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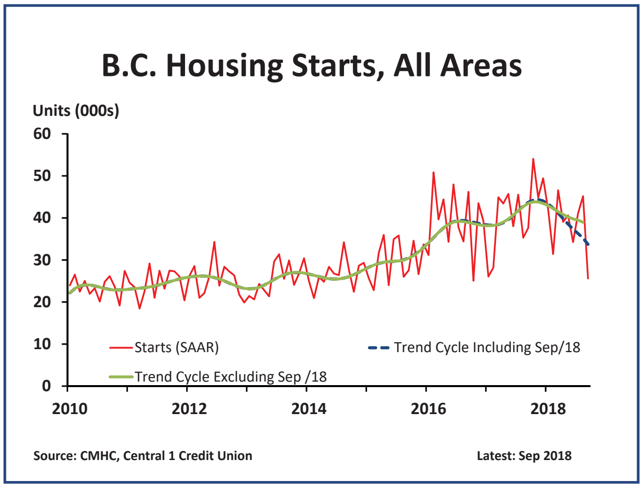
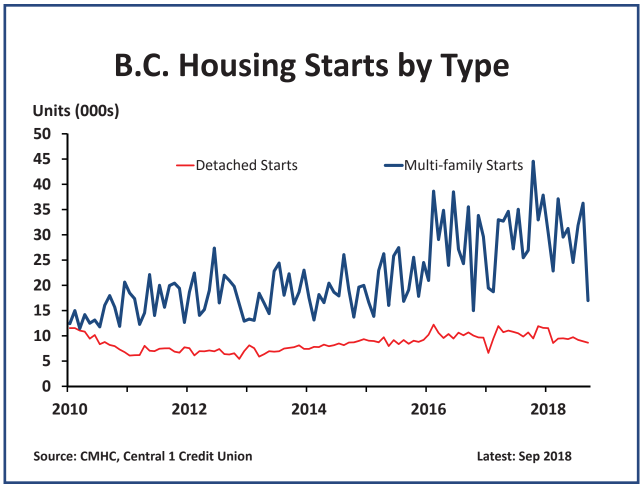
Highlights:

- B.C. housing starts plunge with lull in apartment projects
- Housing price trends soften
- Job vacancies jump, employers scrounging for workers





Housing starts plunge in September, but the roof hasn't collapsed

The see-saw pattern for B.C. housing starts continued in September. Urban-area starts plunged to a seasonally-adjusted annualized rate (SAAR) of 25,611 units after tracking close to a 40,000 unit pace since March. This was the weakest pace of starts in two years. However, a single month of data does not make a trend, especially given the elevated activity preceding September Through the first three quarters, year-to-date starts were virtually unchanged from 2017.

Housing start data is a notoriously volatile measure. The high and variable number of units associated with apartment projects lead to sharp swings in monthly data. Weakness in current market conditions are likely impacting starts on detached and small multi-family projects, as well as sales of inventory upon completion, but new construction reflects conditions and pre-sales from at least one to two years back.

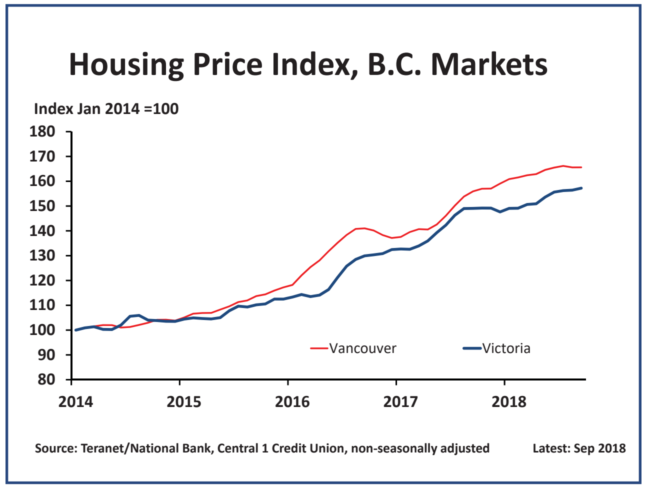
September's drop was led by a 67 per cent decline in apartment units, which fell from a more than 30,000 unit pace in September to 10,450 units. Detached starts, which are less prone to fluctuations, fell three per cent to 8,631 SAAR units, but have eased since late 2017, pointing to direct effects of credit tightening and proposed government tax policies. Not surprisingly given the magnitude of decline, the Vancouver Census Metropolitan Area (CMA) led the pull back with starts declining to 14,390 SAAR from 24,740 in August. Victoria CMA starts fell by half to 3,111 units and Kelowna CMA slumped to 753 units from nearly 4,000 units in August.

Year-to-date, Vancouver CMA starts were unchanged from 2017, with Victoria starts up 12 per cent. Kelowna CMA starts declined 37 per cent and Abbotsford-Mission fell 60 per cent, following spikes in new construction activity in 2017.

An October bounce-back is expected, but a general deteriorating trend among large urban markets will continue. Housing starts lag resale market conditions. With B-20 measures and higher interest rates continuing to constrain credit availability, and provincial policy limiting recreational and investment demand in some market, housing starts will fall. Government investment in social housing is a partial offset. Annual housing starts, inclusive of rural areas, are forecast to hold steady this year to near 40,500 units, down six per cent from 2017 given September's weak reading. Starts are expected to decelerate to an average of 38,000 units per year from 2019 through 2021.

Soft housing price pattern in September

On the housing price front, the latest Teranet/National Bank House Price Index pointed to softening of the price trend in B.C.'s two largest markets, and a generally flat trend in recent months. This aligns with data trends observed in real estate MLS® data. The price index for Vancouver was unchanged from August, but is down 1.7 per cent from May (seasonally-adjusted), with four consecutive declines. The index value for Victoria rose 0.5 per cent, and perked up from August but was still 1.3 per cent below peak. Softening price trends reflect the weak sales environment, and rising inventory. This index is based on title transfers, and as a result lags MLS® patterns, which have declined by a larger magnitude. Further declines to the Teranet index are expected of up to 10 per cent, specifically in the Metro Vancouver area.



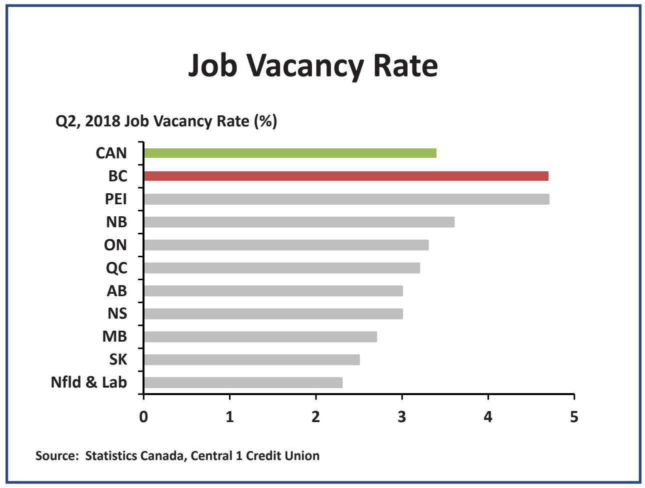
Need a job? We want you!

B.C. employers are finding it increasingly difficult to staff their operations, which is likely becoming a constraint to meeting business demand, and a drag on the broader provincial economic growth. The number of job vacancies in the province rose by 19,900 positions from same-quarter 2017, marking a 23 per cent increase. Only Quebec (up 38 per cent) and Prince Edward Island (up 28 per cent) recorded stronger relative growth.

Among provinces, B.C.'s job vacancy rate remained highest in the country and tied with Prince Edward Island at 4.7 per cent. B.C.'s rate was up from 4.0 per cent in same-quarter 2017 and the highest since data was made available in 2015. Employers are opening up positions faster than they can fill them, reflecting either an insufficient number of applicants, skillsets or a combination of both. Nationally, the job vacancy rate also tightened, but was lower at 3.4 per cent. Job vacancy rates align with rock bottom unemployment rates in the province.

Within B.C., job vacancy rates point to increased labour market tightness, relative to both year ago levels and against other provinces. There was a shift in ranking from the first quarter, with the highest level now in the Thompson-Okanagan which rose to 5.3 per cent from 4.3 per cent in the first quarter. Rates remained high at 4.8 per cent in the Lower Mainland-Southwest and 4.1 per cent vacancy on Vancouver Island. Rates have also firmed in the northern markets, following a period of relative labour market slack.

Job vacancy rates look to remain high. Vacancies can dissipate with higher population and labour force growth, or growth slowdown in the broader economy. Major project construction, both private and public, the growing tech sector and broad commercial investment will continue to lift demand for labour.



Advancement of the major LNG Canada project in Kitimat, and associated pipeline work will further tighten interior markets, unless the labour supply responds accordingly. Spikes in job vacancy numbers have been particularly acute in trades occupations such as: heavy equipment operation, manufacturing and utilities, as well as sales roles. Employers will need to offer greater compensation and incentives to attract workers and invest in technology as an alternative.

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