate between 1.1% and 1.3% likely. If anything, that report taken in isolation would prompt or sway the bank to cut rates again, but the bank considers other data as well. The bank is forecasting 3% economic growth in the first half of 2004, and it would make a cut if incoming data point to a lower growth rate.

The median growth rate that falls out of the various economic forecasts is 3.1% and 3.2% for the first and second quarters, respectively, but the range of predictions is wide, from a low of 2.5% to a high of 4.8% for the first quarter and 2.2% to 4.2% for the second quarter. Not surprisingly, forecasters who expect growth to be below 3% are also predicting a rate cut, while those seeing growth above 3% are not.

Our forecast is for growth to average less than 3% in the first half, as the trade sector becomes an increasing drag on growth. We expect another rate cut, but not until the bank's June 8 meeting. The full effects of the higher currency have not yet played out in the economy and it will take another year for that process to be largely completed. Domestic demand will have to grow at a faster pace to offset the slower trade sector.

Commercial construction rising, government declining

BC Non-Residential Construction Trends by Type



Source: Statistics Canada, CUCBC.

Latest: Jan.

