B.C. Economic Briefing

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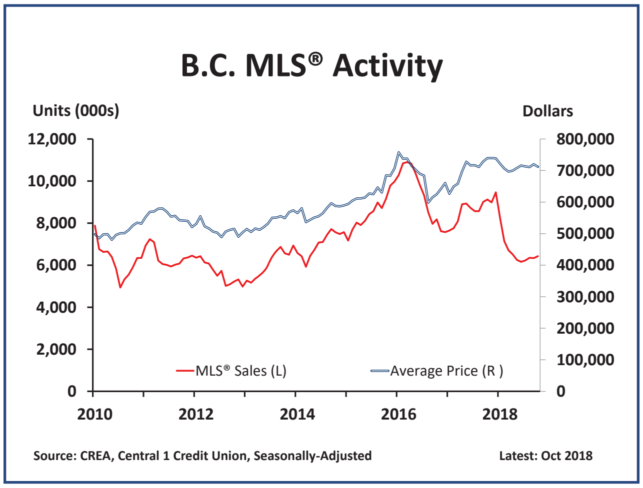
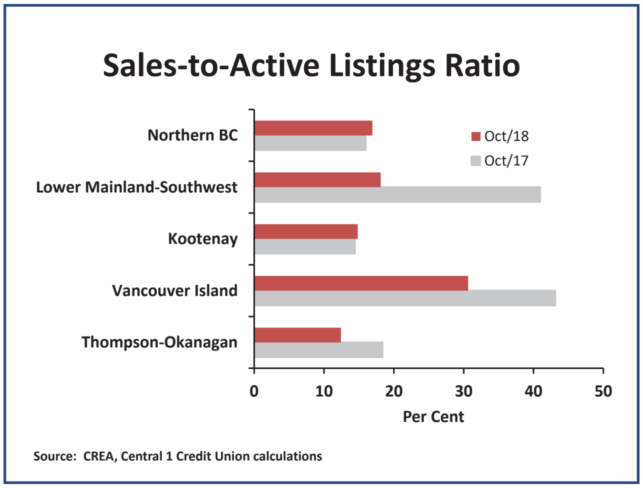
Highlights:

- MLS® sales steady but tepid in October
- Manufacturing sales range-bound in September
- New vehicle sales slowdown points to weaker consumer demand





Home sales steady in October, market conditions broadly balanced

B.C. home sales crept higher in October, but the change was negligible as levels remained tepid. Total MLS® sales reached a seasonally-adjusted 6,429 units according to the Canadian Real Estate Association, up 1.4 per cent from September. Nevertheless, actual sales were 26 per cent lower than the same-month in 2017, and trending at a pace last seen in 2014. In context, sales are ten per cent below the ten-year seasonally-adjusted average, which includes periods of weakness in 2008/09 and 2012. Sales were 23 per cent lower through the first ten months of 2018.

The persistently soft sales environment reflects the combination of federal B-20 mortgage 'stress tests', higher interest rates, and provincial policy announcements such as the region-specific 'speculation tax'. The Lower Mainland real estate board areas and the Vancouver Island have seen the sharpest downturns since December as B-20 measures had a deeper impact on higher priced markets.

The latest sales data showed mixed performances among areas in October. Seasonally-adjusted sales surged nine per cent in the BC Northern Real Estate Board from September, marking the fifth straight gain. The announcement that LNG Canada's $40 billion plant would go ahead has likely provided a boost to housing demand and consumer sentiment. Sales rose in the Thompson-Okanagan by about two per cent with a rebound in Okanagan area, where sales outpaced a drop in Kamloops. Vancouver Island sales rose 0.5 per cent despite fewer sales in Victoria. Lower Mainland sales were virtually unchanged.

Despite lower sales in most markets, market conditions in most areas of the province are balanced due to modest resale market inventory. Sales-to-active listings ratios on Vancouver Island are still in line with a sellers' market. Balanced conditions are evident in northern B.C., the Thompson-Okanagan, and Lower Mainland regions. That said, momentum matters, and sharp sales declines in some markets have led to mild price declines.

The average provincial MLS® price fell 1.1 per cent to $712,330 from September and down about four per cent from the same-month in 2017. However, regional sales share factors into this. Average price data by market showed a decline in average prices on Vancouver Island and the Lower Mainland.

Constant-quality benchmark prices provide a better indication of underlying price trends though are available only in select markets. Composite indices point to flat Lower Mainland home values in October. Apartment and townhome markets deteriorated with benchmark prices down about 0.4 per cent from September, and about three per cent from the spring peak. Similar measures on Vancouver Island showed further gains in Victoria and other parts of the Island, aligning with sellers' market conditions.

Sales are forecast to end the year just shy of 80,000 units, marking a 23 per cent decline from 2017. The average price of $712,000 per unit edges up slightly from 2017's average, but with a mild erosion in the monthly trend.

Wood product sales soften manufacturing shipments

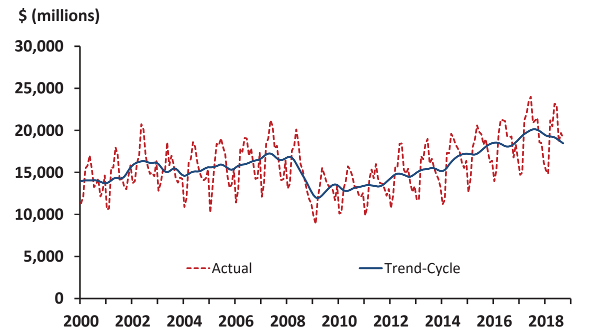
Manufacturing sales continued to track a healthy pace above 2017 levels in September, but momentum has lost steam following a June peak. Total factory sales rose to 0.7 per cent to a seasonally-adjusted $4.70 billion during the month following an August retrenchment. This is a healthy increase of 7.4 per cent year-over-year.

Non-durable shipments rose 0.8 per cent, marking a second consecutive gain to extend a strong upward trend. Shipments were up 11 per cent year-over-year. A key driver has been a 25 per cent increase in year-over-year sales of paper accounting for about one-third of the 12-month gain.

In contrast, the value of durable goods shipments have generally eroded over the past quarter, albeit still up five per cent from a year ago. Wood product sales have declined and were up only 2.8 per cent year-over-year, compared to a five per cent August gain. A slump in U.S. housing starts due in part to higher interest rates, have curtailed lumber prices. This has impacted dollar-volume sales. Prices have continued to decline post-September. Weakness in primary metal manufacturing (down 17 per cent year-over-year) and machinery (down 2.5 per cent year-over-year) were also drags. Non-metallic mineral products (up 16.7 per cent year-over-year) and transportation equipment (up 14 per cent year-over-year) were positive drivers.

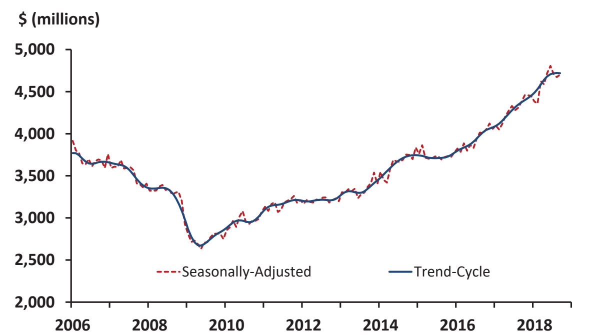
Despite a recent slide, dollar-volume manufacturing sales were up nine per cent through the first nine months of 2018. However, higher product prices have largely been behind the increase, with paper and wood products driving about half the net gain. There is insufficient information to assess the contribution of petrochemicals, which are also a significant driver. Manufacturing will continue to trend higher with global and U.S. demand for exports, although there remain negative risks. Negative risks relate to a higher interest rate environment and the ongoing U.S. – China trade dispute which could up-end the global trade environment.

B.C. New Vehicle Sales



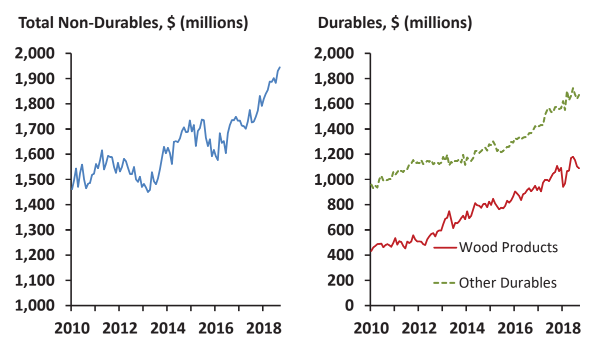
Source: Statistics Canada, Central 1 Credit Union note: includes the Territories Latest: Sept 2018

B.C. Manufacturing Sales



Source: Statistics Canada, Central 1 Credit Union Latest: Sept 2018

B.C. Manufacturing Sales by Sector



Source: Statistics Canada, Central 1 Credit Union Latest: Sept 2018

Declining new vehicle sales signal softening consumer demand

New vehicle sales in B.C. remained elevated in September, but the trend has eroded over the past year. Total new vehicle sales in the region, which includes data from the Canadian Territories, reached 19,091 units. This was 11 per cent lower than the same-month in 2017. While still elevated on a historical basis, seasonally-adjusted sales are down nearly ten per cent from peak levels in mid-2017. Year-to-date sales were down nearly five per cent.

Solid population growth, tight labour market and moderate strength in the economy continue to support a high level of sales. However, higher interest rates and less replacement demand after a robust sales period in recent years have contributed to the slowdown. Higher interest rates have made financing more expensive, while adding more pressure to highly indebted households. The soft housing market may also be playing a role as weakening prices in some markets curtail wealth-induced spending.

Vehicle production is not a significant driver of B.C.'s economy, but fewer sales point to a slowdown in the consumer spending cycle and demand for large durable goods. Consumer spending will slow this year after expanding more than four per cent in 2017.

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