Economics | Current Economic Trends

B.C. Economic Briefing

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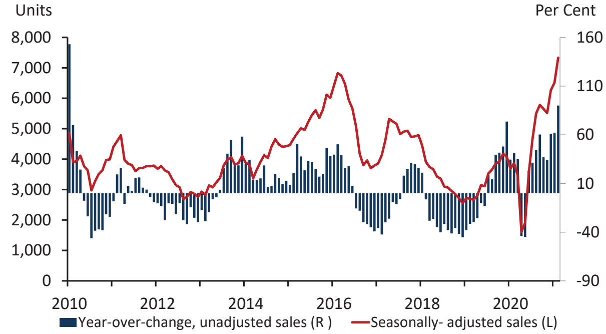
central 1 Economics

Highlights

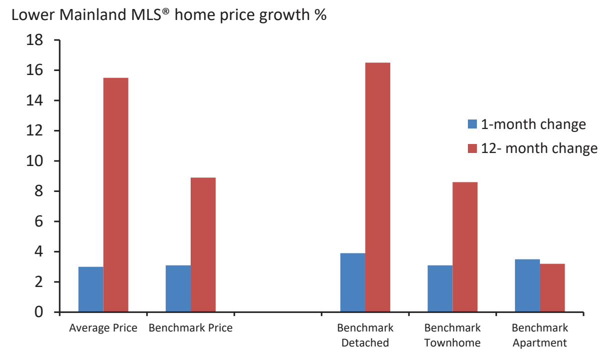
- Lower Mainland housing sees second strongest February on record;
- Average home price up 15 per cent year-over-year to reach record high of $1.06 million;
- Strengthening economic conditions to support new investments in the economy and brick and mortar construction;
- Resources drive B.C. export higher in January

Lower Mainland housing demand spikes into February



Source: REBGV, FVREB, Central 1 latest: Feb 2021

To the moon? Price growth picks up steam



Source: FVREB, Central 1 latest: Feb 2021

Housing boom continues in the Lower Mainland

The head-spinning housing boom in the Lower Mainland continued unabated through February as homebuyers continued to scoop up properties at a record pace, seemingly undeterred by rapid price gains. MLS® sales in the region spanning Metro Vancouver and Abbotsford/ Mission reached 6,544 units in February, up 90 per cent from same-month 2020. This was the second strongest February on record, and only slightly below February 2016. On a seasonally-adjusted basis, sales surged 12.6 per cent from January to exceed previous cycle highs.

Through two months, sales rose 78 per cent from 2020 and were 1.8 per cent above the previous high in 2016.

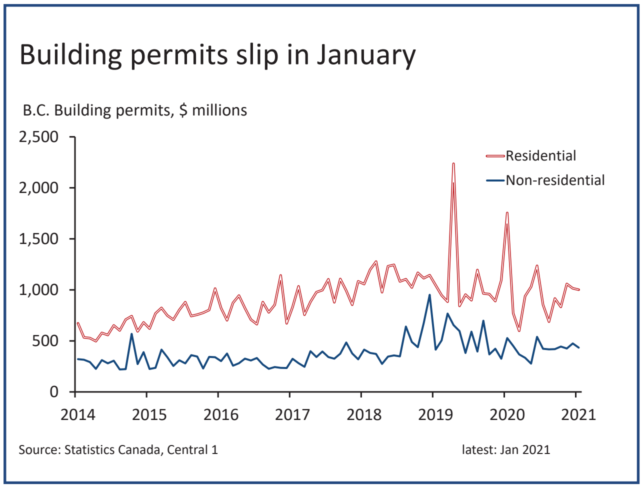
While it is surprising that the market continues to churn out record levels of activity during the pandemic, key drivers persist. Buyers remain incentivized by the low mortgage rate environment, while the pandemic has contributed to higher savings and a desire for more space as many individuals work remotely. Higher demand for suburban areas and away from the high priced core Vancouver market is evident with a doubling of sales in outlying Fraser Valley markets while Greater Vancouver growth came in at 76 per cent.

Increased new listings (up 23 per cent year-over-year) have provided more choice for buyers but were far outpaced by demand. The sales-to-active listings jumped above 50 per cent to the highest level since 2016 and was indicative of a strong sellers' market. The average price climbed at rapid clip, with growth of 15 per cent year-over-year and three per cent from January to reach a record high of $1.06 million.

Average prices are often skewed by sales composition, and undoubtedly, pandemic demand for ground-oriented homes have contributed to the surge. That said, the composite price index, which adjusts for housing attributes, rose a comparable three per cent from January and a robust 8.9 per cent from a year ago. The latest data also suggests rising apartment prices after a dormant year. Strong price growth in detached prices (up 16.5 per cent year-over-year) may be pricing more families into multi-family units, while vaccine optimism is likely driving investors back into the market.

We still believe that sales will slow trend lower in short order. Mortgage rates remain supportive of demand but have likely bottomed and high prices are eroding affordability. Meanwhile the shift to a post-vaccine world will usher in a return to more normal working environment, limiting opportunities to search for housing and less of a push towards suburban markets. Spending power will likely diminish as households redeploy spending towards services and tourism. Short-term, trends still point to positive price appreciation but the likelihood of froth has increased in the single-family market that could reverse or trigger more restrictive government measures to dampen prices especially if multi-family prices move sharply in the same direction.

Permits remain range-bound despite January decline



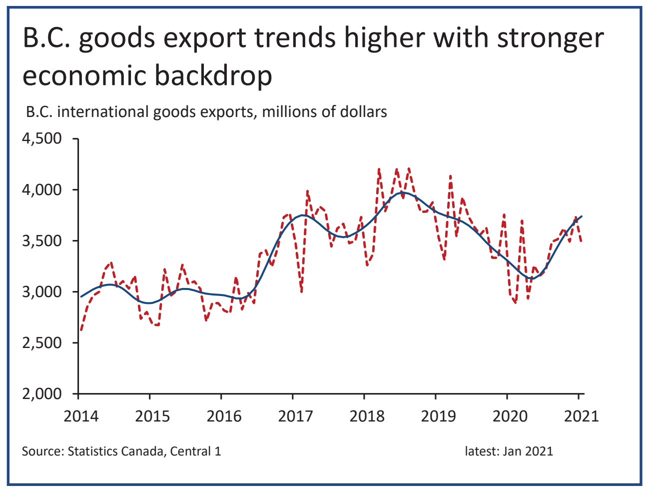
National building intentions took flight in January to reach a record high but B.C. building permits moved in the opposite direction with both residential and non-residential sectors easing off December levels. B.C. dollar-volume permits reached a seasonally-adjusted $1.43 billion, down 3.7 per cent from the previous month. Residential volume fell 1.4 per cent and non-residential permits declined 8.7 per cent during the month. Lower permits were concentrated in the metro areas of Vancouver (down 23.6 per cent) and Abbotsford-Mission (down 29.8 per cent).

On a year-over-year basis, permits fell 37.1 per cent during the month but owed largely to a spike in activity in same-month 2020. Residential permits fell 57 per cent on lower multi-family activity even as detached permits rose, while a pullback in commercial and government permits drove the 17.8 per cent drop in non-residential activity. Year-over-year comparison will stabilize in coming months.

Underlying trends point to a positive but uneven trend for residential permits since August although levels are within the modest range observed from 2019 onwards. Despite strengthening resale market demand through the pandemic, which is lifting demand for detached housing market construction, activity remains constrained by a period of weak apartment pre-sales in recent years. Non-residential permit trends are similarly uninspiring. Unlike pandemic era strength in housing demand, businesses have held back on investment reflecting lower revenues and dormant office spaces.

Trends are expected to rise through 2021. Housing market strength over the past year is expected to translate into modestly higher starts through 2023, while strengthening economic conditions support new investments in the economy and brick and mortar construction.

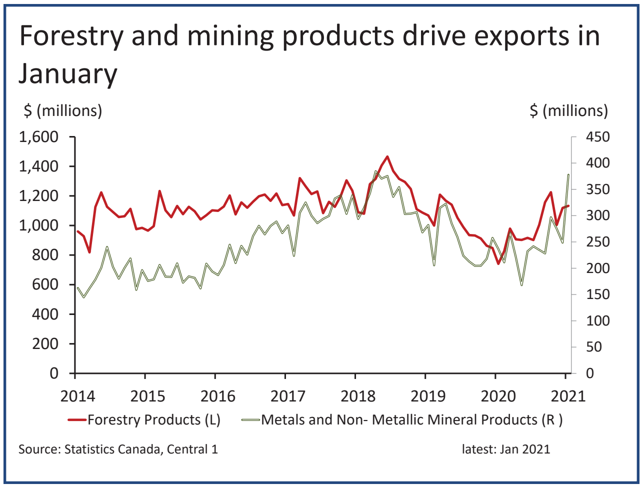
Resources drive B.C. export higher in January



Aligning with expectations of export-led growth this year, B.C. international merchandise exports shot out of the gate in 2021 with unadjusted sales surging to a 16.6 per cent year-over-year gain during the month to $3.47 billion following a flat December. The trend remained positive, with Central 1 seasonal-adjustments pointing to a month-to-month gain of about four per cent.

Headline Canadian export growth came in at 8.9 per cent (year- over- year) based on seasonally- adjusted estimates with a monthly gain of eight per cent.

January export growth in B.C. remained driven by resource-oriented activity. Specifically, exports of metallic and non-metallic mineral product exports surged 60 per cent from a year ago to $377.6 million after slipping in December to reach a near-record high.



Meanwhile, forestry related product export growth accelerated to 53 per cent to $1.1 billion, compared to a 32 per cent increase in December. Seasonally-adjusted forestry sales climbed four per cent from December marking the highest levels since late 2018.

These two export segments contributed to the entirety of January's net gain. Global economic optimism is contributing to a broad increase in commodity prices, while forestry is benefitting from firm housing demand and high lumber prices. In contrast, exports declined for food products, machinery and other capital equipment, suggesting the second wave of COVID-19 may have weighed on short-term demand despite the stronger medium-to-long term outlook.

Aside from the general strength in good exports, services exports remain weak which is unsurprising given little international tourism during the pandemic. Provincial level data is unavailable, but is unlikely to differ too much from national trends. January service exports were unchanged from December but down 14 per cent from a year ago. Lack of tourism flowed through transportation services, which rose four per cent from January but remained 14.1 per cent below year ago levels.

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