Central 1™

B.C. Economic Briefing

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HIGHLIGHTS:

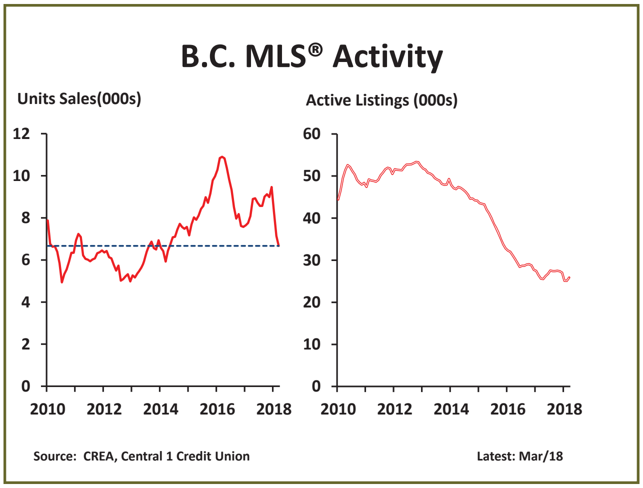
- MLS® sales slump for third straight month
- Housing starts robust in Q1 on March rebound
- B.C. jobs go unfilled, job vacancy hits four per cent in Q4

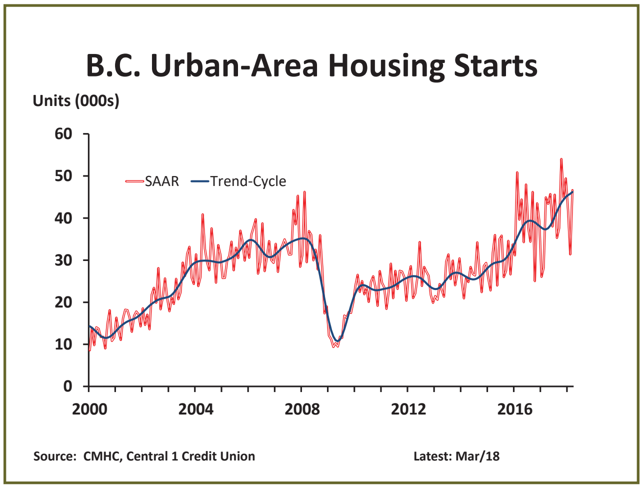
B.C. MLS® sales down for third straight month in March

While national home sales inched higher, B.C. posted another significant decline in MLS® sales in March. Uncertainty related to proposed tax hikes on real estate introduced in the provincial budget further spooked buyers, curtailing demand in a market already adjusting to tighter federal lending restrictions and a higher interest rate environment. Policies are pushing buyers down market to lower priced multi-family units and curtailing the top end, while adding uncertainty to recreational purchases across the province.

B.C. sales fell for a third straight month in March to a seasonally-adjusted 6,669 units. This was a 6.6 per cent decline from February and compared to a 1.3 per cent national gain. Fewer sales were recorded across the majority of real estate board areas, with the steepest declines in the Lower Mainland region, Kamloops, and Kelowna anchored Okanagan-Mainline. Year-over-year, sales fell nearly 25 per cent, exceeding a national drop of 22.7 per cent.

Compared to average sales in the fourth quarter, which were elevated in part by a pull forward in sales near year-end in advance of federal lending changes, March sales were 27 per cent





lower (the lowest since May 2014). The steepest declines have been in the Lower Mainland, which are down more than 30 per cent, although substantial drops of 20 per cent have been recorded in the Kelowna and Vancouver Island regions.

With the slump in demand reflecting policy changes rather than a slump in the economy, it is not surprising that the market has remained firm, albeit coming off red-hot conditions in 2017. For the most part, outside those that speculated for quick gains, there is little urgency on the part of sellers. The new listings flow rose in some markets but declines in a handful of large urban areas were an offset. Resale inventory rose for the first time since October (up three per cent) as fewer sales left more units unsold, but levels were in line with last year's levels and still near a record low. Temporary sales weakness will keep sellers on the sidelines. Sales-to-active listings are quickly moderating, meaning less competition for existing product, but continue to favour sellers in the Fraser Valley, Vancouver Island, with a shift towards balance in the remaining areas.

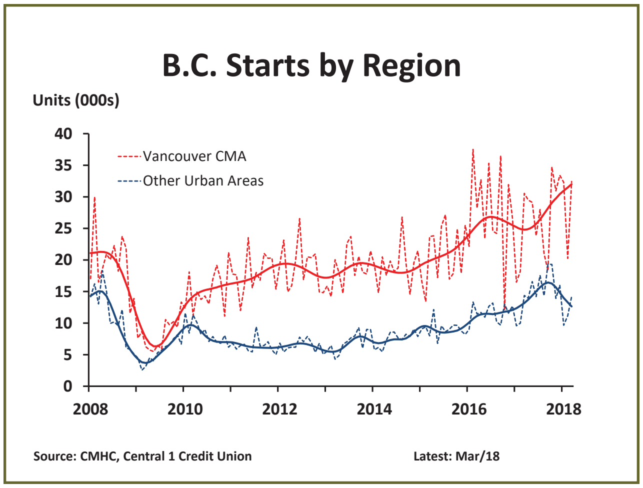
The provincial average price declined for a fourth straight month to $696,355, down 1.4 per cent from February. Compositional effects are behind this as sales fell more sharply in higher priced markets, particularly for detached homes. The MLS® benchmark price index, which adjusts for home attributes to estimate underlying price growth (available only for Vancouver Island and the Lower Mainland), shows continuation of strong price momentum of more than one per cent per month.

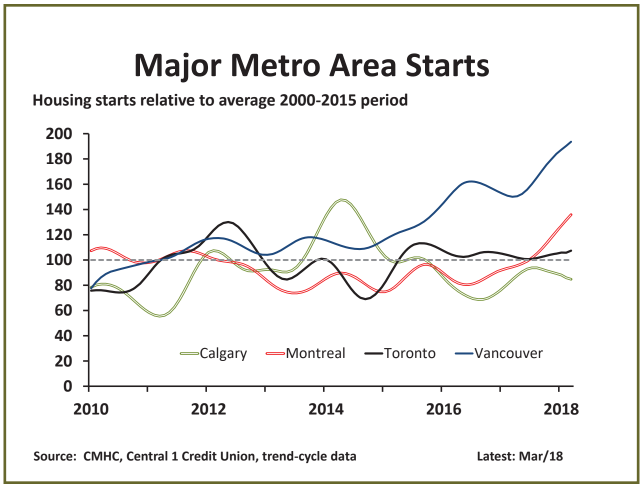
Central 1 expects the sales slide to end in the next two months, with economic growth driving a modest turnaround thereafter. Nonetheless, policy measures will constrain the rebound. Underlying prices will continue to rise given low inventory, but at a slower pace.

Housing starts rebound in March, Q1 urban-area starts up 21 per cent

Housing starts fully rebounded in March following a February dip, maintaining what has been a stellar trend in new home construction. Total B.C. urban-area housing starts reached a seasonally-adjusted annual rate of 46,630 units, which was nearly 50 per cent above February's pace. Both single-detached and multiple-family units rose during the month, with headline values driven by a 75 per cent increase in apartment starts from February. Large monthly swings in multi-unit starts are common and drive overall volatility, but the urban-area trend has held above a 40,000-unit pace since the end of the third quarter, and even higher when including rural areas.

Not surprisingly, Vancouver Census Metropolitan Area (CMA) construction drove the rebound, and more recently has underpinned the broad trend in provincial starts. Abbotsford-Mission and Kelowna also recorded strong increases, with Victoria flat relative to February. Metro market trends outside Vancouver have slowed since the first half of 2017 on a trend basis.





The relentless pace of new construction contrasts with a sharp decline in resale market activity following implementation of mortgage stress test rules, higher interest rates, and announcement of a new provincial speculation and other property tax measures. This constrained demand environment is a headwind for the new home market and will work to ease the flow of starts over the course of the year. Slower uptake of pre-sale units, and difficulty in financing for detached homes will lead to deceleration.

Factors supporting a high level of housing starts are: income, job and population growth, low mortgage rates, high consumer confidence, investor demand, and pent-up demand for ownership and rental housing. Market conditions with rising prices and low rental vacancy rates will spur investment in new construction. Increased government funding for social housing units is a new factor.

First quarter urban-area housing starts came in at 9,442 units, up 21 per cent from same-quarter

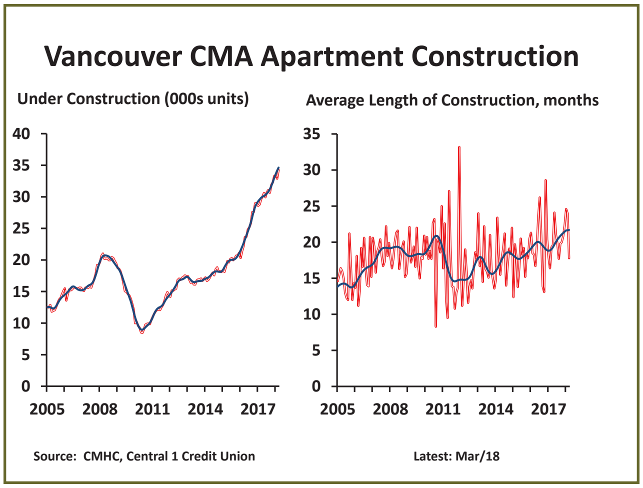
2017, with growth almost entirely attributed to the Vancouver CMA (up 30 per cent). Abbotsford-Mission and Kelowna starts have fallen by more than half, with Victoria up 31 per cent. Chilliwack and Vernon have also seen a strong increase this year.

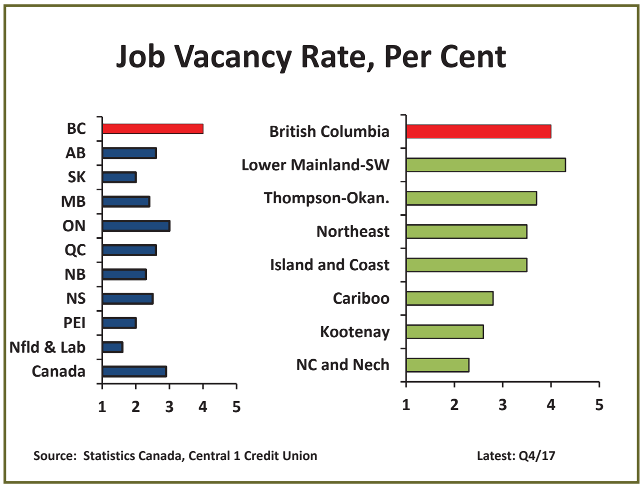
Annual housing starts are forecast to ease to 40,000 units this year as policy measures bite, slightly lower than in 2017, but among the highest levels recorded. That said, a strong first quarter and strong trend in building intentions means upside risk. February building permit volume was just shy of $1.1 billion (seasonally-adjusted) in February. While down three per cent from January, levels were 4.4 per cent higher than a year ago marking a third straight month above the billion-dollar mark. Most of the slip from January was due to a pullback in Victoria following a prior month surge, as permits rebounded in Vancouver (3.5 per cent), Abbotsford-Mission (25 per cent) and Kelowna (7.8 per cent).

Vancouver housing starts outperforming

A scan of major metro markets shows just how strong the Vancouver CMA housing starts trend is. While there is plenty of volatility in the data, starts have trended near an annualized rate of about 30,000 units per month since late-2017 which is well above its long-term average. Other major metros have seen much less deviation from long-term norms in recent years. Starts in the area are trending more than 80 per cent above that long-term average. In contrast, Toronto is in line while Calgary is below, the latter still feeling the impacts of the oil-led recession. Montreal is trending about 30 per cent higher, but this is a recent phenomenon.

Surging housing starts reflect strong economic growth, demand from millennials and new immigrants, low interest rates, strong rent growth, and exceptionally low supply of standing inventory. That said, builders should take into consideration high levels of units under construction, which continue to climb with elevated starts. Complexity of these projects and a tight labour market mean building periods are increasingly being lengthened. Completions are rising, but not at a rate that would be anticipated under a shorter buildout period. Future demand and population growth will ensure most units are absorbed at completion, either as owner-occupied or rental, but current trends and demand-side policy constraints are a signal for builders to ratchet down activity to limit the magnitude of overbuilding.





B.C. job vacancy rate highest in the country

Dovetailing with a low unemployment and rising wages in recent quarters, the latest job vacancy numbers further underscore just how many job opportunities have been left wanting in B.C. There were an estimated 88,525 job vacancies in the fourth quarter, up more than 20 per cent from a year ago with a large share in retail and foodservices space, technology and healthcare. This marked a four per cent job vacancy rate, up from 3.4 per cent a year prior. This was the highest vacancy rate among provinces, with Ontario the second highest at 3.0 per cent. The elevated and rising trend has occurred despite job growth of more than 3.5 per cent last year as economic growth and openings sped up.

Among regional areas, job vacancy rates were highest in the Lower Mainland-Southwest (4.3 per cent), Vancouver Island and Coast (3.5 per cent), and Thompson-Okanagan (3.7 per cent). Surprisingly, vacancies were an elevated 3.5 per cent in the Northeast despite a challenging economy. This speaks to a couple of factors; not only is there an insufficient number of bodies to fill positions, but the skills gap is also an issue for employers.

The workforce is in the driver's seat in the current economy. If businesses want to maintain growth and meet sales targets, further wage hikes will be needed while also offering more non-monetary benefits to attract staff. Central 1 forecasts wage growth to maintain a 4 per cent growth rate which will also drive businesses to increase automation in the workplace.

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