# B.C. Economic Briefing

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## Highlights

- Housing sales decline slows
- Consumer price inflation steady
- Robust retail sales
- Manufacturing sales rebound
- Investment rising

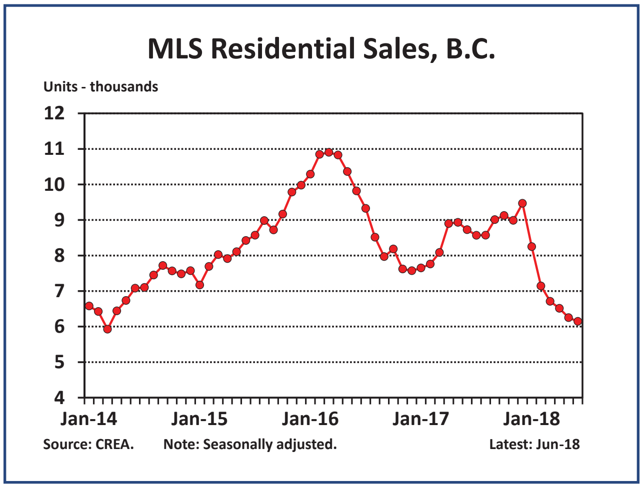
## Housing market adjustment to B-20 rules ending

The initial impact of the B-20 regulations on housing sales is showing signs of ending. B.C. MLS® residential sales declined at their slowest pace this year, down under two per cent from May seasonally adjusted sales. The immediate sales reaction was double-digit declines in early 2018. Year-to-date sales were 20 per cent lower than in the first half of last year.

Several real estate boards in B.C. posted sales gains during June over May with some of these boards building on sales gains since earlier this year. The Fraser Valley Real Estate Board saw the largest sales decline in June at 11 per cent from May, and without this decline, B.C. sales would have posted a small gain. Greater Vancouver sales were about one per cent lower in June.

Market conditions weakened further in June with the active listing supply on the market outpacing sales. The trend in market conditions turned significantly weaker at the beginning of the year. Seasonally sales-to-active listings ratios are much lower in most real estate boards, except for the Northern B.C., Kootenay, and Northern Lights board areas. Sharp declines in this ratio since December 2017 are evident in the Lower Mainland, Vancouver Island, and Okanagan boards.

The supply of new listings onto the market dipped in June but remained near recent yearly averages. New listings typically follow sales and price changes with a time lag and the expected trend is for fewer listings resulting in balanced market and stable prices. However, in this cycle phase since 2009, the relationship broke down perhaps due to demographics or for supply-constrained reasons.




Weaker market conditions generate weaker price performances. Average sale prices in most board areas have slipped during the first half of this year but remain above year ago and year-to-date levels in several instances. The average sales price is not a good short-term price measure because it is swayed by dwelling type compositional and geographic sales changes.

The Home Price Index (HPI) computed by CREA is a more accurate measure and this shows price increases have slowed or prices have declined in some markets. Prices have made a short-term peak in all dwelling types in the Greater Vancouver and Fraser Valley board areas, except for Fraser Valley apartments. On Vancouver Island, HPI prices are still rising, but at a slower pace, and given the trend in their sales-to-active listings ratios, a near-term peak is soon approaching. The HPI is available only for the Lower Mainland and Vancouver Island board areas.

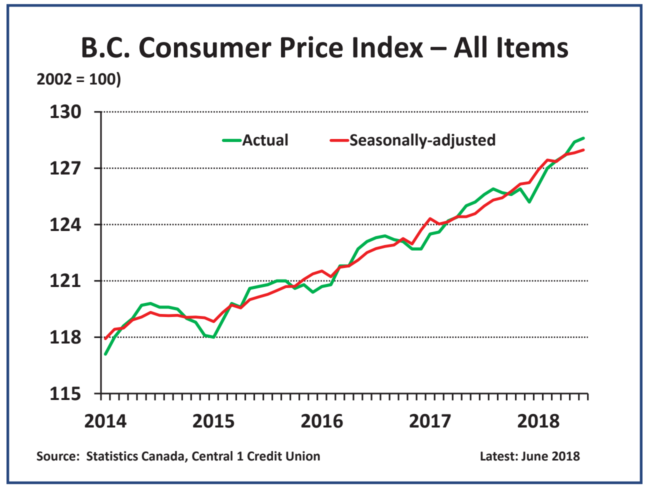
How this cycle will play out depends on external factors. At the top of the recession risk ranking is trade policy and should these trade disputes escalate causing significant disruption to economic activity, housing sales would decline further and faster bringing an end to this cycle. The price correction depends on how much sales decline and how listings respond. A ten per cent decline from the price peak is likely the minimum. Other scenarios, such as a soft landing or an extended period of low sales and range-bound prices, are possible. In the near-term, the trade-disruption scenario looks most likely, but trade policies can change quickly and could after the U.S. midterm elections.

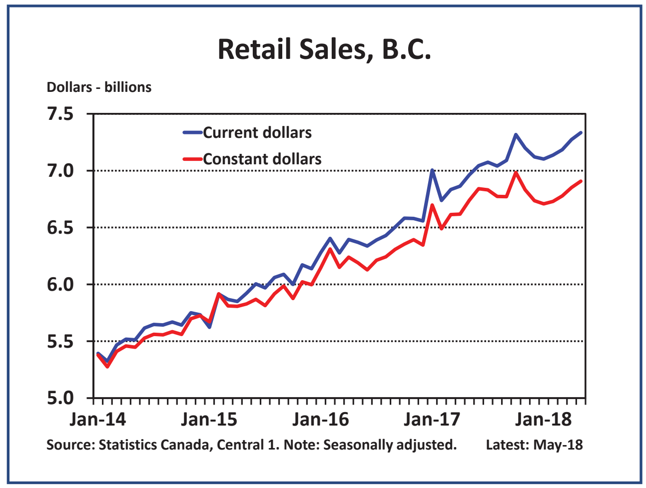
## Consumer price inflation led by gasoline

Consumer price inflation in British Columbia was 0.12 per cent seasonally adjusted in June and 2.7 per cent unadjusted for the year ending in June, consistent with the trend since February. The price of gasoline has increased more over the past several months than any other major item in the basket of goods and services consumed.

In metropolitan Vancouver, consumer price inflation was 0.22 per cent seasonally adjusted in June, almost double the rate for the province overall. For the year ending in June, the rate was 3.0 per cent unadjusted. The price of a litre of regular unleaded gasoline has increased from 144.5 cents in February to 154.3 in June, a rise of 6.8 per cent.

Central 1 Credit Union forecasts consumer price inflation in British Columbia at 2.2 per cent in 2018, up slightly from 2.1 per cent last year. The forecast may soon be revised upward given year-to-date inflation is already 2.8 per cent annualized and rising tariffs are expected to put upward pressure on prices in the second half of the year.




## Robust May retail sales led by areas outside Metro Vancouver

Spending on retail goods increased at a robust pace during May, with B.C. retailers seeing the second fastest gain in seven months following the fastest increase in April. The spending swoon of late 2017 and early 2018 is over. Seasonally adjusted B.C. retail sales increased 0.8 per cent during May over April's 1.2 per cent rise. Year-to-date retail sales were 5.0 per cent higher than in the same period last year.

Most of the gain in provincial retail sales is outside Metro Vancouver. During May, seasonally adjusted sales in Metro Vancouver increased only 0.2 per cent, implying a 1.4 per cent rise in the rest of B.C.  Year-to-date sales in Metro Vancouver were 3.9 per cent higher than last year, while in the rest of B.C., sales were up 6.0 per cent.  This is a continuation of the trends seen in 2017, where sales in the rest of B.C. rose 11.3 per cent compared to 7.2 per cent in Metro Vancouver.

By type of retail outlet, sales in May were boosted by large gains in building material and garden equipment dealers, furniture and home furnishing stores, and clothing and clothing accessories stores.  The large motor vehicle and parts dealers sector posted a below average 8.9 per cent gain in May over April compared to the overall unadjusted gain of 12.3 per cent. The next largest sector, food and beverage stores, saw a 12.4 per cent increase.

B.C. retail sales during 2018 are forecast to increase around five per cent, down from 2017's 9.3 per cent pace. A slower housing market and a cooling in motor vehicle sales are primary factors along with slightly higher interest rates and slower job growth. Consumer fundamentals will remain supportive of spending growth until there is a major disruption to the economy and consumer confidence.

## Wood lifts manufacturing

B.C. manufacturing sales, or shipments, rebounded during May on a large jump in wood product sales. Seasonally adjusted total manufacturing sales increased 3.2 per cent over April largely due to a 9.2 per cent bounce in wood product sales.  Total sales, excluding wood products, edged up 1.4 per cent.

Total sales so far this year are 8.5 per cent higher than in the same period last year led by increases of 27.2 per cent in fabricated metal products, 25.3 per cent in paper, 21.5 per cent in non-metallic, and 21.1 per cent in electrical equipment, appliance and component manufacturing. Laggards are furniture, computer and electronic products, and food manufacturing.

Price changes greatly influence these results. Statistics Canada does not produce price deflators for provincial manufacturing sales. Using national price indices, our estimate of constant dollar manufacturing sales increased 1.9 per cent in May over April and 4.7 per cent year-to-date. Wood product sales increased 5.9 per cent in the month.

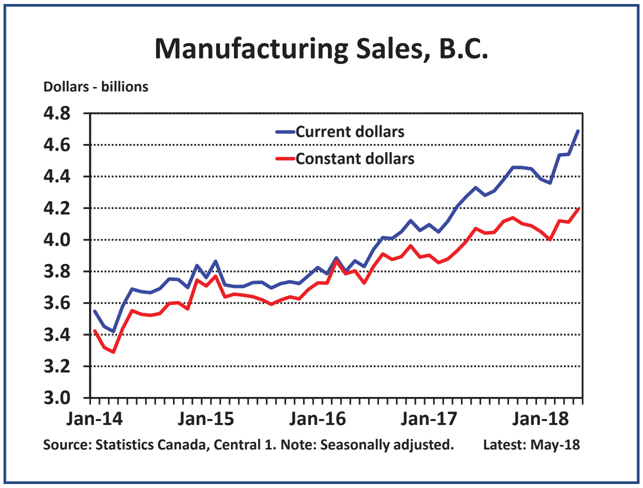
The outlook for manufacturing would be mostly positive if not for tariff issues.  B.C. manufacturers are already facing U.S. import duties on softwood lumber, newsprint, aluminum, and steel products and they could be sideswiped by escalating U.S.-China tit-for-tat tariffs i.e., collateral damage. Last year's nine per cent increase in total manufacturing sales does not appear repeatable.

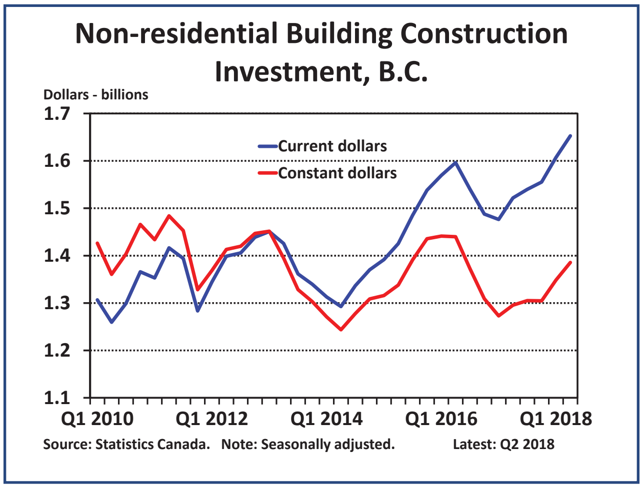
## Non-residential Investment rising

The latest estimate of non-residential building construction investment in B.C. was positive and continued the upswing that began in early 2017. Total spending in the second quarter of 2018 was 2.8 per cent higher than in the first quarter of 2018 and 8.6 per cent higher than in the same quarter last year. After adjusting for construction cost inflation, investment spending advanced 2.8 per cent over the first quarter and 7.0 per cent from a year ago.

Investment spending in the second quarter was most robust in industrial buildings with 9.6 and 9.1 per cent increases over the first quarter, in current and constant dollars, respectively.  Construction of commercial buildings – office, retail, hotel, warehouse, and other – advanced 2.5 per cent while there was little change in government building construction spending.

Non-residential building investment spending is expected to post further gains this year and until the current business cycle ends. The demand for non-residential building space increases with the economy and the supply, or investment spending response, occurs with a time lag. Vacancy rates in commercial and industrial building are low or declining with a corresponding increase in rental rates, which are strong market signals for more investment. Government spending is driven by the political cycle and current plans call for considerably more spending.




**Helmut Pastrick**
Chief Economist, Central 1 Credit Union
hpastrick@central1.com
www.central1.com        604.737.5026