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B.C. property prices a lesson for provinces

By BRENT JANG

The slumping real estate market is illustrative of the effect it has on the economy as homeowners feel a negative 'wealth effect'

The slump in British Columbia's real estate market serves as a cautionary note for other provinces that are bracing for bumps in economic growth.

When homes slip in price, consumers rein in spending, producing a ripple effect on local merchants and slowing down the broader economy.

Jacques Marcil, senior economist at Toronto-Dominion Bank, points to British Columbia as a signpost that the rest of the country should pay attention to because the province's average resale home prices have fallen this year – the only province experiencing a decrease from last year's average.

"There is less shopping and less retail purchases when the housing market slows down. Consumers are less likely to get new appliances or a new couch," Mr. Marcil said Thursday in an interview from Toronto. "It's what we call the wealth effect. Part of household spending is based on regular income but also on how wealthy we feel and our net worth."

In a new provincial economic update, TD forecasts that average prices for existing homes in B.C. will decline 8.9 per cent this year. It is a steeper drop than TD's previous June prediction for a 4.6-per-cent decrease in 2012, driven by a slowdown in Greater Vancouver's housing market.

TD has ratcheted back its growth forecast for the Canadian economy as a whole, forecasting that the improvement in real gross domestic product will be 1.8 per cent this year, down from its previous prediction for a 2.1-per-cent increase. Despite the uncertainty over housing markets, TD is forecasting 2 per cent economic growth next year in Canada and 2.5 per cent in 2014.

Ontario and Quebec can't afford to be smug about British Columbia's housing price correction. Average resale home prices are forecast to climb 5.3 per cent this year in Ontario, but the province's housing market might eke out a paltry 0.1-per-cent gain in 2013 and drop 4.3 per cent in 2014. Quebec's average prices for existing homes are predicted to go from a gain of 6.3 per cent in 2012 to an expected 2.4-per-cent increase next year, before declining 5.8 per cent in 2014.

TD forecasts that average resale home prices across Canada will rise 0.3 per cent this year, climb 0.9 per cent next year, but slip 2.8 per cent in 2014.

"If you own a furniture store and you see the housing market slowing down, it means you have to be more careful with your inventories because of the higher possibility that people will be buying less furniture," Mr. Marcil said.

Greater Vancouver's overheated housing market required some much-needed cooling off, he said. "You don't really hear the word bubble when discussing the Vancouver housing market any more, and that's a good sign because the market is adjusting gradually and in a moderate way, and in a way that won't cause major concern in the medium term about the growth prospects for B.C.," Mr. Marcil said.

Canada's economy accelerated 3.2 per cent in 2010 and grew an estimated 2.4 per cent in 2011. "We're still in a low-growth environment. It is a coasting speed. The economy is expanding, but so is the population. Having 1.8-per-cent growth in Canada is certainly slower than what we experienced earlier this decade and in the late 1990s," Mr. Marcil said. "The headline number is dropping, but all the provinces are still experiencing growth, and that's a good sign."

While household consumption is an important element in economy activity, the price decline in Greater Vancouver's real estate market is being viewed as a necessary step toward maintaining economic health in the long term. "There will be a slowdown in discretionary spending such as upgrades inside houses, but homeowners still need to feed themselves and heat up the place where they live," Mr. Marcil said.

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