B.C. Economic Briefing

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Highlights:

- Housing market weakens
- B.C.'s Consumer Price Index inflation rate hits 25 year high

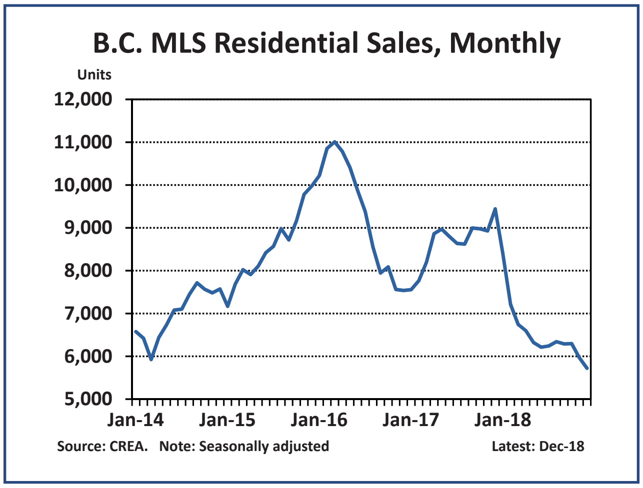
Housing sales close out 2018 on a down note

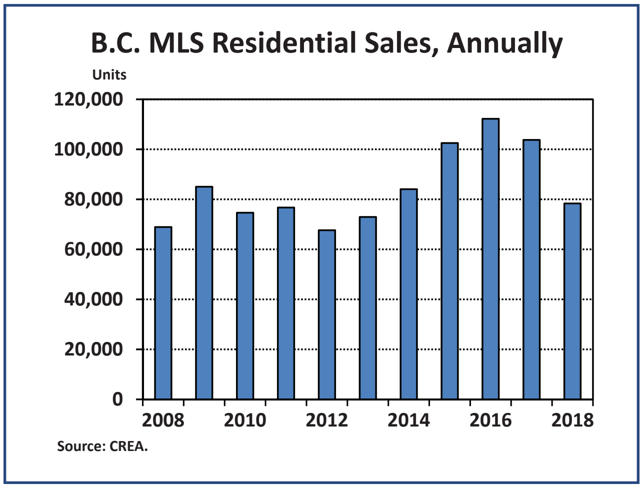
B.C.'s housing sales recession deepened in December, capping off the weakest year of sales since 2013. Following November's 5.2 per cent slump, provincial seasonally-adjusted home sales fell another 4.1 per cent in December to 5,722 units. This was the lowest single-month tally since March 2014. While consistent with fewer sales across the country, the national decline pullback was a more modest 2.5 per cent. Eight of the province's real estate board areas contributed to the decline. Greater Vancouver (down 8.0 per cent), Victoria (down 4.0 per cent), Vancouver Island (down 15.5 per cent) and the Okanagan-Mainline (down 4.2 per cent) were the main drivers of the decline.

Unadjusted for seasonal factors, December's 3,499 sales were down 39 per cent year-over-year. If this sounds abysmal, it is. While year-ago sales were lifted in part by an increase in buyers purchasing ahead of the implementation of federal mortgage stress tests—this marked the weakest December sales count since 2012.

Federal mortgage stress tests have had a more pronounced effect in B.C., reflecting higher prices in the region and already strained affordability. Demand was further curtailed by various provincial tax measures. Annual sales declined by nearly a quarter to 78,347 units, compared to an 11 per cent national decline, with Ontario posting the second largest decline at a comparatively modest 13.7 per cent. Real estate boards in the Lower Mainland-Southwest drove B.C.'s sales decline with drops of near 30 per cent, while the Okanagan area and Vancouver Island dropped about 20 per cent.

Late-year sales erosion and rising inventory portends further price declines for 2019. While the average annual price was up 0.4 per cent at $712,497, the trend has eased. Seasonally-adjusted, the average provincial price fell 2.6 per cent from November to $701,383, owing mostly to a drop in the Lower Mainland markets. Average values are declining in the Lower Mainland-Southwest with low demand and rising inventory, as well as in Victoria and parts of the Okanagan. Factors such as weak Alberta demand and tax hikes for out of province owners in some markets of the interior are further weighing on demand and prices. Constant-quality housing price indices—available for select markets—point to declines of six and two per cent from peak in the Lower Mainland and Victoria markets, and a flat trend on the rest of Vancouver Island.





Low sales and flat prices are forecast for 2019. While interest rates are forecast to be steady, with a chance of temporary cuts due to declining bond yields, most factors will lean against a significant rebound. Economic growth will remain modest and government policy will continue to hamper demand. Total provincial sales are forecast to rise about three per cent to 81,000 units this year, with the average price forecast to decline by about 1.5 per cent.

Consumer price inflation edges higher in December closing out 2018 with the fastest pace in 25 years

B.C.'s Consumer Price Index (CPI) increased in December, pushing the annual 2018 CPI inflation rate to its fastest pace since 1993. December's increase was the ninth monthly rise during 2018. CPI inflation is expected to ease in 2019.

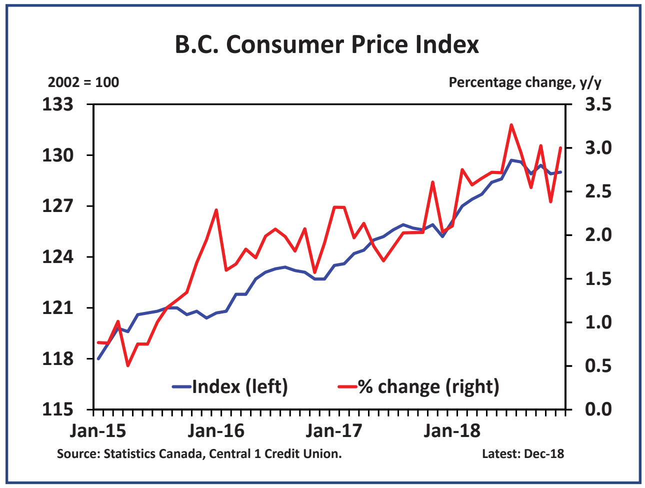
During December, B.C.'s CPI increased a modest 0.1 per cent over November led by a 1.6 per cent jump in the transportation index and a 0.9 per cent rise in the food index. The transportation index increased by 1.6 per cent despite a 4.0 per cent decline in gasoline prices due to a 19.4 per cent surge in inter-city transportation costs from higher air travel prices during the holiday season. Food prices for fresh fruit and vegetables typically rise during the winter months.

The conventional year-over-year measure of CPI inflation rose 3.0 per cent in December, up from 2.4 per cent in November. The household operations index was 5.3 per cent higher than last December due to a 10.8 per cent jump in telephone services prices and an 8.8 per cent increase in internet access services. Childcare and housekeeping services prices were 8.1 per cent higher than in December 2017. The transportation index was up 4.0 per cent, mainly on higher air travel prices. The clothing and footwear index and the health and personal care index increased modestly at 0.9 and 1.7 per cent, respectively.

This past year marked the highest annual CPI inflation rate for B.C. in 25 years. The CPI inflation rate in 2018 came in at 2.7 per cent, which is the highest since 1993's 3.5 per cent rate. In the intervening years, CPI inflation ranged between 0.1 per cent and 2.4 per cent. In 2017, CPI inflation was 2.1 per cent. B.C. also had the highest provincial CPI inflation rate during 2018 with Manitoba in second place at 2.5 per cent. Canada's rate was 2.3 per cent for the year.

The main contributors to B.C.'s 2.7 per cent CPI inflation rate in 2018 were transportation and shelter. The transportation and shelter indices contributed 0.9 percentage points each to the overall increase. The cost of food contributed 0.3 percentage points. The smallest contributor was clothing and footwear at 0.1 per centage point followed by health and personal care at 0.2 percentage point. During the past three years, transportation and shelter were the largest contributors to B.C.'s CPI inflation rate.

We expect B.C.'s CPI inflation rate to ease towards a two per cent increase in 2019 based on lower energy



prices and easing shelter costs due to no increase in mortgage rates. However, higher food prices, insurance premiums and various personal services costs are likely to rise at a faster pace than the overall CPI rate.

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