Housing demand continues to wilt in March

Poor housing market conditions in B.C. extended through to the end of the first quarter as home sales declined for a fifth straight month in March. MLS® residential sales fell 0.6 per cent from February to a seasonally-adjusted 5,266 units and the lowest level since February 2013. Year-over-year, sales declined nearly 23 per cent in March. B.C. and the Lower Mainland specifically has been ground zero for Canada’s housing slump since early 2018, with provincial sales down 27 per cent during the first quarter. Excluding B.C., national sales rose 1.1 per cent.

Regionally, sales were mixed in March. Lower Mainland home sales continued to erode with seasonally-adjusted sales down 2.7 per cent from February and a sixth straight monthly decline. Levels are the lowest since 2008/09. Other markets contributing to the monthly decline included the Kelowna-anchored Okanagan Mainline Real Estate Board area (down 1.5 per cent) and the Kootenay (down 5.2 per cent). Sales improvements were seen on Vancouver Island and northern B.C. However, steep year-over-year declines have been concentrated in the south coast markets and parts of the southern interior.

Weak sales have contributed to rising inventories, with active listings up about 50 per cent year-over-year in the Lower Mainland and 30 per cent in the Okanagan. Sales-to-active listings ratios in these areas point to a buyers’ market. While sales are down on Vancouver Island, inventory remains in relative short supply. The average price of homes sold in B.C. improved slightly by 2.6 per cent to $668,922, marking the first gain since November 2018. That said, average values are impacted by sales composition, particularly given deeper sales declines in higher priced markets. The average price remains five to seven per cent off the level observed during the summer months of 2018. MLS® Housing Price Indices (HPI), which are available only for select markets, were steady. Lower Mainland HPI levels were flat from February albeit lifted by Fraser Valley strength, while Island prices edged up. However, adjustment for normal seasonal strength suggests erosion in all markets. The Lower Mainland HPI is down seven per cent from peak, with a mild decline to flat conditions on the Island.

The latest numbers confirm ongoing weakness in the housing market driven largely by policy measures. Federal B-20 mortgage ‘stress tests’ continue to constrain credit availability, particularly in higher priced markets like those seen in B.C. Recent provincial government measures including the speculation tax in select areas of the province, hikes to the foreign buyer...
tax and other policies further curtailed demand. In contrast, the economy remains firm with rising employment, a tight labour market and moderate population growth. Excessively low sales are a testament to this disconnect. While the economy is solid, buyers are constrained by financing capacity while most prospective sellers are less willing to cut prices and are holding out. Speculators and owners of high value property in the Lower Mainland are selling at substantially lower prices relative to a year ago, reflecting the change in market conditions and greater willingness to sell. A further price declines of five per cent is anticipated in the Lower Mainland, but conditions will be steady elsewhere in B.C.

Motor vehicle sales drag on February retail performance

January’s retail surge proved short-lived as sales retraced in February to the weak pace seen through 2018. Total retail sales fell 1.9 per cent to $7.15 billion following a 1.8 per cent increase in January despite a lift from higher gasoline prices. B.C. lagged the national gain of 0.8 per cent after outpacing the month prior. Vancouver Census Metropolitan Area (CMA) retail sales declined 3.5 per cent from January to $3.26 billion, with a flat sales elsewhere in the province. Year-over-year, B.C. sales were unchanged in February.

February’s retrenchment in sales primarily reflected a drop in motor vehicle sales and parts, which fell six per cent year-over-year after a near 10 per cent gain in January. Similarly, building and material stores posted a near 12 per cent drop from a year ago, and clothing sales fell 3.5 per cent after a 11 per cent increase in January.

While still early on, year-to-date retail sales are up a mild 2.3 per cent. Sales are unchanged from a year ago in the Vancouver CMA, but up a strong 4.2 per cent elsewhere in the province. A key driver of the divergence has been a sharp drop in auto dealer sales in the former (-6.0 per cent) compared to an 11 per cent increase elsewhere in the province. In contrast, furniture and furnishing stores have shown a 12 per cent drop outside the Vancouver CMA, which recorded growth of 8.5 per cent. Building material store sales have declined 6.2 per cent in B.C. with similar declines in the Vancouver CMA and outside.

With February’s pullback, the disappointing pace observed over the past year persisted pointing to soft consumer demand. While labour market conditions remain robust with solid hiring trends and low unemployment, higher interest rates and the housing market downturn have curtailed purchases of big ticket items such as vehicles and household goods. Higher gasoline prices could also tighten household wallets on other goods in the near term. Retail sales are forecast to improve through the course of the year but will come in below four per cent.

Manufacturing shipments slump in February

January’s manufacturing rebound looks to have been a ‘head fake’ as shipments declined again in February...
to re-establish a negative trend. Dollar-volume sales reached a seasonally-adjusted $4.54 billion, down 1.4 per cent or $62.9 million from January. This erased most of the gain observed the previous month and marked the seventh decline in the most recent eight months of data. Sales peaked in June 2018. Nationally, sales fell 0.2 per cent from January led by contractions in Ontario (-1.7 per cent), Manitoba (-4.7 per cent), Saskatchewan (-6.3 per cent) and Nova Scotia (-7.0 per cent). Despite the decline, B.C. sales were up 4.2 per cent from a year ago, compared to 0.9 per cent nationally and was among the strongest provinces in Canada.

February’s pullback was driven largely by declines in the durable goods sector, which fell 6.5 per cent or $175 million compared to January. Wood product manufacturing (down 7.3 per cent or $68 million), non-metallic mineral products (down 22 per cent or $36.5 million) and transportation equipment sales (down 29.4 per cent or $72 million) underpinned the decline. Offsetting these drops was a six per cent increase ($112 million increase) in non-durables production led by a 19 per cent increase ($80.6 million increase) in paper manufacturing.

Notwithstanding monthly volatility, the manufacturing trend has declined about five per cent since mid-2018. The most significant drivers have been declines in wood product shipments and mining products, which have tumbled by about 25 per cent. Lower shipment demand and price levels have contributed to the drop, reflecting mild U.S. housing starts and lower commodity prices due to global economic uncertainty. Bright spots remain to be fabricated metals, computing and electrical equipment and paper—suggesting support from a low Canadian dollar.

Exports languish

Export momentum languished in February as slower growth in the U.S. and broader global economy continued to impact demand for goods. Aligning with the latest manufacturing data was a broad-based decline in international merchandise exports in February. Dollar-volume exports fell to $3.28 billion (seasonally unadjusted), marking a 3.1 per cent, or $105 million, decline from same-month 2018. Based on our calculations, this was primarily due to a drop from January, with seasonally-adjusted sales down 3.6 per cent month-to-month with declines in 10 of 12 sectors. Seasonally-adjusted exports have declined since mid-2018 alongside manufacturing activity.

On a year-over-year basis, the most significant declines related to metallic and non-metallic mineral products. Metallic and non-metallic mineral products fell nearly 35 per cent year-over-year to $205.9 million following a modest improvement in January. Forestry products (7.3 per cent year-over-year decline) and electronic/electrical equipment and parts (6.7 per cent decline) and motor vehicle and parts (5.0 per cent decline) also slowed. Consumer goods exports remained steady from January and up 11 per cent year-over-year.

With February’s retreat, year-to-date export growth narrowed to a mild 1.9 per cent. However, weakness has been concentrated in forestry and metal and non-metallic mineral products. Outside of these areas, exports rose more than eight per cent as non-commodity export growth has held up. Tempered global economic growth remains a constraint to growth; a competitive dollar helps.

Similarly, imports pulled back after a strong January uplift. After a 16 per cent gain in January, year-over-
year imports fell 3.7 per cent to $3.95 billion in February and reflected declines in energy and raw metals and minerals imports.

Year-to-date, imports were up six per cent. Growth has remained strong for consumer goods (up 11 per cent) and resources (up 27 per cent despite the February dip). Imports of industrial machinery and parts have climbed 15 per cent, which will likely remain strong given the ramp up of the liquefied natural gas plan construction in the north.

**Food and gasoline lift consumer inflation in March**

Consumer price inflation accelerated in March to 2.6 per cent year-over-year, up from 2.2 per cent in February. Households felt this latest pinch in their daily spending with growth driven by a rise in food and energy prices.

Food prices rose 4.3 per cent year-over-year from a 2.9 per cent increase in February. Growth was particularly strong at the grocery aisle with vegetables up 14 per cent year-over-year and two per cent from February, while fruit also gained sharply (6.3 per cent year-over-year).

While gasoline prices were roughly in line with year ago prices, the index rose 9.2 per cent during the month. Year-over-year gas prices were down 0.8 per cent, compared to a 4.4 per cent decline in January.

Above headline inflation was also observed in natural gas (up 10.5 per cent) and child care and housekeeping (up 5.7 per cent). Rental accommodation also rose, with levels up 4.3 per cent from a year ago, and up 1.1 per cent from February. Mild inflation was observed for health and personal care products and services (1.6 per cent year-over-year); and, recreation, education, and reading products prices, which were unchanged from a year ago.

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