Economics | Current Economic Trends

B.C. Economic Briefing

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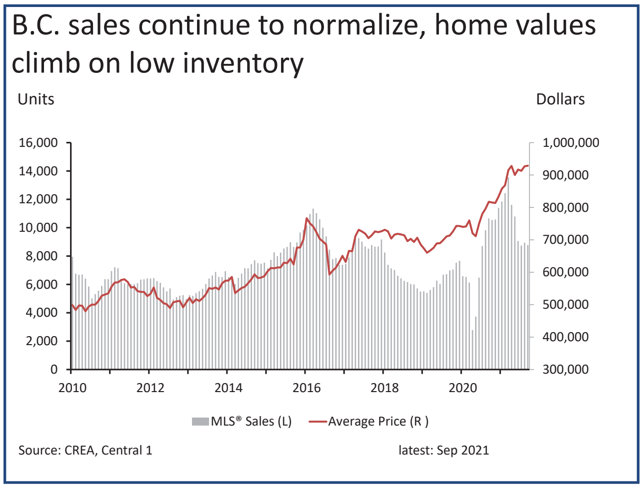
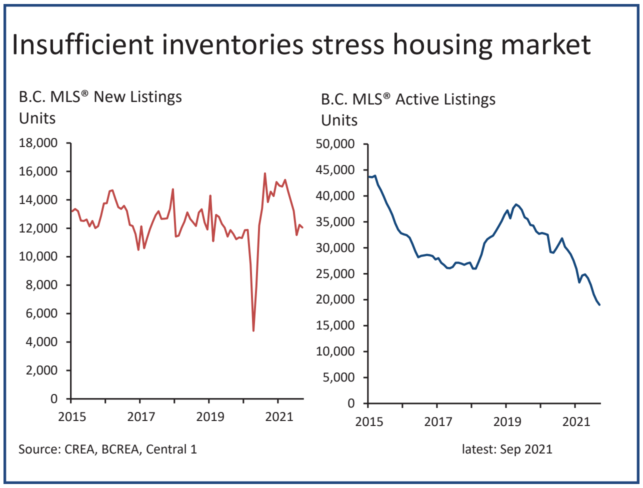
Economics

Highlights

- B.C.'s undersupplied housing market to potentially re-ignite price growth through the winter months;
- Investor demand is likely percolating amidst return of students, travel and an expected surge in immigration;
- Manufacturing sales fell to $4.95 billion; first time since December 2020 that sales fell below the $5.0 billion mark;
- Residential investment in building up sharply in 2021, higher costs play a significant role.





Home sales slip in September but constrained by low inventories as prices reignite

Bryan Yu, Chief Economist

B.C.'s existing home market recorded fewer sales in September after an August uptick, but the key theme remains a severely undersupplied market that could re-ignite price growth through the winter months. Total MLS® sales slipped 1.9 per cent from August to a seasonally- adjusted 8,783 units. While down more than from the record high in March and down 19 per cent on an unadjusted basis from September 2020, this largely reflect high base period effects. In a comparison to pre-pandemic years, sales were up 32 per cent from 2019, and almost identical to the previous record set in 2005.

Among regional markets, MLS® sales in the Lower Mainland -Southwest and Northern B.C. fell more sharply by four per cent. Meanwhile, sales in the interior and Vancouver Island both gained more than two per cent.

While sales normalization continues, demand remains robust, driven by low mortgage rates, while persistence of remote work options is triggering continued demand for homes in suburban markets and smaller urban and rural areas. Investor demand is likely percolating amidst the return of students, travel and expected surge in immigration. Sales are still 26 per cent above February 2020, led by the Lower Mainland- Southwest and Vancouver Island. If anything, sales are being constrained by insufficient inventory as buyers scramble for the scraps, and indirectly as rising prices push more prospective buyers out of the market.

New listings fell 1.6 per cent on a seasonally- adjusted basis. Same-month listings were down 21 per cent from 2020 and while similar to 2019, standing inventory has plunged. Active listings are at the lowest level going back to at least 2000 in the province, and down 36 per cent year-over-year. Sales-to-active listing ratios rose in most regions during September and remains square in sellers' market territory. The hottest markets are the Fraser Valley and Vancouver Island.

The average price rose a mild 0.2 per cent from August to $928,688 but this largely reflects sales declines in higher priced markets. Year-over-year growth came in at 13.8 per cent. More telling is strong growth in the MLS® housing price index where growth accelerated. Month-to-month growth in the Lower Mainland increased 1.8 per cent, while Vancouver Island prices were robust at 1.6 per cent. The Okanagan also increased but at a more moderate pace of 0.5 per cent.

With demand remaining relatively elevated, low inventory will continue to put upward pressure on prices in the winter months. The market requires a significant boost in supply and a decline in sales flow to rebalance. At the current pace of sales, active listings would need to rise by 10,000 units or one third to re-balance.

Weaker wood product prices slows production and pulls down overall manufacturing sector revenues in August

Edgard Navarrete, Regional Economist

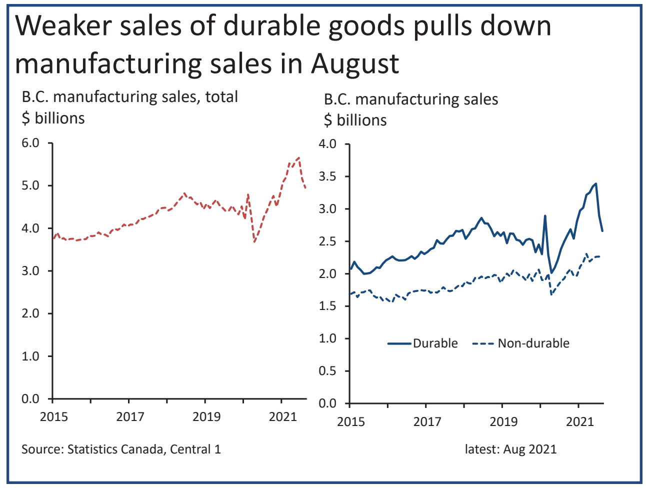
Manufacturing sales in British Columbia (B.C.) fell for the second consecutive month in August sliding an additional 4.1 per cent adding to an 8.6 per cent slide in July. At $4.95 billion, this marked the first time since December that sales fell below the $5.0 billion mark. While non-durable sales picked up in August (moving up 1.3 per cent) sales on durable goods continued to slide (down an additional 8.3 per cent).

Despite a broader pinch from global supply chain disruptions, British Columbia's manufacturing sector is much healthier than other large provinces of Canada. Manufacturing activity in 2021 thus far is still significantly higher than the activity in each year from 2017 to 2020.

Year-to-date, manufacturing sales in B.C. are ahead of last year's pace by 27.0 per cent while durable sales are up 32.5 per cent and non-durable sales are up 20.1 per cent.

Of the 21 sectors surveyed each month, manufacturing activity fell in nine, including large areas such as:

- Food (down 0.8 per cent)
- Chemicals (down 2.5 per cent)
- Wood products (down 18.1 per cent)
- Fabricated metals (down 4.4 per cent)
- Transportation equipment (down 3.2 per cent)



This was only partially offset by growth in areas such as:

- Paper (up 6.1 per cent)
- Primary metals (up 0.9 per cent)
- Machinery (up 5.3 per cent)

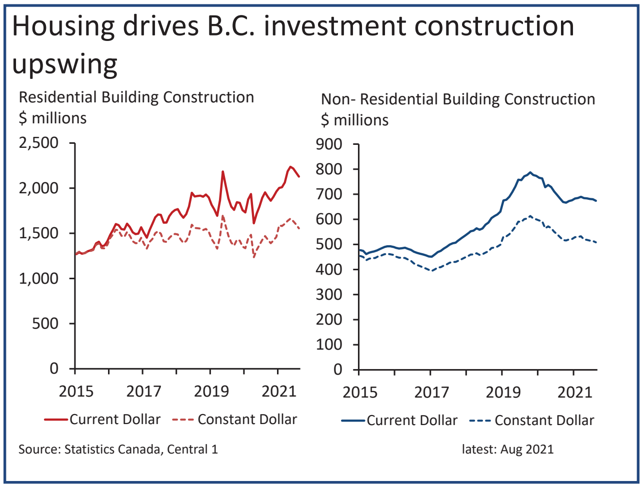
Mills continue to curtail production on lower market prices. Transportation equipment manufacturing continues to be held back by ongoing supply chain shortages for key components. Food manufacturing is affected by global issues affecting harvests even as demand from the local hospitality sector picks up.

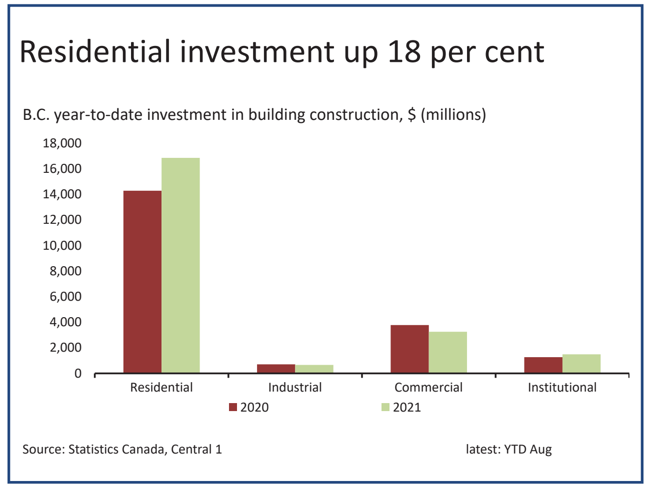
Sales in the Vancouver metro area increased 2.2 per cent in August only to be offset by much weaker manufacturing sales in the rest of the province excluding Vancouver (down 10.6 per cent). The dip in sales in the rest of the province excluding Vancouver was the second consecutive month of double-digit contraction reflecting the pullback in lumber activity.

Residential investment in building up sharply in 2021, higher costs play a significant role

Bryan Yu, Chief Economist

B.C.'s construction sector remained a key driver of the economic recovery into August. Investment in building construction reached a seasonally- adjusted $2.8 billion which reflects spending on work-in-place activity of new and renovation projects. This marked a 6.3 per cent increase from same-month 2020, while adjusted for construction costs, activity rose 3.2 per cent. Consistent with building permits and housing starts trends, growth largely reflects the booming housing market while non-residential constructed wilted during





the pandemic. The latter does not include transportation infrastructure or other engineering projects. Current- dollar residential investment rose nine per cent year-over-year and non- residential activity fell 1.3 per cent.

While year-over-year growth has narrowed, year-to-date investment activity through August rose 11.1 per cent, owing largely to construction costs. Real construction activity rose 4.2 per cent.

Residential activity was up 18 per cent with roughly half due to prices. Metro Vancouver construction rose 1.5 per cent, with gains much stronger in Kelowna (up 74 per cent), and Victoria (up 47 per cent). That said, roughly half of the increase came outside the large metro markets as housing demand surged among smaller urban and rural markets.

In contrast, B.C. non-residential volume fell six per cent. A 17 per cent increase in public sector projects, buoyed by schools and hospitals, was insufficient to declines in industrial and commercial projects.

Going forward, housing will remain a solid driver of construction investment with housing starts forecast to average 47,000 units this year and average 44,000 units in 2022 and 2023. A rebound in private sector investment will further contribute to growth as the pandemic wanes and business look toward expansion and press re-start on paused projects.

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