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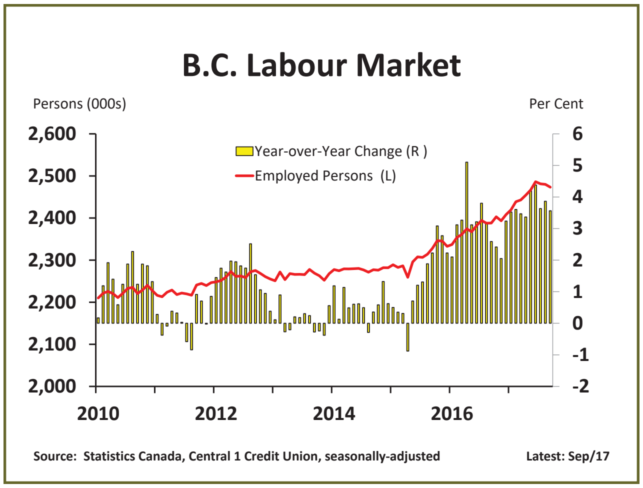
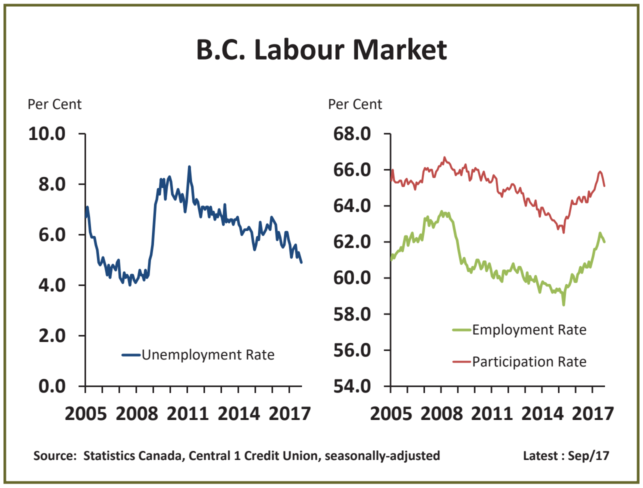
HIGHLIGHTS:

- Unemployment rate falls to lowest since 2008; labour supply an issue
- Third quarter labour force data reveal strong year-over-year gains across B.C.
- B.C. international merchandise exports disappoint, despite small rebound
- High levels of housing sales and low inventory continue to propel prices higher; remains a sellers' market





Unemployment rate sinks below five per cent

Estimated employment in B.C. declined in September by 6,700 persons (0.3 per cent) from August. While the drop was statistically insignificant, employment has edged lower for the past three months pointing to a pause in the red-hot momentum seen for most of the year.

September's employment decline was concentrated in the prime 25-plus age group, with a retracement in part-time positions (-11,600 persons) offsetting a rebound in full-time growth (5,000 persons). Among industries, half of the 16 groups added a modest number jobs, but losses were concentrated construction and agriculture, as well as in the professional/tech (PST) and information and culture service sectors. September's dip came outside the Vancouver census metropolis area (CMA) which saw employment rise by 3,400 person (0.2 per cent).

Despite the slip in hiring momentum, B.C.'s labour market remains robust. At 3.6 per cent year-over-year, employment growth was strongest in the country by far, with Ontario second at 2.4 per cent and a national reading of 1.8 per cent. Year-to-date growth of 3.9 per cent has reflected similar strength in both full-time and part-time markets. Strength across industries has been broad.

That said, labour supply is increasingly an issue. The unemployment rate fell to the lowest level since September 2008, to 4.9 per cent, while the labour force participation rate and employment-to-working age population remained high. This could be constraining employers from finding an appropriately skilled workforce, while also contributing to a uptick in wages as we saw in September. A declining trend in net interprovincial migration to B.C. due to strengthening economic conditions in other provinces is not helping matters. Short-term labor constraints could impact growth, and expedite a rotation to productivity enhancing technology.

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 1.9 per cent in 2018 with an average unemployment rate of 5.4 per cent.

Regional labour market patterns improve

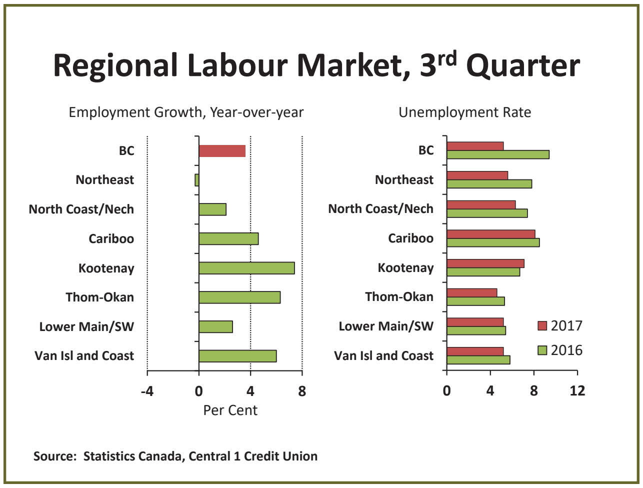
Aligning with the provincial theme, regional labour markets have improved over the past year. Third quarter labour force data pointed to strong year-over-year gains across most of the province. Employment growth has rotated away from the Vancouver CMA this year, with more than six per cent growth on Vancouver Island, Thompson-Okanagan, and Kootenay driving the gain. Among metro areas, Kelowna employment has surged nearly 14 per cent, driving the Thompson-Okanagan gain, which could reflect both domestic growth and inter-regional employment demand due to project-specific demand from other areas in Alberta and the Northeast. Victoria employment rose 3.2 per cent over the same period.

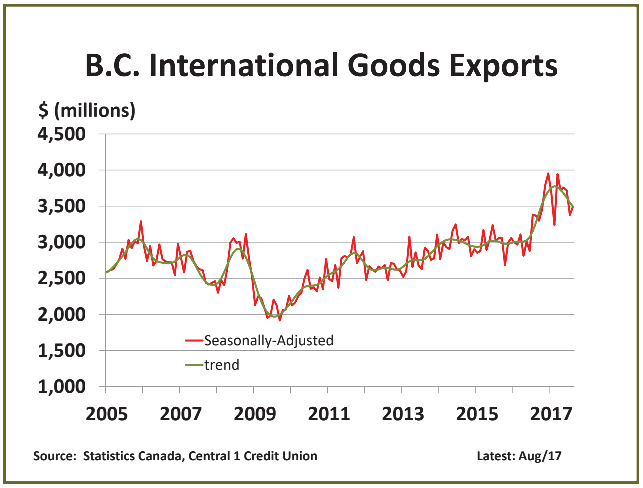
Unemployment rates have declined on strong job growth, although lower participation rates and population growth have contributed in some northern markets. Unemployment is tracking at or below five per cent in the metro markets.

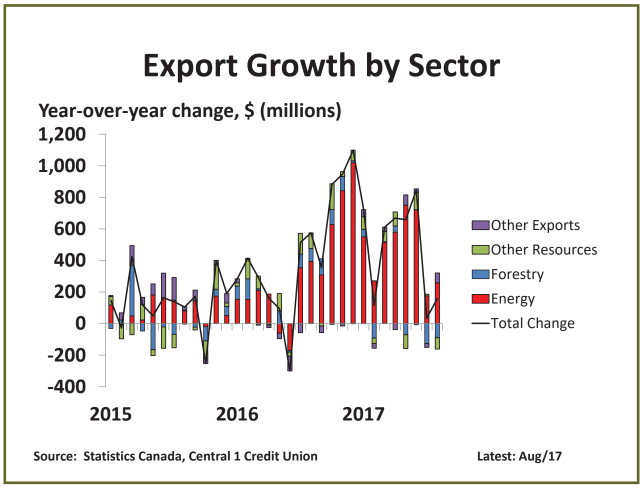
Slight uptick in August exports

B.C. international merchandise exports disappointed in August, despite a small rebound following a steep July decline. Dollar-volume exports rose four per cent on a year-over-year basis in August. While up from a flat reading in July, this compared to a near 25 per cent trend through most of the first half. August's gain was led by gains in food-related exports (27 per cent), energy products (29 per cent), and another strong month for electronic and electrical equipment (29.5 per cent). In contrast, unwrought metals and non-metallic minerals, and forestry products were primary drags.

Seasonally-adjusted, merchandise exports have shifted lower by about seven per cent since mid-year. This decline has broadly aligned with lower Canadian international exports over the period, which has reflected weaker shipments to the U.S. and other markets. Various factors may be contributing to the decline, including a higher Canadian dollar on real exports and commodity price effects.







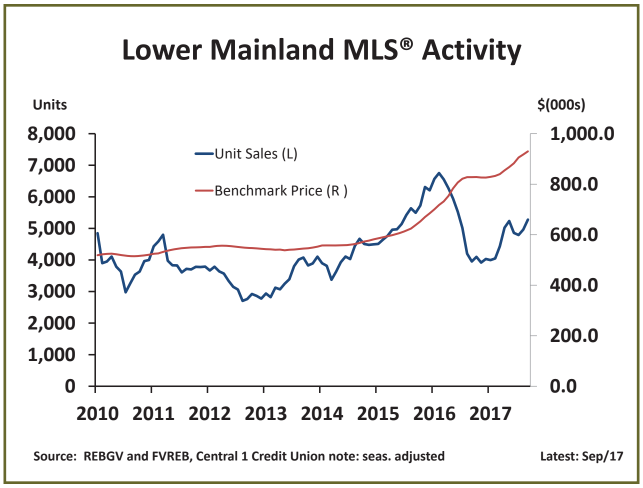
Downward sales momentum is eroding export growth but, on the positive side, year-to-date growth remained strong at nearly 18 per cent through August – although higher commodity prices have contributed to much of this boost. Of the near doubling of dollar-volume energy exports, roughly 20 per cent has reflected real growth with the remainder being higher natural gas and coal prices. Real natural gas exports were 60 per cent higher through August, while coal and electricity were flat. Similarly, a slight increase in forestry products reflects higher prices as lumber shipments have weakened owing to U.S. protectionist measures and temporary wildfire impacts. Real year-to-date international goods exports are estimated at about 5-7 per cent through August.

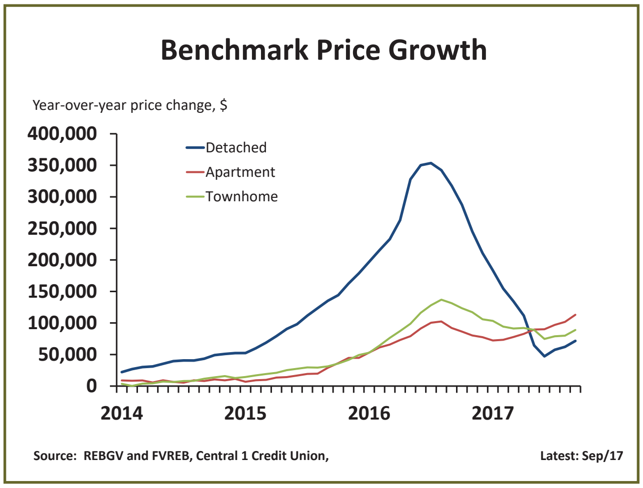
Exports will remain an important growth driver, despite some headwinds from recent appreciation Canadian dollar. Nonetheless, the currency will remain competitive near 80 cents, with growth also being driven by broader improvement in the global economy. Adding to this is Canadian economic growth, which drives interprovincial trade. Real export growth is forecast at more than four per cent this year, before decelerating to three per cent in 2018.

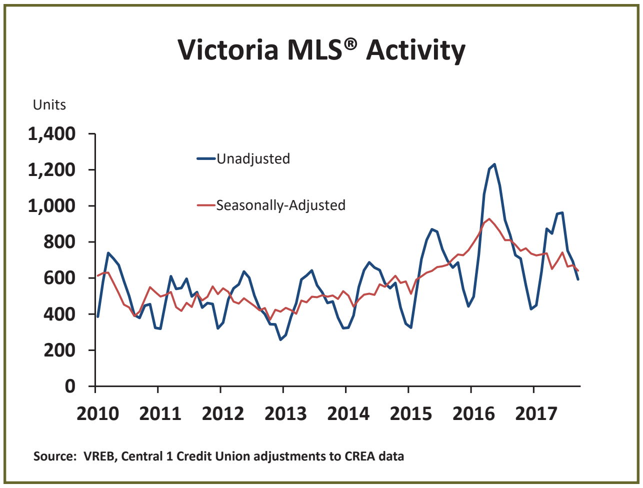
Strong housing market conditions continue into September

September housing activity remained strong in both the Lower Mainland and Victoria with signs that recent hikes to mortgage rates and rising interest rate expectations have fueled a temporary short-term lift in purchasing. With a strong economic backdrop, tight market conditions and prospects of further tightening in residential mortgage policy later this year, rate moves are pushing buyers to speed up their decisions to lock in at a lower pre-approved rate. Persistently high levels of sales and low listing inventory continue to propel price levels higher.

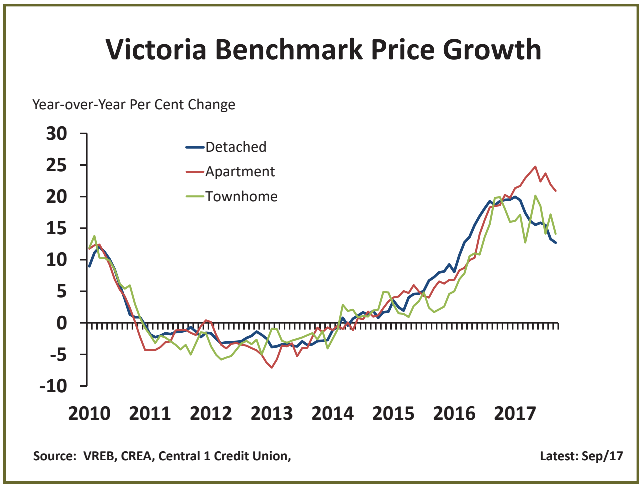
MLS® sales in the Metro Vancouver/Abbotsford-Mission (Lower Mainland) region rose 25 per cent on a year-over-year basis in September, up from 18 per cent in August. Sales accelerated across product markets. While strong gains primarily reflect a downshift a year ago post- foreign buyer tax, seasonally-adjusted sales also popped higher from the previous month, and continue to track levels in line with previous cycle highs. New listings experienced an above-average increase during the month, but much of this was absorbed by demand. Despite a bump in month-end active listings, sales-to-active listings edged higher, and remained firmly entrenched in a sellers' market.







Strength in the Lower Mainland is skewed toward the multi-family market, with sales of apartments and townhomes near last year's record high, while detached home sales continue to trend at a weaker pace. Strong local economic conditions, entry-market demand, impacts of the foreign buyer tax, and high prices in the detached and luxury market have contributed to the divergence. Adjusted for seasonal factors, the sales-to-active ratio is trending above 60 per cent for apartment and townhomes, representing overheated market conditions while remaining balanced in the detached market. Home prices appreciation reflects this. The benchmark home price index (HPI) rose 1.7 per cent from August, and 24 per cent year-over-year for apartments, with growth of 1.2 per cent and 15.5 for townhomes. Detached prices were unchanged from August and six per cent higher than a year ago. Upward price momentum will continue into 2018.



Victoria's sales trend has recently declined but held steady from August on a seasonally-adjusted basis. An 18 per cent decline in sales from a same-month 2016 primarily reflects a base-year impact of stronger than normal activity a year ago. High levels of activity reflect the region's tight labour market and stronger population inflows in recent years. Decelerated sales conditions have tempered benchmark growth in September. The single-family price index fell 0.2 per cent from August, while condos rose 0.4 per cent and townhomes rose 0.1 per cent. Year-ago growth has been universally strong with a 21 per cent increase for apartments, and 14 per cent gain for townhomes. Detached values were up a strong 12.7 per cent.

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