

B.C. Regional Economic Outlooks 2018-2020

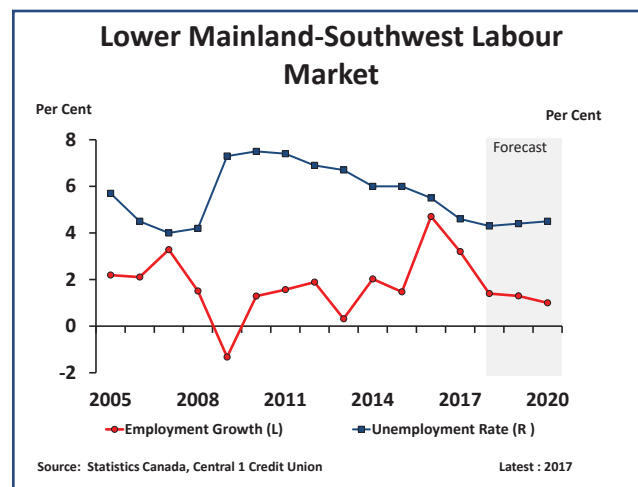
Lower Mainland- Southwest

The Lower Mainland-Southwest has experienced strong growth in recent years. The area is anchored by the Vancouver Census Metropolitan Area (CMA), and Abbotsford-Mission CMA and spans the Fraser Valley, through the Sea-to-Sky Highway to Whistler, the Sunshine Coast Regional District and urban areas such as Chilliwack, Squamish, Gibsons and Sechelt. With a population of more than 2.9 million, the economic region comprises just over 60 per cent of B.C.'s population.

Economic growth has been supported by a low Canadian dollar which has boosted tourism flows, TV and film production activities, and other service exports associated with the high-tech economy and traditional goods exports. Low interest rates, moderately strong population expansion, and investment have underpinned robust housing demand and new home construction in the region. Government investment in transportation infrastructure, commercial redevelopment of office spaces and retail nodes, and general business investment aligned with a strong economy, have also contributed to expansion.

Lower Mainland-Southwest employment growth has averaged nearly four per cent annually over the past two years, surpassing nearly all major metro areas of the country. Gains were strong in the Metro Vancouver area, with Abbotsford-Mission lagging behind. Sectors leading the pace were professional services, information and culture, construction, and wholesale and retail trade. Following 2017 gains, employment declined in Metro Vancouver during the first half of 2018 before a third quarter rebound. The policy-driven downshift in the housing market resulted in concentrated employment losses in related-industries including retail, while employment in most other sectors continued to climb. The bottoming trend of home sales in mid-2018 supports upward employment growth into 2019 as growth in ancillary service sectors pick up. That said, employment driven by new home construction will wane as decreased housing sales curtails new building.

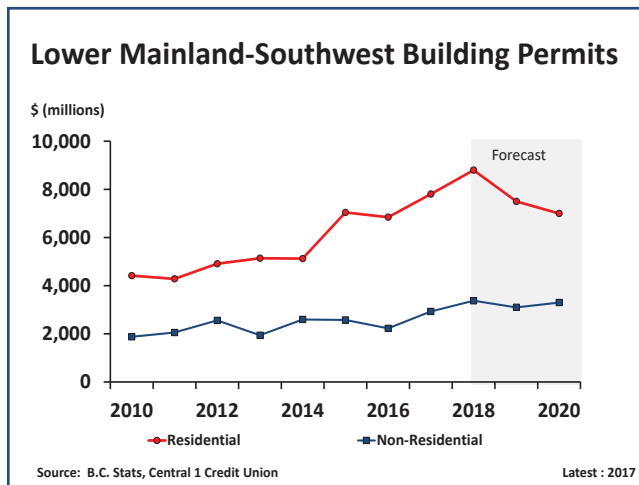
That said, workers available to fill open positions is a constraint to growth. The unemployment rate is hovering below five per cent, which is among the lowest in the country, while the job vacancy rate is



among the highest in the country. Employees have the upper hand in the local labour market as employers are forced into bidding wars for talent through higher overall compensation (i.e., wage/salaries and benefits). Labour force expansion is impeded by weaker inter-provincial migration as improved economic conditions in Alberta and Ontario lower the westward flow. High home prices push some residents to other regions and act as a deterrent for those considering moving to the region.

The region's economic growth will decrease though looks to remain moderately strong over the forecast period, despite labour market supply challenges and a weak housing market. Service-exports such as tourism, TV and film production and high-tech will continue to be supported by a favourable Canadian/U.S. currency exchange rate. Benefits will flow across the region through to Whistler and the Sunshine Coast.

The region's tech sector will boost growth and continue to expand at a stronger pace than the rest of the Lower Mainland- Southwest economy. While Metro Vancouver did not land the Amazon HQ2, it is benefitting from the Seattle-based giant's local investments. This includes an expansion of its technology operations which triggers the redevelopment of the old Canada Post building and the construction of another fulfillment centre in Tsawwassen. Amazon plans to add 3,000 persons to its workforce to reach about 5,000 in the city. The company occupies 80 per cent of We-Work's space in the city. In recent years, companies such as Microsoft, Samsung and Sony have deepened their footprints in the region. Continued expansion of



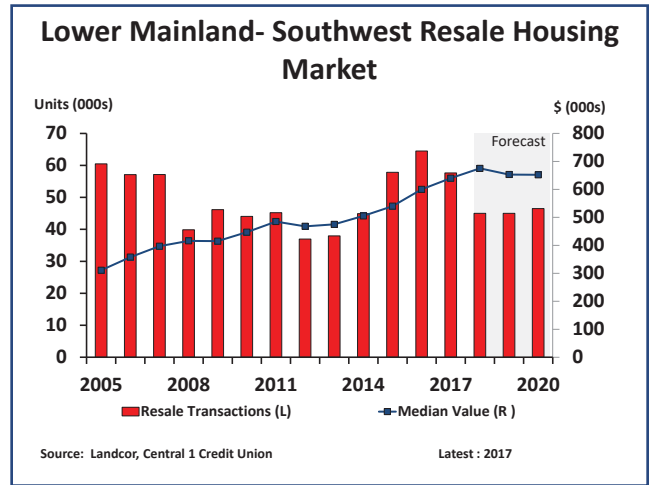
the tech sector will keep lifting market wages, attracting labour talent, and fueling the ‘start-up culture’.

TV/film production and visual effects development remains a strong sector, although growth has decelerated following a period of rapid gains. Direct spending in the sector rose 12 per cent in 2017 to \$3.8 billion after an even stronger gain in 2016¹. Competitive tax credits, a favourable Canadian dollar, and local talent have buoyed the industry. The newly minted US-Mexico-Canada Agreement (USMCA) will provide greater certainty for exporters.

The investment cycle will remain robust and boost private and public spending. Non-residential building permits reached a record high of \$2.93 billion and tracked higher through the first half of 2018. It is forecast to climb to 15 per cent this year to \$3.38 billion. Redevelopments on the Brentwood Town Centre redevelopment and the BC Children’s and Women’s Hospital continue, while a slowdown in consumer spending and housing demand put the brakes on some commercial investments. Construction and related employment will also be buoyed by various high dollar-value projects that are expected to get underway over the next few years including: Canada Post redevelopment by Quadreal, Amazon distribution centre, Walmart distribution centre, Patullo Bridge replacement, new Vancouver Art Gallery and a significant number of hydroelectric and highway improvement projects. Non-residential permit volumes will ease by eight per cent in 2019, though remains strong at \$3.1 billion.

Estimated population growth rose by 1.5 per cent or 45,500 persons this year, driven mostly by international migration. A substantial chunk of the increase

¹ Vancouver Economic Commission. http://www.vancouvereconomic.com/blog/vecs_take/new-study-3-8-billion-spent-by-film-tv-and-vfx-animation-industries-in-2017/



was in the form of net non-permanent residents, reflecting temporary workers holding work permits and international students on student visas. Rising inflows of international immigrants, driven in large part by higher federal intake targets, will support labour force expansion over the coming years. Population growth is forecast to trend at about 1.4 per cent or about 40,000 persons per year. The region remains an attractive destination for international migration, which will continue given the federal government’s intentions to increase inflows to Canada. Population growth will continue to support housing and consumer demand in the region.

Lower Mainland-Southwest employment growth is predicted to climb 1.3 per cent in 2019 after a 1.4 per cent increase in 2018. The unemployment rate trends near 4.5 per cent over the forecast period, with the economy absorbing labour force gains. The Vancouver CMA is forecast to lead growth in 2019 with a 1.3 per cent increase compared to a slower gain of 1.1 per cent in Abbotsford-Mission.

A modest housing price correction is underway in the region triggered by rising interest rates and tighter federal mortgage criteria which is intensified by provincial policy measures. The introduction of the federal mortgage ‘stress test’ eroded potential purchasing power for buyers with higher down payments—those with a 20 per cent deposit or more. Buyers in higher priced markets are less able to bridge the loss of purchasing power through other savings. As a result, higher priced urban areas like Metro Vancouver are bearing the brunt of the new policy with lower sales activity. Hikes to the foreign buyer tax, proposed speculation taxes and increased school tax on high value homes further curtailed demand. Monthly MLS® sales in the combined Metro Vancouver and Abbotsford-Mission area fell nearly 40 per cent from the period preceding the introduction of ‘stress test’ by mid-year, which was sharpest among large urban areas.

Following a period of rapid-price growth, sales of detached homes have remained weak since mid-2016 due to affordability, the introduction of the foreign buyer tax and other measures. Priced out buyers shifted focus to the more affordable multifamily market, contributing to condominium price escalation, although sales have declined this year.

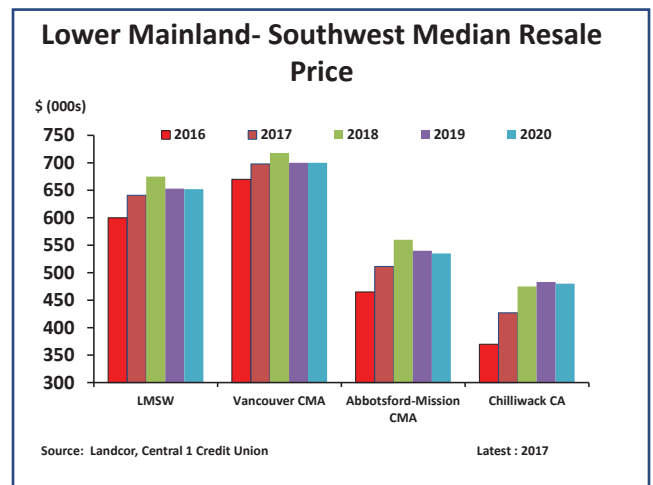
Residential resale transactions in the Vancouver Metro area are forecast to decline 23 per cent this year to the lowest level since 2013. Sales in Abbotsford-Mission decline more than 15 per cent to the lowest level since 2015.

Prices are falling, with MLS® benchmark values down three per cent from peak. Some areas such as West Vancouver and the westside of Vancouver City have experienced steeper declines driven by the detached market. A declining trend will lead to a median price decline in 2019 of about three per cent in Metro Vancouver and 3.6 per cent in Abbotsford-Mission, while Chilliwack records a mild increase of two per cent. The combination of positive economic growth, a tight labour market, and moderate levels of housing inventory supports the values.

Residential construction will slow as weaker demand contributes to slower sell-through of pre-sales and new home inventory climbs with completion of existing projects. Residential building permits will decline 15 per cent in 2019 and ease in 2020, though remain moderately high despite the downturn.

Bryan Yu

Deputy Chief Economist, Central 1 Credit Union
 byu@central1.com
 www.central1.com
 604.742.5346



Lower Mainland Southwest	2016	2017	2018	2019	2020
Labour Force (000s)	1,626.9	1,663.0	1,680.0	1,703.0	1,723.0
% ch.	4.2	2.2	1.0	1.4	1.2
Total Employment (000s)	1,537.4	1,586.5	1,608.0	1,628.5	1,645.5
% ch.	4.7	3.2	1.4	1.3	1.0
Unemployment Rate	5.5	4.6	4.3	4.4	4.5
Residential Transactions	64,507	57,794	45,000	45,000	46,500
% ch.	11.5	-10.4	-22.1	0.0	3.3
Median Price	600,000	641,000	675,000	653,000	652,000
% ch.	11.1	6.8	5.3	-3.3	-0.2
Residential Permits (\$ millions)	6,846.3	7,806.9	8,800.0	7,500.0	7,000.0
% ch.	-2.8	14.0	12.7	-14.8	-6.7
Non-Residential Permits (\$ millions.)	2,226.9	2,928.4	3,375.0	3,100.0	3,300.0
% ch.	-13.6	31.5	15.2	-8.1	6.5
Private Non-Res Building Permits (\$millions)	1,813.2	2,241.8	2,800.0	2,500.0	2,700.0
% ch.	-11.3	23.6	24.9	-10.7	8.0
Public Non-Res Building Permits (\$millions)	413.7	686.6	575.0	600.0	600.0
% ch.	-22.1	66.0	-16.3	4.3	0.0
Population (000s)	2,924.9	2,959.6	3,005.1	3,049.5	3,091.4
% ch.	1.4	1.2	1.5	1.5	1.4
Vancouver CMA	2016	2017	2018	2019	2020
Labour Force (000s)	1,437.4	1,469.5	1,485.0	1,506.0	1523.5
% ch.	4.2	2.2	1.1	1.4	1.2
Total Employment (000s)	1,359.2	1,400.9	1,419.5	1,438.0	1454
% ch.	4.7	3.1	1.3	1.3	1.1
Unemployment Rate	5.5	4.7	4.4	4.5	4.6
Residential Permits (\$ millions.)	6,162	6,830	8,100	7,000	6500
% ch.	-4.7	10.8	18.6	-13.6	-7.1
Non-Residential Permits (\$ millions.)	2,028	2,639	3,030	2,800	3000
% ch.	-14.3	30.1	14.8	-7.6	7.1
Population (000s)	2,542	2,571	2,609	2,648	2688
% ch.	1.3	1.1	1.5	1.5	1.5
Abbotsford-Mission CMA	2016	2017	2018	2019	2020
Labour Force (000s)	97.5	98.8	99.5	100.5	101.8
% ch.	0.2	1.4	0.7	1.0	1.3
Total Employment (000s)	91.1	93.4	95.0	96.0	96.5
% ch.	0.1	2.5	1.7	1.1	0.5
Unemployment Rate	6.6	5.5	4.5	4.5	5.2
Residential Permits (\$ millions.)	189	357	290	275	265
% ch.	-6.1	89.2	-18.9	-5.2	-3.6
Non-Residential Permits (\$ millions.)	57	117	136	125	130
% ch.	-37.9	105.5	16.5	-8.1	4.0
Population (000s)	188	191	193	195	198
% ch.	2.4	1.2	1.2	1.0	1.5
Select Resale Housing Markets	2016	2017	2018	2019	2020
Abbotsford-Mission Residential Transactions	4,769	4,236	3,500	3,300	3,300
% ch.	44.4	-11.2	-17.4	-5.7	0.0
Abbotsford-Mission Median Price	465,000	511,500	560,000	540,000	535,000
% ch.	23.2	10.0	9.5	-3.6	-0.9
Vancouver Residential Transactions	53,266	47,571	36,500	37,000	38,500
% ch.	7.1	-10.7	-23.3	1.4	4.1
Vancouver Median Price	670,000	698,000	718,000	700,000	700,000
% ch.	14.5	4.2	2.9	-2.5	0.0
Chilliwack Residential Transactions	3,389	3,333	2,700	2,600	2,600
% ch.	51.2	-1.7	-19.0	-3.7	0.0
Chilliwack Median Price	369,900	427,000	475,000	483,000	480,000
% ch.	18.9	15.4	11.2	1.7	-0.6

Sources: Statistics Canada, CMHC, Landcor, Central 1