

# Economic Update and Outlook

Kootenay Region  
Cranbrook, B.C.

October 17, 2014

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Chief Economist  
Central 1 Credit Union

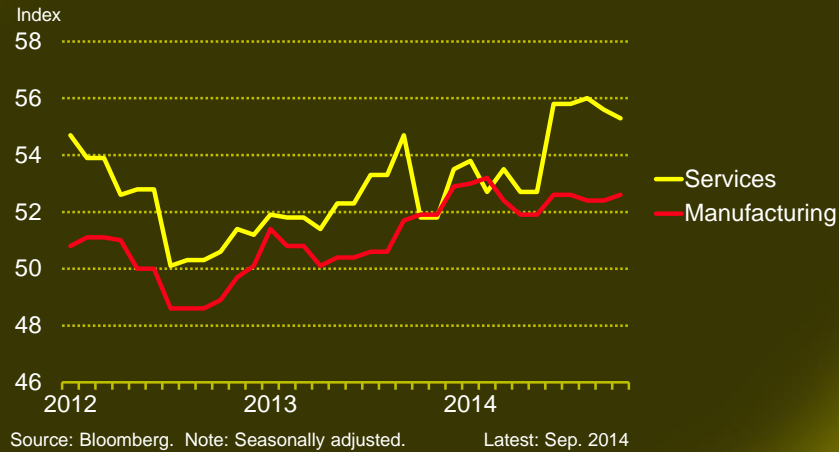


## Outline:


- Macroeconomic conditions and forecasts
- Interest rate trends and forecast
- B.C. economic trends and forecasts
- Kootenay population trends
- Kootenay economic and housing trends
- Kootenay economic and housing forecasts
- Summary and key takeaways for credit unions

## Global economy still recovering, recent slowing

### JP Morgan Global PMIs



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## Large recent decline on lower demand and rising supply concerns; positive for global economy

### Crude Oil Prices: West Texas Intermediate, Weekly



Source: U.S. Dept. of Energy – EIA.

Latest: Oct. 10, 2014

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## Recent sharp appreciation

### Broad Trade Weighted US Dollar Index: Weekly

Jan. 1997 = 100



Source: U.S. Federal Reserve.

Latest: Oct. 10, 2014



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## Bond yields dive past four weeks

### 10-year Government Bond Yields: U.S. and Canada

Per cent



Source: Bank of Canada, U.S. Federal Reserve.

Latest: 10/16/2014



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## U.S. economy to gain momentum, China slows, Japan stuck in low

### Key External Economic Forecasts

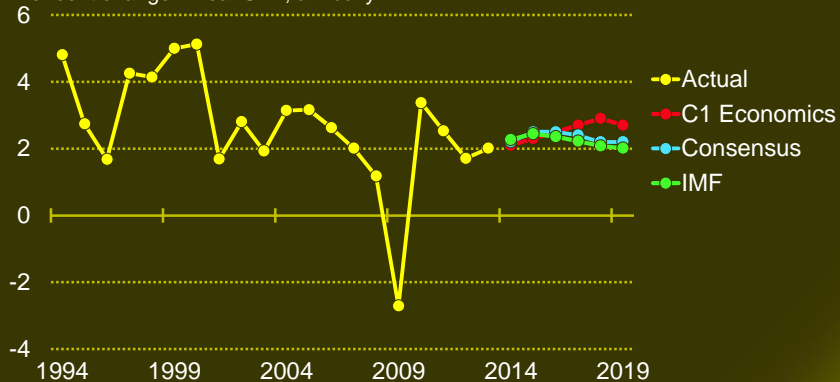
Indicator	2013	2014	2015	2016	2017
U.S. real GDP, % chg.	2.2	2.1	3.1	3.0	2.9
Japan real GDP, % chg.	1.5	0.9	0.8	0.8	0.9
China real GDP, % chg.	7.7	7.4	7.1	6.8	6.6
EU real GDP, %	0.2	1.4	1.8	2.0	2.0
South Korea real GDP, %	2.9	3.7	4.0	4.0	3.9

Source: IMF WEO October 2014.

## Below-average growth to continue in 2014, more robust profile after 2016

### Economic Growth: Canada

Per cent change in real GDP, annually

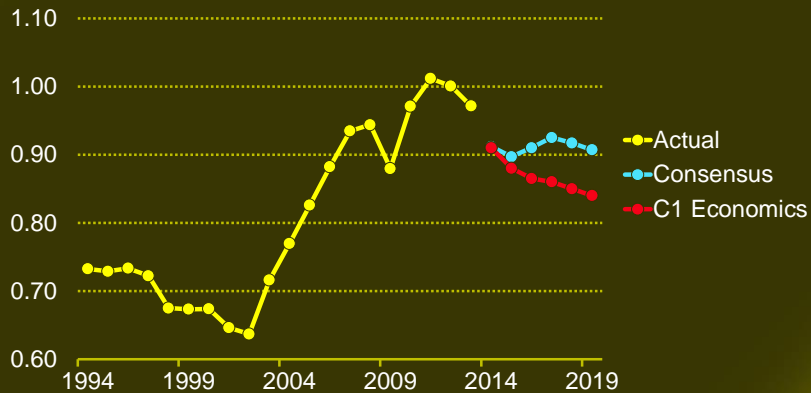


Source: Statistics Canada, Consensus Forecasts, IMF, C1CU. Forecast: 2014 - 2019.

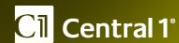
## Divergent views on Canadian dollar

### U.S.-Canada Exchange Rate, Actual and Forecast

USD per CAD dollar



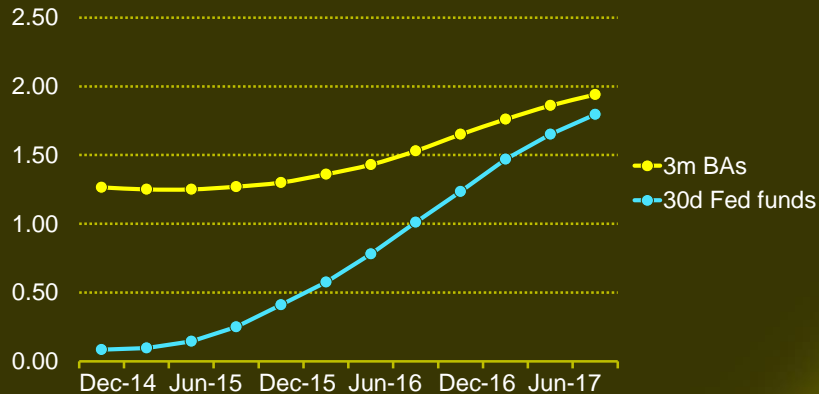
Source: BoC, Consensus Forecasts, C1CU. Note: Annual average. Latest actual: 2013.



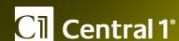
## Market expects Fed to move before Bank of Canada

### Short-term Interest Rate Futures: Canada and U.S.

Per cent

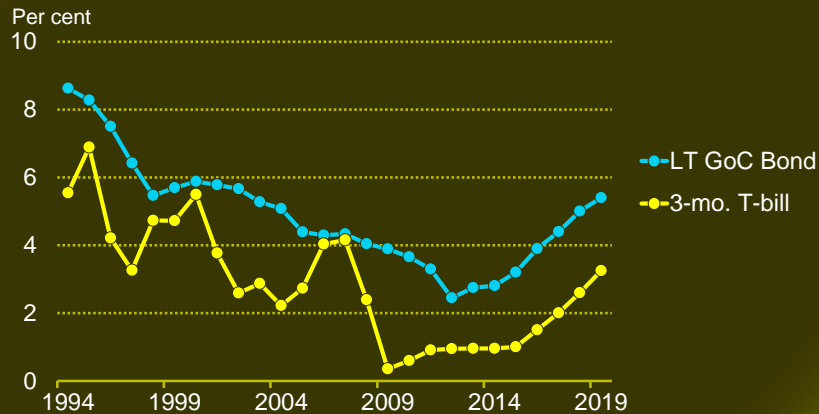


Source: Montreal Exchange, CME Group, C1CU. Latest: Sep-17

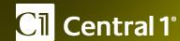


## BoC begins raising rates in Q4-2015, risk is for later increase

### Interest Rates, Actual and Forecast 2014-2019: Canada

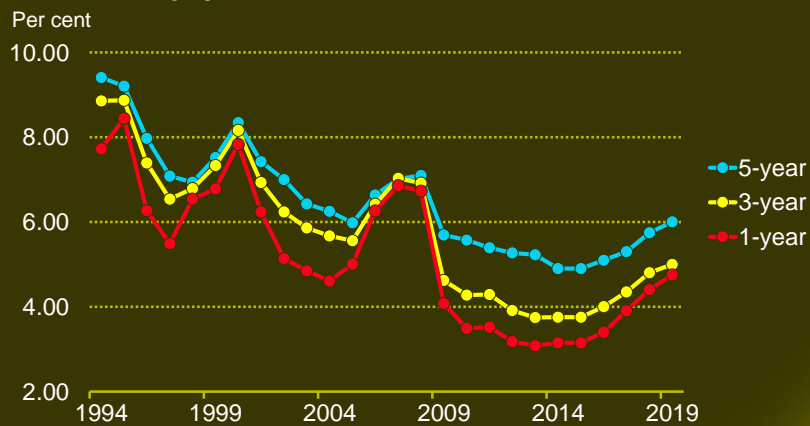


Source: Bank of Canada, C1 Economics. Note: Annual average. Latest actual: 2013.

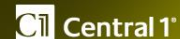


## Little change in near term, higher after 2015

### Posted Mortgage Rate Forecast 2014-2019: Canada

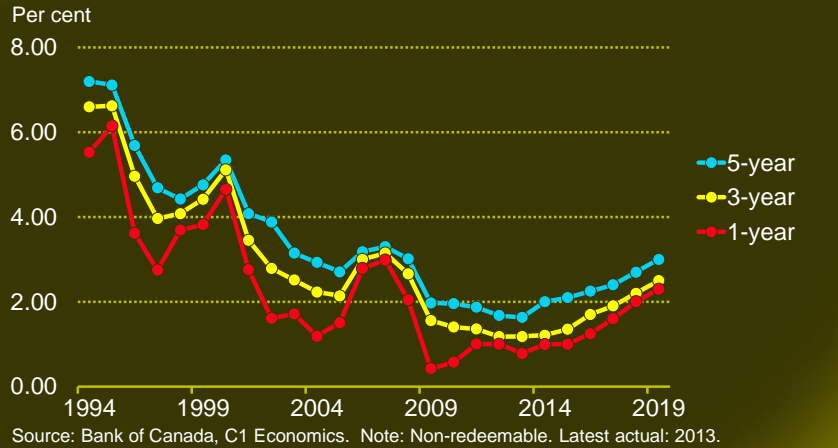


Source: Bank of Canada, C1 Economics. Note: Fixed rates. Latest actual: 2013.




## Rates gradually trend higher

### GIC Rate Forecast 2014-2019: Canada



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## Population growth rising?

### Population Growth, Quarterly: British Columbia



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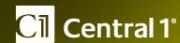
## Interprovincial turning up

### Net Migration by Type, Quarterly: British Columbia

Persons - thousands



Source: Statistics Canada, C1CU. Note: Seasonally adjusted. Latest: Q2-14



## Range-bound since early 2012; breaking out?

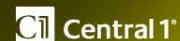
### Employment: British Columbia

Persons - millions



Source: Statistics Canada. Note: Seasonally adjusted.

Latest: Sep-14





## Recent upshift in Vancouver

### Employment Trends: Vancouver CMA and Rest of B.C.

2007=100



Source: Statistics Canada, C1CU. Note: Seasonally adjusted. Latest: Sep-14



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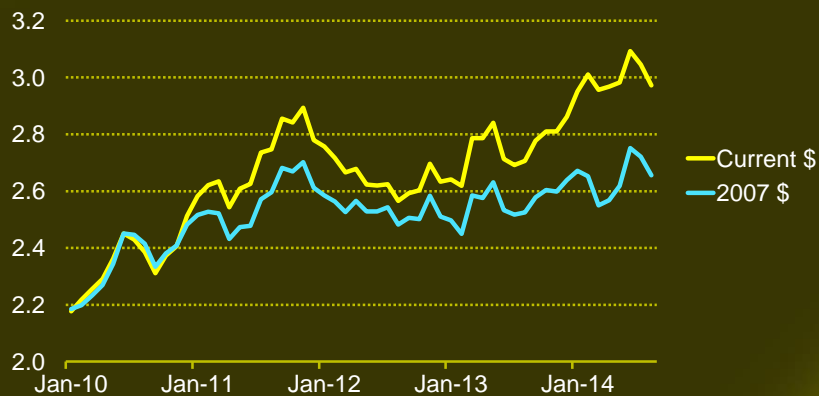


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## Prices up recently, underlying trend little changed

### International Goods Exports: British Columbia

Dollars - billions



Source: Statistics Canada, C1CU. Note: Seasonally adjusted 3 mo. average. Latest: Aug-14



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## Modest uptrend developing

### International Tourist Entries: British Columbia

Person - millions



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## Moderate growth in 2015, improving trend thereafter; housing holds up

### B.C. Economic and Housing Forecasts

Indicator	2013	2014	2015	2016	2017
Real GDP, % chg.	2.0	2.1	2.3	2.9	3.5
Nominal GDP, % chg.	2.8	3.4	3.8	5.1	5.6
Employment, % chg.	-0.2	0.7	1.3	2.0	2.5
Unemployment rate, %	6.6	6.4	6.2	5.9	5.3
Population, % chg.	0.9	1.1	1.1	1.2	1.3
Housing starts, (000s)	27.1	27.9	28.5	30.0	31.0
Housing sales, % chg.	7.8	14.0	4.0	5.0	7.0
Housing price, % chg.	4.4	6.5	3.0	4.0	5.0

Source: Statistics Canada, CMHC, Central 1 Credit Union.



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## Declining population

### Population Growth: Kootenay Economic Region



Source: Statistics Canada. Note: As of July 1. Latest data are preliminary.



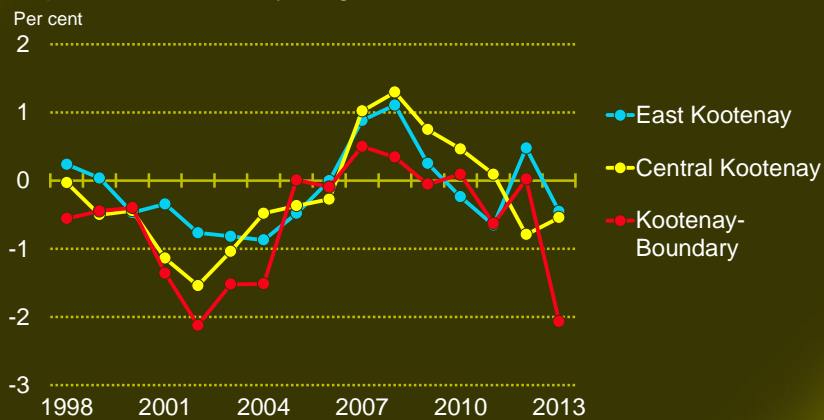
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## Similar regional trends; Kootenay-Boundary weakest

### Population Growth by Regional District



Source: Statistics Canada, C1CU. Note: As of July 1, latest data preliminary.



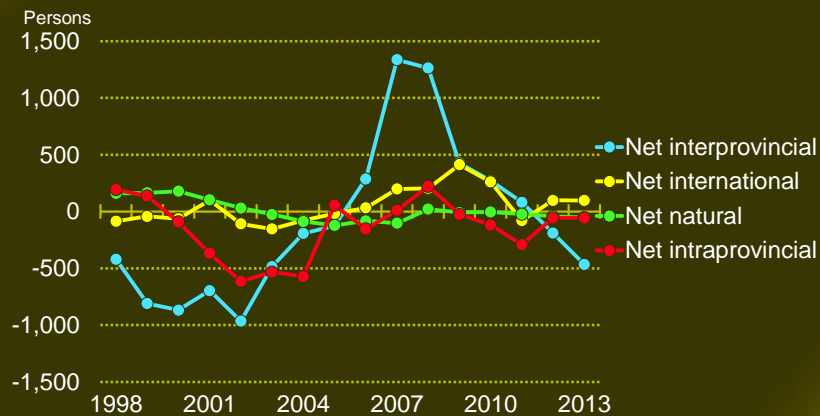
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## Interprovincial migration main swing factor

### Population Growth Components: Kootenay Region



Source: Statistics Canada. Note: July 1 to June 30 annually. Latest data are preliminary.



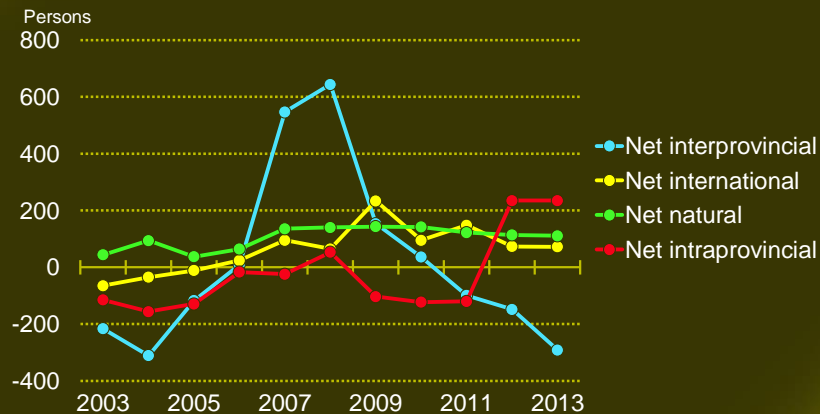
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## Large decline in net interprovincial migration

### Population Growth Components: East Kootenay RD



Source: Statistics Canada. Note: July 1 to June 30 annually. Latest data are preliminary.



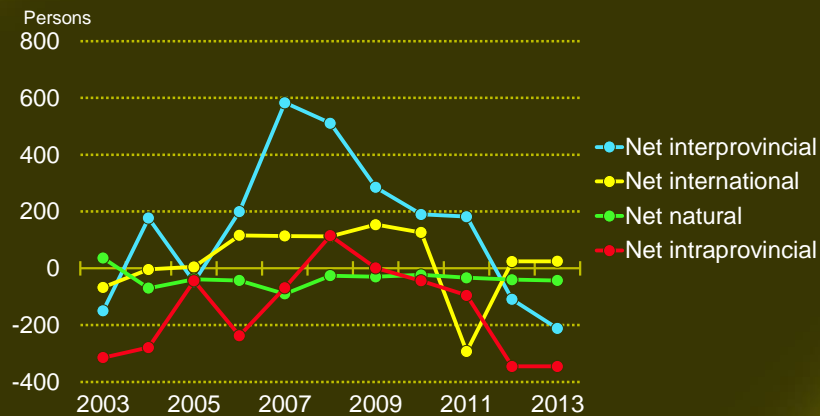
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## Substantial net out migration

### Population Growth Components: Central Kootenay RD



Source: Statistics Canada. Note: July 1 to June 30 annually. Latest data are preliminary.



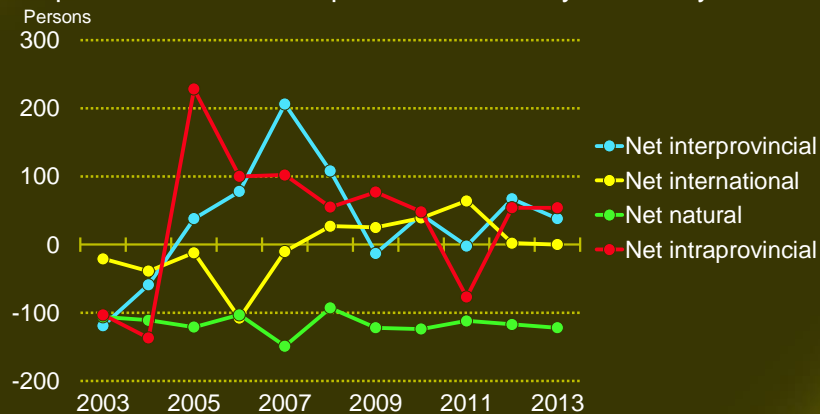
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## Net inflows but negative natural increase due to older population

### Population Growth Components: Kootenay-Boundary RD



Source: Statistics Canada. Note: July 1 to June 30 annually. Latest data are preliminary.



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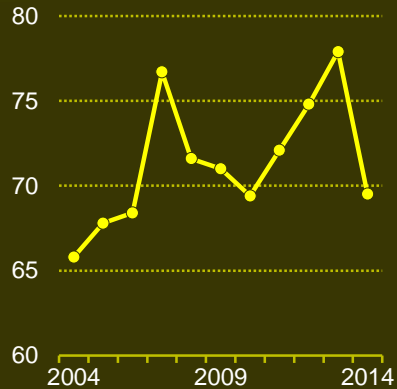


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## Large employment loss in 2014

### Employment: Kootenay ER

Persons - thousands



### Unemployment Rate: Kootenay

Per cent of labour force



Source: Statistics Canada. Note: ER - Economic Region. Latest: Average Jan. – Sep. 2014



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## Downtrend ends in 2013

### E.I. Beneficiaries by Regional District

Persons



Source: Statistics Canada, Central 1 Credit Union. Note: Seasonally adjusted. Latest: Jul-14



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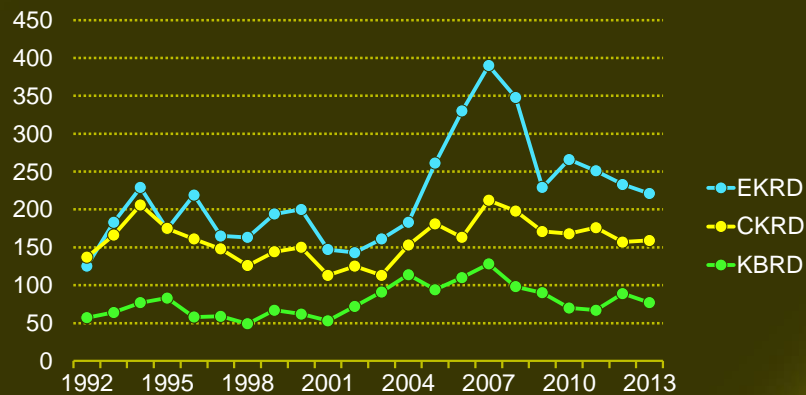


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## Lower rate of new business formations

### Business Incorporations by Regional District

Number of businesses



Source: BC Ministry of Finance



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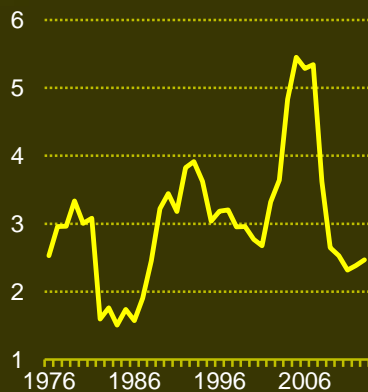


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## 2013 sales up from lows

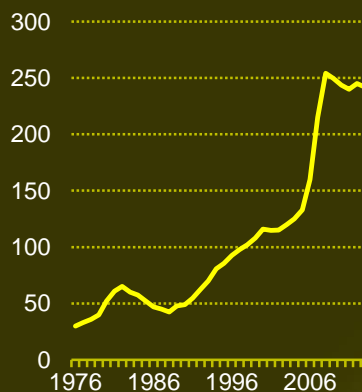
### Residential Sales: Kootenay ER

Units - thousands



### Median Sale Price

Dollars - thousands



Source: Landor Data Corp. Note: Arms-length transactions only. Latest: 2013



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## Housing market likely past cycle low

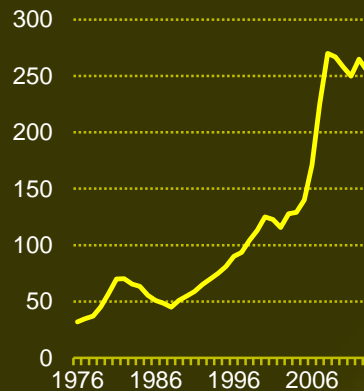
### Res. Sales: East Kootenay RD

Units - thousands



### Median Sale Price

Dollars - thousands



Source: Landcor Data Corp. Note: Arms-length transactions only. Latest: 2013



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## Low market activity

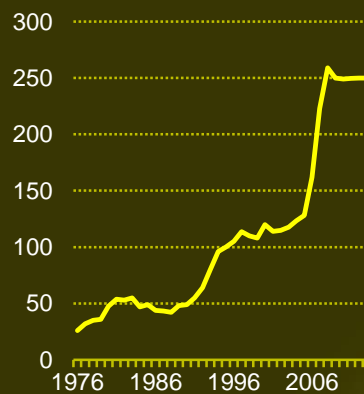
### Res. Sales: Central Kootenay

Units - thousands



### Median Sale Price

Dollars - thousands



Source: Landcor Data Corp. Note: Arms-length transactions only. Latest: 2013



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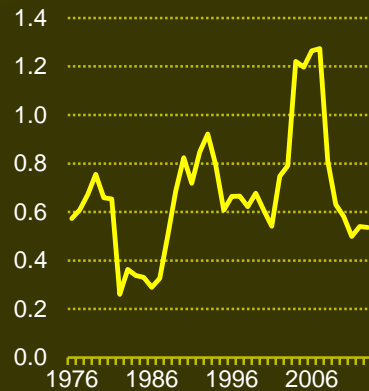
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## Ongoing price slippage

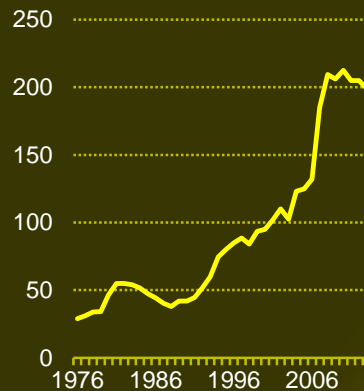
### Res. Sales: Kootenay-Boundary

Units - thousands



### Median Sale Price

Dollars - thousands



Source: Landcor Data Corp. Note: Arms-length transactions only. Latest: 2013



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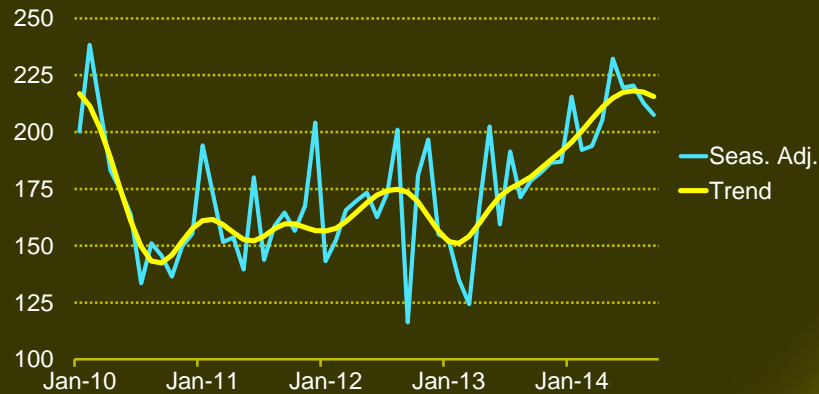


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## Sales up since early 2013

### MLS Residential Sales: Kootenay Real Estate Board

Units



Source: CREA, Central 1 Credit Union.

Latest: Sep-14



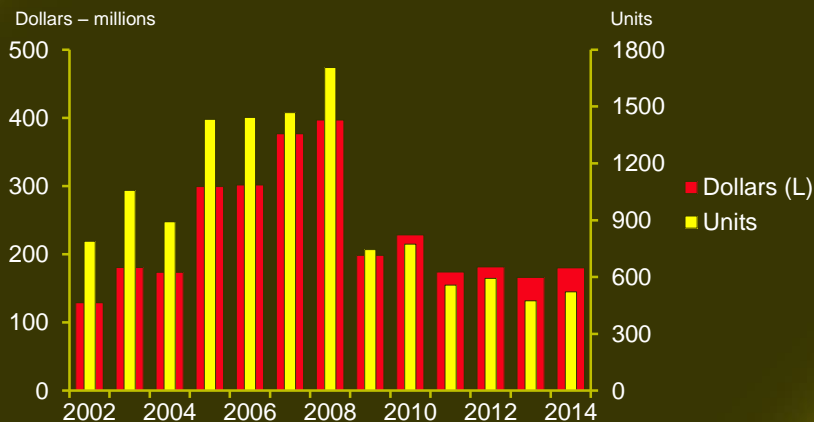
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## Low residential investment, up in 2014

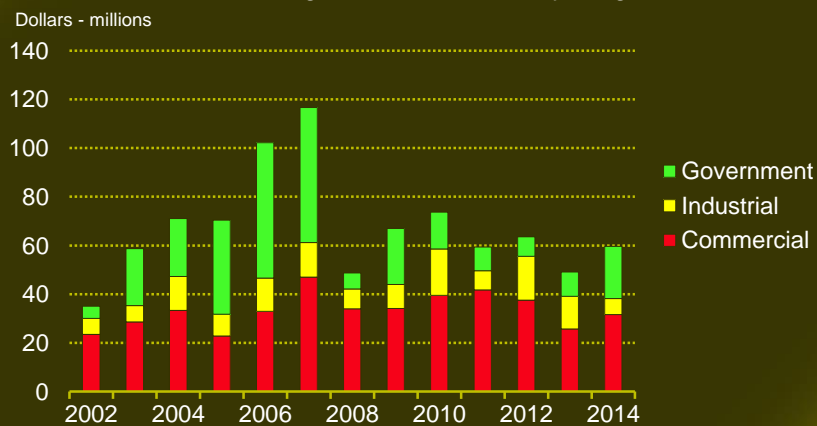
### Residential Building Permits, Kootenay Region



Source: Statistics Canada. Note: 2014 is 12 months ending Aug.

## 2014 up, still low investment levels

### Non-residential Building Permits, Kootenay Region



Source: Statistics Canada. Note: 2014 is 12 months ending Aug.

### Major Projects Summary Capital Cost Estimates (\$ mil.) – Kootenay Region

Date	Proposed	Started	Completed	On Hold	Total
Q2-2012	2,236	3,791	-	1,120	7,147
Q3-2012	2,256	3,776	15	1,000	7,047
Q4-2012	2,081	3,771	-	1,655	7,507
Q1-2013	2,061	3,785	-	1,675	7,521
Q2-2013	2,651	3,785	30	1,675	8,141
Q3-2013	2,636	3,785	-	1,690	8,111
Q4-2013	2,636	3,785	-	1,540	7,961
Q1-2014	2,566	3,855	-	1,540	7,961
Q2-2014	3,716	3,855	-	2,005	9,576

Source: BC Major Projects Inventory, various issues.

### Non-residential Major Projects by Industry and Status (\$ mil.) as of Q2-2014 – Kootenay Region

Industry	Proposed	Started	On hold	Total
Residential Mixed Use	-	52	-	52
Accommodation & Food	-	60	-	60
Health & Social	-	20	-	20
Manufacturing	-	50	210	260
Mining	1,870	-	480	2,350
Resort	1,000	2,650	1,020	4,670
Utilities	846	1,023	295	2,164
<b>Total</b>	<b>3,716</b>	<b>3,855</b>	<b>2,005</b>	<b>9,576</b>

Source: BC Major Projects Inventory, June 2014.

## Large drop in met coal price; gradual rise ahead

### Metallurgical Coal Price, Japan-Australia JFY FOB

US \$ per tonne



Source: BC Ministry of Energy and Mines, Consensus Forecasts. Forecast: 2014-19



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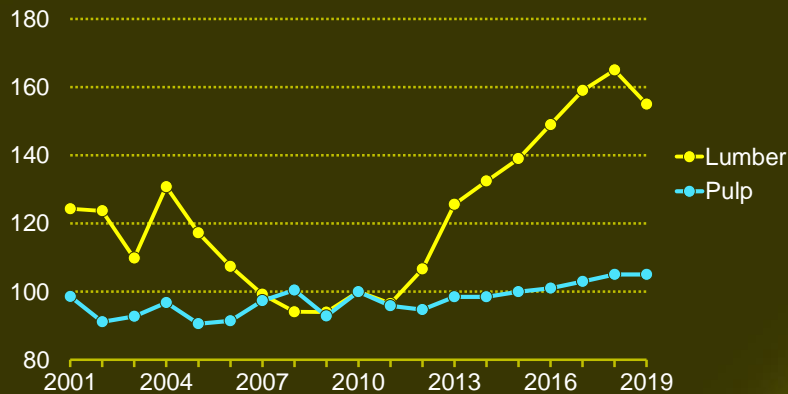


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## Good prospects for lumber prices

### Lumber and Wood Pulp Prices: Canada

2010=100



Source: Statistics Canada, Central 1 Credit Union.

Forecast: 2014-19

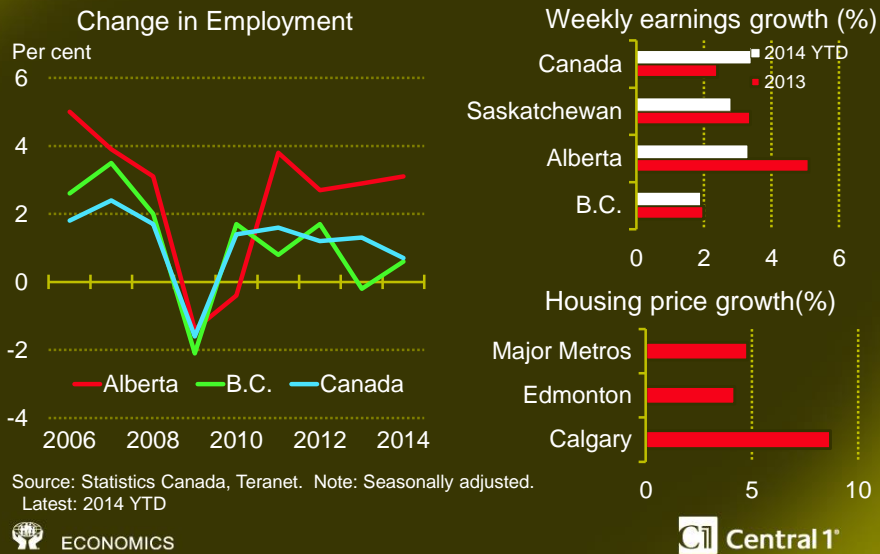


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## Positive spinoffs from Alberta, recent oil price drop is a risk



## Economy weaker in 2014 but housing gains; modest growth until 2017

Economic and Housing Forecasts: Kootenay Economic Region					
Indicator	2013	2014	2015	2016	2017
Employment, % chg.	4.1	-9.0	3.0	0.0	4.0
Unemployment rate, %	5.2	7.0	6.8	6.5	6.0
Population, % chg.	-0.8	-1.0	-0.5	-0.2	0.0
Housing sales, % chg.	3.6	20.0	3.0	5.0	10.0
Housing price, % chg.	-1.2	1.0	0.0	1.0	3.0

Source: Statistics Canada, Landcor Data Corp., Central 1 Credit Union.

## Summary:

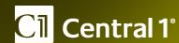
- U.S. economy poised to gain momentum; expansion extends a few more years
- Recent weakness in Europe and emerging market economies
- Canada's economy follows U.S.; export-led assisted by lower CAD
- Interest rates at low point; heading higher led by long-term yields; U.S. Fed begins raising mid-2015
- B.C.'s moderate growth phase to continue in near term; stronger growth largely dependent on external factors

## Summary:

- No major housing correction unless an economic recession occurs
- Major projects such as LNG, pipelines, mines, etc. have uncertain timing
- Kootenay region economy weakly growing or possibly in recession
- Labour market deteriorated and negative population growth, net out-migration
- Divergent trends across sectors: met coal down, forestry holding up, housing sales and residential construction up

## Summary:

- Near term outlook extension of recent trends
- Improved medium term outlook dependent on external factors
- Housing market holds up, modest-to-moderate gains ahead until economy and population growth accelerates



Thank you

