B.C. Economic Briefing

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Highlights:

- B.C. housing starts rebound in February after shallow January; projected overall decline of 15 per cent this year
- Non-residential permits pick up in January
- Slump in new vehicle sales continues

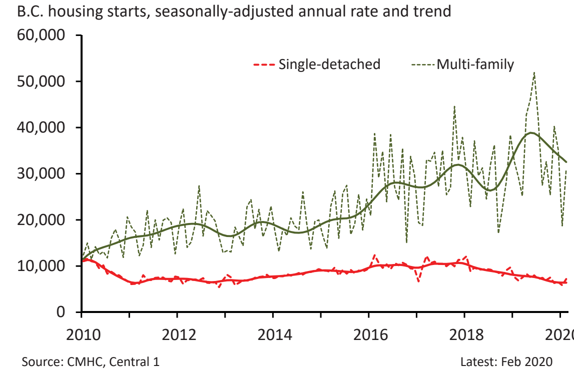
February housing starts picks up, but trend easing

Housing starts bounced higher in February following a weather-induced January drop. Urban B.C. housing starts came in at an annualized rate of 38,286 units, up 55 per cent from the 24,561 units the previous month. In comparison, national housing starts edged lower by two per cent. As is often the case, the large monthly swing owed to an increase in multi-family starts, although the number of single-detached starts also rebounded. Nevertheless, single-family starts declined through 2019, while multi-family starts have eased after robust gains in the first half of the year.

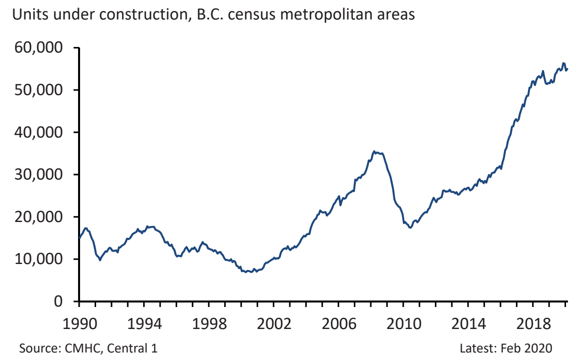
Despite February's gains, starts over the first two months fell 18 per cent from same- period 2019. Vancouver Metro area starts fell 35 per cent, while Victoria construction declined eight per cent lower. In contrast, starts in Kelowna (up 29 per cent) and Abbotsford-Mission (up 165 per cent) were well ahead of a year ago. Detached starts fell 12 per cent to 784 units and multi-family starts declined 20 per cent to 4,113 units through the first two months.

The new home construction outlook remains mixed. A tightening resale market, lower interest rate environment and population growth will support demand for new ownership housing. High rent, low vacancy rates and government support contribute to new rental supply. That said, condominium starts are expected to slow this year following weaker pre-sale activity in 2018 and 2019, which is expected to dampen the pace of starts. Current economic fears stemming from the spread of Covid-19 are also a negative risk through both demand and construction channels. Housing starts, inclusive of rural B.C., are forecast to decline more than 15 per cent to 37,000 units this year.

Housing starts ease despite rebound



Elevated units under construction support construction sector



While housing starts decline, B.C. construction will remain elevated. Record housing starts in 2019, extended construction times and labour market constraints have maintained a near record level of units under construction. Units under construction in B.C.'s four largest metro areas reached 54,974 units in February. While completions whittled it down from year-end highs, levels were six per cent above year ago levels. Work will continue through 2020, although lower starts and project completions will contribute to a downward trend.

Non-residential permits surge in January

Building permit values shot higher in January with gains in both the residential and non-residential sectors. Total dollar-volume permits rose 52 per cent from December to $2.19 billion, marking the highest single month performance since April. Residential permits rose 38 per cent from December to $1.57 billion, which was likely a precursor to February's increase in housing starts. An increase in development fees on January 15 may have driven an accelerated permitting activity.

Non-residential permits surged 62 per cent to $522.2 million, which was the highest since September. Construction permits for non-residential buildings was led by a 51 per cent increase in commercial structures to $319 million and a huge pop in government investment of 326 per cent to $135.6 million. Permit volume in the Vancouver CMA rose 156 per cent to drive this increase, as other metro areas all reported declines in permit volume. Permits outside the metro areas rose 13 per cent.

January's pick up in non-residential activity reversed a downtrend in recent quarters and construction will continue to be supported by investment demand. While the impacts of Covid-19 on the economy will likely slow some investment, public sector investments in hospitals, school, transportation networks (including the Broadway subway extensions) and commercial construction in offices will continue to drive activity. LNG investments in the north are also triggering related construction activity. Capital construction intentions for 2020 in B.C. rose 13 per cent according to Statistics Canada, although this was before the impact of Covid-19.

New vehicle sales decline 14 per cent

In a sign of ongoing retail softness in 2020, new vehicle sales remained in an early year slump. Sales in the B.C. and Territories region came in at 12,681 vehicles in January, down 14 per cent year-over-year. While sales managed to rebound slightly from December by two per cent on a seasonally- adjusted basis, a negative trend extending back to mid-2017 continued. Sales are trending at the lowest level since mid-2014 despite a period of stronger employment and population growth. Weak vehicle sales likely reflect various factors. Strong sales in previous years point to less replacement demand, while high household debt may also be constraining purchases. A shift in buyer behaviour towards vehicle-share, public transit and other options may also have contributed to lower sales.

Bryan Yu
Deputy Chief Economist
byu@central1.com / P 604.742.5346
Mobile: 604.649.7209