B.C. Economic Briefing

Volume 24 • Issue 42 • Week of October 15-19 2018 | ISSN: 1981-355

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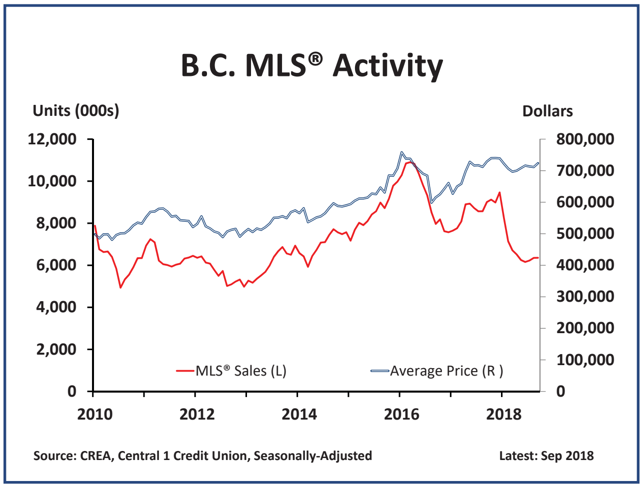
Highlights:

- B.C. home sales constrained by policy measures
- Manufacturing shipments up 10 per cent
- B.C. retail sales ease 0.1 per cent in August



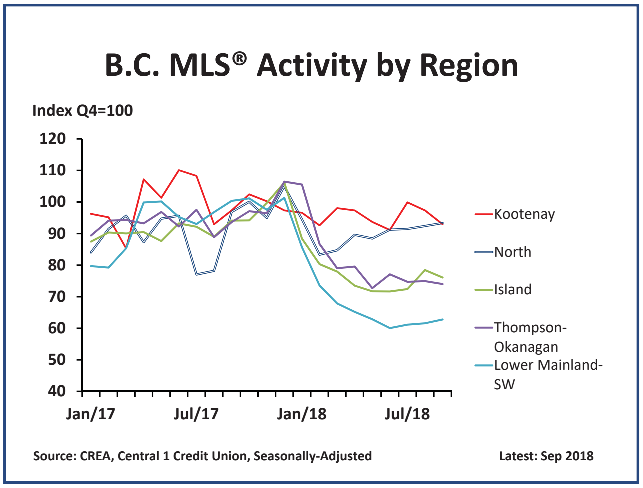
Home sales find bottom, but upside is limited

Weak housing sales continued through September. B.C. MLS® sales declined 33 per cent year-over-year, to 5,580 units. While this decline was deeper than August's 26 per cent drop—on a seasonally-adjusted basis—sales were virtually unchanged from August at 6,357 units. Activity has stabilized since June and is trending at a level last observed in 2014. Year-to-date home sales were down 22 per cent through the first three quarters of the year.

According to the latest Canadian Real Estate Association figures, September's sales performance was mixed among real estate boards. Relative to August, seasonally-adjusted sales rose in the Fraser Valley, northern B.C. and Victoria markets. Offsetting declines were observed in the South Okanagan, Kamloops, Kootenay and Metro Vancouver.

The initial shock of the B-20—guidelines that require potential home buyers to undergo a mortgage 'stress test'—has run its course since being introduced in January. Though the guidelines have permanently lowered sales, particularly in higher-priced urban markets like Vancouver. Prospective homeowners, especially entry-level buyers, are less likely to able to bridge the drop in purchasing power caused by the higher mortgage qualification rates. B.C.'s sales downturn since December has been the steepest in the country, due to higher home values; as well as other provincial measures to dampen demand, including: increasing the foreign buyer tax and introducing a speculation tax.

The government tabled legislation late this week. As a recap, the speculation tax will be phased in at 0.5 per cent in 2018. In 2019, foreign owners and 'satellite families'—households with high foreign incomes who pay little provincial tax—will pay 2.0 per cent. Canadians and permanent residents not residing in B.C. for income tax purposes pay 1.0 per cent, with a rate of 0.5 per cent for B.C. residents. Principal residences and properties rented out are exempt, albeit tested against income taxes. The tax applies to the Capital region and Metro Vancouver, Abbotsford-Mission, Chilliwack, Kelowna, West Kelowna, City of Nanaimo and Lantzville. While most buyers will be unaffected, this will curtail demand, particularly in areas on the Island and Kelowna.



The Lower Mainland, Thompson-Okanagan and Vancouver Island markets have experienced the sharpest erosion in demand. Northern and Kootenay markets have experienced relative stability.

Sluggish sales are contributing to a modest buildup in resale inventories. Active listings are up 30 per cent since the beginning of the year, despite a steady flow of new listings. While the market remains constrained by supply and in-favoursof sellers in most of the province, conditions have softened. A buyers' market has emerged in the South Okanagan and few other south interior markets. Conditions in Greater Vancouver and Chilliwack are balanced, although momentum has been negative. The Greater Vancouver area is experiencing an erosion of prices, particularly in the detached housing market.

The average provincial price rose 1.7 per cent from August to a seasonally-adjusted $723,700, but various factors play a role in average values, including product and geographic distribution of sales. Price levels have held range-bound for the past year. Composite benchmark values are declining in the Metro Vancouver region, and have crested in Victoria. The rest of Victoria and Vancouver Island(Island) continue to show an increasing trend. Average prices in the Okanagan have are showing signs of erosion, while northern prices picked up.

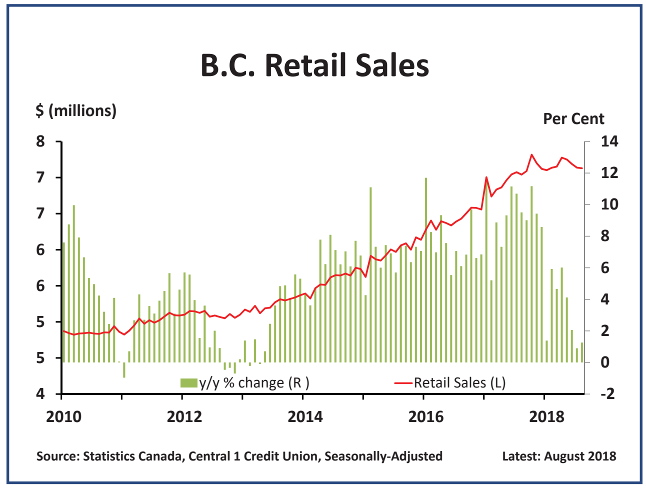
Subdued market conditions will continue as federal and provincial policies couple with rising interest rates to limit demand. Home values are expected to decrease, particularly in the Metro Vancouver area. The Island and the northern markets will have relative strength due to demographics and major project construction.

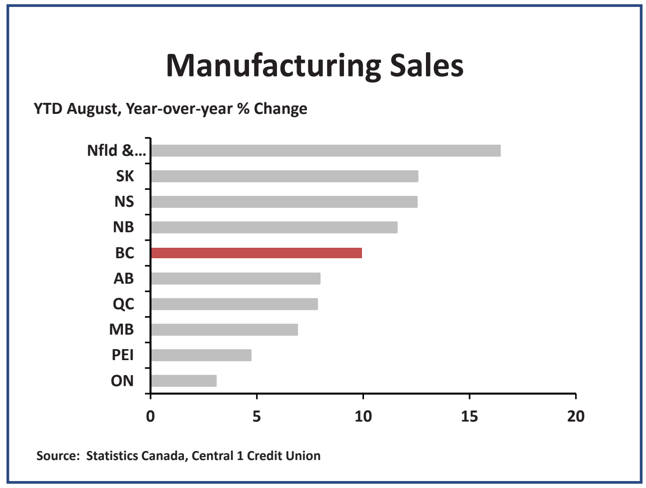
Retail sales drift lower in August

Disappointing retail activity continued into August as B.C. sales edged down by 0.1 per cent to a seasonally-adjusted $7.13 billion. This was comparable to the national decline, which saw declines in B.C., Quebec (-0.7 per cent), Saskatchewan (-2.7 per cent), and Alberta (-0.1 per cent)—mostly offset by gains in Ontario and the Atlantic provinces.

B.C.'s pull-back marked a fourth consecutive monthly decline. While the drop was the shallowest over the period, the current trend points to soft consumer demand. Pull-backs at home furniture and furnishing retailers, and, building materials, garden equipment and supplies dealers, were the main drivers in August reflecting sluggish housing market activity. Sales in most other segments improved.

Year-over-year sales growth was a meek 1.3 per cent in August, albeit slightly stronger than July's 0.9 per cent gain. A downshift in new auto vehicle sales has been the biggest factor. New vehicle sales have peaked as less replacement demand, higher interest rates, and subdued wealth from home prices, curtails demand. Auto parts and dealer sales were down six per cent, while furniture and furnishing fell more than three per cent from August in 2017.





The recent slide in sales lowered year-to-date activity to a mild 3.5 per cent, primarily reflecting auto sale weakness. Less than four per cent annual growth is expected in Thisretail sales, compared to a nine per cent gain in 2017, which will be the weakest gain since 2013. Excluding auto sales and gasoline, which provides a better measure of underlying demand, sales have also decelerated to 3.8 per cent, compared to a full year gain of seven per cent in 2017. Considering retail and Consumer Price Index (CPI) inflation is hovering near 2.5 per cent, real retail growth is a meagre one per cent.

Regionally, the Vancouver metro area posted a 0.9 per cent increase in sales from July to outperform the rest of the province, but sales were down one per cent year-over-year. Year-to-date sales growth has been led by other parts of the province with growth of five per cent, compared to 1.6 per cent in Metro Vancouver.

Factory sales rebound in August

B.C. manufacturing sales were steady in August but continued to trend well above last year's levels. Shipments partly rebounded from a July dip to reach $4.75 billion, marking a 0.6 per cent month-to-month increase. This compared to a national decline of 0.4 per cent, which was dragged lower by an auto-induced drop of two per cent in Ontario. With year-over-year growth of 10 per cent, B.C. sales ran slightly ahead of the national pace, albeit mid-pack among the provinces.

Sectors contributing to August's month-to-month gain included: food products (up 1.1 per cent), primary metals (up 10.9 per cent), and machinery (up 4.3 per cent). The main drag during the month was a 3.7 per cent drop in wood product manufacturing—the important sector makes up nearly a quarter of manufacturing activity.

Manufacturing sales growth has remained healthy with sales up 10 per cent year-to-date, tracking slightly above last year's growth and indicative of an expanding sector. Higher prices for some products this year, including forestry and paper goods, were significant contributors, in part driven by higher raw materials costs passed along to customers. Paper sales were up 25 per cent, while wood product sales rose 10 per cent. Each of the two sectors contributed about a quarter to headline growth. A 43 per cent increase in fabricated metal sales accounted for a similar share of growth. The main drag was a 36 per decline in year-to-date chemical products.

The manufacturing sector will continue to expand, particularly given export certainty provided by the United States-Mexico-Canada Agreement (USMCA) and opportunities from expanded trade through the Trans-Pacific Partnership. Though export demand for B.C. products could be negatively affected by the deceleration in global growth, due in part to global trade divisions, and flow into the manufacturing cycle. Lower expected growth in the U.S. will slow momentum.

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