Economics | Current Economic Trends

B.C. Economic Briefing

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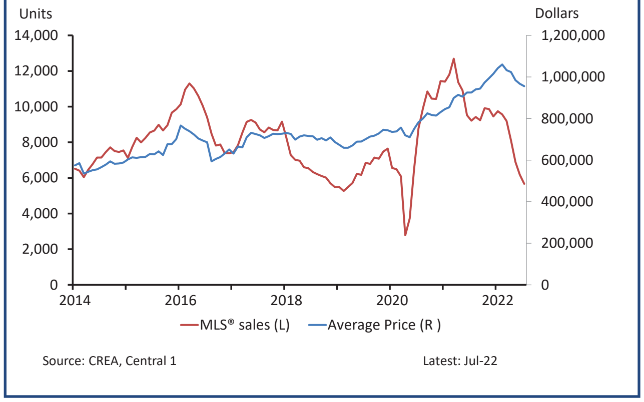
central 1 Economics

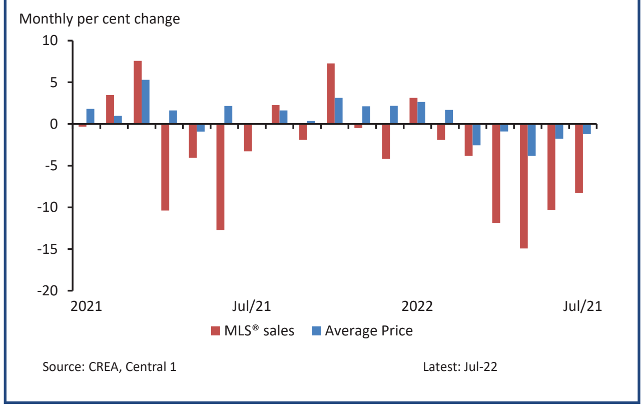
Highlights

- Steep home sales downturn and falling home values continued in July
- Provincial manufacturing sales remained elevated but growth slowed down, with pullback led by forestry sector
- Inflation-driven retail growth continued in June
- CPI remained high at 8.0 per cent, but growth was slowing
- Housing starts were down 13.8 per cent in July from last month due to contraction in multi-family building intentions

B.C. home sales and prices continue to slide through July



Average price declines for fifth consecutive month



Housing market recession deepens through July

Bryan Yu, Chief Economist

B.C.'s housing market recession deepened through July as MLS® fell for a sixth consecutive month and home values further eroded as higher interest rates and fear of short-term declines ushered more prospective buyers to the sidelines.

On a seasonally-adjusted basis, MLS® sales sunk to 5,670 units across the province in July, marking an 8.3 per cent monthly decline and a 38 per cent year-over-year drop. Sales were 43 per cent below the high-water mark observed in October, slipping to the slowest pace since March 2019. Unadjusted, this marked the fewest same-month July sales since 2000.

This is unsurprising given the impact of higher interest rates and the pinch on prospective buyers across the province and country. Particularly noteworthy were declines of 11 per cent in Chilliwack, 10 per cent on Vancouver Island (excluding Victoria), and a near 17 per cent drop in Kamloops. Sales fell 7.5 per cent in the Lower Mainland.

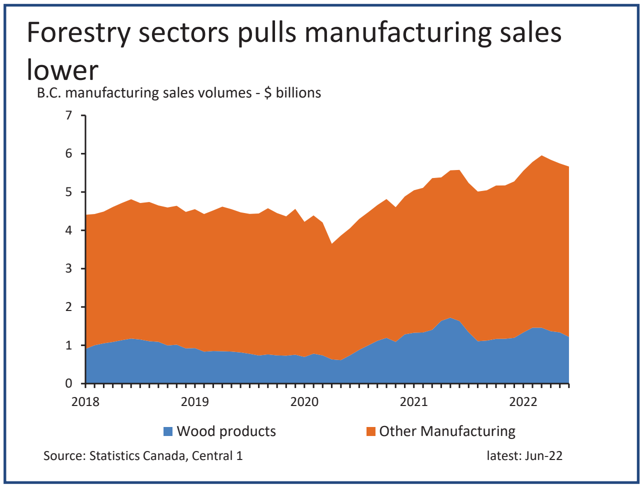
The steep sales downturn is eroding home values. The average sales price fell another 1.2 per cent to $955,574 marking a fifth straight monthly slide and reducing the average sales price by nearly 10 per cent or $100,000 from the February peak. Sales composition does matter, and the downturn captures some changes in types of home sold and shifts in geographic share of sales. That said, prices have declined significantly, particularly in the Fraser Valley area. The CREA MLS® housing price index fell across real estate board areas in July except for Chilliwack, although the region is down 20 per cent from peak. Prices continue to drift lower, and Vancouver Island markets also slipped this latest month after bucking the downtrend thus far.

However, home prices have held up relatively well despite plummeting sales as supply remains low. New listings fell in July, and while inventory is quickly rising, levels are still below those at the onset of the pandemic. While there are some sellers that need to quickly divest of properties, such as investors or those locked into another purchase, a strong labour market and tight rental market means many sellers are holding back. Further downslide is expected as variable interest rates rise and put further pressure on buyers, while patience may wane for sellers.

Forestry sector cuts into manufacturing sales in June

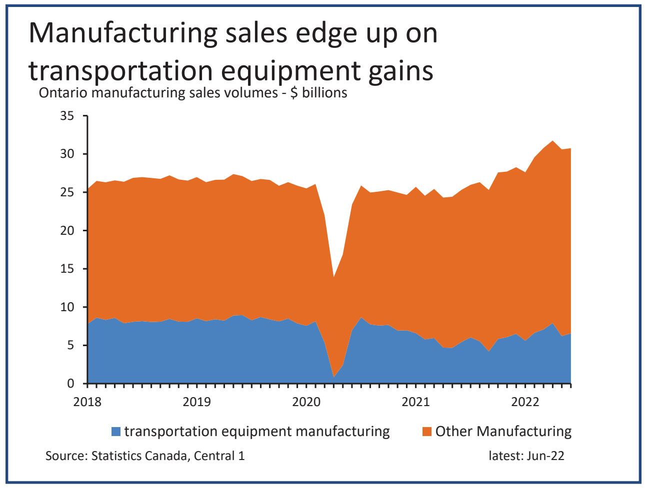
Bryan Yu, Chief Economist

B.C. manufacturing sales remained elevated through mid-year but extended a slowing trend with a third straight monthly decline. Factory sales fell 1.4 per cent from May to a seasonally-adjusted $5.66 billion which narrowed year-over-year growth to 1.5 per cent. However, sales are still 30 per cent higher than observed prior to the pandemic, owing largely to export demand and higher commodity prices over the period.



The latest pullback was again led by the wood products sector which has seen fortunes tumble with slowing housing market demand, decreased construction in the U.S. and a retrenchment in prices. Wood product sales fell 8.8 per cent ($117 million) from May and 16 per cent from February. This accounted for the entirety of the June decline. According to the Bank of Canada commodity price index, forestry prices fell 20 per cent during the month, while Statistics Canada's industrial product price index for lumber and wood fell 17 per cent. Price trends stabilized in July, but the downturn has already triggered curtailments at several sawmills in northern B.C. Declines were not only in forestry — primary metal manufacturing (-8.8 per cent) and non-metallic mineral products (-4.3 per cent) also pulled back.

Excluding wood product sales, manufacturing sales rose 0.8 per cent from May and 13 per cent from year ago levels. Key offsets to forestry and metals included machinery manufacturing which increased 13 per cent or $42.8 million. Data is unavailable for many other product aggregates. With resources driving the decline, Metro Vancouver relatively outperformed the rest of the province with a decline of 0.6 per cent, and year-over-year gain of 14.6 per cent.



Year-to-date provincial sales growth of near 8.0 per cent is expected to hold steady through year end despite headwinds of a weaker housing market and slowing global growth. This owes largely to base-year effects of weaker activity in the second half of 2021. Commodity prices and demand are expected to ease on the growth environment, although there is room for potential growth in natural gas prices which reflects risk due the war in Ukraine and natural gas supplies in Europe during the winter.

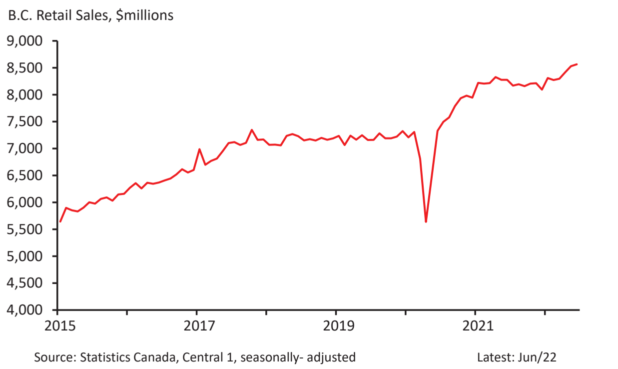
Higher prices drive retail spending in B.C.

Bryan Yu, Chief Economist

B.C. retail spending growth was consistent with the national performance in June as consumers absorbed higher prices inflation. Total spend rose 1.1 per cent to a seasonally-adjusted $8.56 billion, accelerating from May's 0.9 per cent gain. National retail sales growth also reached 1.1 per cent, with the bulk of the increase coming from higher prices. Adjusted for prices, national volume rose a modest 0.2 per cent and suggests consumers had yet to scale back spending in real terms, buoyed by a tight labour market. With B.C. inflation pressures similar, these patterns were likely mirrored in the province.

June's increase added to an upward trend through the first half of 2022 following a flat trend in 2021, driven by the combination of elevated demand and higher prices. Year-over-year sales reached 3.5 per cent, and while below the national increase of 11 per cent, B.C.'s retail sector recovered earlier than other jurisdictions in 2020 with levels up 17 per cent from February 2020.

Among sectors showing monthly momentum, building materials and related sales rose despite weaker resale housing market conditions, although levels were down from a year ago. We expect this to decelerate going forward. Motor vehicle sales also eased. Meanwhile, Higher prices drive retail spending in B.C.



food and beverage stores posted stronger year-over-year growth of three per cent owing to higher prices at the aisle. Gasoline sales fell as prices retreated but high prices held year-over-year growth near 40 per cent.

Going forward, inflation pressures and slumping housing market is expected to temper growth in real consumer demand as households re-allocate spending amidst weaker real incomes, although employment and population growth remain supportive. Dollar-volume sales are expected to rise as households absorb higher prices through increased wages and drawing down excess savings. Retail sales are forecast to exceed 3.0 per cent this year.

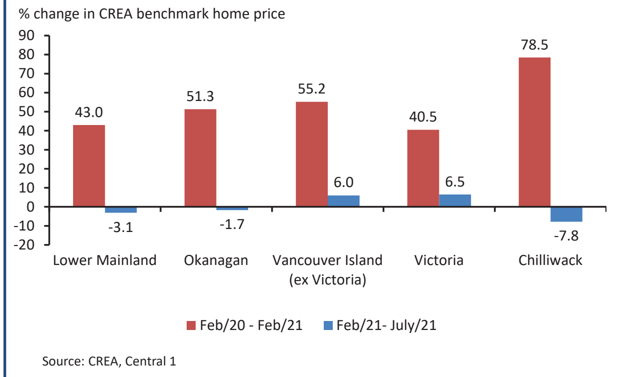
B.C. inflation up slightly in July despite lower energy and gas prices

Alan Chow, Business Economist

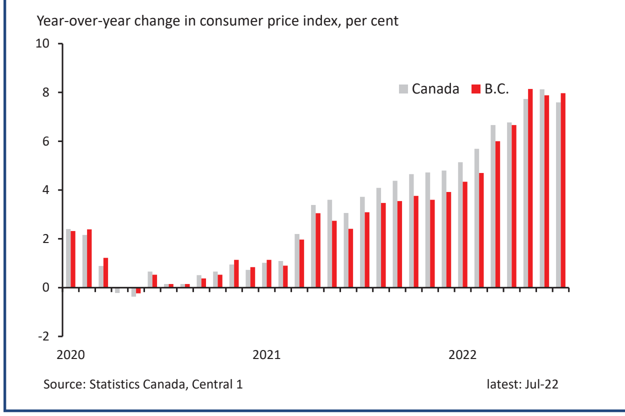
Inflation in B.C. edged up slightly this July to just below 8.0 per cent year-over-year as compared 7.9 per cent the previous month. This upward movement is in stark contrast to national inflation numbers, which dipped from 8.1 per cent to 7.6 per cent. While the year-over-year price levels remain elevated compared to earlier this year, month-over-month saw B.C. gain 0.8 per cent compared to the national level of only 0.1 per cent, both of which are below their average monthly increases seen this year.

Food prices are up 9.0 per cent year-over-year, with a 2.0 per cent increase for the month of July, compared to the previous month, which was flat. This pushed the year-over-year increase up to 9.1 per cent for the month as compared to 7.1 per cent in June. Strong upward pressure continues to be seen in the produces and bakery section of the grocery store, which both

Benchmark prices eroding, pares sharp pandemic increases



B.C. inflation up slightly to near 8%



seeing double digit year-over-year increases. Some relief was seen at the gas station, where prices fell 8.3 per cent over the previous month, which is less than the 9.2 per cent decrease seen nationally. Prices are still up almost 25 per cent as compared to a year ago, and 33.8 per cent from the end of last year.

As gasoline prices have soared, transportation costs have followed, up 13.3 per cent year-over-year, but lower than the previous month's 14.6 per cent rise. Shelter costs are also up slightly (8.0 per cent) as compared to the previous month (7.8 per cent). Home values are taking a hit from higher interest rates, but the increase in rental rates has kept levels elevated.

Overall, prices of goods have risen 8.0 per cent year-over-year and services are up 7.8 per cent with most of these gains since January with goods up 7.8 per cent and services up 6.2 per cent year-to-date. Increases are expected to slow down in the coming months as supply chain issues continue to ease and wage pressure weakens as both unemployment and employment levels remain flat.

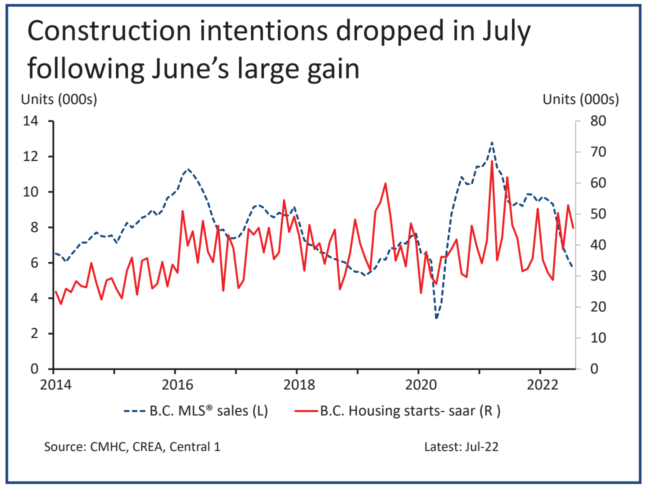
Construction intentions dropped in July following June's large gain

Ivy Ruan, Economic Analyst

Following the robust performance of urban housing starts in June, B.C. reported a sharp decrease in new home construction intentions in July, seeing a seasonally-adjusted annualized pace of 45,527 units, down from 52,846 units (-13.8 per cent) recorded last month. Nevertheless, the recent pace has been surprisingly strong given a downward trend in resale home sales, reflecting the flurry of projects already in the pipeline. MLS ® sales fell 8.3 per cent during the month.

Multi-family starts dropped 16.6 per cent from June to an annualized 38,364 units, retrieving some of June's gains. Meanwhile, detached housing starts rose 4.5 per cent to an annualized 7,163 units, suggesting more interests in smaller projects such as custom-built detached homes as opposed to larger multi-unit developments. Among metro areas, the Vancouver Census Metropolitan Area (CMA) led the provincial decrease in housing starts, down 28.0 per cent to 23,318 units (annualized), while Kelowna lost all the surprising gain from last month, down 87.0 per cent to 1,113 units.

July's dip in housing starts broke off the positive momentum picked up last month. Year-to-date, multi-family housing starts were down to 19,047 units through the first seven months, 15 per cent lower than the same period in 2021. Single-detached starts (4,495 units) were 7.0 per cent below last year. Vancouver CMA itself contributed to the entire decrease in housing starts, with 21.3 per cent fewer starts than last year, while increases were seen in other CMAs: 6.7 per cent in Victoria, 5.5 per cent in Kelowna and 63.4 per cent in Abbotsford-Mission.



The impact of resale housing market slowdown is likely to slow new home market going forward due to higher interest rate costs and uncertain demand. There is growing pressure on builders/developers to pause large development plans and concentrate on smaller building projects instead. That said, strong population growth, firm labour market and inflation slowdown may remain supportive.

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