Economics | Current Economic Trends

B.C. Economic Briefing

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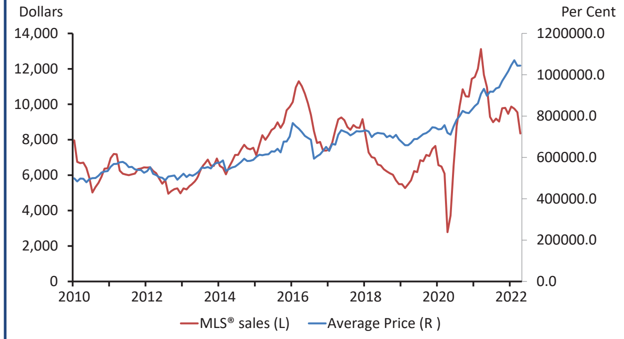
central 1 Economics

Highlights

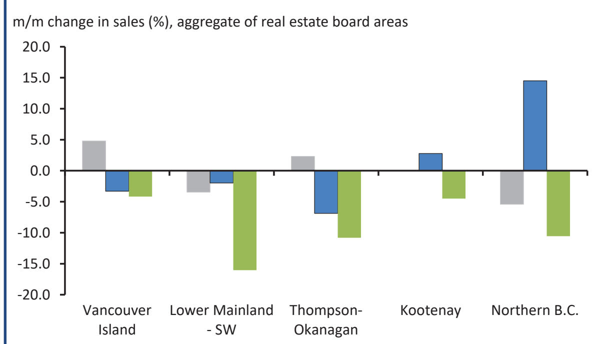
- April MLS® housing data shows the start of housing market slowdown in B.C.
- Temporary rebound seen in housing starts, but lower volume is expected ahead
- Manufacturing sales continues to grow, led by gains in non-durable sales
- B.C. consumer prices soared in April, consistent with national levels

B.C. housing market slows sharply in April as higher rates bite



Source: CREA, Central 1 Latest: Apr-22

Sales slump across the province



Source: CREA, Central 1 Latest: Apr-22

B.C. home sales drop 13 per cent, home prices flat

Bryan Yu, Chief Economist

April MLS® housing data confirms what we already know: a market slowdown is under way as higher interest rates erode homeownership affordability, amplified by an inflation punch to household finances, and buyers become more cautious amidst risks of declining prices in coming quarters.

B.C. MLS® sales normalized further toward pre-pandemic levels with a 12.5 per cent m/m drop to a seasonally-adjusted 8,350 units. This marked the sharpest one-month decline since June 2021 and was the lowest level since June 2020. That said, the pace remained above pre-pandemic February 2020 by 29 per cent. On an unadjusted basis, sales fell 34 per cent y/y after a record 2021 but were in line with the same-month average for 2010-19. Nevertheless, sales are clearly falling.

Declining sales were evident across B.C., albeit concentrated outside Greater Vancouver and Vancouver Island. Fraser Valley, Chilliwack, and Kamloops real estate board sales fell more than 20 per cent to lead the decline. Many markets that exhibited unprecedented demand over the past two years are quickly retreating as affordability erodes and pandemic drivers wane.

Inventory, which remains low, is rebuilding with fewer sales. As a result, the sales-to-active listings ratio (SALR) has quickly moved to near-balanced market conditions in most areas of the province aside from Vancouver Island. It is important to note that while at levels typically associated with a sellers' market, the rapid downshift in sales and upshift in SALR points to quick softening in market conditions and sentiment. For buyers, this means greater negotiating power, although tighter financing conditions are eroding purchasing power.

Despite April's softening, home prices were mixed. B.C.'s average price was unchanged during the month at $1.044 million following a 2.5 per cent decline in March. Values declined nearly 4.0 per cent in the Fraser Valley and 2.7 per cent on Vancouver Island, although prices continued to climb in other regions. Mixed pricing conditions were also observed in benchmark values. Fraser Valley and Chilliwack boards reported price declines, while growth decelerated in the interior and Greater Vancouver.

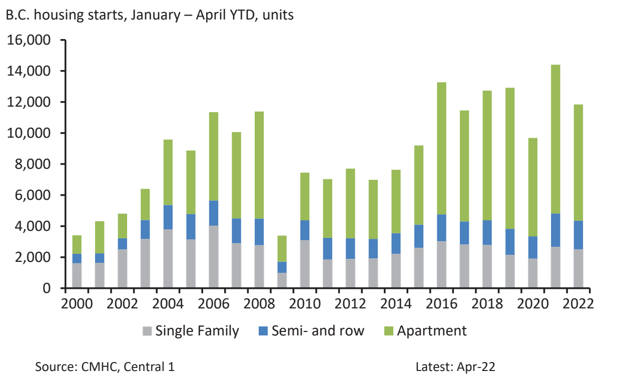
While price levels were steady, anecdotal information suggests prices are already down from peak and we expect to observe this in the data in coming months. Home values are expected to decline through to the end of the year as interest rate hikes and weaker buyer sentiment cools the market by up to 10 per cent.

Rebound in housing starts expected to be short-lived

Bryan Yu, Chief Economist

Following a lacklustre start to the year, B.C. housing starts bounced back in April but lower resale market activity, elevated borrowing costs and high costs of construction are expected cap momentum through 2022.

B.C. housing starts moderately high despite soft start to 2022



Urban-area housing starts jumped 70 per cent from March to a seasonally-adjusted annual rate of 49.3k units, marking the highest level of activity since June 2021. Both detached and multi-family markets contributed to the increase with single-detached starts up 13 per cent to an annualized 9.4k units, while multi-family starts nearly doubled to 39.9k units. B.C.'s metro area drove April's gain with starts more than doubling in Abbotsford-Mission, Vancouver and Victoria whereas starts in smaller urban areas slipped.

Despite the April increase, starts remained well short of the 2021 pace. Starts were 18 per cent lower through the first four months of the year, led by metro Vancouver (-23 per cent), Victoria (-14 per cent) and Kelowna (-12 per cent). Elevated levels of units already under construction, which sits above 60k units for urban areas, and labour shortages have likely constrained the pace of new starts. Nevertheless, year-to-date housing starts remain modest at five per cent below the 2016-2019 pace.

We currently forecast housing starts to nudge below 40k units this year compared to more than 47k units in 2021. While demand for new housing remains strong due to high immigration, government policies to stoke construction, and a shortage of resale supply, the combination of higher interest rates and a resale market slowdown is likely to slow short-term activity before builders ramp up activity again into 2023.

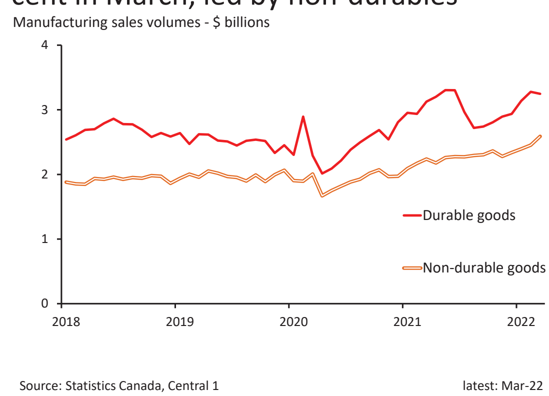
Manufacturing sales volumes increased 1.8 per cent

Edgard Navarrete, Regional Economist

Manufacturing sales volumes continued to climb in B.C. in March moving up an additional 1.8 per cent m/m to $5.8 billion adding to the 3.6 per cent growth posted in February. Manufacturing sales have now been on a seven-month expansionary path.

While sales of non-durable goods were quite strong (up 5.6 per cent m/m), some of the gains there were offset by a contraction in the sales of durable goods (down 0.9 per cent m/m). Sales in six of the ten durable goods areas surveyed posted weaker m/m activity.

B.C. manufacturing sales increased 1.8 per cent in March, led by non-durables



Compared to pre-pandemic activity from February 2020, sales in March 2022 are 21.8 per cent higher and have more than fully recovered.

Among key sectors, manufacturing sales volumes increased for paper (up 14.1 per cent m/m), primary metals (up 2.5 per cent m/m), fabricated metal products (up 4.4 per cent m/m) and machinery (up 2.9 per cent m/m). Sales fell for food (down 0.4 per cent m/m) and transportation equipment (down 4.9 per cent m/m).

Year-to-date, manufacturing sales remained 10.2 per cent ahead of last year's pace with durables up 7.2 per cent and non-durables up 14.4 per cent.

Inflationary pressures are partly responsible for the increased sales volumes as well as supply chain issues faced by manufacturers being passed on to their clients.

Month-over-month, manufacturing sales volumes increased in Vancouver 2.4 per cent m/m while in the rest of the province excluding Vancouver, manufacturing sales moved up 1.3 per cent m/m.

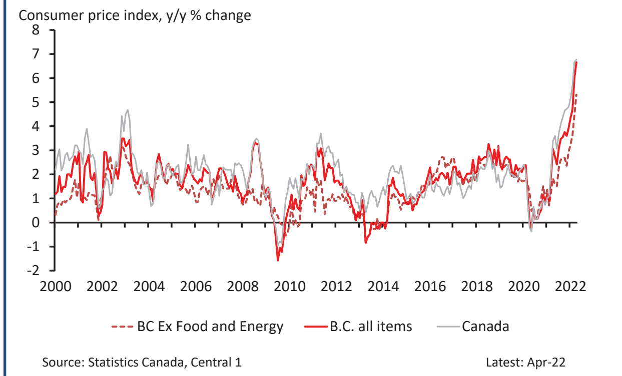
Consumers feel the inflation pinch in B.C.; headline growth catches up to Canadian trend

Bryan Yu, Chief Economist

B.C. consumer prices soared in April, lifting headline inflation to a level consistent with national levels. Households saw their purchasing power erode again as the consumer price index jumped 0.8 per cent from March and lifted year-over-year growth to 6.7 per cent. The latter increased from 6.0 per cent in March. Nationally, prices rose 0.6 and 6.8 per cent, owing to lower gains in Ontario and Alberta.

Consistent with the broader picture, households felt the pinch across a spectrum of goods and services. Food prices rose 0.6 per cent from March to lift 12-month growth to 8.1 per cent. Growth was particularly strong in grocery aisles (9.1 per cent) as meat and seafood prices continued to rise, while vegetable prices eased on a m/m basis but rose 10 per cent on the year. Restaurants are likely passing through increased costs and taking advantage of stronger demand from tourism and re-openings as prices rose 5.8 per cent y/y. Like the national picture, gas prices slipped after surging in March, but remained well above year-ago levels by 33 per cent. Surging gasoline prices in May will mean this relief is short-lived. Broad energy prices were 22.7 per cent higher than a year ago. Shelter cost also accelerated, a combination of higher home values via replacement costs, rising interest rates and base period effects. Shelter costs rose one per cent from March and 8.2 per cent from a year ago. Strong price growth for non-discretionary items is hurting household finances with income growth lagging.

B.C. CPI inflation soars to multi-decade high on broad based growth



Meanwhile, price growth generally remains elevated among other goods and services, reflecting supply chain constraints and re-opening patterns. Furniture is up 13 per cent, while airfare and travel-related prices have spiked. Goods prices are up 8.1 per cent driven largely by non-durables like food and gasoline, while global supply constraints have factored into higher durable goods pricing. Services prices are rose 5.6 per cent driven by housing.

CPI inflation in both Victoria and Vancouver came in at 6.6 per cent.

Going forward, supply chain driven inflation is likely to temper in the second half of the year, but flow-through from a tight labour market through higher wages and increasing shelter costs will continue to support underlying elevated inflation.

For more information, contact economics@central1.com.