

B.C. Regional Economic Outlooks 2018-2020

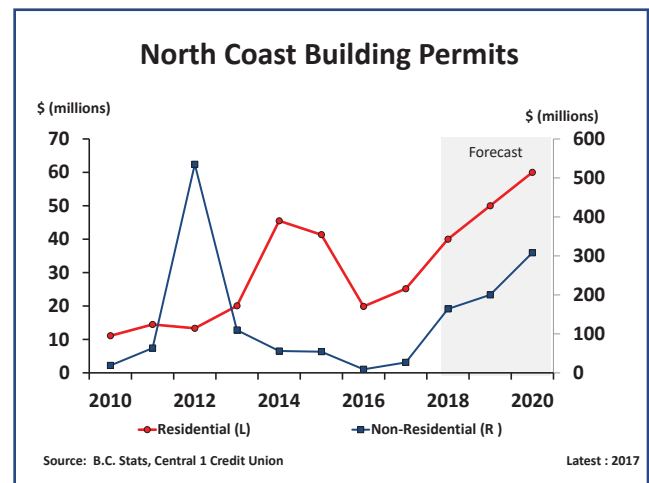
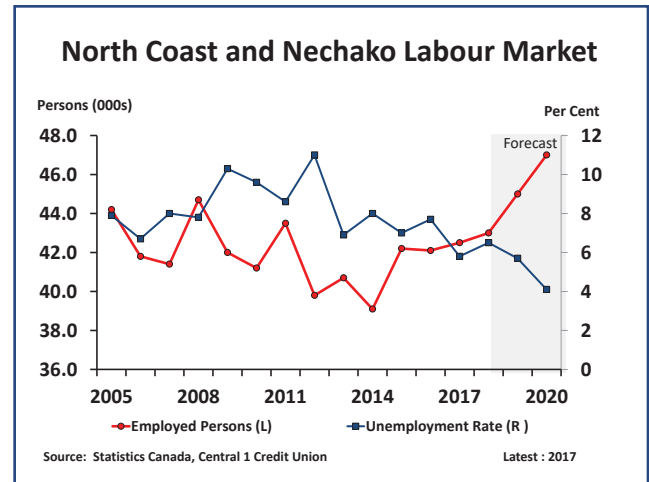
North Coast and Nechako

The North Coast and Nechako (NCNE) regions make up B.C.'s northwest quadrant, which is home to a combined 100,000 persons. The North Coast is anchored by Prince Rupert and Terrace with populations of more than 10,000 persons, and Kitimat of near 7,500 persons. The largest population centres in the Nechako area include Smithers with about 5,430 persons, Vanderhoof and Houston.

The region is geographically large and economically diverse, albeit with industries concentrated in local areas. Forestry, mining, primary metal manufacturing, tourism, transportation and warehousing via the Port of Prince Rupert contribute to the regional economy to varying degrees. Prospects of major liquefied natural gas (LNG) projects have been present over the past half-decade. Early-stage pre-construction work and changing expectations have impacted buyer confidence and housing market performance—though these hopes are finally being realized. LNG Canada has given the green light to its massive LNG project in Kitimat, which will buoy the immediate region and other areas in the north.

Economic activity in the region has fluctuated in recent years. Average employment in the North Coast and Nechako area fell sharply from 43,500 persons in 2011 to 39,100 persons in 2014 before rebounding in recent years. Fluctuations in labour market activity captured in Statistic Canada's Labour Force Survey need to be taken with some caution, given the small sample size used to calculate the region's estimates can lead to some error bias. Even with this considered, the survey results point to weaker employment during the period. Broadly, this aligns with key economic events including the closure and reconstruction of the Alcan plant in Kitimat, as well as fluctuations in the housing market cycle, which is often a coincident indicator for economic activity.

At the industry level, the region has recently observed a modest rebound in resource extraction employment, growing manufacturing employment and increased construction activity. Services-producing sector employment has been steady with growth in areas such as trade and transportation and warehousing. Industry employment trends are consistent with the completion



and re-start of the Rio Tinto Alcan smelter rebuild, pre-construction work related to potential liquefied natural gas projects, growth and expansion of the Port of Prince Rupert and steadying of the commodity sector. Regional employment may have fluctuated with construction work in other parts of B.C. as residents find work outside the area. That said, Census 2016 data suggests that the share of workers in the NCNE commuting to other regions is minimal.

The housing market provides another avenue to gauge economic activity and consumer confidence. Like the employment cycle, activity has been mixed. Sales on the North Coast have retreated since 2014, as dashed LNG hopes and weaker commodity prices reduced demand. The trend picked up steam this year as signs emerged that an LNG project would go ahead. Nechako area sales have increased at a modest pace.

Housing prices have reflected sales patterns.. Detached home values flattened in the North Coast in recent years near \$275,000, following a 50 per cent increase during the 2011-2014 boom. Nechako prices continue a steady rise to \$236,000.

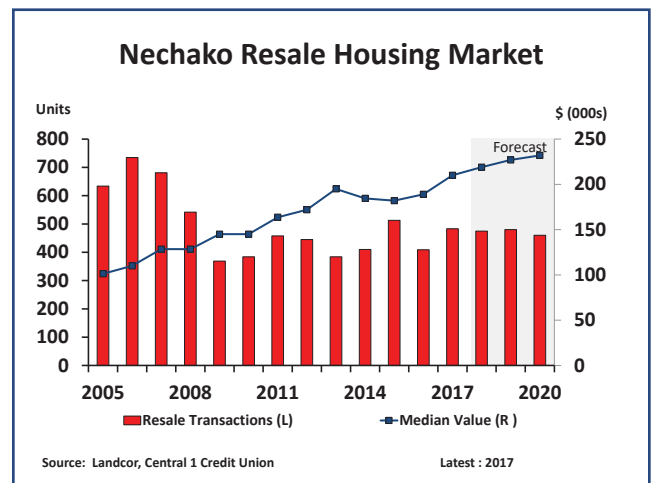
Population growth has been lifeless, with the region seeing outflows to other parts of the province due to stronger job prospects. A strong lift of 11 per cent in the Smithers anchored Nechako region is likely an estimation error that will reverse in 2018. Residential permit data, a prelude to new home construction, remained moderate in the North Coast at \$25 million but rebounded in the Nechako.

The tide has turned for the area's economic future. Demand for wood products is firm, the Prince Rupert port is expanding and weakness in the mining sector has bottomed. Most importantly, the construction of the Shell-led LNG Canada project plant in Kitimat is set to positively transform the regional economy for years to come.

The project includes an export terminal in Kitimat valued at up to \$40 billion and a 700 km Transcanada Coastal Gas Link from Dawson Creek. The project will boost construction and investment through a three-year period across the north, generating jobs and increasing regional spending. Kitimat and Terrace have already benefitted from early stage investments and expectations of future activity.

Forestry activity has remained stable amid solid demand from the U.S. and high lumber prices. 2017 timber harvest levels in the Skeena natural resource region were the highest since 2011 and have broadly trended higher since 2014. Levels declined in the first half of 2018 by eight per cent, which may reflect rail bottlenecks that hampered exports and impacts of wildfires in the region. Forestry product demand is expected to endure but the region will continue to be hampered by the ongoing impacts of the mountain pine beetle epidemic, specifically in the Lakes timber supply area.

Port activity in Prince Rupert is on the rise reflecting its expansion as an international shipping hub to the Asia-Pacific region. Total cargo through the port rebounded by 30 per cent in 2017 to 24.3 million tonnes, marking a record high. The record was driven by output from restarts of northeast coal mines. Fairview Terminal Phase 2 was completed in the second half of 2017 and increased cargo capacity of the intermodal terminal to 1.35 million twenty-foot equivalents (TEUs), from less than 800,000. AltaGas' \$450 million Ridley Island Pro-



pane Export Terminal is currently under construction and is expected to be completed in 2019. This terminal will ship B.C. and Alberta propane exports. Project estimates included 200 to 250 workers for its construction, and 40-50 permanent jobs upon completion.

Mining remains a weaker link for the regional economy with capital and mineral exploration posting sluggish growth since 2014. Copper Fox Metal's proposed Schaft Creek project has been withdrawn from the environmental assessment process.

Mixed employment trends have aligned with business formation and investment trends. North Coast business incorporations rebounded in 2017 led by a bump in Terrace, following three years of deceleration. The flow remained near long-term highs in Smithers. Non-residential building permits have fluctuated with major project construction.

Construction of LNG Canada's Kitimat plant will be a huge boon to the region. Estimated peak employment during construction phase is 4,500 to 7,500 persons, while the plant will employ up to 450 persons permanently. The NCNE will get the first shot at employment, though not all the required labour and skills will be

available from the local area. Employment growth in the North Coast and Nechako is forecast to rise 1.2 per cent this year before accelerating in 2019 and 2020 by more than four per cent. The employment growth will absorb some unemployed workers and draw new workers into the labour pool. LNG project drives this growth, but most workers will likely be drawn from outside the region and other parts of B.C. and Canada due to an insufficient labour pool. Population growth is forecast to track a trend of 0.5 per cent.

The business investment cycle is forecast to lift non-residential building permits to more than \$300 million on the North Coast by 2020 where permit values were just \$27 million in 2017. Nechako area permits remain flat in the \$10 - \$15 million range.

Housing market activity will firm as the project progresses with strength concentrated in the North Coast. Housing needs should be largely met by work camps constructed for the project. Nevertheless, increased economic activity, rental demand, and speculative interest is forecast to send sales and prices significantly higher. Resale transactions in the North Coast will climb 21 per cent this year and will continue to climb an average of five per cent the following two years to reach nearly 900 sales. Nechako area sales trend at a range-bound pace.

Median resale home values in the North Coast are forecast to climb nearly six per cent in 2019 and 2020 to reach \$275,000, with growth concentrated near Kitimat and Terrace. Nechako area price gains are forecast to rise four per cent in 2019 and two per cent in 2020, as Kitimat area growth reverberates to neighbouring regions. Residential building permits in the North Coast are forecast to rise at a 20 per cent pace to reach \$30 million by 2020, lifted by stronger economic activity and demand for housing. Levels in the Nechako are generally range-bound near \$20 million.

Bryan Yu

Deputy Chief Economist, Central 1 Credit Union

byu@central1.com

www.central1.com

604.742.5346

North Coast & Nechako	2016	2017	2018	2019	2020
Labour Force (000s)	45.5	45.1	46.0	47.7	49.0
% ch.	0.3	-1.0	2.1	3.7	2.7
Total Employment (000s)	42.1	42.5	43.0	45.0	47.0
% ch.	-0.2	0.9	1.2	4.7	4.4
Unemployment Rate	7.6	5.8	6.5	5.7	4.1
North Coast					
Residential Transactions	627	659	800	850	890
% ch.	-11.9	5.1	21.4	6.3	4.7
Median Price	240,000	240,000	245,000	260,000	275,000
% ch.	0.0	0.4	2.1	6.1	5.8
Residential Permits (\$ millions)	19.9	25.2	40.0	50.0	60.0
% ch.	-51.9	26.7	58.9	25.0	20.0
Non-Residential Permits (\$ millions.)	9.1	26.8	164.0	208.0	308.0
% ch.	-83.3	195.5	512.1	26.8	48.1
Private Non-Res Building Permits (\$millions)	8.5	19.7	160.0	200.0	300.0
% ch.	-83.6	133.1	712.2	25.0	50.0
Public Non-Res Building Permits (\$millions)	0.6	7.1	4.0	8.0	8.0
% ch.	-78.4	1055.0	-43.6	100.0	0.0
Population (000s)	57.3	56.2	56.5	56.8	57.1
% ch.	-0.0	-1.9	0.5	0.6	0.5
Nechako					
Residential Transactions	409	483	475	480	460
% ch.	-20.3	18.1	-1.7	1.1	-4.2
Median Price	189,000	210,000	219,000	227,000	232,000
% ch.	3.8	11.1	4.3	3.7	2.2
Residential Permits (\$ millions)	17.3	26.5	20.0	19.0	22.0
% ch.	36.3	52.9	-24.6	-5.0	15.8
Non-Residential Permits (\$ millions.)	10.6	45.0	15.1	11.0	18.0
% ch.	-27.2	324.2	-66.5	-27.2	63.6
Private Non-Res Building Permits (\$millions)	9.6	43.7	10.0	8.0	15.0
% ch.	-21.5	356.1	-77.1	-20.0	87.5
Public Non-Res Building Permits (\$millions)	1.0	1.4	5.1	3.0	3.0
% ch.	-56.1	31.8	270.4	-41.2	0.0
Population (000s)	39.7	44.2	42.0	42.1	42.1
% ch.	-0.0	11.5	-5.0	0.1	0.1
Select Resale Housing Markets					
Prince Rupert Residential Transactions	201	223	195	200	220
% ch.	-3.8	10.9	-12.6	2.6	10.0
Prince Rupert Median Price	258,500	257,000	295,000	305,000	315,000
% ch.	7.3	-0.6	14.8	3.4	3.3
Terrace Residential Transactions	159	183	270	290	275
% ch.	-21.7	15.1	47.5	7.4	-5.2
Terrace Median Price	272,000	285,000	300,000	315,000	324,000
% ch.	0.7	4.8	5.3	5.0	2.9

Sources: Statistics Canada, CMHC, Landcor, Central 1