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B.C. Economic Briefing

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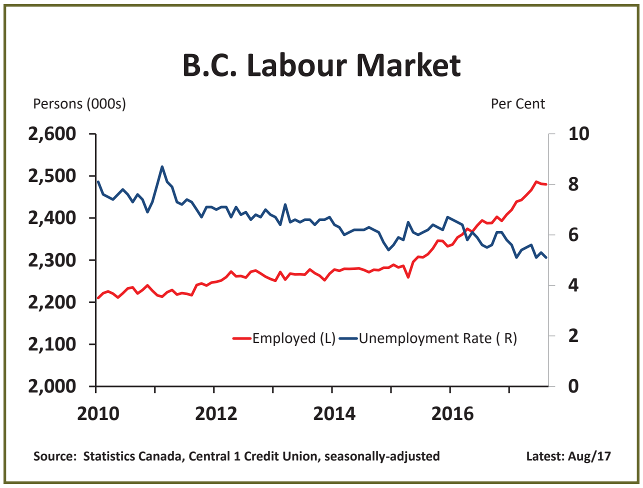
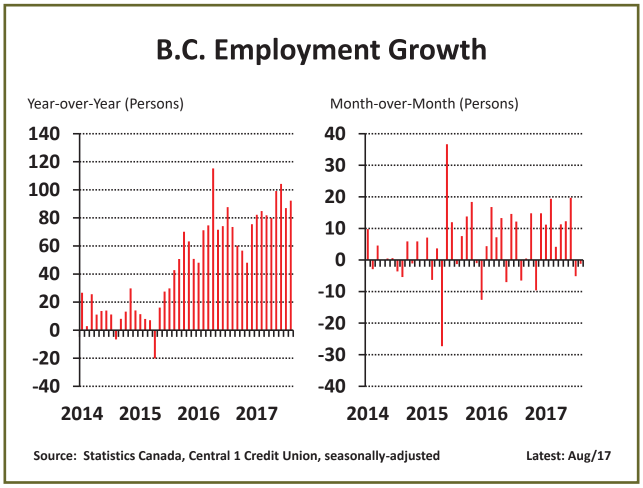
HIGHLIGHTS:

- Hiring flat in August but labour market remains strong
- International merchandise exports dive in July
- Residential permit volumes hit record high in July
- Lower Mainland home values jump in August, condo market drives gains





B.C. hiring momentum slows in August

Employment in B.C. was flat for a second successive month in August, pointing to a pause in hiring momentum after a dizzying growth spell during the first half. Estimated employment was unchanged from July at 2.48 million persons, which was slightly below the Ontario-led national gain of 0.1 per cent. Employment in the Vancouver CMA fell 0.5 per cent, with gains elsewhere in the province. Nonetheless, at 3.9 per cent, year-over-year growth in B.C. was tops in the country and almost double the national pace – reflecting earlier gains. Flat employment may in part reflect labour supply availability, as the unemployment rate eased 0.2 percentage points to 5.1 per cent.

At the industry-level, growth was mixed. Notable monthly employment changes included growth in agriculture (11.8 per cent), professional, scientific and technical services (3.0 per cent), and healthcare and social services (1.7 per cent), with offsets in accommodations and foodservices (-3.7 per cent), transportation and warehousing (-2.4 per cent) and public administration (-2.2 per cent).

While a few more months of data is required, flat August employment and erosion in job quality could signal a cresting in the current employment cycle. A sharp decline in full-time employment (1.5 per cent) was masked by an offsetting part-time gain, while the number of self-employed individuals has climbed at a quicker pace in recent months.

Nonetheless, the labour market is undoubtedly strong, indicated by a low unemployment rate and high levels of labour force participation. Year-to-date employment has averaged 3.9 per cent through August, led by a four per cent gain in full-time tenure. Gains have been aligned with sectors such as housing/construction, technology, agriculture and general services. Among metro areas, Kelowna has led gains with a 10 per cent increase, with more than four per cent gains in Victoria and Abbotsford-Mission. Vancouver has trailed with a 2.3 per cent gain.

One wrinkle, however, has been the rise in the number of employed temporary workers. While growth in permanent workers has been strong at a near three per cent, temporary employment was up 12.8 per cent, reflecting growth in term/contract jobs (20 per cent) and casual work (14 per cent). Given strong economic growth, and rise in permanent employment and tight labour markets, this may indicate employers are hiring to meet a higher than expected demand, a rise in voluntary casual workers, and preference of employees for flexible work arrangements.

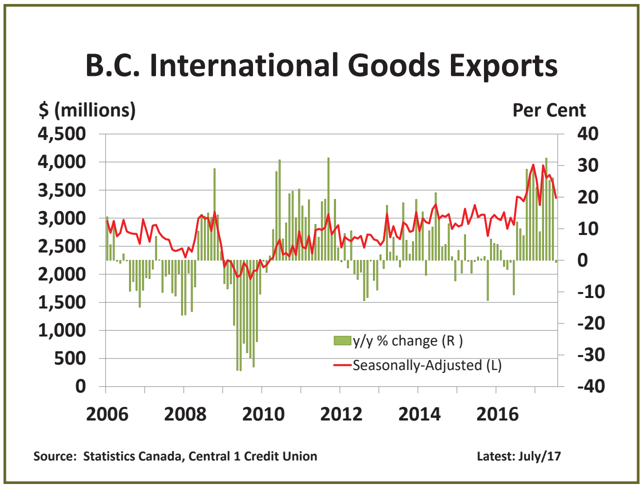
A softer employment picture is forecast for the rest of the year, holding employment growth to about 3.5 per cent. Average employment growth is forecast to decelerate to 2.0 per cent in 2018 with an average unemployment rate of 5.4 per cent.

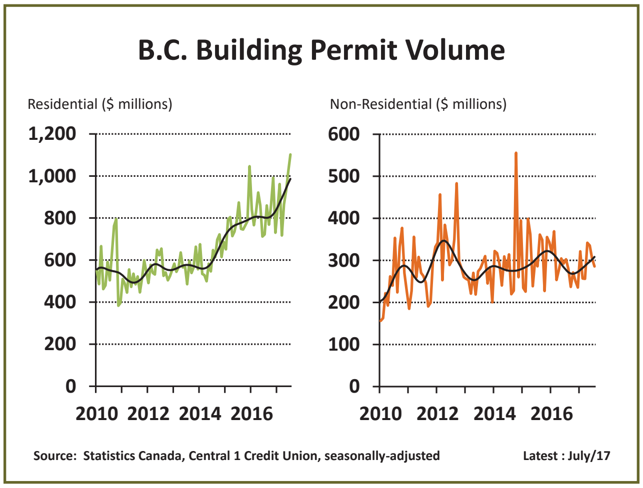
Exports tumble in July

B.C.'s export growth cycle took a hit in July with international merchandise exports falling sharply from the strong first half pace. Led by retrenchment in forestry products, consumer goods, and energy and mining products, growth in dollar-volume exports slowed to -0.7 per cent on year-over-year basis in July to $3.36 billion, following a 26 per cent increase June. On a seasonally-adjusted basis, sales fell for a second consecutive month. Despite the decline, year-to-date sales were still 20 per cent higher than a year ago, owing in large part to higher commodity prices.

As export volume can fluctuate sharply due in part to shifts in commodity prices, July's decline is not a concern at this point. Moreover, temporary factors have played a role with record wildfires curtailing timber harvest and lumber production at interior mills. This will rebound in future data, although U.S. protectionist policies will continue to weigh on the forestry sector.

Exports are forecast to be an important source of growth going forward reflecting growth in B.C.'s global trading partners such as the U.S. and China. The Canadian dollar will remain a driver of real gains in both goods and services exports despite recent upward pressure currency, although dollar-conversion for exports priced in US dollars is negative for associated income growth.



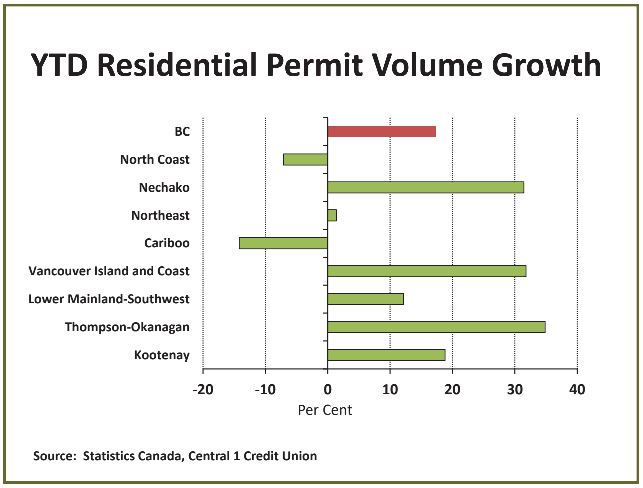


Domestically, improving economic fortunes in Alberta and other provinces will buoy interprovincial exports. Real export growth is forecast at more than four per cent this year, before decelerating to three per cent in 2018.

July residential permits surge buoys construction

A record-setting performance for monthly residential building permits points in July points to a continued pace of elevated construction activity. Dollar-volume rose 7.8 per cent from June to $1.1 billion, marking a fourth straight monthly increase and extending a general uptrend since late-2016.

While monthly permits are volatile given the influence of large multi-family projects on any given month, year-to-date permits have run well ahead of year ago at 17 per cent, although July's same-month gain of more than 50 per cent contributed a significant portion of the lift.

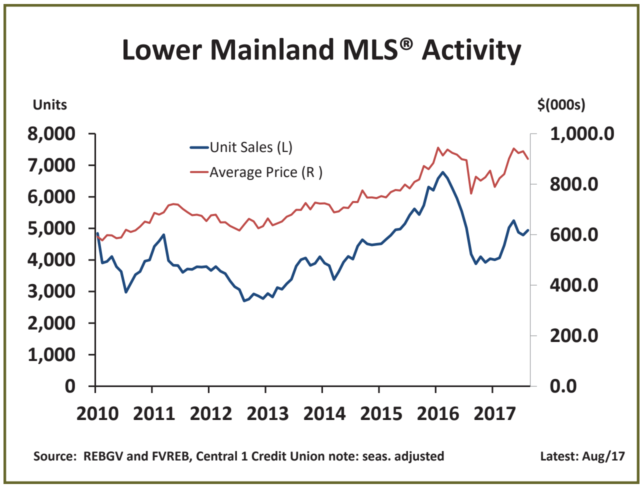


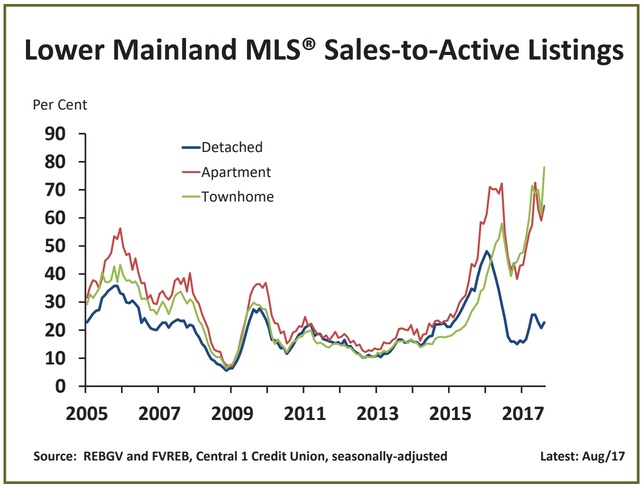
A sharp rise in apartment activity (38 per cent) has underpinned the gain, while dollar-volume growth for singles- and row- product has been flat.

Regionally, permits point to higher residential construction across the province. Not surprisingly, about half of the growth reflects a more than 12 per cent year-to-date increase in the Lower Mainland-Southwest. That said, relative gains have been strongest in the Thompson-Okanagan (34.8 per cent), Vancouver Island and Coast (31.8 per cent) and the Nechako. The strong permit cycle reflects tight housing markets among large urban areas, population inflows and lack of inventory. This is driving new product demand and renovation spending. While the permit surge was partly internalized in July's housing starts data, strength is expected to spill over into next week's release of August starts.

Provincial housing starts are forecast to reach 39,200 units this year, down from 2016's record high of 41,800 units. Starts are forecast to remain range-bound over the following two years.

While housing boomed, non-residential building permits pulled back for a third straight month. Dollar-volume activity declined six per cent on both a month-to-month and year-over-year basis, albeit holding within the range observed in recent years. Year-to-date volume was 5.7 per cent higher, driven by stronger gains in industrial and public-sector construction, but pulled down by commercial activity. The lack of sustained traction in construction intentions could reflect uncertainties related to U.S. protectionism, and a still nascent recovery in commodities related



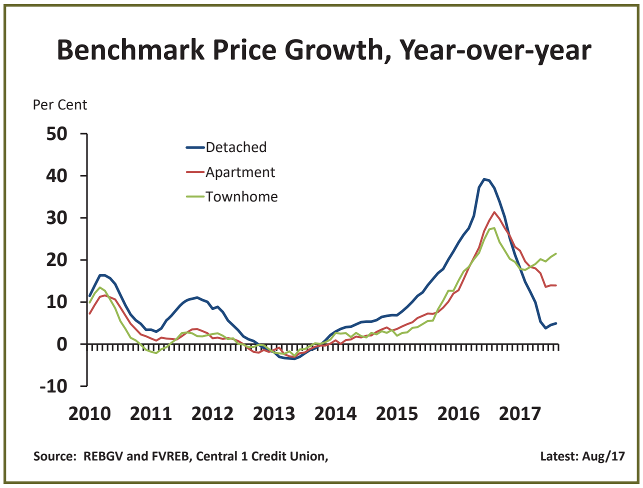


activity. Additionally, the greater importance of e-commerce may also be shifting investment away from traditional brick and mortar shops towards alternative investment in warehousing and intellectual property investment.

Home values continue to surge in Lower Mainland

Housing market conditions in the Lower Mainland remained hot in August with further price gains being driven by low inventory and strong sales activity. Any remaining semblance of affordability continues to be eroded by relentless price appreciation and higher mortgage rates.

Home sales in the combined Metro Vancouver/Abbotsford-Mission region reached 4,919 units. While up 18 per cent on a year-over-year basis, last year's implementation of the foreign buyers' tax sharply curtailed activity. On a seasonally-adjusted basis, sales climbed modestly from July and remain in line with cycle-high trends from



the mid-2000s – while also being constrained by low inventory. High levels of demand continue to be driven by strong economic growth – low, albeit rising, mortgage rates – and the B.C. Home Partnership Plan. Recent interest rate increases are also an incentive for prospective buyers with pre-qualified rates to lock-in through purchasing. On the flipside, there remains some uncertainty related to potential future housing policies of the new provincial government.

Strong demand and a moderate new listings flow are keeping active listings low. While only modestly lower from July, and flat year-over-year, levels are 25 per cent lower than two years ago and not far from record lows. The sales-to-active listings ratio (SALR) remained firmly in sellers' market territory at 38 per cent (seasonally-adjusted). Conditions have been especially explosive in the apartment and townhome condo markets as buyers have raced to find "affordable" product, keeping sales in near record high levels, while detached activity remains more subdued. SALRs for apartment and townhomes trend above 60 per cent pointing to accelerated conditions, with detached units a more muted 18 per cent and generally balanced.

Pricing conditions are reflecting this reality. While the average price level slipped from July on a seasonally-adjusted basis, which partly reflects sales composition, constant-quality benchmark measures continued to rise. Multi-family benchmark prices jumped again by two per cent from July by 2.3 per cent (seasonally-adjusted), driving year-over-year growth to 21.5 per cent for apartments, and 13.9 per cent for townhomes.

Meanwhile the detached benchmark price rose 0.5 per cent from July and 4.9 per cent, year-over-year. The gap between detached and multi-family product is narrowing, but not via a correction.

This market imbalance is severely eroding affordability – and prices will continue to rise in the absence of a market shock, policy intervention, or big inventory lift. Price growth could slow if this persists as sales slip due to affordability erosion, but this is not imminent.

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