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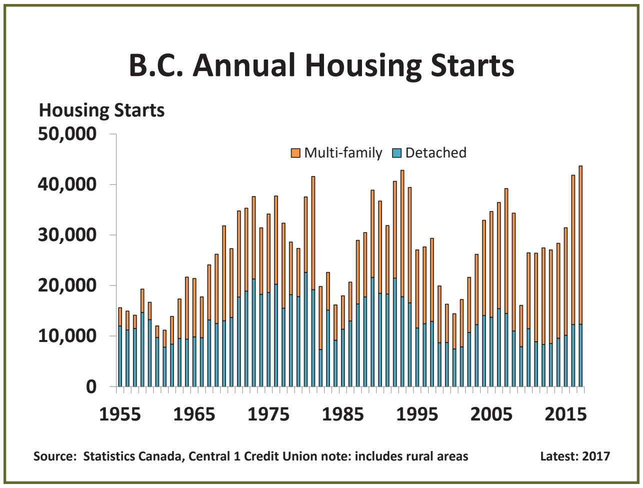
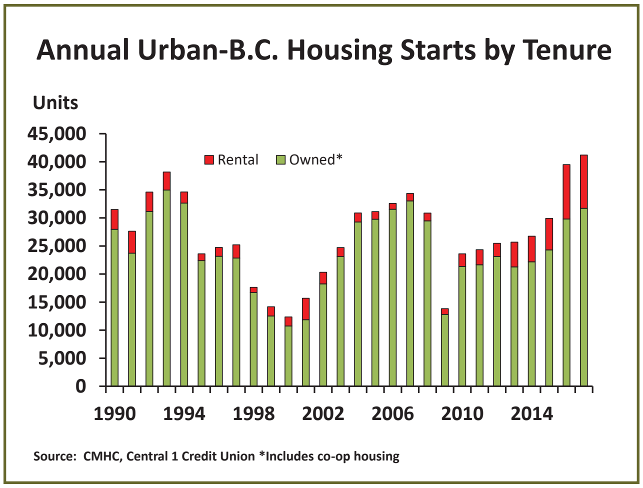
HIGHLIGHTS:

- 2017 housing starts hit record highs, expected to decelerate slightly through 2018
- Residential and non-residential building permits down in November, suggesting some moderation in construction ahead
- Strong vehicle sales likely to continue, but slower job growth, higher interest rates and buyer exhaustion will cut into activity in 2018





Housing starts hit record high in 2017 on December surge

"Build baby build," is the B.C. housing market mantra, with yet another hefty month for new home construction. Housing starts in urban areas accelerated to 49,600 units SAAR (seasonally-adjusted at annual rate) pace, up from a 44,890 pace in November.

Single-detached starts held steady from November at an 11,700 units SAAR, with growth driven entirely by multi-family product. Not surprisingly, the increase was led by an increase in Vancouver census metropolitan area (CMA) starts, with solid gains in both Kelowna and Victoria.

December's performance capped off a stronger than expected fourth quarter and, by extension, annual performance, for the housing industry. Heading into 2018, monthly new home starts in the Vancouver CMA area are in line with the blistering pace of early 2016, while activity in the rest of the province is trending near cycle highs seen in the mid-2000s.

Including rural areas, annual starts hit 43,666 units, marking an increase of 4.3 per cent – a new record high – lifted by a six per cent gain in apartment and townhomes. New home construction gains in large markets across the province offset a decline in the Vancouver CMA. The Vancouver CMA posted a decline of six per cent following a record 2016. Sharply higher starts in the CMAs of Kelowna (up 63 per cent), Victoria (up 32 per cent), and Abbotsford-Mission (up 50 per cent) all contributed to the net gain, alongside Chilliwack and Vernon.

Persistence of strength across the province reflects high levels of housing demand. Domestic economic strength, employment and population growth, and other demographic factors are driving demand for housing while a lack of existing and standing home inventory has fueled construction activity. Affordability erosion has also incented households to move further into the suburbs of Metro Vancouver or to other regions of the province. New home starts reflect past sales demand and pre-sale activity.

Affordability constraints, and policy shifts by municipal governments, have led to a shift in housing construction composition over the past two years. Among urban-areas, starts geared for homeownership led 2017 gains, but rental starts remained high. About 9,500 rental starts began construction in 2017, which was slightly lower than 2016, but made up nearly a quarter of activity. The share of starts attributed to rental has risen since 2009. Higher home prices across urban areas have priced households out of ownership, while rent increases, low vacancy rates of one per cent in large markets, and municipal incentives have incented more construction in this segment.

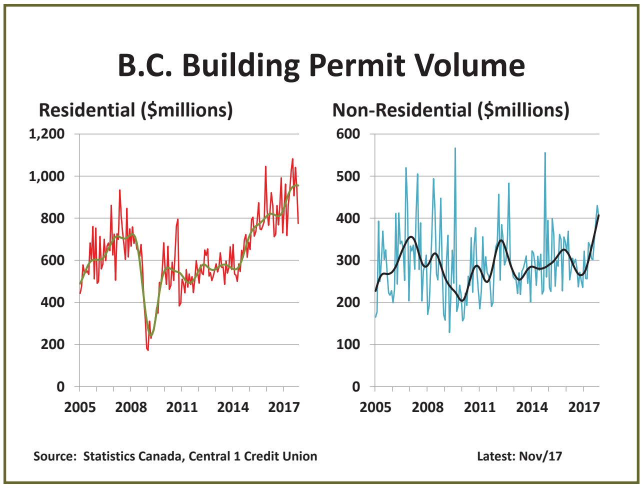
Housing starts are anticipated to remain high this year, near 40,000 units, but decelerate on more restrictive mortgage credit and a rise in interest rates. Builders will also be limited by supply constraints given a record 57,500 units number of underway in the province, suggesting lack of building capacity. This also serves as a caution to builders about the potential for short-term oversupply as projects complete. Nonetheless, this strong hand-off to 2018 points to another year of positive contribution to the economy from residential investment.

Construction intentions fall back but remain elevated in late-2017

B.C. building intentions took a step back from the record trend observed through the summer and fall months, but remained at a historically strong pace in November. Total dollar-volume permits fell 13.8 per cent from October, and five per cent on a same-month basis to $1.18 billion. Permit volume has consistently held at a monthly pace above $1.3 billion since June, driving a 14 per cent dollar-volume increase through the first 11 months.

Among CMAs, November's monthly decline was led by a plunge in Victoria (of 74 per cent), which retrenched after a sharp prior month gain, with drops also observed in Abbotsford-Mission (down 16.5 per cent), and Vancouver (down 8.6 per cent). An increase in Kelowna permits provided a minor offset.

Nonetheless, year-to-date activity remains well above year-ago levels, with gains of 23 per cent in Kelowna, 30 per cent in Victoria, and more



than 70 per cent in Abbotsford-Mission. Growth in the Vancouver CMA was a more modest 9.7 per cent.

November's pullback reflected declines in both the residential and non-residential sectors, with residential volume down 17 per cent from October following a 10 per cent dip the following month. On a year-to-date basis, residential permits were up a healthy 11 per cent, led by areas outside the Vancouver CMA, due to both higher prices and increased construction activity. The recent slide contrasts with December's strength in housing starts, and signals some moderation in the coming months for new construction activity.

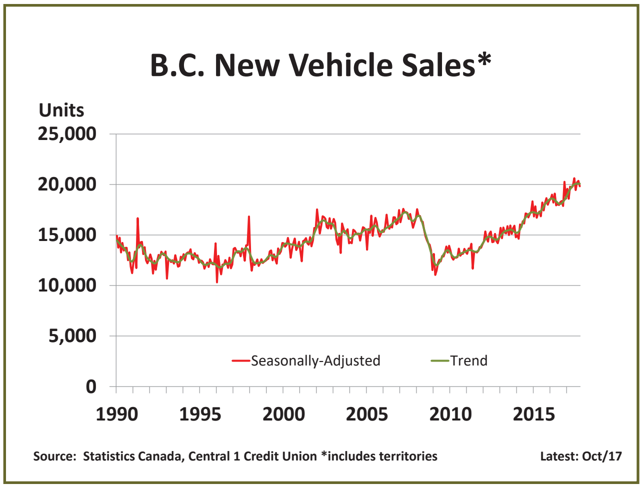
Non-residential permit trends signaled ongoing strength in business investment intentions, despite easing 5.6 per cent from October. This marked the end to a three-month upswing, reflecting a decline in private business intentions as public intentions rose during the month. Despite the drop, permits were up sharply year-to-date at 23 per cent, with gains concentrated in factories and plants, warehouses, and schools. Strong economic growth in the province, population growth, business confidence, and government spending has lifted building activity across B.C.'s metro areas.

Strong vehicle sales signal consumer demand momentum in October

High levels of new vehicle sales in B.C. continued into October, despite signs of a peak in the sales flow. Estimated sales in the region (which also includes the Canadian Territories) rose 10.7 per cent on a year-over-basis, decelerating slightly from September's 11.5 per cent pace. Adjusted for seasonal factors, unit sales continued to trend near a record high pace of 20,000 units per month. Sales have remained on a broad upward ascent following the 2008-09 recession, with the low interest rate environment, expansion in the provincial economy and employment underpinning demand.

Through ten months, vehicle sales in the region rose eight per cent over same-period 2016, with consumers generally paying about 4.6 per cent more for their new purchases. A key driver was further rotation of consumers to the higher-priced sport and compact utility vehicle segment, which drove truck sales up 14 per cent, compared a near three per cent drop in passenger car sales.

Strong vehicles should continue given that underlying strength in the economy will maintain high retail sales volume. That said, sales are likely to ease in 2018 as slower job growth, higher interest rates and buyer exhaustion cut into activity.



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