



Multi-units boost July housing starts

The highest monthly level of multi-unit starts in six years lifted total B.C. housing starts in July to their best showing in almost a year. Seasonally adjusted starts surged ahead to 2,246 units in July from 1,699 in June, largely on the strength of multi-unit starts jumping to 1,334 units from June's 865. Single-detached starts posted a modest gain to 913 units from 847, seasonally adjusted.

Housing construction is on a strong uptrend, owing to high sales, low inventory levels and the resulting rising prices. Low mortgage rates are the main reason behind the sales rebound.

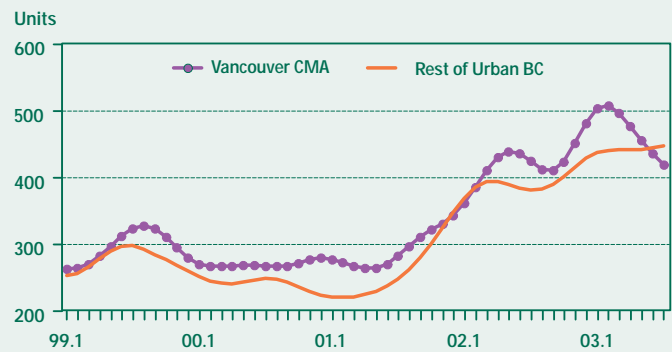
July's housing gains were mostly in the Vancouver metropolitan area, which has the highest concentration of multi-unit housing. Vancouver metro multi-unit starts shot up to 1,174 units from 706 in June, unadjusted. Data on the intended market for these multi-units are not provided in CMHC's press release, but no doubt all or nearly all are for the condominium market. Construction for the rental market is less viable now since rental vacancy rates are rising, as many renters become homebuyers.

Victoria metro area housing starts hit their highest monthly level since early 1995. Total starts reached 260 units in July, as multi-unit starts jumped to 169 units from 14 in June. July's multi-unit starts total was also the highest since February 1995.

While single-detached starts posted a small gain in July, a declining short-term trend has existed since early this year. A geographic analysis reveals that the trend is found only in the Vancouver metro area, and the reason could be a tight supply of building lots. Market conditions are certainly strong enough to warrant more new single-detached construction, as prices are rising and new unsold inventory is low. This down-

Vancouver area single house construction trend counter to rest of BC

BC Single Detached Starts Trends, Monthly



Source: CMHC, CUCBC.

Latest: July

trend is likely to be temporary, since it is hard to imagine that the metro area's lot supply could be so limited after just two years of increased construction, with home-building still at historically low levels. Data on building lot supply is not readily available.

Housing starts are expected to keep rising. Our B.C. starts forecast was recently raised to 26,200 units this year and 28,800 next year, compared with 21,625 last year. As long as mortgage rates do not rise above 8% or an economic recession does not set in, housing sales will hold up and prices will rise further. This upward phase in B.C.'s housing market is not about to end anytime soon, even though economic and population growth are anemic.

NAFTA panel issues softwood lumber ruling

The NAFTA bi-country panel has issued its ruling on the U.S. softwood lumber countervail duty. With both Canada and the U.S. claiming victory, it is not obvious which side is right and what the impact will be on the lumber industry. The issue is of huge significance to B.C., with the \$5-billion in annual softwood lumber exports to the U.S. accounting for over 15% of the province's total international merchandise exports, and representing the main economic engine of many regions and communities.

The NAFTA panel ruled that Canada's provincial stumpage system does provide a financial contribution to its lumber industry – a ruling obviously in favour of U.S. competitors. This is the same conclusion reached earlier by the World Trade Organization, whose decision was not binding, unlike the NAFTA ruling. Unless there is a negotiated settlement to eliminate the duty altogether, some level of countervail duty will continue to exist and this will constrain B.C. lumber exports and employment.

The panel also ruled that the U.S. Commerce Department used improper methods to calculate the duty, and it gave Commerce 60 days to come up with a new duty level. It is in this part of the ruling that Canada claims a victory.

The crux of the panel's decision is that Commerce's use of a cross-border price comparison is "unsupported by substantial evidence and is contrary to law." U.S. law allows for three different methods of determining whether stumpage rates represent a subsidy. The first is to use data on market transactions in Canada. If that information is not available, an alternative is to compare the government price to a world market price. If a world price is not available, then Commerce can assess whether the government price is consistent with market principles.

In the case of B.C., Commerce relied on United States Forest Service prices from Washington, Idaho and Montana, and prices from the state governments in the same jurisdictions. How it will deal with the price data issue is unknown, but there certainly will be some level of duty after the new calculations are made. At that stage, Canada could appeal the new findings or the NAFTA panel could send them back to Commerce for more information.

Another aspect of the ruling involves the "class or kind" of merchandise exemptions. The important one for B.C. is the Western Red Cedar exemption. Harvested mainly in B.C.'s Coast region, Western Red Cedar is a high-value product and so the amount of the duty levied against it is large. The other exemptions sought were for Eastern White Pine and some re-manufactured products. The panel ruled against Canada on each of these issues. On a minor note, it did rule in favour of exclusion for used railroad ties.

On balance, the NAFTA ruling kept the duty in place and dismissed the important exemptions. Remanding the Commerce Department to re-calculate the duty is a victory for Canada only if the new duty is lower than the initial rate of 18.8%, and that remains to be seen. Meanwhile, B.C.'s lumber industry will continue to operate under the current duty regime for several more weeks, and possibly longer.

Canadian dollar lower in July

The Canadian dollar eased back in value relative to the currencies of most of our major trading partners in July, following strong and steady appreciation in the first half of 2003. The dollar fell against the U.S. dollar and Japanese yen, held steady with the U.K. pound, and rose against the Euro. A lower Canadian dollar has a lagged, but positive, effect on Canadian and B.C. exports, but raises the cost of imported goods and services. On balance, it is a positive factor for B.C.'s economic growth.

The main source of weakness in the Canadian dollar in July stemmed from the decreased flow of international funds into Canadian treasury bills, bonds, stocks and other assets. Capital was less attracted to Canada because the positive spread between Canadian and U.S. treasury-bill yields narrowed, as the Bank of Canada reversed the direction of monetary policy and lowered the bank rate. As well, stock market returns improved in the U.S. relative to Canada. That, in turn, was due to a somewhat brighter near-term outlook for economic growth in the U.S.

Credit Union Central forecasts the Canadian dollar will remain higher over the next several years, averaging US\$0.72 this year and about US\$0.71 in 2004. That compares with an average of US\$0.64 last year.

