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B.C. Economic Briefing

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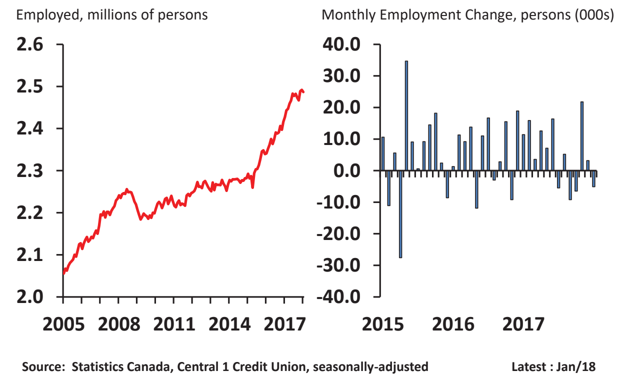
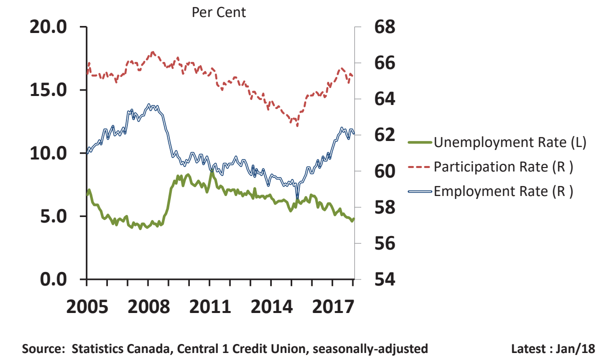
HIGHLIGHTS:

- B.C. sheds jobs in January but labour market remains firm
- Labour market forecast to remain strong in 2018, but minimum wage increase may have an impact
- After reaching record highs in 2017, fewer housing starts can be expected this year
- December sees a surge in residential permits
- Non-residential construction intentions reached a post-2000 high in 2017, signaling a strong contribution to economic growth in 2018
- Federal mortgage regulations curtail Lower Mainland home sales momentum in January

B.C. Employment



B.C. Labour Market Indicators



Employment slips in January

B.C.'s labour market moved in sync with the rest of the country in January with a decline in employment and increase in the unemployment rate. Total employment declined 5,100 persons to 2.44 million persons (down 0.2 per cent) from December, while unemployment returned to 4.8 per cent after touching a 10-year low of 4.6 per cent. In comparison, national employment declined 0.5 per cent, led by a sharp pullback in Ontario (down 0.7 per cent) and, to a lesser extent, Quebec (down 0.4 per cent).

The Vancouver census metropolitan area (CMA) outperformed other areas of the province in January, with headline employment growth of 0.7 per cent from December and 4.1 per cent unemployment rate. This points to an employment decline of about 1.5 per cent elsewhere in the province which, by our calculations, were led by pullbacks in the Thompson-Okanagan and Kootenay. That said, regional data can fluctuate significantly and employment trends in the former were positive in recent quarters.

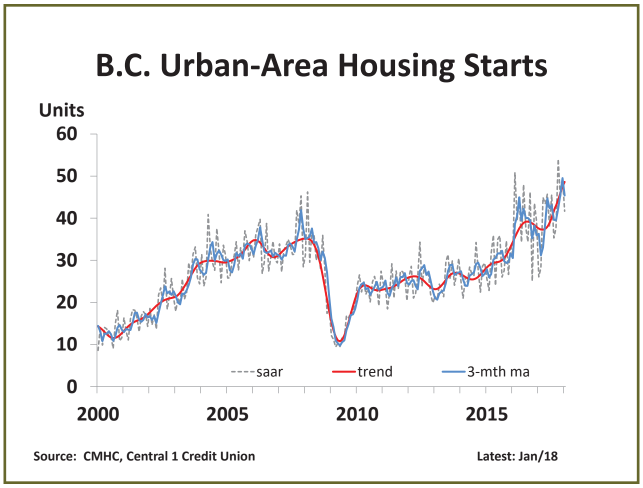
While headline data signals a bit of an inauspicious start to 2018, underlying trends in the province remained firm. Consistent with the national data, B.C.'s pullback was entirely due to losses in part-time positions, which reversed December's increase with a 1.7 per cent (or 9,200 person) decline. Meanwhile, full-time employment rebounded 0.2 per cent, by 4,100 persons. Higher paying goods-producing sectors, like utilities (up 8.5 per cent), construction (up 3.3 per cent) and manufacturing (up 2.2 per cent), largely offset weakness in some lower paying service sectors. Overall, a rising full-time employment trend and higher goods-producing employment pointed to improved job quality during the latest month.

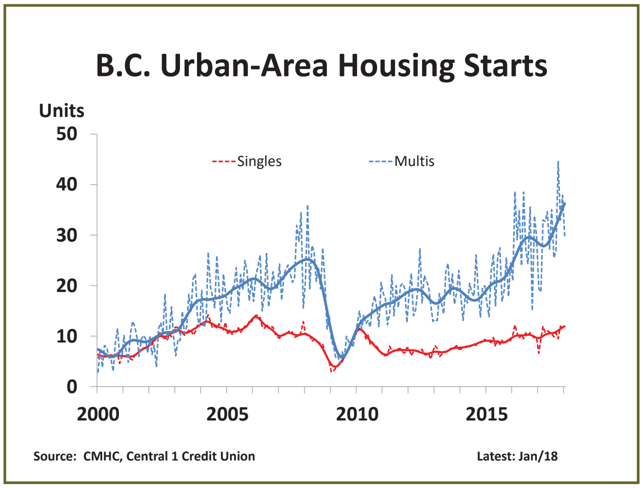
Despite January's dip, B.C.'s labour market arguably remains the strongest in the country. On a 12-month basis, average employment rose 2.4 per cent, driven by both full- and part-time gains, which was just behind Prince Edward Island for tops in the country. The unemployment rate has consistently ranked the lowest among provinces, with Quebec and Saskatchewan distant seconds at 5.4 per cent in January. Average hourly earnings of combined full- and part-time workers has picked up since the fall and tracking more than three per cent, year-over-year, in recent months. Due in part to demographic factors, B.C. labour force participation rates and employment-to-population ratios lag other provinces, particularly western provinces, but levels have risen in recent years and trend near levels seen in 2010/11.

Labour market conditions are forecast to remain strong in 2018 with average employment growth of 2.0 per cent and a downward drift in the unemployment rate to 4.5 per cent. Hiring will be driven by growth in the economy, which is forecast at 3.0 per cent. Recent survey results from the Canadian Federation of Independent Business points to strong hiring intentions by B.C. firms. That said, population growth will decelerate as improved economic growth in neighbouring provinces dampens flows to B.C., driving labour market tightness and higher wages. One area to watch is the minimum wage front. This week, the B.C. government released its plan to lift minimum wage to $15.20 by 2021. The schedule includes a $1.30 or 12 per cent increase from the current level to $12.65 on June 1, 2018, with annual hikes on the anniversary date thereafter. Expect businesses to adjust to this hike and future hikes through various measures, including wage pass-through to prices, limiting hours, automation, and cost absorption. Uncertainties related to NAFTA and trade issues are unlikely to have a material impact on the labour market this year.

Strong housing construction cycle extends into 2018

Robust new home construction momentum in late-2017 carried into January with yet another strong housing starts performance. Housing starts in B.C. urban areas reached an annualized





pace of 41.6k units seasonally-adjusted annual rate (SAAR), down from 49.6k units in December. Housing starts had surged during the fourth quarter, averaging a 49.5k unit pace. Despite January's dip, the underlying trend remained positive and elevated at a level last seen in the mid-1990s. January starts climbed 60 per cent relative to a weak same-month performance 2017, with a smoothed three-month average up 25 per cent. To put current levels in context, housing starts since 2000 have averaged a 27k unit pace, fluctuating sharply with the business cycle.

Fewer housing starts from December owed to a drop in multi-family housing starts from a 37.8k pace to 29.8k pace in January. This is not surprising as the segment typically drives monthly volatility due to the size and scale of individual apartment projects. Detached starts were unchanged. The underlying trend for multi-family starts remains positive at a record high level, reflecting high demand for affordable homeownership options and rental accommodations, particularly in larger urban areas. The three-month average of multi-family starts was up more than 20 per cent from a year ago. The share of multi-family product in urban areas is above 70 per cent.

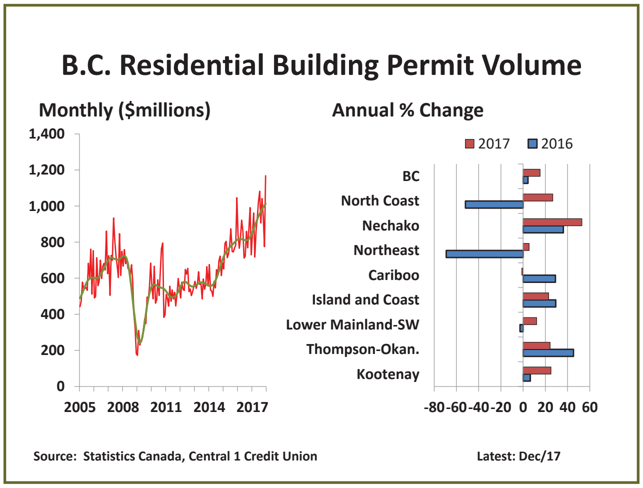
Nearly all metro areas shared in the monthly starts pullback. Starts in the Vancouver CMA fell four per cent to an annualized 32.3k units. The largest relative declines were observed in Kelowna and Victoria, which declined by about half from December. Both markets experienced sharp growth in housing starts in 2017, but highly volatile monthly activity. Strong demand in these areas have been supported by healthy job growth and population inflows.

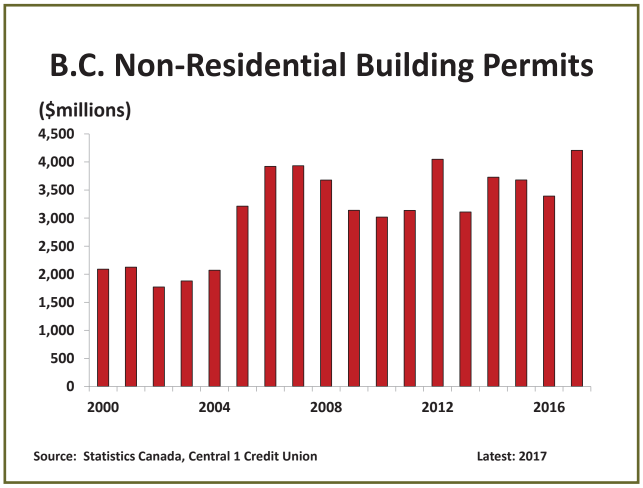
After outperforming expectation in 2017, with annual housing starts (inclusive of rural areas) reaching a record 43.6k units, fewer starts can be expected this year. While growth in the economy and employment and rising wages support demand, more restrictive mortgage regulations and higher mortgage rates dampen homeownership activity. Government investment into affordable housing and rental accommodations provides an offset. Total starts are forecast to remain high at 41.8k units this year, driven by multi-family activity. High levels of construction will continue to support the residential investment cycle and economic growth.

Residential permits trends higher, surges in December

While housing starts slipped in January, B.C. residential permits capped off 2017 with a 50 per cent monthly increase in December to a seasonally-adjusted $1.17 billion, following a November slip. While monthly activity has been erratic, the trend has generally remained positive, driving annual dollar-volume growth to 15 per cent for 2017 which reflects high levels of construction intentions for new and renovation construction. Aligning with housing starts, permits have climbed since 2014.

Regional data showcases the province's residential construction hotspots. The Thompson-Okanagan (up 24 per cent) and Vancouver Island (up 23 per cent) both recorded another strong year of growth, while intentions accelerated in the Kootenay (up 25 per cent). Lower permits in 2016 gave way to a rebound in the Lower Mainland-Southwest (up 12 per cent), and the North Coast and Nechako (up 39 per cent) regions. In contrast, Cariboo permits edged lower, while Northeast permits were unable to gain much ground after a 69 per cent decline in 2016.





Non-residential construction intentions reach a post-2000 high in 2017

Outside the housing sector, non-residential permits ratcheted back in December but maintained a positive trend heading into 2018. December dollar-volume permits reached a seasonally-adjusted $333 million, down 17 per cent from November but up 41 per cent from same-month 2016. On an annual basis, permit volume rose 24 per cent from 2016 to $4.2 billion to eclipse the most recent high – at least in nominal terms – of $4.0 billion in 2012. Rising permits likely reflect a combination of factors, including a stronger business investment due to strong consumption and export growth, as well as investment by the government in areas such as education.

Combined commercial and industrial permits rose 18 per cent in 2017, while institutional and governmental activity increased 42 per cent. By structure type, notable gains were recorded in warehouses, industrial factories, schools and hospitals.

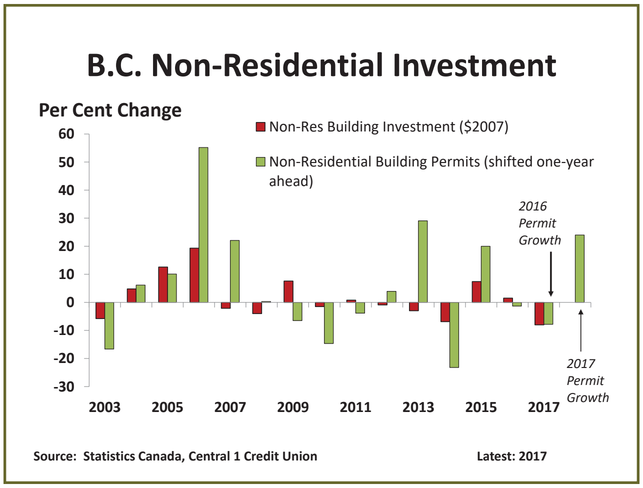
In a previous *briefing,* we noted that real non-residential building investment was negative in 2017 and a drag on economic growth, which seems to contradict strong permit growth. However, investment reflects work-in-place and lags the permit cycle. The 2017 drop aligns with a decline in 2016 permits. The strong permit increase in 2017 points to a strong contribution to economic growth from building construction in 2018.

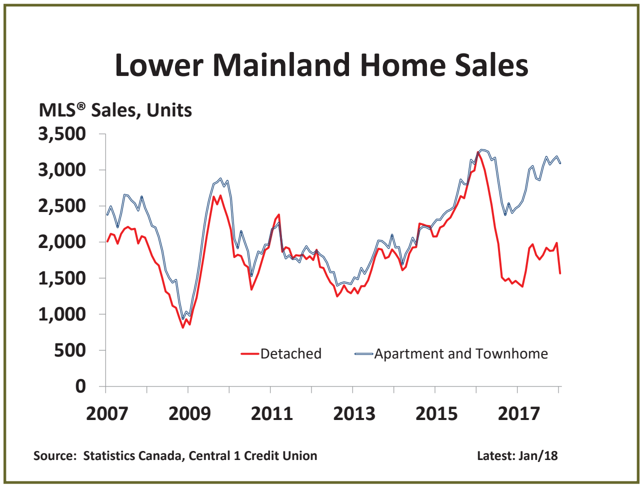
Federal mortgage regulations weigh on January home sales

Home sales in the Metro Vancouver – Abbotsford/Mission (Lower Mainland) remained solid in January, but new OSFI B-20 measures clearly weighed on momentum. Year-over-year sales growth decelerated to 21 per cent, from 26 per cent in December, while January sales declined about nine per cent from December on a seasonally-adjusted basis. The moderation noted notwithstanding, home sales this month remained in-line with the 10-year same month average at 2,989.

The single-detached market bore the brunt of the sales dip from December, reflecting higher price points, with less slip in apartment and townhome condo sales. Multi-family home sales, remained near record highs.

This month's sales slowdown was anticipated, given that OSFI measures came into effect January 1. The uplift in sales at the tail-end of 2017, from buyers trying to get ahead of the mortgage tightening, ran its course and contributed to January's slowdown. Directly, OSFI mortgage stress tests have cut borrowing capacity for buyers taking on a low loan-to-value (LTV) mortgage (20%+ down payment) at federally regulated financial institutions (FRFI). While some affected buyers were able to put down a higher down payment to bridge the loss in mortgage capacity, others have shifted purchasing behavior by purchasing lower priced homes (or pivoting from a detached unit to townhome), or delaying their purchase.





As OSFI measures are directed at FRFIs, some impacted higher quality borrowers may opt to obtain their mortgage through other institutions or channels such as, provincially regulated credit unions or alternative private lenders. That said, there are signs that lending standards have also tightened up among credit unions.

While sales fell, price levels remained firm, albeit with softer prices in the detached market relative to apartments and townhomes. The average regional price for all units declined about two per cent on a seasonally-adjusted basis to $923,425, owing largely to compositional sales effects of a slip in detached sales and prices. Benchmark home values, a measure of quality-adjusted prices, continued to rise in January at a robust pace of 0.9 per cent month-to-month. This was led by a two per cent gain in apartment pricing, 0.5 per cent increase in townhomes, and steady detached values.

Persistence of sellers' market conditions have lifted year-over-year growth to 10 per cent for detached homes, 20 per cent for townhomes and 31 per cent for apartment condos.

In 2018, cooler market conditions should prevail given mortgage regulation changes and expected provincial measures in the upcoming budget, aimed at further cooling demand. That said, the key issue remains supply: a lack of new listings. At this point, the low inventory cycle will continue to contribute to price growth. Same-month January active listings, at about 10,500 units, are at the lowest point since at least 1995 – which is as far back as our data allows – and 40 per cent below the long-term average, with townhome and apartment at critically low levels. Sales-to-active listing ratios point to an overheating apartment market, sellers' conditions for townhomes and a balanced detached market. The active listings trend declined in January, as fewer sellers' put their homes on the market.

New listings will rise, in part due to an increase in new home completions, which should drive market churn, but this will move the market closer to a balanced state at best. High levels of underlying demand will absorb much of the added supply. Challenging affordability constraints, regulatory changes and price appreciation continue to shift the market demand towards the most affordable units.

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