Economics | Current Economic Trends

B.C. Economic Briefing

Volume 27 • Issue 32 • Week of August 9 - August 13 2021 | ISSN: 1981-355

central 1 Economics

Highlights

- Building investment supports B.C.'s economic recovery phase
- Demand for new homes and renovations lifts residential investment by 24 per cent year-over-year
- Business investment remains challenging but gains to follow economy

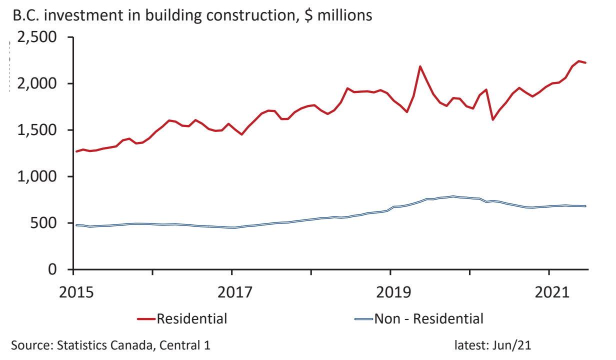
Strong construction cycle supports economic recovery

B.C.'s economy has emerged as one of the better performers during the pandemic, and robust construction activity continues to support the recovery in 2021. The latest building investment figures, which capture work in place activity of new building construction and improvements of existing properties, points to a surge in activity this year and positive momentum. While total building construction investment slipped 0.7 per cent to a seasonally- adjusted $2.9 billion, levels were up 16 per cent above same month 2020 and consistent with pre-pandemic growth trends. Base year effects of a slowdown in construction early in the pandemic contributes to some of this increase but the trend has climbed sharply since late 2020. Most of the increase reflects increased construction activity rather than rising construction costs with real construction down 1.5 per cent from May but up 11.7 per cent year-over-year.

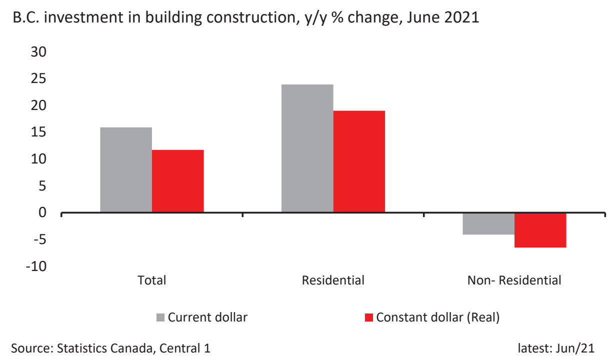
Unsurprisingly, the construction ramp up reflects residential activity as a record pace of housing starts to start the year, renovation demand from pandemic needs and stellar resale market drives construction. Residential investment spending rose 24 per cent year-over-year in June, with growth of 40 per cent in single- family units while multi-family units rose 14 per cent. Demand for detached homes and home renovations has surged during the pandemic, specifically outside Metro Vancouver. Construction activity doubled in Kelowna, rose 50 per cent in Victoria, and more than 30 per cent outside B.C.'s metro areas as demand shifted into smaller markets.

Meanwhile, the drag of the pandemic on the economy, waves of temporary closures, and general uncertainties contributed to softer non-residential construction. Investment declined 4.1 per cent year-over-year in June, with industrial activity down six per cent and commercial investment down 10 per cent. Institutional investment rose 15 per cent amidst higher government spending.

Strong residential construction cycle powers building construction investment



Pandemic uncertainties weigh on non-residential construction spending



Through the first six months, total value of investment rose 12 per cent, with residential activity up 21 per cent and non-residential investment down 7.1 per cent. Real investment growth came in close to six per cent as construction costs contributed a similar amount. Construction costs have risen more sharply in the residential sector amidst high materials, lumber, and firm labour market costs. This pace of growth is likely to slow as housing starts and renovations ease as pandemic drivers fade; although improvements in the economy should lift business investment.

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