B.C. Economic Briefing

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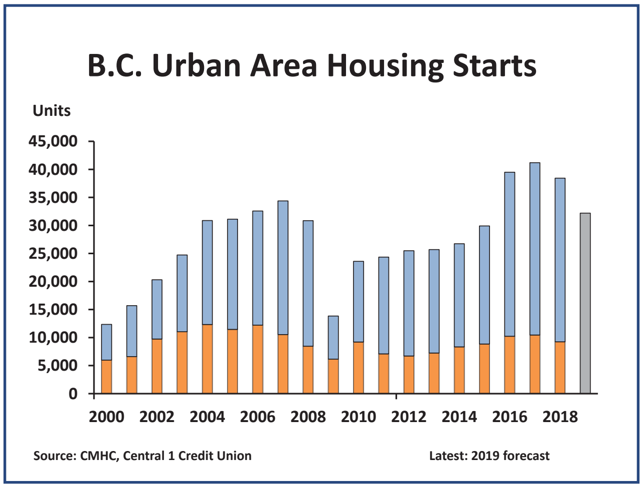
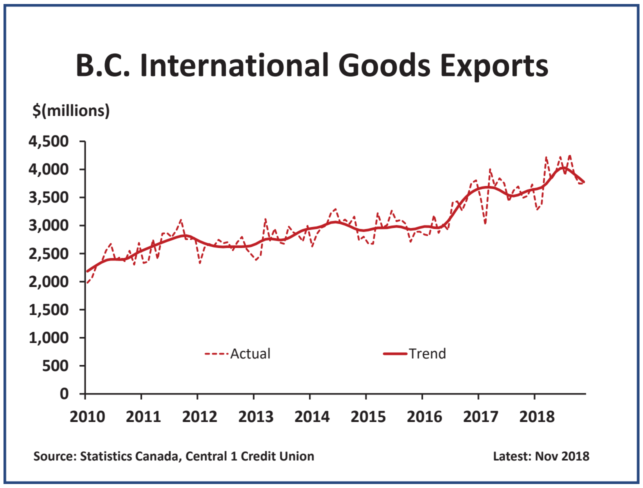
Highlights:

- Urban housing starts decline seven per cent in 2018 despite December surge
- Exports remain soft in November
- Non-residential construction boosts building permits in November
- Job vacancy rate highest among provinces at 4.8 per cent





December housing starts surge

B.C. builders finished 2018 with a bang as December housing starts jumped to a 12-month high. Urban housing starts reached a seasonally-adjusted annualized rate of 48,117 units, up 28 per cent from November's 37,617 unit pace. That said, housing starts are highly variable on a month-to-month basis, owing to sharp swings attributed to apartment and townhome starts. December's gain followed a softer pattern during the prior three months.

Multi-family construction (apartment and townhomes) accounted for nearly all of December's gains, jumping 36 per cent from November to an annualized pace of 38,430 units from 28,263 units in November. While seemingly at odds with a slow resale market and demand, multi-family projects are planned years in advance, and as noted, highly volatile.

December's surge in starts came largely outside Metro Vancouver. Specifically, monthly starts more than tripled in Victoria to an annualized 9,483 units from 2,953 units in November, while Abbotsford-Mission rose from a pace of 638 units to 3,508 units. These levels will retreat. Starts increased 12 per cent in metro Vancouver to 24,769 units but levels declined in Kelowna.

With December's pick up, annual starts increased to 38,439 units. While down seven per cent from 2017 and the lowest since 2015, levels remained high. Multi-family home sales declined five per cent to 29,185 units, while single-detached starts fell 11 per cent to 9,254 units. Single-detached share of total starts has fallen to 25 per cent in recent years, as developers have adapted to demand for more affordable dwellings in an environment of strong price gains with apartment and townhome projects. From 2010 through 2015, the share was closer to 30 per cent and even higher during the 2000s.

Metro Vancouver starts declined 11 per cent to 23,404 units, Kelowna starts declined 29 per cent following a stellar 2017, Abbotsford-Mission starts declined 39 per cent. Victoria starts increased 11 per cent, while gains in smaller urban markets also offset some of the drops in larger markets.

Housing starts are expected to ease this year due to tighter lending regulations, which has curtailed demand and presales. Builders will also be monitoring and adapting to elevated near-record levels of units under construction (58,581 units in the fourth quarter), as many projects are completed and new home inventory levels climb. Fewer starts should follow. Inclusive of rural markets, housing starts are forecast to fall about 20 per cent to 32,200 units.

Soft export trend continues through November

B.C. goods exports held steady, but the resource-driven slowdown in sales observed since mid-2018 continued through November. Dollar-volume exports reached $3.747 billion during the month. While up slightly from October on an actual and seasonally-adjusted basis, year-over-year growth slowed to 6.2 per cent from 7.3 per cent in October.

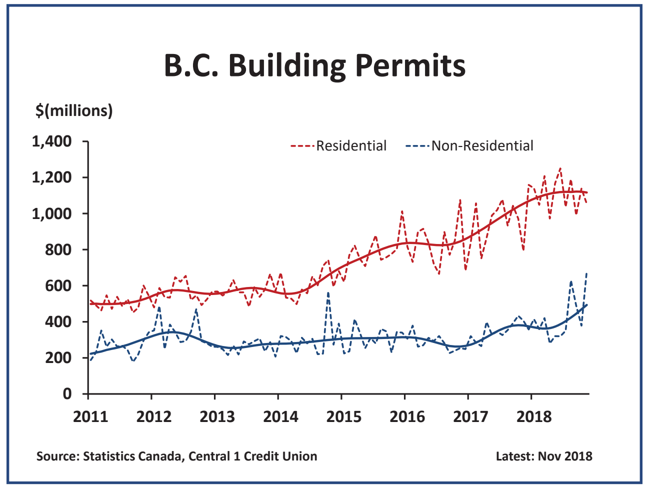
Monthly exports are volatile, but the trend has clearly deteriorated in recent months owing mostly to a sharp retreat in forestry sales. Sector sales fell 14.6 per cent year-over-year in November, with seasonally-adjusted sales down 20 per cent since June. This has reflected a combination of lower demand from the U.S. and lower prices, with the latter down about eight per cent over the period. Meanwhile, raw metals and minerals fell 17 per cent year-over-year, and metal and non-metallic mineral product sales were, albeit sharply below mid-year levels. Lower commodity prices factored into the weakness, reflecting slower momentum in global growth.

Excluding these sectors, which make up about half of B.C.'s goods exports, year-over-year growth in November among other exports was up 25 per cent. Energy sales surged during the month, up 44 per cent, while growth also outperformed in the industrial machinery, equipment and parts sector (up 14 per cent).

Through the first 11 months, export sales were up a moderate 7.3 per cent, but are set to be significantly lower than 2017's gain of nearly 12 per cent. Despite a recent slowdown, metal and non-metallic minerals and products were up about ten per cent. Consumer goods exports rose 12 per cent while machinery, equipment and parts were up 10 per cent—likely reflecting the boost of a low Canadian dollar. Energy sales rose a mild three per cent and forestry was up 6.8 per cent following the latest decline.

Exports conditions are mixed. Slowing global economic growth will likely be a headwind to shipment and commodity prices. However, trade will be supported by a low Canadian dollar, lower trade uncertainty with the Canada-United States-Mexico Agreement (CUSMA) and the Comprehensive and Progressive Agreement for Transpacific Partnership (CPTPP), which has taken effect for six countries including Canada. The latter will lower tariffs and increase market access for Canadian businesses.

Imports slowed to a three per cent year-over-year rate in November from 11 per cent in October, but year-to-date growth remained a hefty 12 per cent. Energy imports (up 53 per cent), metal and non-metallic mineral products (up 20 per cent), industrial machinery and equipment (up 18 per cent) and motor vehicles and parts (up 17.5 per cent) have driven gains. Various factors are likely contributing to this increase including a low Canadian dollar, which is lifting the import costs, tariff retaliation on steel and other goods, and moderate domestic economic growth.



Building permits up in November on business investment

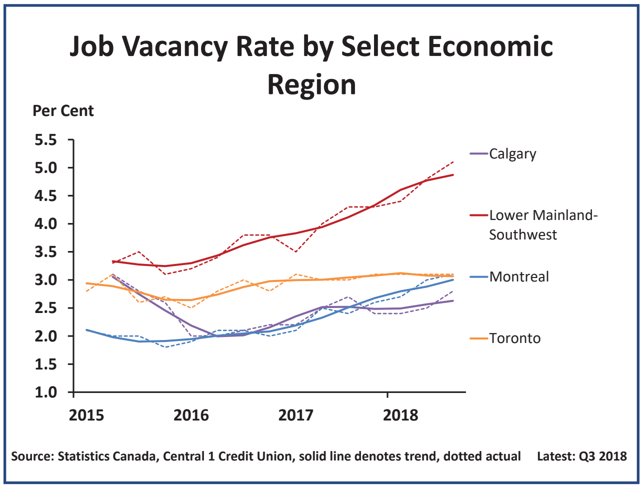
Building permit volumes in B.C. rose sharply in November on the strength of non-residential activity as housing-related building intentions retreated. Total permits reached a seasonally-adjusted $1.73 billion, up 14 per cent from October and 44 per cent from a year ago.

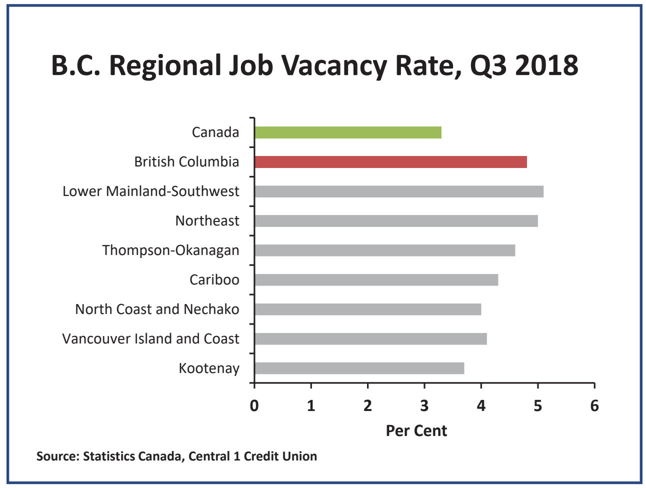
Residential permits fell 7.4 per cent from October to $1.05 billion. While volatile, the residential activity has generally slowed through 2018 with the broader housing market. In contrast, non-residential permits surged 80 per cent in November to $680 million seasonally-adjusted. The main driver of the increase was the issuance of permits for a metro Vancouver office building, which will likely mean a pullback in December values. Both commercial (which more than doubled) and industrial building (up 64 per cent) sectors posted strong gains during the month, compared to a drop in permits for government buildings.

Permits fluctuate considerably on monthly basis. On a year-to-date basis, total permits rose 9.5 per cent. Residential volume climbed 7.7 per cent, with a moderating trend during 2018, while non-residential permits gained 14.5 per cent on commercial construction. Strength in B.C.'s economy has propped up business investment. Among metro areas, growth in total permits rose 13 per cent in both Vancouver and Kelowna, were flat in Victoria, and fell 20 per cent in Abbotsford-Mission.

Labour shortages drove job vacancy rates higher in Q3

B.C. job vacancy data remained elevated in the third quarter, aligning with the exceptionally low unemploy-





ment rate and anecdotal evidence that organizations are finding increased difficulty in filling available positions.

Job vacancies in B.C. rose to 110,635 openings in the third quarter, up 19.4 per cent or 17,950 positions from the same quarter in 2017. This trailed only Quebec and Prince Edward Island (PEI), which posted increases of more than 30 per cent, but outpaced the national increase of nearly 18 per cent. However, B.C.'s job vacancy rate, which is relative to total occupied and vacant positions, was the highest at 4.8 per cent and on a rising trend. Underscoring B.C.'s position as the tightest labour market in Canada, this was highest among provinces and exceeded PEI by more than a full percentage point. Wage momentum also strengthened during the quarter, with the average offered hourly wage rates up 9.2 per cent year-over-year. That said, more recent Labour Force Survey results point to deceleration in the fourth quarter.

Labour shortages have been particularly acute in B.C.'s accommodation and foodservices sector (6.8 per cent job vacancy rate), construction (7.9 per cent job vacancy rate) and transportation and warehousing (6.9 per cent job vacancy rate).

Within B.C., the job vacancy rate was highest in the Lower Mainland-Southwest, which includes Metro Vancouver, at 5.1 per cent. This was up from 4.3 per cent a year ago. Modest employment growth in the region during the year largely reflects labour shortages rather than lack of demand. The vacancy rate was significantly higher than other larger metro areas. The economic regions of Toronto and Montreal recorded rates of 3.1 per cent while Edmonton and Calgary recorded rates of 2.7 and 2.8 per cent respectively.

Job vacancy rates were relatively high across B.C.'s economic regions and generally above four per cent. The Northeast came in at five per cent. Broadly, B.C.'s labour markets are healthy.

While a sign of a strong economy and likely to buoy wage growth going forward, the labour shortage may be an impediment to future production and economic growth. This was highlighted in the most recent CFIB Business Barometer findings. In the absence of a downturn in the economy, B.C. requires an expansion in labour supply to meet the needs of a growing economy. This could be achieved through increased population growth or higher labour force participation. Additionally, investment in productivity enhancing machinery and equipment could also support production growth.

Bryan Yu
Deputy Chief Economist
byu@central1.com / P 604.742.5346
Mobile: 604.649.7209