Economics | Current Economic Trends

B.C. Economic Briefing

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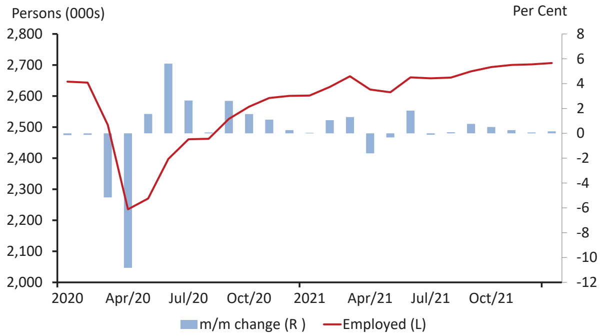
central 1 Economics

Highlights

- B.C. labour market kept positive momentum in January, seeing the sixth consecutive month of gains
- Total building permits level was 2.7 per cent down from last month, but 23.2 per cent higher than December 2020
- Home prices continued to surge through January in the Lower Mainland

B.C. employment edges up in January, bucks national pattern



Source: Statistics Canada, Central 1 Latest: Jan/22

Despite Omicron wave, B.C. labour market remains firm in January

Bryan Yu, Chief Economist

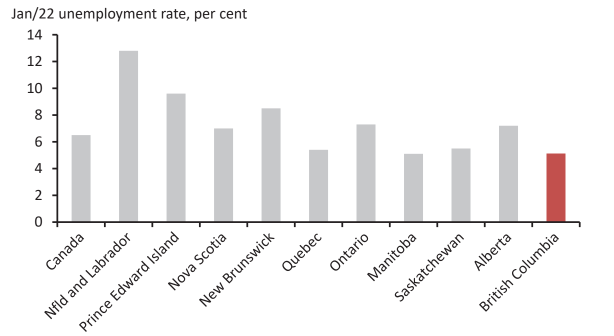
B.C.'s labour market remained surprisingly firm in January, contrasting with sharp employment declines observed in central and eastern Canada. Provincial employment edged higher by 4,200 persons or 0.2 per cent from December. This compared to a 1.0 per cent loss nationwide. While B.C.'s gain was statistically insignificant, this marked a sixth straight month of gains. Employment was 2.4 per cent above pre-pandemic levels and the strongest rebound among provinces.

The increase occurred despite tougher public health measures enacted during the second half of December to stem the spread of Omicron. That said, B.C. health measures have been milder than some of its provincial peers, allowing restaurants to remain open and events to operate, albeit at lower capacity. This lighter touch has been a key theme through much of the pandemic. That said, while overall employment increased, loss in full- time jobs (-19.5k or 0.9 per cent) points to a reduction in hours per worker as employers held onto workers in a tight labour market. Self-employment rose two per cent, while private-sector paid employment held flat. Public-sector employment declined one per cent.

Metro Vancouver lagged the provincial performance in January as employment fell 12,800 persons or 0.8 per cent.

Industry-data pointed to further expansion in the services-oriented sector, contrasting with national patterns. Services added 7,000 jobs (0.3 per cent). This was led by stronger growth in wholesale and retail trade which rose by 9,400 persons. Finance/insurance/real estate continued to expand on housing market strength. Restriction-sensitive sector employment fell but at a mild pace.

Unemployment rate among lowest in country



Source: Statistics Canada, Central 1 Latest: Jan/22

Accommodations/foodservices and information/culture/recreation edged down slightly by 0.4 per cent (about 700 persons each), although the other private services group fell by a more significant 2,900 persons or 2.7 per cent. Sectors supporting building services fell by 5,500 persons (5.5 per cent), reflecting a pause in return to offices. Goods-sector employment underperformed as fewer people were employed in agriculture (-13 per cent), suggesting an impact of flooding on activity, and construction (-0.9 per cent).

The unemployment rate fell from 5.4 per cent to 5.1 per cent, which was the lowest among provinces and marked the first dip below the level observed in February 2020. Other measures of labour market recovery including the employed-to-working age population and labour force-to-working age ratios have also fully recovered.

January's performance bodes well for the ongoing recovery post-Omicron. A tight labour market in the province means firms are holding on to employees amidst short- term shocks rather than lose employees to other sectors/firms. A broader recovery in the national economy will further promote demand in coming months, while wages will likely increase. Longer-term rising immigration provides some outlet for labour market tightness.

December building permits decline in December, but post strong annual gain

Ivy Ruan, Economics Research Associate

B.C. construction intentions fell 2.7 per cent in December to a seasonally-adjusted $1.86 billion after three months of robust gains. A rebound in non-residential activity was insufficient to offset residential declines. That said, total permits exceeded December 2020 levels by 23.2 per cent.

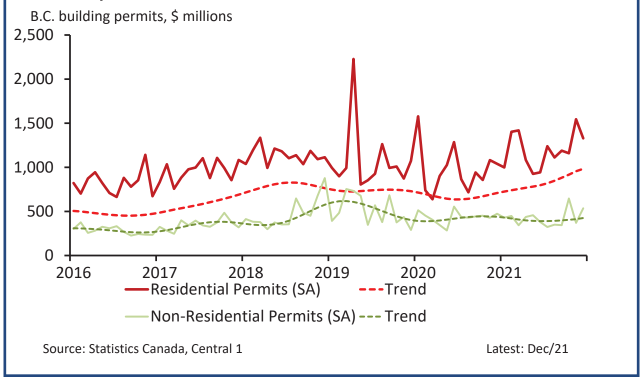
Lower total permits were led entirely by falling multi-family residential construction permits (20.3 per cent) in December. Intentions fell back after strong prior month performances in Metro Vancouver and Victoria. Regions like Abbotsford-Mission and Kelowna, which reported declines in residential permits the previous month, rebounded. Abbotsford-Mission more than tripled growth in its residential permits, despite flood disruptions. Multi-family activity also saw faster growth in Kelowna (175.1 per cent). Total residential permits fell 14 per cent from November but were nearly 28 per cent higher than a year ago.

Non-residential permits continued its see-saw pattern again in December with permits up 45 per cent to a robust $535.4 million. Government's construction intentions (83.4 per cent) led the increase compared to industrial (5.6 per cent) and commercial activities (43.7 per cent).

In 2021, total permits rose 16.1 per cent led by a 23.9 per cent increase in residential permits. Non-residential permits fell 1.4 per cent, driven entirely by decline in government activity (10.9 per cent). Industrial permits rose 3.7 per cent in 2021.

Among metro areas, all regions saw an increase in their total permits in 2021. Metro Vancouver had the lowest total growth of 1.2 per cent as non-residential permits fell 5.9 per cent. Kelowna reported the highest growth of 104.8 per cent in total permits, driven by both residential (125.7 per cent) and non-residential (47.9 per cent) activities. Residential permits in Victoria and Abbotsford-Mission rose 42.3 per cent and 26.4 per cent respectively, driven by residential volume.

A rebound in non- residential activity was insufficient to offset retrenchment in residential activity



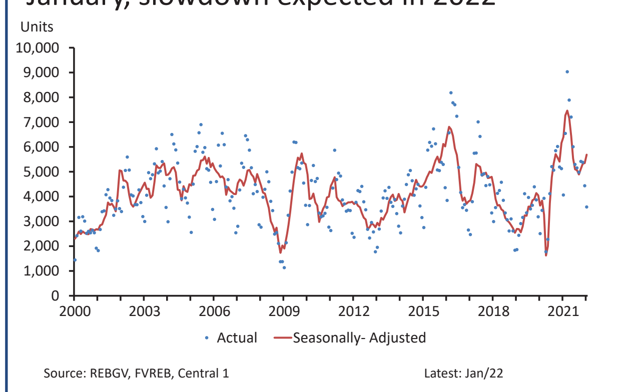
Lower Mainland home values surge in January on robust demand

Bryan Yu, Chief Economist

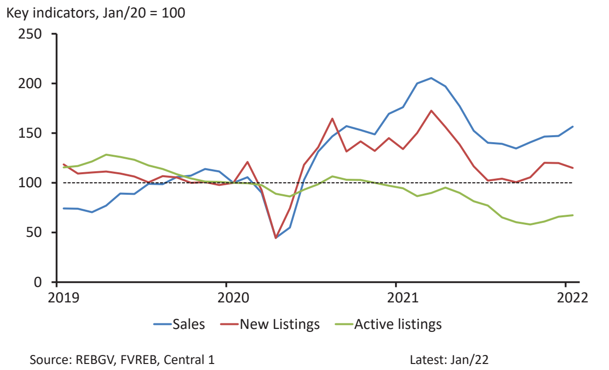
Home prices continued to explode through January in the Lower Mainland as prospective buyers remained in a frenzy to secure properties in advance of expected hikes to interests and mortgage rates and scant availability of inventory. The average home price soared to a record high of $1.26 million.

MLS® home sales in Metro Vancouver and Abbotsford- Mission (Lower Mainland) reached 3,578 units in January. While outdone by last year's record high, demand remained exceptionally strong, outpacing the 10-year January average by 38 per cent. The trend has picked up since August after declining from the Spring 2021 peak, and we calculate a six per cent seasonally-adjusted gain from December. Despite the alarm of affordability erosion from rapid pandemic price gains, sales have been lifted by high pandemic-era savings, increased demand for space, ultra-low variable interest rates, and speculative demand. The latter reflects not only investors who are making up a greater share of the market, but also by end-use buyers in fear of being priced out of the market and rushing to lock in existing rate commitments.

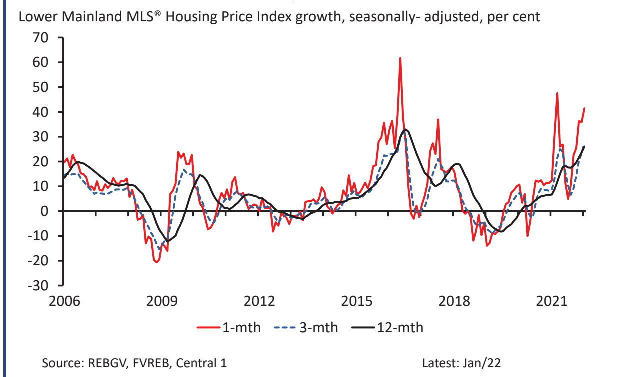
Lower mainland home sales robust through January, slowdown expected in 2022



Low inventories driven by excess demand



Price growth accelerates in January, buyers should tread carefully

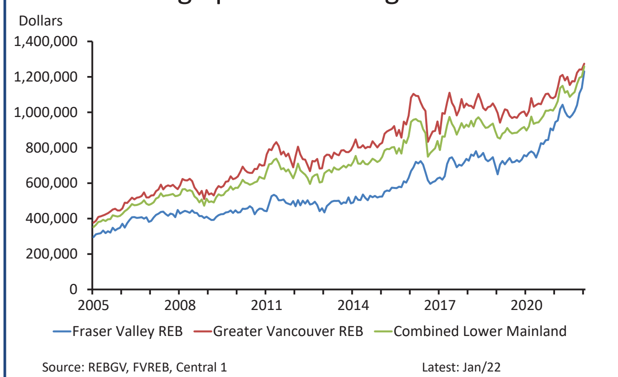


Elevated demand continued to contribute to tight market conditions. While new listing flows are , if not above pre-pandemic trends, and the level of inventory edged higher in January, active listings were still 38 per cent below year-ago levels and trending near record lows. The sales-to-active listings ratio edged lower to 45 per cent from above 60 per cent in December but remained firmly in sellers' market conditions.

With imbalanced market conditions, buyers shot for the moon with their bids. The average price jumped nearly five per cent to $1.26 million, while the quality-adjusted Housing Price Index (HPI) increased three per cent with a 12-month gain of 25.6 per cent. More alarming at this stage in the housing cycle is the accelerated pace at which growth has emerged with the three-month growth at an annualized 27 per cent and the 1-month gain at more than 40 per cent.

Ground-oriented dwellings continued to lead price growth with the HPI up 3.4 per cent month-to-month and 31 per cent year-over-year to $1.8 million; townhomes rose 3.3 and 30 per cent to $943,900. Apartments "lagged" with a 2.6 per cent monthly gain and 18 per cent year-over-year to $789,400. Ongoing affordability erosion will further rotate demand for apartment condominiums. This trend in particular is contributing to robust price growth outside core Vancouver markets as demand has rippled out in search of space. The average price in the Fraser Valley Real Estate Board area is within earshot of the large Real Estate Board of Greater Vancouver.

Average price exceeds $1.2 million, real estate board average prices converge



At this stage of the cycle and home price growth, buyers may wish to tread carefully and refrain from being caught up in the market euphoria as risks of a material correction have increased. Fixed rates have already returned to pre-pandemic levels, and variable rates will likely increase at a quick pace as the Bank of Canada tightens further cutting into purchasing power. Buyers are now internalizing the bulk of pandemic price gains at this stage. Signs that a move to an endemic phase of the economy also points to some normalization in savings rates as consumers spend more on services, commuting and travel, pulling share of income that can be reasonably applied to housing and prospective down payment. A slowing of demand will, by extension, allow inventory to rebuild and move to rebalance the market.

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