B.C. Economic Briefing

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Highlights:

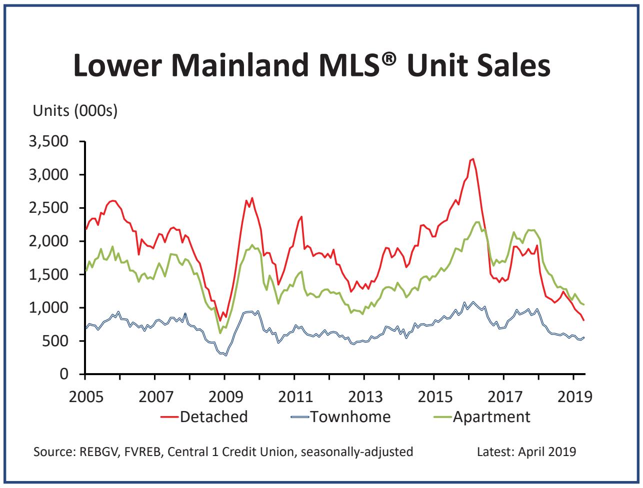
- Lower Mainland home sales down 25 per cent year over year in April
- Housing prices erode further
- B.C. economy expanded by 2.4 per cent in 2018

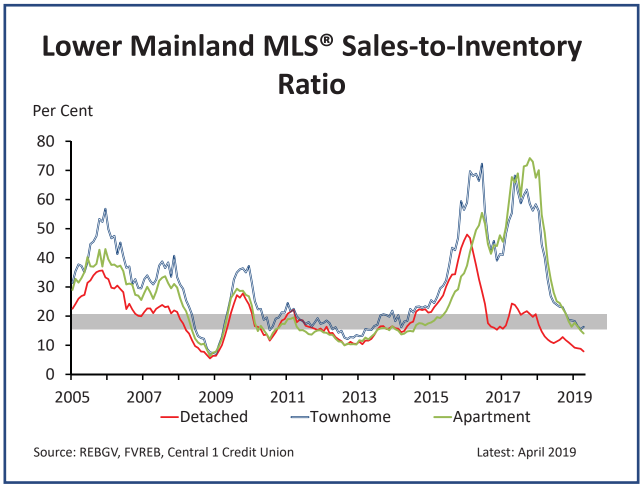
No spring bloom for Lower Mainland housing market in April

April brought no joy for the real estate sector as the policy-driven housing market recession in the Lower Mainland deepened. Unpacking the data, MLS® home sales in the combined Metro Vancouver and Abbotsford-Mission area reached 3,158 units in April, marking a 25.5 per cent decline from a year ago and the lowest same-month sales since 2000.

While a slight improvement from the near 30 per cent drop in March, the sales flow continued to deteriorate. Our seasonally-adjusted estimates point to a two per cent monthly sales decline from March, marking a seventh consecutive decline and slowest pace since the 2008/09 financial crisis. Detached home sales tumbled by more than nine per cent, while apartment sales edged lower by an estimated two per cent, and townhome sales rose a modest five per cent.

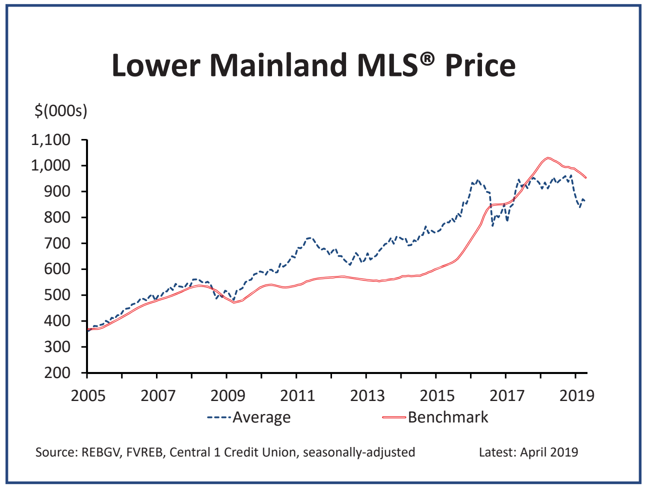
Declining home sales continues to boost inventory despite a modest flow of new listings. While many buyers have opted to sit out the current housing downturn, existing listings are languishing on the market and any new listings are adding to supply. There were more than 21,500 active listings in April, marking a gain of 43 per cent from a year ago. The trend is the highest since late-2014 with the ballooning of apartment and townhome inventory. Sales-to-active listings are plumbing the depths of levels seen in 2008/2009, while conditions in the multi-family sector are slightly better and consistent with a buyers' market, they are rapidly retreating. Apartment and townhome inventories will continue to rise as new home completions lead to new listings of investor held units.





Average and benchmark price levels were steady in April but this doesn't say much. The spring season normally brings stronger price momentum as cherry blossoms bloom and buyers wake up from their winter slumber. Adjusting for this seasonality, average and benchmark MLS® prices declined more than one per cent from March. The latter has been trending lower since April 2018 and sits about 7.5 per cent below its peak at $953,700. Price levels deteriorated across housing types, with the brunt in the detached sector. Similar patterns in median and average prices show this is no longer just a luxury market correction, but more broadly based. That said, tonier markets like West Vancouver and west side of Vancouver have seen sharper slumps, which likely reflects the larger impacts of the speculation and foreign purchaser taxes.

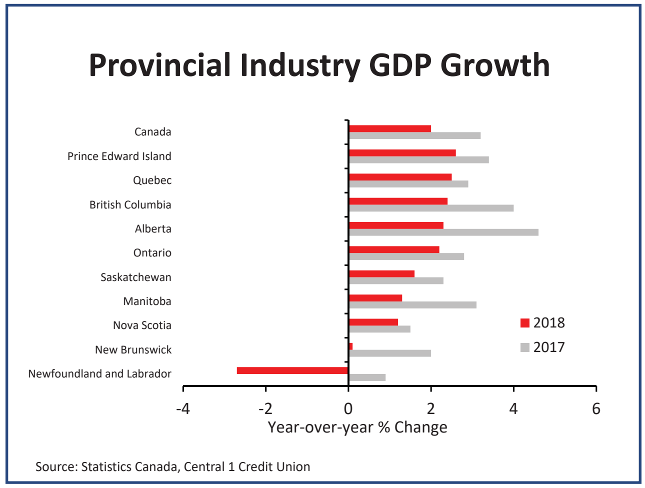
The current demand slump is likely to persist. Despite a solid growth in the local economy and population, federal stress tests and provincial policy measures will continue to hamper sales. The federal Canada Mortgage and Housing Corporation (CMHC) share equity mortgage program will provide only a marginal benefit to the region later this year given high prices. For sellers staying in the market, current conditions warrant further price cuts. We expect the benchmark price to decline another five per cent marking a peak to trough decline of about 12 per cent to approximately $900,000. The decline pushes values to the lowest levels since early 2017, although there is downside risk. Higher sales are needed to arrest rising inventory. Demand will be supported by rising employment and wages, while lower prices will incent more buyers into the market. Some sellers may opt out of the sales process due to the weak price environment.



Growth uninterrupted in 2018

B.C.'s economy followed a stellar 2017 with another moderate gain in 2018 according to the latest Statistics Canada estimates. The province posted the third highest industry gross domestic product (GDP) growth among provinces last year, behind only Prince Edward Island and Quebec. GDP growth hit 2.4 per cent in 2018 compared to a 2.0 per cent national gain. This marked a softening from a 4.0 per cent expansion the previous year. B.C.'s economy expanded for a ninth consecutive year and has remained among the growth leaders in Canada since 2014. Central 1 estimated a growth rate of 2.8 per cent for the year.

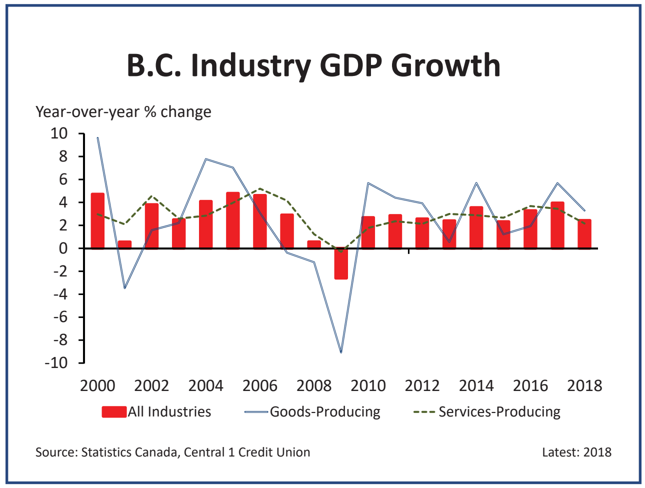
Gains were led by goods-related production, which expanded by 3.3 per cent, albeit down from a 5.7 per cent gain in 2017. A scan of the details highlights strong expansion in the oil and gas sector, with output up 22 per cent from 2017 as the buildout of gas plants in Northeast B.C. drove a spike in production. Mining output edged slightly higher by 2.3 per cent, marking the first gain since 2014. Construction expanded 3.1 per cent on a 13 per cent increase in non-residential building construction, lifted in large part by healthcare-related expansions and office construction, while engineering activity was unchanged after a surge in 2017. Residential building construction rose 3.7 per cent reflecting high levels of units under construction and relatively firm housing starts during the year. Manufacturing expanded 2.1 per cent despite further weakness in wood products and a sharp drop (-22 per cent) in petroleum refining, which reflects maintenance at the Parkland refinery. In contrast, there remained strong growth for fabricated metals (18.5 per cent), as well as electrical equipment and transportation equipment.



The services-sector, which makes up about three quarters of overall economic activity, saw growth slide to 2.2 per cent, marking the smallest gain since 2012. Retail trade, aligning with weaker sales, slowed sharply to 1.1 per cent following a 6.4 per cent gain in 2017. Professional, scientific and technical services expanded 1.7 per cent after a three per cent gain in 2017, with notable contractions in legal and accounting services and advertising and public relations. Real estate rental and leasing services decelerated from 2.7 per cent to 1.5 per cent, highlighted by a 25 per cent contraction in activity from real estate agents and brokers—a direct impact of the housing market sales slump. Owner-occupied dwellings, which captures imputed value of rent of housing, was the main support with a gain of four per cent. In contrast, public-sector related services continued to expand. Healthcare and social services rose three per cent, public administration rose 2.0 per cent and educational services rose 3.7 per cent.

The information and communication technology (ICT) sector, which is a proxy for the technology sector, slowed from 3.8 per cent to 1.8 per cent in 2018, marking the slowest pace since 2013 driven by a contraction in related manufacturing. The cannabis sector is now tracked following legalization, and grew 23 per cent from 2017, although output is about one per cent of the economy.

B.C. economic growth is forecast to ease to about two per cent this year. A decline in housing starts will increasingly be a drag on residential construction, while related services remain flat. Support will come from non-residential major project construction activity, demand from rising population and employment.



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