Economics | Current Economic Trends

B.C. Economic Briefing

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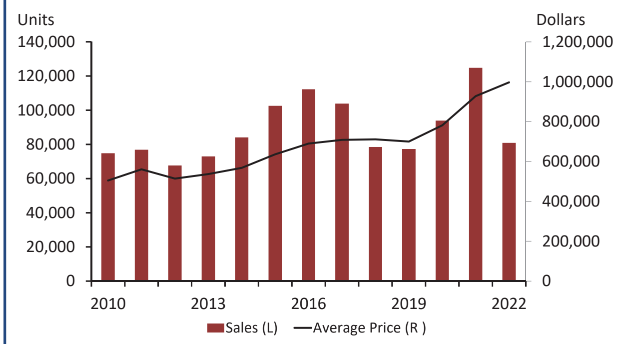
central 1 Economics

Highlights

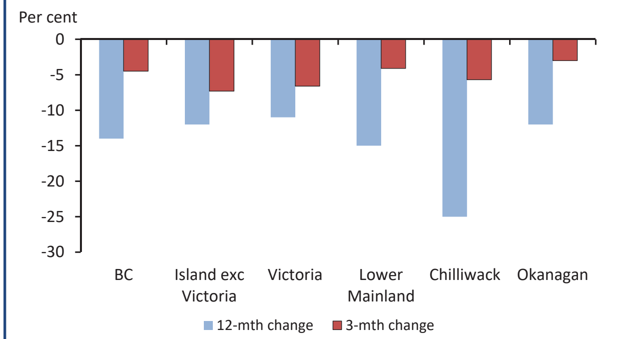
- Home sales edged up while average price slipped
- Retail spending gains in November
- B.C. manufacturing sales up for November
- B.C. housing starts continued to rise in December following November's rebound
- Year-to-date housing starts figures remained flat from 2021
- B.C. year-end inflation eases to 6.6 per cent

B.C. sales plunge in 2022, annual price growth masks intra year correction



Source: CREA, Central 1 latest: 2022

Benchmark home prices down across the board



Source: CREA, Central 1 latest: Dec/22

MLS® home sales edged up in B.C. yet housing sector remained down

Bryan Yu, Chief Economist

B.C.'s housing deep freeze extended through December as home sales remained shallow and home prices receded again to cap off a tumultuous year for the housing sector while providing weak handoff to 2023.

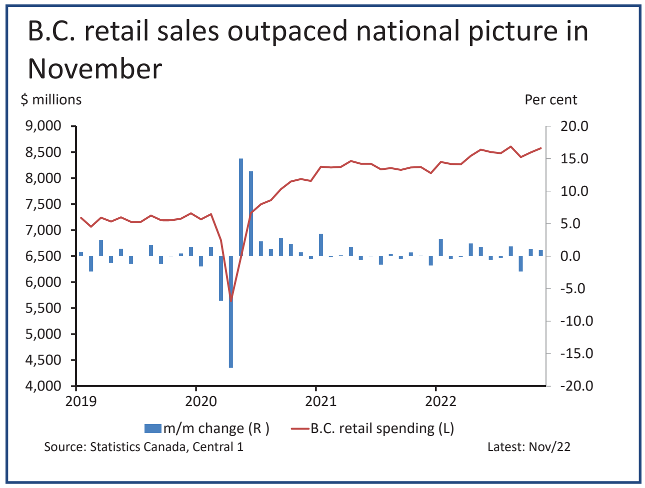
Seasonally-adjusted MLS® home sales reached a paltry 5,046 transactions during the month. While up 3.0 per cent on the month, this only partly reversed November's 11 per cent decline. Levels remained consistent with previous cycle lows observed in in 2012 (notwithstanding the early pandemic plunge) and were 22 per cent below pre-pandemic February 2020. Low sales volume reflects the decimation of affordability from sharply higher mortgage rates over the past year which has shuffled buyers to the sidelines, while price declines have been insufficient to offset the hikes. Rapid Bank of Canada rate hikes have pushed variable mortgage rates up by 400 basis points over the past year, and both variable and fixed mortgage rates sit above 6 per cent.

Sluggish sales remain a theme across the province, but December's performance was mixed among real estate board areas. Sales rose in Chilliwack (11 per cent) but the area experienced one of the largest pandemic-related demand surges and subsequent retracements. Victoria (up 7.5 per cent) and the rest of the Island (up 13.1 per cent) also reported stronger gains. The latter continues to see firm demand despite a decline in trend. Sales fell in the Fraser Valley (-1.5 per cent) and Kamloops (-11 per cent). Greater Vancouver sales held steady while sales rose in the Okanagan and Northern B.C.

B.C.'s average price slipped to $901,540, down 1.2 per cent from November and a tenth consecutive decline. Prices are 15 per cent below peak, albeit 22 per cent above pre-pandemic levels. Average prices are influenced by regional and product composition, but benchmark home values moved in the same direction and similar magnitude. Chilliwack, Fraser Valley, and Vancouver Island markets all recorded near 2 per cent price declines from November. Fraser Valley markets have seen much deeper declines from peak. Greater Vancouver and the Okanagan also reported lower benchmark prices.

While price declines have cut deep, the market has held on to much of the pandemic uptick. Home prices have been supported by a lack of existing home supply in the market as sellers have remained patient rather than cutting prices amidst a robust labour market and economy. New listings tumbled 14 per cent in December on a seasonally-adjusted basis, although extreme weather may have been a factor, while the sales-to-active listings ratio has bottomed in a range normally consistent with a balanced market. Market conditions are likely to remain weak into mid-year, but we see most of the price adjustment complete with peak-to-trough declines expected to hit 20 per cent. Declining fixed rate mortgage rates, strong population growth, and a steady albeit slowing economy are forecast to spur demand into 2024.

On an annual basis, MLS® home sales fell 35 per cent in 2022 after a record 2021 while the average price rose 7.5 per cent to $996,878 despite a sharp downtrend through the year. We forecast a 5 per cent decline in sales this year before rising 14 per cent in 2024. The average annual prices decline 8.0 per cent this year and hold steady in 2024.



B.C. retail sales outpace national picture, motor vehicle sales surge

Bryan Yu, Chief Economist

Canadian consumer spending at retail stores softened in November but held surprisingly sturdy with a mild 0.1 per cent decline from October. That said, the pinch of higher prices is evident as real sales volume declined 0.4 per cent and consumer sales bridged the inflationary gap. Much of the strength was also driven by spending at new car dealerships (up 1.2 per cent) which may reflect timing of inventory and higher spending on gasoline (up 2.2 per cent). Excluding these segments, dollar sales were 1.1 per cent lower with sharper declines in housing and renovation related sectors, while gains were recorded at clothing and grocery stores. Sales fell in 6 of 11 sectors. Preliminary data suggests a robust increase in retail sales of 0.5 per cent in December, marking a strong turnaround that aligns with stronger labour market activity, population growth and higher prices (aside from gasoline which plunged during the month).

Notwithstanding monthly fluctuations, retail spending has generally held in a range-bound trend reflecting shifts in purchasing habits and financial headwinds. Real spending has eased since mid-year. Current dollar sales in December were up 5.2 per cent, year-over-year, with real volume down 0.2 per cent. In part, consumers are still reallocating incomes to services such as dining out and other experiences, while a weak housing market and early pandemic purchases have curbed demand for housing-related products. Financial headwinds from higher interest rates are pinching wallets as interest payments surge, while households manage inflation pressures by delaying purchases or cutting back. These trends are likely to intensify into the early parts of 2023 as the economy slows.

While national sales slowed, B.C. retailers managed a second consecutive month of increase in November. Total sales rose 0.9 per cent to $8.57 billion with year-over-year growth of 4.4 per cent. the Vancouver metro area recorded a consistent monthly gain. Like the national picture, sales of vehicles and related goods accelerated. Our calculations of seasonally-adjusted activity suggests a gain of 10 per cent after 2 months of weakness, while unadjusted sales rose 4.5 per cent from a year ago. Excluding gasoline and motor vehicles, we calculate a slip in core sales, driven by contraction in housing-related spending like appliances and electronics (-2.7 per cent y/y) and building materials (-5.7 per cent). Through November, sales were up 2.7 per cent through 11 months.

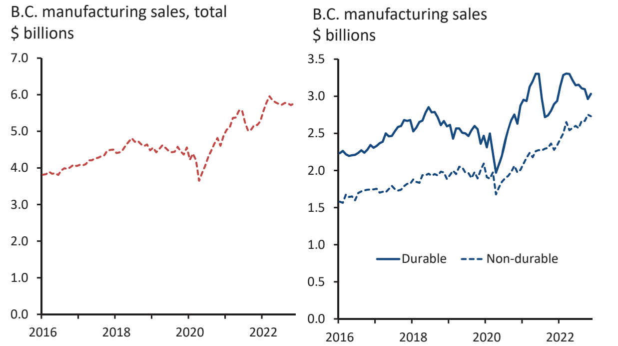
Nominal dollar volume retail spending is expected to hold steady, but consumers will be more hesitant to spend given higher interest rates and impending economic slowdown, curbing real consumption. High excess savings during the pandemic will act as a buffer against some of these headwinds.

B.C. factory sales edged up on strong durable goods sales

Alan Chow, Business Economist

Manufacturing sales in B.C. increased for the month of November after falling for 2 straight months. On a seasonally-adjusted basis, they climbed 0.84 per cent to $5.76 billion, which is 1.55 per cent above the trailing 12-month average. The increase was led by an increase in durable goods, which grew by 2.33 per cent and broke a streak of 3 months of declining sales. Non-durable goods sales, on the other hand, fell slightly, down 0.77 per cent in November over October.

B.C. manufacturing sales up, durables goods sales increase



Source: Statistics Canada, Central 1 latest: Nov 2022

Within the durable goods industries, strong sales were seen in transportation equipment manufacturing, up 30.2 per cent to $266 million. This is the highest sales amount since the start of the pandemic. Other industries which saw increases include non-metallic mineral products, up 9.2 per cent to $231 million, its highest month since October 2019 and wood products manufacturing, up 1.8 per cent ending 3 straight months of declining sales. Offsetting the increase was a decline in machinery sales which was down 10.97 per cent, and computer and electronic products, down 5.44 per cent. Within non-durable goods, paper manufacturing saw a 4.42 per cent decline in sales which were slightly offset by an increase in food manufacturing sales, which increased 1.29 per cent.

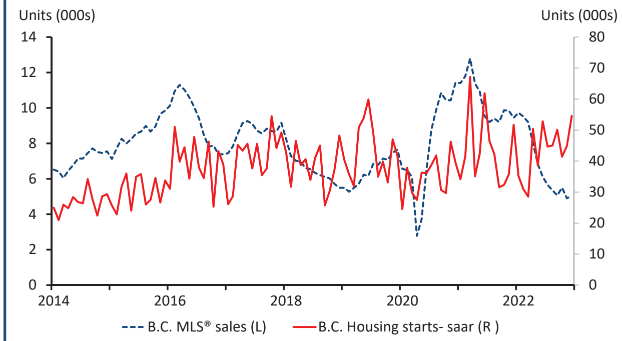
Up to November, year-to-date sales in B.C. were up 10.9 per cent compared to the same period last year with Metro Vancouver area performing even better, showing a year-to-date sales increase of 15.62 per cent. However, compared to other provinces, this ranks third lowest with only Nova Scotia and Newfoundland and Labrador showing lower growth in manufacturing sales.

Multi-family sector led December housing starts growth in B.C.

Ivy Ruan, Economic Analyst

Housing starts soared in B.C. for the month of December, following a modest increase observed the previous month. Starts came in at a seasonally-adjusted annualized pace of 54,581 units, up 21.6 per cent from revised 44,884 units in November. This monthly increase brought the provincial housing starts to the highest level in 2022 which ended with a robust trailing 12-month average.

Multi-family sector led December housing starts growth in B.C.



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

Almost all of December's increase reflected were from multi-family gains, with a moderate rebound in the single-detached units. B.C. multi-family starts gained 25.1 per cent to 47,373 units. Single-detached units gained 188 units following 2 consecutive months' declines to 7,208 units in December.

Amongst the Metro Areas, Vancouver saw an increase of 35.8 per cent to a seasonally-adjusted annualized pace of 38,058 units. Kelowna saw growth in housing starts of 34.6 per cent to 4,558 units. The year-end gains in Vancouver and Kelowna offset the loss reported in Victoria (-54.8 per cent).

Urban housing starts in B.C. totaled 43,106 units during the 12 months in 2022, 0.6 per cent lower than where they were last year at 43,360 units. Single-detached units were down 6.9 per cent from 8,088 units to 7,527 units while multi-family units were 0.8 per cent above last year, up from 31,272 units to 31,579 units. Overall, housing starts in the Metro Vancouver area remained relatively consistent from last year, down 0.1 per cent year-to-date and specifically in multi-family units, down 1.8 per cent. Single-detached unit growth remained strong year-to-date, up 12.5 per cent. Victoria year-to-date housing start units were down 0.5 per cent, with multi-family units up 4.0 per cent contrasted by single-detached units down 21.0 per cent. Kelowna starts were up 3.6 per cent with multi-family units up 16.5 per cent offset by a 29.0 per cent drop in single-detached units. And finally, Abbotsford-Mission was up 36.1 per cent with multi-family units up 39.2 per cent and single detached units up 28.9 per cent.

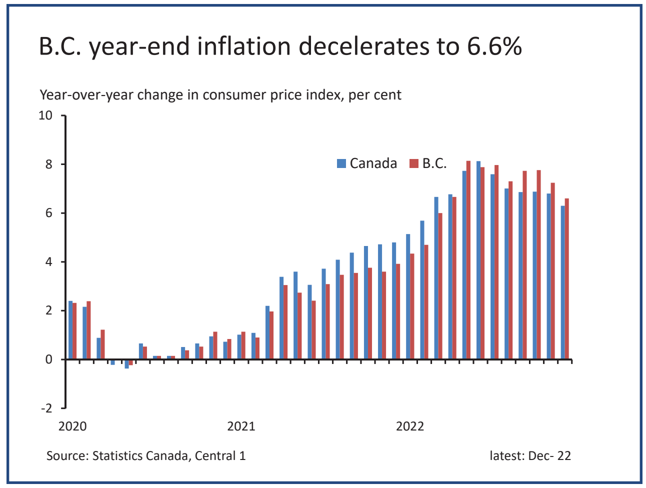
While 2022 ended with a slight decline for the year-to-date housing start levels in urban centres with 10,000 population and over, multi-unit readings remained strong despite housing market cooldown and economic uncertainties. Population growth and government plans for affordable housing will continue to support the construction activities in the new year, while market weakness and the high interest rate environment will continue to pose challenges for developers.

Falling gasoline prices led CPI decline in B.C.

Eloho Ennah, Economic Analyst

A decline in consumer prices slowed December headline inflation in B.C. to a year-over-year pace of 6.6 per cent. On a monthly basis, the index dipped by 0.7 per cent which exceeded the 0.6 per cent decrease recorded nationally. The decline in the CPI was led by plummeting gasoline prices which decreased by 11.8 per cent during the month. In addition, the last quarter of 2022 showed a downtick in energy prices which fell by 8.1 per cent in December (m/m).

As gasoline and energy prices trended downward during the last quarter of 2022, food prices headed the opposite direction.   Year-end inflation in food prices was 9.5 per cent compared to 9 per cent in November 2022. Some contributing factors to the upward trending food prices may include ongoing supply chain disruption, weather shocks, a weak Canadian dollar and other factors. On a yearly basis, B.C. residents paid 7.1 percent more for shelter, while prices of items related to household operations, furnishings and equipment increased by 5.2 per cent during the same period.



Prices of goods and services decreased on a month-over-month basis by 1.5 per cent and 0.1 per cent respectively. Items related to health and personal care, recreation, education and reading all showed equal decreases in prices, down 1 per cent from the previous month. Alcoholic beverages, tobacco products and recreational cannabis product prices lowered by 0.5 per cent .

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