B.C. Economic Briefing

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Highlights:

- MLS® home sales stabilize in July; average price climbs one per cent
- Second quarter manufacturing sales gain traction
- New vehicle sales trend declines but demand remains strong
- Inflation jumps to 3.3 per cent in July on higher gas prices and travel costs

B.C. homes sales end six month slide

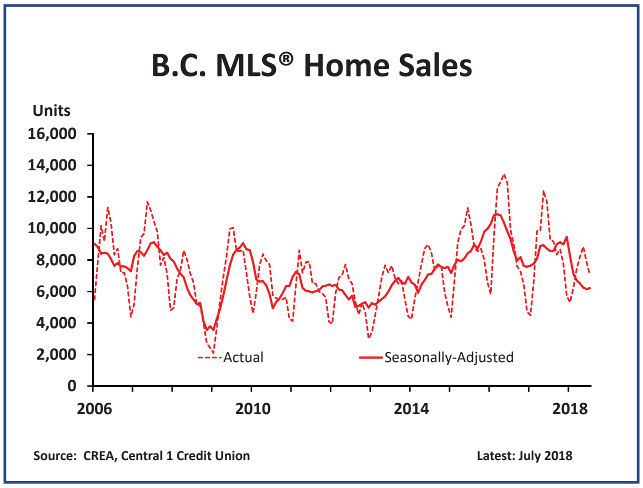
Ending a string of six consecutive monthly declines, B.C. MLS® home sales nudged higher in July but remained weak as mortgage stress tests, higher mortgage rates, and provincial policy measures held back activity. The current downcycle in home sales has been deeper and longer than initially expected.

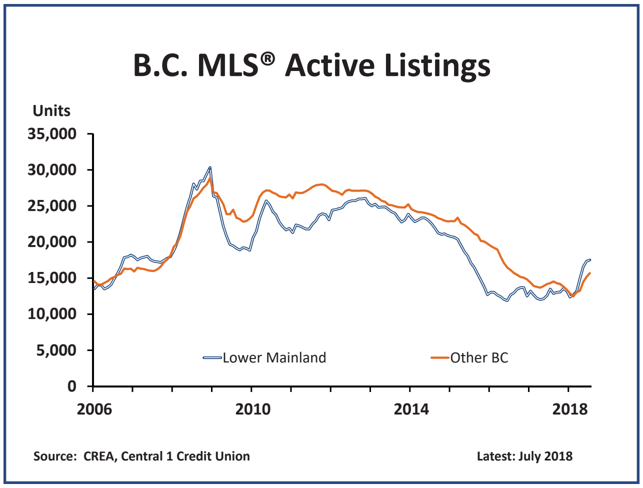
The latest monthly report from the Canadian Real Estate Association pegged July sales at a seasonally-adjusted 6,212 units, marking a 0.9 per cent increase from June. B.C. was one of a handful of provinces posting a gain in July. Nevertheless, B.C. has experienced the sharpest downturn in activity following implementation of mortgage stress tests in January, reflecting the region's higher home prices. Some prospective buyers, both move up and first-timers, have been priced out of their desired home types or the market altogether. Other buyers may be staying on the sidelines to gauge market direction.

Monthly sales in B.C. are down more than 30 per cent from 2017 year-end, and 27 per cent on a year-over-year basis. The latter was the sharpest decline among provinces. Nationally, sales have declined about 15 per cent since year-end, with a month-to-month increase of 1.9 per cent and a 12-month decline of four per cent. Year-to-date, B.C. sales were down 21 per cent.

A subdued sales trend in B.C. is anticipated to persist through the second half of 2018 as constrained credit and other housing policy continues to hold back sales activity. Raging wildfires in the B.C. interior will likely dampen sales in August.

Among real estate board areas, stabilization in monthly sales was led by gains in the Fraser Valley (up 5.6 per cent), Kootenay (up 9.2 per cent) and upward momentum in the northeast. That said, the latter two markets are small and prone to large fluctuations. Offsetting the decline were the South Okanagan board area (down 9.3 per cent), and Kamloops (down five per cent).

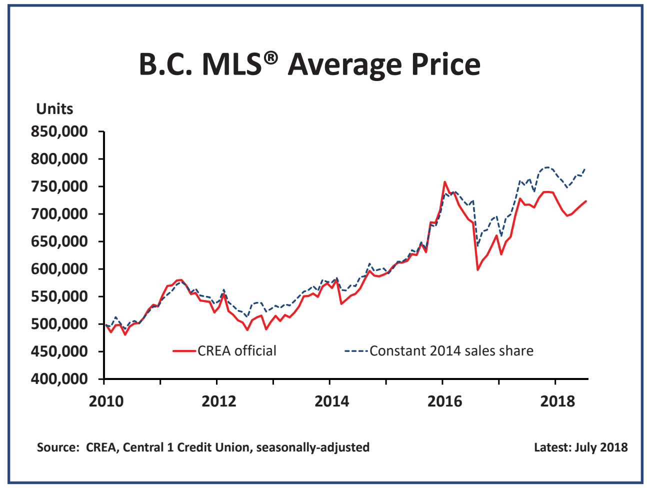




Persistently low sales nudged active listings higher by one per cent, but the upward trend decelerated across most regions as new listings fell. Resale market inventory remains low across all markets. This trend is expected to continue. While sales are low, economic growth is modest and labour markets remain tight. Owners can be patient given the strong economic backdrop and will delay selling or delist properties. Sales-to-active listings ratios are consistent with levels associated with balanced to sellers' market conditions in most real estate board areas.

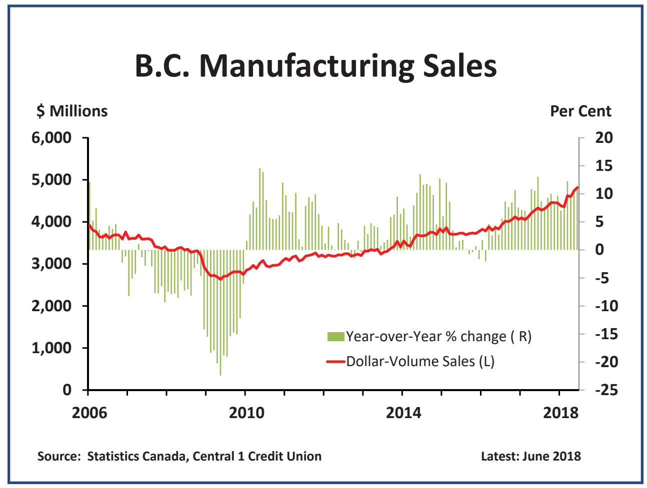
Average prices in most regions are stable or rising. B.C.'s average price level rose for a fourth straight month in July to a seasonally-adjusted $723,131, up one per cent from June, with a similar year-over-year gain. Notable increases from June were Victoria (up three per cent), the Fraser Valley (up 5.5 per cent), the Okanagan-Mainline (up 2.2 per cent) and Kamloops (up 3.9 per cent). Price levels are up significantly on a year-over-year basis in most areas, but weak provincial gain reflects a lower share of sales in the higher-priced Lower Mainland real estate board markets.

In the select markets where the constant-quality MLS® housing price index is available, year-over-year price growth remained robust. Values were up eight per cent in Victoria, 14 per cent on the Island (excluding Victoria), and nine per cent in the Lower Mainland. That said, price levels in Victoria and Lower Mainland are edging lower. The latter is anticipated to ease 5 to 10 per cent from peak as weak sales erode prices. Smaller, less expensive markets are forecast to hold up better.



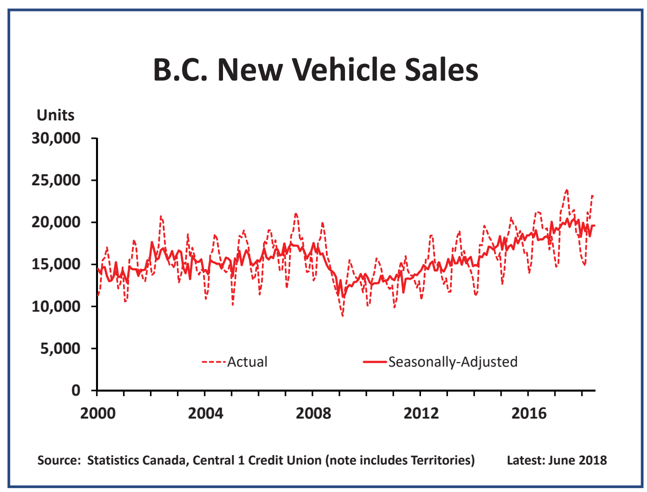
Manufacturing sales pick up steam in second quarter

Following a weak start to the year, manufacturing momentum has accelerated. Factory sales in the province rose for the third time in four months in June. Total sales climbed 1.7 per cent from May to a seasonally-adjusted $4.33 billion, compared to a national increase of 1.1 per cent. On a year-over-year basis, sales rose 11.3 per cent, comparing favourably to most provinces and exceeded the Canadian increase of 6.9 per cent.



June's monthly gain was led by a 2.9 per cent increase in durable goods production to $2.9 billion, with broad gains in wood products (up 2.6 per cent), non-metallic minerals (up 11 per cent), primary and fabricated metals (up 10.6 and 2.4 per cent), and machinery production (up 4.0 per cent), posting stronger growth during the month. Non-durable goods edged down 0.2 per cent to $1.9 billion despite higher paper shipments. These trends align with June's rise in international merchandise exports, reflecting growth in the global economy, although firms may be advancing orders due to further risks of tariff-related actions on the part of the U.S. The early-year lull also reflected supply constraints and a temporary bottleneck in rail car availability for goods transport.

Year-to-date, sales volume has increased by 9.5 per cent. Strong growth in paper manufacturing (up 25 per cent), wood products (up 10 per cent), and fabricated metals (up 44 per cent) accounted for roughly three quarters of the net gain. Significant contributions were also attributed to a 19 per cent increase in non-metallic minerals.

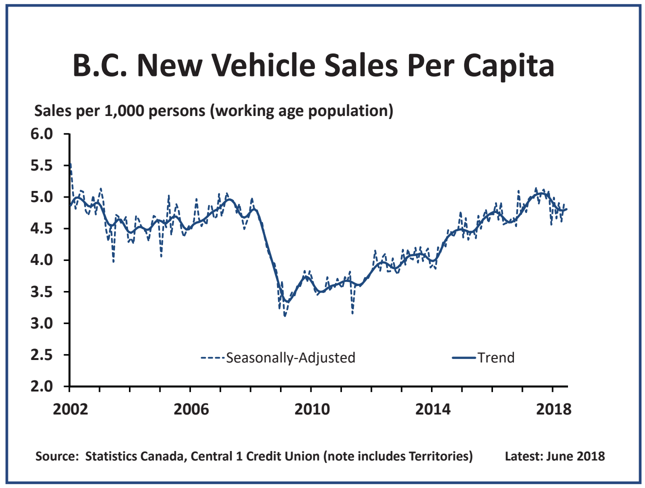


Consumers pulling back on new vehicle purchases but demand still high

New vehicle sales in B.C. remained elevated in June, but a softening of the trend extending back to late-2017 points to a slowdown in consumer demand growth. Provincial sales (which also includes sales in Canada's Territories) reached 23,040 vehicles in June, which was down four per cent, year-over-year.

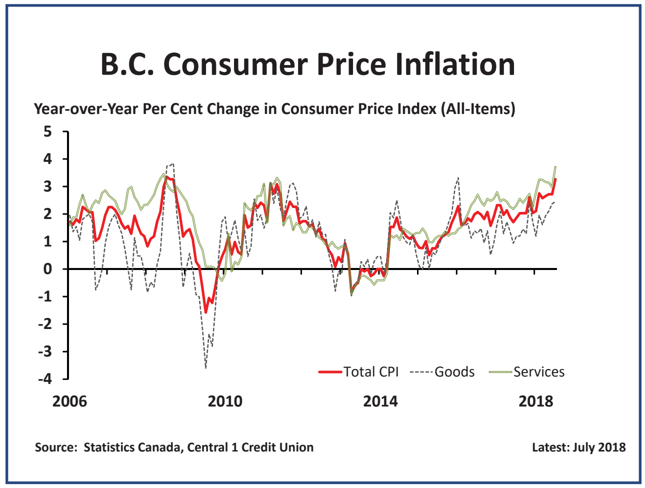
On a seasonally-adjusted basis, sales were virtually unchanged from June, but trending four per cent below peak 2017 levels. On average, buyers paid $44,300, although this figure includes more than just the passenger vehicles fleet, marking a 4.7 per cent increase from a year ago.

Elevated vehicle sales reflect solid population growth, a tight labour market and rising wages. Adjusted for the size of the working age population, sales are within the range of previous cycle highs observed prior to the 2008/09 financial crisis. However, higher interest rates, slower employment growth, and less of a lift from housing wealth effects are likely factors curtailing momentum.



B.C. consumer price inflation surges in July to 3.7 per cent

Like all of its provincial peers, B.C. consumer price inflation accelerated sharply in July, driven mostly by higher gasoline and other energy prices, and acceleration in travel service prices. Year-over-year growth in B.C.'s consumer price index (CPI) rose to 3.3 per cent from 2.7 per cent in June. This was the strongest gain since August 2008. B.C. CPI growth exceeded the 3.0 per cent national gain, exceeded only by Alberta (3.5 per cent) and Prince Edward Island (3.4 per cent). Through seven months, B.C. CPI inflation is 2.7 per cent.



Among key drivers of inflation, gasoline remained the biggest eyepopper. The price at the pump accelerated to 23.5 per cent, year-over-year, with other fuel oils up 25.6 per cent. Public transportation costs also jumped in July, accelerating from an 8.1 per cent increase in June to 19.1 per cent in July, reflecting some energy price pass-through. Inter-city transportation prices rose 25 per cent from an 11 per cent increase in June. Air transport was up 28 per cent nationally. Going forward, it will be worth watching to see how the scheduled termination of Greyhound bus services impacts pricing pressures.

A scan of products and services points to tame inflation for food and clothing at about one per cent year-over-year. However, restaurant prices, which makes up part of the former, rose 3.6 per cent. Shelter inflation, at 3.3 per cent, decelerated from June as housing prices slowed despite increased rent pressure. To the chagrin of parents, childcare service prices are rising at a strong clip of 4.5 per cent, but growth was consistent with prior months. Recreation prices also picked up, with growth of 3.6 per cent from 1.9 per cent in June, driven by surging travel services costs.

Broadly, inflationary pressures are being led by higher service prices, which accelerated to 3.7 per cent year-over-year, up from 3.0 per cent in June, while growth in goods prices was firm but steady at 2.5 per cent. While transportation costs were a driver of the former, robust growth in service prices also reflects a strong economy and tight labour market, which is bidding up wages and allowing for pass-through of costs to consumers.

CPI inflation in Vancouver was 3.3 per cent in July, while Victoria price levels rose 2.6 per cent.

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