B.C. Economic Briefing

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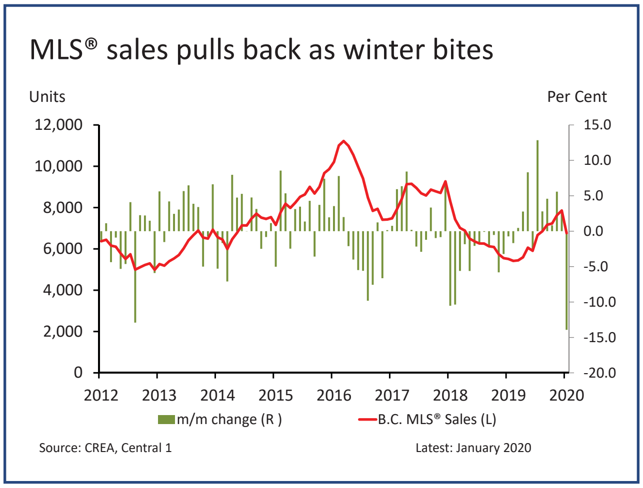
Highlights:

- Weather factors clip housing sector wings in January
- B.C. MLS® sales declined 14 per cent from December
- Market conditions hold firm
- Housing starts dip to lowest level since mid-2015
- Non-residential permits decline sharply in December, but construction cycle remains vigorous



Firm market conditions continue in January despite weather induced sales decline

MLS® home sales fell sharply across B.C. in January and were the main drag on weaker national homes. Home sales in the province declined 14 per cent from December to a seasonally- adjusted 6,763 units as the blast of winter weather kept buyers at home. Sales were up 22.7 per cent from same-month 2018 but gains largely reflect base year effects from a weak sales environment in early 2019. Nationally, sales fell 2.9 per cent from December but the net decline was almost entirely due to B.C.

Regionally, sales fell 18 per cent in the Lower Mainland-Southwest region and 10 per cent on Vancouver Island. Southern interior market sales held relatively steady with a five per cent drop, while northern B.C. sales were down two per cent.

With weather and other factors at play in January, including an earlier than normal Lunar New Year period, the sales cycle is expected to bounce back in February and January's dip will be an afterthought. Economic conditions and population growth remain supportive of housing demand although factors such as COVID-19 (Coronavirus) and increased concerns around strong hikes to strata building insurance could constrain housing activity over the next few months

Despite January's sharp sales deceleration, housing market conditions remained firm. Listings flow held steady and inventory growth was in line with historical norms for a January which is not entirely surprising as listings activity is less sensitive to weather. On a seasonally- adjusted basis, inventory has trended lower since May. Sales-to-inventory ratios in the province continue to favour sellers in the Lower Mainland and Vancouver Island with softer, but generally balanced conditions in B.C.'s interior.

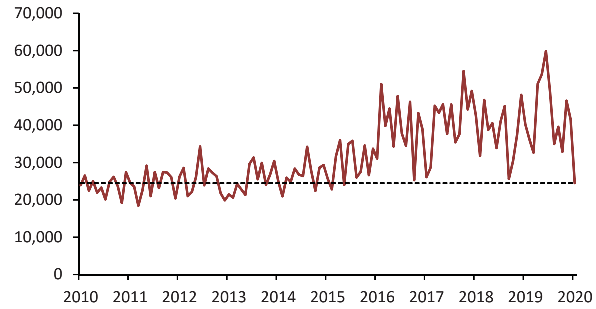
Provincially, B.C.'s average price slipped 0.8 per cent from December to $738,841, but this is not surprising given the steep sales decline in the higher priced Lower Mainland market which influenced overall prices. Year-over-year, the average price level rose 9.5 per cent with average home values up generally higher in most regions, although again sales composition has influenced headline growth. Core Metro Vancouver prices are still recovering from policy-induced pull backs.

Constant-quality housing price indices (HPI), which adjusts for much of the compositional effects in average values continued to trend higher. Lower Mainland prices rose one per cent from December, but were slightly below year ago levels, while prices edged higher in both Victoria (0.4 per cent) and other Island (0.1 per cent). Broadly, Vancouver Island values are up more than three per cent from a year ago. Similar price patterns were observed in the Okanagan market. Firm demand and low inventory will continue to lift prices through 2020.

Construction sector sees temporary slowdown as January housing starts plunge

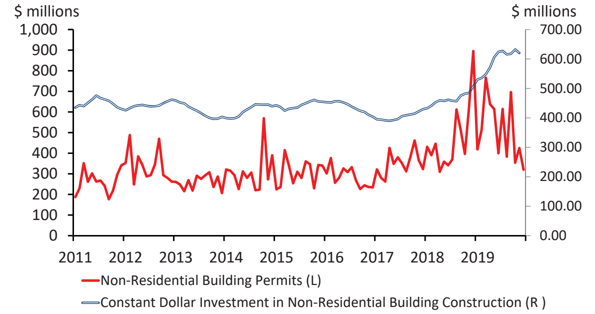
Similar to the resale market, January's severe weather conditions cut sharply into new housing construction, Housing starts chilled

B.C. urban area housing starts, seasonally-adjusted annualized units



Source: Statistics Canada, Central 1 Latest: January 2020

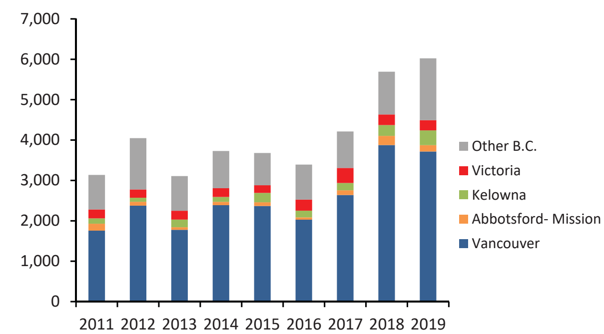
Non-residential permits sink in December, but building construction strong



Source: Statistics Canada, Central 1

Permits rise despite Vancouver drop

Annual non-residential permits, $ (millions)



Source: Statistics Canada, Central 1 Latest: 2019

according to the latest data from Canada Mortgage and Housing Corporation (CMHC). Urban- area housing starts declined 41 per cent from December to an annualized rate of 24,500 units. This was the weakest monthly figure since May 2015 with starts down across both detached and multi-family markets. Annualized starts in the latter fell from a 35,150 unit pace to 18,700 units.

Among metro areas, the bulk of the decline were observed in the metro areas of Vancouver, which declined from 27,690 unit pace to 12,930 units in January, and Victoria which fell from 3,250 units to a pace of 700 units. Starts in both Kelowna and Abbotsford-Mission increased. Outside the large metro areas, starts fell 13 per cent from December.

January's slump should be treated largely as one-off given a strong end to a record 2019, and clear effects of weather conditions on other indicators such as employment and early resale market data. Conditions remain supportive of housing demand with a tight labour market, rising population and low borrowing costs. Last year saw a record 12,100 rental unit starts, and we anticipate elevated construction to continue given low vacancy rates, high market rents, and support for affordable housing from various levels of governments. That said, the number of starts is forecast to temporarily declined this year by more than 15 per cent to about 37,000 units. Lower presales following the downturn in the 2018 resale market is expected to bite into the pace of starts this year. A headwind for construction could also come in the way of capacity constraints and cost pressures given a tight labour market, record number of units currently underway, and elevated activity in the non-residential construction sector.

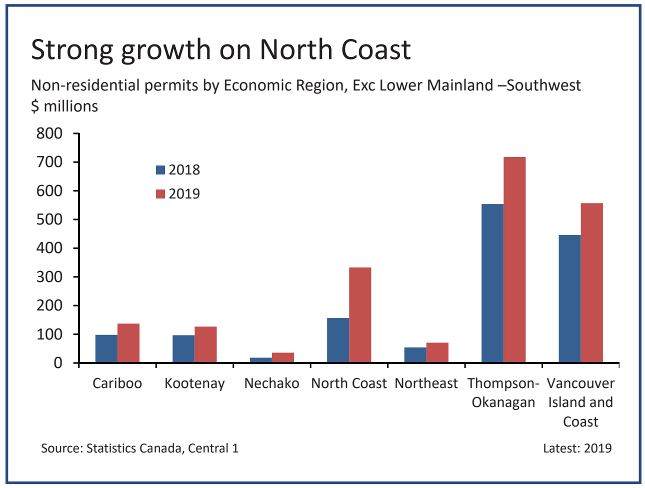
Non-residential construction booming despite drop in building permits

Non-residential construction intentions in B.C. ended 2019 with a thud as related permit volume declined 25 per cent from November and 64 per cent from same-month 2018 to $320.2 million. Declines were spread across segments with industrial permits down 25 per cent, commercial down 15 per cent and government permits down by 56 per cent from November. Lower Mainland markets were the key driver of December's pullback.

A declining permit trend in the second half of 2019 cut full-year growth to 5.8 per cent following a more than 30 per cent growth trend in the first half of the year. This underscores the volatility of permit volume given projects vary substantially in size and scope. Growth in private -sector permits led the increase with industrial permits up 16.6 per cent and commercial permits up 8.1 per cent, while government permits fell 8.2 per cent.

Among major metro regions, annual permit volume fell 4.1 per cent in Metro Vancouver, 31 per cent in Abbotsford – Mission, and 3.7 per cent in Victoria. Kelowna posted a 37 per cent increase. It is noteworthy that the main driver of the gain came outside the metro areas, with permits in the rest of the province up 50 per cent from 2019. Not surprisingly, permits more than doubled in the North Coast and contributed to half of the net increase in annual permits, which likely reflects investments related to LNG project construction. Despite declines in Victoria, permits rose 25 per cent on Vancouver Island, reflecting growth in smaller regional markets.

Weaker permit growth in recent quarters points to a slowing growth trend, but at the same time construction activity remains exceptionally strong. Non-residential building investment spending, which reflects projects currently underway and new starts, trend at the highest levels going back to at least 2010. Cost-adjusted building investment is up 28 per cent from a year ago on commercial and government projects reflecting rapid growth in constructions starts in 2017 and 2018. Low commercial vacancies rates and strong economy have boosted commercial demand for space, while governments have invested in school and health care facilities. A tight labour market and other capacity constraints are likely factoring into some of the slowdown in permits. Going forward, non-residential activity promises to remain strong given proposed investments in commercial office buildings in the Vancouver area and LNG buildout.



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