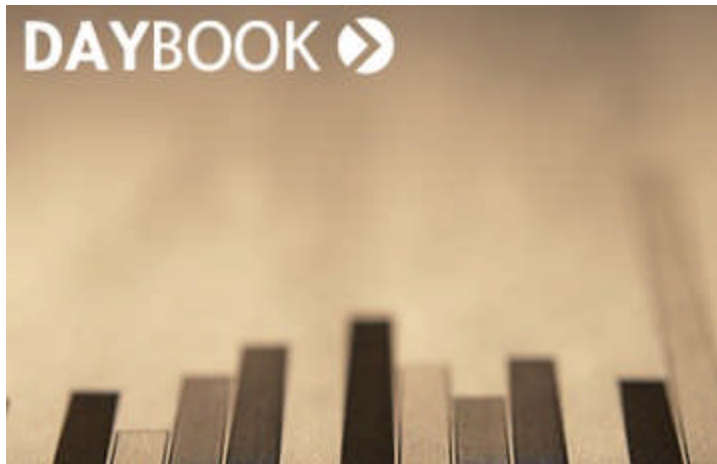


Economic slack: Unsold homes and bulging piggy banks



Plus: Starbucks' instant gratification

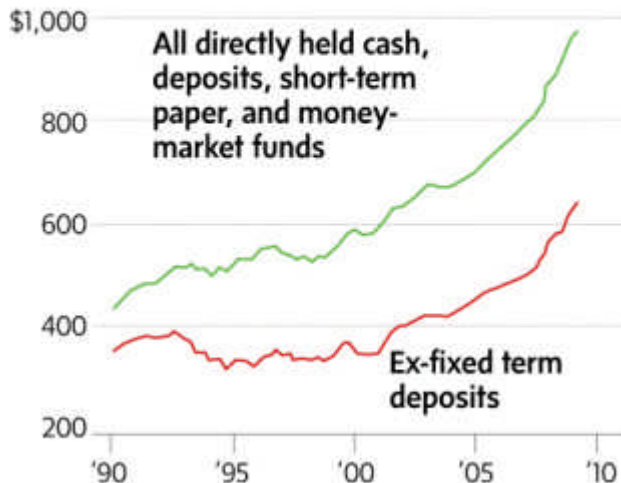
Globe and Mail Update Last updated on Tuesday, Sep. 29, 2009

06:55AM EDT

A recession's toll can be measured by looking at economic slack – the unused portion of a country's productive assets. Gauging slack also offers a glimpse at how far we are from a recovery. This week, ROB's Daybook is looking at slack in key sectors of the Canadian economy. Today's focus is on two areas: real estate and household assets.

Household cash holdings

\$BILLIONS



THE GLOBE AND MAIL » SOURCE: STATISTICS CANADA, BANK OF CANADA, SCOTIA CAPITAL ECONOMICS

PERSONAL FINANCE

Piggy banks are bad for the economy. Every dollar saved is one that isn't paying wages, buying groceries or creating employment.

Worried about losing their jobs and still stinging from last year's market crash, Canadians are squirrelling away money like never before. Canadian households are sitting on up to \$1-trillion of cash and near-cash holdings, earning almost no interest, says Scotia Capital Inc. Scotia's Derek Holt says he understands such cautiousness, but warns "excessive complacency and risk aversion" will cause people to miss out on gains in stock markets and other investments.

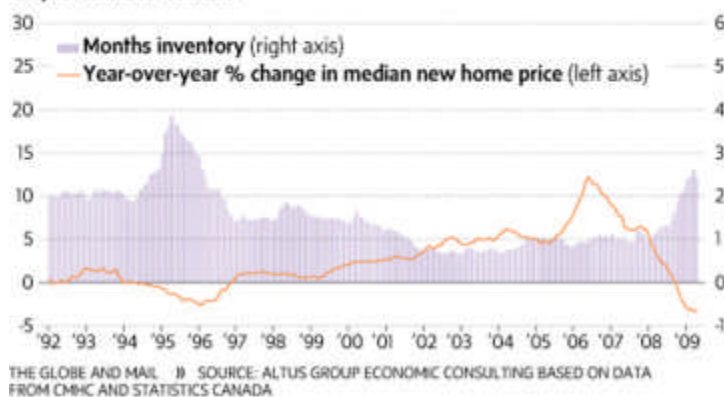
As the accompanying chart shows, Canadian nest eggs ballooned at the beginning of the decade. Mr. Holt says this was a reaction to the dot-com bubble, Y2K jitters and the Sept. 11, 2001, terrorist attacks. Savings picked up again in 2007.

CIBC World Markets said recently Canadians' savings rate at midyear was 4.5 per cent, compared with 3.4 per cent a year earlier. Given last fall's stock market crash, it's hard to blame them.

Virginia Galt

Neighbourhood watch

One sign of slack in the real estate market is the growing inventory of unsold homes.



REAL ESTATE

Commercial property

Nearly one in 10 downtown and suburban office spaces in Canada stands empty. Commercial real estate vacancies have surged 50 per cent in the past year to a four-year high of 9.4 per cent, according to CB Richard Ellis Ltd.

It cites sluggish job creation in white-collar industries as one key reason, along with rising inventory in two of Canada's three largest office markets. Vancouver, Calgary and Toronto led the increases.

Industrial space

More industrial properties are also vacant as factories close and warehouses operate at lower capacity.

The vacancy rate for industrial buildings rose to 5.9 per cent in the second quarter from 5.7 per cent in the first quarter, Colliers International data show. Analysis from Cushman & Wakefield shows a similar trend.

"It's the slowdown in export demand and the strong Canadian dollar," says Bank of Nova Scotia economist Adrienne Warren.

Houses

The Canadian housing market has not crashed in value the way it has in the United States.

But the domestic market is still looser than it was a year ago.

Across Canada, inventories of newly built houses that are completed but not yet sold is about two and a half months, as measured by how long it would take to sell inventories, according to Altus Group research.

That's much higher than a year ago, when it was just one month.

Among condos, the number of units completed but still yet to be sold has also increased in the past year, Ms. Warren says.

“That's something to keep an eye on.”

Tavia Grant



Starbucks Corp. (SBUX-Q20.38-0.24-1.16%) chief executive officer Howard Schultz is betting on an unlikely product: instant coffee. His chain of cafés could certainly use a jolt. It has been closing stores and recently posted a 6-per-cent quarterly drop in sales as recession-battered customers turned to cheaper brews. It is making gains with its turnaround efforts, but has few growth opportunities left in its U.S. home market, says analyst Greg Schroeder at Jesup & Lamont Securities Corp.

The market Instant coffee is a \$21-billion (U.S.) global market, representing about 40 per cent of overall coffee sales, according to Starbucks. In Canada, the segment represents just 15 per cent of total coffee consumption; in the United States, it's 10 per cent. But the biggest opportunity lies elsewhere. In Britain, more than 80 per cent of coffee sold is instant.

The money Mr. Schroeder estimates gross profit margins on instant coffee are 80 per cent or better, compared with 70 to 75 per cent for brewed java. In the United States alone, Starbucks stands to gain \$100-million to \$200-million of sales in the next two years from instant coffee, which sells for \$1.15 a serving, he says.

The reaction

“It still feels like a slight disconnect with the soul of the barista coffee experience,” says market researcher Luke Sklar. “I would be mildly skeptical. The word ‘instant’ says fake. ... But I trust those guys.”

Marina Strauss