Economics | Current Economic Trends

B.C. Economic Briefing

Volume 27 • Issue 11 • Week of March 15 - 19 | ISSN: 1981-355

central 1 Economics

Highlights

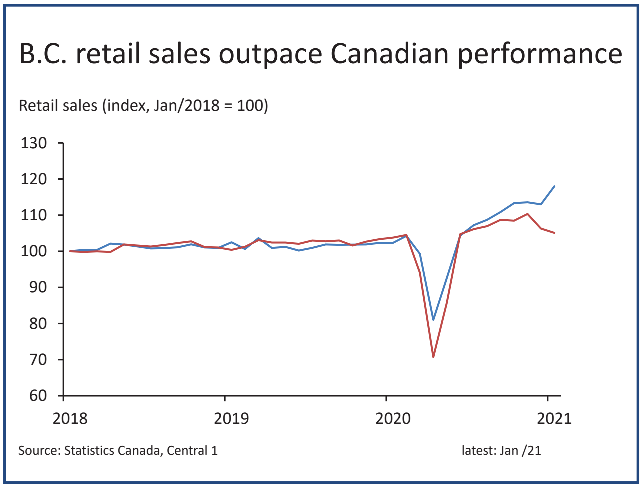
- B.C. retail spending rebounds swiftly in January with a 4.4 per cent increase;
- B.C.'s housing market remains white hot in February with sales up 7.2 per cent from January;
- Average price of a B.C. home is up 17 per cent ($126,000) since last year;
- B.C. manufacturing sales edged above $5 billion for the first time on record in January based on wood products sales and higher lumber prices;
- Rent declines slow headline inflation in February.

B.C. retailers post 4 per cent gain in sales

After a mild December dip, B.C. retail spending rebounded swiftly in January with a 4.4 per cent increase to reach a seasonally- adjusted $8.36 billion. Sales have increased in eight of the last nine months to propel the year-over-year gain to 15 per cent (a record high). In contrast, national sales fell 1.1 per cent from December and were up 1.3 per cent from a year ago. Several provinces increased physical distancing restrictions in late 2020 and early 2021, specifically in Ontario and Quebec, which directly affected retail operations. That said, Canadian retail sales were stronger than anticipated.

B.C. consumer spending picked up speed across retail store segments. Fewer retail restrictions and a quicker labour market recuperation have contributed to the stronger performance in the province.

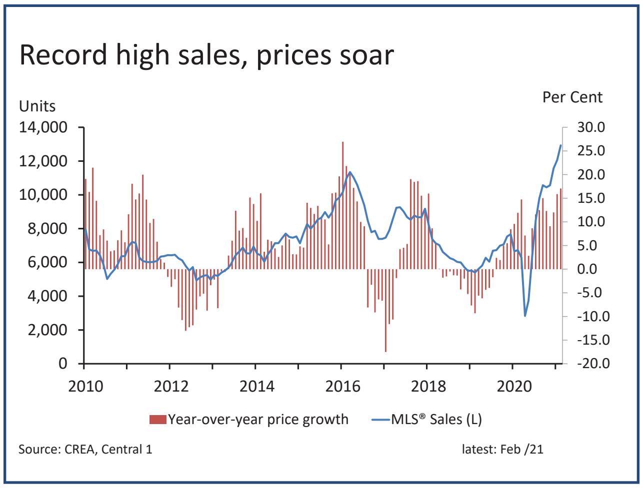
Sales at motor vehicle and parts dealers rose nearly five per cent from December and 30 per cent year-over-year, reflecting demand for private transportation amidst the pandemic, low interest rates and replacement demand. Meanwhile, sales at electronic and appliance stores (up 43.9 per cent year-over-year) and building/material and gardening stores (up 50 per cent) reflects the spillover from strong housing market conditions and renovation spending. Higher gasoline prices lifted sales at gas stations. Clothing retailers also saw monthly sales improve, but year-over-year sales activity remained 15 per cent lower as work-from-home, and fewer social options curtailed demand.

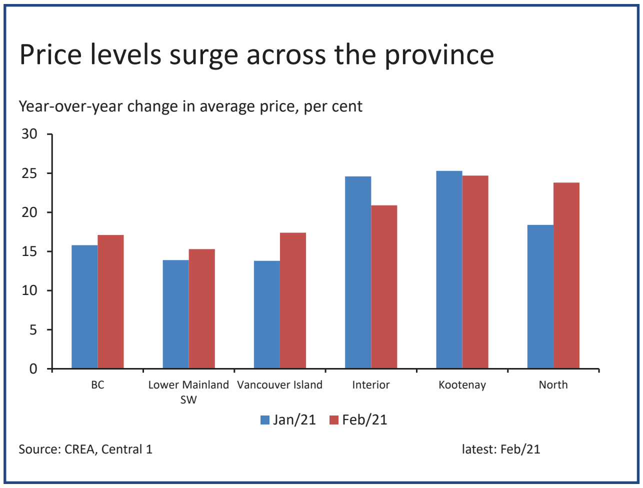


These figures exclude retail e-commerce which has grown much quicker. Nationally, sales more than doubled from a year- ago, and make up 7.8 per cent of total retail trade.

The strong upward sales momentum bodes well for 2021 as the economy continues to recover. Further improvement is expected for clothing retailers as more offices re-open and the pandemic wanes while a hot housing market will keep demand for ancillary products elevated. That said, expect the end of the pandemic to usher in a rotation in demand and spending back towards retail services such as events and restaurants, while more dollars will leak out of the domestic economy as travel picks up.

Housing market remains at a boil in February





B.C.'s housing market remained white hot in February with yet another surge in provincial home sales and price levels. MLS® sales rose 7.2 per cent from January to a seasonally- adjusted 12,930 units to mark a record high pace of activity. Unadjusted February sales were the highest on record at 10,962 units, surging nearly 90 per cent year-over-year and exceeded the 10-year same- month average by 77 per cent.

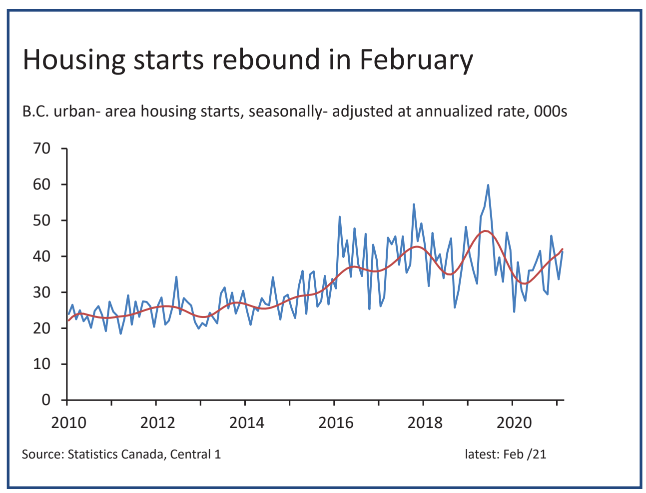
Robust sales continued across the province, highlighted by strong sales gains in Fraser Valley markets which rose nearly 15 per cent and the interior markets of the Okanagan and surrounding areas (up 13 per cent). Moreover, with sales more than doubled year ago levels on Vancouver Island (exc. Victoria), the interior, and Fraser Valley markets sales are trending at record high levels outside northern B.C.

Prices are taking their cue from record demand and further propelled by a dearth in market supply. The average provincial price rose 1.4 per cent from January to a seasonally- adjusted $866,583, and 17 per cent or an astounding $126,000 above year ago levels. While the strongest per cent gain since 2017, provincial gains masks higher rates of price growth in a many regions outside Greater Vancouver, and reflects higher share of sales in lower priced regions. Higher demand for detached housing vis-à-vis apartments, is factoring into strong average price growth but composite indices that control for housing type show year-over-year growth of nine per cent in the Lower Mainland, about 13 per cent in the Island and Okanagan, and six per cent in Victoria. Detached homes have led increases across markets.

The near unbelievable strength in this market continues to be shaped by the pandemic era as demand is bolstered by low borrowing costs, elevated savings, steady employment among higher wage earners, and shift in preferences away from high density living. That said the recent run up in valuations, particularly among single family homes, could also reflect rising panic among buyers to get into a rapid accelerating market and insufficient supply which could point to froth in single-family home as buyers overbid. We anticipate that demand will ease as the economy normalizes and individuals return to places of work and have less time to search for housing and pivot back to urban centres. Incomes will also re-allocate to other spending. Apartment demand however is expected to rise as immigration picks up, and non-permanent residents return post- pandemic.

Housing starts rebound in February

B.C. housing starts bounced back in February after a January slide to reach the highest level since November. Urban- area starts reached a seasonally- adjusted annualized rate of 41,250 to smooth out some weakness in January, when starts fell to a pace of 33,624 units. Starts have trended higher since mid-2020. As is typically the case, the latest increase was led by a rebound in multi-family units which rose from an annualized 23,473 units in January to 32,517 units in February. Volatility is the norm given the volume of units associated with apartment developments. Detached starts eased from a pace of 10,151 unit to 8,732 units.



Among metro areas, annualized starts jumped in Metro Vancouver (up from 17,793 in January to 27,754 units), Abbotsford- Mission (up from 1,003 units to 2,024 units) and Kelowna (up from 1,290 units to 3,001 units). Victoria starts declined.

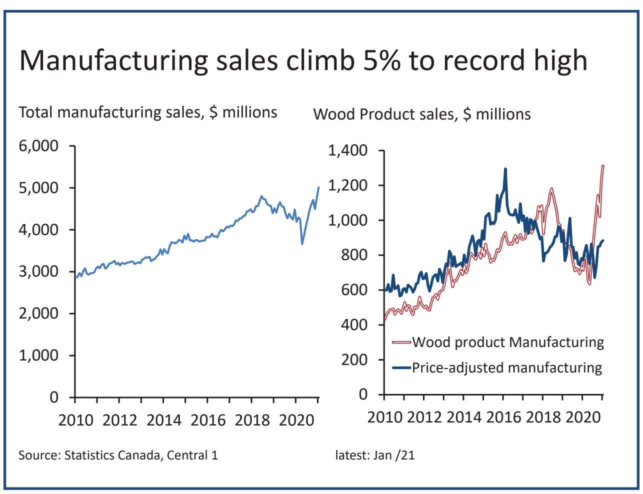
Through the first two months, urban-area starts rose 19 per cent, driven primarily by a 36 per cent increase in Metro Vancouver. While it is early in the year and monthly starts fluctuate considerably, starts are expected to gradually trend higher. A strong resale housing market in 2020 will likely push more developments into the construction phase, while increased inflow of investors and demand for custom detached units will also support demand. Total provincial starts are forecast to average about 39,000 units this year and next, up from 37,700 in 2020, and surge to 45,000 units in 2023.

Forestry surges again to lift manufacturing sales above $5 billion

B.C. manufacturing sales edged above $5 billion for the first time on record in January as wood product manufacturing continued to soar. Dollar-volume factory shipments reached a seasonally- adjusted $5.01 billion, up 5.3 per cent ($251.6 million) from December and 19.5 per cent, year-over-year.

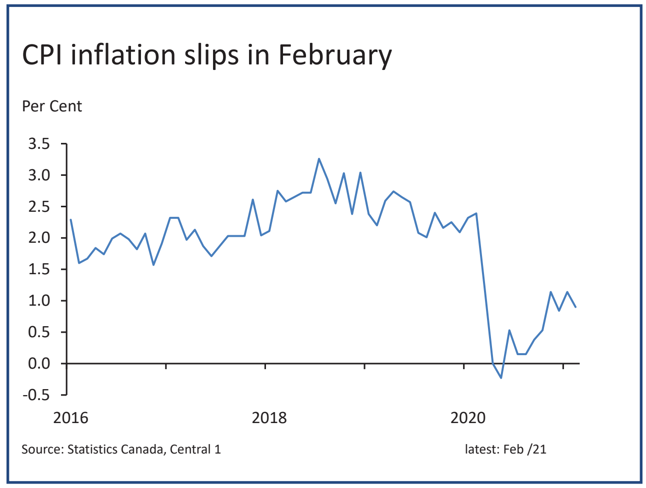
The latest gains were driven by a 7.4 per cent ($90 million) increase in wood product sales amidst strong demand and high lumber prices. This represented about one third of net manufacturing sales growth during the month. Year-over-year, sales rose 84 per cent, representing more than 70 per cent of the overall gain. The influence of higher prices should not be understated, with the Bank of Canada forestry price index up 5.5 from December and 60 per cent on a 12-month basis. More recently, lumber prices have again spiked higher, which should drive continued gains in sales and contribute to increase sector investment. Fabricated metals sales were other main contributor with growth of 27 per cent ($76.9 million) from December, while food sales rose 2.2 per cent ($16.7 million).

Manufacturing trends are expected to remain positive as economic trends strengthen in the U.S. and globally. This will lift demand for resource related products and capital expenditures.



Rent declines slow headline inflation in February

B.C. consumer price inflation slipped in February to a rate of 0.9 per cent year-over-year from 1.1 per cent in January and contrasted with a slight uptick in national inflation to 1.1 per cent.



According to Statistics Canada, housing played a role in the divergence from the national gain as B.C. estimated rents fell 2.9 per cent from a year earlier compared to a national gain of 0.1 per cent. In January, rent was down 0.9 per cent year-over-year in B.C. Lower immigration, fewer international and domestic students at post-secondary institutions during the pandemic likely contributed to the slide. A provincial rent freeze also tempered inflation. Growth in ownership costs remained elevated at 3.2 per cent, but consistent with January's 3.1 per cent increase owing to higher home prices amidst a roaring housing market.

Among other goods, consumer experienced a pinch from higher food prices which accelerated to 1.6 per cent year-over-year, from 0.8 per cent in January. Gasoline prices, while still down from a year ago, have risen sharply since November and jumped six per cent from January on higher crude oil prices, narrowing the year-over-year difference to -2.0 per cent from -6.3 per cent the previous month. Gasoline will drive headline inflation from March through May given current strength in prices following a sharp decline in the early months of the pandemic. Year-over-year gasoline prices will average more than 20 per cent in the coming three month period. On the other side of the spectrum, clothing and footwear prices remained well below year ago levels by 5.8 per cent as retailers offer discounts amidst weak demand.

Deceleration in shelter costs cut slowed growth in services prices to 1.1 per cent from 1.9 per cent in January. Growth in goods prices rose to 0.7 per cent year-over-year following no change in January.

Headline price inflation will surge over the next three months due to gasoline prices, but underlying trends will remain tempered as economic slack persists. Underlying inflation is likely to grind higher as the economic recovery marches on. Rents will pick up amidst higher immigration and return of students, while a return to offices will trigger demand for clothing and related spending.

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