B.C. Economic Briefing

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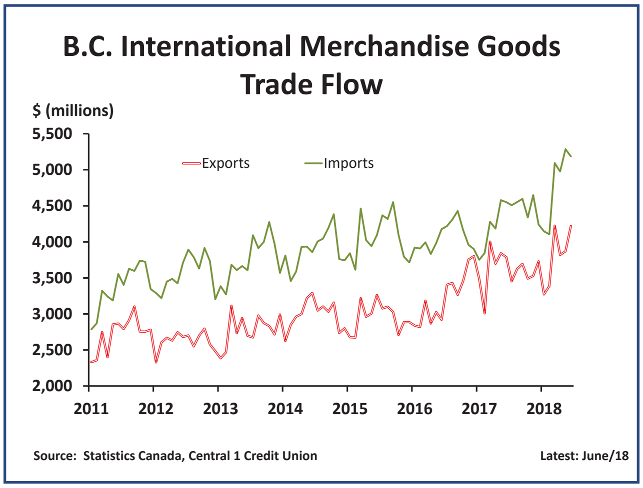
Positive export showing in June

B.C. exports posted a strong June performance despite drag from U.S. tariffs on aluminum and steel products, that take effect at the beginning of the month. Dollar-volume goods exports to international markets rose 11.4 per cent on a year-over-year basis to $4.22 billion. This accelerated from a 0.7 per cent increase in May, and lifted year-to-date growth to 4.4 per cent. Seasonally-adjusted, sales jumped 10 per cent from May.

Breadth in sales growth was positive with nearly all export sectors seeing an acceleration in year-over-year sales and gains from May on a seasonally-adjusted basis. Energy sales posted a sharp turnaround during the month to contribute to the upshift. While still lower than a year ago by nearly five per cent, this compared to a near 30 per cent drop the previous month. Energy exports have been weighed down in part by weaker export prices. Metal and non-metallic mineral products exports rose 33 per cent year-over-year, while forestry products growth accelerated to 19.5 per cent (from 16 per cent the prior month), although a big chunk of these gains reflect price contributions. Other manufactured goods also climbed.

Export sales have shown signs of firming after a weak start to the year, specifically after adjusting for price growth. Strong growth in the U.S. economy and new housing demand as well as expansion in the global economy have lifted demand, while new production capacity in the mining and other industrial sectors in B.C has also contributed. Going forward, risks remain for further trade disruption, which could upend the export growth profile. While there is seemingly some progress on the NAFTA renegotiations, the U.S. could make good on tariffs on auto-related goods and other products, which would slow exports. Moreover, an eruption of global trade tensions could slow trade and economic growth, which would curtail both commodity prices and real demand for B.C. goods.

Meanwhile, imports were up 14 per cent on both a year-over-year and year-to-date basis in June. Major contributors have included increased energy related purchases, which have doubled and look to be largely refined gasoline driven. Strong growth has also been observed in intermediate capital goods, transportation equipment, and motor vehicle and parts. Import growth shouldn't be seen as a drag on the economy, particularly as it reflects modest consumer demand



and business investment activity. Import volume is likely to rise as Canadian retaliatory tariffs on U.S. goods took effect on July 1,2018, impacting aluminum, steel products and various consumer goods.

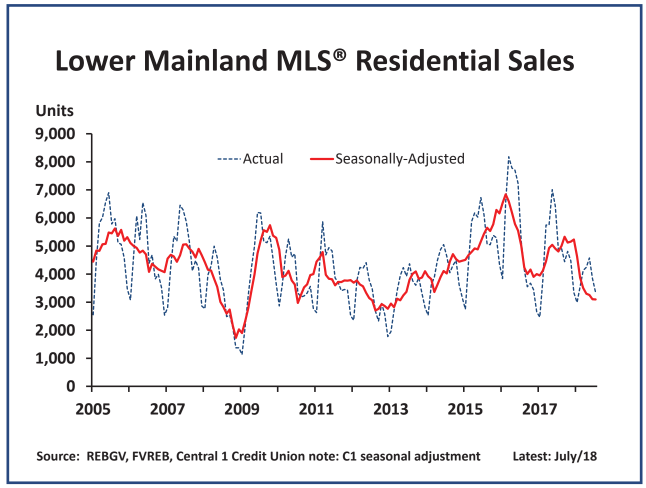
Sluggish sales continue into third quarter, prices decline

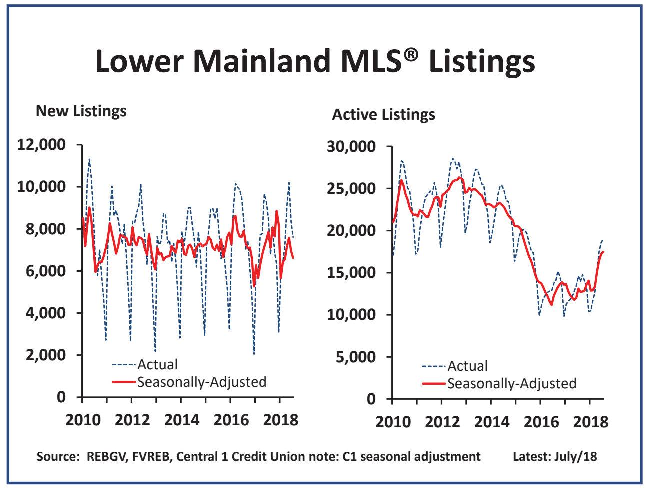
The weakness in Lower Mainland home sales bled into the second quarter of 2018, as federal lending constraints, higher mortgage rates and provincial policies continued to sideline buyers in July. Weaker market conditions may also be causing others to hold back on purchase activity to assess market direction. MLS® sales in the region spanning Metro Vancouver and Abbotsford-Mission fell 35 per cent on a year-over-year basis in July to about 3,100 units. This marked the fewest July sales since 2000. On a seasonally-adjusted basis, sales were virtually unchanged from June, pointing to a bottoming of the current sales cycle, albeit at the slowest pace since early-2013.

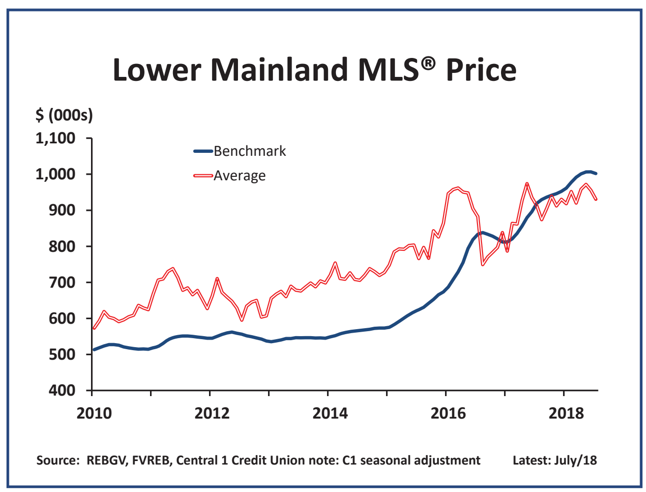
A weak sales environment is generating upward pressure on available inventory in the market. Active listings rose 30 per cent from same-month 2017. Relative to June, active listings were up 1.9 per cent on a seasonally-adjusted basis, but the pace of gain has decelerated. Despite the increase, resale inventory remains comparably low on historical basis. Listings are not expected to surge. Given the strength in the economy, the tight labour market and rising wages, current owners for the most part have the luxury of waiting out current market sluggishness by de-listing or delaying the sale of properties. In fact, the flow of new listings have shown little upward pressure, declining 10 per cent year-over-year, while also declining relative to June on a seasonally-adjusted basis. Owners are generally only forced to list/sell when facing significant financial duress, largely due to changing household circumstances such as a job loss, divorce, relocation, etc. A policy induced slowdown, like the one currently observed, has a more modest impact on market conditions than economically driven market downturn.

That said, we anticipate weak sales volumes to extend through the end of the year. Sales-to-active listings ratios favouring buyers in the detached market and elevated but declining in the multi-family market will generally hold in buyers' to balanced market territory. Home values are forecast to grind lower. Price levels are already showing signs of slipping, albeit modestly. Unadjusted for seasonal factors, the average price fell 2.6 per cent from June to $955,620, with year-over-year growth at two per cent. Average prices have been range-bound over the past year. The constant-quality benchmark price fell 0.5 per cent from June but remained nine per cent above year ago levels. This deviation between the average and benchmark values generally reflects firm underlying prices in the market up until recent months, but a shift away from higher priced homes which impact average pricing.

Sharper declines have been observed in the detached sector in recent months, but apartment and townhome prices are also turning over. A mild but temporary correction of five to ten per cent from peak is realistic in the current environment. A free fall in market values requires either a job-loss inducing recession or large spike in mortgage rates, neither of which are expected.







Sentiment sours for small business in July

Small business sentiment in B.C. soured in July, according to the latest CFIB Business Barometer reading. At 56.1 points and down from 58.8 points in June, the index was the lowest observed since May 2009 when the economy was grappling with the global financial crisis.

While the index level for B.C. remains above the demarcation line of 50 points, which means on net more businesses surveyed expect business performance to be stronger over the next year than the number expecting a weaker performance, confidence has spiraled lower in recent months. Since peaking in February at 69.5 points, the level has declined 13 points which was the steepest among provinces. B.C. confidence now lags the national performance after long being a leader.

This change in sentiment reflects various factors. While it is natural to expect a tempering of expectations following country-leading economic growth, strong retail and export trends in recent years, the rapid pullback does signal a negative turn in confidence.

Broadly, U.S. trade uncertainties are likely tempering expectations, although this affects all provinces and B.C. is generally in a good position to weather tariffs given greater geographic diversification of exports. B.C. businesses are also facing localized headwinds. Acute labour shortages and minimum wage hikes are contributing to accelerating wage growth, while costs are set to rise for some businesses with the expected implementation of the Employer Health Tax in January. A deeper deterioration in the housing market following federal mortgage policies and provincial restriction may also be playing a role, as it constrains sales of related products and curtails consumer sentiment.

Bryan Yu
Deputy Chief Economist
byu@central1.com / P 604.742.5346
Mobile: 604.649.7209