

Strategic information for REBGV REALTORS® July 30, 2010

British Columbia Real Estate Association - Mortgage rate forecast

By Cameron Muir, Chief Economist and Brendon Ogmundson, Economist, British Columbia Real Estate Association

The Canadian economy grew at the exceptional pace of 6.1% in the first quarter of 2010, propelled by a booming housing market, strong consumer spending and the rebuilding of private sector inventories. Moreover, growth in the second quarter of 2010, while not expected to register the sizzling pace of the previous six months, should be a robust 3%-4%.

However there are signs that the economy, if not stalling out, may be slowing down. April's monthly GDP print was disappointingly flat as consumers moved to the sidelines, sending retail sales lower by almost 2%.

Even if Canadian consumers are beginning to tire out, economic growth should be supported in coming months by projects initiated under the federal government's infrastructure stimulus plan. This stimulus will provide a needed boost to the economy through the remainder of 2010, with projected impacts peaking in the third quarter, but will create a drag on growth in 2011 as the stimulus is withdrawn from government expenditure.

The strength of the Canadian economic recovery over the past six months is evidenced by the over 300,000 jobs created in the Canadian economy since the beginning of the year. While this exceptional rate of job creation stands in stark contrast to the gloomy employment situation of our southern neighbor, it also re-affirms the need for the Bank of Canada to begin withdrawing its emergency level of monetary stimulus by raising interest rates, particularly given the proximity of core inflation to its 2% target rate.

The withdrawal of monetary and fiscal stimulus from the Canadian economy in coming months will result in slower growth in both the second half of 2010 and into 2011. This growth slowdown may be further exacerbated by weaker than currently anticipated US and global economic growth as well as a higher Canadian dollar resulting from a rise in Canadian interest rates relative to the United States.

In all, slower economic growth and inflation that is within the Bank of Canada's comfort zone should mean that, while interest rates are certain to rise, the pace of interest rate increases should be orderly and the level of interest rates will remain near historic lows through the remainder of the year.

© Real Estate Board of Greater Vancouver.