B.C. Economic Briefing

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Highlights:

- B.C. urban housing starts decline 32.5k saar units in March
- Teranet home price index drops again
- Non-residential building intentions rise
- Motor vehicle sales weak to start 2019

New home construction slumps in March

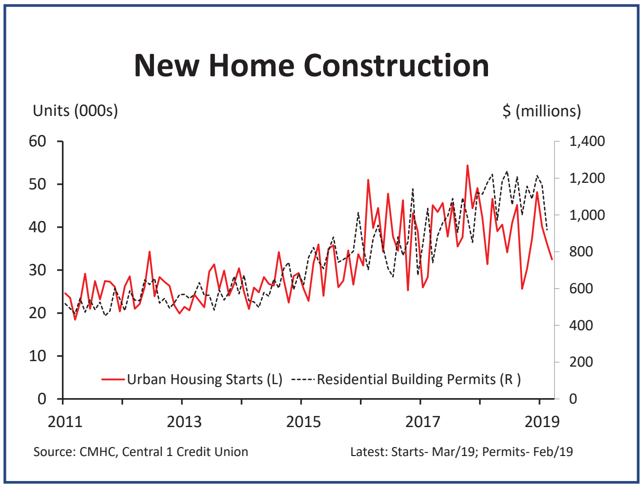
Housing starts slumped for a second straight month in March as fewer apartment units broke ground in the census metropolitan areas (CMA) of Vancouver and Victoria. Total urban area B.C. starts declined 10 per cent from February to a seasonally-adjusted annualized rate (saar) of 32,493 units, and 30 per cent from same-month 2018. Detached housing starts rose seven per cent to 7,297 saar units but were offset by a 14 per cent decline in multi-unit dwelling starts led by fewer apartment starts.

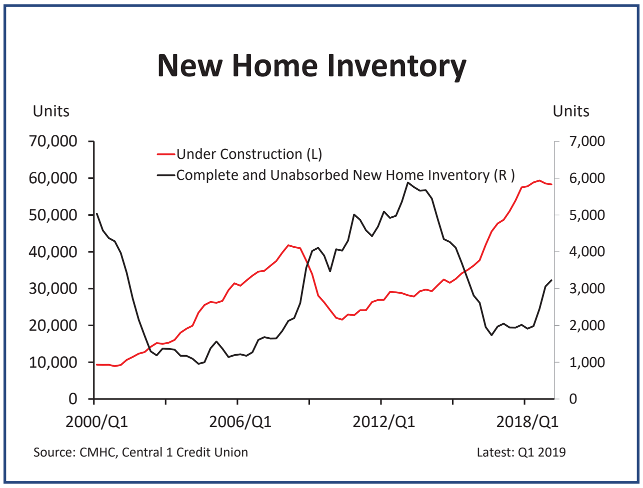
Housing starts in the Vancouver CMA declined 16 per cent to 20,960 units (saar) in March, while Victoria starts declined more than 50 per cent to 2,084 units after surging in February. Both Kelowna and Abbotsford-Mission posted a bump up in starts; the former posted a second exceptionally weak month of 587 units compared to an average pace of more than 2,500 saar units in 2018.

Year-to-date, Vancouver starts declined 16 per cent through the first quarter. Starts were up 63 per cent in Abbotsford-Mission, 34 per cent in Kelowna and 5 per cent in Victoria.

Fewer housing starts aligned with a 21 per cent drop in monthly and year-over-year residential building permits in February to $919 million, which is a leading indicator for construction. Vancouver CMA permits fell 21 per cent from January, while Victoria intentions declined 30 per cent.

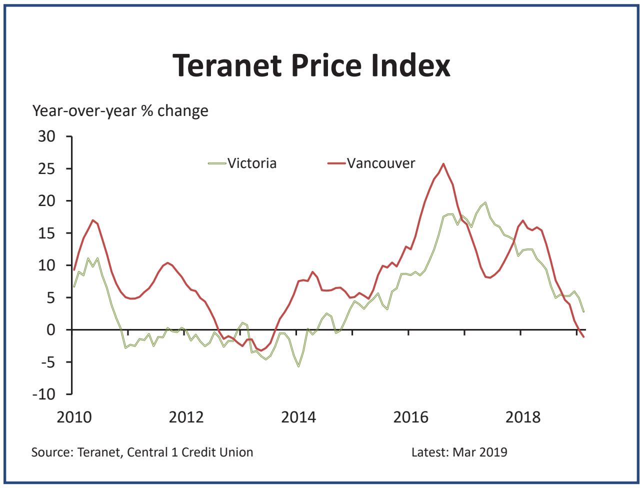
The latest pull back points to a combination of factors. The policy-driven chill in the resale market, which has triggered declining home values and slowing pre-sale purchases, may finally be translating into curtailed new home construction. The latest Teranet housing price index for March showed further price erosion in both Vancouver and Victoria, with peak to trough declines of 4.3 per cent and 3.5 per cent respectively. Kelowna and Abbotsford-Mission have declined 4.8 per cent and 3.8 per cent over the past six months. This index lags market conditions as it reflects title transfers, rather than firm sales.

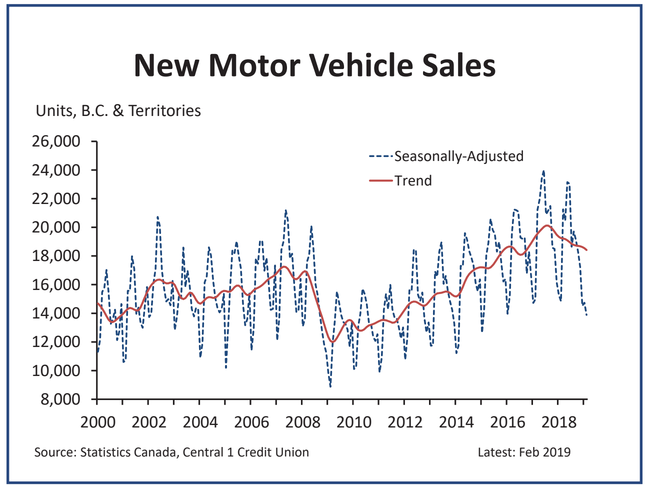




Rental construction has also declined sharply, which may reflect more stringent rental policies and fewer secondary suite construction. Through the first three months of 2019, total starts declined nine per cent compared to same-period 2018. Detached housing starts fell 28 per cent, with multi-family units down a moderate four per cent. Rental starts fell 31 per cent from same-quarter 2019, while combined homeowner and condominium starts were down 1.7 per cent.

Monthly volatility aside, housing starts are expected to trend lower this year as weak housing demand curtails





building activity. Anecdotally, development is slowing or delayed on fewer uptake of pre-sale units. Units under construction remained near a record high at 58,322 units in the first quarter of 2019, while standing inventory of new units is on the rise and the highest since 2015. This does not include rising numbers of recently completed units listed for sale by investor or owners. We forecast annual total housing (starts inclusive of rural areas) to decline by 20 per cent this year to 32,600 units. Lower residential investment growth will be the main drag on B.C. economic growth.

Non-residential rebound in February

While residential permits stumbled, a rebound in industrial and government building intentions provided a partial offset for the construction sector. Non-residential permits rose 15 per cent or $63 million from January to $475.6 million (seasonally-adjusted). In January, permits fell more than 50 per cent owing mostly to a one-off surge in December. The latest two months of activity closely aligns with the 2018 trend.

February gains were led by a 38 per cent increase in industrial permits and a 32 per cent increase in institutional and government activity. Interestingly, the increase came largely from outside of B.C.'s four metro areas, with non-residential permits down 9.4 per cent or $29.5 million in the Vancouver CMA. Permits rebounded by 72 per cent, or a gain of $4.6 million, in Abbotsford-Mission while activity in Kelowna and Victoria was steady. Permits outside these areas more than doubled from January to $172 million.

Through the first two months of 2019, non-residential permit rose 3.5 per cent from same-period 2018. Commercial sector gains of 7.3 per cent offset declines in industrial and institutional permits. Investment remains solid despite an expected slowdown in the general economy. Investment in northern B.C. related to liquefied natural gas plant construction, and population growth in the province which drives consumer demand, will continue to underpin building construction and renovation activity.

Motor vehicles continue to slump

Consumers remain on the fence when it comes to big ticket purchases. The slide in new motor vehicle demand continued through early 2019 with sales in B.C. and Territories region down 6.4 per cent year-over-year to 13,886 units. This marked the tenth straight month of negative year-over-year sales and one of the weakest performances among provinces. Seasonally-adjusted, we calculate a decline in sales of five per cent from January after a temporary increase in January. Sales have trended lower since late-2017.

Continued weakness in vehicles sales reflects various factors. Higher interest rates over the past year have increased related financing costs and curtailed demand for rate sensitive goods, while households look to pare debt. Replacement demand has likely lessened following strong sales demand in recent years. Declining home values may also be curtailing purchases as the housing wealth effect moves into reverse. On this latter point, the average price of vehicles sold has declined in recent months, which could reflect fewer purchases of higher end vehicles.

At this point, there is little impetus for a significant turnaround in sales. However, a strong labour market and population gains will support purchases, while interest rates look to hold steady going forward. Nevertheless, weaker vehicle sales will hamper a rebound in broader retail sales growth.

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