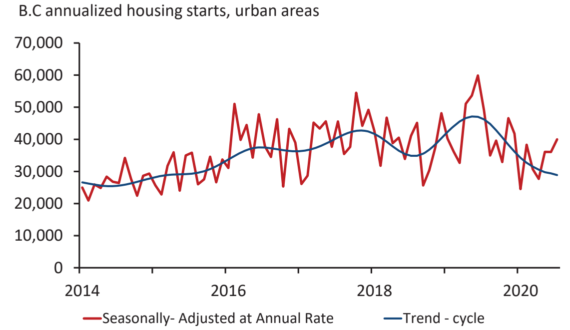
B.C. Economic Briefing

Volume 26 • Issue 32 • Week of August 10 - 14 2020 | ISSN: 1981-355

Highlights:

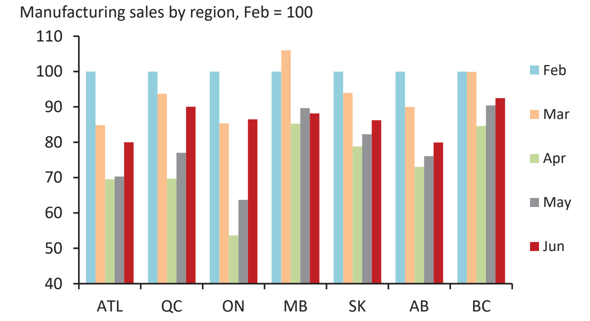
- Higher housing starts led by Victoria
- Manufacturing sales rise in June on demand for wood products
- Spike in lumber prices due to demand for home renovations, modest pick in US starts, and supply constraints following a year of mill closures
- Major private and public -sector investments support building construction intentions in 2020
- Deep pullback in machinery and equipment investment intentions to negatively impact competitiveness

Provincial housing starts on the rise but trail 2019 pace



Source: CMHC, Central 1

B.C. manufacturing downturn relatively shallow compared to provincial peers



Source: Statistics Canada, Central 1

Housing starts climb to strongest pace since December

B.C. urban-area housing starts rose to the strongest pace since December in July due to higher multi-family construction. The pace of starts reached a seasonally-adjusted annualized pace of 39,978 units in July, up 11 per cent from June's pace of 36,050 units. Following sharp pullbacks in March and April, which were likely curtailed by the pandemic as builders adjusted to the new environment, the pace of starts has picked since picked up steam.

Single-detached starts rose 3.7 per cent from June to an annualized 6,658 units, while multi-family starts climbed 12 per cent to 33,320 units from 29,636 units.

Higher starts were observed in most large metro markets led by Victoria, which recorded a 77 per cent increase in annualized units to 4,161 units. Vancouver starts rose 3.6 per cent to 24,395 units, while Kelowna rose 21 per cent to 3,457 units. Abbotsford-Mission declined. Outside the largest centres, urban starts rose 12 per cent to an annualized 11.6 per cent.

While construction is on the rise, levels remain well below 2019's record-setting pace. Through the first seven months, starts fell 28 per cent with detached units down 13 per cent and multi-family units down 31 per cent. The Vancouver metro area has driven this decline with a 36 per cent decline. A combination of factors have contributed to decline. Tighter mortgage regulations and provincial taxation and rental policies contributed to a sharp pullback in condominium pre-sale demand over the past two years which has slowed the buildout of apartment condominiums. Rental construction has remained relatively firm.

Housing starts are expected to decline this year by more than 25 per cent to about 32,000 units. The effect of the pandemic on the economy and labour market, and temporary drop in immigration will temper construction into 2021. Starts are forecast to rise to 39,000 units in 2021.

Manufacturing climbs for a second straight month

June manufacturing activity increased modestly in B.C., marking a second consecutive gain following a sharp pandemic-led plunge in April. Dollar volume factory shipments rose 2.2 per cent from May to about $3.94 billion and has rebounded to about 92.5 per cent of February levels. While the monthly gain pales compared to a near 21 per cent increase nationally, the downturn in other provinces were much deeper. The spring shutdown of North American auto manufacturing due to COVID-19 and collapse in energy prices and subsequent production curtailment were drivers of the downturn. Rebounds in both sectors are now contributing the stronger shift up. B.C. has less exposure to these sectors. National manufacturing sales were still only 86.8 per cent of February levels, highlighting the greater impact on regions such as Alberta, Newfoundland and Labrador and Ontario.

B.C.'s monthly sales gain was led by a 2.9 per cent increase in durable good shipments, with non-durable goods up 1.5 per cent. Of the former, the gain was driven by a spike in wood product sales (up 13.7 per cent). The sector has seen a spike in lumber prices as well as panel and non-standard product prices. Demand for home renovations, modest pick in US starts, and supply constraints following a year of mill closures has lifted dollar volume sales. Sales were mixed among other durable goods sectors, with machinery up 2.6 per cent, transportation equipment up 21 per cent, but non-metallic minerals and primary metals both down.

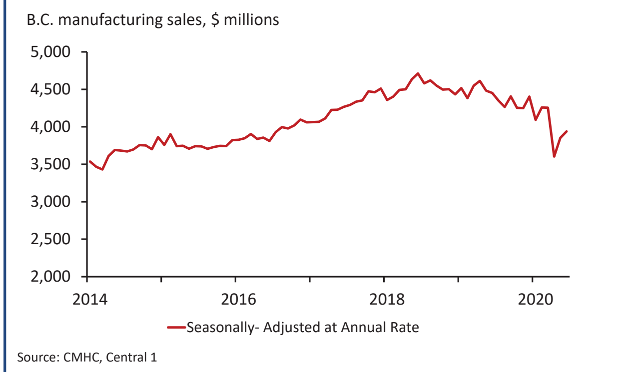
At mid-year, year-to-date sales were down 11 per cent, although this is narrowing. While a significant share reflects the effects of the pandemic, sectors like wood products (down 15 per cent) were already in decline through 2019. Other sectors down sharply from a year ago include primary metals, machinery and transportation equipment. There have been few bright spots.

Further economic recovery should maintain a rising manufacturing trend. That said, machinery and equipment intentions are lower, which means less capital investment and a constraint to both demand and future capacity in the sector.

Major project construction support non-residential investment, M&E plunges

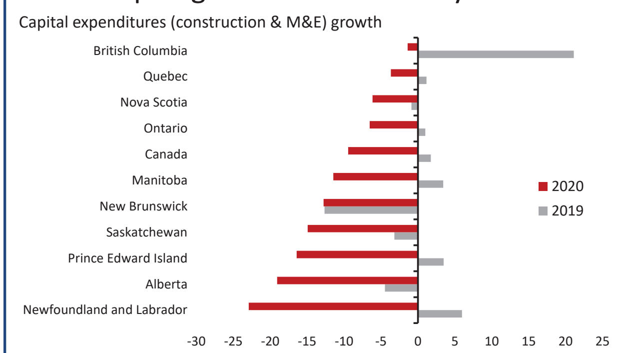
B.C.'s investment spending picture received some positive news this week according to the latest Statistics Canada survey of non-residential capital expenditures intentions. While national investment intentions, which covers construction and machinery and equipment, plunged 9.5 per cent following a 1.7 per cent gain in 2019, B.C.'s edged down by only 1.4 per cent.

Manufacturing shipments on the rise after April plunge



Source: CMHC, Central 1

Capital investment expectations stable in B.C. as levels plunge across the country



Source: Statistics Canada note: 2020 are intentions

On the other side of the spectrum, Alberta intentions crashed 19.1 per cent alongside a 22.9 per cent drop in Newfoundland and Labrador. Ontario also reported a relatively modest drop off given the environment of 6.5 per cent. Severe declines in select provinces reflect the combined impacts of the pandemic on the economy and low investment in the energy sector.

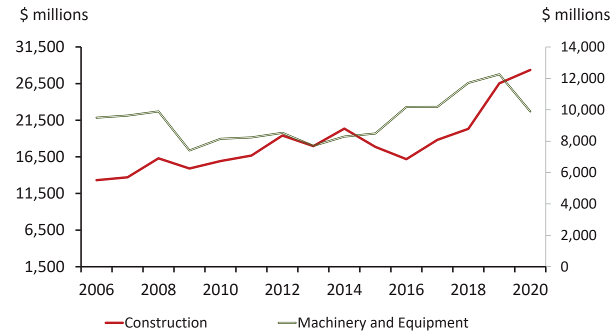
As these are survey intentions, actual investment will surely change but for B.C. the results are encouraging for the province. Total B.C. intentions of $38.2 billion would be just shy of the 2019 record high (going back to 2007), and points to a construction sector that remains supportive of the economy. Construction intentions are for a 6.9 per cent increase to a record $28.4 billion. Less surprisingly perhaps is a deep pullback in machinery and equipment (M&E) spending intentions of 19.3 per cent to $9.89 billion which would be the lowest since 2015. With many businesses closed temporarily due to government policies and uncertainties surrounding the long-term effects of the pandemic driven downturn on the economy, a drop is expected.

Higher construction investment likely owes to major projects already underway. Transportation and warehousing looks likely to rise 15 per cent to $10.3 billion, making up three quarters of the net construction increase. This is likely associated with increased pipeline construction and transportation investment like Vancouver's subway line. Meanwhile, public administration is up 25 per cent to $3.7 billion on government investments. Utilities construction is up 10.5 per cent. These gains offset lower resource-related construction.

In contrast, M&E investment declines across the board. The most substantial declines are in transportation and warehousing (-26 per cent), but follows a sharp 2019 increase, while investment in real estate/rental/leasing plunges 50 per cent which may reflect a downturn in commercial services.

The latest intentions data show the importance of the strong investment handoff prior to the pandemic with major project construction across the province still providing a lift to the building activity. At the same time, the broad decline in M&E, while expected due to business closures and uncertainty, is a concern. Lower M&E investment will negatively impact medium- to- long term growth from productivity gains, potentially impacting competitiveness – although others are in the same boat.

B.C. construction intentions offset drop in machinery and equipment



Source: Statistics Canada, Central 1

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