



VERICO ECONOMIC CONSULTANT: MICHAEL CAMPBELL

QUARTERLY HIGHLIGHTS Q3

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Q3

QUARTERLY HIGHLIGHTS



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5 Very Significant Numbers You Should Know



17,000

Net in-migration
from other provinces
to B.C. in 2015
(25,000 est. for 2016)

144,000

The number of net
new jobs created in
Canada last year

110,000

The number of new
jobs created in B.C.
led by construction



\$1.3 Trillion

the amount of money that
left Russia to invest in other
countries in the last year

\$1.2 Trillion

the amount of money that
left China in the last year.
(Hello US, Canada, Australia)



Quote of the Month

“

Everyone has a plan 'till they
get punched in the mouth.

”

Mike Tyson



What's Going On?

- ✂ Brexit vote to leave the EU
- € Six countries want their own vote to leave the EU
- ↘ Market Turmoil
- 📄 Oil and loonie back down





International Scene

Well that was lame. I'm talking about the media analysis of the Brexit vote. The same people who were shocked by the outcome are now explaining it for the rest of us. And they still don't get it.

Brexit is important but it's part of a much bigger story. I've been talking about the demise of the European Union for six years and the UK vote to remain or leave is just one step. The key to

know is that the Brexit vote and the demise of the European union is driven by economic and financial events, not politics. The politics that the media is so fond of focusing on is a by-product of the dismal economic and financial performance.

If the Europe's economy and job creation were booming there would be far less dissatisfaction with the EU – and no Brexit vote or the surge in anti-EU parties.

“

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The gross mishandling of the refugee crisis also exacerbates the dissatisfaction with the EU establishment. Of course there are numerous other complaints but none would resonate with the same level of passion if the economy was strong.

It's the same in the US. Both Donald Trump and Bernie Saunders would not have gained so much support if the US economy

hadn't left so many people behind while the elites thrived. Ninety-five million Americans are permanently unemployed.

The point to understand is that this is just the beginning. My prediction is that 2017 to 2020 will make the economic and financial volatility we've witnessed over the last five years look like a warm-up act.

What does this mean?

The biggest immediate impact of the UK vote and the rise of anti-EU parties will be on the currency markets because the euro will no longer be seen as an alternative to the US dollar. The European Union's uncertain future assures that money will flow out of the euro for years to come and the first choice will be the US dollar.

Every currency including the loonie will fall versus the greenback but don't worry because the Canadian dollar will be stronger versus the euro and pound.

I've been predicting for years that money flowing out of Europe and into the US will fuel a major bull market in quality American stocks.

Another important consequence of Brexit is that the uncertainty in Europe is a negative for global economic growth, which is already slow. That in turn will diminish demand for oil, which will bring prices lower unless there's a major supply disruption.

Translation – the recovery in Alberta will be slow, which will be negative for employment growth and the real estate recovery in that province.



Interest Rates

The Federal Reserve is dying to raise rates but the economic performance both in the US and globally doesn't warrant it. And now the uncertainty in the UK and European Union will force them to continue to play the waiting game.

In Canada there is absolutely no economic pressure to raise rates. Stephen Poloz must be lying awake at night dreaming of the days when the economic growth will be strong enough to be called mediocre. I say dreaming because outside of BC – there's not many happy places.

people's wallets. One month it's increased property taxes, the next a jump in payroll taxes and higher fees for government services the month after that. Throw on an increasingly expensive regulatory burden and the recipe for slow motion growth is place.

BREXIT

forces Feds to play waiting game

And that's not going to change as long as the three levels of government combine to take increasing amounts of money out of

The bottom line is that there are no factors that merit pushing interest rates higher in Canada.



RATES

will stay low in Canada with no factors that merit an increase.

Residential Real Estate

So much talk about affordability, high prices, foreign owners, speculation, empty houses and dirty money. Throw in political opportunism and it's not a recipe for rationale discussion, let alone sound policy.

Our public discussion would benefit greatly by making a distinction between affordability and high prices but that would make too much sense. Instead we hear cries of "government has to do something."

My response is that they already have. Record low interest rates have helped propel – along with population increases – entry and mid-level homes to record highs. The payments on an average five year \$250,000 mortgage in 1995 are the same as the payments on a \$450,000 mortgage today.

The assorted development costs in Vancouver for an 800 square foot condo in a new concrete building add about \$76,000 to the cost.

Throw in property purchase taxes and I suggest that government has already "done" enough.

The problem for government is that there is no tooth fairy and there is no magic policy bullet. Think about the superficiality of the political talk.

"End speculation" - but what's the definition?
"Increase density" - but

Shocking Survey Results:

100% the percentage of first time buyers who would like to see lower home prices

0% the percentage of homeowners willing to sell their homes for less in order to increase affordability

what about the change to the character of the neighbourhood? Penalize foreign owners – but do you support the same measures for Canadians who own real estate in the US?

The point is that there are no easy fixes as long as the population growth far outstrips supply. Literally thousands of people arrive in the Lower Mainland every month needing housing. Supply hasn't kept up and there is no chance it will when it comes to single detached homes while condo developments haven't

been able to keep pace.

The supply/demand imbalance, along with high prices have sent buyers from Vancouver to Victoria, Nanaimo and Kelowna – with a vengeance. Those markets are enjoying a booming 2016 with significant price appreciation due to demand that the supply can't satisfy.

Can the municipal, provincial and federal governments do anything that will make a significant difference? I don't see it. If government got rid of suspected dirty

money, absentee foreign owners, taxed empty homes and discouraged speculation it won't solve the affordability problem and at best slow the rate of price rise at the upper end.

It's interesting to note that the media coverage of the outcry over high prices has been one sided. After all, there's not a homeowner in the province who is unhappy with the price gains. And there's not one who would be willing to sell at 2009 prices in order to help with affordability.



Caution

The danger for the lower and mid level end of the market remains a significant move up in interest rates. For the higher end changes in capital flows out of China and other countries would have a major impact on volume. The \$5 million plus homes cannot be supported by the local demand.

The sharp increase in prices at the upper end is slowing, which will reduce volumes but a significant price drop will only occur if the pullback of foreign buyers was the result of a credit crunch.

When it comes to the impact of China's internal debt problems there is a fine line as to whether it's positive or negative for our market. So far, problems in China have encouraged money to flow out of the country in search of safety but that could turn quickly if there is a credit crisis.



About Michael Campbell

One of Canada's most respected business analyst, Michael is best known as the host of Canada's top rated syndicated business radio show MoneyTalks, and Senior Business Analyst for BCTV News on Global.

Mr. Campbell is the Economist for VERICO, Canada's trusted network of independent mortgage brokers.



If you have questions on how to make your mortgage work for your financial plans, talk to me. I'm a mortgage expert and I'm committed to providing the best mortgage advice to all my clients.



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