Economics | Current Economic Trends

B.C. Economic Briefing

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central 1 Economics

Highlights:

- A strong housing market hand off to 2021; B.C. sees strongest November MLS® sales performance on record;
- B.C. retailers posted a huge October bounce in sales
- Manufacturing sales climb to a more than two year high, based on lumber
- Inflation jumps in November but remains mild at 1.1 per cent
- Housing starts surge in November but set for 20 per cent annual decline

A strong housing market hand off to 2021

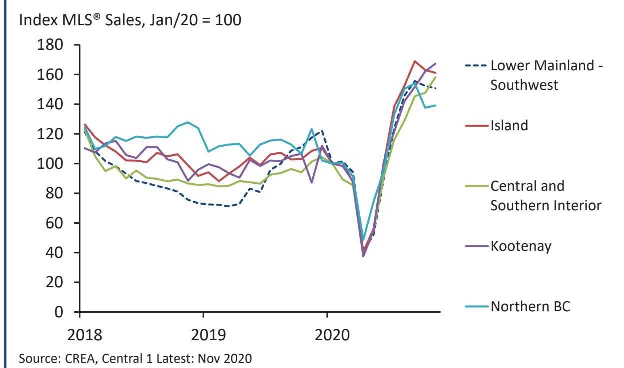
MLS® sales are holding strong heading into 2021. Total sales in B.C. reached 9,491 units in November, marking a 43 per cent year-over-year gain. This was the strongest November sales performance on record, with the second highest observed in 2015 when 8,043 units were processed through real estate boards in the province.

Seasonally- adjusted, sales remained at the highest pace since 2016. Sales rose 0.5 per cent from October to 10,432 units, following a prior month declined of two per cent, suggesting a cresting of the sales cycle. That said, regional performance was mixed. Sales were dampened by small declines in the Lower Mainland-Southwest, as a drop in Metro Vancouver sales contributed to a one per cent decline in the region. Victoria sales fell 8.3 per cent. Outside the largest urban centres, sales in the southern interior and Island continued to rise and trend at record high levels. Year-to-date, sales were up 18.7 per cent through November.

Demand continues to be propelled by exceptionally low mortgage rates, a desire for larger properties and recreational homes. High savings rates, driven by a lack of spending alternatives has also boosted down payments and spending power.

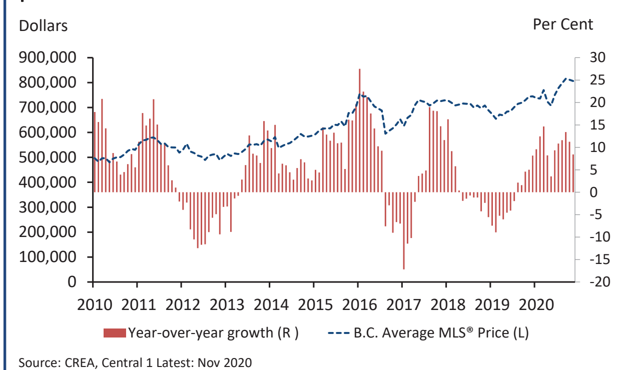
The average price of homes sold in the province dipped 0.6 per cent from October to $806,356, but

Strong sales flow heading into 2021



Source: CREA, Central 1 Latest: Nov 2020

Robust price growth as tight market conditions persist



Source: CREA, Central 1 Latest: Nov 2020

largely reflected changing composition effects as relatively fewer homes sold in the highest priced markets. Year-over-year, the average price was up 8.4 per cent. Average prices were mixed across the province, with declines in Metro Vancouver, northern B.C. and the Okanagan-Mainline. That said, shifts in types of homes sold contributes to monthly volatility.

Sales-to-active listings ratios, which provincially is trending near 36 per cent, points to tight demand and supply conditions across the province and upward price momentum. MLS® constant quality price indices, which adjust for changes in home types, pointed to further price growth during the month. This was led by monthly gains of more than one per cent on Vancouver Island and the Fraser Valley regions.

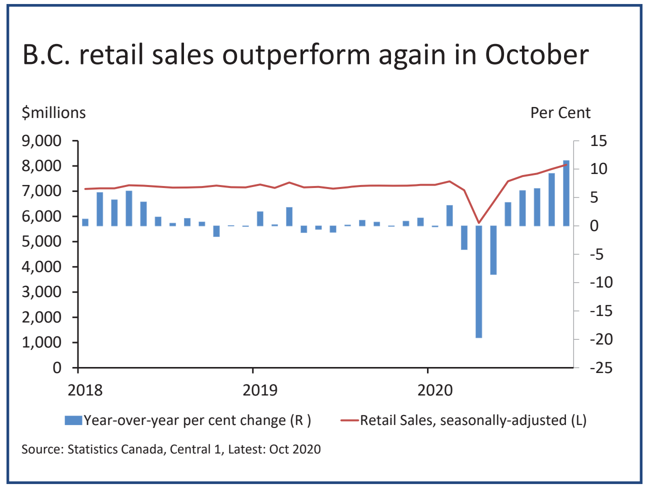
Tight market conditions are expected to continue into 2021 given the low interest rate environment and hand off from 2020. The second wave of COVID-19 presents a challenge for the economy early this year but the vaccine roll out will lead to greater normalization through the second half of the year and support demand in urban centres. We see greater risk in smaller markets as the pandemic drove a rush to smaller markets and recreational home purchases, reflecting remote work promises and expectations of a prolonged period of limited recreational travel. The availability of a vaccine is likely to temper this demand and potentially lead to a modest reversal.

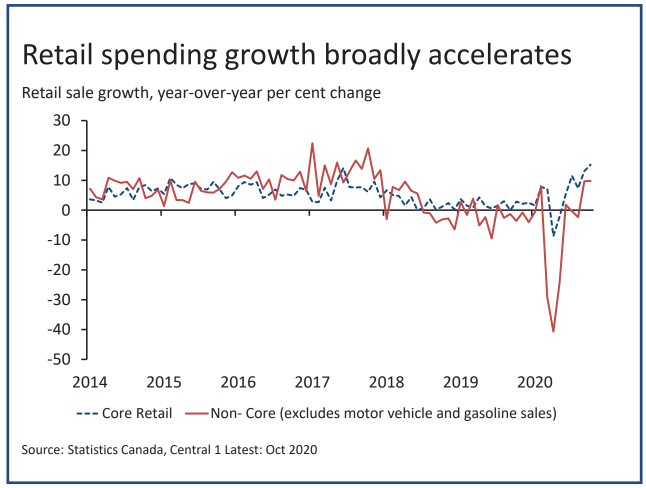
B.C. retailers see sales surge in October

B.C. retailers posted a huge October bounce in sales to far outpace the national increase. Seasonally- adjusted sales rose 2.1 per cent from September to $8.0 billion at brick and mortar stores, and driven by Metro Vancouver. While retailers haven't made up for lost sales during the spring when many retailers closed and adapted to the new environment, sales are above pre-pandemic levels undoubtedly helped by stores adopting a greater e-commerce presence. Dollar-volume sales were 8.9 per cent above February and 11.1 per cent above year-ago levels. Nationally, sales rose 0.4 per cent from September and 7.5 per cent year-over-year.

October sales growth was observed broadly across store segments. Consumers flooded car dealerships year-over-year growth was up 20 per cent in this segment from a 14.4 per cent September gain as virus fears of public transportation and low interest rates may be boosting sales. Ancillary demand from a strong housing market lifted spending at furniture, electronic, and building material stores, although higher prices are also factoring into dollar volume sales growth. With consumers still hesitant to visit restaurants, and households maintaining physical distance, demand at food and beverage stores while stabilizing were up 18 per cent from a year ago. Weaker store segments remain gas stations as work-from-home and less recreational travel limit demand, while clothing store sales remained weak and 5.1 per cent lower than a year ago despite some sale improvement.

These themes remain evident in year-to-date sales which moved into positive territory with a 1.1 per cent increase led by housing-related demand, and food and beverage sales. Going forward, there are risks of temporary weakness as the surge in COVID-19 and further restrictions negatively impact confidence and normal spending in December and into 2021. Greater adoption of the vaccine will likely rotate more consumer spending towards restaurant services and travel as we move further into 2021, curtailing growth in some high-flying retail segments.





Consumer adoption of online spending is here to stay and will continue to be a key competitor to brick and mortar spending. Nationally, retail e-commerce was up 67.7 per cent from a year ago in November and represented about five per cent of national sales.

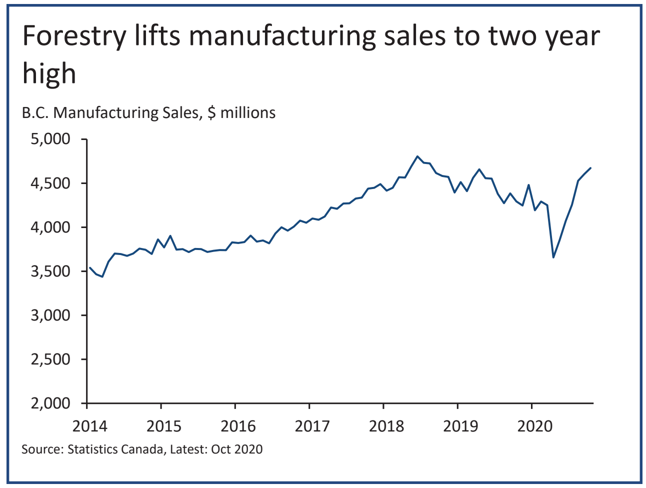
Manufacturing sales climb to a more than two year high

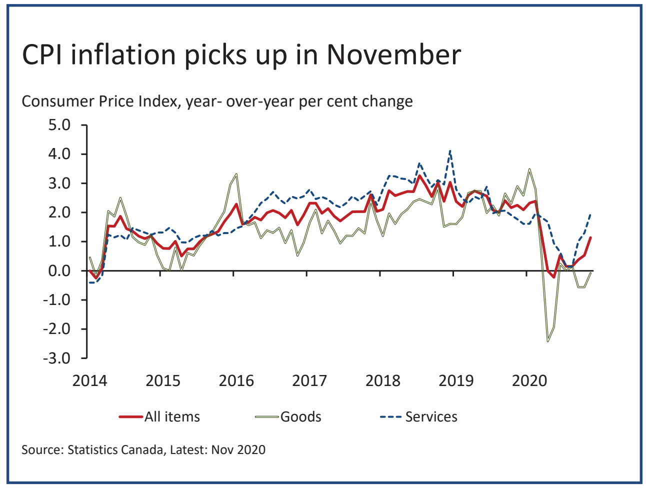
B.C. factory sales continued to rise through October with sales up 1.5 per cent ($68.2 million) to a seasonally- adjusted $4.67 billion, marking the strongest month of dollar-volume production since August 2018. October's increase was again heavily dependent on the province's forestry sector. Paper manufacturing surged 22 per cent ($72.9 million) and wood products manufacturing increased 3.8 per cent ($39.5 million). The latter was up 50 per cent year-over-year. Primary metal manufacturing also picked up sharply with a gain of 12.7 per cent ($31.7 million) from September.

Partially offsetting declines were driven food production which fell 7.6 per cent or $61.8 million to reverse a September surge.

The sharp turnaround in manufacturing has been impressive but sales through ten months remained below same-period 2019 by five per cent reflecting the effects pandemic downturn in the global economy and investment spending, as well as a downward trend through most of 2019. Surging lumber demand has wood product sales up 3.4 per cent, while food sales rose 4.3 per cent over the period. These gains were more than offset by paper production (-18 per cent), and primary and fabricated metal manufacturing (down 10 and 16 per cent), while machinery sales fell 13 per cent. Regionally, Metro Vancouver, which accounts for about half of provincial sales has outperformed other parts of B.C. as sales were virtually unchanged, while sales in other regions fell 10 per cent.

A recovery trend in 2021 will boost broader investment spending which will likely contribute to further growth, however forestry gains will likely retreat as prices ease and housing market demand moderates.





Inflation jumps in November but remains mild at 1.1 per cent

Headline consumer price inflation in B.C. rose sharply in November owing largely to higher shelter costs and base year factors. Growth in the consumer price index jumped to 1.1 per cent year-over-year, compared to 0.5 per cent in October. This exceeded national inflation of 1.0 per cent.

The sharp increased from trend reflected a number of factors. Ownership costs accelerated to 2.9 per cent from 2.4 per cent in October as a strong housing market lifts replacement costs despite lower mortgage interest rates. Costs of big ticket furniture items and furnishings have also increased at a faster rate as strength in housing markets has generated high levels of ancillary demand. Gasoline prices were still down sharply from same-month 2019 by 12.3 per cent but generated less downward pressure on inflation compared to October's 18 per cent drop. This is due to a temporary base effect in November 2019.

In contrast, consumers experienced less food price inflation which fell from 2.0 per cent to 1.6 per cent as slowing growth in store-bought food prices, while rental costs slowed from 1.8 per cent to 1.2 per cent. Clothing costs declined 2.9 per cent year-over-year, and recreation costs fell 0.7 per cent owing in part to travel costs.

Despite the latest increase inflation remains mild and some of the temporary drivers will likely reverse. This reflects an economy operating below normal capacity, although in some sectors higher costs for personal protective equipment is being passed on to consumers.

Housing starts surge in November but set for 20 per cent annual decline

After a two-month lull, B.C. homebuilders ramped up construction of multi-family units in November. Seasonally- adjusted urban-area starts reach an annualized 44,273 units during the month compared to a pace of 28,260 units in October. While detached starts were essentially unchanged at a pace of 6,895 units, multi-family units climbed from a pace of 21,268 units in October to 37,378 units in November. Year-over-year, starts were down about five per cent in November.

Among the largest metro markets, it is not surprising that Metro Vancouver led the increase given the sharp increase in multi-family condo construction. Starts more than doubled from October to annualized 32,942 units which was the highest since June 2019. In contrast, starts fell sharpy in Abbotsford-Mission from 1,420 units to 391, while the pace held steady in Kelowna at 1,206 units. Victoria start fell from 3,433 units to a pace of 2,749 units.

While the latest increase is positive for the housing construction cycle, monthly starts are volatile reflecting the influence of large but relatively infrequent apartment starts. Even with the latest rebound, 2020 housing activity has been a disappointment. Provincial starts declined 21 per cent through the first 11 months of the year owing largely to fewer projects in the pipeline in recent years due to various regulatory measures such as mortgage stress tests, vacancy tax and speculation taxes which slowed pre-sale activity. Metro Vancouver start declined 22 per cent making up the bulk of the decline, although Abbotsford-Mission starts (down 28 per cent), Kelowna (down 16 per cent), and Victoria (down 12 per cent) all contributed to the drop off. Outside the metro markets, smaller urban area starts fell about 25 per cent. By segment, detached starts declined nine per cent, while multi-family starts declined 24 per cent.

The pandemic has had little impact on current starts, but a period of lower immigration and fewer students is limiting new demand. The pace is likely to pick up in coming years as strong resale market activity in the current market flows into presales, while the COVID-19 vaccine triggers higher immigration and student inflows into the market. However, this demand may take years to materialize as new construction given build out times suggesting a period of undersupply in the market in the interim and resale market demand. Total housing starts are forecast to decline 22 per cent this year to 34,000 units (inclusive of rural markets) before rising six and four per cent the next two years.

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