Economics | Current Economic Trends

B.C. Economic Briefing

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central 1 Economics

Highlights

- Residential sector lifts B.C. building permits in October
- Lower Mainland area housing market fell again in November following steady October
- While B.C. exports recovered in October, some sectors started to see negative year-over-year changes

Building permits remain robust but residential chill is on the horizon

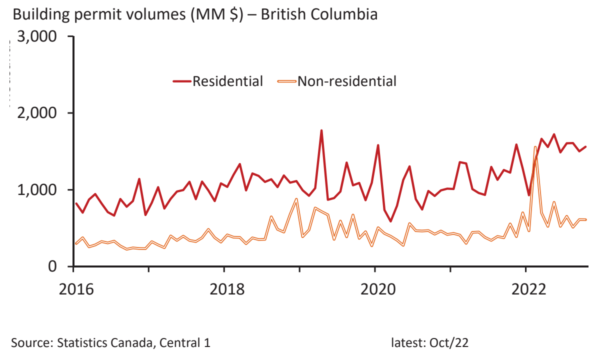
Bryan Yu, Chief Economist

B.C. building permits remained elevated through October despite resale housing market weakness and expected downturn in the broader economy. Dollar-volume permits in the province reached a seasonally-adjusted $2.17 billion during the month which was 2.7 per cent higher than September. This was led by residential building construction which rose 3.9 per cent as non-residential volume was unchanged.

While overall trends have eased since peaking in February, levels remain high. Total volume rose 22 per cent year-over-year, with year-to-date growth at 41 per cent, pointing to robust construction activity. A significant portion of this increase reflects higher construction costs, but even after price adjustment, real permit volume was 26 per cent higher through the first 10 months.

Residential construction led the way in October with a 3.9 per cent increase to a seasonally- adjusted $1.56 billion, marking a historically high level in line with recent months. Year-to-date, permit volume rose 30 per cent (13.8 per cent in real terms). However, growth in multi-family construction, which was up 6.6 from September and 43.5 per cent year-to-date, offset weaker single-family activity (-5.2 per cent monthly and up 2.8 per cent, year-to-date). This reflects slower underlying momentum in the housing sector as single-family construction can adjust more quickly to demand weakness. Multi-family have much longer lead time given the size and scope of projects. Expect residential permits to decline more sharply in 2023.

Residential permits remain firm despite housing market slowdown



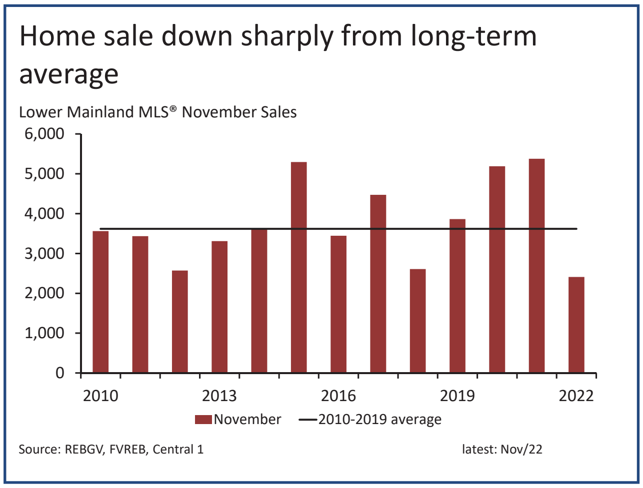
Non-residential permit volume was unchanged from September at $611 million, but headline numbers masked growth in private sector permits that were offset by a decline in government buildings. Year-to-date permit growth reached 70 per cent (58 per cent in real terms) with broad-based gains. Government spending on major projects such as hospitals will continue to support activity, although a slowing economy could temper private sector investment going forward.

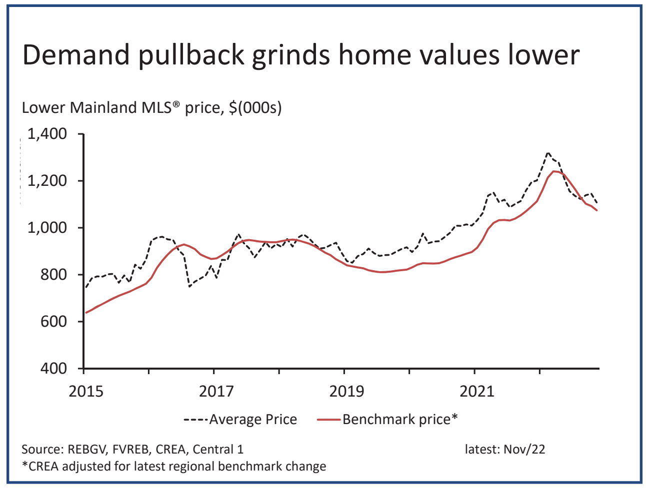
Among metro areas, total permit growth has been led by Metro Vancouver (up 74 per cent) and Abbotsford-Mission (up 41 per cent). In contrast, Kelowna permits fell 4.5 per cent while Victoria permits rose 12 per cent.

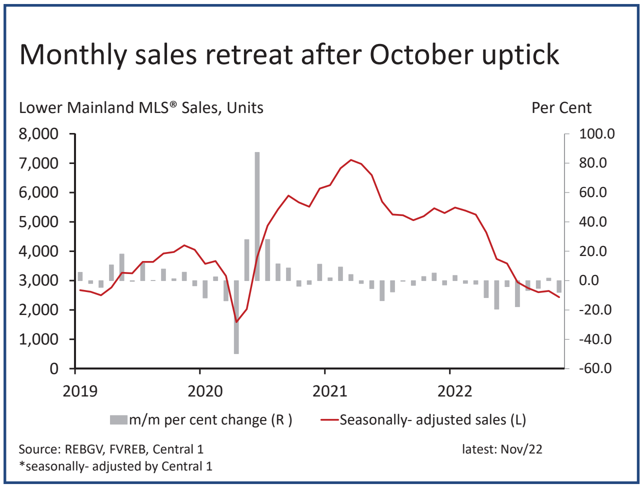
Lower Mainland sales stability short-lived, prices fall

Bryan Yu, Chief Economist

Whoops it did it again. After holding steady in October, Lower Mainland area housing market activity took a dive in November as sales slid sharply and prices further retreated. Home sales in the region spanning Metro Vancouver and Abbotsford-Mission reached 2,411 units, a stunning decline of 55 per cent from November 2021. While owing in part to strength a year ago, sales were still a third below the average November performance from 2010 through 2019.







Higher mortgage rates remain the main drag on housing activity as policy rate hikes lifted variable rates, while fixed-term rates remained elevated. The Bank of Canada increased its policy rate by 50 basis points on October 26 which further curbed November sales activity as more prospective buyers were priced out of the market. This week's hike of 50 bps will only serve to further reduce short-term home sales. Concerns of a deeper economic contraction in early 2023 will likely weigh on sales in the new year.

Average and benchmark home values retreated sharply in November. The average price in the region fell 3.3 per cent (unadjusted) to $1.108 million. This is 7.2 per cent below year-ago levels. From peak, the average price is down about 16 per cent, but still 20 per cent higher than pre-pandemic February 2020. While sales composition is a factor, whether by unit type or region, prices are falling. The benchmark value, which adjusts for housing attributes, fell 1.7 per cent during the month and is down about 13 per cent from peak. Detached home prices fell nearly 2 per cent in November, with townhouses down 1.4 per cent and apartments down 1.1 per cent. The pullback has been most acute for detached properties.

Weaker demand is grinding down seller price expectations at this point. That said, many sellers are opting to not engage in the current weak market, with new listings down 22 per cent year-over-year. Active listings, while 44 per cent above a year ago and trending higher due to fewer sales, remain relatively low. The sales-to-active listings ratio is easing but still trends in a range normally consistent with a balanced market but negotiating power is clearly on the side of buyers right now.

We anticipate further downside pressure into 2023 as prices grind lower and sales remain weak due to deteriorating affordability and a weaker economy. That said, a lack of supply in the market and considerable underlying demand from a tight labour market alongside strong population growth is expected to provide some insurance against a housing price crash.

B.C. exports grew in October following the loss in September

Ivy Ruan, Economic Analyst

Canadian merchandise exports rose 1.5 per cent in October compared with September, maintaining positive momentum since September, widening trade surplus to $1.2 billion from $607 million last month. B.C. exports also reported a recovery following September's decline. Based on our calculations, sales rose 1.2 per cent month-to-month after adjusting for seasonality, retrieving some of the loss from the prior month. On a year-over-year basis, goods exports to international markets valued at $5.4 billion in October, 7.1 per cent higher on a year-over-year basis following last month's 16.6 per cent growth. Broadly, the trend has eased since April largely owing to lower commodity prices.

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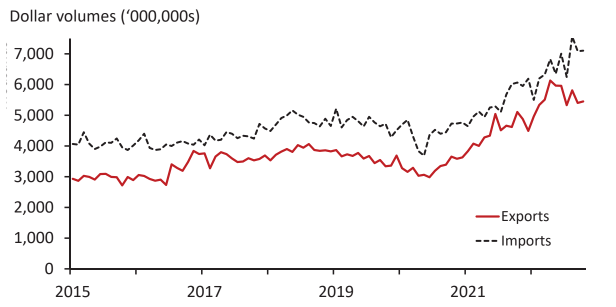

Source: Statistics Canada, Central 1 latest: Oct/22

The latest monthly growth in B.C. goods exports was led in large by the energy sector which posted 9.8 per cent gain in October following losses in previous months. That said, the year-over-year growth in exports of energy products dropped 7.7 per cent to $2.1 billion following September's 23.6 per cent gain. The normalization in energy prices remained the driver to the return in energy exports' yearly growth. In addition to energy, exports of metal ores and non-metallic minerals also posted a 22.0 per cent monthly growth on a seasonally-adjusted basis but was 1.4 per cent lower on a year-over-year basis. In contrast, exports of metallic and non-metallic mineral products reported a large monthly contraction at 41.1 per cent on a seasonally-adjusted basis, bringing the yearly change to a negative 20.1 per cent.

National imports were up 0.6 per cent in October from last month, and B.C. was calculated to edge down 0.7 per cent from last month on a seasonally-adjusted basis. Our estimates of October's total imports came in at $7.1 billion in B.C., up 7.9 per cent compared to last year. Consumer goods continued to lead the yearly growth in imports, reporting a 14.2 per cent year-over-year increase, followed by large growths seen in industrial machinery (up 51.5 per cent y/y) and motor vehicles and parts (up 20.6 per cent y/y). Metal ores and non-metallic minerals sector posted a large monthly decline in October at 53.7 per cent on a seasonally-adjusted basis, tracking 70.1 per cent below last year's October level.

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