

Less Volatility in the Housing Market



The BC economy continues to face headwinds this year. The Euro-zone debt crisis, a lacklustre US economy and growing pains in China are significant impediments to growth. Modest economic growth will be accompanied by a similarly tepid employment growth rate of 1.6 per cent. This trajectory will only put a dent in the unemployment rate, which is expected to average 7.4 per cent in 2012. However, a welcome shift from part time to full time employment is expected. Consum-

ers, themselves laden with debt, will keep tighter reins on their spending, contributing to below average retail sales growth.

One bright light has been expanding trade to Asia. While the share of BC exports shipped to the US has shrunk from 69 per cent of total exports in 2001 to an estimated 43 per cent in 2011, exports destined to China over the same period have skyrocketed from 2.3 per cent to nearly 15 per cent of total exports. In fact, China overtook Japan in 2011 as BC's second largest trading partner. BC now exports about the same in dollar volume to Asia as we do to the US.

Against this backdrop, the housing market is expected to underperform its ten-year sales average again this year, with 80,000 unit sales compared to the ten-year average of 88,000 unit sales. While this is notably unexciting, the level of consumer demand is nevertheless enviable in many parts of the world. Detroit comes to mind. The key market driver continues to be interest rates. Historically low and accommodative



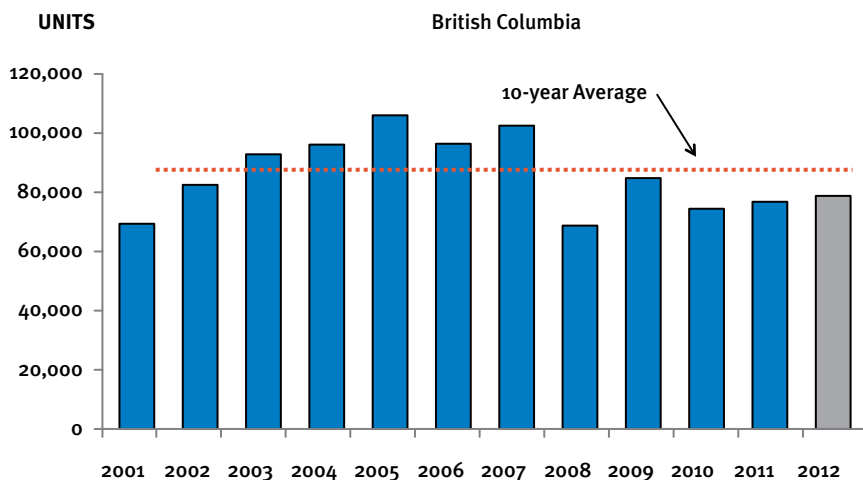
BCREA Chief Economist
Cameron Muir

borrowing costs have bolstered household budgets and kept home prices relatively buoyant. The flip-side of the Euro-zone debt crisis is that risk avoiding investors have flocked to North American bond markets, pulling down yields and mortgage interest rates right along with them. The good news is that mortgage rates are unlikely to begin a normalization trend until the end of 2012 at the earliest.

The once divergent regional market conditions are expected to narrow this year. Moderate gains in consumer demand outside of the Lower Mainland will help reduce the available supply of homes on the market. While the recreation market will take a number of years to regain its pre-recession glory, improving economic conditions in Alberta this year are expected to have a positive impact in the Kootenay and Okanagan markets. However, overall supply conditions are expected to be tilted slightly in favour of home buyers. Expect home price to go nowhere fast, even declining a few percentage points in some of the more oversupplied regions.

On the economic front, it may be time to replace your shock absorbers because the bumpy road will continue for another year, whereas, in the housing market, moderate demand is the keyword.

MLS® Residential Sales



Source: BCREA Economics

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Send questions and comments about *The Bulletin* to:

Editor: Damian Stathonikos
Assistant: Lindsay Cook

1420 - 701 Georgia Street West
PO Box 10123, Pacific Centre
Vancouver, BC V7Y 1C6

Phone: 604.683.7702
Fax: 604.683.8601
Email: bcrea@bcrea.bc.ca

www.bcrea.bc.ca

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