



August housing sales down

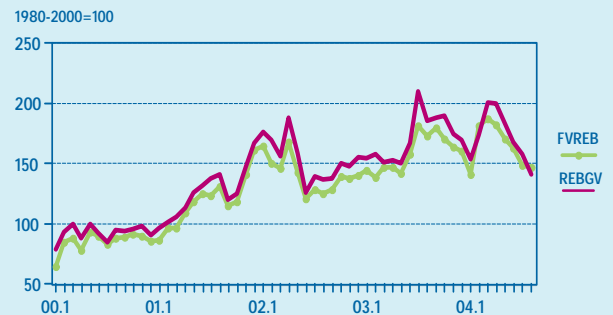
After a delay due to a computer system switchover, the Vancouver and Fraser Valley Real Estate Boards released their August MLS® housing sales data. Sales were slightly lower than in July in the FVREB, but in the Real Estate Board of Greater Vancouver (REBGV) seasonally adjusted sales fell by almost 11%. Year-over-year sales were off by larger amounts: -24% in the REBGV and -15% in the FVREB.

This sales decline is a continuation of an adjustment that began in April, when mortgage rates for a five-year closed term climbed by one full percentage point in just two months. Those rate increases have since been partly reversed, but rates are still higher than their lows in March. The current market adjustment has been underway for five months, and is the most substantial since this cycle upswing began in mid-2000. The key question is whether this marks the beginning of the long-awaited market correction or whether it is simply a large dip in the upswing.

To answer that, we have to look at market fundamentals such as interest rates, income, affordability, job growth, migration, and confidence over the immediate and short-term period. If this adjustment is actually a larger correction, it would have to continue for the next three to six months, otherwise it is just a big dip in the trend. Overall, demand fundamentals are not likely to deteriorate enough to cause a market correction.

Housing sales slowing

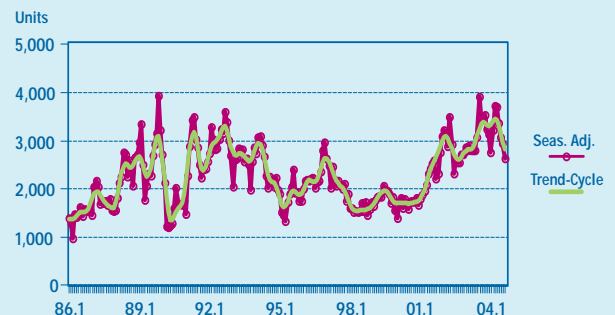
Residential MLS sales, seasonally adjusted, REBGV and FVREB



Source: Real Estate Board of Greater Vancouver, Fraser Valley Real Estate Board, CUCBC. Latest: August 2004

A longer perspective

Residential MLS sales, REBGV, monthly



Source: Real Estate Board of Greater Vancouver, CUCBC. Latest: August 2004

With the Bank of Canada embarking on a monetary tightening process, short-term and variable mortgage rates are the highest in over a year, with the prospect of rising further. Longer-term rates will not be rising as much as short rates since inflation is not expected to rise significantly, which is positive for sales demand and affordability.

Job and income growth in the Lower Mainland are expected to be quite good in the next two quarters. Job growth may be a bit lower than the 3.2% rate seen so far this year, but it will still be at a respectable pace. Migration to the region is picking up, as it is for the province, (see next report) and that is positive for housing demand growth.

The recent run-up in oil prices is a concern for the broader economy. If there is no price correction in the next 6 to 12 months, then economic growth will be weaker than previously thought. This could also lead to higher inflation, which means higher interest rates and weaker housing sales.

The view here is that a market correction is not underway and that sales will stop declining within the next two months. Over the longer term, our expectation is for a "soft landing" rather than a substantial market correction, as supply and demand forces come into better balance. We will not have to wait long for new data, since September MLS® sales figures will be released on time next week and will be a key point in assessing the market's strength and state. Our forecast calls for an increase in seasonally adjusted sales over August.

Interprovincial migration up sharply

More people in Canada are finding B.C. an attractive destination, according to the latest quarterly population statistics. Net interprovincial migration hit its highest level in several years during the second quarter, with 3,369 more persons moving to B.C. than leaving for other provinces. B.C.'s improved economic performance relative to the rest of Canada in 2003 and again this year is largely behind this change.

Net international migration edged lower in the second quarter, even though immigration increased. There was a larger outflow according to the estimates, which are subject to future revisions.

B.C.'s population growth rate is still low, at 1.1% year-over-year in the second quarter, but the trend direction is positive. There were almost 4.2 million people in B.C. at the end of the second quarter. Net natural increase (births minus deaths) rose slightly in the most recent quarter, but the long-term trend decline is still the dominant force here.

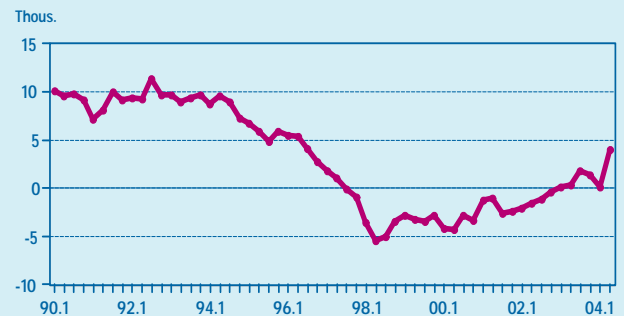
Our 2004 B.C. population forecast called for a 1.1% increase at year-end, and that is still on track. Next year, we see that rising to 1.3% on the strength of higher interprovincial migration and, to a lesser extent, immigration from other countries.

Small business confidence high in B.C.

Confidence edged down in the third quarter among operators of small and medium enterprises (SMEs) in B.C., according to the latest survey by the Canadian Federation of Independent Business (CFIB), but remains high. The CFIB's Business Barometer Index reflects how well business owners expect their firms to perform in the next 12 months. The index for B.C. stands at

B.C. attracting more people

B.C. Net Interprovincial Migration, Seasonally Adjusted, Quarterly



Source: Statistics Canada, CUCBC. Latest: Q2 2004

116.3 as of September, down from 118.2 in June, marking the first decline in SME confidence in B.C. in five consecutive quarters.

Nevertheless, SMEs in B.C. were the most optimistic in the country for the fourth straight quarter.

Nationally, confidence among small and medium enterprises rose in September after two quarters of decline earlier this year. Industry-wise, the most confident businesses are engaged in business services, wholesale trade, manufacturing, health services and education services. The least optimistic SMEs are involved in construction, retail trade, hospitality services and personal services. Only businesses engaged in agriculture are generally pessimistic about the 12-month outlook.

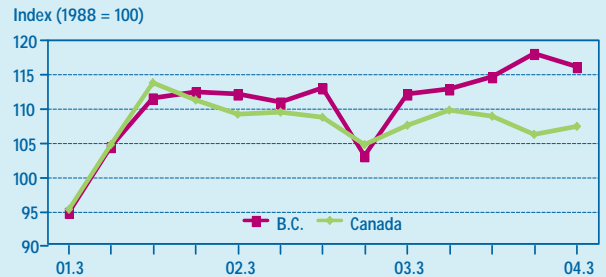
The strongest industrial sub-sectors for SMEs include insurance brokerage, accounting, computer services, business services, wholesale electrical equipment, and retail lawn and garden products. In general, recreational vehicle dealers also have an optimistic outlook. The weakest industrial sub-sectors among SMEs include crop and livestock farming, general merchandise stores, gas stations, toy stores and hotels or motels.

Looking back over the past 12 months, SMEs report that improvements in customer demand, low interest rates and access to bank financing had the most positive impacts on business profits. The most negative impacts came from higher prices for energy, insurance and other factors of production.



Small business confidence high in British Columbia

Expectations Index, Quarterly Small and Medium Sized Enterprises



Source: Canadian Federation of Independent Business.