

# WESTERN POLICY Analyst

Bi-Weekly Briefing

Volume 2, Issue 17

JOHNSON  
SHOYAMA GRADUATE SCHOOL OF  
PUBLIC POLICY

OCTOBER 19, 2011

This Week...

Residential Housing  
Manufacturing Sales  
Employment  
Gasoline Sales



## Residential Housing By Doug Elliott, Editor

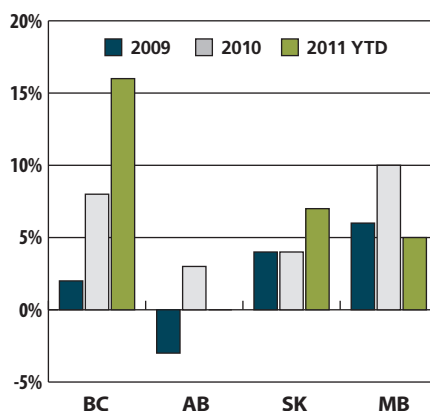
When housing prices collapse suddenly, the largest asset most families have is suddenly devalued, at least on paper. If

there is a substantial mortgage, and there often is, the outstanding debt may exceed the value of the asset. In other words, selling the house would not repair the homeowner's balance sheet. This has a severe dampening effect on consumer confidence and consumer spending so housing "bubbles" such as the recent ones in Ireland, Spain, and the USA are to be avoided at all costs. Unfortunately, it is almost impossible to recognize a price bubble until after it bursts. Are western housing prices headed for a drop?

Two of the recent statistics that can be brought to bear on the subject are i) the value of dwellings changing hands in the resale market and ii) the rate of new construction. Figure 1 shows the increase in the average price paid for houses or condominiums sold through the Multiple Listing Service (MLS) for the past two years and the first half of 2011. In Manitoba and Saskatchewan, the price increases are substantial but there is no sign of unsustainable increases. There was only a modest increase in Alberta prices in 2010 and no increase at all in the first half of 2011. On the other hand, the B.C. market does look overheated with a 16% increase in the first half of 2011 directly on the heels of an 8% increase in 2010.

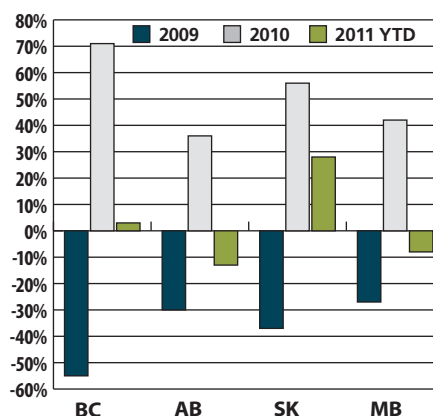
The supply side shows a different pattern with declines in housing starts in 2009 and very large increases in 2010. In the first three quarters of 2011, housing starts in B.C. have remained high. There have been declines in Alberta and Manitoba, and another substantial increase in Saskatchewan.

**Figure 1: Change in Average Price Paid, Housing Resale Market**



There is no sign of a housing bubble in the prairie provinces but B.C.'s market looks overheated.

**Figure 2: Change in New Housing Starts, Urban Centres**



On balance, the figures suggest that B.C. is the only province that is at risk of an abrupt drop in the residential housing market.

## Manufacturing Sales

Manufacturers in the developed nations are facing stiff competition from low-cost manufacturers in China and other parts of southern and southeast Asia. Those in western Canada have had to deal with other problems as well – a shortage of skilled labour, a recession in the USA (one of their main customers), and an appreciating Canadian dollar that makes their products more expensive. Western Canadian manufacturers are not affected by competition from Asia as much as those in the East because of the nature of the products they make. Fortunately, the price for many products made in the West has remained high and demand is strong.

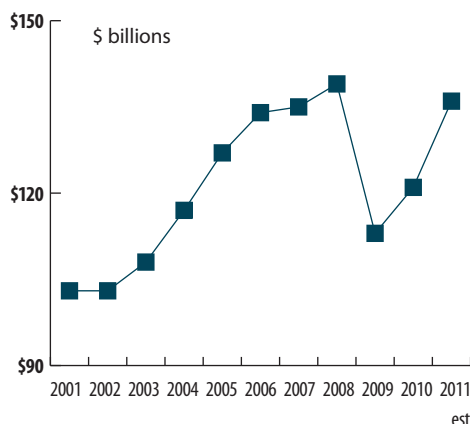
The combination of long-term and short-term effects drove down the value of sales quite sharply in 2009. Between 2008 and 2009, the value of sales (which is a function of both the price and volume of production) declined by 19% from \$139 billion to \$111 billion, erasing five years of increases. A recovery began in 2010 with a 7% increase and continued into 2011 with a 12% year-to-date increase in the first eight months.

The overall western pattern is replicated in three of the four provinces. B.C. (which accounts for 28% of sales in the West) was the exception where the value of manufacturing sales began to drop earlier.

With the recovery in sales, an increase in employment would be expected and the figures suggest that it is underway. After dropping by 14% in 2009, manufacturing employment grew by 2% in 2010 and by 6% in the first three quarters of 2011.

After a sharp drop in 2009, the value of manufactured goods will be near pre-recession levels in 2011.

**Figure 3: Value of Sales, Manufacturers in Western Canada**

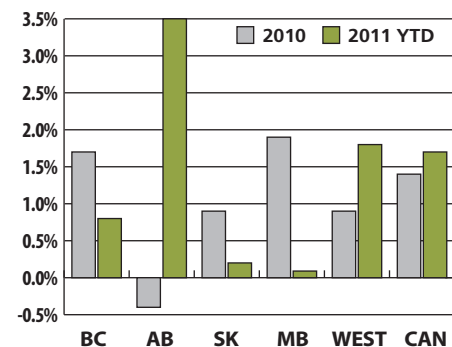


## Employment

The labour market continued to grow in September with a 2.8% year-over-year increase in employment in the four western provinces compared with the national average of 1.8%. This means that the economy in western Canada is generating employment at a faster rate than in the East, the opposite of what was happening in 2010.

The increase was not evenly distributed with growth rates of 5.2% in Alberta, 1.7% in B.C. and increases of less than 1% in Saskatchewan and Manitoba. Figure 4 shows that this brings the year-to-date employment increase to 1.8% compared with growth of 0.9% in 2010.

**Figure 4: Increase in Employment**



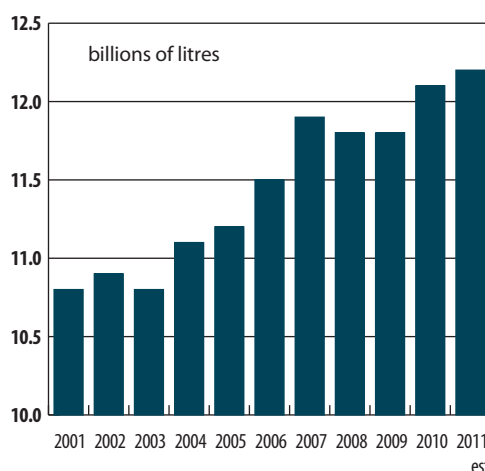
Even with the risk of another worldwide recession on the horizon, expect skill shortages to become a renewed concern for the labour market in the coming months.

## Gasoline Sales

The volume of gasoline sold at retail service stations in western Canada continues to increase. Figure 5 shows sales this year are expected to top 12.2 billion litres, a 1.1% increase from 2010 and 13% more than ten years ago.

The upward pressures on sales include a strong economy and steady population growth. On the other hand, vehicles use less fuel than they used to, the price of gasoline has almost doubled in the last ten years, and many consumers are reducing consumption because of environmental concerns. The downward pressures are clearly not enough to counteract the upward ones.

**Figure 5: Retail Sales of Gasoline, Western Provinces**



## Upcoming Releases

In the next two weeks Statistics Canada will be releasing data describing:

- August sales of new motor vehicles on October 17;
- August international travel statistics on October 19;
- August Employment Insurance recipients on October 20;
- September consumer price index on October 21;
- August retail sales on October 25; and
- August employment and earnings on October 27.

### Sources:

The figures are adapted from the following sources:

**Residential Housing:** CMHC "Housing Now"

**Manufacturing Sales:** Statistics Canada CANSIM Tables 282-0007 and 304-0015

**Employment:** Statistics Canada Labour Force Survey, 71-001

**Gasoline Sales:** Statistics Canada CANSIM Tables 326-0020 and 134-0004

OCTOBER 19, 2011

The Western Policy Analyst is published bi-weekly and quarterly by the Johnson-Shoyama Graduate School of Public Policy. No reproduction of any material is allowed without express consent of the publishers.

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ISSN 1923-9971



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