The end of the housing boom?

Much of the economic discussion lately in British Columbia has focused on housing risks and for good reasons; however, the impressive strength in the provincial economy being painted by a broad sweep of indicators should not be overlooked. Year-to-date statistics on the labour market, consumer spending, population, non-residential construction, and, of course, housing point toward solid growth being sustained this year. Accordingly, we maintained our growth forecast of 3.0% in 2016, thereby leaving British Columbia once again at the top of our provincial growth rankings. We revised our outlook for 2017 modestly lower, although this in large part reflected dimmed prospects for the Vancouver housing market in light of recent market and policy developments. We now project real gross domestic product (GDP) to grow by 1.9% in 2017 instead of the 2.3% rate that we had previously forecasted.

Substantial momentum in the first half of 2016

While not universally favourable, indicators available to date overwhelmingly point to the provincial economy carrying still-solid momentum during the first half of 2016. In particular, labour market statistics stand out with impressive gains in employment—which rose by 50,000 since the end of 2015, and was more than to 3% above year-ago levels by mid-year—and continued drop in the unemployment rate to the lowest level (5.5% in August) among the provinces. In turn, British Columbia’s healthy employment situation has kept households in good spending spirit, which has been positive for consumer-dependent industries in the province. The retail trade industry, for instance, saw a strong 6.7% increase in sales during the first six months of 2016, thereby further building on hefty gains recorded in the previous two years. Dealers of new motor vehicles continued to benefit from unbridled interest on the part of British Columbians.

BC government imposes new tax on foreign homebuyers

Easily the biggest news in British Columbia since our June 2016 Provincial Outlook report has been the surprise announcement by the BC government of a new 15% tax on residential properties purchased by foreign nationals in Metro Vancouver. This announcement—and snap implementation on August 2, 2016—represented the BC government’s most significant action to date to address housing market risks in the province and signalled a shift in provincial housing policy toward actively engineering a cool down of the Vancouver-area market. Reaction from buyers and sellers appears to have been swift following the news, with the Real Estate Board of Greater Vancouver reporting that home resales in August fell by 26% from the same period a year ago, although a sizable 19% decline had already been registered in July, mostly prior to the announcement of the new tax. In fact, home resales in the area have trended downwardly since reaching an all-time high (on a seasonally adjusted basis) in February.

Housing likely to cool and contribute less to the economy

We believe that this shift in provincial housing policy is a material change for the Vancouver-area market that could trigger a downgrad ing of future price expectations and temper speculative activity. We assume as much and accordingly revised our BC housing forecasts downwardly, projecting a sharp 16% decline in home resales in 2017 and more subdued price increase of 5.7%, as well as moderation in housing starts from a 23-year high of 40,900 units in 2016 to 33,500 units in 2017. In this context, we expect housing to contribute less to British Columbia’s economy next year.