Economics | Current Economic Trends

B.C. Economic Briefing

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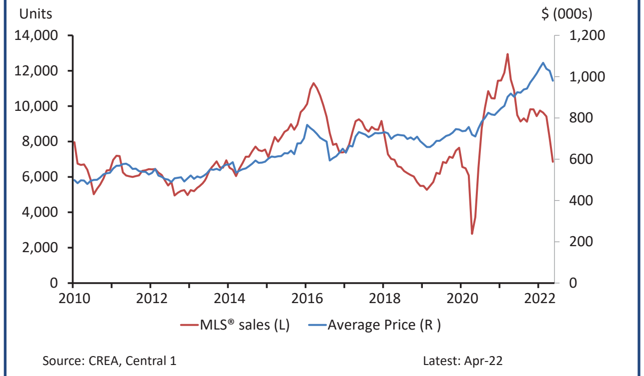
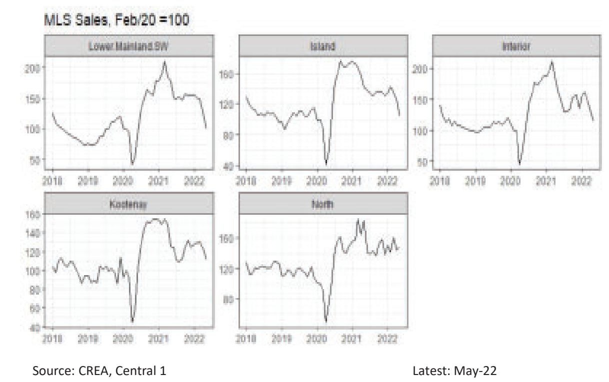
Highlights

- Home sales slow to near pre-pandemic levels as higher interest rates bite into purchasing power
- Housing starts slip in May after solid April bounce
- April manufacturing sales volumes dip in British Columbia for the first time in eight months

Spring chill for housing market as interest rates cut sales and prices



Sales decline in most across B.C. regions



Housing market slows sharply in May as interest rates bite into purchasing power

Bryan Yu, Chief Economist

It looks like a wintry summer is brewing for B.C.'s real estate market as sharp increases to interest rates have drastically reduced buyer purchasing power while sellers clamber for yesterday's prices. Home sales fell sharply in May while home values are declining, slowly but surely.

MLS® sales fell 16.3 per cent in May adding to April's 13 per cent decline to a seasonally-adjusted 6,853 units. This marked a fourth straight monthly decline. On an unadjusted basis, sales fell 34 per cent. While sales remained above levels observed just prior to the pandemic, and May sales were above the same-month average from 2010-2019, momentum is quickly weakening. This is not a surprise given that fixed mortgage rates have now risen to a more than ten-year high and variable rates are rapidly shifting higher. Pre-approved rate holds have expired, and prospective buyers are looking at fixed 5-year rates well above four per cent compared to about 2.5 per cent earlier this year (and pre-pandemic). With home prices up 40 per cent during the pandemic, prospective buyers face a very different market, and many have quickly been priced out of ownership. High consumer price inflation is further amplifying affordability challenges for households. Moreover, those with the means to purchase no longer have a fear of missing out (FOMO) but are more concerned about severe (and potentially financially debilitating) buyers' remorse.

Sharp sales declines were observed in most regions of the province. Specifically, the real estate boards of Chilliwack (-25 per cent) and the Fraser Valley (-20 per cent), which covers Abbotsford-Mission and eastern communities of Metro Vancouver including Surrey, led the drop in sales while the rest of Metro Vancouver fell 18 per cent. This sales reduction reflects the sharp erosion of affordability brought on by rate hikes. Accordingly, Chilliwack and Fraser Valleys sales are trending about 13 per cent below pre-pandemic sales flow while sales on Vancouver Island fell 18 per cent but remained elevated, with more modest declines in the interior and northern markets. In contrast, retiree demand and migration from Alberta continues to support conditions outside Metro Vancouver.

Declining sales are contributing to a quick moderation in market conditions. Fewer sales and steady new listings lifted active listings in the province for a fifth straight month with inventory on the rise in most markets. Sales-to-active listings ratios remain in a range consistent with a sellers' market, but the rapid decline suggests markets are nearly balanced, with the potential to move into a buyers' market range.

Rapidly shifting market conditions contributed to a decline in the provincial average price of 4.7 per cent to $980,324. This was the first time since November that the average value fell below $1 million. Consistent with sales, declines were deepest in Chilliwack (-4.3 per cent) and Fraser Valley (-6.7 per cent), although average prices eroded in most real estate board areas.

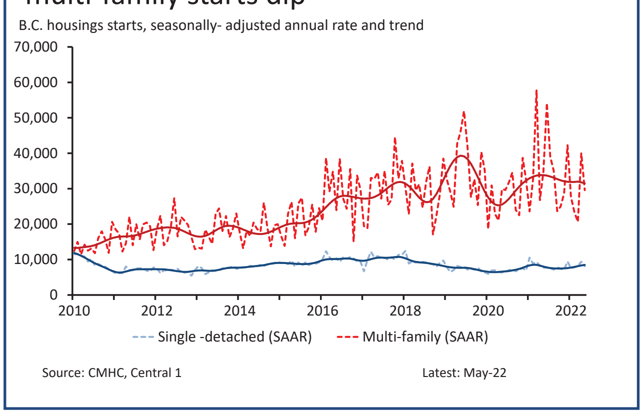
While average price levels declined, benchmark home values continued to increase in markets where data is available. That said, estimated index values tend to lag changes in average data, and we expect benchmark values to decline through Q3. The average MLS® sales price declines 10-15 per cent from peak, with median values down a more modest 7-10 per cent.

Housing starts retreat after April gain

Bryan Yu, Chief Economist

Following a busy April, B.C. builders tapped on the brakes in May as urban-area housing starts slipped. According to CMHC, housing starts reached an annualized pace of 36.7k units which was down nearly a quarter from April's pace of 49.4k units. That said, starts remained higher after a first quarter lull. Both single-detached (-13.7 per cent) and multi-family (-26.1 per cent) starts fell after a prior month gain. Among metro markets, Kelowna (-35 per cent), Abbotsford-Mission (-59 per cent), and Metro Vancouver (-21 per cent) reported significant declines, although Victoria starts rose 4 per cent.

Housing starts fall back after April bounce, multi-family starts dip



While sharp monthly fluctuations are normal given the influence of large multi-family projects in any given month, rising interest rates may be tempering activity, particularly for single-family homes. Apartment condominiums are planned well in advance and largely pre-sold, meaning current market weakness is unlikely to be a source of the drag. That said, year-to-date housing starts in B.C. are down sharply by 17 per cent but in line with expectations for a 20 per cent annual drop from a record performance in 2021 as supply constraints and labour shortages also contribute to fewer starts. Multi-family construction has led the decline with a 19 per cent drop owing almost entirely to Metro Vancouver.

Going forward, higher interest rates and significant slowdown in the resale housing market are anticipated to constrain new home starts. However, elevated immigration will continue to underpin demand for new construction and keep housing starts near 40k units annually in B.C.

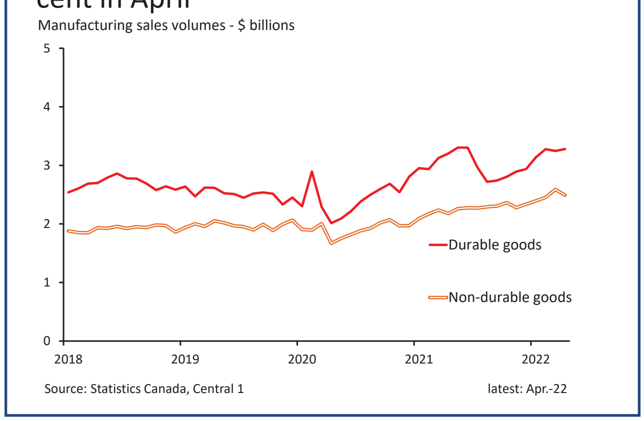
Contraction to both durable and non-durable goods sales pull total volume down

Edgard Navarrete, Regional Economist

After an impressive run where B.C. manufacturing sales increased for seven consecutive months, the streak came to an end in April as sales dipped 2.9 per cent m/m to $5.8 billion. Both durable goods (down 1.6 per cent m/m) and non-durable goods (down 4.5 per cent m/m) posted weaker sales.

Key manufacturing areas such as wood products (down 5.9 per cent m/m), transportation equipment (down 5.5 per cent m/m), computer and electronic equipment (down 3.2 per cent m/m), and electrical equipment, appliances and components (down 5.1 per cent m/m) weighed down overall sales. The decline was only partially offset by a few sectors showing gains, such as food manufacturing (up 1.7 per cent m/m), fabricated metal products (up 2.3 per cent m/m) and sales of machinery (up 3.9 per cent m/m).

Manufacturing sales volumes slide 2.9 per cent in April



Over the first four months of 2022, total sales remained 10.1 per cent of last year's pace with durables (up 6.7 per cent) and non-durables (up 15.1 per cent), considerably ahead of last year's pace notwithstanding April's dip in activity.

Manufacturing sales activity dipped across the province in May. In Metro Vancouver, sales dipped 1.5 per cent m/m and 4.3 per cent m/m in the rest of British Columbia removing Vancouver.

Supply chain issues and increased transportation costs are likely factors weighing on the production and sales of manufactured goods in the province. As inflation continues to eat away at consumer and business spending power, volumes could continue to slow manufacturing demand as buyers tighten their belts.

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