Economics | Current Economic Trends

B.C. Economic Briefing

Volume 28 • Issue 11 • Week of March 14 - March 18 2022 | ISSN: 1981-355

central 1 Economics

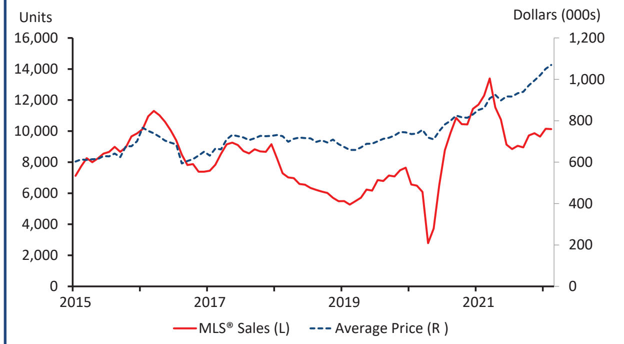
Highlights

- Sharp increase in new listings signals cooling housing market in B.C.
- Headline infl ation up 4.7 per cent in February
- Manufacturing sales volumes up 4.3 per cent in January
- Housing starts continue to slow down in February
- Retail sales climbed 4.0 per cent in January

Home prices continue to soar but nascent signs of market moderation in February

Bryan Yu, Chief Economist

Strong demand persists, average prices continue ascent



Source: CREA, Central 1   Latest: Feb/22

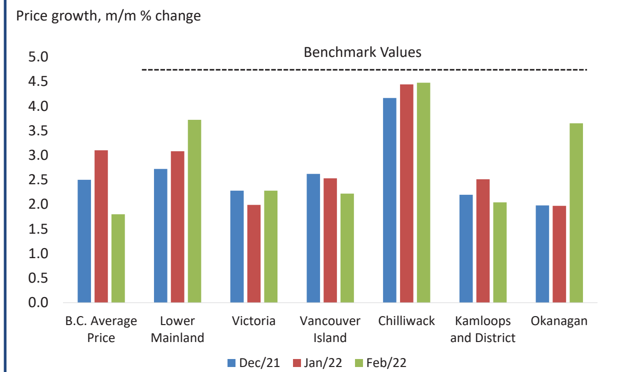
The relentless ascent of B.C. home prices continued again through February as housing demand remained robust and inventory low. However, a sharp increase in new listings could signal a trend to more sustainable market conditions as more sellers look to sell amidst high prices while rising interest rates pinch prospective buyers.

The average MLS® price in the province rose another 1.8 per cent to a record $1.07 million, marking a seventh straight monthly increase, and a 24 per cent year-over-year gain. Prices rose in 8 of 11 real estate boards across the province. This was led by gains in the Thompson-Okanagan region where prices rose seven per cent in the Okanagan, and eight per cent in Kamloops. Vancouver Island (excluding Victoria) gained six per cent, while Lower Mainland prices rose close to three per cent.

Benchmark home values, which adjust for compositional effects, showed an acceleration in growth during the month with Vancouver Island up more than two per cent, and the Okanagan and Lower Mainland up 3.7 per cent.

Rapid price growth reflects the ongoing imbalance between demand and supply. Despite rapid price gains across the province during the pandemic, home sales were unchanged from January at a seasonally-adjusted 10,130 units. While off pandemic highs by 30 per cent, levels remained more than 50 per cent above pre-pandemic pace. Elevated demand remains buoyed by

Home prices track higher



Source: CREA, Central 1 CU.   Latest: Feb/22

pandemic factors of low interest rates, demand for space, and from-home work which have promoted living in smaller regions. That said, speculative investment has increasingly been a factor as has the fear of accelerating prices, which has triggered a pull forward of demand, particularly in advance of higher interest rates. Low inventories have amplified tight market conditions as sales have generally outpaced new listings, contributing to the sellers' market and upshift in values.

While market condition continues to support rising prices, moderation may be in sight. New listings surged in February by 15 per cent to the highest levels since August 2020. Inventories remained low but increased to a 5-month high. More sellers may be looking to sell into the hot market. At the same time, we anticipate demand to slow. Interest rates are on the rise. While fixed rates have increased for some time, variable rates are on the upswing with Bank of Canada rate hikes, which will curtail demand. Rotation of employees back to workplaces is likely to reduce purchases in small- and mid-sized cities, as well as suburban areas in favour of larger urban markets. The rapid increase in prices in recent months is at risk of retracing, and declining prices would not surprise in the second half of 2022.

Housing starts fall again on fewer multi-family units

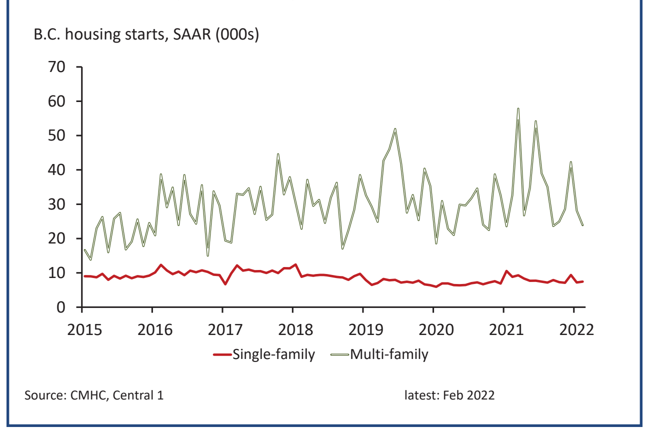
Alan Chow, Business Economist

British Columbia new home starts slowed again in February, as starts reached just over 31,000 units (seasonally adjusted and annualized rate, SAAR). That represents a 11.3 per cent decline over the previous month and the second straight decrease as opposed to Canada overall which saw a 9.7 per cent increase . It should be noted that SAAR starts do fluctuate sharply, but the overall trend for the past year for both is downward. The decline was led by multi-family units, which had decreased 15.1 per cent from around 28,000 units to 23,800 units. Single detached homes, on the other hand, were able to eke out an increase of 3.1 per cent.

New listings pick up in February, inventory remains low

In Metro Vancouver, housing starts decreased again, down 22.9 per cent over the previous month to just over 17,000. The decrease was largely in multi-family units which fell 30.8 per cent from 19,300 to 13,400. Single-family homes, on the other hand, saw an increase of 30.2 per cent from around 2,800 to 3,700. Kelowna also fell 34.9 per cent to just under 900 and Abbotsford-Mission fell 28 per cent to around 1,400. On the contrary, Victoria was able to see an increase of 40.42 per cent to around 5,000.

Year-to-date, total urban-area units declined 10.6 per cent with single detached homes down 22.6 per cent and multi-family homes down 7.6 per cent. While it remains early in the year, the weaker pattern could reflect capacity constraints in the construction industry and effects of sharply higher prices on demand.



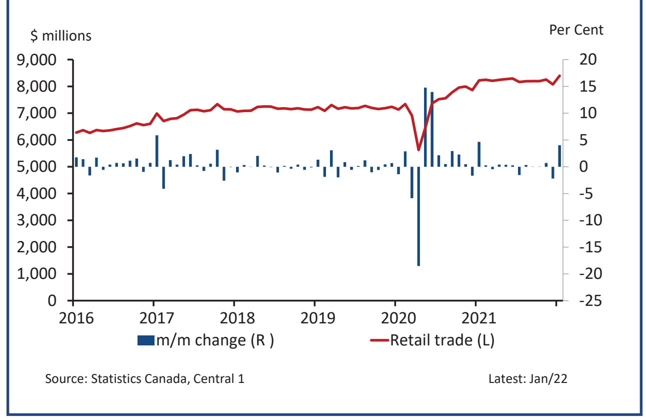
Multi-family units dip in February

Retail spending jumps above trend in January

Bryan Yu, Chief Economist

Canadian consumer spending roared back in January after tapping on the brakes during the holiday season period. Despite additional uncertainty from the Omicron wave and job losses during the month, national sales rose 3.2 per cent in January to reverse December's two per cent decline. Adjusted for price levels, retail sales increased a comparable 2.9 per cent point underlying strength in consumer spending. Sales picked up sharply for motor vehicles and parts, suggesting supply backlog may have been partly cleared during the month, although most segments such as building materials and renovation stores, electronics and general merchandisers.

Patterns were largely consistent in B.C. where current-dollar sales rose 4.0 per cent to a seasonally-adjusted $8.4 billion and compared to a 2.2 per cent drop in December. This marked a relatively sharp departure from the flat trend observed through 2021 and a 0.9 per cent year-over-year increase (unadjusted). Sales were 14 per cent above February 2020 amidst a strong labour market.



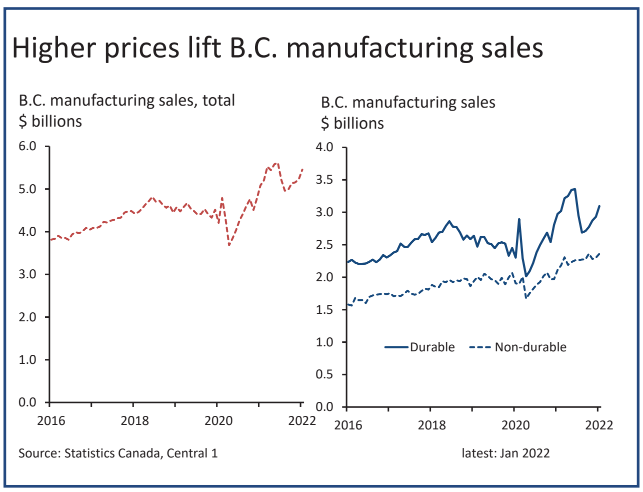
B.C. retail spending gains traction in January

Similar to the national picture, Central 1 calculations at the store-segment level pointed to increased sales for motor vehicle and parts, as well as home furniture and furnishings. Sales of clothing and sporting goods also gained traction. Strengthening labour market conditions and population growth is expected to support demand, but rising interest rates could dampen purchases of durable goods in coming quarters.

B.C. manufacturing sales up on higher prices

Alan Chow, Business Economist

Manufacturing sales in B.C. rose 4.3 per cent in January to $5.5 billion on a seasonally-adjusted basis, marking the fifth month consecutive month of increases. Both durable and non-durable goods industries saw gains, and of the 14 industries with available data, 10 showed higher sales this month. However, these gains are mostly from higher prices as the industrial product price index increased 3.0 per cent over the previous month with lumber and other wood product prices up 11.7 per cent. On a year-over-year basis, manufacturing sales rose 9.0 per cent.



Durable goods industries are up 5.6 per cent for the month of January. Wood products manufacturing led the way, up 11.5 per cent. But as mentioned earlier, this is likely the result of higher prices. Other industries on the rise include transportation equipment, which is up 11.2 per cent and primary metals, which is up 4.0 per cent. Two industries saw declines for the month, with machinery down the most at 6.5 per cent and miscellaneous manufacturing down 2.9 per cent.

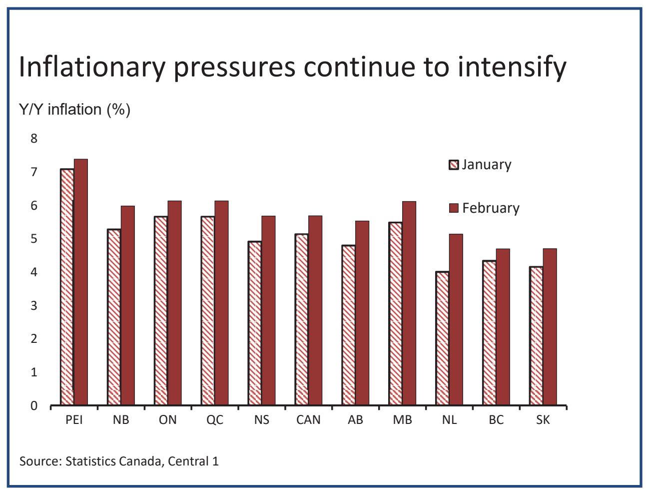
Non-durable goods are up 2.6 per cent. Paper manufacturing saw the biggest gains, up 24.6 per cent over the previous month. This is likely the result of higher volumes as the pulp and paper product price only rose 0.2 per cent. On the downside was food manufacturing, which decreased 2.2 per cent despite seeing higher prices. It was the first significant decline seen in over eight months.

In the Vancouver CMA, manufacturing sales volumes are up 1.8 per cent from the previous month to $2.7 billion. Both durable goods and non-durable goods are up 2.1 per cent and 1.6 per cent respectively. On a year-over-year basis, manufacturing sales are up 9.4 per cent.

Inflationary pressures continue unabated

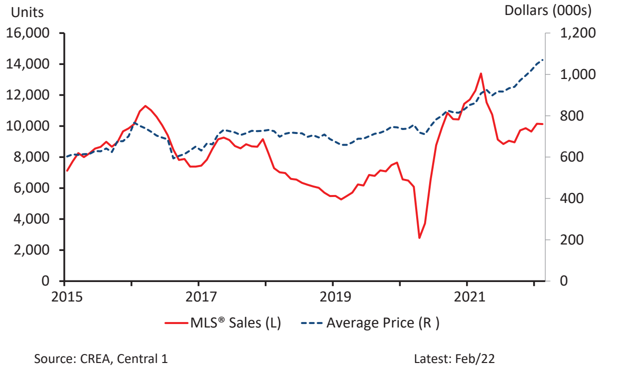
Edgard Navarrete, Regional Economist

Consistent with the national pattern, headline inflation in British Columbia moved up again in February to reach 4.7 per cent, compared to January's 4.3 per cent pace. Core inflation, removing the effects of food and energy, also rose in February by 3.6 per cent, up from 3.2 per cent in January.



Energy (up 18.2 per cent) and food prices (up 5.8 per cent) remained key drivers of inflationary pressures, but not the only reason. The current inflation is largely broad-based. Necessary goods such as shelter (up 7.4 per cent in February) and transportation (up 4.1 per cent in February) are taking larger chunks of British Columbian's paycheques and earnings, too. Shelter costs are rising on a hot homeownership market and a tighter rental market as many new residents continue to arrive in the province. Transportation costs are moving up on higher gasoline prices and perhaps higher maintenance and repair costs.

Strong demand persists, average prices continue ascent



Rising prices of necessities could rotate consumers spending on non-necessary expenditures such as tourism, eating and drinking establishments and purchasing clothing, footwear, and jewelry to name a few. That said, there is significant pent-up demand for services.

Headline inflation increased in both Vancouver (up 4.8 per cent) and Victoria (up 5.0 per cent) metro areas on broader inflationary pressures not only centred around shelter costs.

For more information, contact economics@central1.com.