Economics | Current Economic Trends

B.C. Economic Briefing

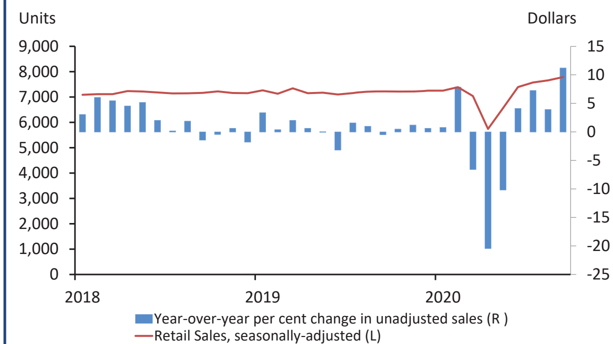
Volume 26 • Issue 46 • Week of November 16 - 20 2020 | ISSN: 1981-355

central 1 Economics

Highlights:

- Pandemic prompts more vehicle purchases in September, driving up B.C. sales;
- Housing sales in Fraser Valley Real Estate Board increase for sixth straight month as buyers seek larger homes;
- Year-to-date home sales growth reached a fevered 16 per cent through the first 10 months;
- Housing starts in 2020 to decline by more than 20 per cent before climbing in 2021;
- Food and wood production propels manufacturing;
- Inflation remains relatively benign.

B.C. retail sales post surprisingly strong gain in September



Source: Statistics Canada, Central 1, Latest: Sep 2020

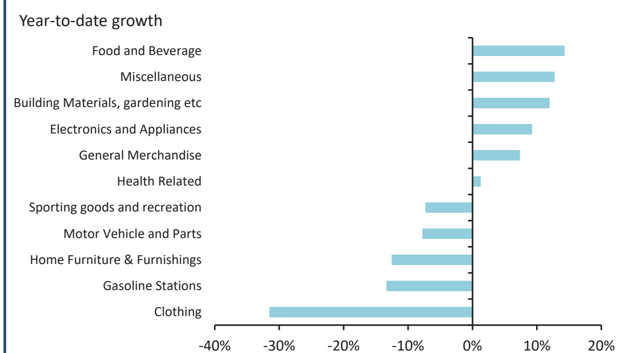
Retailers post surprisingly strong sales gain in September

B.C. retail spending at brick and mortar stores posted a surprisingly strong gain in September. Total dollar-volume sales rose 1.7 per cent from August to a seasonally-adjusted $7.79 billion, which outpaced the Canadian gain of 1.1 per cent. Retail spending easily outpaced Statistics Canada's previous guidance for flat September national sales performance. Unadjusted retail spending in B.C. was up 11.2 per cent year-over- year compared to 3.9 per cent in August.

Metro Vancouver sales underperformed other regions of B.C. with sales up 0.9 per cent from August, seasonally- adjusted, and 8.1 per cent from same-month 2019 on an unadjusted basis.

Growth in B.C. reflected a substantial increase in vehicle sales in September and increased ancillary spending on housing related expenditures reflecting the hot housing market. Unadjusted for seasonal- factors, motor vehicle and parts dealers showed a 16.6 per cent year-over-year gain in sales, compared to no change in August. While possibly a one-off gain, change-over in models may have lifted sales, while more households are opting for private transportation options during the pandemic. Year-over-year growth also gained traction in furniture/furnishing stores (up 6.7 per cent), electronics/appliances (up 13.7 per cent), while food and beverage sales rose 19 per cent as

Mixed year-to-date performance among retail store segments



Source: Statistics Canada, Central 1

households stayed home and away from restaurants. General merchandisers sales rose 7.8 per cent, although growth decelerated from August. Weaker segments included clothing stores (down 13.3 per cent year-over-year) and gasoline stations (down 5.9 per cent), reflecting the impact of work- from-home status of many individuals. Declines have narrowed in these segments. Broadly, adoption of digital options for customers have helped brick and mortar stores rebound, although retail services have likely performed much worse.

With the latest gain, year-to-date retail spending is nearly unchanged from a year ago and down only 0.4 per cent, led by strong growth in food and beverage stores, electronics and renovation products. Despite rising activity, sales at vehicle dealers, furniture, clothing and gasoline stores remained sharply lower.

The second wave of the pandemic and increased social restrictions is likely to weigh on retail spending in the fourth quarter, but full-year sales are on pace for a one per cent gain. Some of this slowdown will continue to benefit the online space, both for those retailers that have pivoted as well as online marketplaces. According to Statistics Canada, e-commerce sales in Canada were up 74 per cent from a year ago and accounted for 5.6 per cent of total sales.

B.C. housing demand peaking but activity robust

Robust housing market activity in the pandemic era continued through October despite signs that the upward cycle in sales has crested. B.C. MLS® home sales reached a seasonally-adjusted 10,408 units. While down 1.7 per cent from September, sales were 55 per cent above pre-pandemic February and trending at the highest level since mid-2016. Unadjusted sales rose 45 per cent from same month-2019.

Despite elevated unemployment, strong housing demand is supported by the combination of low mortgage rates, high savings rates during the pandemic, and steady employment for mid-to-high income earners. The pandemic has also triggered a shift in preferences, with households trading condos for ground-oriented units, both within their locality and further afield in smaller urban areas.

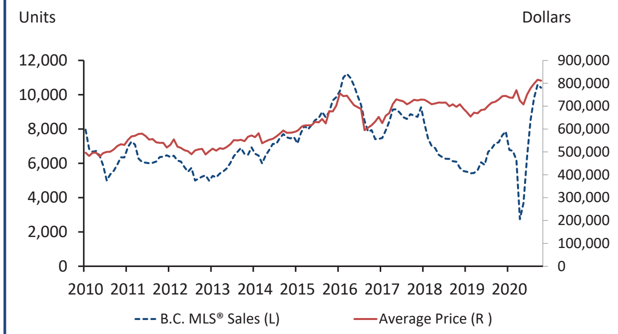
Regionally, sales were a mixed bag during the month. Sales continued to climb in Fraser Valley Real Estate Board area for a sixth straight month, reflecting the flow of individuals from the core Vancouver region in search of large properties. Growth was also observed in the Kamloops, Kootenay and Central Okanagan areas. In contrast, sales fell 4.1 per cent in the Greater Vancouver Real Estate Board areas; 10 per cent in Chilliwack; eight per cent on the Island outside Victoria; and also in northern B.C. Broadly sales are still well above February levels across the province.

Year-to-date home sales growth reached a fevered 16 per cent through the first 10 months.

New listings have risen with increased market activity but are largely being absorbed by demand. Active listings (month-end inventory) continues to decline through the pandemic, extending a trend from mid-2019. Year-over-year listings declined 14 per cent.

Insufficient supply relative to sales has contributed to sellers' market conditions across the province, reflected in a sales-to-active listings ratio of 35 per cent. A balanced market is normally in a range of 15 to 20 per cent.

B.C. MLS® sales show signs of peaking, but levels robust



Source: CREA, Central 1 Latest: Oct 2020

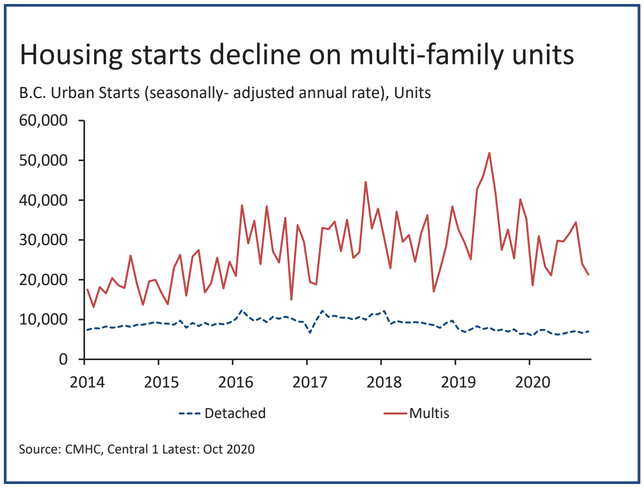
Not surprisingly, home prices remain on a tear as buyers bid up prices to secure properties. The average price came in a $811,370 in October, down 0.5 per cent from September, but up 12 per cent year-over-year. Sales composition (both geographic and home type) factors into average prices, but strong double-digit gains have been observed across the province. Housing price index (HPI) measures, which adjust for types of homes sold, posted strong growth across regions where the metric is available. The HPI rose 6.1 per cent year-over-year in the Lower Mainland, about four per cent on the Island, and 7.4 per cent in the Central Okanagan.

Further price growth is anticipated given the imbalance between sales and listings and the underlying price momentum. The second wave of the pandemic could temporarily stall sales, although listings would also be anticipated to pull back limiting negative impacts on prices. A slowing sales and price trend is anticipated but the low mortgage rate and stronger economic growth profile in 2021 will support activity subject.

Housing starts weaken in contrast with resale market strength

B.C.'s residential construction cycled showed more signs of impending weakness for the construction sector in October. B.C. housing starts slowed for a second straight month in October with activity the lowest since April. Total annualized starts declined to 28,313 units during the month, compared to a pace of 30,644 in September. Fewer multi- family housing starts, which fell from a pace of 24,005 units to 21,302 units, offset a mild increase in detached units.

Among metro regions the decline owed entirely to the Vancouver metro area, which posted a decline in annualized units to 15,015 units from 21,473 units the



Housing starts decline on multi-family units

prior month. Higher starts in Victoria (up from 2,313 units to 2,417 units) and Abbotsford- Mission (up from 1,076 to 1,427 units) were partially offsetting gains.

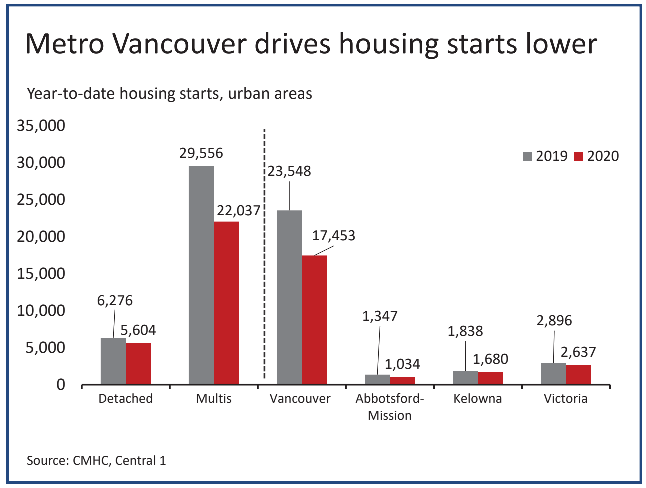
The slowing pace of starts held year-to-date activity sharply below 2019. Through 10 months, urban area starts of fell 23 per cent to 27,641 units, almost entirely reflecting declines in Metro Vancouver (down 26 per cent), although fewer starts was a broad pattern across the large urban markets. Single-detached starts were down 11 per cent, while multi-family starts declined 25 per cent.

A steady pace of completions are outpacing housing starts, cutting the units under construction in large urban areas to 57,200 units, down from nearly 60,000 units at the beginning of the year.

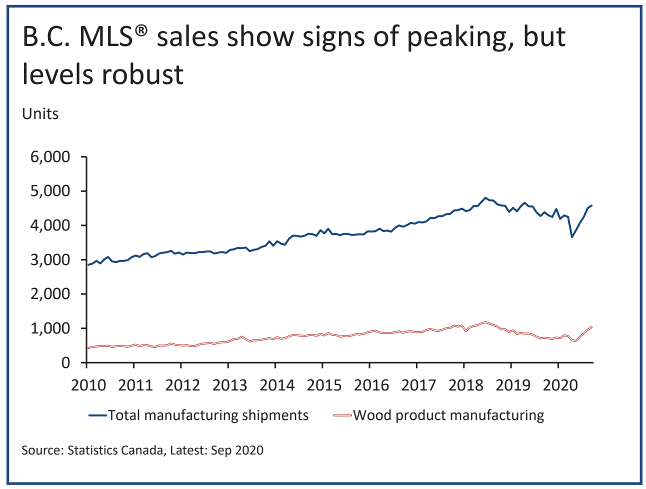
While it is natural to associate the drop in starts to the pandemic, this has not been the main driver. Record housing starts in 2019 has given way to some normalization, however, the slowdown also reflects fewer condo presales in recent years following policy changes to curtail demand. Fewer projects in the pipeline has resulted. Lower population growth this year and fewer students will likely cool investor demand for new projects, but this will be temporary. Strong resale market activity however does signal a rising trend in starts going forward. Housing starts in 2020 will decline by more than 20 per cent to 34,700 units before climbing to 36,300 units in 2021.

Food and wood production continues to propel manufacturing

B.C. manufacturing activity continued to firm in September as factory sales rose 1.6 per cent ($74 million) to $4.58 billion. While slowing from August's six per cent increase, this marked a fifth straight gain. Production has surpassed pre-pandemic levels and exceeded same-month 2019 by six per cent.



Metro Vancouver drives housing starts lower



B.C. MLS® sales show signs of peaking, but levels robust

Relative to August, growth was driven by non-durable goods (up 5.1 per cent) due almost entirely to an 11.7 per cent surge in food production. Durable goods manufacturing fell 0.9 per cent despite another large gain in wood product sales (7.7 per cent or $73 million) due to a retrenchment in transportation equipment (33 per cent) after a prior month surge, while primary metal production also fell.

Despite recent momentum, pandemic declines and weaker trends heading into 2020 means year-to-date activity was still 6.4 per cent lower than the first three quarters of 2019. Wood product manufacturing has surged in recent months, with year-over-year sales in September up 46 per cent as strong demand from rising U.S. housing starts and renovation demand has lifted exports and prices. That said, capacity curtail-ments through 2019 means wood product sales were still down 1.3 per cent year-to-date. More broadly, manufacturing has slumped from 2019. Paper product sales have collapsed 22 per cent this year, reflecting decimation of newsprint and the need for specialty pa-per product. Other sectors where sales have dropped off dramatically have included primary metals (down 12 per cent), fabricated metals (down 14 per cent), while machinery production declined 12 per cent. Food products were a notable bright spot with sales up three per cent as demand rose as more households remained at home during the pandemic.

Demand during the fourth quarter and into the first quarter likely softened as the second wave of COVID-19 hit across Europe, the U.S. and most of Canada impacting consumer and business spending. Going forward, availability of a vaccine in early to mid- 2021 should provide support for investment spending.

Consumer price inflation edges higher

Consumer prices rose in October to provide a lift to headline price inflation. Year-over-year growth in prices rose to 0.5 per cent from 0.4 per cent in September. Nevertheless, inflation remains relatively benign, reflecting ongoing slack in the provincial economy and high unemployment. Nationally, inflation was 0.7 per cent.

Inflation for goods remained muted with price levels down 0.6 per cent from a year ago, while prices for services were up a modest 1.3 per cent. Of the former, gasoline prices were main drag – down 18 per cent from a year ago as mobility has declined during the pandemic. Food costs were up two per cent, while furniture and other household items were up about three per cent. Among services, housing costs were up modestly with rent 1.7 per cent higher and ownership costs up 2.4 per cent. Health services rose 2.7 per cent, while personal care services prices rose 10 per cent. Increased risks and need for personal protective equipment have likely boosted costs which are passed on to consumers. In contrast travel service prices fell 10 per cent.

An economy operating below capacity will keep general consumer price inflation in check with a rebound to about one per cent in 2021.

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