Central 1™

B.C. Economic Briefing

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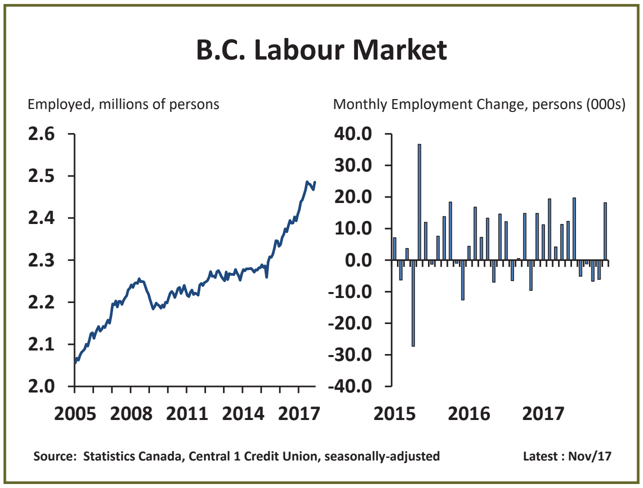
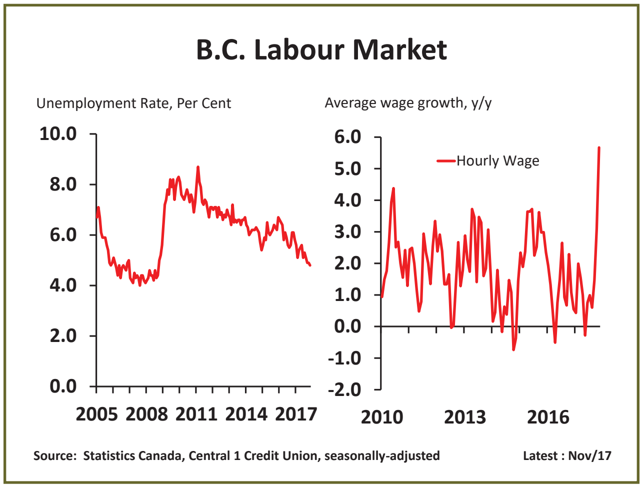
HIGHLIGHTS:

- Central 1 forecasts employment growth of 3.7 per cent this year with a moderation to 2.3 per cent in 2018
- Business owners optimistic about conditions in the coming year
- British Columbians scrambling for rental housing, with tight market conditions continuing into 2018





Employment ramps up in November

B.C.'s labour market showed broad-based strength in November as headline employment rose for the first time since June, while rock-bottom unemployment rate fell even further.

Aligning with a solid uptick across the much of the country, B.C. employment jumped 0.7 per cent (or 18,200 persons) from October to a seasonally-adjusted 2.485 million persons. This ended the softer pattern observed since June, which followed robust hiring momentum in the first half of the year and lifted employment to a level just shy of June's record high. Full-time employment rose for a third straight month with a 0.2 per cent gain (or 4,100 persons), with the bulk of the increase coming from a rebound in part-time employment (up 2.7 per cent or 14,200 persons) following two months of sharp declines. The Vancouver metro area, which posted a 1.1 per cent employment gain, contributed the bulk of November's increase.

Despite fluctuations in the second half, the labour market can only be described as smoldering. Year-over-year employment growth of 3.8 per cent led the country in November, holding the year-to-date average at a similarly hot pace. Full-time growth at 3.9 per cent has driven the latter, while hiring trends have been strong across the province, particularly in B.C.'s large urban markets.

Labour market slack is non-existent. British Columbia's unemployment rate edged down 0.1 percentage points to 4.8 per cent to the lowest level since mid-2008 and would have been lower if not for a pick up in the labour force participation rate. While a robust hiring environment has attracted more residents from other parts of the country, it clearly has not been enough to satiate labour demand. Insufficient labour supply is a constraint to hiring and may be a factor in slower second half employment growth, but also a driver of rising wage inflation. Year-over-year growth in wage rates, both weekly and hourly, accelerated in November to over five per cent – although this partly reflects industry composition.

Most industries posted higher employment from October, although in many cases were statistically insignificant. Notable gains were in construction (up 3.0 per cent or 7,000 persons), health care and social assistance (up 1.3 per cent or 3,900 persons) and other services (excluding public administration), which rose 7.3 per cent (or 8,300 persons).

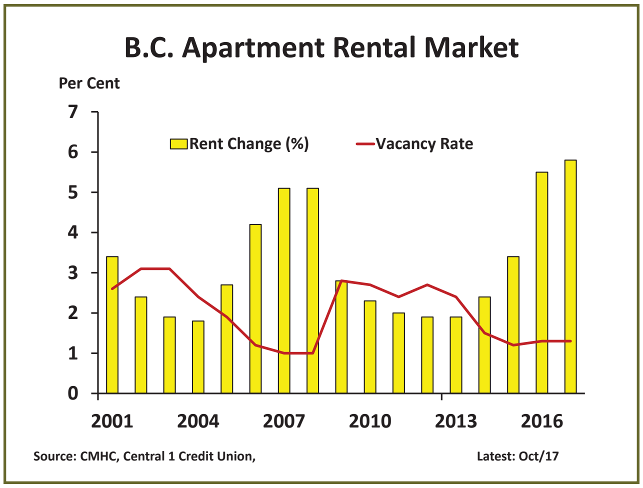
Given that we are tracking a 3.7 per cent employment growth pace through 11 months, it should be no surprise that nearly all industries are contributing. The most substantial gains have been in construction (up 7.7 per cent), finance, insurance and real estate (up 15 per cent), health care and social assistance (up 3.4 per cent) and information and cultural industries (up 8.1 per cent). This aligns with broad economic growth in housing, tech services and contribution from population trends.

Central 1 forecasts employment growth of 3.7 per cent this year with a moderation to 2.3 per cent in 2018. British Columbia's unemployment rate will remain stable near 5.0 per cent, but depends on labour force expansion.

Businesses optimistic in November

Small business confidence in B.C. slipped in November according to latest Canadian Federation of Independent Business Business Barometer reading, but optimism remained high relative to its provincial peers. British Columbia's index read 60.8 points on a scale of 0 to 100 in November. A value above 50 suggests more business owners expect better business conditions over the coming year relative to the number anticipating a weaker performance.

Despite a 1.1-point decline from October and 8.1-point decline from a year ago, B.C.'s index reading was still second highest in the country, behind only Quebec and above the national reading of 59.3 points. Optimism has waned since the summer months, but this could reflect stronger economic growth momentum earlier this year, which has since taken a breather. Details of the survey suggest 50 per cent of businesses felt the current state of business health was good, with only nine per cent noting poor conditions. This gap was second highest in the country, behind Quebec and in line with Nova Scotia.



Businesses have good reason to be optimistic. Economic growth in the province remains among the strongest in the country, and is expected to expand by more than 3.5 per cent this year before moderating in 2018 to a still healthy 2.5 to 3.0 per cent range. High optimism will continue to drive hiring momentum – albeit at a slower pace – although wage inflation and skilled worker shortages will likely be a challenge.

Tight market, surging rent has renters scrambling

Renters across B.C. continued to feel the pinch of low vacancy rates and rising rents this year as the strong economy, demographic drivers, and soaring homeownership costs continued to drive demand for rental housing.

The average vacancy rate for purpose-built rental apartments in B.C. was 1.3 per cent in October, which was unchanged from same-period 2016. Townhome vacancy was higher at 2.6 per cent, but makes up a sliver of the rental universe.

After averaging more than 2.5 per cent from 2009 to 2013, apartment vacancy has plunged. Most urban areas recorded lower vacancy rates from a year ago, with tighter markets generally observed in the Lower Mainland, Southern Interior and Vancouver Island markets. In contrast, Northern B.C. vacancy rates are above average. This is consistent with stronger economic conditions and higher population growth elsewhere in the province, alongside commodity price-induced economic weakness in these northern markets in recent years.

A number of B.C.'s largest urban areas recorded a slight lift in apartment vacancy due to an increase in the completion of new rental market construction, but tight markets persisted.

B.C.'s census metropolitan areas (CMA) recorded vacancy rates of less than one per cent. Vancouver edged up from 0.7 per cent in 2016 to 0.9 per cent, Victoria rose 0.5 per cent to 0.7 per cent, while Abbotsford-Mission declined from 0.5 per cent to 0.2 per cent, and Kelowna fell from 0.6 per cent to 0.2 per cent. Medium-sized markets with vacancy rates below the provincial average include Kamloops (1.2 per cent) and Penticton (0.9 per cent). Meanwhile, other areas such as Salmon Arm, Squamish, and Parkville show no vacancies – though this could reflect data quality issues.

The highest vacancy rates were in Dawson Creek (which fell from 19.1 per cent in 2016 to 11.7 per cent) and Fort St. John fell (which from 30.7 per cent to 19.2 per cent). Above average rates were also observed in Prince George (3.8 per cent), Prince Rupert (3.9 per cent) and Terrace (6.5 per cent).

Scarcity of available units have renters scrambling for accommodations, which has given landlords considerable bargaining power when negotiating leases. Same-sample rent growth accelerated to 5.8 per cent (up from 5.5 per cent in 2016). When compared to permitted allowable rent increase of 3.7 per cent, the increase points to strong growth in turnover rents as landlords adjust to the market. Vancouver CMA rent rose 5.9 per cent, Kelowna rose 8.6 per cent and Victoria rose 7.7 per cent. Rent growth was generally strong across the province. Average monthly apartment rent has climbed to $1,297 in Vancouver, $1,043 in Kelowna and $1,072 in Victoria.

The private condominium apartment rental was similarly tight, with a vacancy rates of 0.7 per cent in Kelowna, 0.6 per cent in Vancouver and 0.2 per cent in Victoria. Average condominium rents are higher due in part to age of stock.

Tight rental markets will continue in 2018. The economy will continue to induce migration to the province, albeit at a decelerated pace. Higher mortgage rates, tighter mortgage regulations and higher home values restrict ability of renters to transition to homeownership. Rising international student populations will also put upward pressure on demand. That said, increased supply will be a moderating influence. Rental apartment construction remains strong, with nearly 12,000 units underway during the third quarter –which is the most going back to at least 1990. Similarly, high levels of condo construction leads to higher completions in 2018, of which a portion will be destined for the rental market. Efforts to incentivize supply by the City of Vancouver, via its empty homes tax and curtailment of Airbnb, could also improve the situation in that region.

Bryan Yu
Deputy Chief Economist
byu@central1.com
604.742.5346
Mobile: 604.649.7209

B.C. Purpose-Built Rental Market				
	Vacancy Rate- All Apartment Units (%)		Same -Sample Rent Growth (%)	Average Rent ($)
	2016	2017	2017	2017
Abbotsford - Mission	0.5	0.2	2.5	848
Campbell River	2	0.6	6	827
Chilliwack	1.4	1.5	6.5	820
Courtenay	1	2.7	1.6	814
Cranbrook	1.7	1.2	4.6	759
Dawson Creek	19.1	11.7	2.3	943
Duncan	3.3	2.8	2.7	747
Fort St. John	30.7	19.2	-5.1	924
Kamloops	1.1	1.2	2.9	874
Kelowna	0.6	0.2	8.6	1,043
Nanaimo	1.5	1.6	5.7	875
Nelson	0.7	0	5.6	814
Parksville	0.6	0	2.3	803
Penticton	1.1	0.9	5.7	838
Port Alberni	3.1	1.6	4.2	664
Powell River	1.4	2.9	3.6	708
Prince George	4.2	3.8	2.3	794
Prince Rupert	4.9	3.9	NA	853
Quesnel	1.8	3.7	NA	642
Salmon Arm	0.5	0	2.7	785
Squamish	0	0	19.4	1,114
Summerland DM	**	**	6.9	822
Terrace	4.3	6.5	-5	791
Vancouver	0.7	0.9	5.9	1,297
Vernon	1.9	1.5	7.5	836
Victoria	0.5	0.7	7.7	1,072
Williams Lake	4.8	4.4	NA	744
British Columbia	1.3	1.3	5.8	1,164
Source: CMHC				