

**Highlights**

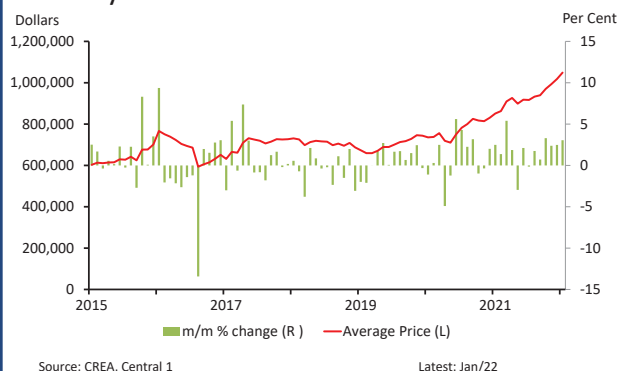
- Housing affordability hammered as prices continue ascent
- Housing starts pull back in January
- Omicron curtails retail spending in December
- Manufacturing sales increased December after a small decrease in November
- Headline inflation in B.C. now on an eight-month continuous climb

**Home prices spiral higher in January, buyers beware***Bryan Yu, Chief Economist*

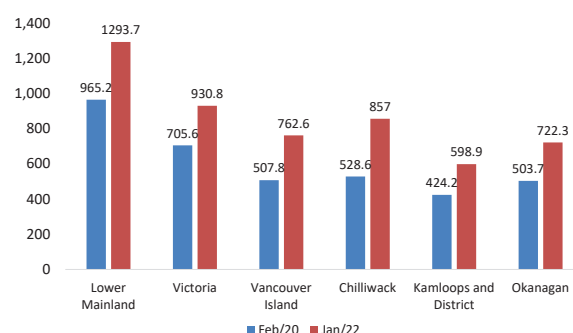
Home prices continued to spiral higher in January as overzealous buyers and a low supply environment drove further gains. The average MLS® price in B.C. shot up to a record \$1.049 million, up three per cent from December and a mammoth 23 per cent year-over-year. Gains were observed in most regions of the province. This compared to a national increase of 6.7 per cent from December and 20.9 per cent year-over-year.

While average values are influenced by composition and regional shifts, quality-adjusted benchmark values showed similar patterns. The Lower Mainland benchmark rose 2.9 per cent from December, Vancouver Island came in at 2.6 per cent with a slightly smaller gain in Victoria, Chilliwack increased 4.5 per cent and the Thompson-Okanagan was close to 2.0 per cent. Detached price growth continues to dominate.

With the average value up more than 40 per cent since the pandemic began and still rising, there is reasonable concern of excess froth. Demand is indeed robust, and households are enamored with owning, driving acceleration of home sales by a gain of six per cent in January to 10,201 units (seasonally- adjusted) marking an eight-month high due to work-from-home, demand for space, urban outflow and of course low mortgage rates. However, the recent surge may reflect some irrational behaviour as end-use buyers and investors chase past price appreciation while racing against the clock to execute mortgage pre-approval resets before higher contract rates kick in.

**B.C. housing price growth accelerates in January****Home values rip higher across regions during pandemic**

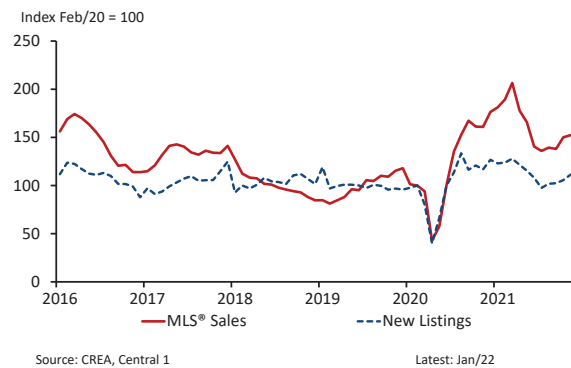
Benchmark Price by MLS® area, \$ 000s



Lack of supply has only re-enforced and amplified upward price momentum. Seasonally- adjusted active listings edged higher in January by three per cent but followed eight straight declines. At about 16,800 units, marking a 35 per cent year-over-year drop and near-record low going back to at least 2000. Buyers are competing for scant listings in the market, driving sellers' market conditions in nearly all areas of the province. That said, we continue to see this as demand-driven scarcity of inventory as new listings flow are generally in line with pre- pandemic levels.

While the pricing frenzy will likely continue for a few more months, we see the market cooling thereafter. Buyers are grappling with massive affordability challenges given price increases and the full effect of higher interest rates will soon curtail both end-user and speculative demand which will go a long way in cooling market conditions. Normalizing of health orders and the return to offices could further temper demand outside large urban areas. A price decline of 10 per cent in the second half of the year would not surprise.

## Severe inventory crunch reflects excess demand, new listings normal



## January housing starts pullback after December surge

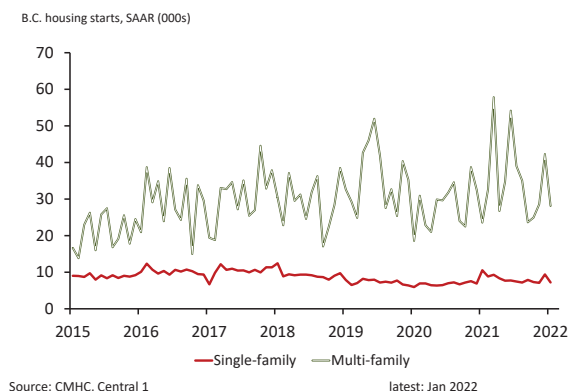
Alan Chow, Business Economist

New home construction saw a decline in January in B.C. Urban area housing starts saw just over 35,000 units (annualized and seasonally adjusted) for the month of January. That's a 31.5 per cent decrease over the previous month but is 3.5 per cent higher than the same period last year. Multi-family homes were the biggest factor, down 33.4 per cent. Single-detached housing starts declined by 23.3 per cent. This month's decline brings the numbers back to what was seen in November.

While housing starts declined from December, the numbers remained higher than a year ago. The gains were largely seen in multi-family homes, which saw a 19.3 per cent increase while single-detached homes experienced a 31.6 per cent decrease.

In Metro Vancouver, housing starts saw a monthly decline of 16.5 per cent with 22,192 units started compared to 26,589 units. Victoria saw an even greater decrease, falling 53% over the previous month with 3,676 units compared to 7,820 units. Kelowna saw the largest pullback, dropping to 1,488 units from 6,672 from the previous month.

## Housing starts dip in January



Labour shortages and shortages in material from supply chain disruptions may be having an impact on new starts, where floods in B.C. have disrupted transportation infrastructure.

## Omicron wave cuts into retail spending in December

Bryan Yu, Chief Economist

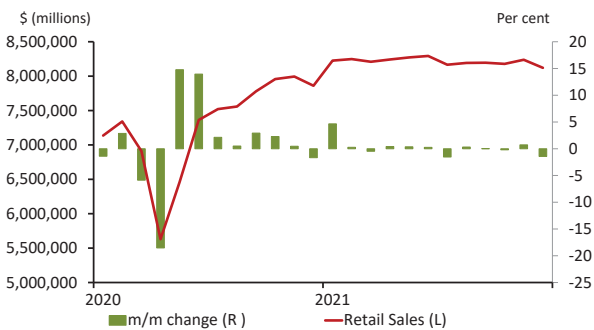
Retail spending closed off 2021 on a lower note in December as expected but came in slightly ahead of expectations. Sales at B.C. stores fell 1.4 per cent from November to a seasonally-adjusted \$8.12 billion. Year-over-year sales came in at 3.3 per cent. Like other provinces, spread of the Omicron variant likely impacted consumer confidence and spending, while rotation of office workers back to remote conditions, and additional restrictions on events and holiday celebrations likely impacted ancillary spending. That said, B.C.'s restrictions have been modest compared to those observed in Ontario and Quebec. Further dampening provincial spending were supply chain impacts caused by intense flooding and landslides and severe damage to highway infrastructure. That said, B.C. still outperformed the national print which declined 1.8 per cent.

Based on Central 1 calculations, spending fell in most store segments. Specifically, seasonally-adjusted sales fell by six per cent for sporting goods and recreation, and two per cent at furniture, and electronics/appliances stores. Food and beverage stores sales rose, which could reflect the shift away from restaurant dining in the latest wave and back toward home-cooked meals as people stayed home again.

Metro Vancouver bore the brunt of the pullback, with sales down 1.6 per cent from November, although up 7.7 per cent from same-month 2020.

On a full-year basis, retail spending came in at a robust 12.4 per cent above 2020. That said, most of this reflected the run up through 2020, as well as a base-year effect from steep declines early in the pandemic. Sales have generally held range-bound albeit elevated through 2021. Stores with sales growth exceeding 20 per cent included motor vehicles and parts, clothing, and gas stations. This owes to a combination of social re-openings, health fears and higher prices. Housing related spending also remained strong. Growth slowed at food and beverage (1.1 per cent) and health stores (2.1 per cent) as households rotated towards social activities, and the initial surge in health-related spending eased.

## B.C. retail sales slip on Omicron impact, remain elevated



Retail spending growth is forecast to reach six per cent this year driven by both real demand and inflationary pressure.

## Higher volumes further increase B.C. manufacturing sales despite floods

*Alan Chow, Business Economist*

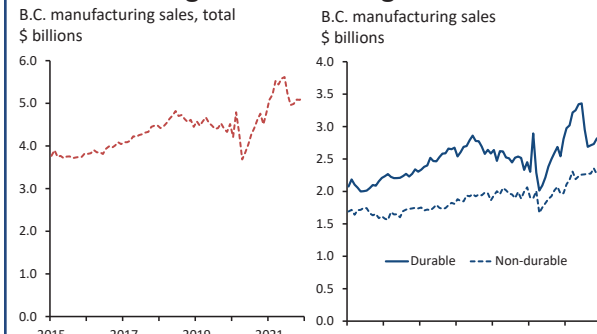
Manufacturing sales in B.C. rose 1.3 per cent in December to \$5.1 billion, following a small decrease in November. Despite the increase for the month, sales remain below the average for the 12 months, trailing as high lumber prices elevated volumes earlier in the year. Also, transportation disruptions and material shortages caused by floods in B.C. had a moderate impact on manufacturing activity. Estimates in loss in sales are about \$209 million for the nation.

Both durable and non-durable goods output rose in December with non-durable goods up 1.73 per cent to \$2.30 billion, just \$53 million shy of October's high. Durable goods also increased, but only marginally, just shy of 1.0 per cent to \$2.84 billion. This keeps it well below the high seen in June and below the trailing 12-month average.

Food manufacturing volumes continue to climb, up 9.0 per cent to \$903 million. Higher prices are likely a major contributing factor as inflation in food remains high. On the other side, paper manufacturing fell 17.3 per cent as floods in B.C. hampered the movement of raw materials as well as finished products.

Manufactured wood products saw gains of 2.7 per cent, despite the floods. Other gains were seen in fabricated metal products (6.6 per cent) and machinery manufacturing (6.1 per cent). Moderating overall gains in manufacturing were a decrease in computer and electronic products (9.9 per cent), transportation equipment (6.8 per cent) and primary metals (4.2 per cent). Industries that saw gains and losses in the durable goods section was split 50/50.

## Higher volumes and prices have B.C. manufacturing sales bouncing back



In Vancouver, sales fell 0.6 per cent from the previous month. This is the second consecutive month of declines but is still above the 12-month trailing average.

Overall for the year, B.C. manufacturing sales rose 20 per cent to reach 62.7 billion. Metro Vancouver experienced a 12.8 per cent growth in sales volumes, going from \$27.5 billion to \$31 billion.

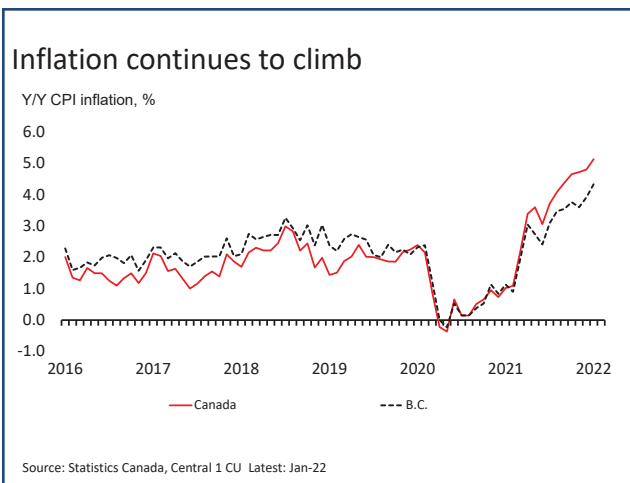
## Inflation continued to climb in B.C. in January

*Edgard Navarrete, Regional Economist*

Headline consumer price inflation in British Columbia continued to climb in January. Inflation in the province has been on a sustained eight-month uptrend. January headline inflation climbed 4.3 per cent up from the 3.9 per cent reported in December. Core inflation, which removes the effects of food and energy prices, climbed 3.2 per cent in January up from 2.9 per cent growth in December.

The price of goods climbed 6.4 per cent in January largely due to higher prices for semi-durable (up 4.2 per cent) and non-durable goods (up 8.1 per cent). The rate of price growth for durable goods has slowed down in January from December (up 4.3 per cent in January from 6.1 per cent growth in December) but remains above trend and has contributed to overall inflationary pressures. The price for services increased 2.9 per cent in January slightly stronger than the 2.6 posted in December.

Areas lifting prices in British Columbia in January included food (up 5.0 per cent), shelter (up 6.4 per cent), clothing and footwear (up 2.6 per cent), transportation (up 4.5 per cent) and energy (up 19.4 per cent).



Food prices jumped largely through food purchased at stores. Supply chain issues, inclement weather, labour shortages and increased transportation costs are all hitting consumers in the wallet at the till. Prices for proteins, dairy, and fresh fruit and vegetables have all increased.

Shelter costs climbed due to higher rental and owned housing costs. Over the course of the pandemic the province has seen an inflow of new residents coming to live in the region through both rental and homeownership. A hot homeownership housing market has also lifted home values substantially and that is coming through in the CPI via the homeowners' replacement costs index.

Increased costs for utilities, which is captured in energy costs, is also raising shelter costs for renters and homeowners.

Increased energy costs via higher gasoline prices are increasing the costs of transportation, particularly public transportation.

Prices continued to climb in Vancouver (up 4.3 per cent) and Victoria (up 4.3 per cent) with shelter costs a big driver of the January price hikes in both metro areas.

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