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Metropolitan Housing Outlook **Winter 2005**



In-depth Housing Analysis for Canada, the Provinces and Five Metropolitan Areas

ECONOMIC PERFORMANCE AND TRENDS



Metropolitan Housing Outlook: In-depth Housing Analysis for Canada, the Provinces and Five Metropolitan Areas
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Preface

This report offers an in-depth analysis of the history of and the forecast for the housing market at the national, provincial and metropolitan levels. Covering a wide range of housing market statistics, such as interest rates, housing starts, mortgage approvals and home prices, this report makes a clear connection between the economy and activity in the housing market. It also provides insights into the financial situation of consumers at the national level.

Five census metropolitan areas are covered:
Montréal, Ottawa, Toronto, Calgary and Vancouver.

Provincial coverage includes: the Atlantic provinces, Quebec, Ontario, the Prairies, Alberta and British Columbia.

This report is completed three times a year, in the spring, fall and winter.



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Canada



Economic Outlook

Despite continued solid domestic demand, a deteriorating trade balance and drawdown in inventories will restrain real gross domestic product (GDP) growth to just 2.5 per cent in 2005, following an estimated 2.6 per cent gain last year. This is a relatively large revision from the Conference Board's previous forecast—which called for 3 per cent growth in 2004 and a 3.2 per cent gain this year. One of the main reasons for this revision is the continued strength in the Canadian dollar, which has been above \$0.80 U.S. for longer than expected. The adjustment to a stronger dollar will persist into 2006, although less intensely, allowing economic growth to accelerate modestly to 2.8 per cent next year.

Employment growth was solid if unspectacular in 2004, with job creation estimated to have reached

Canada's real GDP is forecast to increase by 2.5 per cent in 2005, a slight deceleration over the estimated 2.6 per cent growth posted in 2004. Despite the steady economic growth, housing activity is expected to cool down this year, as pent-up demand is thought to have largely exhausted itself. In fact, housing starts are expected to fall by 8.2 per cent in 2005, while housing price growth is projected to moderate as well. Weaker demand will, in turn, lead to a decline in the number of mortgage loan approvals for the first time since 2000.

275,000, or 1.7 per cent. Nearly one-third of the jobs created were self-employed, reflecting a trend that has become the new reality of today's economy. Perhaps of more concern is the continued loss of relatively high-paying manufacturing jobs. A strong dollar has made Canadian manufacturers less competitive than their U.S. counterparts, not to mention the growing number of competitors establishing operations in developing countries. Jobs in manufacturing are expected to fall for the third consecutive year in 2005, by 0.6 per cent. Still, boosted by the services sector, overall employment will manage to grow by 1.5 per cent during the year.

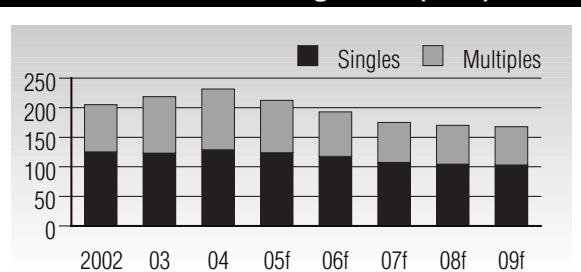
Job gains combined with unwavering consumer confidence, respectable wage gains and continued low financing rates will help keep consumer purse strings open. Low interest rates have also buoyed the housing sector, which finished 2004

on a strong note. This should support consumption activity well into 2005, as new homebuyers typically take time to furnish their new living quarters. Accordingly, retail sales will remain stable over the next two years, posting growth of 4.3 per cent this year and of 4.2 per cent in 2006.

Financial Markets Outlook

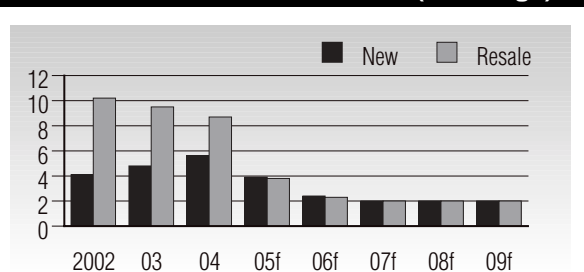
Up to November 2004, financial markets were largely convinced that the Bank of Canada's unwinding of monetary stimulus was going to continue through December and well into 2005. Indeed, this is the scenario we anticipated in the previous forecast. Based on these expectations of an imminent rise in short-term rates, long-term rates had already started to increase, widening the normal spread in the term structure. However, when signs of a weaker outlook started to surface in the fall of 2004, the rate hikes started to look less

Chart 1—Housing Starts (000s)



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation; Canadian Real Estate Association.

certain. Indeed, a strong Canadian currency is providing all the restraint the economy needs right now, while relatively cheaper imports from the United States and other trading partners are helping to water down inflationary pressures. Hence, the Bank chose not to tighten on Dec. 7 or Jan. 25, reducing expectations of short-term rate hikes.

With the Bank forecast to keep its key lending rate unchanged until October 2005, the Conference Board expects that financial markets will allow short-term and long-term spreads to return to more normal averages. As such, yields on 3-month Treasury bills will ease slightly in early 2005, whereas declines will be slightly more pronounced for longer rates, whose spreads with short-term rates had widened by a larger margin. Accordingly, mortgage rates are forecast to decline through most of this year, before ramping up again in 2006. The conventional 5-year mortgage rate is expected to average 5.8 per cent this year, down from 6.3 per cent in 2004. The Conference Board's previous forecast was for an average rate of 6.7 per cent in 2005.

The current forecast calls for the U.S. currency to maintain a steady but gradual decline on a trade-weighted basis over 2005 and 2006. Nevertheless, the Canadian currency is expected to buck the trend vis-à-vis the U.S. dollar in the near term, as weakening oil prices and stabilizing prices for other commodities take some shine off the loonie. After topping out above \$0.85 U.S. on Nov. 26, the Canadian dollar is expected to average \$0.79 in 2005 and to ease to \$0.78 in 2006.

Housing Outlook

Housing starts had been on a tear for the past three years, with demand far outpacing demographic requirements. Before this boom, however, housing starts had gone through a long period of listlessness partly dictated by overbuilding in the late 1980s, as well as shaken consumer confidence from the huge fiscal cut-backs that started in the mid-1990s.

By the late 1990s, economic growth was improving, but housing activity remained sluggish. It wasn't until interest rate cuts began in 2001 that the housing market took off. By then, thanks to both the significant accumulation of pent-up demand since the early 1990s and consumers' improved ability to satisfy that demand, housing starts started to increase significantly. Specifically, housing starts hit 205,000 units in 2002 and 218,400 units in 2003. The number of starts climbed again in 2004, reaching a projected 231,500 units, the highest level since 1987.

With demand for housing so hot, there have been significant gains in prices as well. Average resale prices grew by an average of 10 per cent annually from 2002 to 2003, while new home prices averaged growth of 4.5 per cent over the same time frame. Strong price growth also continued through 2004, with resale prices projected to have risen by a further 8.7 per cent and new home prices increasing by 5.6 per cent.

Most indicators suggest that the housing market remained tight through most of 2004. In fact, the sales-to-new-listings ratio was 60 per cent in November, compared to 64 per cent in the same month a year earlier.

As well, the inventory of completed but unoccupied new homes, which has crept up steadily since late 2002, was still well below the average seen in the latter half of the 1990s. However, it is now believed that pent-up demand for housing has been largely satisfied. This is already having an impact on both the resale and new housing markets.

First, the resale market is showing signs of softening. Unit sales of existing homes fell for four consecutive months before bouncing back last November.

Second, the net addition to the stock of new housing over the first eight months of 2004 was actually 32 per cent lower than in the corresponding period of 2003. Nonetheless, the current level of housing activity is unsustainable. Housing starts are still well ahead of the pace of household formation in Canada, estimated to be close to 170,000 new households per year. And with pent-up demand largely satisfied, the demand for new housing will begin to slow this year. As a result, housing starts are forecast to fall to 212,400 units in 2005. This is about 25,000 more starts than was expected in our previous forecast, which is largely a result of the Conference Board's downward revision in mortgage rates.

House price growth is also forecast to moderate in 2005, with resale and new housing price growth forecast to slow to 3.8 per cent and 3.9 per cent, respectively. The resale market had already seen some price slowing in the later half of 2004, which will feed through to the 2005 numbers. Given the large increases in recent years, some observers might expect a severe correction in housing

prices. But that is not the view of the Conference Board. In fact, we believe that the recent strong price increases were a rebound from the price declines observed through most of the 1990s.

Mortgage Outlook

The number of mortgages approved over the past few years has increased dramatically, in line with the significant gains in the housing market. In fact, from 2001 to 2003, the number of approvals increased at an annual average rate of 13.2 per cent. Given the strong growth in prices, the dollar volume of mortgages approved has risen even faster, by 22.7 per cent on an annual average basis over the same period. The mortgage market enjoyed yet another banner year in 2004, with the number of approvals surging by a projected 15.7 per cent and the dollar volume rising by 19.3 per cent.

But the good times are expected to end this year, as housing market activity finally cools down. Approvals on a unit basis are expected to decline by 1.9 per cent. Continued price gains, however, will allow the dollar volume to eke out a modest

gain of 1.1 per cent. The Conference Board's mortgage approval growth forecast for 2005 is higher than in the previous outlook, which is in line with the downward revision in mortgage rates and the upward revision in housing starts. In 2006, approvals on both a unit and dollar value basis are forecast to fall by 4.3 per cent and 2.3 per cent, respectively.

Given the strong growth in house prices over the past few years, more homebuyers are being forced to take a high-ratio mortgage, with a down payment of less than 25 per cent of the total house cost. Approvals for this type of mortgage have grown faster than approvals for conventional mortgages, with down payments of 25 per cent or more. Last year alone, the number of high-ratio mortgages approved rose by 23.3 per cent. This compares to 9.3 per cent growth in the number of conventional mortgages approved.

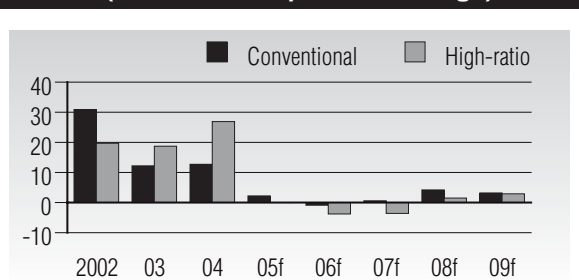
As the demand for homes has increased, so has the demand for durable goods. People are not only buying houses, they are also buying lots of things to fill them, such as furniture and appliances. This has

resulted in an increase in not only mortgage credit, but also consumer credit. Taken together, these two types of debt are now bigger than after-tax income. Indeed, total household borrowing has now topped 110 per cent of disposable income.

The good news is that asset-to-income ratios have risen at the same time, indicating that more people are borrowing to buy tangible assets such as houses. As such, total net worth as a per cent of disposable income is near record levels. Another positive trend is the decline in the percentage of mortgages in arrears. The number of arrears stood at 0.27 per cent in October 2004, well below the historical average of 0.46 per cent. This suggests that the debt load of Canadian families, while rising, is still manageable.

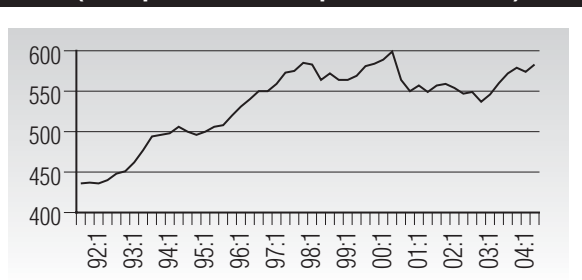
With price growth expected to remain fairly strong in the short term, some potential buyers may have to get out of the market altogether. As well, higher rental vacancy rates, which have slowed annual average rent increases, is making renting a more affordable and attractive alternative for potential first-time buyers. As a result, high-ratio mortgage

**Chart 3—Mortgage Approval Growth
(dollar volume per cent change)**



Sources: The Conference Board of Canada; GE Mortgage Insurance Canada; Canada Mortgage and Housing Corporation.

**Chart 4—Household Net Worth
(as a per cent of disposable income)**



Sources: The Conference Board of Canada; Statistics Canada.

approvals for 2005 are forecast to fall by 3.1 per cent. That is a slightly larger decline than is the 3 per cent decline forecast for the number of conventional mortgage approvals. This is partly because conventional

mortgages are usually obtained by more established buyers who may be able to weather price increases better than first-time homebuyers.

Due to the expected price gains, the dollar value of high-ratio mortgage approvals is forecast to remain flat, while that of conventional mortgages is expected to grow by 2.2 per cent.

Table 1—Economic Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Real GDP at basic prices (1997 \$ millions)	1,074,621 <i>3.4</i>	1,096,359 <i>2.0</i>	1,125,280 <i>2.6</i>	1,153,892 <i>2.5</i>	1,185,906 <i>2.8</i>	1,217,494 <i>2.7</i>	1,249,716 <i>2.6</i>	1,283,066 <i>2.7</i>
Total employment (000s)	15,412 <i>2.2</i>	15,745 <i>2.2</i>	16,020 <i>1.7</i>	16,261 <i>1.5</i>	16,597 <i>2.1</i>	16,899 <i>1.8</i>	17,140 <i>1.4</i>	17,356 <i>1.3</i>
Unemployment rate	7.6	7.6	7.2	7.1	6.8	6.7	6.6	6.5
Personal income per capita	28,667 <i>1.5</i>	29,243 <i>2.0</i>	30,142 <i>3.1</i>	31,181 <i>3.4</i>	32,460 <i>4.1</i>	33,740 <i>3.9</i>	34,968 <i>3.6</i>	36,176 <i>3.5</i>
Population (000s)	31,321 <i>1.1</i>	31,618 <i>0.9</i>	31,892 <i>0.9</i>	32,140 <i>0.8</i>	32,400 <i>0.8</i>	32,658 <i>0.8</i>	32,915 <i>0.8</i>	33,172 <i>0.8</i>
Retail sales (\$ millions)	318,532 <i>6.4</i>	330,503 <i>3.8</i>	345,715 <i>4.6</i>	360,657 <i>4.3</i>	375,641 <i>4.2</i>	390,817 <i>4.0</i>	405,479 <i>3.8</i>	420,063 <i>3.6</i>
Exchange rate (U.S./Can.)	0.64	0.72	0.77	0.79	0.78	0.80	0.82	0.82
Inflation rate	2.2	2.8	1.8	1.8	1.9	2.0	2.0	2.0
Five-year conventional mortgage rate	7.0	6.4	6.3	5.8	6.1	7.2	7.5	7.6

Italics indicate percentage change.

Sources: The Conference Board of Canada; Statistics Canada.

Table 2—Housing Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Housing starts	205.03 <i>26.0</i>	218.43 <i>6.5</i>	231.47 <i>6.0</i>	212.44 <i>-8.2</i>	192.80 <i>-9.2</i>	175.04 <i>-9.2</i>	170.03 <i>-2.9</i>	167.65 <i>-1.4</i>
Singles	125.37 <i>30.6</i>	123.23 <i>-1.7</i>	128.70 <i>4.4</i>	123.97 <i>-3.7</i>	117.64 <i>-5.1</i>	107.37 <i>-8.7</i>	104.54 <i>-2.6</i>	103.12 <i>-1.4</i>
Multiples	79.66 <i>19.4</i>	95.20 <i>19.5</i>	102.77 <i>8.0</i>	88.47 <i>-13.9</i>	75.16 <i>-15.0</i>	67.68 <i>-10.0</i>	65.49 <i>-3.2</i>	64.53 <i>-1.5</i>
Housing completions	184.87 <i>22.1</i>	199.39 <i>7.9</i>	214.17 <i>7.4</i>	219.15 <i>2.3</i>	203.95 <i>-6.9</i>	183.61 <i>-10.0</i>	170.86 <i>-6.9</i>	165.91 <i>-2.9</i>
Singles	113.10 <i>20.0</i>	121.44 <i>7.4</i>	125.65 <i>3.5</i>	124.74 <i>-0.7</i>	119.37 <i>-4.3</i>	111.03 <i>-7.0</i>	104.65 <i>-5.8</i>	102.54 <i>-2.0</i>
Multiples	71.77 <i>25.5</i>	77.95 <i>8.6</i>	88.52 <i>13.6</i>	94.40 <i>6.6</i>	84.58 <i>-10.4</i>	72.58 <i>-14.2</i>	66.22 <i>-8.8</i>	63.36 <i>-4.3</i>
Average price of a new home (\$)	278,845 <i>4.1</i>	292,264 <i>4.8</i>	308,564 <i>5.6</i>	320,598 <i>3.9</i>	328,292 <i>2.4</i>	334,858 <i>2.0</i>	341,555 <i>2.0</i>	348,386 <i>2.0</i>
Average price of a resale home (\$)	189,024 <i>10.2</i>	207,009 <i>9.5</i>	224,932 <i>8.7</i>	233,479 <i>3.8</i>	238,849 <i>2.3</i>	243,626 <i>2.0</i>	248,499 <i>2.0</i>	253,469 <i>2.0</i>

Data are in thousands of units unless otherwise specified. Italics indicate percentage change.

Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation; Canadian Real Estate Association; Statistics Canada.

Atlantic



Economic Outlook

Atlantic Canada's economy continued to slow in 2004. Real gross domestic product (GDP) grew by only 1.4 per cent last year, a far cry from the 5.2 per cent growth posted in 2002. Limited gains in offshore oil and natural gas production were the main reasons behind this slowdown. Growth for 2005 is expected to improve, reaching a respectable 2.3 per cent. Much of this improvement is due to an increase in capital spending in New Brunswick and Prince Edward Island. Several projects are set to get underway in New Brunswick, including highway improvements and new health care facilities. Prince Edward Island's non-residential construction sector will post the strongest growth rate in the country at 15.6 per cent, thanks to the construction of new retail stores as well as a government office building and a power generator.

In spite of an improvement in overall economic growth for the Atlantic region this year, demand for housing is expected to continue to wane, as the strong residential activity experienced in the past few years is not sustainable. After falling through much of 2004, total housing starts are expected to drop by a further 12.2 per cent in 2005 to 10,600 units. This downward trend will continue through the medium term, bringing starts to a more modest 7,800 by 2009. Lower demand for housing will also mean less price pressure in the medium term, leading to an annual increase of only 2 per cent in the average price of both new and resale homes.

Despite this resurgence in overall output, employment is expected to be weaker in 2005, advancing by 1.1 per cent, after posting a healthy 2.1 per cent increase in 2004. Income growth will move along, at 4.3 per cent, spurring a 2.9 per cent rise in retail sales.

Over the medium term, the Atlantic Canada economies will continue to struggle with relatively weak population growth. This will dampen domestic demand, and limit overall economic activity over 2006 to 2009.

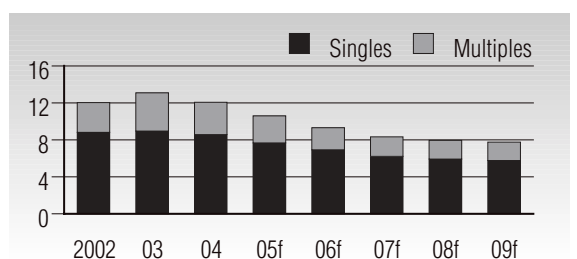
Housing Outlook

Up until the first quarter of 2004, the housing market in Atlantic Canada was booming. For five years straight, housing starts increased rapidly, averaging 11.4 per cent

growth annually. Demand was higher than supply, however, pushing prices up over the same time frame. The average price of a new home in the Atlantic region rose by more than \$30,000 from 1998 to 2003, up to \$233,700. Resale prices increased even more, rising nearly 33 per cent over this time period. By 2003, the average price of an existing home had reached \$122,400.

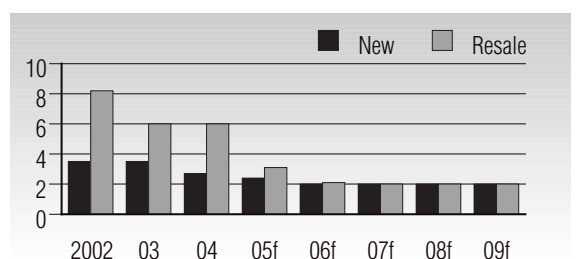
The pent-up demand that accumulated in the 1990s appears to have been fulfilled. While still relatively high by historical standards, housing starts in Atlantic Canada have been falling since the second quarter of last year. This resulted in a 7.9 per cent decline overall for 2004, down to 12,100 units. Price growth also slowed in line with the lower demand. The average price for a new home rose only 2.7 per cent

Chart 1—Housing Starts (000s)



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation; Canadian Real Estate Association.

in 2004. Meanwhile, average price growth for an existing home remained at a relatively robust 6 per cent.

With pent-up demand satisfied, demand will continue to retreat. This will help bring the market back to a more sustainable level of activity, one where demand is aligned with population requirements. Total starts are forecast to fall further to 10,600 units in 2005, a decline of

12.2 per cent. With low rates of population growth forecast for the region through the medium term, average starts will continue to decline. Consequently, housing starts are forecast to average a much more moderate level of 8,300 units per year from 2006 to 2009.

Prices for both the new and resale homes will be negatively affected by the lower demand for housing

over the next few years. Average price growth will slow further as a result. The average price increase for a new home is expected to be 2.4 per cent this year, falling to 2 per cent annually for the remainder of the forecast. Growth in the average price of an existing home is expected to slow to 3.1 per cent in 2005, also dropping to 2 per cent per year from then on.

Table 1—Economic Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Real GDP at basic prices (1997 \$ millions)	56,604 <i>5.2</i>	58,139 <i>2.7</i>	58,954 <i>1.4</i>	60,286 <i>2.3</i>	61,758 <i>2.4</i>	62,742 <i>1.6</i>	63,838 <i>1.7</i>	64,875 <i>1.6</i>
Total employment (000s)	1,055 <i>2.0</i>	1,067 <i>1.1</i>	1,090 <i>2.1</i>	1,102 <i>1.1</i>	1,114 <i>1.1</i>	1,124 <i>0.9</i>	1,134 <i>0.8</i>	1,141 <i>0.6</i>
Unemployment rate	11.6	11.4	11.0	10.5	9.9	9.6	9.2	8.8
Personal income per capita	24,273 <i>2.0</i>	25,007 <i>3.0</i>	25,908 <i>3.6</i>	27,017 <i>4.3</i>	28,116 <i>4.1</i>	29,212 <i>3.9</i>	30,330 <i>3.8</i>	31,427 <i>3.6</i>
Population (000s)	4,355 <i>-0.1</i>	4,362 <i>0.2</i>	4,369 <i>0.2</i>	4,372 <i>0.1</i>	4,375 <i>0.1</i>	4,378 <i>0.1</i>	4,380 <i>0.1</i>	4,383 <i>0.1</i>
Retail sales (\$ millions)	24,364 <i>4.7</i>	24,846 <i>2.0</i>	25,272 <i>1.7</i>	25,994 <i>2.9</i>	26,830 <i>3.2</i>	27,679 <i>3.2</i>	28,535 <i>3.1</i>	29,361 <i>2.9</i>
Inflation rate	2.8	3.4	1.7	1.7	1.8	2.0	2.0	2.0

Italics indicate percentage change.

Sources: The Conference Board of Canada; Statistics Canada.

Table 2—Housing Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Housing starts	12.03 <i>20.1</i>	13.09 <i>8.9</i>	12.06 <i>-7.9</i>	10.59 <i>-12.2</i>	9.32 <i>-12.1</i>	8.33 <i>-10.6</i>	7.94 <i>-4.6</i>	7.75 <i>-2.4</i>
Singles	8.81 <i>17.7</i>	8.96 <i>1.7</i>	8.58 <i>-4.3</i>	7.67 <i>-10.5</i>	6.92 <i>-9.8</i>	6.21 <i>-10.4</i>	5.92 <i>-4.6</i>	5.77 <i>-2.4</i>
Multiples	3.22 <i>27.1</i>	4.13 <i>28.3</i>	3.48 <i>-15.7</i>	2.92 <i>-16.1</i>	2.39 <i>-18.1</i>	2.12 <i>-11.3</i>	2.03 <i>-4.6</i>	1.98 <i>-2.2</i>
Housing completions	9.88 <i>8.2</i>	13.12 <i>32.8</i>	13.55 <i>3.3</i>	13.51 <i>-0.3</i>	12.28 <i>-9.1</i>	11.15 <i>-9.2</i>	10.46 <i>-6.2</i>	10.11 <i>-3.3</i>
Singles	7.46 <i>9.8</i>	9.93 <i>33.2</i>	9.30 <i>-6.3</i>	10.08 <i>8.4</i>	9.39 <i>-6.9</i>	8.70 <i>-7.4</i>	8.24 <i>-5.2</i>	8.01 <i>-2.8</i>
Multiples	2.42 <i>3.5</i>	3.19 <i>31.6</i>	4.25 <i>33.4</i>	3.42 <i>-19.4</i>	2.89 <i>-15.5</i>	2.46 <i>-15.0</i>	2.21 <i>-9.9</i>	2.09 <i>-5.5</i>
Average price of a new home (\$)	225,780 <i>3.5</i>	233,679 <i>3.5</i>	240,070 <i>2.7</i>	245,784 <i>2.4</i>	250,700 <i>2.0</i>	255,792 <i>2.0</i>	260,907 <i>2.0</i>	266,150 <i>2.0</i>
Average price of a resale home (\$)	115,494 <i>8.2</i>	122,372 <i>6.0</i>	129,756 <i>6.0</i>	133,754 <i>3.1</i>	136,563 <i>2.1</i>	139,337 <i>2.0</i>	142,123 <i>2.0</i>	144,979 <i>2.0</i>

Data are in thousands of units unless otherwise specified. Italics indicate percentage change.

Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation; Canadian Real Estate Association; Statistics Canada.

Quebec



Economic Outlook

Growth in Quebec's real gross domestic product (GDP) is estimated to have reached 2.7 per cent in 2004. This is partly due to a surge in exports. Real exports rebounded with vigour, as foreign shipments of high-tech products and softwood lumber jumped by 16 per cent in the first seven months of the year, while office equipment exports soared by 41.5 per cent. Retail and wholesale trade were also strong throughout 2004, further strengthening overall growth in the economy.

Consumer demand is projected to remain robust in 2005, as personal income is expected to be lifted by decent employment gains and new transfers from the provincial government. This will help push real GDP growth to 2.8 per cent in 2005. However, this growth will be muted

Quebec's housing market remained solid through 2004, as homebuyers continued to enjoy strong employment growth, low mortgage rates and solid income gains. Strong demand helped housing starts reached near-record highs and placed significant upward pressure on prices. But demand is expected to soften this year, with starts forecast to fall 9.3 per cent to 51,400 units. Weaker demand will help ease price pressure as well, both for new and existing homes. In the medium term, housing demand is expected to wane, in line with relatively soft population growth. As a result, housing starts will continue to decline throughout the rest of the forecast period, falling to about 35,000 units in 2009.

by weakness in the construction sector this year. After three exceptional years, housing demand is expected to tumble, causing real residential investment to decline. As well, growth in non-residential investment will be kept at bay in 2005, as work on a number of large projects will be winding down. Specifically, projects such as the Alouette smelter in Sept-Îles and the Montréal Airport expansion are forecast to be completed by the end of 2005.

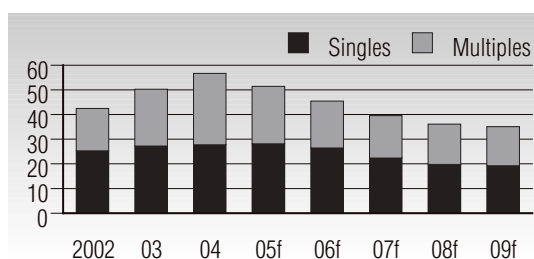
In the medium term, Quebec's population is forecast to grow by a modest 0.4 per cent annually from 2006 to 2009. The limited population growth will dampen domestic demand, resulting in moderate real GDP growth of 2.5 per cent per year over the same time period.

Housing Outlook

For the past three years, homebuyers in Quebec have enjoyed strong employment growth, low mortgage rates and solid income gains. This all translated into near-record-high levels of housing starts and significantly higher prices. Housing starts were forecast to have reached 56,700 units in 2004, double the level of starts in 2001. And new house prices averaged 5.9 per cent growth per year over the past three years. For existing home prices, growth was even more spectacular, averaging 14.6 per cent per year over the same time frame.

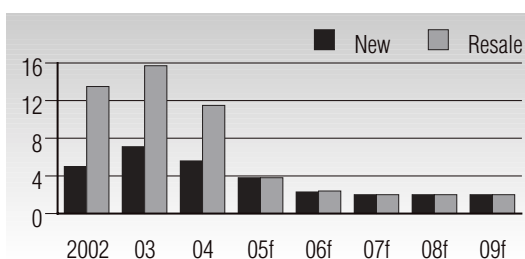
In the third quarter of 2004, housing starts in Quebec still averaged 53,900 units at annual rates. However, this pace of activity will not last, as the reservoir of demand

Chart 1—Housing Starts (000s)



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation; Canadian Real Estate Association.

that had built up in the 1990s is thought to be almost satisfied. As a result, housing starts are expected to come back down to more sustainable levels starting this year. Specifically, housing starts are expected to fall by 9.3 per cent in 2005 to 51,400 units. The decline in demand is also forecast to ease housing price pressures in 2005.

Consequently, the average price for both new and existing homes is forecast to increase by a more modest 3.8 per cent this year.

Demand for housing going forward will mainly be driven by demographic requirements. Given that total population in the province is expected to advance by only 0.4 per

cent per year on average between 2006 and 2009, the housing market in Quebec is forecast to continue to slow through the medium term. By 2009, housing starts are forecast to come in at about 35,000 units. Growth in the average price for both new and existing homes is also expected to slow, averaging about 2 per cent per year over the same time period.

Table 1—Economic Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Real GDP at basic prices (1997 \$ millions)	215,038 <i>4.1</i>	218,984 <i>1.8</i>	224,898 <i>2.7</i>	231,283 <i>2.8</i>	237,789 <i>2.8</i>	243,593 <i>2.4</i>	249,371 <i>2.4</i>	255,474 <i>2.4</i>
Total employment (000s)	3,593 <i>3.4</i>	3,649 <i>1.6</i>	3,709 <i>1.6</i>	3,768 <i>1.6</i>	3,826 <i>1.5</i>	3,878 <i>1.4</i>	3,913 <i>0.9</i>	3,937 <i>0.6</i>
Unemployment rate	8.6	9.2	8.3	8.0	7.8	7.7	7.6	7.6
Personal income per capita	26,907 <i>2.3</i>	27,648 <i>2.8</i>	28,547 <i>3.3</i>	29,854 <i>4.6</i>	31,073 <i>4.1</i>	32,282 <i>3.9</i>	33,468 <i>3.7</i>	34,591 <i>3.4</i>
Population (000s)	7,438 <i>0.6</i>	7,482 <i>0.6</i>	7,524 <i>0.6</i>	7,557 <i>0.4</i>	7,587 <i>0.4</i>	7,614 <i>0.4</i>	7,639 <i>0.3</i>	7,662 <i>0.3</i>
Retail sales (\$ millions)	71,531 <i>6.1</i>	75,148 <i>5.1</i>	78,160 <i>4.0</i>	81,335 <i>4.1</i>	84,443 <i>3.8</i>	87,609 <i>3.7</i>	90,665 <i>3.5</i>	93,562 <i>3.2</i>
Inflation rate	2.0	2.5	1.9	1.9	1.9	2.0	2.0	2.0

Italics indicate percentage change.

Sources: The Conference Board of Canada; Statistics Canada.

Table 2—Housing Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Housing starts	42.45 <i>53.4</i>	50.29 <i>18.5</i>	56.71 <i>12.8</i>	51.44 <i>-9.3</i>	45.45 <i>-11.7</i>	39.56 <i>-12.9</i>	36.12 <i>-8.7</i>	35.11 <i>-2.8</i>
Singles	25.26 <i>46.9</i>	27.23 <i>7.8</i>	27.76 <i>2.0</i>	28.12 <i>1.3</i>	26.48 <i>-5.8</i>	22.37 <i>-15.5</i>	19.80 <i>-11.5</i>	19.25 <i>-2.8</i>
Multiples	17.20 <i>63.9</i>	23.06 <i>34.1</i>	28.94 <i>25.5</i>	23.32 <i>-19.4</i>	18.96 <i>-18.7</i>	17.19 <i>-9.4</i>	16.32 <i>-5.1</i>	15.86 <i>-2.8</i>
Housing completions	35.57 <i>32.8</i>	46.04 <i>29.4</i>	54.38 <i>18.1</i>	64.99 <i>19.5</i>	59.21 <i>-8.9</i>	51.60 <i>-12.8</i>	45.75 <i>-11.3</i>	42.51 <i>-7.1</i>
Singles	22.85 <i>40.8</i>	25.88 <i>13.2</i>	29.69 <i>14.7</i>	30.78 <i>3.7</i>	28.21 <i>-8.4</i>	25.66 <i>-9.0</i>	22.01 <i>-14.2</i>	19.92 <i>-9.5</i>
Multiples	12.72 <i>20.5</i>	20.16 <i>58.5</i>	24.69 <i>22.5</i>	34.21 <i>38.5</i>	31.00 <i>-9.4</i>	25.94 <i>-16.3</i>	23.75 <i>-8.5</i>	22.58 <i>-4.9</i>
Average price of a new home (\$)	199,096 <i>5.0</i>	213,142 <i>7.1</i>	225,041 <i>5.6</i>	233,640 <i>3.8</i>	239,014 <i>2.3</i>	243,868 <i>2.0</i>	248,745 <i>2.0</i>	253,742 <i>2.0</i>
Average price of a resale home (\$)	131,853 <i>13.5</i>	152,620 <i>15.7</i>	170,229 <i>11.5</i>	176,641 <i>3.8</i>	180,880 <i>2.4</i>	184,554 <i>2.0</i>	188,245 <i>2.0</i>	192,027 <i>2.0</i>

Data are in thousands of units unless otherwise specified. Italics indicate percentage change.

Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation; Canadian Real Estate Association; Statistics Canada.

Ontario



While Ontario's economy is still fundamentally strong, its housing market is showing signs of fatigue. After several years of strong growth, starts fell by an estimated 0.9 per cent in 2004. A more balanced resale market, along with continued price gains, will dampen new housing demand in 2005. A 4.7 per cent decline in housing starts is anticipated this year, with the number of units falling to 80,400. Prices were still hot in 2004, but should begin to slow in 2005 in line with lower demand. Average annual increases of 3.8 per cent and 3.5 per cent are forecast for the new market and the resale market respectively.

Economic Outlook

The fundamental strength of the Ontario economy will allow it to navigate through turbulent global conditions, coping reasonably well with several key adjustments such as the high level of the Canadian dollar and the deceleration of U.S. economic growth already underway. The surge in demand for goods and services early in 2004 generated enough momentum to produce an economic rebound last year. However, it took time for this rebound to boost the bottom line, as businesses drew heavily upon inventories to meet the surge in demand.

After easing enough in the second half of the year to allow producers to begin gradually rebuilding depleted inventories, the pace of demand will pick up somewhat during 2005. This suggests that although the strong loonie and decelerating U.S. growth with dampen growth in Ontario,

underlying strength will help the economy to accelerate this year. Higher levels of consumer expenditures and upbeat export activity will bolster demand. This, combined with restocked inventories, will ensure stronger overall growth in 2005. As such, after increasing by an estimated 2.8 per cent in 2004, real gross domestic product (GDP) at basic prices is forecast to grow by a further 3.4 per cent in 2005.

Housing Outlook

Housing starts rose rapidly in Ontario from the end of the last decade to 2003. Solid employment gains, strong population growth and very low mortgage rates since 2001 have all helped to bring housing starts to near-record levels. From 1998 to 2003, annual housing starts increased from 54,000 to 85,000 units.

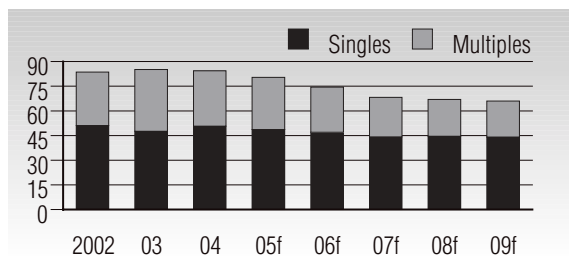
But even though the supply of new homes has been climbing,

builders have been unable to keep up with demand, resulting in rapid price increases. In 2002 and 2003 alone, new house prices increased by an average of 4.8 per cent per year. Resale prices fared even better, rising by 8.4 per cent on an average annual basis. This is a big change from the 1990s, when annual average prices in the resale and new housing markets fell by 0.4 and by 1.4 per cent, respectively.

Housing market activity remained strong in 2004, as the level of housing starts surpassed 80,000 units for the third consecutive year. As well, prices continued to soar, with resale price growth hitting a projected 7.9 per cent and new housing price growth reaching 5.4 per cent. This lifted the average resale home price to \$244,600 and the average new home price to \$362,800.

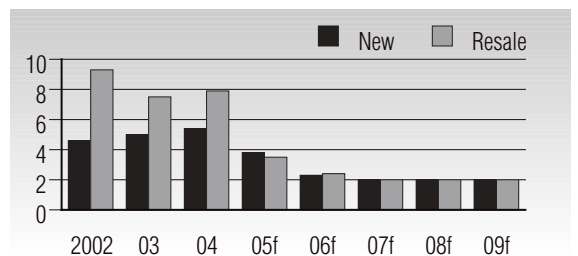
But the Conference Board believes that housing market activity

Chart 1—Housing Starts (000s)



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation; Canadian Real Estate Association.

in Ontario has peaked. Following the small decline in 2004, housing starts are forecast to fall by a further 4.7 per cent to 80,400 units in 2005, as sky-high prices erode housing affordability. In addition, higher vacancy rates are putting downward pressure on rents, making renting a more viable option to would-be homeowners. As a result, price

pressures will ease, with price growth in the resale and new markets forecast to decelerate to 3.5 per cent and 3.8 per cent, respectively, this year.

Rising mortgage rates are expected to help drive down housing starts by 7.4 per cent to 74,500 units in 2006. Starts will continue on a downward trend over the rest of the

forecast period, hitting 66,000 units by 2009. As well, home prices are expected to grow at a more reasonable pace, averaging 2 per cent annually from 2006 to 2009 in both the new and resale markets. By the end of the forecast period, a resale home is expected to cost \$275,000, while a new home is forecast to carry a price tag of \$409,000.

Table 1—Economic Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Real GDP at basic prices (1997 \$ millions)	416,214 <i>3.7</i>	422,545 <i>1.5</i>	434,495 <i>2.8</i>	449,333 <i>3.4</i>	461,857 <i>2.8</i>	475,130 <i>2.9</i>	489,440 <i>3.0</i>	503,560 <i>2.9</i>
Total employment (000s)	6,068 <i>1.8</i>	6,229 <i>2.7</i>	6,333 <i>1.7</i>	6,466 <i>2.1</i>	6,597 <i>2.0</i>	6,733 <i>2.1</i>	6,845 <i>1.7</i>	6,960 <i>1.7</i>
Unemployment rate	7.1	6.9	6.8	6.5	6.6	6.7	7.0	6.8
Personal income per capita	30,729 <i>1.2</i>	31,109 <i>1.2</i>	32,001 <i>2.9</i>	33,307 <i>4.1</i>	34,587 <i>3.8</i>	35,857 <i>3.7</i>	37,092 <i>3.4</i>	38,338 <i>3.4</i>
Population (000s)	12,064 <i>1.7</i>	12,217 <i>1.3</i>	12,348 <i>1.1</i>	12,498 <i>1.2</i>	12,649 <i>1.2</i>	12,803 <i>1.2</i>	12,956 <i>1.2</i>	13,110 <i>1.2</i>
Retail sales (\$ millions)	120,992 <i>5.9</i>	125,136 <i>3.4</i>	127,533 <i>1.9</i>	132,120 <i>3.6</i>	137,765 <i>4.3</i>	143,629 <i>4.3</i>	149,330 <i>4.0</i>	155,140 <i>3.9</i>
Inflation rate	2.0	2.7	1.9	2.1	2.0	2.0	2.0	2.0

Italics indicate percentage change.

Sources: The Conference Board of Canada; Statistics Canada.

Table 2—Housing Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Housing starts	83.60 <i>14.1</i>	85.18 <i>1.9</i>	84.39 <i>-0.9</i>	80.43 <i>-4.7</i>	74.50 <i>-7.4</i>	68.20 <i>-8.5</i>	66.98 <i>-1.8</i>	66.04 <i>-1.4</i>
Singles	51.11 <i>29.0</i>	47.61 <i>-6.9</i>	50.71 <i>6.5</i>	48.65 <i>-4.1</i>	47.03 <i>-3.3</i>	44.16 <i>-6.1</i>	44.54 <i>0.8</i>	44.14 <i>-0.9</i>
Multiples	32.48 <i>-3.5</i>	37.57 <i>15.7</i>	33.68 <i>-10.4</i>	31.78 <i>-5.6</i>	27.47 <i>-13.6</i>	24.04 <i>-12.5</i>	22.45 <i>-6.6</i>	21.90 <i>-2.4</i>
Housing completions	81.20 <i>19.2</i>	75.82 <i>-6.6</i>	80.87 <i>6.7</i>	75.57 <i>-6.6</i>	73.07 <i>-3.3</i>	66.75 <i>-8.7</i>	62.15 <i>-6.9</i>	60.80 <i>-2.2</i>
Singles	46.95 <i>14.0</i>	46.59 <i>-0.8</i>	48.17 <i>3.4</i>	46.78 <i>-2.9</i>	46.72 <i>-0.1</i>	44.10 <i>-5.6</i>	42.52 <i>-3.6</i>	42.92 <i>0.9</i>
Multiples	34.25 <i>27.2</i>	29.22 <i>-14.7</i>	32.70 <i>11.9</i>	28.79 <i>-11.9</i>	26.35 <i>-8.5</i>	22.64 <i>-14.1</i>	19.64 <i>-13.3</i>	17.88 <i>-8.9</i>
Average price of a new home (\$)	327,704 <i>4.6</i>	344,098 <i>5.0</i>	362,796 <i>5.4</i>	376,646 <i>3.8</i>	385,309 <i>2.3</i>	393,134 <i>2.0</i>	400,996 <i>2.0</i>	409,052 <i>2.0</i>
Average price of a resale home (\$)	210,918 <i>9.3</i>	226,719 <i>7.5</i>	244,584 <i>7.9</i>	253,057 <i>3.5</i>	259,130 <i>2.4</i>	264,393 <i>2.0</i>	269,680 <i>2.0</i>	275,098 <i>2.0</i>

Data are in thousands of units unless otherwise specified. Italics indicate percentage change.

Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation; Canadian Real Estate Association; Statistics Canada.

Prairies



Economic Outlook

Growth in real gross domestic product (GDP) for Saskatchewan and Manitoba will hold steady in 2005. After posting a 2.9 per cent increase last year, real GDP is expected to advance by 3 per cent this year in both Prairie provinces. Firmer agriculture output and continued strength in the mining sector will help to boost Saskatchewan's real GDP. At the same time, Manitoba's economy is forecast to benefit from good showings in the construction, manufacturing and utility sectors.

Steady output growth will help bolster an improvement in job growth in 2005, which is expected to keep domestic demand strong in the Prairies. Employment is forecast to grow by 1.4 per cent this year, up from 0.8 per cent in 2004. Personal income growth will also be strong in 2005, at 4.2 per cent. These factors

Economic growth in Saskatchewan and Manitoba is forecast to reach 3 per cent this year. In turn, both employment and income are expected to hold strong in 2005, with growth rates of 1.4 per cent and 4.2 per cent, respectively. But housing starts will not fare as well, as pent-up demand is mostly satisfied. Moreover, the housing price increases of the past few years are expected to take their toll on demand. All in all, starts are forecast to decline by 10.6 per cent in 2005 to 7,500 units. Further softening in demand is expected over the medium term, which should help to ease upward pressure on home prices.

will support growth in retail sales, which is forecast to come in at 4.1 per cent.

Through the medium term, overall economic growth in the Prairies is expected to slow somewhat but still average a respectable 2 per cent annually. In turn, employment will grow by just over 1 per cent per year over the next couple of years before starting to slow down as well.

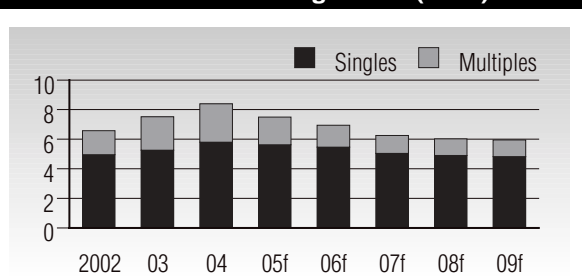
Housing Outlook

Housing starts in Saskatchewan and Manitoba fared very well from 1996 to 2004. In fact, the only decline in starts over this time period came in 2000. All in all, average annual growth over this period was a remarkable 9.6 per cent. As a result, at an estimated 8,400 units for 2004, the number of housing starts in the two provinces combined has nearly doubled since 1996.

Pent-up demand stemming back to the early 1990s has partially driven growth in housing starts in the Prairies. Over the past couple of years, starts have also benefited from very low interest rates and strong income growth in the two provinces, both of which have made it easier for consumers to purchase a home. As demand rose, however, so did prices. On average, a new home in the Prairies cost \$219,300 in 2004, 6.7 per cent more than it did in 2003. The average price of an existing home rose by 8.7 per cent last year, reaching \$114,900.

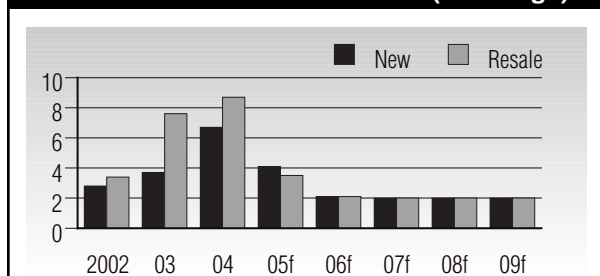
For much of this year, mortgage rates are forecast to remain low. However, much of the pent-up demand has now been satisfied. Further, the rapid price increases of the past few years have made it more costly for consumers to buy a home. These latter two factors are expected to offset the continued

Chart 1—Housing Starts (000s)



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation; Canadian Real Estate Association.

low mortgage rates, thus reducing the demand for housing. As a result, housing starts in 2005 will begin to trend downward, falling by 10.6 per cent to 7,500 units. All in all, the decline in housing starts this year will be felt harder in Saskatchewan than in Manitoba.

As demand falls off, price growth should then slow as well. The average increase in new home prices this year is forecast to be 4.1 per cent, while the average increase in existing home prices is forecast to decelerate to 3.5 per cent.

Demand for housing in Saskatchewan and Manitoba through the rest of the forecast period will

continue to decline, moving more in line with demographic requirements. This will lead to more declines in housing starts, starting with a further 7.4 per cent drop next year. Lower demand should continue to ease the pressure on prices, and bring average annual gains for both the new and resale market back to about 2 per cent annually.

Table 1—Economic Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Real GDP at basic prices (1997 \$ millions)	59,884 <i>0.3</i>	61,964 <i>3.5</i>	63,779 <i>2.9</i>	65,687 <i>3.0</i>	67,217 <i>2.3</i>	68,636 <i>2.1</i>	69,856 <i>1.8</i>	71,075 <i>1.7</i>
Total employment (000s)	1,049 <i>1.8</i>	1,055 <i>0.6</i>	1,063 <i>0.8</i>	1,079 <i>1.4</i>	1,093 <i>1.3</i>	1,105 <i>1.1</i>	1,110 <i>0.4</i>	1,115 <i>0.4</i>
Unemployment rate	5.4	5.3	5.4	5.0	4.7	4.6	4.8	4.9
Personal income per capita	24,977 <i>1.5</i>	25,616 <i>2.6</i>	26,653 <i>4.0</i>	27,784 <i>4.2</i>	28,811 <i>3.7</i>	29,817 <i>3.5</i>	30,811 <i>3.3</i>	31,793 <i>3.2</i>
Population (000s)	2,151 <i>0.0</i>	2,156 <i>0.3</i>	2,164 <i>0.4</i>	2,170 <i>0.3</i>	2,176 <i>0.3</i>	2,183 <i>0.3</i>	2,189 <i>0.3</i>	2,196 <i>0.3</i>
Retail sales (\$ millions)	19,930 <i>7.3</i>	20,784 <i>4.3</i>	22,075 <i>6.2</i>	22,987 <i>4.1</i>	23,759 <i>3.4</i>	24,544 <i>3.3</i>	25,316 <i>3.1</i>	26,076 <i>3.0</i>
Inflation rate	2.1	2.0	2.0	1.9	1.9	2.0	2.0	2.0

Italics indicate percentage change.
Sources: The Conference Board of Canada; Statistics Canada.

Table 2—Housing Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Housing starts	6.58 <i>23.1</i>	7.52 <i>14.3</i>	8.39 <i>11.6</i>	7.50 <i>-10.6</i>	6.95 <i>-7.4</i>	6.25 <i>-10.0</i>	6.02 <i>-3.7</i>	5.95 <i>-1.3</i>
Singles	4.95 <i>21.0</i>	5.26 <i>6.4</i>	5.80 <i>10.2</i>	5.63 <i>-2.8</i>	5.46 <i>-3.1</i>	5.04 <i>-7.7</i>	4.90 <i>-2.8</i>	4.82 <i>-1.6</i>
Multiples	1.63 <i>29.9</i>	2.26 <i>38.3</i>	2.59 <i>14.8</i>	1.87 <i>-27.9</i>	1.49 <i>-20.4</i>	1.21 <i>-18.5</i>	1.13 <i>-7.2</i>	1.13 <i>0.1</i>
Housing completions	5.77 <i>6.4</i>	6.95 <i>20.4</i>	8.27 <i>19.0</i>	7.88 <i>-4.7</i>	7.21 <i>-8.6</i>	6.56 <i>-9.0</i>	6.11 <i>-6.8</i>	5.95 <i>-2.7</i>
Singles	4.60 <i>9.7</i>	5.04 <i>9.6</i>	5.69 <i>12.9</i>	5.08 <i>-10.7</i>	4.81 <i>-5.4</i>	4.52 <i>-6.0</i>	4.31 <i>-4.5</i>	4.24 <i>-1.8</i>
Multiples	1.17 <i>-4.6</i>	1.91 <i>63.3</i>	2.58 <i>35.1</i>	2.80 <i>8.4</i>	2.40 <i>-14.3</i>	2.04 <i>-14.9</i>	1.80 <i>-11.7</i>	1.71 <i>-5.0</i>
Average price of a new home (\$)	198,288 <i>2.8</i>	205,637 <i>3.7</i>	219,335 <i>6.7</i>	228,397 <i>4.1</i>	233,194 <i>2.1</i>	237,927 <i>2.0</i>	242,681 <i>2.0</i>	247,554 <i>2.0</i>
Average price of a resale home (\$)	98,169 <i>3.4</i>	105,657 <i>7.6</i>	114,894 <i>8.7</i>	118,862 <i>3.5</i>	121,358 <i>2.1</i>	123,821 <i>2.0</i>	126,295 <i>2.0</i>	128,831 <i>2.0</i>

Data are in thousands of units unless otherwise specified. *Italics indicate percentage change.*
Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation; Canadian Real Estate Association; Statistics Canada.

Alberta



Real GDP in Alberta reaped the benefits of high energy prices in 2004, and although growth should moderate in 2005, further oilsands developments will keep it at a still healthy 3.4 per cent. Despite this strength, Alberta's housing market has weakened. Starts decreased in 2004 and are expected to fall further this year. Still, housing starts remain historically high, coming off a period of exceptional growth. Lower demand for housing in the province in the coming years will ease upward pressure on price growth, which is forecast to decelerate to 2 per cent per year over the medium term.

Economic Outlook

High commodity prices helped Alberta's real gross domestic product (GDP) growth soar to an estimated 4.3 per cent last year. The domestic part of the economy is currently on a very strong footing, but a deceleration is projected in the near term. Still, real GDP is expected to grow by a sound 3.4 per cent in 2005, thanks to intensified oilsands development. The construction sector will benefit from feverish investment in the energy sector. Specifically, construction output, which grew by an estimated 2.7 per cent in 2004, is forecast to increase by a strong 10.7 per cent in 2005.

The manufacturing industry has also benefited from elevated oil prices, with higher shipments of refined petroleum and coal products. Total manufacturing output increased by 6.2 per cent in 2004. While

somewhat weakening oil prices will limit manufacturing growth in 2005, a strengthening beef industry will still allow the sector to post a further gain of 4.4 per cent.

Labour markets have lost some steam over the last year, and the pace of job creation is expected to remain more temperate over the near term. While the primary and construction industries have made significant gains, the services sector has not been pumping out jobs at the same hectic pace as in the last three years.

Housing Outlook

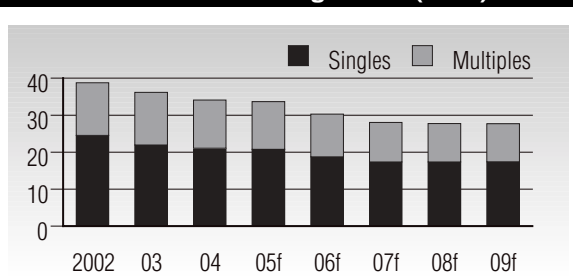
Despite a strong domestic economy over the past two years, Alberta's housing starts have been declining. After growing by an average rate of 22 per cent in 2001 and 2002, housing starts fell by 6.7 per cent in 2003 and by an estimated 5.7 per cent in 2004. This decline

was fairly evenly split between singles and multiples.

Low mortgage rates, high population growth, strong gains in income, and pent-up demand boosted total housing starts in 2001 and 2002. In 2003 and 2004, housing starts started to fall from their lofty heights—an indication that pent-up demand was satisfied in Alberta before the rest of the country, as starts have only now started to fall in most regions.

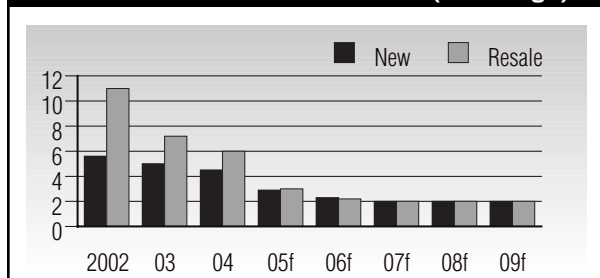
Also, even though housing starts have been falling in Alberta for the past two years, they still remain high by historical standards. In 2004, housing starts reached an estimated 34,100 units. And they will remain healthy in 2005, as a 1.3 per cent rise in population, combined with a 4.1 per cent increase in personal income per capita, is expected to hold the decline in starts to just 1.3 per cent, to roughly 33,700 units.

Chart 1—Housing Starts (000s)



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation; Canadian Real Estate Association.

Over the medium term, housing starts will continue to slow. Mortgage rates are expected to rise again in 2007 and, together with somewhat slower population growth, starts will come in at just under 28,000 units by 2009.

Prices for new and resale homes in Alberta rose sharply over the past three years. From 2002 to 2004, new home prices increased by an average of 5 per cent annually, while existing home prices rose by 8.1 per cent per year. By 2004, the average price of a new home was \$253,700, and the price of an existing home was \$193,900.

The growth in prices should start to slow this year in line with lower demand. Growth of new home prices is expected to be 2.9 per cent in 2005 and 2.3 per cent in 2006. Prices in the resale market are projected to rise by 3 per cent this year and by 2.2 per cent next year. Prices for both markets will then average 2 per cent growth annually through the rest of the forecast period.

Table 1—Economic Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Real GDP at basic prices (1997 \$ millions)	121,411 <i>1.5</i>	125,581 <i>3.4</i>	131,018 <i>4.3</i>	135,459 <i>3.4</i>	139,600 <i>3.1</i>	143,382 <i>2.7</i>	147,516 <i>2.9</i>	151,733 <i>2.9</i>
Total employment (000s)	1,674 <i>2.6</i>	1,721 <i>2.9</i>	1,756 <i>2.0</i>	1,788 <i>1.8</i>	1,823 <i>2.0</i>	1,855 <i>1.8</i>	1,883 <i>1.5</i>	1,905 <i>1.2</i>
Unemployment rate	5.3	5.1	4.7	4.6	4.6	4.5	4.5	4.6
Personal income per capita	32,714 <i>2.0</i>	33,600 <i>2.7</i>	35,097 <i>4.5</i>	36,534 <i>4.1</i>	37,930 <i>3.8</i>	39,306 <i>3.6</i>	40,604 <i>3.3</i>	41,840 <i>3.0</i>
Population (000s)	3,106 <i>1.8</i>	3,148 <i>1.4</i>	3,188 <i>1.3</i>	3,229 <i>1.3</i>	3,269 <i>1.2</i>	3,307 <i>1.2</i>	3,345 <i>1.1</i>	3,382 <i>1.1</i>
Retail sales (\$ millions)	37,663 <i>9.0</i>	39,367 <i>4.5</i>	43,362 <i>10.1</i>	45,425 <i>4.8</i>	47,326 <i>4.2</i>	49,246 <i>4.1</i>	51,056 <i>3.7</i>	52,789 <i>3.4</i>
Inflation rate	3.4	4.4	1.5	2.0	1.9	2.0	2.0	2.0

Italics indicate percentage change.
Sources: The Conference Board of Canada; Statistics Canada.

Table 2—Housing Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Housing starts	38.75 <i>32.8</i>	36.17 <i>-6.7</i>	34.10 <i>-5.7</i>	33.66 <i>-1.3</i>	30.29 <i>-10.0</i>	28.04 <i>-7.4</i>	27.75 <i>-1.0</i>	27.71 <i>-0.1</i>
Singles	24.52 <i>24.0</i>	21.92 <i>-10.6</i>	21.07 <i>-3.9</i>	20.78 <i>-1.4</i>	18.72 <i>-9.9</i>	17.37 <i>-7.2</i>	17.36 <i>-0.1</i>	17.41 <i>0.3</i>
Multiples	14.23 <i>51.3</i>	14.25 <i>0.1</i>	13.04 <i>-8.5</i>	12.88 <i>-1.2</i>	11.57 <i>-10.2</i>	10.67 <i>-7.8</i>	10.38 <i>-2.6</i>	10.29 <i>-0.8</i>
Housing completions	32.29 <i>16.0</i>	35.73 <i>10.7</i>	32.02 <i>-10.4</i>	30.87 <i>-3.6</i>	29.28 <i>-5.1</i>	26.54 <i>-9.4</i>	25.48 <i>-4.0</i>	25.37 <i>-0.5</i>
Singles	21.74 <i>21.2</i>	23.04 <i>6.0</i>	21.28 <i>-7.7</i>	20.35 <i>-4.3</i>	19.10 <i>-6.1</i>	17.35 <i>-9.2</i>	17.02 <i>-1.9</i>	17.14 <i>0.7</i>
Multiples	10.55 <i>6.6</i>	12.70 <i>20.4</i>	11.56 <i>-8.9</i>	10.52 <i>-9.0</i>	10.18 <i>-3.2</i>	9.19 <i>-9.7</i>	8.46 <i>-7.9</i>	8.22 <i>-2.8</i>
Average price of a new home (\$)	231,243 <i>5.6</i>	242,713 <i>5.0</i>	253,720 <i>4.5</i>	261,049 <i>2.9</i>	267,053 <i>2.3</i>	272,477 <i>2.0</i>	277,926 <i>2.0</i>	283,510 <i>2.0</i>
Average price of a resale home (\$)	170,527 <i>11.0</i>	182,885 <i>7.2</i>	193,906 <i>6.0</i>	199,669 <i>3.0</i>	204,062 <i>2.2</i>	208,206 <i>2.0</i>	212,369 <i>2.0</i>	216,636 <i>2.0</i>

Data are in thousands of units unless otherwise specified. Italics indicate percentage change.
Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation; Canadian Real Estate Association; Statistics Canada.

British Columbia



Economic Outlook

British Columbia's economy is expected to maintain a fairly brisk pace this year, as strong demand from the United States and Asian countries continues to propel growth in the province's goods-producing industries. Shipments of many manufactured products have been strong, including pulp and paper, primary and fabricated metals, and machinery and equipment. This manufacturing strength, together with heightened construction and forestry activity, will enable the goods-producing industries to post solid growth in 2005.

The services sector will benefit from strong growth in the tourism industry. International and domestic travel picked up substantially in 2004, offsetting a large part of the downturn in 2003. Overall, real gross domestic product (GDP), which increased by an estimated

Strong U.S. and Asian demand will continue to propel growth in British Columbia's goods-producing industries this year, leading to an expected 2.9 per cent increase in real GDP for the province. Per capita personal income growth is also expected to be healthy in 2005, at 4.5 per cent. Unfortunately, British Columbia's housing market is not forecast to be as strong. Saturated pent-up demand is expected to lead to a 12.5 per cent decline in housing starts in 2005, with further declines forecast through the medium term. This will bring demand for housing more in line with demographic requirements.

3.4 per cent in 2004, is expected to grow by a further 2.9 per cent in 2005.

With stronger tourism and heightened construction activity, job creation will be relatively solid this year and next. Strong growth in personal disposable income will support consumer spending, allowing growth in retail sales to outpace the national average over the near term.

Housing Outlook

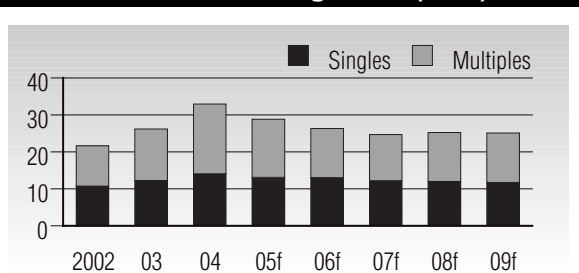
While it suffered more than any other province from 1998 to 2000, British Columbia's housing market posted a substantial rebound from 2001 to 2004. Housing starts, which fell from 42,800 units in 1993 to 14,400 units in 2000, rose to an estimated 32,900 units in 2004. Much of this growth was the result of low interest rates and high pent-up demand.

This recent growth spurt cannot be sustained, however. Pent-up demand is fading quickly, which will result in fewer housing starts. The pent-up housing demand that began accumulating in the early 1990s was mostly filled during the recent rebound in housing starts.

But since mortgage rates are projected to remain low over the next two years, housing starts are expected to remain strong by historical standards. Thus, after reaching 32,900 units in 2004, the number of starts is expected to fall to 28,800 units in 2005 and to 26,300 units in 2006. For the rest of the forecast period, housing starts are expected to remain relatively close to their 2006 level, as the steady rise in mortgage rates will be offset by relatively sound population growth.

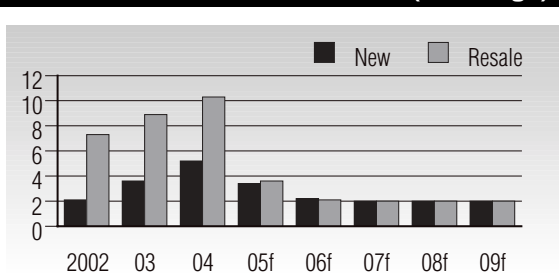
New home prices in British Columbia fell from the mid-1990s through to 2000. But prices have

Chart 1—Housing Starts (000s)



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation; Canadian Real Estate Association.

been rising since then and by 2004 the average price of a new home in the province stood at \$503,000, still lower than the \$545,500 average price posted in 1995. New home prices are expected to grow by 3.4 per cent this year, then average 2 per cent growth per year over the rest of the forecast period, hitting nearly \$564,400 by 2009.

Existing home prices started to rebound in 1999. They have also risen faster than new home prices over the past three years, averaging 8.9 per cent growth per year on average, compared with 3.6 per cent per year on average for new homes.

Part of the reason for the stronger growth on the resale side is that existing home prices are much lower than new home prices. In 2004, the

average price of an existing home was about \$286,900, still substantially less than the \$503,000 price tag for a new home. As a result, homebuyers can better afford the existing market, keeping demand stronger. As overall housing demand weakens through the medium term, prices for existing homes will increase by a more modest 2 per cent annually, bringing the average price to \$322,200 by 2009.

Table 1—Economic Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Real GDP at basic prices (1997 \$ millions)	118,181 <i>2.2</i>	121,172 <i>2.5</i>	125,262 <i>3.4</i>	128,911 <i>2.9</i>	131,997 <i>2.4</i>	135,304 <i>2.5</i>	138,630 <i>2.5</i>	141,826 <i>2.3</i>
Total employment (000s)	1,973 <i>1.6</i>	2,023 <i>2.5</i>	2,067 <i>2.1</i>	2,108 <i>2.0</i>	2,142 <i>1.6</i>	2,176 <i>1.6</i>	2,203 <i>1.3</i>	2,228 <i>1.1</i>
Unemployment rate	8.5	8.1	7.5	7.2	7.2	7.4	7.6	7.5
Personal income per capita	27,055 <i>0.1</i>	27,570 <i>1.9</i>	28,675 <i>4.0</i>	29,976 <i>4.5</i>	31,094 <i>3.7</i>	32,214 <i>3.6</i>	33,296 <i>3.4</i>	34,390 <i>3.3</i>
Population (000s)	4,110 <i>0.9</i>	4,142 <i>0.8</i>	4,181 <i>0.9</i>	4,213 <i>0.8</i>	4,248 <i>0.8</i>	4,283 <i>0.8</i>	4,319 <i>0.8</i>	4,355 <i>0.8</i>
Retail sales (\$ millions)	42,906 <i>6.3</i>	44,034 <i>2.6</i>	46,931 <i>6.6</i>	49,211 <i>4.9</i>	51,017 <i>3.7</i>	52,928 <i>3.7</i>	54,779 <i>3.5</i>	56,673 <i>3.5</i>
Inflation rate	2.3	2.2	2.1	2.0	1.9	2.0	2.0	2.0

Italics indicate percentage change.

Sources: The Conference Board of Canada; Statistics Canada.

Table 2—Housing Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Housing starts	21.63 <i>25.5</i>	26.17 <i>21.0</i>	32.93 <i>25.8</i>	28.82 <i>-12.5</i>	26.30 <i>-8.8</i>	24.66 <i>-6.2</i>	25.22 <i>2.3</i>	25.09 <i>-0.5</i>
Singles	10.73 <i>36.5</i>	12.25 <i>14.2</i>	14.07 <i>14.8</i>	13.12 <i>-6.7</i>	13.02 <i>-0.8</i>	12.21 <i>-6.2</i>	12.02 <i>-1.5</i>	11.73 <i>-2.5</i>
Multiples	10.90 <i>16.3</i>	13.92 <i>27.8</i>	18.86 <i>35.5</i>	15.70 <i>-16.8</i>	13.28 <i>-15.4</i>	12.45 <i>-6.2</i>	13.20 <i>6.0</i>	13.37 <i>1.3</i>
Housing completions	20.18 <i>42.1</i>	21.80 <i>8.0</i>	25.33 <i>16.2</i>	26.33 <i>4.0</i>	22.90 <i>-13.0</i>	21.02 <i>-8.2</i>	20.90 <i>-0.5</i>	21.18 <i>1.3</i>
Singles	9.51 <i>19.5</i>	11.04 <i>16.1</i>	12.25 <i>11.0</i>	11.67 <i>-4.7</i>	11.14 <i>-4.5</i>	10.71 <i>-3.9</i>	10.55 <i>-1.5</i>	10.31 <i>-2.3</i>
Multiples	10.67 <i>70.8</i>	10.76 <i>0.8</i>	13.08 <i>21.6</i>	14.66 <i>12.1</i>	11.76 <i>-19.8</i>	10.31 <i>-12.3</i>	10.36 <i>0.4</i>	10.87 <i>5.0</i>
Average price of a new home (\$)	461,645 <i>2.1</i>	478,108 <i>3.6</i>	503,042 <i>5.2</i>	520,157 <i>3.4</i>	531,601 <i>2.2</i>	542,397 <i>2.0</i>	553,243 <i>2.0</i>	564,359 <i>2.0</i>
Average price of a resale home (\$)	238,677 <i>7.3</i>	259,974 <i>8.9</i>	286,880 <i>10.3</i>	297,244 <i>3.6</i>	303,486 <i>2.1</i>	309,650 <i>2.0</i>	315,842 <i>2.0</i>	322,187 <i>2.0</i>

Data are in thousands of units unless otherwise specified. Italics indicate percentage change.

Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation; Canadian Real Estate Association; Statistics Canada.

Montréal



Economic Outlook

Real gross domestic product (GDP) growth in Montréal accelerated to an estimated 2.6 per cent in 2004, thanks to strong performances by both the manufacturing and construction sectors. A sharp rise in U.S. demand for manufactured products and high commodity prices offset the effect of a strong Canadian dollar, allowing manufacturing output to expand by an estimated 5.9 per cent in 2004. On the construction front, residential activity remained very strong, as housing starts reached an estimated 27,200 units.

Strength in manufacturing and construction helped boost employment by 1.8 per cent last year, or about 32,400 new jobs. In turn, the unemployment rate fell from 9.5 per cent in 2003 to 8.2 per cent in 2004.

Even though the value of the dollar is forecast to remain rela-

Although interest rates are expected to remain low through this year, demand for housing will slow, coming back down to more sustainable levels. Housing starts are forecast to drop by 8.8 per cent in 2005 to 24,800 units. As well, sales of existing homes are expected to fall by 3.5 per cent in 2005. With demand moving more in line with supply in the coming months, the upward pressure on prices will ease. As a result, average price increases for both new and resale homes will be much more moderate in 2005.

tively high, the manufacturing sector should continue to do well through 2005, as U.S. demand remains healthy. Most of the city's service-producing industries are expected to post decent growth this year as well. All in all, Montréal's real GDP is forecast to increase by 3.2 per cent in 2005, leading to the creation of a further 32,800 new jobs and, in turn, lifting personal disposable income growth to 5.7 per cent.

Housing Outlook

EXISTING HOUSING MARKET

The existing home market in Montréal has been hot for a few years now, boosted by pent-up demand stemming from the early 1990s and low interest rates starting in 2001. As a result, existing home sales increased at an average annual rate of 8.2 per cent from 2001 to 2004.

Demand, which was stronger than supply, also gave way to rapid price increases. The average price of an

existing home experienced double-digit growth in each of the past three years, bringing the level to \$188,100 by 2004, from \$126,400 in 2001. Higher prices have also brought a flurry of sellers to the market, allowing the sales-to-new-listings ratio to decline to 58 per cent last year from a peak of 73 per cent in 2002, despite the strong demand.

Activity in the resale market is expected to weaken in 2005. Unit sales are forecast to fall by 3.5 per cent, and growth in the number of new listings will slow to 1.5 per cent. The sales-to-new-listings ratio will continue to decline as a result, falling to 55 per cent this year. Given lower demand, house prices will also cool off, so more moderate growth of 3.9 per cent is forecast for resale prices in 2005.

Growth in the average price of an existing home is expected to decelerate further through the medium term, as demand continues to fall.

Chart 1—Housing Starts (000s)

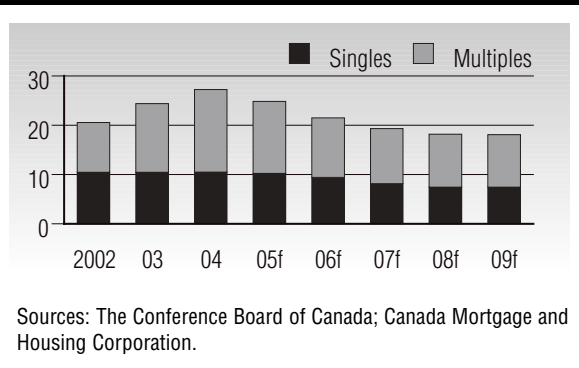
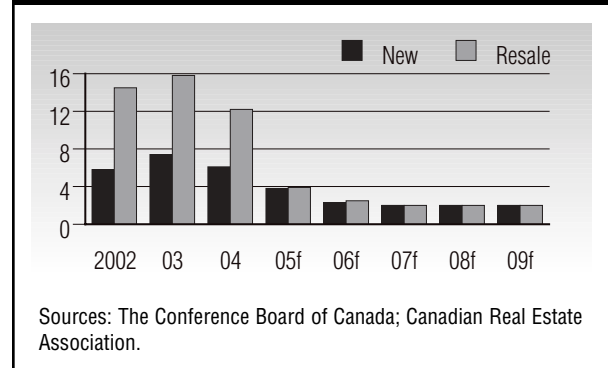


Chart 2—House Price Growth (% change)



With sales forecast to decline throughout the forecast period, average price growth will come down to 2 per cent annually from 2007 onwards.

NEW HOUSING MARKET

Montréal's new housing market also reaped the benefits of low interest rates since 2001. Specifically, housing starts rose by 55.2 per cent in 2002 alone. Growth rates in 2003 and 2004 were also impressive, at 18.7 per cent and 11.7 per cent, respectively. These growth rates brought the city's housing starts to 27,200 units in 2004, a level not seen in at least 15 years.

Despite this phenomenal growth in starts, months' supply continued

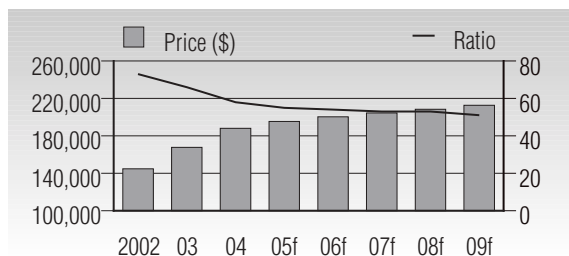
to fall until last year. This indicates that demand was even stronger than supply over this time period. The run-up in new home prices also points to the fact that demand outpaced supply. The average price of a new home increased by 6.1 per cent per year, on average, from 2001 to 2004.

There are now signs that the demand for new homes is weakening. Absorptions fell in the last three quarters of 2004, pushing months' supply up from 1.9 months in 2003 to 2.3 months last year. As well, the number of newly completed but unabsorbed homes increased by 14.2 per cent in 2004, the first increase recorded in more than 10 years.

With the accumulated pent-up demand from the 1990s almost satisfied, demand is expected to cool down throughout 2005. Housing starts are therefore expected to decline by 8.8 per cent. Lower demand will also lead to more modest housing price growth, as the average price of a new home is forecast to rise by a more moderate 3.8 per cent in 2005.

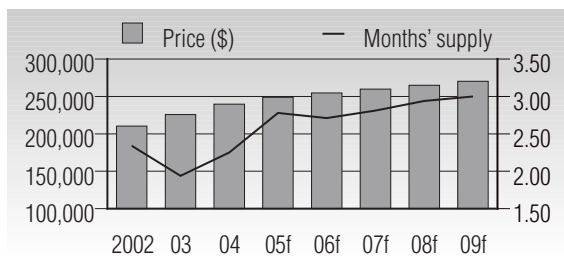
Higher interest rates and slower population growth will reduce demand for new homes over the rest of the forecast period. Housing starts are expected to fall to 18,100 units by 2009. Average price increases are forecast to slow to 2.3 per cent next year, before stabilizing at 2 per cent per year from 2007 on.

Chart 3—Resale Housing Price and Sales-to-New-Listings Ratio



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation; Canadian Real Estate Association.

Chart 4—New Housing Price and Months' Supply



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation.

Table 1—Economic Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Real GDP at basic prices (1997 \$ millions)	108,106 <i>5.5</i>	110,038 <i>1.8</i>	112,894 <i>2.6</i>	116,515 <i>3.2</i>	120,056 <i>3.0</i>	123,570 <i>2.9</i>	127,164 <i>2.9</i>	130,558 <i>2.7</i>
Total employment (000s)	1,768 <i>3.6</i>	1,796 <i>1.6</i>	1,828 <i>1.8</i>	1,861 <i>1.8</i>	1,891 <i>1.6</i>	1,920 <i>1.5</i>	1,946 <i>1.4</i>	1,963 <i>0.9</i>
Unemployment rate	8.5	9.5	8.2	8.1	8.0	7.8	7.6	7.6
Personal income per capita	28,619 <i>1.3</i>	29,083 <i>1.6</i>	30,151 <i>3.7</i>	31,456 <i>4.3</i>	32,706 <i>4.0</i>	33,977 <i>3.9</i>	35,276 <i>3.8</i>	36,427 <i>3.3</i>
Population (000s)	3,543 <i>1.0</i>	3,575 <i>0.9</i>	3,608 <i>0.9</i>	3,640 <i>0.9</i>	3,667 <i>0.7</i>	3,691 <i>0.7</i>	3,714 <i>0.6</i>	3,737 <i>0.6</i>
Retail sales (\$ millions)	32,600 <i>5.4</i>	34,557 <i>6.0</i>	36,592 <i>5.9</i>	38,082 <i>4.1</i>	39,701 <i>4.3</i>	41,376 <i>4.2</i>	42,981 <i>3.9</i>	44,516 <i>3.6</i>
Inflation rate	2.0	2.4	1.8	1.8	1.9	2.0	2.0	2.0

Italics indicate percentage change.

Sources: The Conference Board of Canada; Statistics Canada.

Table 2—Housing Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Housing starts	20.54 <i>55.2</i>	24.37 <i>18.7</i>	27.23 <i>11.7</i>	24.83 <i>-8.8</i>	21.50 <i>-13.4</i>	19.31 <i>-10.2</i>	18.18 <i>-5.8</i>	18.06 <i>-0.7</i>
Singles	10.46 <i>46.5</i>	10.45 <i>-0.1</i>	10.49 <i>0.4</i>	10.23 <i>-2.5</i>	9.41 <i>-8.1</i>	8.17 <i>-13.2</i>	7.43 <i>-9.0</i>	7.44 <i>0.1</i>
Multiples	10.08 <i>65.4</i>	13.92 <i>38.1</i>	16.74 <i>20.2</i>	14.60 <i>-12.7</i>	12.09 <i>-17.2</i>	11.14 <i>-7.8</i>	10.75 <i>-3.5</i>	10.63 <i>-1.2</i>
Housing completions	16.00 <i>17.7</i>	20.71 <i>29.5</i>	24.55 <i>18.5</i>	27.94 <i>13.8</i>	23.26 <i>-16.7</i>	20.14 <i>-13.4</i>	18.37 <i>-8.8</i>	17.74 <i>-3.4</i>
Singles	9.13 <i>31.8</i>	10.01 <i>9.6</i>	10.44 <i>4.3</i>	10.56 <i>1.1</i>	9.99 <i>-5.4</i>	8.82 <i>-11.7</i>	7.79 <i>-11.7</i>	7.43 <i>-4.6</i>
Multiples	6.86 <i>3.1</i>	10.70 <i>55.9</i>	14.12 <i>31.9</i>	17.39 <i>23.2</i>	13.27 <i>-23.6</i>	11.31 <i>-14.8</i>	10.58 <i>-6.5</i>	10.31 <i>-2.5</i>
Average price of a new home (\$)	210,342 <i>5.8</i>	225,831 <i>7.4</i>	239,605 <i>6.1</i>	248,801 <i>3.8</i>	254,524 <i>2.3</i>	259,687 <i>2.0</i>	264,874 <i>2.0</i>	270,190 <i>2.0</i>
Newly completed and unabsorbed	7.58 <i>-9.6</i>	7.05 <i>-7.1</i>	8.05 <i>14.2</i>	9.09 <i>13.0</i>	8.60 <i>-5.4</i>	7.82 <i>-9.1</i>	7.87 <i>0.8</i>	7.93 <i>0.7</i>
Absorptions	9.98 <i>31.3</i>	10.93 <i>9.5</i>	10.93 <i>0.0</i>	9.83 <i>-10.1</i>	9.52 <i>-3.1</i>	8.36 <i>-12.2</i>	8.04 <i>-3.8</i>	7.94 <i>-1.3</i>
Months' supply	2.34	1.94	2.25	2.78	2.71	2.81	2.94	3.00
Average price of a resale home (\$)	144,756 <i>14.5</i>	167,658 <i>15.8</i>	188,106 <i>12.2</i>	195,440 <i>3.9</i>	200,326 <i>2.5</i>	204,390 <i>2.0</i>	208,473 <i>2.0</i>	212,656 <i>2.0</i>
Resale dollar volume sales (\$ millions)	6,765 <i>22.9</i>	8,201 <i>21.2</i>	9,623 <i>17.3</i>	9,634 <i>0.1</i>	9,411 <i>-2.3</i>	9,161 <i>-2.7</i>	9,335 <i>1.9</i>	9,532 <i>2.1</i>
Resale unit sales	46.87 <i>7.3</i>	48.80 <i>4.1</i>	51.09 <i>4.7</i>	49.30 <i>-3.5</i>	46.98 <i>-4.7</i>	44.82 <i>-4.6</i>	44.78 <i>-0.1</i>	44.82 <i>0.1</i>
Resale new listings	64.01 <i>-9.9</i>	73.51 <i>14.8</i>	88.30 <i>20.1</i>	89.64 <i>1.5</i>	86.36 <i>-3.7</i>	83.94 <i>-2.8</i>	84.65 <i>0.8</i>	87.39 <i>3.2</i>
Sales-to-new-listings ratio	73	66	58	55	54	53	53	51

Data are in thousands of units unless otherwise specified. Italics indicate percentage change.
Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation; Canadian Real Estate Association; Statistics Canada.

Toronto



Economic Outlook

After posting its worst showing since the recession of the early 1990s, Toronto's economy came back with a vengeance in 2004. In fact, the census metropolitan area (CMA) enjoyed one of the fastest economic growth rates in Canada, forecast to have reached 5.1 per cent last year. The resurgence was broadly based, with all sectors except public administration posting increases. The manufacturing sector was particularly strong, as U.S demand helped to offset a rising Canadian dollar. The service sector also posted solid gains, mainly due to the finance, insurance, real estate and leasing sector.

Both manufacturing and services sector growth will be somewhat slower in 2005. Output in the manufacturing sector is expected to rise by 5.2 per cent, a notable increase, but lower than the 7.4 per cent rise

After expanding by an estimated 5.1 per cent in 2004, the Toronto CMA is expected to post another solid year of economic growth in 2005. Real GDP is forecast to rise by 3.8 per cent, leading to sound employment gains. However, Toronto's housing market will not be able to take advantage of this strength. Falling demand due to higher home prices will lead to a 4.1 per cent decline in resale sales, and a 3.1 per cent decline in the number of housing starts. As a result, price gains in both the resale and new home market will slow this year.

seen in 2004. Growth in the finance, insurance, real estate and leasing sector will moderate, as housing starts are set to decline, bringing down overall services sector growth. Although real gross domestic product (GDP) growth is expected to decelerate, the Toronto CMA will still remain among the economic growth leaders in 2005 and 2006, with real GDP growth of 3.8 per cent this year and 3.3 per cent next year.

Housing Outlook

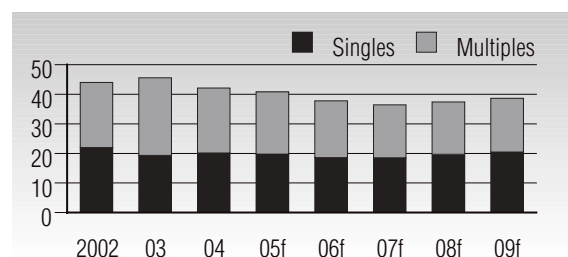
EXISTING HOUSING MARKET

As interest rates fell in 2001, the housing market in the Toronto CMA took off. Over the following three years, the market was further helped by low vacancy rates, strong employment gains and robust population growth. As a result, sales of existing homes grew at an average rate of 10 per cent per year from 2001 until 2004, to reach a record 85,900 units last year.

Average prices for existing homes have also increased rapidly over the past few years. Growth, which averaged 6.4 per cent from 2001 to 2003, accelerated to 7.3 per cent in 2004, to top \$300,000. These higher prices have reduced affordability and are forecast to weaken demand over time.

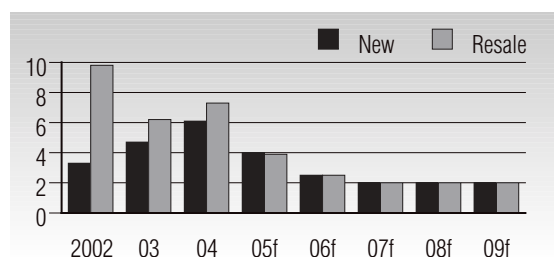
There is already evidence that the market is slowing. Over the past two years, the sales-to-new-listings ratio has fallen 11 percentage points to 65 per cent. While that's still higher than the historical average of 60 per cent, it indicates that demand is starting to move back in line with supply. Also, vacancy rates have increased in Toronto recently, which may make it more attractive for people to rent instead of purchase a home. All of these factors will lead to a 4.1 per cent decline in sales of existing units in 2005, to 82,400.

Chart 1—Housing Starts (000s)



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; Canadian Real Estate Association.

New listings are expected to increase by 1.6 per cent this year, much lower than the 11 per cent increase recorded in 2004, but still high enough to reduce the sales-to-new listings ratio even more. The ratio is forecast to drop to 61 per cent, pushing prices up at a slower rate of 3.9 per cent.

NEW HOUSING MARKET

The strength in the resale home market spilled over into the new housing market, leading to significant increases in housing starts from 2001 to 2003. But demand for new units was so strong that months' supply of new homes stayed around 1 month, much less than the 2.4 months seen in the mid-1990s.

Months' supply even fell to 0.88 last year, as demand remained intense but builders retreated. Specifically, housing starts fell by a projected 7.5 per cent in 2004, to 42,100 units.

Increased demand over the past few years has also resulted in significant increases in new home prices. The average price of a new home in Toronto rose from \$356,400 in 2001 to \$408,900 in 2004, a gain of 14.7 per cent or 4.7 per cent per year.

Price growth is expected to slow to 4 per cent in 2005. Price pressure is forecast to ease as the supply of new homes increases more rapidly than demand. The number of newly

completed and unabsorbed homes is expected to grow by 8.9 per cent in 2005, while absorptions are set to decline by 5.9 per cent. This will bring months' supply up to 1.01 months this year. With the increase in supply, builders will retreat further, pushing down housing starts for the second year in a row.

High prices have also hurt demand by reducing affordability. Housing starts are therefore expected to fall by 3.1 per cent in 2005. Starts will continue to fall over the next couple of years as well, helping to bring the market back to a more sustainable level, where demand is in line with supply.

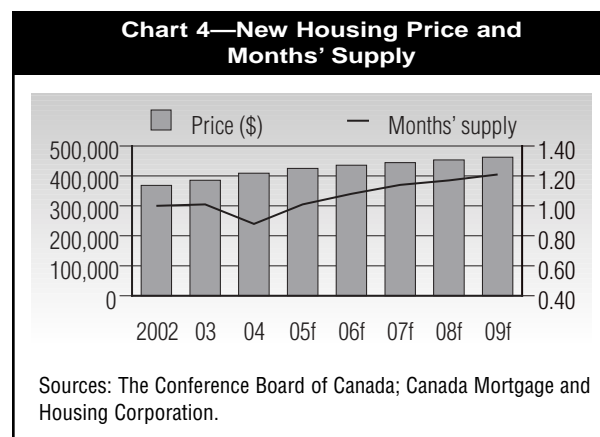
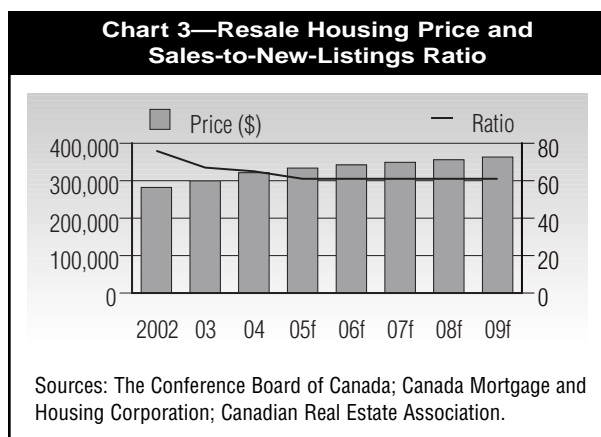


Table 1—Economic Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Real GDP at basic prices (1997 \$ millions)	190,174 <i>4.5</i>	190,167 <i>0.0</i>	199,854 <i>5.1</i>	207,496 <i>3.8</i>	214,331 <i>3.3</i>	221,825 <i>3.5</i>	229,429 <i>3.4</i>	237,264 <i>3.4</i>
Total employment (000s)	2,622 <i>1.9</i>	2,677 <i>2.1</i>	2,754 <i>2.9</i>	2,831 <i>2.8</i>	2,895 <i>2.3</i>	2,967 <i>2.5</i>	3,037 <i>2.4</i>	3,108 <i>2.3</i>
Unemployment rate	7.4	7.7	7.5	7.1	7.2	7.0	7.0	7.0
Personal income per capita	32,748 <i>0.1</i>	33,334 <i>1.8</i>	34,695 <i>4.1</i>	36,077 <i>4.0</i>	37,215 <i>3.2</i>	38,423 <i>3.2</i>	39,666 <i>3.2</i>	40,897 <i>3.1</i>
Population (000s)	5,012 <i>2.6</i>	5,102 <i>1.8</i>	5,190 <i>1.7</i>	5,294 <i>2.0</i>	5,399 <i>2.0</i>	5,506 <i>2.0</i>	5,615 <i>2.0</i>	5,725 <i>2.0</i>
Retail sales (\$ millions)	48,226 <i>6.8</i>	49,983 <i>3.6</i>	51,177 <i>2.4</i>	53,311 <i>4.2</i>	55,713 <i>4.5</i>	58,387 <i>4.8</i>	60,956 <i>4.4</i>	63,589 <i>4.3</i>
Inflation rate	2.1	3.0	1.7	1.8	2.0	2.0	2.0	2.0

Italics indicate percentage change.
Sources: The Conference Board of Canada; Statistics Canada.

Table 2—Housing Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Housing starts	43.99	45.55	42.11	40.79	37.77	36.41	37.41	38.65
	<i>7.3</i>	<i>3.5</i>	<i>-7.5</i>	<i>-3.1</i>	<i>-7.4</i>	<i>-3.6</i>	<i>2.8</i>	<i>3.3</i>
Singles	21.95	19.35	20.11	19.74	18.57	18.51	19.69	20.48
	<i>30.1</i>	<i>-11.8</i>	<i>3.9</i>	<i>-1.9</i>	<i>-5.9</i>	<i>-0.3</i>	<i>6.4</i>	<i>4.0</i>
Multiples	22.04	26.19	22.00	21.05	19.20	17.89	17.72	18.17
	<i>-8.6</i>	<i>18.8</i>	<i>-16.0</i>	<i>-4.3</i>	<i>-8.8</i>	<i>-6.8</i>	<i>-1.0</i>	<i>2.5</i>
Housing completions	44.75	38.71	40.24	41.94	39.02	36.75	37.22	38.30
	<i>21.9</i>	<i>-13.5</i>	<i>4.0</i>	<i>4.2</i>	<i>-7.0</i>	<i>-5.8</i>	<i>1.3</i>	<i>2.9</i>
Singles	19.98	18.19	19.52	20.37	19.51	18.83	19.44	20.46
	<i>6.5</i>	<i>-9.0</i>	<i>7.3</i>	<i>4.4</i>	<i>-4.3</i>	<i>-3.5</i>	<i>3.2</i>	<i>5.3</i>
Multiples	24.77	20.52	20.72	21.57	19.52	17.92	17.78	17.84
	<i>38.0</i>	<i>-17.1</i>	<i>1.0</i>	<i>4.1</i>	<i>-9.5</i>	<i>-8.2</i>	<i>-0.8</i>	<i>0.4</i>
Average price of a new home (\$)	368,337	385,518	408,941	425,265	435,897	444,682	453,505	462,546
	<i>3.3</i>	<i>4.7</i>	<i>6.1</i>	<i>4.0</i>	<i>2.5</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>
Newly completed and unabsorbed	8.44	7.54	6.89	7.49	7.46	7.74	8.11	8.54
	<i>1.8</i>	<i>-10.7</i>	<i>-8.6</i>	<i>8.9</i>	<i>-0.4</i>	<i>3.7</i>	<i>4.8</i>	<i>5.3</i>
Absorptions	25.37	22.44	23.67	22.27	20.74	20.36	20.79	21.16
	<i>0.4</i>	<i>-11.6</i>	<i>5.5</i>	<i>-5.9</i>	<i>-6.9</i>	<i>-1.8</i>	<i>2.1</i>	<i>1.8</i>
Months' supply	1.00	1.01	0.88	1.01	1.08	1.14	1.17	1.21
Average price of a resale home (\$)	282,092	299,522	321,406	333,895	342,243	349,141	356,067	363,166
	<i>9.8</i>	<i>6.2</i>	<i>7.3</i>	<i>3.9</i>	<i>2.5</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>
Resale dollar volume sales (\$ millions)	18,964	21,434	25,419	27,507	27,519	27,878	28,716	29,552
	<i>21.9</i>	<i>13.0</i>	<i>18.6</i>	<i>8.2</i>	<i>0.0</i>	<i>1.3</i>	<i>3.0</i>	<i>2.9</i>
Resale unit sales	74.89	79.71	85.91	82.39	80.41	79.85	80.65	81.37
	<i>10.4</i>	<i>6.4</i>	<i>7.8</i>	<i>-4.1</i>	<i>-2.4</i>	<i>-0.7</i>	<i>1.0</i>	<i>0.9</i>
Resale new listings	98.59	118.96	132.01	134.18	131.61	131.76	133.08	134.28
	<i>8.5</i>	<i>20.7</i>	<i>11.0</i>	<i>1.6</i>	<i>-1.9</i>	<i>0.1</i>	<i>1.0</i>	<i>0.9</i>
Sales-to-new-listings ratio	76	67	65	61	61	61	61	61

Data are in thousands of units unless otherwise specified. Italics indicate percentage change.

Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation; Canadian Real Estate Association; Statistics Canada.

Ottawa



Economic Outlook

After finally getting back on track in 2003, Ottawa's economy continued to build momentum in 2004. In fact, real gross domestic product (GDP) grew at its fastest pace since the height of the telecom boom, posting an estimated 3.7 per cent increase last year. Public administration output was buoyed by increased employment in the national capital region, while the manufacturing sector took advantage of strong U.S. demand, offsetting weakness in the construction sector.

Growth in both the public administration and manufacturing sectors is expected to slow in 2005. Federal government spending priorities have shifted to other areas, such as health care. Meanwhile, U.S. demand is forecast to move into somewhat lower gear this year, hurting manufacturing output. As well, construction output is expected to weaken further as

After reaching an estimated 3.7 per cent in 2004, real GDP growth in the Ottawa census metropolitan area is expected to slow to a still respectable 3 per cent in 2005. Employment growth of 2.4 per cent this year will lead to a significant increase in retail sales. Unfortunately, it will not help the region's housing market, as higher prices will result in lower demand for housing. Sales of both new and existing homes are forecast to fall in 2005 as a result. Price gains will also moderate in line with lower demand, easing to 4 per cent for a new home and 3.6 per cent for an existing home.

demand for housing falls. Still, employment will improve, helping to boost growth in consumer spending. All in all, real GDP is expected to expand at a slower but still healthy 3 per cent pace in 2005.

Housing Outlook

EXISTING HOUSING MARKET

Demand for housing has been strong in Ottawa over the past few years, mainly due to sound employment growth, first in the telecom sector and then in the federal public sector. Also, falling interest rates since 2001 have greatly improved affordability in the housing market, further stimulating demand. As such, sales of existing homes reached 17,900 units in 2004, up from 16,300 units at the start of the decade.

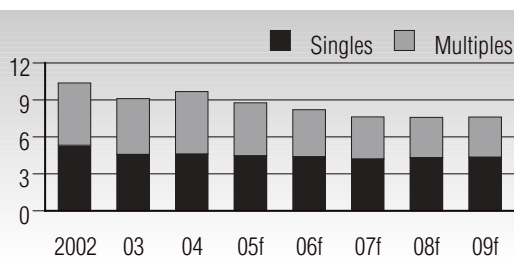
The increase in demand initially outstripped supply, resulting in a rise in the sales-to-new-listings ratio. The ratio averaged 73 per cent from

2000 to 2002, up from an average of 40 per cent in the 1990s. Prices rose rapidly in response. Growth in the average resale price averaged 9.4 per cent annually from 2000 to 2004, bringing the price to \$220,800 in 2004.

By 2003, sellers decided they wanted to take advantage of the price increases, and so new listings shot up by 9.5 per cent that year and then again by 13.9 per cent in 2004. Given that sales did not keep pace, increasing by only 0.9 per cent in 2003 and by 2.1 per cent in 2004, the sales-to-new-listings ratio tumbled, falling to 60 per cent in 2004.

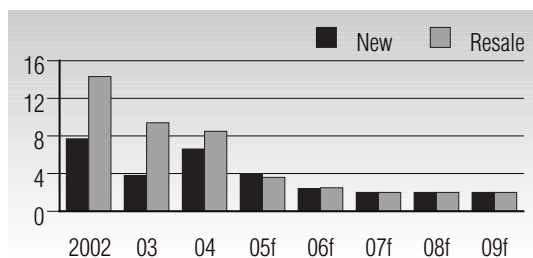
Higher housing prices will continue to put downward pressure on existing home sales in Ottawa. The forecast calls for a 4.8 per cent decline in unit sales this year. New listings, while slowing as well, will still edge up 0.5 per cent, causing the sales-to-new-listings ratio to

Chart 1—Housing Starts (000s)



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; Canadian Real Estate Association.

fall further to 56 per cent. This is expected to help ease some of the upward pressure on prices and, as a result, the average resale price is forecast to grow by a more modest 3.6 per cent in 2005.

NEW HOUSING MARKET

Home builders rushed to take advantage of the tight supply in the existing home market in the first part of this decade. Specifically, housing starts rose by an average of 23 per cent from 2000 to 2002. And while starts did decline in 2003, they still came in at 9,100 units, which is high by historical standards. In spite of the high levels of starts, supply could not keep up with demand, and so months'

supply of new homes fell rapidly. By 2003, months' supply was 0.8 months, down from 2.1 months in 2000. The number of newly completed but unabsorbed houses dropped by an average of 15.4 per cent per year from 2000 to 2003. Prices rose quickly in response, averaging growth of 7.6 per cent per year.

The market got even tighter in 2004. Home builders increased starts by 6.1 per cent to 9,700 units. But again, this was not enough to offset rising demand. Months' supply dipped to a new record low of 0.6 months. Newly completed but unabsorbed housing fell by a whopping 29.2 per cent in 2004 alone. Prices continued

to rise in line with the strong demand, increasing by a further 6.6 per cent to \$335,000.

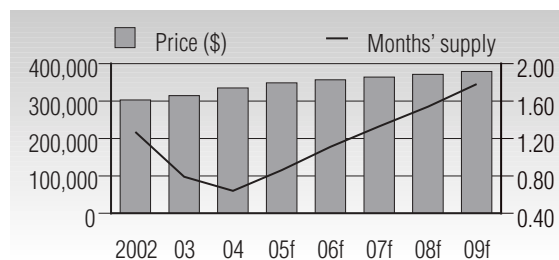
The picture will start to change in 2005. Months' supply is forecast to head back up again, reaching nearly 0.9 months this year. Higher prices will take their toll on demand, leading to the first increase since 1998 in newly built but unabsorbed homes. Price gains will moderate as well, with growth slowing to 4 per cent. With weaker demand, builders are forecast to retreat from the market, reducing housing starts by 9.3 per cent in 2005 to 8,800 units. This trend is expected to continue over the near term, as demand moderates to more sustainable levels.

Chart 3—Resale Housing Price and Sales-to-New-Listings Ratio



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation; Canadian Real Estate Association.

Chart 4—New Housing Price and Months' Supply



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation.

Table 1—Economic Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Real GDP at basic prices (1997 \$ millions)	36,565 <i>2.0</i>	37,604 <i>2.8</i>	38,986 <i>3.7</i>	40,144 <i>3.0</i>	41,322 <i>2.9</i>	42,566 <i>3.0</i>	43,844 <i>3.0</i>	45,134 <i>2.9</i>
Total employment (000s)	578 <i>0.4</i>	608 <i>5.2</i>	614 <i>0.9</i>	629 <i>2.4</i>	642 <i>2.1</i>	656 <i>2.2</i>	670 <i>2.2</i>	685 <i>2.1</i>
Unemployment rate	7.2	6.8	6.7	6.4	6.4	6.4	6.6	6.5
Personal income per capita	33,886 <i>1.3</i>	35,527 <i>4.8</i>	36,590 <i>3.0</i>	38,156 <i>4.3</i>	39,598 <i>3.8</i>	41,064 <i>3.7</i>	42,636 <i>3.8</i>	44,218 <i>3.7</i>
Population (000s)	1,120 <i>1.3</i>	1,132 <i>1.1</i>	1,144 <i>1.0</i>	1,157 <i>1.1</i>	1,170 <i>1.2</i>	1,184 <i>1.2</i>	1,198 <i>1.2</i>	1,211 <i>1.1</i>
Retail sales (\$ millions)	11,984 <i>5.5</i>	12,815 <i>6.9</i>	13,082 <i>2.1</i>	13,584 <i>3.8</i>	14,146 <i>4.1</i>	14,755 <i>4.3</i>	15,341 <i>4.0</i>	15,930 <i>3.8</i>
Inflation rate	2.1	2.5	1.9	2.0	2.0	2.0	2.0	2.0

Italics indicate percentage change.

Sources: The Conference Board of Canada; Statistics Canada.

Table 2—Housing Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Housing starts	10.37 <i>29.2</i>	9.11 <i>-12.2</i>	9.66 <i>6.1</i>	8.77 <i>-9.3</i>	8.21 <i>-6.4</i>	7.62 <i>-7.2</i>	7.58 <i>-0.5</i>	7.61 <i>0.4</i>
Singles	5.32 <i>12.2</i>	4.58 <i>-13.9</i>	4.63 <i>1.0</i>	4.48 <i>-3.3</i>	4.41 <i>-1.5</i>	4.22 <i>-4.3</i>	4.33 <i>2.7</i>	4.37 <i>0.9</i>
Multiples	5.05 <i>53.9</i>	4.52 <i>-10.5</i>	5.04 <i>11.3</i>	4.29 <i>-14.8</i>	3.80 <i>-11.5</i>	3.40 <i>-10.4</i>	3.25 <i>-4.5</i>	3.24 <i>-0.3</i>
Housing completions	8.43 <i>10.0</i>	9.02 <i>7.0</i>	10.32 <i>14.4</i>	9.57 <i>-7.2</i>	8.63 <i>-9.8</i>	7.81 <i>-9.5</i>	7.51 <i>-3.9</i>	7.50 <i>0.0</i>
Singles	4.74 <i>3.2</i>	5.10 <i>7.5</i>	4.67 <i>-8.4</i>	4.54 <i>-2.8</i>	4.56 <i>0.4</i>	4.22 <i>-7.4</i>	4.21 <i>-0.2</i>	4.31 <i>2.2</i>
Multiples	3.69 <i>20.4</i>	3.92 <i>6.3</i>	5.65 <i>44.1</i>	5.03 <i>-10.9</i>	4.07 <i>-19.0</i>	3.59 <i>-11.9</i>	3.29 <i>-8.2</i>	3.20 <i>-3.0</i>
Average price of a new home (\$)	302,801 <i>7.7</i>	314,200 <i>3.8</i>	334,996 <i>6.6</i>	348,470 <i>4.0</i>	356,833 <i>2.4</i>	364,068 <i>2.0</i>	371,332 <i>2.0</i>	378,778 <i>2.0</i>
Newly completed and unabsorbed	2.20 <i>-8.0</i>	1.56 <i>-29.2</i>	1.10 <i>-29.2</i>	1.39 <i>25.6</i>	1.69 <i>21.9</i>	1.95 <i>15.3</i>	2.24 <i>14.9</i>	2.60 <i>16.3</i>
Absorptions	5.26 <i>2.1</i>	5.88 <i>11.8</i>	5.24 <i>-10.9</i>	4.84 <i>-7.6</i>	4.57 <i>-5.6</i>	4.40 <i>-3.8</i>	4.36 <i>-0.8</i>	4.39 <i>0.6</i>
Months' supply	1.27	0.79	0.64	0.86	1.11	1.33	1.54	1.78
Average price of a resale home (\$)	186,046 <i>14.3</i>	203,514 <i>9.4</i>	220,843 <i>8.5</i>	228,838 <i>3.6</i>	234,559 <i>2.5</i>	239,315 <i>2.0</i>	244,090 <i>2.0</i>	248,984 <i>2.0</i>
Resale dollar volume sales (\$ millions)	3,104 <i>17.1</i>	3,456 <i>11.3</i>	3,887 <i>12.5</i>	3,908 <i>0.6</i>	3,946 <i>1.0</i>	3,950 <i>0.1</i>	4,025 <i>1.9</i>	4,093 <i>1.7</i>
Resale unit sales	17.41 <i>2.5</i>	17.57 <i>0.9</i>	17.94 <i>2.1</i>	17.08 <i>-4.8</i>	16.82 <i>-1.5</i>	16.50 <i>-1.9</i>	16.49 <i>-0.1</i>	16.44 <i>-0.3</i>
Resale new listings	24.21 <i>4.1</i>	26.51 <i>9.5</i>	30.19 <i>13.9</i>	30.34 <i>0.5</i>	30.54 <i>0.6</i>	31.50 <i>3.2</i>	32.27 <i>2.4</i>	32.88 <i>1.9</i>
Sales-to-new-listings ratio	72	66	60	56	55	52	51	50

Data are in thousands of units unless otherwise specified. Italics indicate percentage change.

Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation; Canadian Real Estate Association; Statistics Canada.

Calgary



Economic Outlook

With oil prices peaking at roughly \$55 per barrel last October and natural gas prices surging, investors are enjoying heady times in the energy sector. Drilling companies ran flat out through most of 2004, as Alberta's 2004 well count outpaced the 2003 result by 7.1 per cent. As well, there is still a significant amount of investment in energy-related projects. The flurry of activity in the oil and gas sector allowed real gross domestic product (GDP) to rise by an estimated 3.6 per cent in 2004. Accordingly, the job market remained healthy, especially in the primary and the commercial services industries.

Continued strong economic activity, which led to solid employment and income growth, has kept domestic demand sturdy in Calgary. In 2004 alone, personal income increased by 7.2 per cent, lifting

Strong growth in the goods sector is expected to lift Calgary's GDP growth to 4.1 per cent this year. As a result, total employment growth will continue to be sound, fuelling further gains in personal income and retail sales. Unfortunately, the housing market is not expected to follow suit, as demand continues its downward trend to more sustainable levels. Housing starts will drop by a further 15.9 per cent this year to 11,100 units. The softening in demand will ease housing price pressures, as growth in the prices of new and existing homes is expected to be 3.1 per cent and 3.2 per cent, respectively.

retail sales growth to 11.2 per cent. Although housing starts declined, they remained high by historical standards. This underlying strength in the economy will continue into 2005 as well, as Calgary's real GDP is forecast to expand by a further 4.1 per cent.

Housing Outlook

EXISTING HOUSING MARKET

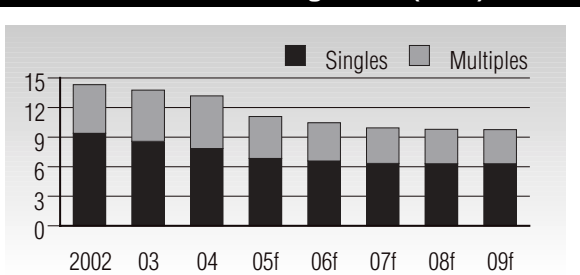
Over the past few years, a strong energy sector has brought several benefits to the Calgary economy. With both employment and income soaring, more people were attracted to the city, driving up population growth to an annual average of 1.9 per cent from 2002 to 2004. This compares with a national annual average of 0.9 per cent. The increase in Calgary's population, combined with strong income growth and low interest rates, lifted demand for existing homes. Despite a marginal

decline in 2003, unit sales grew by an annual average of 7.4 per cent over 2001 to 2004.

Existing home prices have risen sharply in the past few years as well, in line with stronger demand. Prices rose by a whopping 9.4 per cent in 2002, by 6.3 per cent in 2003 and by 4.8 per cent last year. This brought the average price of an existing home in Calgary to \$221,400 in 2004. Sellers took advantage of the rapid rise in prices, by boosting growth in the number of new listings. As a result, the sales-to-new-listings ratio fell from 73 in 2002 to 64 in 2004.

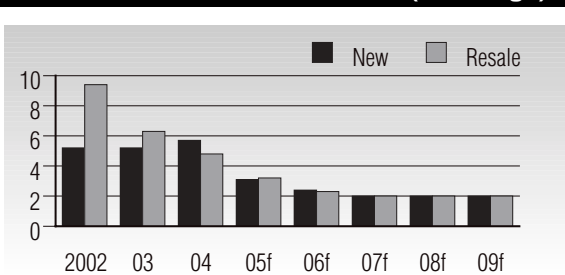
In 2005, the demand for existing homes is projected to slow somewhat, as the recent price increases finally take their toll. As a result, unit sales are expected to fall by 2.5 per cent, causing price growth to slow down to 3.2 per cent. This will also allow the sales-to-new-listing ratio to remain on its downward trend.

Chart 1—Housing Starts (000s)



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; Canadian Real Estate Association.

Over the medium term, both demand and price growth will continue to moderate, as mortgage rates increase and population growth slows to an annual average of 1.5 per cent. Unit sales are forecast to decline until 2007 and then flatten out until 2009, while price growth will average 2 per cent per year.

NEW HOUSING MARKET

Similar to the existing home market, Calgary's new home market has been hot in recent years, as the number of housing starts set new records. Starts increased by 26.5 per cent in 2002 alone, reaching 14,300 units. And even with a 3.9 per cent decline in 2003 and a

further 4.2 per cent decline last year, starts were still above 13,000 units, a high level by historical standards. In the 16 years before 2003, housing starts in Calgary averaged 8,100 units annually.

Demand for new housing in Calgary peaked earlier than in most cities covered in the *Metropolitan Housing Outlook*. While starts declined in each of the past two years in Calgary, a lot of other cities in Canada are only now starting to see declines. Moreover, the growth in absorptions in the Calgary market slowed considerably in 2003 and declined in 2004. Calgary's months' supply, in turn, steadily climbed

through 2003 and 2004. After hitting a low of 2.7 months in 2002, it reached 3.5 months last year.

Despite falling demand, price growth remained strong over the past couple of years, posting an average annual increase of 5.3 per cent over 2002 to 2004. However, with further declines in demand anticipated over the near term, prices are finally expected to slow. Specifically, the average price of a new home is forecast to increase by 3.1 per cent this year and by 2.4 per cent in 2006. Price growth is then expected to average 2 per cent annually from 2007 to 2009.

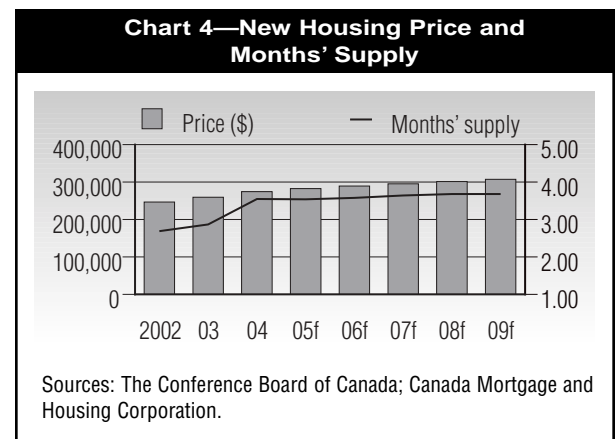
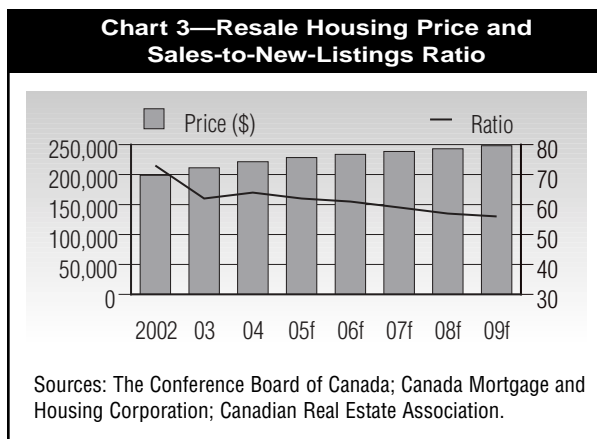


Table 1—Economic Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Real GDP at basic prices (1997 \$ millions)	43,642 3.4	44,597 2.2	46,203 3.6	48,100 4.1	49,802 3.5	51,543 3.5	53,337 3.5	55,073 3.3
Total employment (000s)	583 2.3	595 2.1	612 2.9	622 1.6	633 1.8	643 1.6	653 1.6	663 1.4
Unemployment rate	5.8	5.4	5.1	5.0	5.0	4.8	4.7	4.7
Personal income per capita	37,944 -0.5	38,767 2.2	40,916 5.5	42,251 3.3	43,569 3.1	44,826 2.9	46,137 2.9	47,468 2.9
Population (000s)	1,000 2.4	1,017 1.6	1,033 1.6	1,050 1.7	1,067 1.6	1,083 1.5	1,099 1.5	1,115 1.4
Retail sales (\$ millions)	13,319 6.9	13,891 4.3	15,445 11.2	16,167 4.7	16,935 4.8	17,748 4.8	18,538 4.5	19,309 4.2
Inflation rate	3.7	3.5	1.8	1.9	1.9	2.0	2.0	2.0

Italics indicate percentage change.
Sources: The Conference Board of Canada; Statistics Canada.

Table 2—Housing Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Housing starts	14.32	13.76	13.18	11.08	10.45	9.93	9.79	9.75
	<i>26.5</i>	<i>-3.9</i>	<i>-4.2</i>	<i>-15.9</i>	<i>-5.7</i>	<i>-4.9</i>	<i>-1.4</i>	<i>-0.4</i>
Singles	9.38	8.57	7.84	6.83	6.58	6.34	6.30	6.30
	<i>24.3</i>	<i>-8.6</i>	<i>-8.5</i>	<i>-12.9</i>	<i>-3.7</i>	<i>-3.6</i>	<i>-0.6</i>	<i>0.0</i>
Multiples	4.94	5.19	5.34	4.25	3.88	3.59	3.49	3.45
	<i>30.8</i>	<i>5.0</i>	<i>2.9</i>	<i>-20.4</i>	<i>-8.8</i>	<i>-7.3</i>	<i>-2.9</i>	<i>-1.1</i>
Housing completions	12.67	14.29	12.45	12.04	11.01	10.32	9.95	9.81
	<i>13.7</i>	<i>12.8</i>	<i>-12.9</i>	<i>-3.3</i>	<i>-8.6</i>	<i>-6.2</i>	<i>-3.6</i>	<i>-1.4</i>
Singles	8.40	8.99	8.09	7.10	6.62	6.40	6.29	6.28
	<i>23.8</i>	<i>7.0</i>	<i>-9.9</i>	<i>-12.3</i>	<i>-6.8</i>	<i>-3.3</i>	<i>-1.8</i>	<i>-0.1</i>
Multiples	4.27	5.31	4.36	4.95	4.39	3.93	3.66	3.53
	<i>-2.2</i>	<i>24.4</i>	<i>-17.9</i>	<i>13.5</i>	<i>-11.3</i>	<i>-10.6</i>	<i>-6.7</i>	<i>-3.5</i>
Average price of a new home (\$)	246,602	259,519	274,269	282,788	289,575	295,446	301,345	307,389
	<i>5.2</i>	<i>5.2</i>	<i>5.7</i>	<i>3.1</i>	<i>2.4</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>
Newly completed and unabsorbed	8.26	9.16	10.64	9.62	9.52	9.46	9.42	9.47
	<i>-27.4</i>	<i>10.9</i>	<i>16.1</i>	<i>-9.6</i>	<i>-1.0</i>	<i>-0.7</i>	<i>-0.4</i>	<i>0.5</i>
Absorptions	9.22	9.63	9.00	8.15	7.98	7.80	7.68	7.72
	<i>20.9</i>	<i>4.4</i>	<i>-6.5</i>	<i>-9.4</i>	<i>-2.1</i>	<i>-2.3</i>	<i>-1.5</i>	<i>0.5</i>
Months' supply	2.69	2.87	3.55	3.54	3.58	3.64	3.68	3.68
Average price of a resale home (\$)	198,847	211,281	221,416	228,494	233,749	238,488	243,250	248,129
	<i>9.4</i>	<i>6.3</i>	<i>4.8</i>	<i>3.2</i>	<i>2.3</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>
Resale dollar volume sales (\$ millions)	4,916	5,152	5,819	5,849	5,888	5,971	6,097	6,225
	<i>19.2</i>	<i>4.8</i>	<i>13.0</i>	<i>0.5</i>	<i>0.7</i>	<i>1.4</i>	<i>2.1</i>	<i>2.1</i>
Resale unit sales	24.77	24.37	26.25	25.60	25.19	25.04	25.06	25.09
	<i>9.5</i>	<i>-1.6</i>	<i>7.7</i>	<i>-2.5</i>	<i>-1.6</i>	<i>-0.6</i>	<i>0.1</i>	<i>0.1</i>
Resale new listings	34.17	39.45	41.16	41.56	41.43	42.37	43.67	44.56
	<i>4.7</i>	<i>15.4</i>	<i>4.3</i>	<i>1.0</i>	<i>-0.3</i>	<i>2.3</i>	<i>3.1</i>	<i>2.1</i>
Sales-to-new-listings ratio	73	62	64	62	61	59	57	56

Data are in thousands of units unless otherwise specified. Italics indicate percentage change.

Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation; Canadian Real Estate Association; Statistics Canada.

Vancouver



Economic Outlook

Overall, real gross domestic product (GDP) for Vancouver increased by an estimated 3 per cent in 2004, partly due to robust gains in the services sector. The construction industry also contributed, thanks to preparations for the 2010 Winter Olympics and an extremely healthy residential market. Domestic demand remained strong, as consumers felt a wave of optimism from being awarded the Games. This optimism was further boosted by a 2.5 per cent rise in employment and a 3.9 per cent increase in income per capita. Consumer spending, as a result, grew by an estimated 3.8 per cent in 2004.

Despite continued strength in non-residential construction, an expected decline in housing starts will push total construction output down in 2005. However, housing starts will still be high by historical standards, driven by continued

Strong population growth in Vancouver this year will fuel services sector output. Real GDP is forecast to increase by 3 per cent in 2005 as a result. Employment growth is forecast to reach 1.5 per cent, allowing for sound income and spending growth. But the housing market is expected to weaken in 2005. After reaching an astonishing 18,300 units in 2004, housing starts are forecast to fall by 27.7 per cent this year as demand weakens. Starts will continue to fall through next year as well, moving back to more sustainable levels.

strong population growth and low mortgage rates. All in all, real GDP growth is expected to rise by 3 per cent in 2005, allowing employment to rise by a further 1.5 per cent.

Housing Outlook

EXISTING HOUSING MARKET

From 2001 until last year, Vancouver had one of the strongest resale home markets in the country, as both low interest rates and sound income growth lifted demand for existing homes. Unit sales nearly doubled over 2001 to 2003, growing by an average of 23 per cent annually to reach 39,300 in 2003.

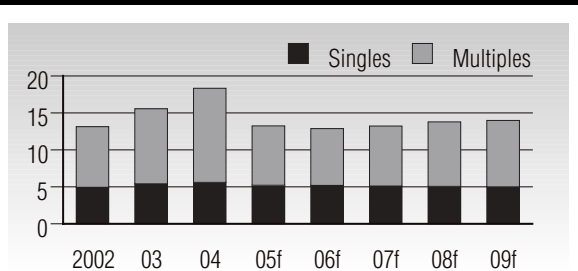
The increase in demand over the past few years also gave way to significant price increases. Growth in the average price of an existing home has risen steadily since 2002, with gains of 5.4 per cent, 9.4 per cent and 12.2 per cent recorded for 2002, 2003 and 2004 respectively. By 2004, the average price of an

existing home in Vancouver had reached \$369,300.

Higher prices were an incentive for more sellers to enter the market. Partly as a result, new listings averaged 11.1 per cent growth from 2002 to 2004. However, until 2004, demand increased at a faster pace than supply, allowing the sales-to-new-listing ratio to rise from 69 in 2001 to 80 in 2003. By 2004, demand fell off and sales declined by 1.8 per cent. The ratio, in turn, slipped back to 69.

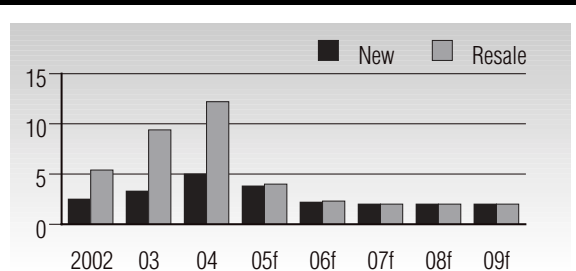
Although mortgage rates will remain low in 2005, demand for existing homes in Vancouver is expected to come back down to more sustainable levels, with unit sales forecast to fall by 8.6 per cent this year. Given that prices continued to rise at a healthy clip in 2004, more sellers are expected to enter the market in 2005, pushing the number of new listings up by 1.8 per cent. Lower sales combined with higher

Chart 1—Housing Starts (000s)



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; Canadian Real Estate Association.

listings will result in a further reduction in the sales-to-new-listings ratio to 61 this year. This ratio is expected to continue to trend slowly downward for the rest of the forecast, as it moves towards its historical average of 54.

NEW HOUSING MARKET

The end of the last decade was slow for home builders in Vancouver, as housing starts declined by an annual average of 19.2 per cent from 1998 to 2000. Fortunately, the new housing market got a much needed lift in 2001 when mortgage rates declined significantly, fuelling an increase in demand. From 2001 to 2004, housing starts averaged 22.3 per cent growth per year, more

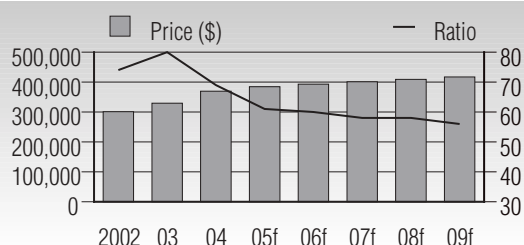
than making up for the declines of the previous three years. In 2004 alone, builders broke ground on over 18,300 homes in Vancouver, about 2,800 units more than in 2003. On top of low borrowing costs, a stronger level of consumer confidence, a 2.5 per cent rise in employment and a 5.2 per cent increase in personal income all contributed to the strong housing starts showing last year.

Strong demand has also boosted new home prices. Average annual growth since 2002 has been 3.6 per cent, bringing the average price tag to \$518,900 in 2004. Prices had previously reached a low of \$463,300 in 2000.

Because of the recent upturn in prices, the demand for new housing is forecast to slow in 2005, leading to a 27.7 per cent drop in housing starts to 13,300 units. Absorptions are expected to fall for the first time in five years, declining by 8.7 per cent. At the same time, the number of newly completed but unabsorbed homes is forecast to rise by 6 per cent. This will result in an increase in the months' supply from 3.3 months in 2004 to 3.8 months this year.

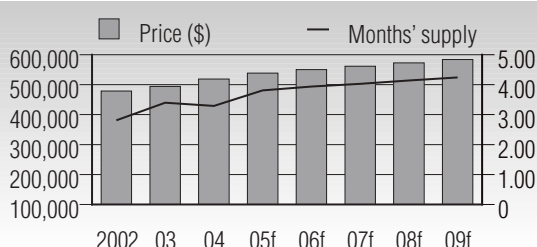
From 2006 to 2009, the number of housing starts is projected to stabilize at an average of 13,500 units per year. Price growth will stabilize at 2 per cent annually.

Chart 3—Resale Housing Price and Sales-to-New-Listings Ratio



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation; Canadian Real Estate Association.

Chart 4—New Housing Price and Months' Supply



Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation.

Table 1—Economic Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Real GDP at basic prices (1997 \$ millions)	65,118 <i>3.4</i>	68,018 <i>4.5</i>	70,067 <i>3.0</i>	72,157 <i>3.0</i>	74,603 <i>3.4</i>	77,055 <i>3.3</i>	79,553 <i>3.2</i>	82,095 <i>3.2</i>
Total employment (000s)	1,076 <i>2.4</i>	1,111 <i>3.2</i>	1,138 <i>2.5</i>	1,155 <i>1.5</i>	1,179 <i>2.1</i>	1,203 <i>2.1</i>	1,228 <i>2.0</i>	1,251 <i>1.9</i>
Unemployment rate	7.8	7.3	7.0	6.8	6.9	7.0	7.0	7.2
Personal income per capita	28,252 <i>-0.5</i>	29,276 <i>3.6</i>	30,424 <i>3.9</i>	31,361 <i>3.1</i>	32,436 <i>3.4</i>	33,382 <i>2.9</i>	34,268 <i>2.7</i>	35,100 <i>2.4</i>
Population (000s)	2,111 <i>1.7</i>	2,134 <i>1.1</i>	2,161 <i>1.3</i>	2,195 <i>1.6</i>	2,232 <i>1.7</i>	2,276 <i>2.0</i>	2,327 <i>2.3</i>	2,382 <i>2.4</i>
Retail sales (\$ millions)	21,298 <i>6.1</i>	21,649 <i>1.6</i>	22,469 <i>3.8</i>	23,352 <i>3.9</i>	24,422 <i>4.6</i>	25,538 <i>4.6</i>	26,609 <i>4.2</i>	27,696 <i>4.1</i>
Inflation rate	2.3	2.0	2.0	2.0	1.9	2.0	2.0	2.0

Italics indicate percentage change.

Sources: The Conference Board of Canada; Statistics Canada.

Table 2—Housing Indicators

Economic indicators	2002	2003	2004f	2005f	2006f	2007f	2008f	2009f
Housing starts	13.14 <i>21.2</i>	15.56 <i>18.4</i>	18.33 <i>17.8</i>	13.25 <i>-27.7</i>	12.88 <i>-2.8</i>	13.22 <i>2.7</i>	13.78 <i>4.3</i>	13.97 <i>1.4</i>
Singles	4.95 <i>40.1</i>	5.41 <i>9.3</i>	5.62 <i>3.9</i>	5.23 <i>-7.0</i>	5.20 <i>-0.6</i>	5.11 <i>-1.6</i>	5.07 <i>-0.8</i>	5.01 <i>-1.1</i>
Multiples	8.19 <i>12.1</i>	10.14 <i>23.8</i>	12.71 <i>25.2</i>	8.02 <i>-36.9</i>	7.68 <i>-4.2</i>	8.11 <i>5.6</i>	8.71 <i>7.4</i>	8.96 <i>2.8</i>
Housing completions	12.07 <i>49.7</i>	13.35 <i>10.6</i>	14.92 <i>11.8</i>	17.63 <i>18.1</i>	14.42 <i>-18.2</i>	12.79 <i>-11.3</i>	13.00 <i>1.7</i>	13.46 <i>3.5</i>
Singles	4.05 <i>25.0</i>	5.28 <i>30.3</i>	5.25 <i>-0.6</i>	5.41 <i>3.0</i>	4.99 <i>-7.7</i>	5.05 <i>1.1</i>	5.00 <i>-1.0</i>	4.95 <i>-1.0</i>
Multiples	8.02 <i>66.4</i>	8.07 <i>0.6</i>	9.67 <i>19.9</i>	12.22 <i>26.3</i>	9.43 <i>-22.9</i>	7.74 <i>-17.9</i>	8.01 <i>3.5</i>	8.50 <i>6.2</i>
Average price of a new home (\$)	478,550 <i>2.5</i>	494,122 <i>3.3</i>	518,889 <i>5.0</i>	538,625 <i>3.8</i>	550,475 <i>2.2</i>	561,606 <i>2.0</i>	572,788 <i>2.0</i>	584,248 <i>2.0</i>
Newly completed and unabsorbed	4.35 <i>-30.6</i>	6.55 <i>50.5</i>	6.40 <i>-2.3</i>	6.78 <i>5.9</i>	6.71 <i>-1.0</i>	6.61 <i>-1.6</i>	6.78 <i>2.6</i>	6.97 <i>2.7</i>
Absorptions	4.65 <i>13.2</i>	5.78 <i>24.4</i>	5.85 <i>1.2</i>	5.34 <i>-8.7</i>	5.11 <i>-4.3</i>	4.92 <i>-3.8</i>	4.91 <i>-0.1</i>	4.93 <i>0.3</i>
Months' supply	2.81	3.40	3.29	3.81	3.94	4.03	4.14	4.24
Average price of a resale home (\$)	300,883 <i>5.4</i>	329,256 <i>9.4</i>	369,316 <i>12.2</i>	384,210 <i>4.0</i>	393,046 <i>2.3</i>	400,995 <i>2.0</i>	408,979 <i>2.0</i>	417,161 <i>2.0</i>
Resale dollar volume sales (\$ millions)	10,546 <i>27.8</i>	12,985 <i>23.1</i>	14,246 <i>9.7</i>	13,533 <i>-5.0</i>	14,566 <i>7.6</i>	15,663 <i>7.5</i>	17,333 <i>10.7</i>	18,244 <i>5.3</i>
Resale unit sales	35.00 <i>21.5</i>	39.26 <i>12.2</i>	38.54 <i>-1.8</i>	35.22 <i>-8.6</i>	37.06 <i>5.2</i>	39.06 <i>5.4</i>	42.38 <i>8.5</i>	43.73 <i>3.2</i>
Resale new listings	47.21 <i>13.6</i>	49.07 <i>3.9</i>	56.81 <i>15.8</i>	57.85 <i>1.8</i>	61.36 <i>6.1</i>	66.78 <i>8.8</i>	73.71 <i>10.4</i>	77.54 <i>5.2</i>
Sales-to-new-listings ratio	74	80	69	61	60	58	58	56

Data are in thousands of units unless otherwise specified. Italics indicate percentage change.
Sources: The Conference Board of Canada; Canada Mortgage and Housing Corporation; Canadian Real Estate Association; Statistics Canada.

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