Economics | Current Economic Trends

B.C. Economic Briefing

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central 1 Economics

Highlights

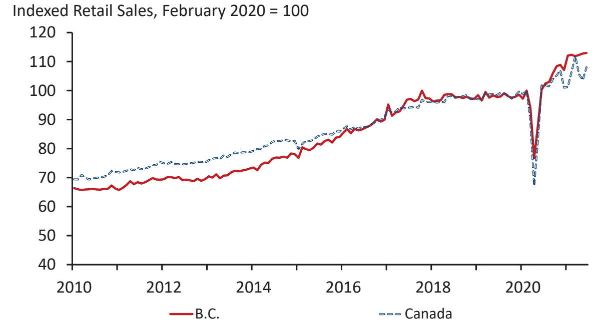
- B.C. retail sales edge up 0.2 per cent to record high
- MLS® sales fall 2.5 per cent in July but remain elevated, prices hold firm
- Housing starts trending at a record pace through July
- Inflationary pressures increase on energy prices and housing
- Manufacturing sales bump higher

B.C. retail spending edges up in June; recovery remains strongest among large provinces

Retail spending in B.C. continued its steady march higher through June as sales rose 0.2 per cent from May to a new record high of $8.29 billion (seasonally-adjusted). Metro Vancouver led the provincial increase with a 1.6 per cent gain. While B.C.'s increase fell well below the national increase of 4.2 per cent, the latter reflected a rebound following third wave restriction induced declines the prior two months. Specifically, Ontario sales rose nearly 10 per cent and contributed more than three quarters of the national monthly increase.

More telling is B.C.'s performance relative to pre-pandemic levels. Sales are up 13 per cent from February 2020 which is strongest among Canada's large provinces and trails only Nova Scotia and Prince Edward Island. Metro Vancouver sales were 18 per cent above February 2020. Nationally, sales were eight per cent higher. This reflects less restrictive health orders on B.C. retailers compared to some provincial peers, and ancillary sales from the hot housing market.

B.C. retail spending continues positive momentum with record June sales



Source: Statistics Canada, Central 1 latest: June 2021

A scan of June sales points to mixed patterns in sales. Our calculation of seasonally- adjusted activity pointed to ongoing rebounds in clothing sales amidst re-openings (up 13 per cent); higher furniture sales (up six per cent), although higher prices likely factored into this (see CPI inflation); and flat motor vehicle sales. In contrast, sales eased for electronics and appliances and building materials. This reflects shifting trends as the pandemic matures and work from home slowly abates.

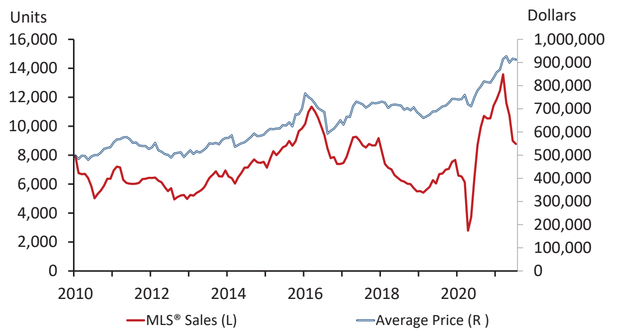
Through the first six months, sales rose nearly 22 per cent from a year ago, although early pandemic declines contributed to the outside year-over-year gain. While losing steam, retail segments such as building materials, electronics and appliances, and motor vehicle sales trend well above pre-pandemic levels reflecting remote work, housing market strength and fears related to public transit. Clothing sales have now narrowed the gap, and food and beverage sales are trending back towards pre-pandemic levels.

Re-openings likely tempered gains in retail spending in July. The national flash estimate for July is for a 1.7 per cent decline. Spending will move away from retail stores and towards food services, tourism and other social interactions. That said, further improvement in the economy and an expected rebound in immigration will support medium term spending.

Housing continues deceleration, prices remain firm

B.C. home sales decelerated for a fourth straight month in July to extend the normalization trend after an unsustainably strong pace of activity earlier this year. Seasonally- adjusted sales declined 2.5 per cent from June to 8,773 units and marked a 35 per cent decline from the March peak. That said, levels remain elevated. While unadjusted sales fell seven per cent from a year ago, sales were still 20 per cent above the July average from 2010 through 2019 and second highest since 2016.

B.C. home sales slide, average price remains firm

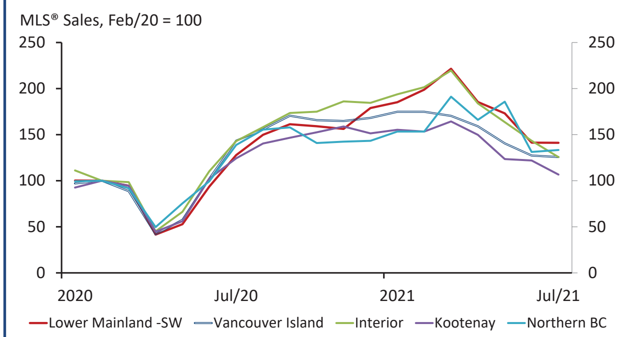


Source: CREA, Central 1 latest: July 2021

Slowing sales flow reflects a combination of factors. While mortgage rates remain highly supportive of market activity, pandemic shifting of consumer demand for more space and the romanticized shift of the population towards smaller urban area living are waning, while affordability erosions from a surge in prices has likely exhausted buyers. Rollback of public health measures also has more households concentrating on summer activities rather than real estate.

July's sales decline was uneven across the province. The steepest declines came in the central and southern interior where Okanagan area sales fell 16 per cent and 12.5 per cent in the Kootenay. Adding to broader trends, wildfire activity may also have factored into lower activity levels. Sales declined 4.6 per cent on Vancouver Island (excluding Victoria), and 8.8 per cent in Chilliwack. Rollbacks from peak 2021 sales levels were substantial and led by declines of 30 per cent or more in nearly all regional markets.

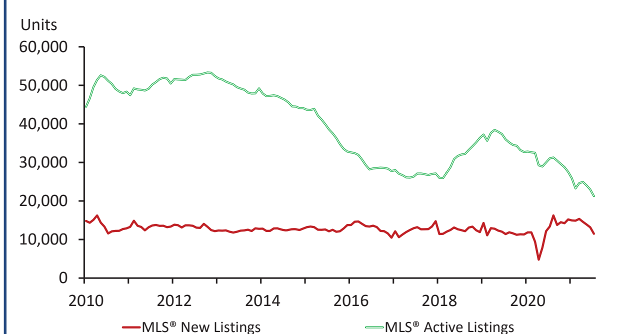
Declining sales patterns consistent across B.C.



Source: CREA, Central 1 latest: July 2021

While sales declined, price levels remained firm as supply of homes for sale declined sharply. Seasonally- adjusted new listings fell 13 per cent to the lowest level since May of last year with steep declines in most areas of the province. Month- end inventory fell for a third month and was 30 per cent lower than a year ago, contributing to persistence of sellers' conditions. The sales-to-active listings ratio remained near 40 per cent which is well into sellers' market territory. The average price was steady at $912,567, although changes in the composition of home types sold and regional sales share influence this value.

Tight market conditions persist as housing inventory declines with sales activity



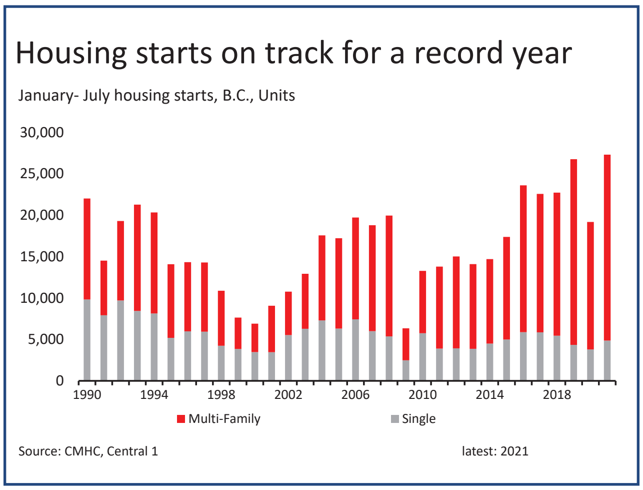
Source: CREA, BCREA, Central 1 latest: July 2021

Benchmark home values continued to rise, led by a 2.5 per cent Vancouver Island gain (excluding Victoria), while Victoria and the Thompson-Okanagan recorded month-to-month growth of 1-2 per cent. The Lower Mainland gained 0.6 per cent. Year-over-year, benchmark gains have ranged from 20-30 per cent in the Interior and Island, and 17 per cent in the Lower Mainland and Victoria.

Sales and price growth is expected to ease, reflecting a normalization of the pandemic economy. However, low inventory remains a key support for prices. High performing smaller markets are at a greater risk of pullback, but this depends on the future of remote work, while large urban areas should see a boost to condo markets as immigration picks up.

B.C. housing starts trending towards record year

Housing construction trends continued to sizzle in July despite taking a step back after a strong June gain. The latest CMHC estimate of housing starts in B.C.'s urban areas reached 4,028 units, marking a 22 per cent year-over-year increase. At a seasonally-adjusted annualized pace, this represented a rate of 47,200 units. This was down from nearly 62,000 units in June, but about 30 per cent above the trend in 2020 through early 2021.

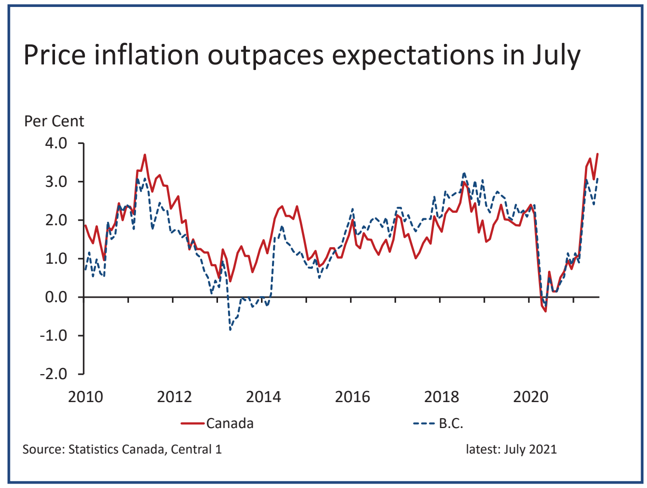


Year-to-date, starts rose 42 per cent through July and were led by a 46 per cent increase in multi- family starts, while detached homes came in at a robust 28 per cent. Through seven months, total urban area starts are already 85 per cent of 2020's full year figure. Strong pandemic era housing demand has propelled new home construction in both large and small urban areas. Robust resale demand and pre-sale activity has pushed multi-family projects forward into construction stage.

Among the largest urban areas, Metro Vancouver starts rose 47 per cent, representing nearly 70 per cent of the provincial gain. Meanwhile, Victoria starts jumped 30 per cent, and Kelowna rose 21 per cent. Abbotsford- Mission starts fell 15 per cent.

While housing starts are anticipated to ease, annual starts are expected to come in 25 per cent higher than recorded in 2020 and exceed the previous record high in 2019. This will maintain record levels of units under construction in the province and continue to fuel related employment. In July, there were 63,000 units at various stages of construction in B.C.'s larger urban areas (50,000+ population).

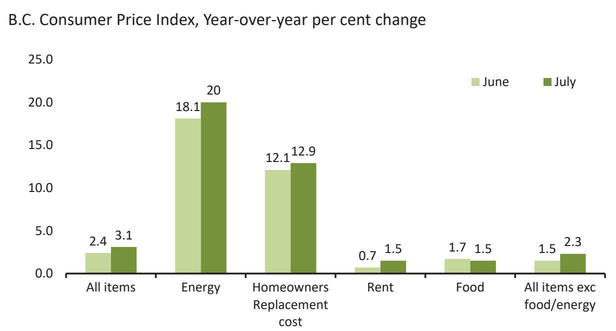
B.C. CPI inflation exceeds three per cent in July



Consistent with the national story, headline consumer price inflation in B.C. surged in July. The consumer price index (CPI) rose 3.1 per cent on a 12- month basis compared to 2.4 per cent in June, marking the strongest print since July 2018. B.C. and Metro Vancouver rates were nearly identical. While base-year factors of early pandemic price decline continue to contribute to stronger year-over-year gains and two-year inflation remained low at annualized 1.6 per cent, momentum has picked up sharply. Prices surged 0.7 per cent from June. June to July growth averages about 0.2 per cent. Over the last six months prices are trending at a four per cent annualized rate as house-holds have seen their wallets pinched.

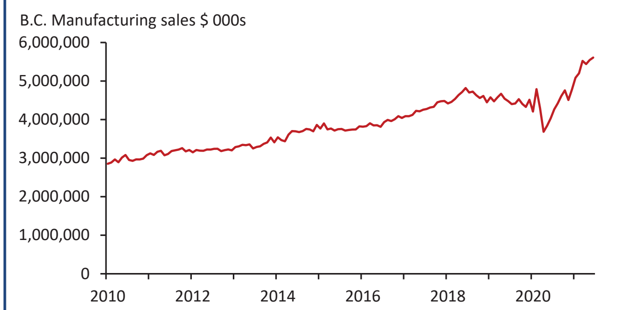
The latest headline inflation reading was boosted by a sharp increase in gasoline prices which rose 6.5 per cent from June, while year-over-year growth increased from 25.5 per cent in June to 29 per cent in July on firm oil prices and domestic tourism demand. Mean-while, shelter costs increased from 5.1 per cent to 5.5 per cent lifting overall inflation and further amplified by increased weight in the CPI since June. While rental costs remained modest at 1.6 per cent year-over-year (but up from 0.9 per cent in June) due to pandemic

Energy and housing lift headline inflation



Source: Statistics Canada, Central 1 latest: July 2021

Manufacturing production climbs to fresh high



Source: Statistics Canada, Central 1 latest: June 2021

rent controls and temporarily weaker demand, owned accommodations are up 6.5 per cent. The latter is due to high replacement costs (up 13 per cent), which reflects surging new home construction prices. Clothing and footwear costs are on the rise as life gets back to normal (up 3.6 per cent), and furniture costs (up 9 per cent) have surged due to limited supply and tariffs. On the bright side, prices for food have held steady at 1.5 per cent above year ago levels despite rising restaurant prices.

Going forward, households will likely see less pressure from higher energy prices. However, rent is likely to rise as demand increases as immigration picks up and demand from students rises, while temporary rent freezes end. Meanwhile, pandemic re-opening will continue to lead to repricing of airline tickets and hospitality prices.

Factory sales bump higher in June to a new record high

Manufacturing sales in B.C. rose again in June to extend the stellar pace of momentum observed since mid-2020. Factory sales rose 1.2 per cent to a record high $5.61 billion (seasonally- adjusted). Year-over-year sales growth reached a whopping 39 per cent, and while base year effects of an early pandemic contraction contributed, levels exceeded pre- pandemic February 2020 by 17 per cent.

The latest monthly advance was driven by increased durable goods production which rose 1.4 per cent but unlike recent quarters, growth reflected increases outside the wood products sector which decreased 1.5 per cent from May. Aligned with export patterns, growth was led by primary metals (up 11.4 per cent) and fabricated metals (up 8.8 per cent). Among non-durable goods (up 0.8 per cent), gains were led by paper production (up 4.7 per cent).

That said, the upswing over the past year continues to reflect sales of wood products (particularly lumber) which rose 120 per cent year-over-year and contributed about 60 per cent of the net increase. Soaring lumber prices were a key contributor, but a sharp correction in recent months will curtail sales going forward. Primary metals rose 42 per cent and represented about six per cent of growth, while a 53 per cent increase in paper sales contributed 10 per cent.

Year-to-date, total sales rose 31 per cent with Metro Vancouver up a shallower 17 per cent, reflecting the importance of resource sectors in the interior B.C. markets.

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