Central 1™

B.C. Economic Briefing

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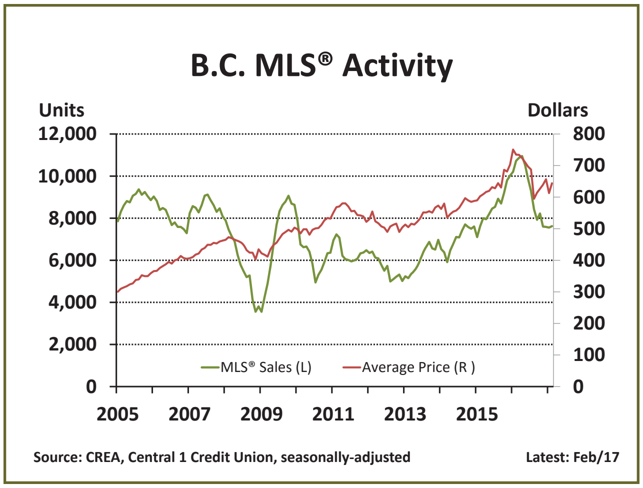
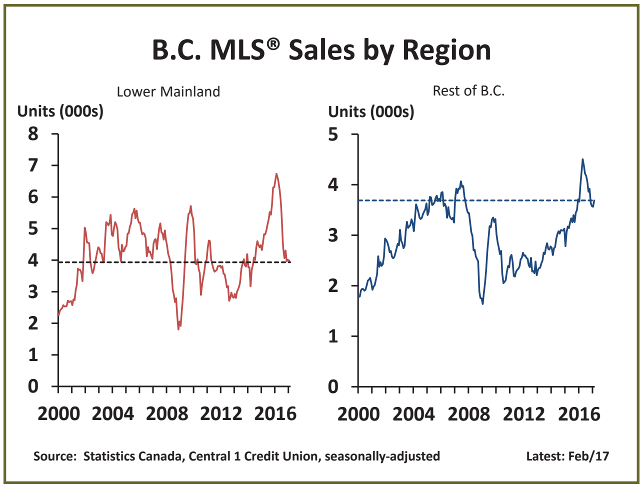
HIGHLIGHTS:

- Provincial MLS® sales edged up in by 0.9 per cent.
- The average MLS® price climbed five per cent to $644,000 following a January dip, to extend a recent uptrend.
- Manufacturing sales edged lower for a second straight month in January, but held well above year ago levels





Provincial MLS® activity firms in February

Moderate levels of activity in B.C.'s housing market continued with February data suggesting a bottoming of MLS® sales in January, and higher average prices. Provincial MLS® sales edged up in February to a seasonally adjusted 7,621 units, up 0.9 per cent, led by a 3.5 per cent growth in markets outside the Lower Mainland.

While attention will remain on the 29 per cent year-over-year decline as a sign of severe market weakness, conditions are nowhere near dire.

Year-ago sales declines are primarily due to a 40 per cent drop in the Lower Mainland, owing to the combination of base-year effects, affordability erosion, and policy tightening. Recent sales compare to a record-high spring 2016 that accelerated prices, eroded affordability and led to tighter government policy. The latter included a higher tax on luxury home sales, a foreign buyer tax, and tighter federal mortgage insurance rules near year-end. While sales have tumbled from a year ago, levels are modest when compared to the past decade, albeit slightly lower than the population-adjusted average.

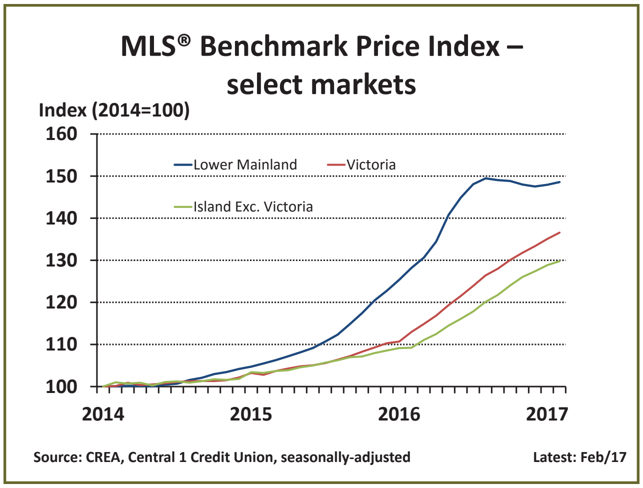
Elsewhere in the province, sales declines were more gradual after a spring uplift with year-over-year February sales down 7.5 per cent. Alongside economic growth and population gains, last year's spring rush partly reflected Lower Mainland sellers cashing out and relocating to interior and Island markets -- a trend that has likely turned. Nevertheless, sales are strong and near previous cyclical peaks observed in the mid-2000s. Sales levels are elevated in the Thompson-Okanagan, and Vancouver Island markets. Kootenay sales are below previous cycle highs, but rising, while the northern B.C. sales remain more subdued.

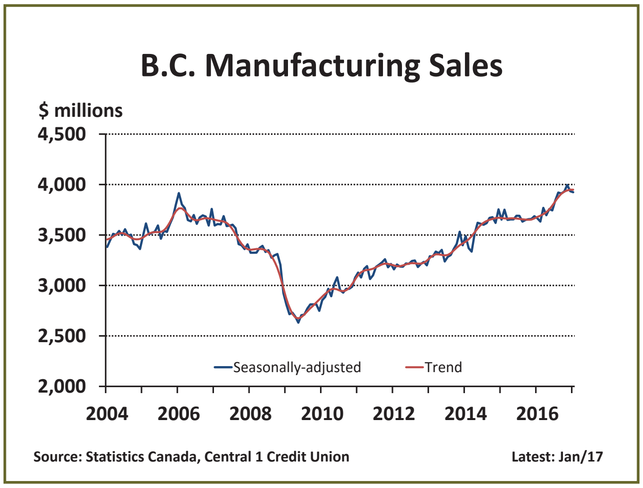
Moderate sales activity further eroded inventory in most real estate board areas. Sales-to-active listings ratios flash sellers' market signals in B.C.'s larger urban areas, Vancouver Island as whole, and in the Okanagan, contributing to positive price momentum. More modest conditions persisted in the Kootenay and northern areas.

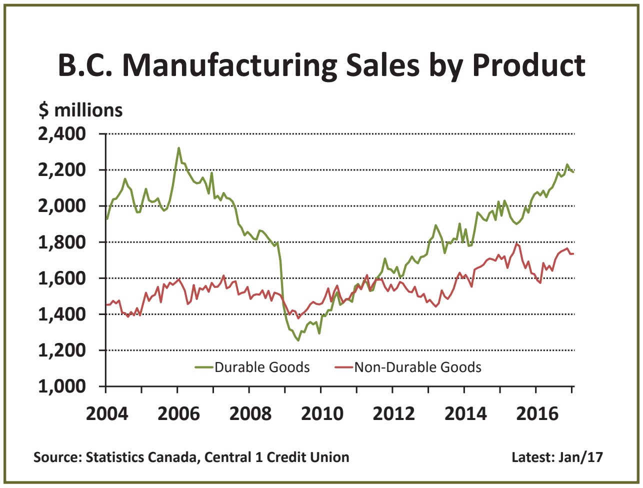
The average MLS® price climbed five per cent to $644,000 following a January dip, to extend a recent uptrend. While down 12 per cent from a year ago, this largely reflects a lower sales share and average prices in the Lower Mainland, as prices climbed in nearly all other real estate boards. Moreover, fewer sales of luxury and detached home, and an increased share of sales in eastern suburbs has skewed the average Lower Mainland price lower.

Benchmark price indices are a better indicator of underlying prices and point to firm price levels, but are only available for select markets. Led by apartment and townhomes, the Lower Mainland composite benchmark edged higher, and was up 16 per cent from a year ago. Meanwhile, benchmark value price levels in Victoria and elsewhere on the Island continued to surge at a near one per cent per month pace, with year-over-year growth of about 20 per cent.

Steady sales condition and lack of supply look to support a stronger than previously expected pricing environment. While tighter mortgage insurance rules could still bite, the B.C. HOME Partnership program will likely boost the entry-level market. Lack of inventory is a key imbalance in the market that may very well push up prices this year, despite some demand headwinds.







Manufacturing sales edge lower in January, slower gain expected in 2017

B.C. manufacturing sales edged lower for a second straight month in January, pointing to a deceleration in the growth trend, but persistent strength relative to a year ago. Total manufacturing sales edged down 0.3 per cent from December to a seasonally adjusted $3.92 billion. Unadjusted for seasonal factors, sales were up a solid five per cent from the same month in 2016, but down from a more than 10 per cent year-over -year gain in December.

January's slip reflected a half per cent decline in durable goods sales, as the important wood product manufacturing sector (-0.5 per cent) fell for a second consecutive month, while non-metallic metallic mineral product (-1.6 per cent) sales also declined. Partly offsetting this was an increase in machinery (0.9 per cent), and transportation equipment (23 per cent) related to shipbuilding and aerospace products. On the non-durables front, steady sales reflected higher paper manufacturing sales (3.0 per cent), but fewer food products sales (-1.8 per cent).

Despite recent pullback, durables goods shipments remain the backbone of positive momentum in recent years, while non-durables have been range-bound. The former has reflected a multi-year uptrend in wood products, while primary metals production surged over the last year. The former has gained from improved U.S. housing market and access to U.S. market temporarily unimpeded by export taxes following the end of the softwood lumber agreement in late-2015. Meanwhile, completion of the Rio Tinto Alcan smelter lifted metals production. A challenging paper market and production cuts contributed to weaker sales in the non-durables sector.

Real manufacturing output growth in B.C. is forecast to slow to about 1.8 per cent annually in 2017 and 2018, down from more than four per cent in 2016.

The favourable Canadian dollar and growth in the U.S. economy are positive drivers for demand going forward but forestry is likely to drag. The one-year standstill period after expiration of the softwood lumber agreement ended in October, which will likely result in substantial export duties on Canadian lumber by mid-year. Meanwhile, huge gains in primary metal production will not be repeated.

Furthermore, trade risks associated with the new U.S. administration and potential re-opening of NAFTA mark another significant downside risk.

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