Consumer demand and non-residential investment lift 2017 growth to 3.8 per cent

Official estimates for B.C.’s real Gross Domestic Product (GDP) in 2017 were released this week, confirming B.C. as one of the fastest growing provinces. GDP expanded by 3.8 per cent, which was second strongest among provinces behind Alberta, and above the national pace of 3.0 per cent. This marked an acceleration from 2016 when the economy expanded by 3.2 per cent. 2017 marked the strongest year of B.C. growth since 2006 when the economy expanded 4.4 per cent.

While growth has remained strong since 2014, estimates for 2015 were revised from 3.5 per cent to 2.1 per cent—indicating that growth is not as robust as previously thought.

Consumer expenditure was a highlight of 2017 with growth in household consumption accelerated by 4.6 per cent, from 3.4 per cent in 2016. Strong job growth, elevated housing market activity and population growth were key contributors to new vehicle sales, and broad demand for goods and services for the year.

Investment in non-residential structures jumped 30 per cent and drove growth in economic output. This increase was attributed to the oil and gas industry’s construction of the Saturn Compressor Facility Expansion and Towerbirch Expansion projects in Dawson Creek, as well as the Ridley Island Propane Export Terminal in Prince Rupert. Government capital investment increased sharply by 24 per cent from 2016. Inventory accumulation also added to growth, while residential investment remained unchanged following a 15 per cent gain in 2016.

Real export growth came in slightly higher than 2016 at 3.4 per cent. Gains were driven by a strong pick up in service exports (up 8.3 per cent) to international markets reflecting tourism demand and other professional service activities. Real imports rose sharply by eight per cent, owing mostly to goods inflows. The gains reflect the demand environment for consumer durable goods like vehicle and appliances, and equipment to facilitate business investment activity. With a drag from trade in net exports, economic growth was due entirely to domestic demand which rose from 3.3 per cent in 2016 to 5.3 per cent in 2017.

Accounting for price levels, nominal GDP growth came in at 6.9 per cent for 2017. Estimates of total employee compensation rose 6.1 per cent, reflecting the strong expansion in employment and higher wages, while corporate profits rose 19 per cent.

Soft housing starts continue in October

B.C. housing starts rebounded after a surprisingly weak September but remained soft in October. Urban area housing starts came in at a seasonally-adjusted
although further price declines are anticipated in the short term.

Annual housing starts, including rural markets, are forecast to ease to about 40,000 units this year from 43,500 units in 2016. Further declines to around 35,000 units are anticipated for 2019 and 2020. Housing will be an increasing drag on B.C.’s growth profile.

Higher inventory and low sales are dampening prices in Lower Mainland

Sluggish sales continued in the Lower Mainland housing market through October with buyers and sellers unable to find common ground. With buyers’ boots anchored by federal lending constraints, provincial government policy measures and rising interest rates, activity has laid dormant. Total home sales in the combined Metro Vancouver and Abbotsford-Mission areas fell 35 per cent on a year-over-year basis to about 3,100 units. While an improvement from September’s 41 per cent drop, seasonally-adjusted sales edged lower on a month-to-month basis and near recent lows. Current trends point to a bottoming of trend near the 2012 pace. Sales are on track for a near 29 per cent for the year and the fewest sales since 2012 at about 41,500 units.

Detached home sales are on the rise after plummeting in recent years as lower prices trigger increased buying activity but remain low. Apartment sales edged lower. Broadly, sales trends are at or near bottom, which suggests a move towards price stabilization, although further price declines are anticipated in the short term.

Inventory levels normally exhibit seasonal declines in October, though it fell flat during the month reflecting an uplift in new listings and sluggish sales. Seasonally-adjusted active listings are on the rise, albeit at the modest level witnessed in mid-2015. Inventory has risen sharply in the apartment and townhome sector but remains at or below average levels from 2005. New multi-family units and investment properties sales
may be entering the market, reflecting a softer pricing environment and restrictive rental market policies.

The sales-to-active listings ratios continue to flash a buyers’ market in the detached sector, with balanced conditions for apartments and townhomes. That said, declining momentum, will precede a period of price erosion.

The average home value for all units rose for a second straight month in October to $926,450, up 1.3 per cent. However, firmer detached sales trends likely contributed. The benchmark housing price index, which controls housing attributes, fell 0.8 per cent from September to $995,500 and is down about four per cent from peak, driven largely by detached home declines. This was the first time the benchmark fell below $1 million since January.

Home sales will remain subdued into 2019, as policy measures and a tightening rate cycle constrain demand. Some buyers may find it an opportune time to buy as prices further decline by a forecasted five per cent and with an extra year of savings down payment. Nonetheless, sales will generally be range-bound. A backdrop of moderate economic growth and population growth, will support to underlying demand warding against a more substantial decline in values.

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