Economics | Current Economic Trends

B.C. Economic Briefing

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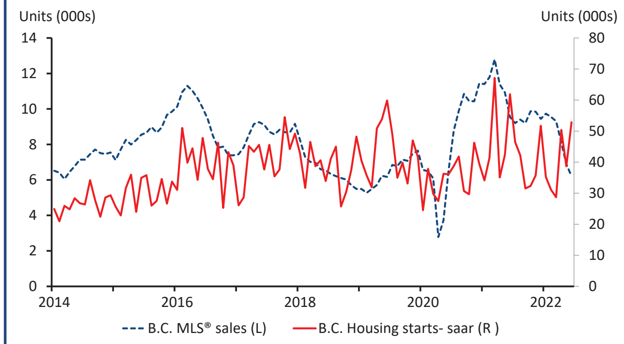
central 1 Economics

Highlights

- Construction intentions soared in June despite housing market slowdown
- B.C. CPI reported 7.9 per cent year-over-year gain in June following 8.1 per cent growth in May
- B.C. retail spending increased 1.3 per cent in May from last month
- Pace of growth of overnight visits slowed down considerably in May, likely due to increased costs of living

New home construction firm in June, lags resale market trend



Source: CMHC, CREA, Central 1 Latest: Jun-22

Homebuilders maintain high pace of starts in June as resale market slows

Bryan Yu, Chief Economist

Despite gloom spreading through the resale housing market, B.C. urban housing starts rose soared in June — a reminder that resale housing conditions take time to filter into new home construction activity. B.C. builders broke ground on new homes at a seasonally-adjusted annualized pace of 52,880 units. This marked a 37 per cent increase from May and the strongest monthly pace since June 2021.

Unsurprisingly, the increase was driven by a sharp increase in multi-family construction as pre-planned projects got underway. Multi-family starts rose nearly 50 per cent from May to an annualized 46,000 units. Detached housing starts fell 10 per cent to an annualized 10.3 per cent to 6,877 units (annualized) pointing to a more immediate effect of recent rate hikes on custom built homes. Among metro areas, the Vancouver Census Metropolitan Area (CMA) led the gain with a 32 per cent increase to 32,420 units (annualized), while Kelowna starts quadrupled to nearly 8,551 units.

While volatile, housing starts momentum has picked up after a slower start to the year, led by multi-family market gains. Year-to-date starts reached 19,675 units through the first six months, narrowing the decline to 15 per cent after a robust performance in 2021. Single-detached starts fell seven per cent while multi-family starts were 17 per cent lower. Based on tenure, owned housing starts fell 25 per cent while rental starts rose nearly 10 per cent. Consistent with the large decline in multi-family starts, Vancouver CMA starts fell 23 per cent and 9 per cent in Victoria, while starts rose 39 per cent in Kelowna and 50 per cent in Abbotsford-Mission.

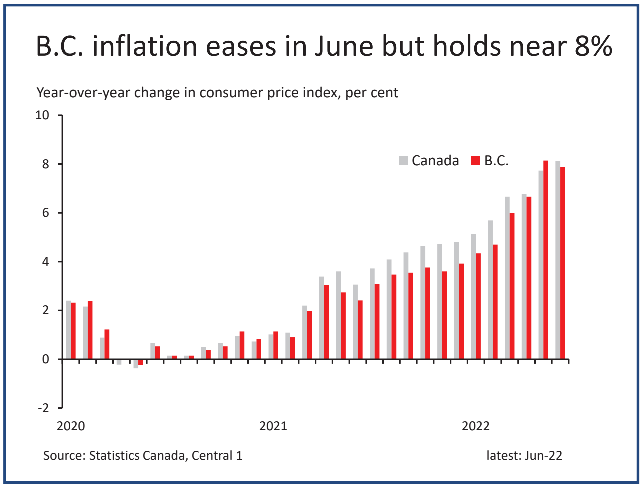
Deteriorating resale housing market conditions will take time to cascade into the new home market. Most condo projects are pre-sold and will likely proceed to construction despite challenges faced by builders such as softer demand, pricing conditions and rising cost associated with interest rates and construction. That said, we should expect the pace of start to ease in the back end of the year and through 2023 due to reduced demand and higher costs, impacting both the ownership and rental market. That said, strong population growth and firm labour market will continue to support elevated housing starts near 40,000 units.

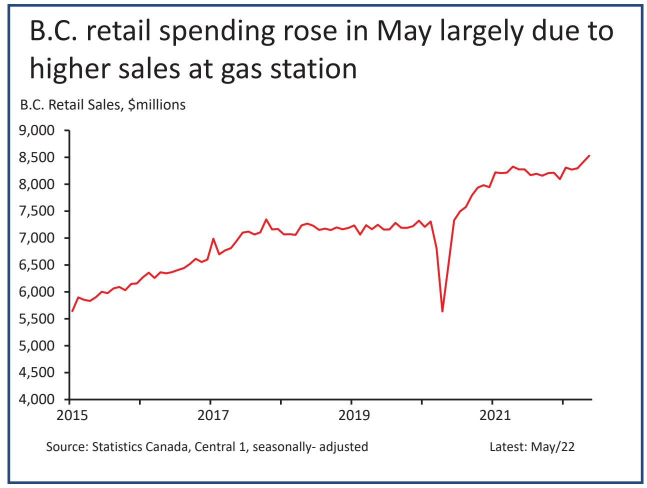
B.C. inflation slows in June but consumers remain under intense pressure from higher prices

Bryan Yu, Chief Economist

With Canadian inflation ramping up to another 40 year high in June, there should be no surprise that B.C. inflation also remained exceptionally high given the combination of external global drivers and a robust domestic labour market. Growth in the consumer price index (CPI) for B.C. reached 7.9 per cent year-over-year compared to 8.1 per cent in May, with a month-to-month gain of a modest 0.3 per cent. While this was rather tame compared to an acceleration in national inflation to 8.1 per cent, the differential is splitting hairs and likely owes to composition of household spending rather a discernible deceleration in prices.

Similar to the national picture, households are experiencing massive pressure on their finances as B.C. price rise across the board. Gasoline prices rose 45 per cent year-over-year and 4 per cent from May as global prices rose. While July prices have eased, high





costs are likely fueling further move to electric vehicles (if they are available). Food prices were flat relative to May but were still 7 per cent above year-ago levels. An easing rate of growth provides some comfort, but prices for many goods remained well above a year ago, particularly for bakery and cereal goods (up 12 per cent) and fresh produce. Restaurant meals rose 5.5 per cent.

Shelter costs also decelerated as costs were flat compared to May, and up 7.7 per cent year-over-year compared to an 8.4 per cent rate the previous month. Declining home values are dampening effects of homeowner replacement costs, although rising mortgages are moving in the opposite direction. Meanwhile, prices related to broader re-opening and tourism such as airfares and travel accommodations continue to rise.

While there were positive signs for B.C. residents that inflation pressures may be abating, high prices are likely to persist. It will take time for goods price inflation to normalize with levels up nearly 9 per cent on gas prices and supply chain constrained durable goods. Services prices rose 7 per cent year-over-year and tend to be stickier — we can expect rising rents to contribute to ongoing strength, while rising wages will likely contribute to higher services prices. Higher interest rates will go some ways to dampen broader inflationary pressure as they slow the economy but will also mark further short-term pain for the longer-term benefits of stable prices for many households.

B.C. retail spending continued to be lifted by higher sales at gasoline station

Ivy Ruan, Economic Analyst

B.C. retail spending rose in May by 1.3 per cent monthly to a seasonally adjusted $8.53 billion to mark another acceleration in sales following the 1.4 per cent growth in April. That said, inflation-induced price gains contributed to the gain. Higher sales at gasoline station continued to drive the overall increase in sales, together with recovery in sporting goods and recreation, offsetting the monthly declines reported in the remaining sectors. Year-over-year sales growth reached 3.0 per cent following the consecutive two months' gains. That said, yearly growth was concentrated in a few sectors, led by essential spendings at gasoline stations, clothing and general merchandise stores.

On a constant dollar basis, national retail sales rose 0.4 per cent in May, lower than last month's growth as inflation propped up dollar-volume sales, a theme that also played out in B.C. In May, national CPI inflation reached 7.7 per cent year-over-year and B.C. provincial inflation reached 8.1 per cent.

Based on Central 1 seasonal adjustment, B.C. consumers spent less on more than half of the retail categories, with large drops seen in motor vehicle and parts (10.3 per cent), building materials, gardening (14.4 per cent), sporting goods and recreation (2.8 per cent) and electronics and appliances (1.9 per cent) compared to last year. Spending at gas stations accelerated with an 8.0 per cent monthly growth, and a 42.9 per cent yearly gain in May. Core retail sales (excluding gasoline stations and motor vehicle and parts dealers) rose 1.9 per cent from last month and was 2.4 per cent above a year ago.

Dollar-volume sales are expected to keep rising, supported by high inflation, demands from resumed immigration and tight labour market. That said, with unceasing concerns over economic downturn, rising interest rates and new COVID-19 variant emerging, real spending will be constrained as consumers look for ways to cut spending, pay off mortgages early and start savings for uncertainties.

Over nine-fold recovery in tourism numbers year-to-date

Edgard Navarrete, Regional Economist

The number of tourists entering B.C. continued to climb robustly in May as the province welcomed over 440,000 visitors (up 19.5 per cent m/m) with over 65 per cent of these visits including at least one overnight stay. The majority of tourists coming into B.C. are U.S.-based visitors (over 81 per cent).

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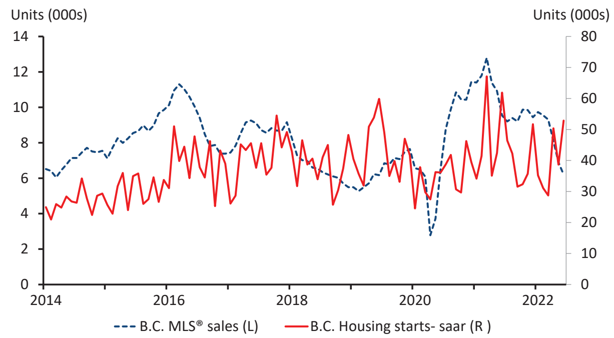

Source: CMHC, CREA, Central 1

Latest: Jun-22

Growth in overnight visits decelerated in May (up 1.1 per cent) from April (up 24.8) while same-day visits increased. Increased fuel prices and other costs are likely slowing down the rate of overnight visits into the province.

B.C. tourism continues to rebound with May travel back up to 95.4 per cent of pre-pandemic levels.

Moreover, year-to-date, B.C. has welcomed over 1.4 million visitors compared to nearly 164,000 at the same time last year, a nearly nine-fold rebound.

Increased cost of living will likely start to affect international travel as consumers in Canada and other parts of the world minimize non-necessary expenditures.

For more information, contact economics@central1.com.