

BC Home Sales May Be Turning A Corner

- August Canadian Real Estate Association [data](#) suggest sales in the Greater Vancouver area are stabilizing, though activity remains well below year-ago levels. This is occurring just as *Labour Force Survey* data show employment in BC at a possible inflection point following job losses earlier this year.
- While risks remain, solid full-time job creation and a recovery in multiple sectors with falling employment to date should support BC housing demand and economic growth this year and next. An upswing in new construction should limit further erosion of housing affordability.

THE DRIVERS OF BC'S RECENT EXPANSION

Housing—comprising home building and real estate intermediation—was a key contributor to BC's recent economic growth. Sectoral output gains averaged nearly 5% during 2013–17 and accounted for over 21% of real GDP in every year over that period, both more than any other province (chart 1). Household incomes and spending also supported the torrid four-year expansion. BC led the provinces in retail sales growth in every year from 2015 to 2017, anchored by strong full-time job creation averaging 2.8% annually over the same period. As housing activity and household incomes via employment growth pushed each other higher, BC real GDP advanced by an average of 3.6% annually over 2013–17, the strongest provincial gains by over a percentage point.

VANCOUVER SALES MAY BE STABILIZING

Vancouver MLS residential unit sales fell substantially over the February to June period, but have picked up somewhat since the June low. Sales are down 27.4% ytd (nsa y/y) through August with weakness across unit types, but a 2.9% rise in August—following declines in the 0.5%–2.5% range from April to July (figures sa m/m)—suggests the market may be at an inflection point. By contrast, Toronto home purchases rose (nsa y/y) in each of the last three months, in part reflecting sales weakness last summer that followed the introduction of the 15% foreign buyers' tax in Ontario's Greater Golden Horseshoe in April 2017 (chart 2).

New listings have been fairly steady in Vancouver since the second month of 2018 on a seasonally adjusted m/m basis. Consequently, the city's sales-to-new-listings ratio has sat below 50% (sa) in seven consecutive months, a streak not seen since 2012–13. The rise mirrors an 11% ytd y/y upswing in units under construction in Vancouver, with completed and unsold units climbing 10% ytd y/y (both figures nsa through July).

With stable housing supply and soft demand, Vancouver home price growth has been more modest this year than during much of 2015–17 at the height of the city's housing boom. MLS average sales prices rose by a mean of 11.9% during 2015–16 and witnessed further double-digit (nsa y/y) gains from August 2017 to January 2018. This year, the average purchase price is up just 3.7% ytd (nsa y/y) as of August.

Though demand-supply conditions are improving, affordability is expected to remain a concern. Despite the ytd increase, Vancouver's inventory of unabsorbed

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Chart 1

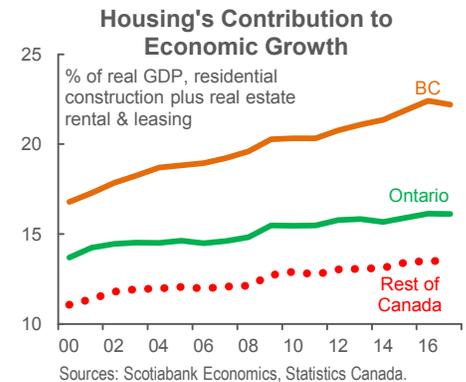


Chart 2

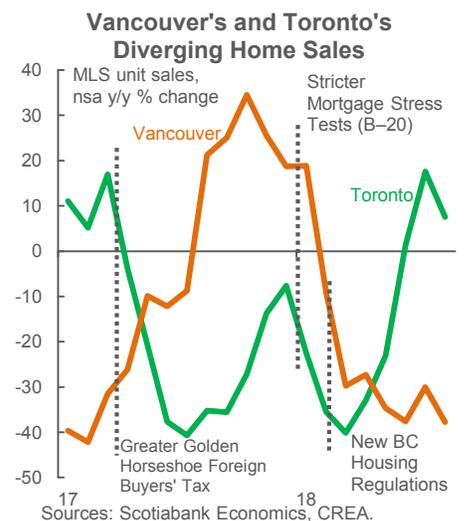
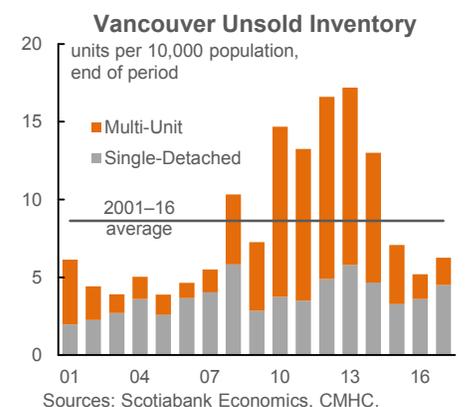


Chart 3



homes remains well below its long-run average, building on the shortfall accrued in recent years (chart 3, p.1) and indicating further price increases are likely ahead. In response to provincial measures targeting the higher end of the market, demand has also shifted towards lower-cost unit types—as indicated by respective ytd y/y increases through August of 14.8% and 20.4% in the MLS HPI for townhomes and apartments. With more moderately priced dwelling types continuing to see strong upward price pressures, acute affordability pressures are likely to persist near-term for prospective modest- and middle-income homebuyers.

JOB CREATION AND HOUSEHOLD SPENDING PAUSE

Signs are also emerging this year that household consumption is slowing. Through August, BC's growth in full-time positions is just 1.0% ytd y/y, down from last year's 3.9%. In line with the province, Vancouver employment has declined y/y (nsa) in three consecutive months, contrasting with Toronto but with an increase (sa m/m) in August mirroring homebuying activity (chart 4). BC retail sales, after gains of 9.2% last year, are up only 4.1% ytd y/y through June, with Vancouver purchases decelerating from 7.2% last year to just 2.7% to date this year.

Vancouver's home buying weakness is likely being affected by softening job creation. Toronto and Vancouver home sales are undoubtedly being dampened by rising interest rates and stricter mortgage qualification tests implemented January 1st. Centres in Southern BC are also still adjusting to new provincial regulations introduced in February's *Budget*. Yet the link between employment growth and home sales in both cities implies household incomes are at least partially affecting home buying activity this year.

Perhaps more troubling for economic growth, however, is the contribution of home sales to household expenditures. Home-related retail purchases (e.g. furniture, appliances and building materials) accounted for over 12% of all retail sales in Vancouver and BC from 2013 to 2017. Retail sales of these items through June are up just 7.8% in BC and 6.3% in Vancouver (both figures ytd y/y), well below last year's respective 16.4% and 14.2% gains. Finance, insurance, real estate & leasing employment—with a 6.3% workforce share in 2017 that trailed only Ontario and mean weekly earnings 12.6% above the all-industry average last year in BC—is down 2.8% ytd y/y as of August. Assisted by real estate activity, the industry saw job creation of 21.5% during 2016–17, more than any other province.

EMPLOYMENT PROSPECTS MORE POSITIVE

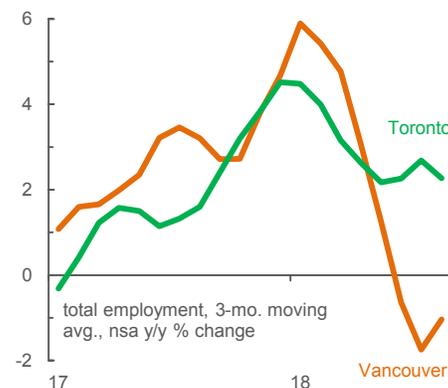
While BC's headline job numbers appear disappointing at first glance, the composition of new positions is more encouraging. Full-time hiring has advanced at a steady clip this year, falling (nsa y/y) only once and trending higher since June. This is consistent with an economy returning to a more sustainable rate of expansion after operating above its underlying rate of growth for multiple years, as is the associated moderation of consumer spending.

Employment in transportation & warehousing, one of the major contributors to this year's weakness with total jobs falling 6.4% ytd y/y, will likely stabilize later this year. The \$9 billion Vancouver International Airport expansion is progressing, providing a base for steady income and employment gains in the industry. The proposed \$2 billion Roberts Bank terminal upgrade at the Port of Vancouver—estimated to increase annual shipping capacity by 2.4 million twenty-foot equivalents—presents additional upside for sectoral output and hiring.

The soft patch in information, culture & recreation, with employment down 8.0% ytd y/y through August, is also likely to be transitory. Film and television production in BC rose more than 40% in 2016–17¹, surpassing Ontario for the first time to become Canada's top market. This propelled torrid sectoral 19.5% job creation in Vancouver in 2016 and a further 7.1% in 2017. This year's fallback, concentrated in part-time job losses, is both a natural development following the 2017 peak and a reflection of the shorter-duration nature of work in the entertainment industry. Going forward, we expect the province's strong reputation as a filming destination plus a Canadian dollar trading near 80¢ (US) to continue to boost sectoral output and hiring. Disruption of Canadian protection of the cultural industries under NAFTA renegotiation presents downside risk for the sector.

Chart 4

Toronto and Vancouver Employment Patterns Mirror Home Sales



Sources: Scotiabank Economics, Statistics Canada.

¹ Production data are measured each year from April 1st to March 31st the following year. 2016–17 is the most year for which data are published.

Finance, insurance, real estate & leasing employment has a more modest prognosis. With interest rates expected to continue to rise through to 2019, we expect moderating mortgage loans to result in weaker banking sector profitability, slower growth in home insurance premiums and softer demand for real estate intermediation services.

Construction industry job creation is likely to remain healthy despite more moderate expectations for real estate and related services. Still-high home prices and low interest rates continue to encourage building this year. In addition to the elevated building activity reported in Vancouver, units under construction were at or near all-time highs in Victoria and Abbotsford in July. Construction of 114,000 affordable homes over the next 10 years, plans for which were announced in *Budget 2018*, further put a floor under construction.

In our view, labour shortages represent a greater risk to BC's economic growth and housing demand than layoffs. BC's job vacancy rate reached 4.2% in Q1-2018—the highest of any province and the fourth consecutive quarter over 4%—with elevated numbers of unfilled positions reported across industries. Interprovincial migration is cresting (chart 5, p.2) and is also likely to increasingly constrain the pool of available workers with heightened housing affordability pressures reducing BC's attraction and labour market conditions improving in Alberta.

BC'S HIGH TECH ADVANTAGE

Where other sectors have witnessed slowing or contracting employment this year, BC's mature but vibrant technology sector continues to expand. After real GDP in information & communications technology in BC advanced 29% from 2010 to 2017—more than any other province—our measure of the tech sector indicates a 5.7% ytd y/y increase in payroll employment (chart 6, p.2). This definition includes positions across a range of industries in specialized manufacturing and business services, with employees estimated by the Province to earn \$1,690 per week on average in 2016, versus \$920 for the average BC worker.

Technology sector employment growth is crucial to supporting BC's near-term household income, housing demand and broader competitiveness. Despite higher living costs, mean weekly wages for payroll employees in BC averaged 18% and 5% lower than Ontario's and Alberta's, respectively, during 2015–17. With BC's natural population growth slowing as a result of an aging population, the province's reputation as a technology hub will continue to play a role in attracting the high-skilled international immigrants needed to sustain population growth. Initial results on this front are encouraging: immigration to Vancouver is up 22.8% ytd y/y through August, with newcomers admitted via the economic stream rising 17.4% versus year-earlier levels. Correspondingly, BC's Q1-2018 population rose 1.4% y/y, building on similar gains during 2016–17.

OUTLOOK

We look for continued moderate home price gains in Vancouver and BC, with sales gradually resuming their upward trajectory later this year and into 2019. The province continues to generate new full-time positions, and employment in a number of sectors is likely to rebound from recent weakness, pushing home sales higher and supporting housing-related economic growth as buyers and sellers adjust to new federal and provincial regulations. Housing starts are forecast to average about 40,000 this year and next. Net of demolitions, second-home purchases and foreign buying activity, building is expected to outpace the Province's estimated household formation of about 24,000 units, resulting in modest home price appreciation relative to 2015–16. Yet the previous years' accumulated supply shortfall will take time to absorb, keeping prices high and homeownership out of reach for many modest- to middle-income individuals near-term.

Chart 5

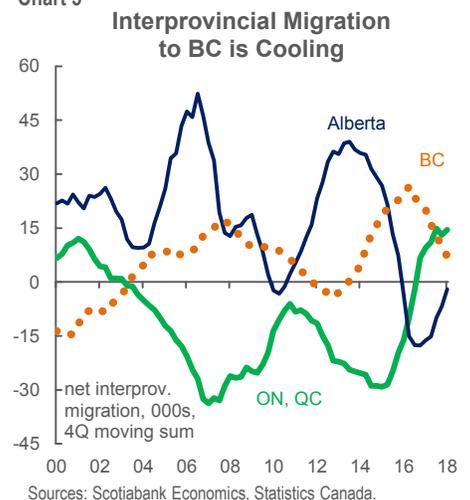
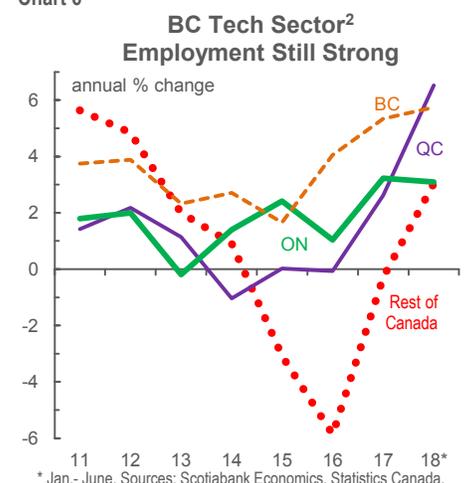


Chart 6



² Includes aerospace, chemicals, pharmaceuticals, specialized machinery, engineering & design, ICT and scientific R&D.

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