Economics | Current Economic Trends

B.C. Economic Briefing

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Highlights

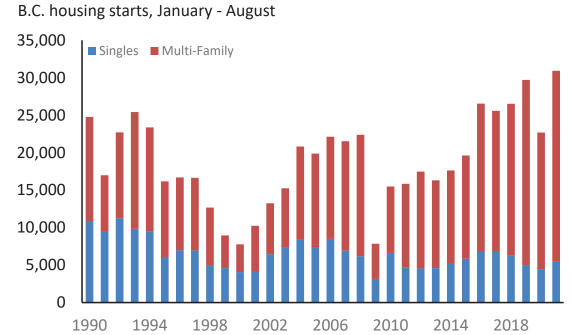
- Housing starts ease in August but tracking a record annual pace
- Resale homes market activity rebounds in August after four-month slide
- Despite increase in new listings, average home price climbed 1.5 per cent
- CPI inflation jumps to 3.5 per cent
- Swooning forestry sectors cuts into July manufacturing sales

New home construction maintains strong momentum in August

Bryan Yu, Chief Economist

British Columbia housing starts remained robust in August despite pulling back from stellar performances in both June and July. Urban area housing starts reached a seasonally adjusted annualized pace of 42,875 units according to the latest data from Canada Mortgage Housing and Corporation (CMHC). While down 9.1 per cent from July's pace of 47,170 units, levels were slightly higher than August 2020. Unsurprisingly, August's pullback reflected declines in the highly volatile multi-family sector as detached housing starts were unchanged. Housing starts are typically volatile due to impacts of large scale townhome and apartment projects.

Urban B.C. housing starts on track for record performance



Source: Statistics Canada, Central 1 latest: Aug/2021

August's decline owed largely to a nine per cent decline in the Vancouver Census Metropolitan Area (CMA) which is unsurprising given the dominance of multi-family construction in the region. Impacts from other metros on headline numbers were nominal given relative size of markets, but Abbotsford- Mission starts rebounded. Starts in smaller urban areas fell dramatically by 20 per cent which may have been due to wildfires throughout the province. Elevated costs of construction could also have affected start dates.

Despite the decline, housing starts have been stellar in 2021. Year-to-date activity rose 36 per cent through the first eight months of the year. While partly reflective of a soft 2020 performance, this was the strongest start to the year on record and was further amplified by stronger rural area activity. Detached starts in urban areas rose 25 per cent, with multi-family starts up nearly 40 per cent.

Growth was broad among metro areas with Vancouver CMA starts up 34 per cent, Victoria up 43 per cent, and Kelowna up 33 per cent through August. Abbotsford-Mission starts fell 22 per cent. Smaller urban markets on net contributed to higher starts with growth of more than 40 per cent. Broad growth reflects a combination of factors including low interest rates and pandemic drivers such as remote work and early retirements. Demand for recreational properties likely fueled a movement of individuals away from the large and expensive urban cores into already undersupplied suburban and smaller urban areas.

These factors have led to a boom in construction across the province as builders struggle to meet the sharp upturn in demand. Units under construction are trending at a record high with more than 65,000 units currently being built, and buildout times are being lengthened.

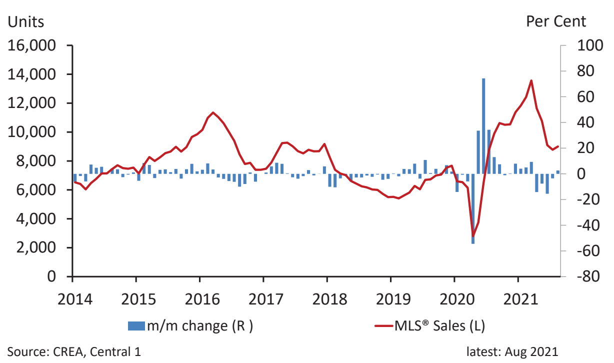
Going forward, demand may start to ease as the pandemic wanes and resale demand cools but housing construction is likely to remain steady given insufficient resale market inventory. Immigration is also set to pick up which will further support demand.

B.C. resale homes market turns around in August

Edgard Navarrete, Regional Economist

In contrast to other Canadian regions, British Columbia's slide in resale activity paused in August following four months of decline according to Canadian Real Estate Association (CREA) data. Sales moved up 2.6 per cent and new listings increased by 7.3 per cent. While home sales are down 35 per cent from the March peak, levels remain elevated. Sales in July and August 2021 were on average 35.6 per cent higher then the summer of 2018 and 39.5 per cent higher than July-August 2019. Low mortgage rates and pandemic demand factors are the cause for this sizeable gap.

Existing home sales rise following four-month decline



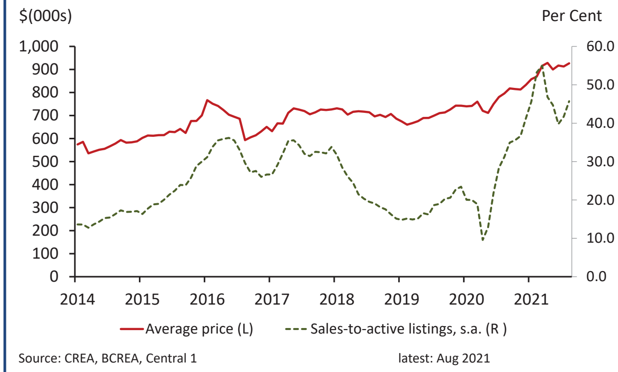
The increased supply in the market provided some much-needed options for buyers but month-end active listings continued to fall contributing to persistence of tight market conditions throughout the province. The sales-to-active listing ratio came in above 40 per cent which points to a sellers' market.

The average price climbed 1.5 per cent in August moving up to $926,643 which was just shy of April's high.

The Canadian Real Estate Association (CREA) surveys sales activity in 12 regions of British Columbia. In August sales moved up 2.6 per cent with sales up in all but four regions:

- Greater Vancouver (down 0.5 per cent)
- Kamloops (down 11.4 per cent)
- Powell River (down 18.2 per cent)
- Vancouver Island (down 4.6 per cent)

Average price edges higher in August, market still favours sellers



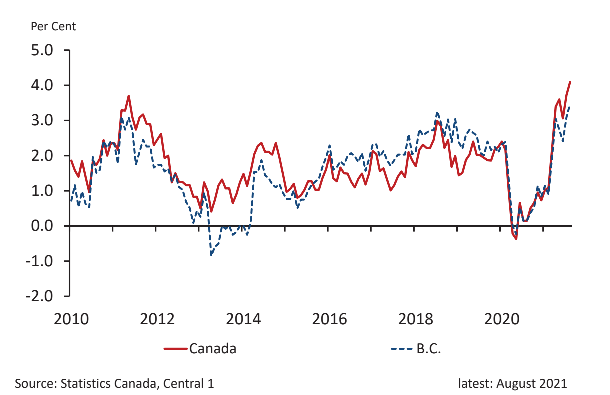
Average price growth among regions was mixed due in part to shifting sales composition. CREA publishes a composite, constant-quality, housing price index (HPI) each month for five regions. Patterns were generally robust, with growth in Fraser Valley (up 1.9 per cent), Okanagan Valley (up 2.2 per cent), and Victoria (up 1.9 per cent). The rate of growth of the HPI in Greater Vancouver remained unchanged at 0.4 per cent in August while the rate of growth of the HPI in Vancouver Island slowed down in August from 2.2 in July to 1.8 per cent in August.

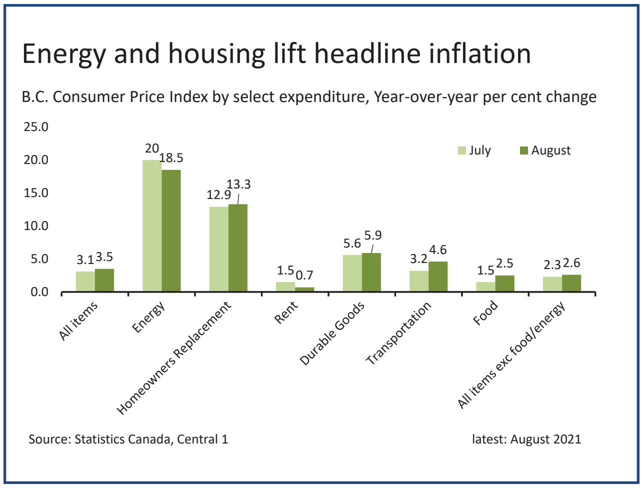
B.C. consumer price inflation climbs to 3.5 per cent

Ivy Ruan, Economic Research Associate

Similar to the national picture, B.C. price inflation surged in August. Headline growth in the consumer price index (CPI) in B.C. came in at 3.5 per cent year-over-year, up from 3.1 per cent in July. Despite the increase, this was lower than the national rate of 4.1 per cent. On a monthly basis, the headline CPI rose for the sixth consecutive month, up by 0.2 per cent from July.

Price inflation accelerates in August





A wide range of factors are driving inflation including supply chain disruptions, higher energy prices, rising home values, and re-opening activities. Some of these will prove to be more persistent than others.

Headline inflation was led by gasoline prices, which were up 28.3 per cent in August and contributed to broader growth in transportation costs (up 4.6 per cent). Public transportation costs rose 10.3 per cent due in part to fare hikes in Metro Vancouver, while the cost for private transportation rose 4.4 per cent.

Effects of supply chain disruptions were evident as micro-chip shortages and broad freight delays flowed into prices. Durable goods prices rose 5.9 per cent as vehicle prices accelerated (6.9 per cent) among other goods. While likely to persist longer than hoped, growth is expected to temper as supply chain disruptions stabilize. Meanwhile, a broader relaxation of health measures across provinces and opening of borders to U.S. travelers contributed to a lift in tourism while schools geared up for in-person learning, contributing to higher transportation and traveler accommodation prices. Traveler accommodation price growth in B.C. was highest among provinces at 26.9 per cent.

Shelter costs (up 5.5 per cent) remained one of the main factors contributing to the provincial inflation compared to August 2020. Homeowner's replacement cost index rose 0.7 per cent from last month, and 13.3 per cent more compared to a year ago. Growing demand and construction costs continued to drive the price inflation in the housing market. Rental costs stayed relatively consistent with a year ago (0.7 per cent increase), and the rental index dropped by 0.7 per cent from last month. Upward pressure in home prices will continue to lift shelter costs, while flat rental costs will likely give way to increases as policies to freeze rent during the pandemic end. However, this will be constrained by a maximum allowable rent increase of 1.4 per cent.

Large drop in sales of durable goods dampens overall manufacturing sales by 8.6 per cent in July

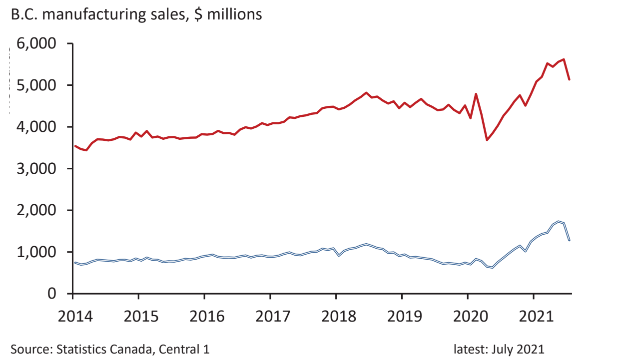
Edgard Navarrete, Regional Economist

British Columbia's manufacturing sector has, for most of 2021, outperformed other large provinces and rose sharply above pre-pandemic trends on the strength of resources related activity. That said, the trend has sharply reversed with sales down 8.6 per cent in July to $5.1 billion on a sizeable contraction in durable goods sales (down 14.0 per cent) and a slight recoil in non-durable goods sales (down 0.5 per cent).

This is not surprising as lumber prices have corrected sharply after more than doubling since the beginning of the pandemic. Since a May peak, price levels have declined nearly 28 per cent, and some mills have announced curtailments due to a rapid shift in market conditions. Wood product sales fell 24.1 per cent in July to the lowest level since December. Other key drags were paper, and primary and fabricated metal products. Sales fell in nine of 21 industry sectors.

Food manufacturing (up 2.0 per cent) and transportation equipment manufacturing (up 22.6 per cent) were two bright spots in July out of B.C.'s major manufacturing areas.

Manufacturing sales pull back as wood product prices retreat



Despite this downshift in production in July, as noted earlier, B.C.'s manufacturing sector has been doing well and over the first seven months of 2021 overall manufacturing sales remained 29.0 per cent ahead of last year's pace with both durables (up 36.3 per cent) and non-durables (up 19.9 per cent) significantly ahead. This is likely to narrow further in the back half of the year.

Given the drivers of the decline (lumber and paper and fabricated machinery), it is not surprising that sales declined nearly 16 per cent outside Metro Vancouver, while they were down just 0.2 per cent within the region. Year-to-date, sales in Vancouver remained 16.4 per cent ahead of last year's pace and in the rest of B.C. excluding the Vancouver metro area sales remained 43.2 per cent ahead of last year's pace.

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