B.C. Economic Briefing

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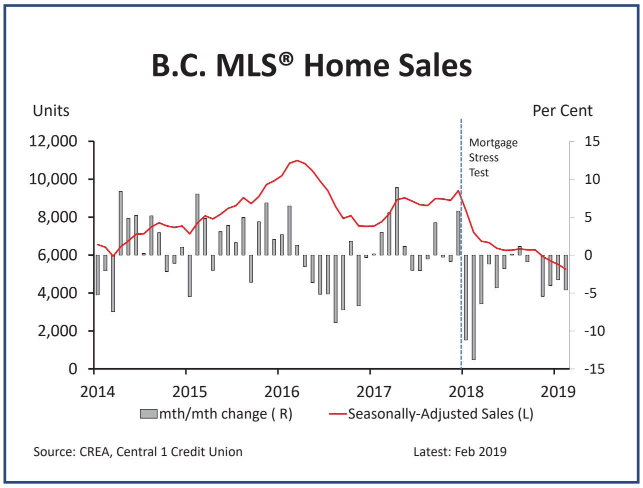
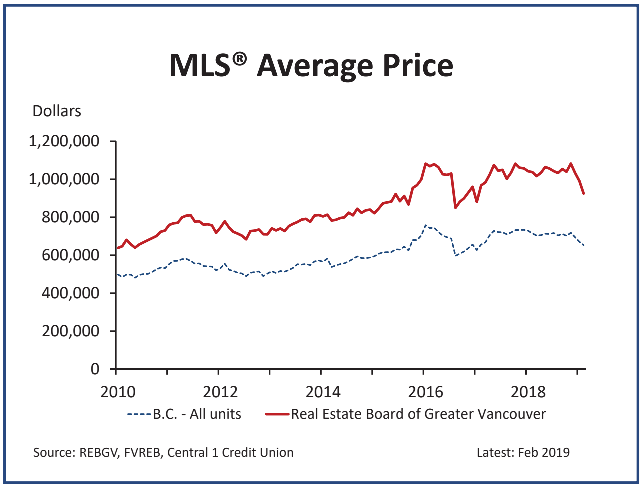
Highlights:

- B.C. home sales decline 4.6 per cent in February
- Manufacturing sales climb for the first time since June
- Forestry sector weakens in late 2018 as lumber sales and production drops





MLS® home sales decline throughout B.C. in February

Housing market weakness continued through February with MLS® home sales down in most regions of B.C. Total sales fell 4.6 per cent from January to a seasonally-adjusted 5,261 units, marking a fifth decline in six months. Unadjusted, sales fell 27 per cent from same-month 2018.

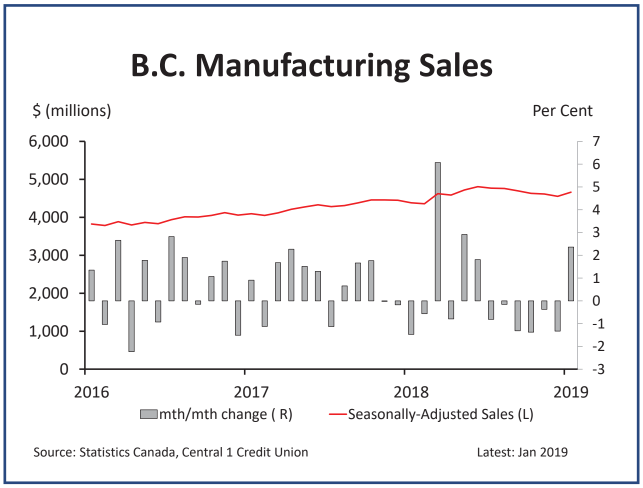
Regionally, Lower Mainland home sales fell 5.5 per cent while sales fell 3.6 per cent in Victoria. Excluding the capital region, sales on Vancouver Island declined nearly 12 per cent, but followed a January surge. Sales also eased in the southern interior of the province but rose in the north. The broad decline in sales continues to reflect a sluggish demand environment, due largely to policy factors, but a bout of extreme weather likely added to the weakness. New listings also fell sharply by 5.7 per cent from January, with declines in all markets, which is consistent with the weather impacting the market.

Nevertheless, housing conditions are soft. Sales-to-active listings ratios have slipped to a level consistent with a buyers' market for the province at under 15 per cent, driven mostly by the Lower Mainland and southern interior markets. Federal mortgage 'stress tests' have severely curtailed activity in the Lower Mainland due to high prices while taxes have also bitten. Weaker economic conditions in Alberta may be a factor in the interior markets. Market conditions have also declined sharply on Vancouver Island, but sales-to-listings are still firm.

The average provincial MLS® price fell 2.6 per cent from January and 8.5 per cent year-over-year to $653,094, which is the lowest price since early 2017. Sales composition is a factor in the decline and should viewed with caution, given sharper sales and price downturns in the higher priced Lower Mainland market. In the Lower Mainland area, the average price in Greater Vancouver fell 6.6 per cent but rose 4.7 per cent in the Fraser Valley. Price levels rose 6.6 per cent in Victoria and 14 per cent in Kootenay; however, monthly prices are volatile.

Constant-quality housing price indices (HPI) are a better measure of price but available for few select markets. The latest Lower Mainland HPI fell 0.2 per cent after a 1.4 per cent drop in January. Levels are down nearly eight per cent from mid-2018. Victoria and Vancouver Island prices edged higher and remain at, or near, price peaks observed in 2018.

Low sales are anticipated to continue through the first half of 2019 before modest increases thereafter. Housing prices will go down further, particularly in the Lower



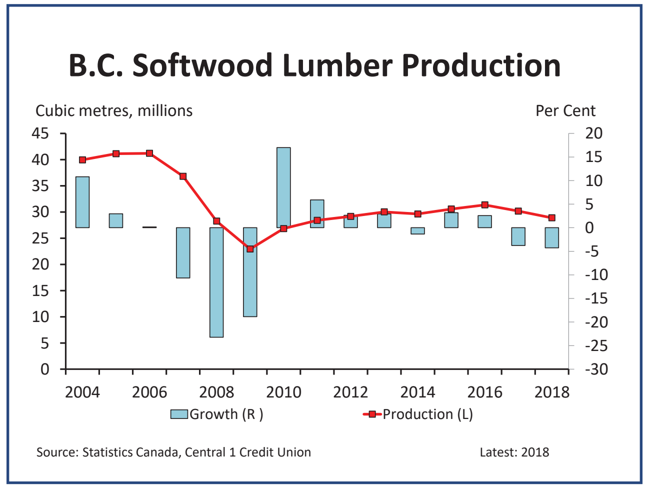
Mainland, which should incent some households to buy. The upcoming federal budget could also provide a lift to demand through housing affordability policies. That said, housing will be a drag on the economy this year and next as the weak sales environment and soft prices cut into new housing activity.

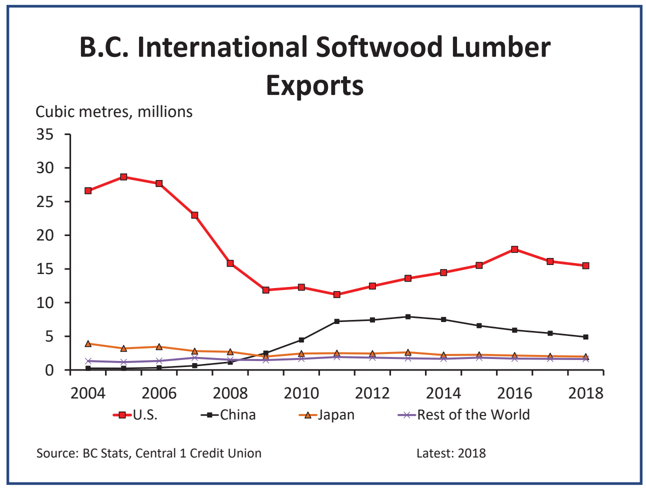
Manufacturing sales post first gain since June

Manufacturing shipments in B.C. rose for the first time since June 2018 in January. Factories posted a strong lift of 2.4 per in sales cent from December to reach a seasonally-adjusted $4.66 billion. This was the highest level since September, but it is too early to say if it marks the start of a sustained rebound or a one-off. Year-over-year, shipment growth was modest at 6.3 per cent.

January's pick up was driven mostly by a 2.8 per cent increase in durable goods production, which comprised 70 per cent of the overall again. This compared to a 1.7 per cent in non-durable goods. Of the former, wood production (up 4.3 per cent) rebounded after a sharp December contraction but remained 15 per cent below 2018 peak production. Pricing levels have been factored into this decline, although export demand has eased. Transportation and equipment jumped 35 per cent to be a key driver of the monthly increase while machinery shipments jumped 7.6 per cent. Primary metal manufacturing declined 14 per cent from January.

Growth in manufacturing is expected to be mild this year. A global growth slowdown and weak national performance will constrain export demand, although a low Canadian dollar is supportive. Forestry needs stronger demand for housing both domestically and abroad, which is not forthcoming. Real manufacturing output is forecast to rise one per cent this year, which will constrain manufacturing product sales to three per cent factoring in price levels.





Forestry sector sees lumber demand erode in late 2018

B.C.'s forestry sector slowed in late 2018 based on the latest softwood lumber production figures from Statistics Canada. Production fell 4.3 per cent to 28.88 million cubic metres, marking a second consecutive annual decline and the lowest annual production performance since 2011. This largely reflected year-over-year declines in November (13 per cent) and December (16 per cent) in 2018.

This aligned with dollar-volume sawmill manufacturing shipments which fell 3.3 per cent to $7.86 billion. A retrenchment in lumber prices during the second half of the year—and lower real shipments—factored into the weakness. That said, the lumber sector pullback was offset by stronger sales in veneer and engineered wood products (up 22 per cent) and other wood products (up 8.6 per cent). Total wood product manufacturing rose 3.3 per cent to $12.6 billion. Shipments of paper products were robust with growth of 20.4 per cent in 2018 to $5.8 billion owing in part to robust growth in product prices.

Declining lumber activity reflects weaker export demand. Dollar-volume lumber exports to international markets fell 2.8 per cent last year, with real shipments down five per cent. The latter followed a nine per cent decline in 2017. Real shipments to the U.S. fell 3.9 per cent and contributed to half of the overall decline, as more than 60 per cent of international lumber exports flow south. U.S. exports fell 10 per cent in 2017 but had seen five straight years of gains prior. China, which is the second largest export market for B.C. lumber, imported 10 per cent less softwood lumber in 2018—accounting for much of the remaining decline. Real shipments to China have now declined for five consecutive years. Various factors are contributing to sector-weakness. Housing starts in the U.S. have failed to gain traction and are trending at a mild 1.2-million-unit annualized pace, which runs below demographic and replacement demand. Meanwhile, the broader economy is slowing due in large part to U.S. – China trade tensions and tariff war. Economic growth in China deteriorated sharply through 2018, which is likely tempering demand.

Weak growth in the wood product sector is forecast for the next two years. Global economic growth prospects are soft, while domestic new home construction in Canada will weaken as a result of the downturn in home sales and softer prices in metro areas. Production will continue to be constrained by supply factors related to the long-term impacts of the mountain pine beetle epidemic, which continues to limit timber availability.

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