Economics | Current Economic Trends

B.C. Economic Briefing

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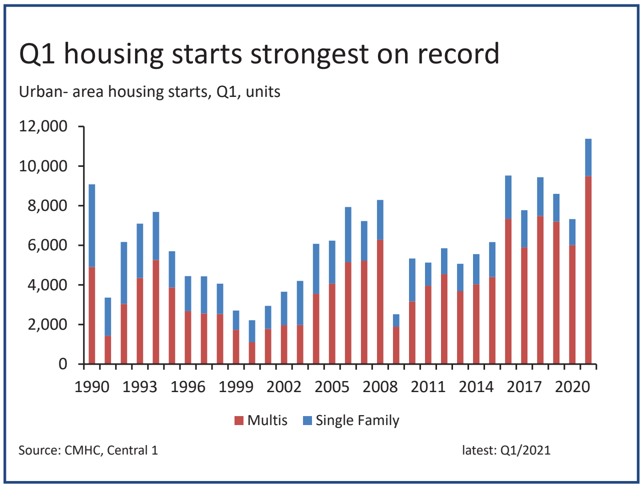
central 1 Economics

Highlights

- B.C. housing starts first quarter activity up 55 per cent from 2020;
- B.C. headline consumer price inflation sees 2 per cent year-over-year growth;
- Gasoline prices jump 21 per cent year-over-year



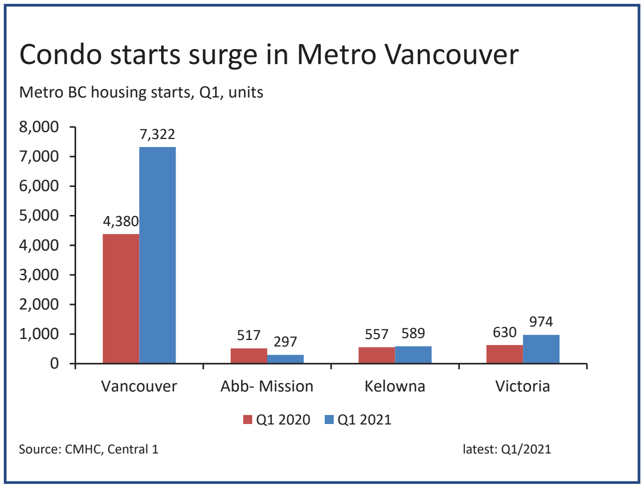
Housing construction soars in 2021

B.C. urban-area housing starts surged in March to drive first quarter activity up 55 per cent from 2020, and the strongest start to the year going back to at least 1990 as builders accelerated activity amidst robust housing market demand and improving weather.

Annualized housing starts jumped 61 per cent from February and more than doubled year-ago levels to a seasonally-adjusted rate of 67,564 units. As is normal with large monthly swings, the main driver of March's increase was for multi-family units which jumped 77 per cent from February to an annualized 57,850 units, while detached units rose 7.2 per cent to 9,718 units. Metro Vancouver contributed to the bulk of the increase with a 62 per cent increase, while Victoria starts more than tripled from February.

Volatility in monthly housing starts is the norm given the influence of large-scale multi-family projects. That said, substantial year-to-date gains have been observed across product segments. Detached housing starts rose 44 per cent with increased largely outside Metro Vancouver, and consistent with the narrative of urban outflow as households enabled by remote work options search for affordable space outside the large centres. Multi-family starts rose 58 per cent over the period and represented about 83 per cent of total housing starts. This gain was led by a 75 per cent increase in Metro Vancouver multi-family starts as condo construction soared.

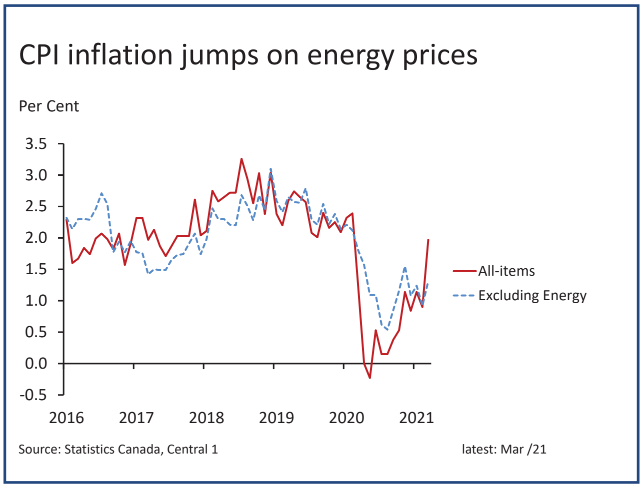
The increasing trend in starts reflects varying factors. Resale market demand has surged and lack of inventory has driven demand for new building construction in smaller urban markets where prices are lower and land is available. Meanwhile, pre-sale activity rebounded after a weak early pandemic phase, aligning with trends in the resale market. Projects were able to reach a critical mass of sales to meet financing obligations, allowing for more project starts in early 2021. Condominium tenure starts rose 69 per cent, freehold rose 43 per cent, and rental starts increased 43 per cent.



The recent upswing counters softer conditions in the construction sector in 2020. Total units under construction rose to 63,918 units during the first quarter after easing the past year.

The stellar gains in the first quarter are expected to slow but annual housing starts are forecast to rise 10 per cent to 41,000 units.

Headline inflation jumps to two per cent on base-year effects and rising energy prices



Consistent with the national picture, B.C. headline consumer price inflation rose sharply in March. Year-over-year growth in the consumer price index (CPI) accelerated to 2.0 per cent, up from 0.9 per cent in February. While base year effects from slower inflation at the front end of the pandemic contributed, prices are generally on the rise. The seasonally-adjusted price consumer prices rose at a brisk 3.5 per cent (annualized) from February.

Gasoline prices underpinned the sharp acceleration in CPI inflation. Prices fell sharply in March 2020 at the front end of the pandemic and broad shift to remote work, while underlying crude prices have since risen amidst higher demand and OPEC production cuts. Year-over-year growth in the gasoline index jumped to 21 per cent compared to a two per cent drop in February. Natural gas rose 20 per cent, but was consistent with prior months, while fuel oil prices rose 12 per cent. Excluding energy, CPI growth was a modest 1.3 per cent.

Growth in shelter costs accelerated to 2.8 per cent year-over-year, up from 1.8 per cent in February. While this may seem bewilderingly low given the rapid pace of home price growth, the CPI reflects a basket of goods and services consumed by the average household. Only a small share are affected by higher home prices in a given year. For many owners renewing or refinancing mortgages, interest costs have declined amidst lower interest rates. Ownership costs rose 4.1 per cent year-over-year, despite higher replacement costs (up 9.8 per cent), and associated utilities and insurance costs as mortgage costs eased. Moreover, rent fell 1.4 per cent year-over-year, as the pandemic hampered demand and the government froze rents.

Among other key goods and services, food prices rose a modest 1.5 per cent. Clothing and footwear costs fell 6.6 per cent as the shift to remote work and lack of social activity has curtailed demand. In contrast, personal care services are up 11 per cent, suggesting pass through of increased costs of personal protective equipment.

CPI inflation will continue to rise temporarily due to base year effects but will slow later this year.

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