Economics | Current Economic Trends

B.C. Economic Briefing

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Highlights

- Multi-family building intentions dropped in December, driving the lowest reading in monthly residential building permits since February 2022
- Private sector investments boosted non-residential permits

Non-residential building permits led the December monthly rebound

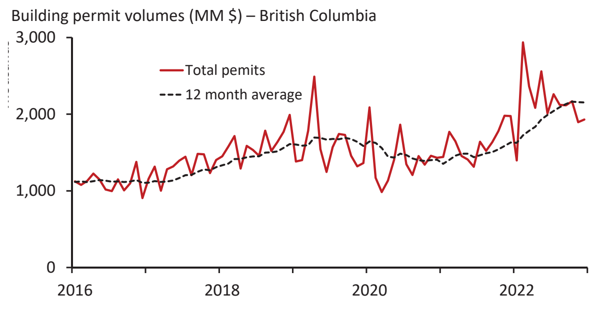
Ivy Ruan, Economic Analyst

B.C. building intentions remained steady through December despite resale housing market weakness and a sharp national retreat. Following the large decline reported in November, dollar-volume permits in the province reached a seasonally-adjusted $1.93 billion in December, 1.6 per cent higher than the previous month. This was led entirely by non-residential building permits which rose 10.7 per cent while residential volume edged down 1.3 per cent.

Despite the monthly gain, B.C. building permits' total volume dropped 2.3 per cent year-over-year. That said, full-year permit volume reached $25.8 billion in 2022, 32.0 per cent above 2021 and reflecting a year full of robust construction activities despite smoothing trend. Much of this strength was driven by as surge in early year activity. A significant portion of this increase reflects higher construction costs, but even after price adjustment, real permit volume was 18.8 per cent higher through 2022.

Residential construction intention dropped in December with a 1.3 per cent decrease to a seasonally- adjusted $1.42 billion, marking the lowest reading since February 2022. Full-year permit volume rose 24.2 per cent (9.4 per cent in real terms). The monthly decline in December was driven by fewer multi-family units, where volume fell 2.3 per cent from November. That said, the total dollar-volume of multi-family construction permits in 2022 was still 33.7 per cent higher than the previous year as projects planned prior to the downturn continued to move forward. Single-family activities partially offset the decline in multi-family, with 2.1 per cent monthly growth in December, yet were only 1.3 per cent higher in year-to-date terms. A slower underlying momentum in the residential sector continued and residential building intentions are expected to decline more sharply in 2023.

Non-residential building permits led the December monthly rebound



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

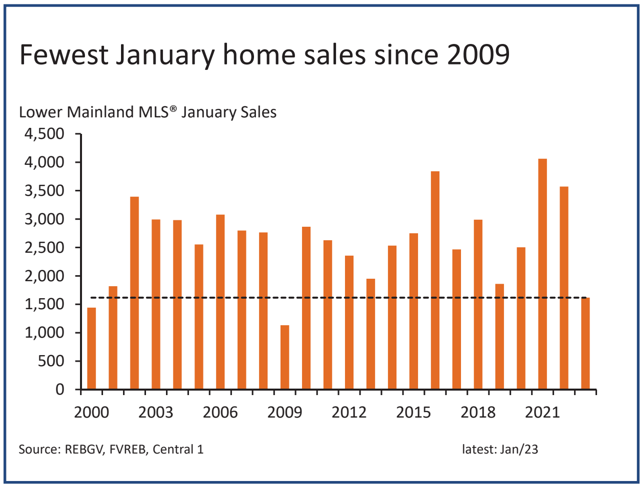
Non-residential permit volume rose 10.7 per cent from November to $512 million, with permits for industrial sector and commercial sector offsetting the decline in government buildings. Year-to-date permit growth reached 53.6 per cent (42.9 per cent in real terms) with broad-based gains. Government spending on major projects such as subways and hospitals will continue to support activity in the new year, although a slowing economy could temper private sector activities.

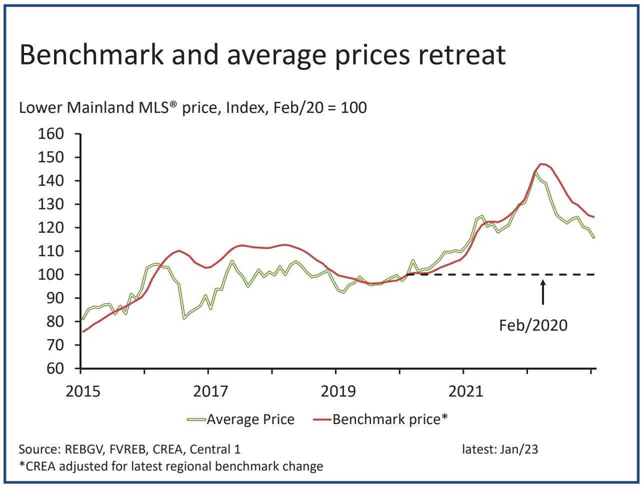
Among metro areas, the growth of total dollar-volume of building permits in 2022 was led by Metro Vancouver (up 55.1 per cent) and Abbotsford-Mission (up 25.4 per cent). In contrast, Kelowna permits edged down 0.7 per cent while Victoria permits rose slightly by 3.4 per cent.

Lower Mainland housing market stumbles into 2023

Bryan Yu, Chief Economist

There was no turnaround for the Lower Mainland housing market in January as both sales and prices declined again to start the new year. MLS® sales in the region spanning Metro Vancouver and Abbotsford-Mission reached a meagre 1,618 units during the month, marking a 55 per cent decline from a year ago and the fewest January sales since the period of the 2008/09 financial crisis when only 1,132 units transacted. On a seasonally-adjusted basis, our calculations point to a downward trend in sales.





Low sales volume reflects the deep and rapid erosion in affordability from higher interest rates. The Bank of Canada increased its policy rate by 425 basis points over the past year, including the latest January hike, directly increasing variable mortgage rates. Higher interest rates coupled with early pandemic price increases have priced many households out of the market. Recent price declines have been nowhere near sufficient to offset higher interest rates.

That said, prices continue to fall. The average price fell three per cent (unadjusted) to $1.066 million which was the lowest since February 2021. This marks a 20 per cent drop from the February 2022 peak and narrowed the gain from pre-pandemic 2020 to 15 per cent. Similarly, the benchmark price which adjusts for housing type and attributes fell 0.6 per cent from January and is down about 15 per cent from peak.

Single-family home prices, down 1.3 per cent m/m and 12 per cent from a year ago have fallen the most after a stronger early pandemic run up. Declines have been led by the Fraser Valley. In contrast, the condo apartment market has shown more life with the benchmark apartment value turning higher after seven straight monthly declines. Buyers sliding down the affordability ladder and investor demand due to a hot rental market may be lifting demand and prices for these units. Vancouver metro rental vacancy rates fell to about per cent while rents rose 5.7 per cent in 2022.

Home price are expected to decline into the second quarter. Lack of inventory and listings continue to support price but the latest numbers showed higher new and active listings as sales fell pointing to more supply heading into the spring market. Nevertheless, the bulk of the decline is likely behind us, and an expected stabilization of variable interest rates (and lower fixed rates), coupled with a firm labour market and strong population growth is expected to lift sales and firm up prices beginning mid-year.

For more information, contact economics@central1.com.