Economics | Current Economic Trends

B.C. Economic Briefing

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central 1 Economics

Highlights

- Resale housing market holds firm in March but downturn anticipated
- Retail spending declines 0.9 per cent in February
- Headline inflation climbs 6.0 per cent in March while core inflation climbs 4.5 per cent
- Declining housing starts trend continued into March

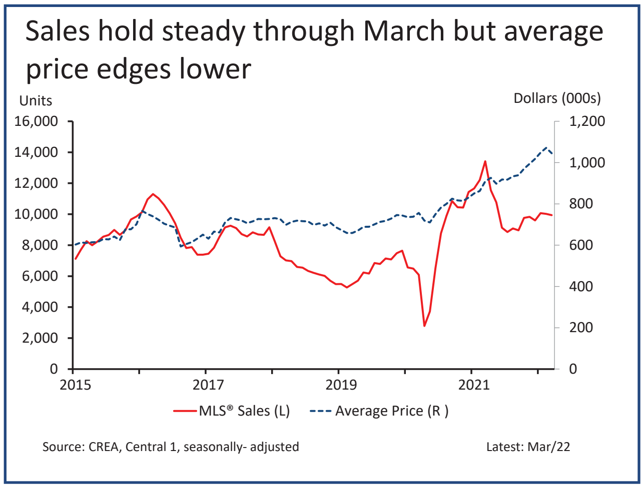
B.C. housing demand remains firm in March but higher mortgage rates expected to curtail activity

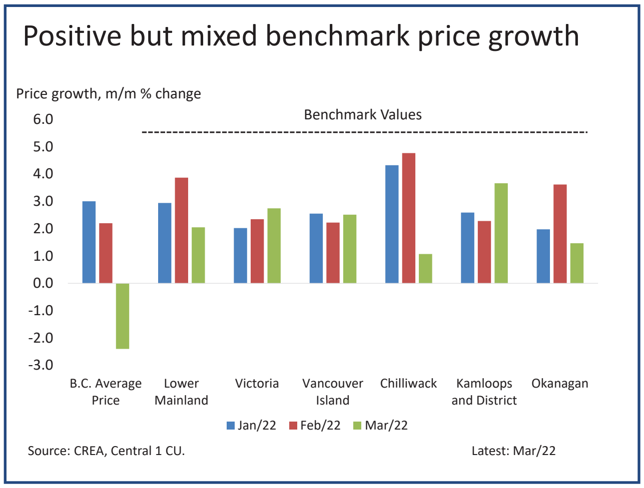
Bryan Yu, Chief Economist

British Columbia's housing market remained highly active through March but precedes an expected downshift as rising interest rates and potentially a shift in remote work expectations curb sales and prices later this year.

MLS® home sales edged lower by 0.8 per cent to a seasonally-adjusted 9,940 units. While down nearly a quarter from last year's high-water mark, levels remained elevated and the third highest same-month sales on record. Six of the 12 regional real estate board areas reported declines with sharp drop offs in Chilliwack (-23 per cent), Victoria (-12 per cent), and Kamloops (-12 per cent) following strong February gains. Sales in the Fraser Valley, and Island (excluding Victoria), were primary offsets.

Persistence elevated sales and low inventory kept prices firm with an average MLS® price of $1.045 million, up 15 per cent year-over-year. A two per cent decline from February likely owed to a shifting sales composition among regions and types of home sold in the Lower Mainland. The average price in the Greater Vancouver (-1.8 per cent) and Fraser Valley (-7.7 per cent) real estate board areas eased, while prices generally moved higher in other regions. Sales-to-active listings ratios remained in sellers' market territory throughout the province supporting values.

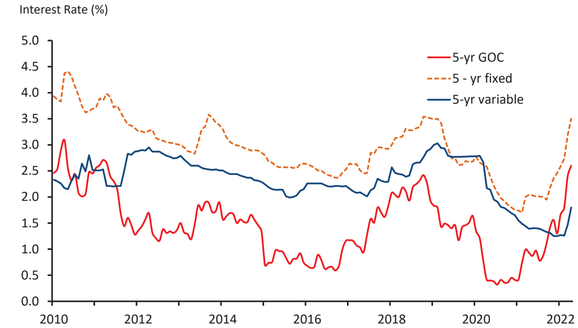




Composite benchmark values which adjust for housing attributes remained positive across markets where indicator is available. Vancouver Island and the Lower Mainland values rose more than 2 per cent, Kamloops 3.6 per cent, and slowed to above 1 per cent in Chilliwack and the Okanagan.

A notable market slowdown is anticipated due to rising mortgage rates and erosion of homeownership affordability, and effects of general inflation. Fixed rates have already climbed sharply to above 3.6 per cent and lifting mortgage stress-test thresholds, while variable mortgage rates will continue to move swiftly higher with expected Bank of Canada rate hikes. Elevated first quarter activity was buoyed by buyers looking to make use of lower rate pre-approvals. Adding to this pressure will be fewer households looking to move further to suburban markets and smaller urban areas as more workplaces require employees to return to the office more frequently. Lower sales flow is likely to lift inventory and curb prices in the second half of this year.

Higher mortgage rates to sharply erode affordability, curtail housing market activity



Source: Statistics Canada, Central 1 broker survey

Through the first quarter, MLS home sales fell 20.1 per cent to 26,577 units, while the average price rose 20 per cent to $1.086 million.

Retail spending slips in February, real spending declines

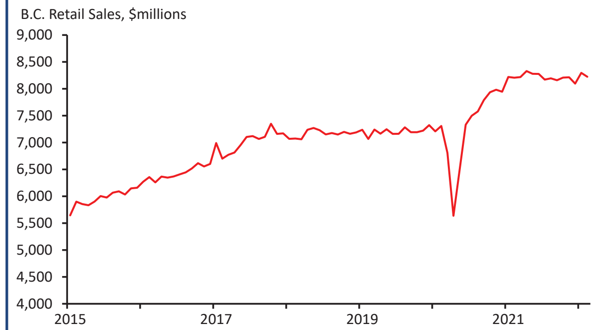
Bryan Yu, Chief Economist

B.C. consumers took a step back in February as retail spending contracted 0.9 per cent to a seasonally-adjusted $8.22 billion and marked a second monthly decline over the course of the past five months. On a year-over-year basis, sales were up a scant 0.2 per cent compared to 0.9 per cent in January, reflecting a flat sales environment for nearly all of 2021, following strong growth in 2020. This trend largely reflects a rotation of consumer demand back towards services, tourism, and event spending.

Headline numbers also overstate the strength of consumer spending given inflationary forces. B.C. CPI inflation rose to 0.7 per cent m/m in February and 4.7 per cent y/y. Retail spending has increasingly reflected pass through of inflation through prices. Indeed, this suggests real retail spending in B.C. at storefronts has eased from a year ago. Nationally, retail sales rose 0.1 per cent m/m but fell 0.4 per cent once factoring in prices.

Among retail store segments, housing related sales accelerated from January led by furniture and furnishings (+7 per cent y/y) although these gains reflect supply chain costs and tariffs on imports. Clothing sales accelerated 11 per cent m/m and 21 per cent y/y as households restocked their closets with return to offices and events. Gasoline station sales have held range-bound in recent months but rose 10 per cent year-over-year. While gas prices have surged, remote work and still tempered recreational work and transition to electric vehicles and other transportation have tempered some upward pressure on sales.

B.C. retail spending declines in February, extends range-bound pattern



Source: Statistics Canada, Central 1, seasonally- adjusted Latest: Feb/22

Retail sales growth is anticipated to rise about five per cent this year but reflect a combination of both strength in the economy, employment growth and pass through of inflation.

Broad-based inflationary pressures push headline inflation higher in B.C. in March

Edgard Navarrete, Regional Economist

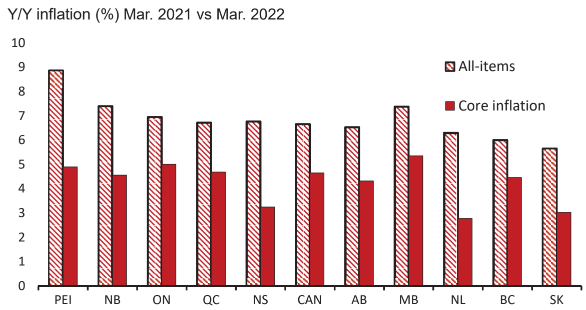
Headline inflation in British Columbia (B.C.) accelerated in March to 6.0 per cent y/y compared to 4.7 per cent growth y/y in February. Core-inflation, which removes the effects of food and energy prices, climbed to 4.5 per cent in March y/y up from 3.6 per cent growth y/y. Much like the rest of Canada, inflation was broad-based and not solely due to higher food (up 7.3 per cent) and energy prices (up 24.5 per cent). Of the eight categories inflationary pressures intensified in all but clothing and footwear (down 0.7 per cent in March).

Essentials and non-essentials prices alike rose, including transportation (up 6.5 per cent), shelter (up 7.6 per cent), and household operations, furnishings and equipment (up 4.5 per cent). Increased costs for owned housing and for utilities also ate away at households' budgets.

Food prices continue to climb on slower production and costs of production of food including fertilizer which is being passed through prices. Fertilizer costs are spiking, and this is being passed onto the final consumer as are higher wage costs.

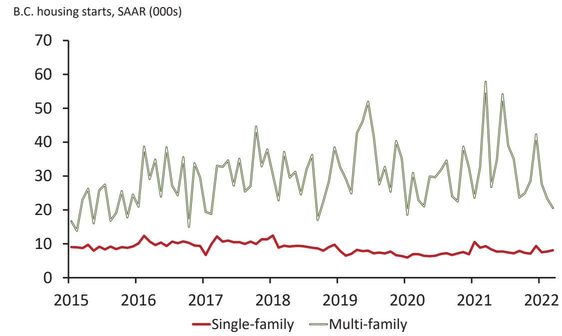
In Vancouver and Victoria, the two metro areas surveyed monthly for the consumer price index overall, prices continued to climb. Headline inflation increased 5.7 per cent in Vancouver and 6.1 per cent in Victoria.

Inflation remained elevated throughout the country



Source: Statistics Canada, Central 1 Note: core inflation removes energy and food prices

Multi-family housing starts dip again in March



Source: CMHC, Central 1 latest: Mar 2022

Ongoing tighter monetary policy will begin to slow down inflation somewhat but not completely. There is a significant international aspect to today's inflationary pressures that will not likely abate until supply chain issues resolve and conflict led commodity price shocks moderate as well.

Housing starts slide for a third straight month, trend negative

Alan Chow, Business Economist

New home constructions fell again in British Columbia, down 7.6 per cent to an annualized 28,700 units. This marked a third consecutive monthly contraction, albeit at a slower pace than the previous month. The decline was again the result of lower multifamily units, which was down 11.7 per cent over the previous month. Single family homes on the other hand continued to increase, up 4.7 per cent over the previous month.

On a quarterly basis, housing starts fell 10.8 per cent from the fourth quarter, marking a fourth straight quarterly decline to a seasonally adjusted annual rate of 38,000 from 52,000 in the first quarter of 2021. Year to date, housing starts in urban centres in B.C. are down to 7,500 from 11,300 or 33.5% over the same period last year

In Metro Vancouver, housing starts decreased again, down 17.1 per cent over the previous month to just over 14,200. Multi-family units continue to drag down the total, down 19.3 per cent. However, single-detached housing starts also fell this month, down 9.0 per cent over the previous month. Victoria saw a major decrease in housing starts, down 71 per cent and Abbotsford saw a decline of 30.2 per cent. The bright spot was Kelowna, which saw an increase of 161 per cent.

It should be noted that month-over-month change in housing starts is very volatile and such changes are not out of the norm. The general trend though has been downward and is likely to continue as the anticipated increase in interest rates which will temper homeownership demand, while high cost of labour and materials are also constraining project viability. Housing is anticipated to be a drag on the provincial economy this year. That said, more homes will need to be built over the long- term given high levels of immigration and labour market strength.

For more information, contact economics@central1.com.