Economics | Current Economic Trends

B.C. Economic Briefing

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central 1 Economics

Highlights

- Resale market momentum slows in May, but robust conditions persist
- Strong housing demand propels new home construction
- Forestry sector gains insufficient to offset broader manufacturing contraction
- A surprise dip for B.C. consumer price inflation

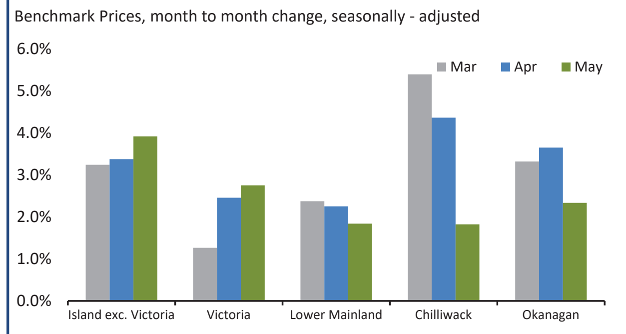
Robust housing market conditions continue despite declining sales

Housing market conditions remained robust but moderated in May signaling buyer fatigue amidst massive price gains and a severe undersupply of units for sale, while more optimistic signs of a return to normal may also be curtailing pandemic driven demand.

B.C. MLS® home sales declined for a second straight month, dropping 8.8 per cent from April to a seasonally-adjusted 10,762 units. This marks a 22 per cent decline from the March peak and the fewest seasonally-adjusted sales since November. That said, levels remain strong with unadjusted sales still the second highest on record for a May, trailing only 2016 by 6.4 per cent. A base year effect from 2020 inflated year-over-year growth to 177 per cent, but sales were still 53 per cent higher than May 2019 as a reference point.

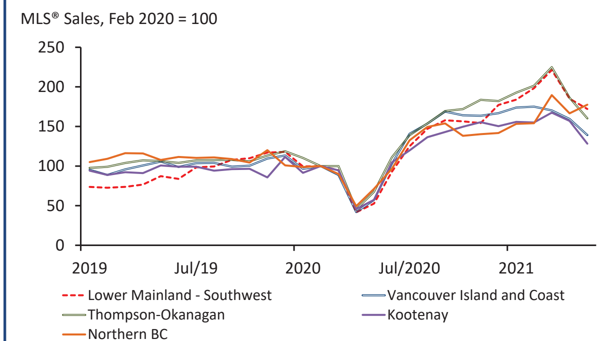
Sales declined throughout the province. Vancouver Island sales fell 13 per cent, while real estate boards in the Thompson- Okanagan fell 14 per cent, and Kootenay sales fell 18 per cent. Lower Mainland- Southwest declines were relatively modest at seven per cent, with sales falling steeply in Chilliwack (-24 per cent). While sales remain well above pre-pandemic levels, the synchronized pullback likely reflects a combination of

Benchmark prices up but growth momentum slows



Source: Statistics Canada, Central 1

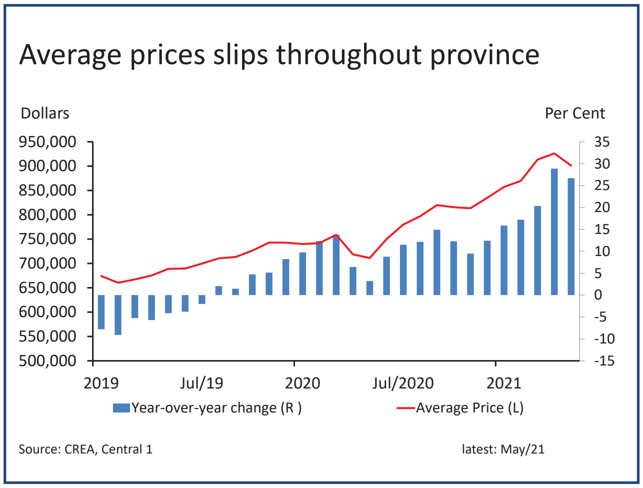
May home sales decline across B.C. but demand remains robust

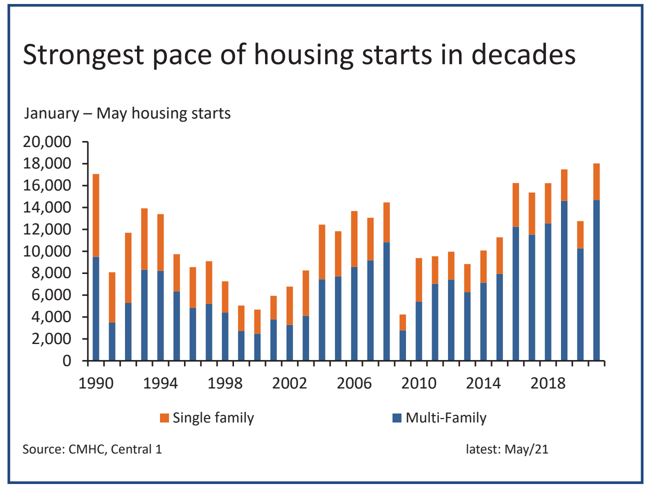


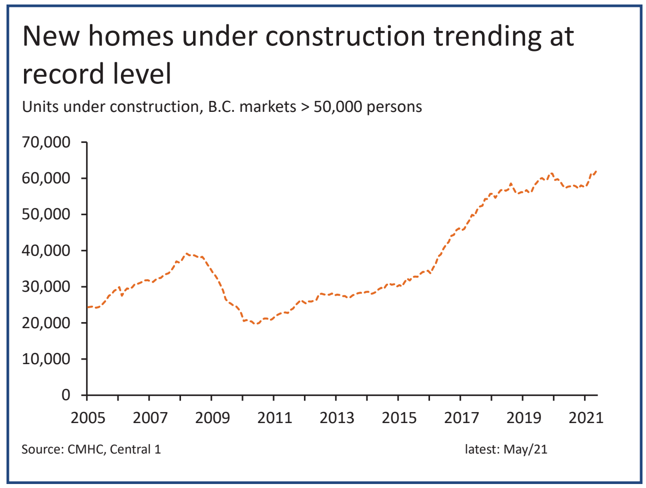
Source: CREA, Central 1 latest: May/21

factors. Rapid price growth in both large and smaller markets and bottoming of mortgage rates has sharply eroded affordability and pushed more buyers to the sideline. Meanwhile pandemic demand drivers may also be softening, as pull forward demand from some households is satiated and rapid vaccine rollouts have more households assessing work-from-home arrangements by their employers. Indeed, some buyers purchasing in smaller markets and outlying areas due to remote work opportunities may be surprised if employers require more frequent return to offices.

B.C.'s average price fell 2.7 per cent from April to $900,980 reflecting declines across the province. While the lowest since February, this was more than 25 per cent or $189,800 above year ago levels. It is likely that composition of sales played a role in the dip, with buyers shying away from the highest priced homes.







Consistent with exceptionally low inventory, which was a multi-decade low and 17 per cent below year ago levels, benchmark indices growth, which control for housing attributes remained positive. The benchmark in the Lower Mainland- Southwest rose 1.8 per cent and 2.3 per cent in the Okanagan – still hefty but below prior months. Vancouver Island trends remained strong at a 2.5-4 per cent growth pace.

Further moderation in sales and prices are forecast to flatten the latter half of this year. Affordability erosion will continue to slow sales, while the continued recuperation from the pandemic will continue to temper pandemic driven demand.

Housing starts up 40 per cent over first five months of 2021

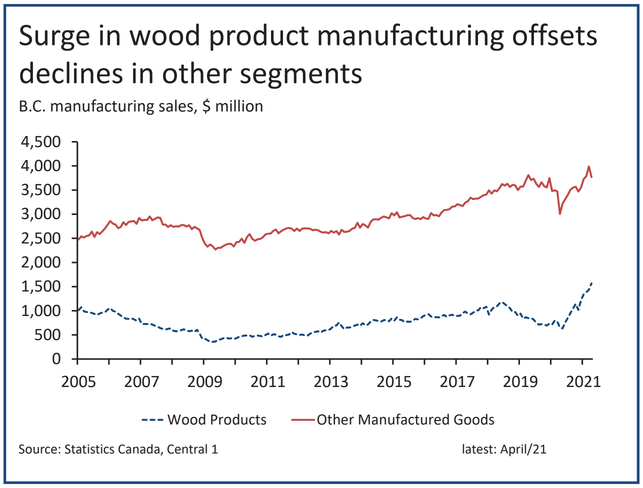
Housing starts remained elevated through May, reflecting strength in the resale market and expectations of steady demand once the pandemic ends and population growth rebounds. Urban- area housing starts reached a seasonally- adjusted annualized rate of 42,680 units in May, which was about 20 per cent above both April and year ago levels. As often the case in large monthly swings, multi-family starts led the charge with a 30 per cent monthly increase which more than offset a 10 per cent drop in single-family starts.

May's increase was entirely driven by Metro Vancouver where annualized monthly starts rose 60 per cent to 30,600 units after slumping in April. The pace of starts declined among B.C.'s other census metropolitan areas of Abbotsford- Mission, Kelowna and Victoria.

While volatility is the norm in housing starts data, the impact that apartment and townhome projects can have in any given month, construction is robust this year.

Through four months starts are up 40 per cent from 2020, and the strongest start to the year in decades. Metro Vancouver starts are up 48 per cent and contributing about 70 per cent of the net gain. Successful condo presales have led more units into construction phase, while completion of projects have also alleviated capacity issues in some trades, and rental construction has also picked up. Smaller urban areas have driven the remaining growth which is consistent with evidence of a flight of urban dwellers to small-town markets during the pandemic.

With the recent surge in starts, units under construction in B.C. has returned to a record level of 62,100 units across the province; last seen in early 2020 (markets with at least 50,000 persons). Housing will be a key driver of economic growth in the coming years. Housing starts, inclusive of rural markets, are forecast to reach 43,500 units this year marking a gain of about 15 per cent from 2020 and average 45,000 units in 2022 and 2023.



Manufacturing sales slip in April despite forestry surge

B.C. factory production fell for the first time since November with April sales down 1.6 per cent or $86 million to a seasonally- adjusted $5.34 billion. Despite the hiccup, the drop was shallower than the national decline of 2.1 per cent (which owed to flowthrough of semi- conductor chip shortages) and the trend remained robust with sales up 46 per cent year-over-year and 24 per cent above pre-pandemic February 2020. Nationally sales were 2.3 per cent higher than pre-pandemic levels.

Among sectors, April production was mixed. On the upside, wood product sales continued to surge with a 9.3 per cent monthly gain ($132 million) and nearly doubled pre- pandemic levels. This was largely offset by declines in primary metals production (-25.3 per cent or $87.6 million), machinery (-8.0 per cent or $27 million), and paper manufacturing (-5.0 per cent or $17.9 million). Excluding wood products, sales declined 5.5 per cent or $219 million.

Strong upward momentum lifted year-to-date growth in shipments to 24 per cent, driven largely by resource sector gains. Strong demand for housing and renovations and a surge in lumber price have nearly doubled wood product sales through the first four months, contributing 60 per cent of total manufacturing gains. Meanwhile primary metals (14 per cent), fabricated metals (up 12 per cent), and machinery (up 17 per cent) were also key contributors, reflecting strengthening export and investment demand and higher commodity prices.

The contribution of elevated commodity prices should not be understated. Wood product prices are up 90 per cent since January of last year, suggesting growth in year-to-date physical production of about 15 per cent with the remainder due to prices. To a lesser extent, metal production has exhibited similar patterns. Real manufacturing is likely coming in closer to a 10 per cent increase, albeit still strong.

Manufacturing sales will remain elevated as the domestic and international economy recover. That said, growth will likely slow as demand rotates towards services, and commodity prices retreat.

B.C. consumer price inflation slips to 2.7 per cent

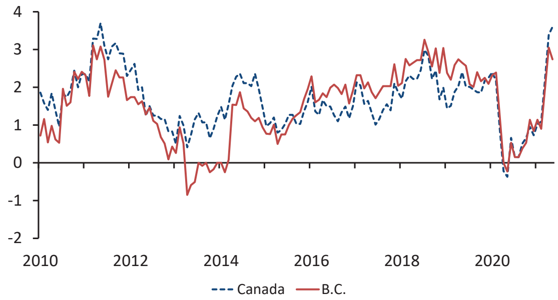
B.C. consumer price inflation surprisingly decelerated in May despite growth in the national trend. Year-over-year growth in the consumer price index (CPI) fell to 2.7 per cent in May from 3.0 per cent in April. This compared to national headline inflation reaching a 10-year high of 3.6 per cent from 3.4 per cent in April.

Lower headline inflation in B.C. reflected negligible price growth from April with the CPI down 0.1 per cent m/m, compared to a 0.5 per cent national increase. The gap reflected shelter costs, particularly home-owner replacement costs which slipped 0.4 per cent from April in B.C. but rose two per cent nationally. That said, year-over-year growth in homeownership costs of 4.7 per cent still exceeded the national reading of 3.5 per cent. B.C. replacement costs were up 10.6 per cent over the past year. Lower mortgage rates have provided some offset for homeowners. In contrast, renters continue to see only modest gains in costs with the rental index up 1.5 per cent year-over-year as rent freezes during the pandemic have limited increases.

Among other goods and services, food prices accelerated to lift the 12- month gain to 1.7 per cent from 1.3 per cent in April led by a 2.3 per cent increase in restaurant prices. Clothing and footwear prices growth accelerated to a 4.4 per cent year-over-year pace from 2.7 per cent. Gasoline prices while 38 per cent higher than a year ago continued to decelerate and dampen headline inflation, while public transportation costs fell 1.6 per cent.

Inflation decelerates in B.C. as national trend climbs

Year-over-year per cent change in consumer price index



Source: Statistics Canada, Central 1 latest: May/21

We expect trends to be mixed in the months ahead. Fading base period effects of a temporary decline in prices early in the pandemic should temper headline inflation. Broader re-openings of the economy and return to offices will likely trigger price hikes at restaurants, travel related activity and clothing, and feed into general price levels although these will likely be one-off increases rather than a source of persistent inflation. Elevated unemployment is also expected to dampen wage inflation, limiting another source of price inflation.

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