BRITISH COLUMBIA – As housing slumps, business investment takes over

While the housing market downturn grabs most headlines these days, a $4 billion surge in business capital spending is the bigger story this year. It will keep BC near the top of the provincial growth rankings.

After leading all provinces in growth in 2016 and 2017, the BC economy slowed its pace last year—albeit to a still-respectable rate of 2.3% (third-fastest rate among the provinces). The significant cooling in the provincial housing market contributed strongly to this slowing, which had ripple effects across a number housing-sensitive industries in the services and manufacturing sectors. The labour market continued to be very robust, however. Job creation was healthy, if unspectacular, and the unemployment rate stood as the lowest among the provinces (4.7%).

Generally softer undertones have carried into 2019. Activity in the Vancouver housing market fell to a decade low this spring and prices continued to slide. There are now a lot more units for sale in the province which reduces demand for, and construction of new homes (especially of more expensive single-detached). Declining sales of building materials, furniture and motor vehicles are clear signs that the housing downturn is weighing on BC consumers who have become more circumspect. This is in stark contrast to their overflowing confidence not so long ago when rapidly-rising housing wealth fueled a four-year long shopping spree in the province.

Multiple layers of housing policy tightening will keep the market cool. Vancouver’s benchmark price is down 8.9% since the June 2018 peak and we see it sliding further in the near term. This won’t fuss policymakers who we suspect are quite pleased with the current state of affairs. Their intent ultimately is to tackle Vancouver’s (and arguably Victoria’s) severe affordability issues, so we expect them to keep suppressing homebuyer demand to sustain downward pressure on property values.

Yet a soft housing market and more cautious consumers aren’t about to trip up BC’s economy. A surge in spending on major capital projects will pick up any slack. Businesses plan to boost their capital expenditures by nearly $4 billion (up 13%) this year—the biggest increase ever in dollar terms. The ramping up of construction of the $40-billion LNG Canada megaproject in Kitimat, in particular, will generate a groundswell of activity in the province. Commercial real estate also is on an upswing—driving non-residential investment 21% above year-ago levels in the first quarter of 2019. Vigour in the non-residential construction will keep overall economic growth near the 2.5% mark in 2019 and 2020—strong enough to uphold BC’s top-tier provincial growth ranking.

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