Economics | Current Economic Trends

B.C. Economic Briefing

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Economics

Highlights

- B.C. building permits decline sharply, normalizing after strong early year spike
- Lower Mainland housing market downturn in full swing
- Majority of businesses feel their position is at least the same if not better than the same time in 2019

Housing downturn underway in Lower Mainland

Bryan Yu, Chief Economist

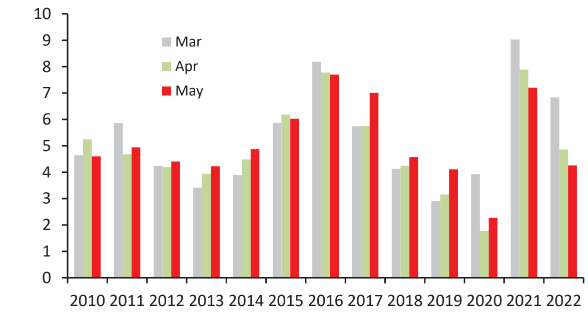
The Lower Mainland housing market looks to have entered a correction phase as sales plunged in May and prices fell amidst sharp increases in borrowing costs. MLS® sales in the region spanning Metro Vancouver and Abbotsford-Mission reached 4,261 units, down 12 per cent from April and 41 per cent year-over-year. Notwithstanding pandemic 2020 and slightly lower May 2019, this marked the fewest same-month units sold since 2011. On a seasonally- adjusted basis, we calculate a 15 per cent sales decline, adding to a similar drop in April.

The rapid decline reflects sharply higher borrowing costs and expiration of pre-approved rate commitments. 5 year fixed rates have surged above four per cent and variable rates moved higher on Bank of Canada rate hikes. Affordability has been decimated as prospective buyers internalize both the highest fixed rates in a decade and home prices which have surged 40 per cent over two years. This has priced buyers out of the market while others are understandably nervous about market conditions and the risks of price declines after the recent run-up.

Fraser Valley region home sales have experienced a deeper pullback (-54 per cent y/y) compared to Greater Vancouver (-32 per cent). This is not surprising given low interest-supported affordability combined with pandemic work location flexibility pushing buyers to lower priced regions. Lower priced markets are more sensitive to rate hikes and affordability erosion.

Housing market cools, MLS® sales fall back to pre-pandemic levels

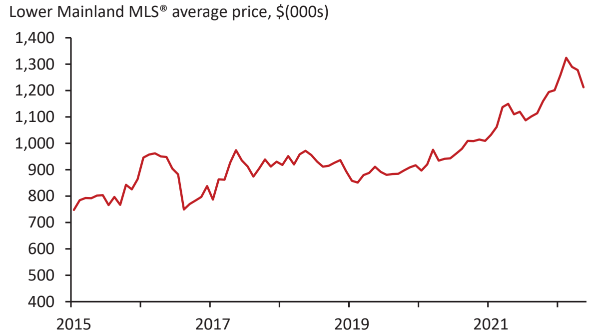
Lower Mainland MLS® sales, units (000s) by select month



Source: REBGV, FVREB, Central 1 latest: May/22

Average price slips for third month

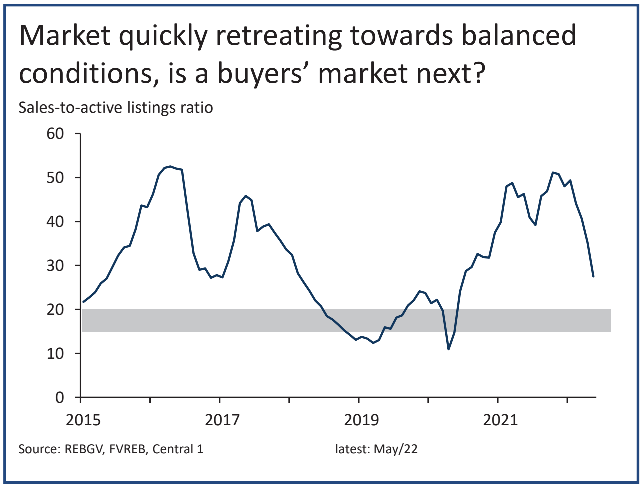
Lower Mainland MLS® average price, $(000s)

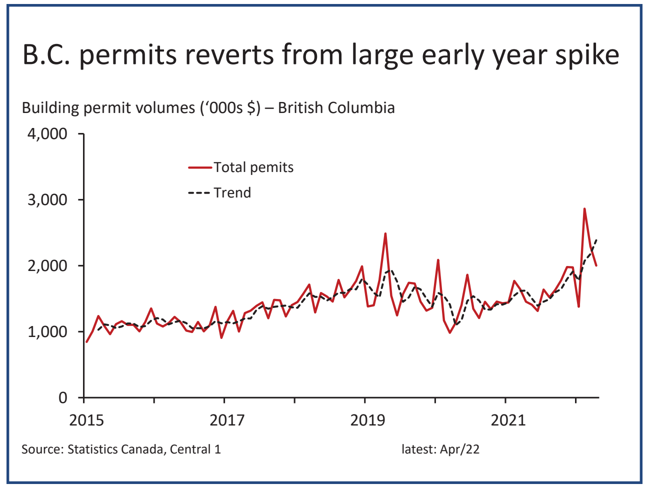


Source: REBGV, FVREB, Central 1 latest: May/22

Market conditions are quickly rebalancing as steady new listings lift inventory levels. The sales-to-active listings ratio (SALR) fell to about 26 per cent, which was the lowest since mid-2020 and near-balanced market territory. That said, momentum matters and the rapid fall from accelerated sellers' conditions points to a softer market than the SALR indicates.

Indeed, home values have declined. The average MLS® price fell for a third straight month to $1.21 million. While still elevated, this was 5.1 per cent lower than April and 8 per cent lower than February. While sales composition factors into these numbers, the benchmark composite index is directionally aligned. The index fell 0.9 per cent from April, with a 1.2 per cent decline for single-detached homes and 0.9 per cent decline for townhomes. Apartment condominium prices were steady. This suggests that affordability issues are pushing buyers to pivot to lower cost units if they are still eager to buy. Benchmark values tend to follow turning points in average price data and will continue to ease.





With interest rates only heading higher, and potentially sharper than expected, this market downturn is likely to persist. Sales are forecast to decline 30 per cent this year, while average prices retrace back to mid-2021 levels or up to 15 per cent from peak. Benchmark values decline in a range of 5-10 per cent.

Building permit volumes fell across all areas in April

Edgard Navarrete, Regional Economist

Total building permit volumes continued to normalize in April from the record February activity. Permit volume fell 12.7 per cent m/m adding to the 20 per cent slide from March. Whereas the slide in March came solely from fewer potential residential projects, April's decline was due to large drops in both residential projects (down 7.9 per cent m/m) and non-residential projects (down 24.3 per cent m/m). Nationally, only Ontario and B.C. posted fewer total building permit volumes in April.

Residential building permit volumes fell across the board with both single-family building permit volumes (down 8.3 per cent m/m) and multi-family projects (down 7.8 per cent m/m) posting weaker numbers.

Non-residential building permit volumes also fell across the board with industrial (down 42.9 per cent m/m), commercial (down 24.8 per cent m/m) and institutional (down 12.8 per cent m/m) all posting deep drops. Commercial volumes approached normal levels in April following a high value permit issued in March for the Oakridge Centre redevelopment in Vancouver.

Year-to-date, total building permit volumes remained 35.2 per cent ahead of last year's pace as residential (up 14.4 per cent) and non-residential (up 97.0 per cent) remained comfortably ahead of last year's permit pace despite April's slower activity mentioned above.

With substantial economic headwinds on the horizon, this lead in both residential and non-residential building intentions could erode further as both businesses and households become more prudent and budget conscious.

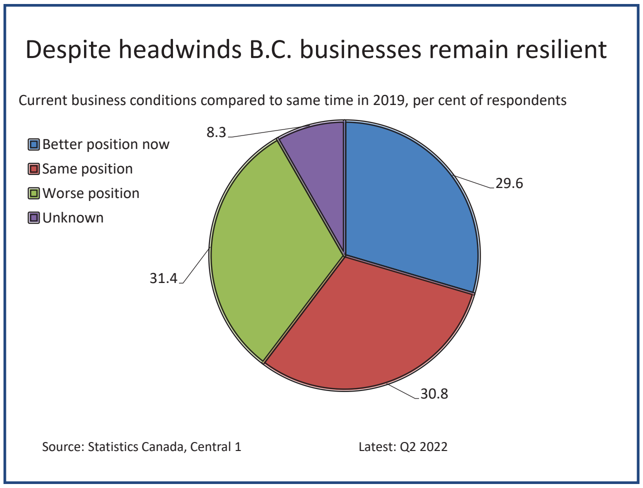
Regionally, total building permit volumes fell in Kelowna (down 24.4 per cent m/m), Vancouver (down 9.7 per cent m/m) and Victoria (down 7.8 per cent m/m). A steep fall in residential investments in Kelowna (down 40.3 per cent m/m) and non-residential investments in Victoria (40.3 per cent m/m) pulled the overall total down in those metro areas. In Vancouver, the fall was largely from non-residential investments (down 27.1 per cent m/m) which, as alluded to above, came after the Oakridge Centre project was filed in March. Abbotsford-Mission posted 2.2 per cent m/m building permits growth as residential building permits (up 16.2 per cent m/m) offset losses in non-residential (down 41.9 per cent m/m).

Businesses feel skilled labour shortages, rising input costs and higher transportation costs will persist beyond the next three months

Edgard Navarrete, Regional Economist

Statistics Canada released Canadian Survey of Business Conditions data for the second quarter of 2022. As expected, many of the headwinds faced by businesses in B.C. aligns with key themes percolating through the economy.

B.C. businesses make up a significant portion of commercial activity in Canada accounting for 15.8 per cent of all businesses. According to the latest survey results, 71.5 per cent of businesses expect conditions to remain about the same over the next three months. This points to a high level of resilience in the face of uncertainty. Moreover, 71.6 per cent of businesses are in it for the long haul and have no plans to sell, transfer or close the business in the next 12 months.



Over the next three months, businesses are most concerned about skilled labour shortages, recruiting talent, rising input and transportation costs.

Of the businesses surveyed, 61.7 per cent feel that it is currently harder to find talent than a year ago. Drilling down into sectors, the needs are more acute in technical/skilled areas, and some client-facing services. Nearly 66 per cent of construction firms, 76.6 per cent of finance and insurance firms, 80.6 per cent of real estate, rental and leasing firms, 67.7 per cent of health and social services firms, and 76.5 per cent of accommodation and food services firms report facing more challenging conditions finding labour than a year ago. Population estimates throughout the pandemic clearly show that B.C. has benefitted from an inflow of new residents, but with immigration held to a trickle for most of the last two and a half years due to pandemic restrictions at the border, the interprovincial migration flows were not sufficient to fulfill labour shortages.

Firms are responding to the shortages with management working more hours (56.3 per cent of firms) and having existing staff work more hours (49 per cent).

Inflationary pressures are also affecting the supply of labour and more and more workers are demanding higher wages. Businesses understand this and over half (58.8 per cent) know that inflation will be a central issue of wage discussions with employees over the next year. The issue again becomes more acute for client-facing services such as accommodation and food services (71.1 per cent), arts, entertainment and recreation (63.2 per cent), retail trade (60.5 per cent), and healthcare and social assistance (63.1 per cent). Many of these areas pay at or slightly above the minimum hourly wage and with cost of living going up, many are leaving these sectors for more lucrative areas.

Supply chain issues are a major concern for business owners, and is affecting production. Of the businesses surveyed, 40.8 per cent feel that sourcing inputs domestically will be an issue over the next year, 38.2 per cent of businesses feel the same way for sourcing from abroad, and 36.8 per cent feel it will affect their ability to maintain inventory levels. To help mitigate some of these supply issues, businesses indicated that they will partner with new suppliers (32.4 per cent of respondents), work with current suppliers to improve timelines (27.1 per cent) or substitute inputs with suitable alternatives (25.4 per cent).

The war in Europe has exacerbated energy costs for everyone, including businesses. A sizeable number of businesses (40.4 per cent) feel that energy prices will continue to climb and be passed onto consumers via higher prices for goods and services (59.8 per cent).

To combat some of these increased costs, businesses may need to take on more debt although according to the survey, fewer than half of the businesses (48.6 per cent) are able to do so. The pandemic dwindled contingency funds significantly and many businesses already have significant debt on the books. Taking on new debt, therefore, becomes more difficult, particularly as borrowing costs are now climbing during a monetary tightening phase aimed at controlling inflation.

Finally, according to the latest survey results, 60.4 per cent of businesses feel that business today is about the same or better as 2019 (30.8 per cent and 29.6 per cent respectively). Client-facing services have a lower rate, as some services in this field have been hit hard by the pandemic.

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