



Stock Market Tumbles, Reduced Prime Rates and the Impact on BC Real Estate

The Bank of Canada reduced the trend setting Prime Rate by $\frac{1}{4}\%$, to a lesser degree matching a $\frac{3}{4}\%$ reduction in the US Prime Rate. The large US cut was in response to tremendous loses in US stock markets over the past month along with recent economic statistics pointing towards a looming US recession. As the US drops rates, Canada is somewhat forced to follow suite in order to keep the Canadian dollar roughly at par with its US counterpart. Economist are predicting that we will see a cut of 50 basis points the next time the Bank of Canada meets.

What does all this mean for Canadian homeowners, particularly those of us in BC? Many of our clients are asking if the drop in home prices across the border will be coming to Canada and are we going to be affected by an imminent recession in the US? If you simplify the data you can come up with a few historical and economic precedents that should hold true in today's market.

- 1. The Canadian economy is much stronger than the US in regards to unemployment, growth and federal government debt and deficits.** While the US is continuing to run multi billion if not trillion dollar deficits on a federal level the Canadian government continues to operate in a surplus and is actually reducing its debt level on a year over year basis. Policies such as these are allowing tax reductions leading to increased investment in Canada both on a corporate and individual level. The opening of a major Microsoft Office in Richmond is a classic example of this type of investment attraction. Canada currently shows a lower unemployment rate and higher levels of growth in our domestic product than the US. In short, our economy, for whatever reason, is much stronger than the US, at least for now.
- 2. Dropping stock values, along with lower interest rates, lead to higher real estate prices.** History has shown us that volatility in the stock markets funnel money away from the chaos and unknown, gravitating instead towards brick and mortar investments such as gold and real estate. Investments you can touch and feel. Real estate becomes more affordable as governments reduce interest rates to stimulate the economy. This has been proven over and over again in modern history with the most recent event the dramatic increase in real estate prices throughout North America in the years following 911.



3. **Since World War 2 it is unheard of for real estate markets to drop in price in Olympic cities prior to the actual year of the Olympic Games.** In almost all cases, prices continue to rise up to the year of games in which they stabilize and in most cases slightly drop the year after the games. An exception to this was Sidney, which continued to rise in price for years after the Olympics as workers and visitors fell in love with the city and decided to stay or move there. With Vancouver consistently ranked in the top 2 or 3 cities in the world, don't bet against this happening here as well.

Hopefully we have been able to afford some insight on what to expect for the first part of 2008. **Our summation is to expect real estate prices to continue to rise through 2009 in BC and Alberta, especially in Vancouver, large urban centers and the Okanagan.** While rates are dropping you will never have a better time to consolidate loans, refinance for investment purposes including RRSPs or purchase a revenue or recreational property. Call us for your annual mortgage review and while we're at it we can also help with your life, home and other insurance needs. As always, we're here to help!

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