Home market starts the year with a whimper

MLS® home sales in B.C. fell again in January as federal mortgage regulations, provincial tax policy and eroding confidence in the housing market continued to drag on demand. Provincial sales declined 1.8 per cent from December to a seasonally-adjusted 5,595 units. After a brief stabilization in the third quarter, B.C. home sales entered another down leg in recent months and are trending at the weakest pace since early 2013. B.C. was the worst performing province during the period. Nationally, sales edged up from December by 1.3 per cent owing mostly to stronger demand in Ontario and Quebec.

Regionally, B.C. sales patterns were mixed in January, but declines were broadly observed in the province. Lower Mainland sales fell one per cent due to weakness in the Fraser Valley area, while steep declines were observed in Victoria (down 12 per cent), Chilliwack (down 17.5 per cent), the South Okanagan (down 20 per cent) and the north (down 13 per cent).

While we should be wary of monthly volatility, the sales environment is weak. Unadjusted actual B.C. MLS® sales fell 32.7 per cent from same-month 2018—the fewest January sales since 2013. Declines have been concentrated in the Lower Mainland, though sales have declined significantly across most regional areas. Sales in the Lower Mainland were down nearly 38 per cent year-over-year, with declines of 26 per cent in the rest of the province.

The pattern of lower demand and confidence is eroding prices as inventory climbs. New listings trends picked up across the province in January, as some sellers may be trying their luck following evaporation of demand last year. This is adding to resale inventory, which rose by 1.3 per cent year-over-year by 42 per cent (seasonally-adjusted). This has translated to a buyers’ market conditions in the Lower Mainland and parts of the southern interior. Firm conditions generally persist on Vancouver Island and the north, reflecting demographically driven demand by retirees and more buoyant confidence in the north with the planned liquefied natural gas terminal.

B.C.’s average price fell three per cent from December to $674,042 and was down 7.5 per cent year-over-year. Average values are influenced by geographic and product composition effects. Nevertheless, the underlying trend is negative particularly for the Lower Mainland. The MLS® Housing Price Index (HPI), which adjusts for housing attributes, is down nearly eight per cent from mid-2018 highs in the Lower Mainland and three per cent year-over-year. On the Island, HPI levels are firmly above year-ago levels but have peaked and are edging lower. HPIs are unavailable for other markets.
Frigid weather in February will likely be a factor weighing on sales, but regardless, market conditions will remain subdued going forward under current policy conditions. Housing prices are expected to erode further before stabilizing by mid-year. Economic and labour markets remain firm, which should induce some buyers to jump in as prices ease.

**Manufacturing sours to end 2018**

Like most provinces in December, B.C. manufacturers ended 2018 on a sour note. Sales plunged 3.1 per cent from November to just under $4.48 billion in December marking a sixth straight decline and the lowest point since February. Year-over-year growth whittled down to 0.6 per cent. Nationally, sales fell 1.3 per cent from November and rose 0.8 per cent on a year-over-year basis.

December’s soft manufacturing numbers reflected broad weakness among sectors. Wood products fell 6.1 per cent representing about 40 per cent of the net decline, while paper sales declined 10 per cent representing another third of the net decline. A four per cent drop in food product manufacturing accounted for the bulk of the remaining drop, with resource manufacturing also contributing to the net decline. Growth in fabricated metals (up 4.1 per cent from November) was one of the lone bright spots during the month.

Recent woes in the manufacturing cycle likely reflect pressure from a weakening export environment, which is having a chilling effect on growth. Lower lumber demand from the U.S. and a significant decline in forestry-related prices have led to a sharp retrenchment in related sales. Seasonally-adjusted wood product sales peaked in June and have since declined 22 per cent. Related industrial prices have declined about four per cent over the same period. Sales of primary metal manufacturing have also slumped by nearly a quarter. Global growth concerns have curtailed commodity prices and some operations have announced production cuts.

Despite the weak second half of 2018, annual sales growth remained strong at 7.9 per cent compared to nine per cent in 2017. Key drivers included paper manufacturing (up 20 per cent), fabricated metals (up 58 per cent) and non-metallic minerals (up 15 per cent). There is insufficient sales information on petroleum and coal products, but growth was likely modest. Forestry product sales were up a mild three per cent, while primary metals were a drag on growth with sales down nearly 10 per cent on the year. On average, industrial prices were higher in 2018 despite late year moderation. Adjusting for this increase we estimate real manufacturing output growth of three per cent in 2018 which is the slowest since 2015. Manufacturing growth faces constraints this year as domestic and global economic growth slows.

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