

## B.C. Regional Economic Outlooks 2018-2020

### Northeast

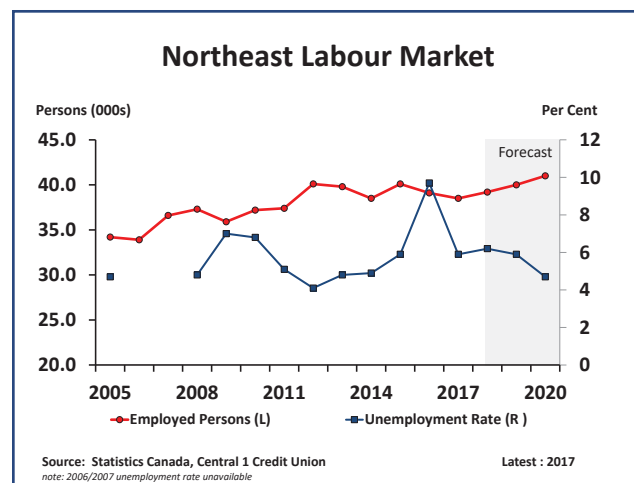
B.C.'s Northeast economic development region spans the Peace River area and is anchored by the cities of Fort St. John and Dawson Creek, which comprise about 30 and 10 per cent share of the region's population. Smaller municipalities include Tumbler Ridge, Chetwynd, Taylor and Pouce Coupe, among others. Key economic sectors include metallurgical coal mining, forestry, agriculture and energy, specifically natural gas.

The region has experienced mixed but modest economic conditions in recent years. Weak energy and other commodity prices have contributed to a severe investment slump that triggered mine closures. The closures lead to lower employment growth and ensuing population outflow.

Annual employment fell for the second consecutive year and the fourth time in five years in 2017 to 38,500 persons. This was down 1.5 per cent from 2016 and compared to a peak of 40,100 persons in 2012 and 2015. Employment in 2018 has held range-bound, with levels broadly unchanged from the same period last year. Weaker trends have been more pronounced in the goods-producing sector, with resource extraction retrenching sharply in 2017 triggering weakness in supporting services sectors. The average unemployment rate surged from 5.9 per cent in 2015 to nearly 10 per cent in 2016, before dropping back to normal levels last year.

A subdued population trend has aligned with labour market performance. Fewer jobs and a bleak outlook in recent years contributed to a mild population contraction. Residents that could relocate searched for employment opportunities in northeast areas such as the south coast or Thompson-Okanagan. The outflow was particularly evident in areas like Tumbler Ridge, which was hard hit by the commodity downturn.

Nonetheless, the worst of the downturn has passed with signs of a modest improvement in economic trends in 2017. The employment growth trend has surged and is tracking close to two per cent. Stable commodity prices contributed to increased drilling and land rights investment, and the restart of several coal mines that shuttered during the commodity price



meltdown in Tumbler Ridge. Ongoing construction of BC Hydro's Site C dam has also supported regional economic activity.

The energy sector continues to expand. Increased capacity at new gas plants and strong demand for natural gas liquids (NGLs) has lifted production. Natural gas production increased by nearly 14 per cent this year, with strong gains in NGLs reflected in the firming of investment in plants. Total wells drilled in northeast B.C. rebounded to a three year high of 621 in 2017. This was up from 356 in 2016 and the highest since 703 wells were drilled in 2014. Land rights bids jumped to \$173.2 million in 2017 from \$15.2 million in 2016 but remained a far cry from the average \$1.1 billion during the 2005-10 period.

Central 1 forecasts an oil and gas output growth of three per cent per annum through 2020. Acceleration is forecast thereafter, reflecting increased drilling and production in advance of liquefied natural gas demand. In addition to impacts in the gas patch, LNG will also benefit northeast B.C. through higher incomes. Workers will find construction opportunities on the terminal and associated pipelines as the project gears up its supply for LNG exports.

In the coal sector, Conuma's purchase of Walter Energy's bankrupt operations and the subsequent re-opening of three of four mines, continues to support the Tumbler Ridge area. Moderately high coal prices should sustain operations, but slowdown in Chinese growth and global growth risks are expected to keep

the fourth mine shuttered. No new coal mines are expected to start over the forecast period and exploration investment is expected to remain low.

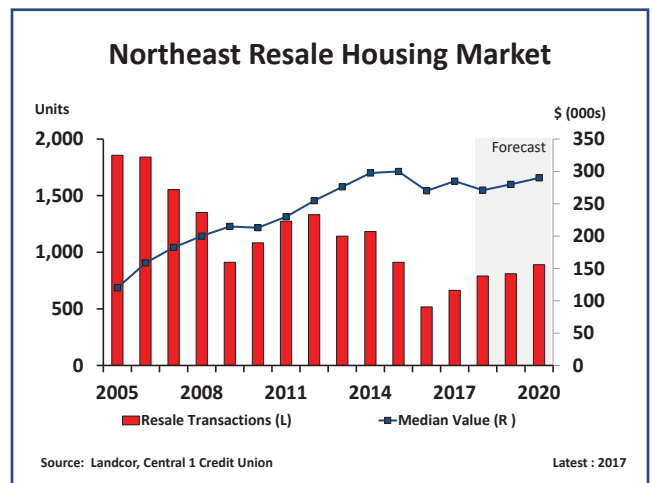
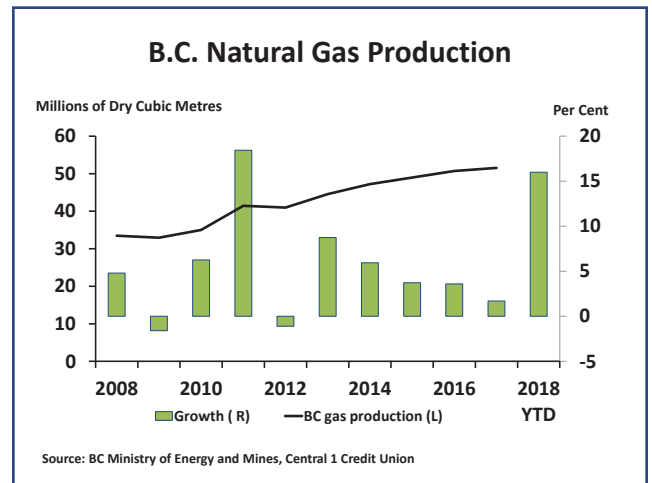
Construction of BC Hydro's Site C dam is contributing to regional economic activity. Economic activity is understated and may not be captured in local employment statistics as the drilling and investment cycle attracts a mobile workforce. This is evidenced as two-thirds of more than 3,000 project workers, reside elsewhere in the province or Canada due to Peace's small population base and labour skills mismatch.

The northeast economy has underperformed with the housing market providing the signal. Recent housing sales have picked up traction but remain lackluster. Resale transactions are forecast to climb 18 per cent this year following a 30 per cent increase in 2017. Fort St. John provides the bulk of the lift at 790 unit sales though they are weak at 20 per cent below pre-2014 downturn levels. Residential permits have trended one third of the levels observed from 2012-15 over the past two years, reflecting low demand and high existing supply of inventory.

Median resale home values have fluctuated with demand patterns across the region. The median price peaked in 2015 near \$330,000, declined midway in 2016 to \$250,000, before rebounding mid-2017. Volatility has continued as prices experienced another downturn in early 2018 before trending higher near mid-year. Product and geographic sales composition factor into this drop, but subdued market conditions have weighed on prices.

Regional employment is forecast to trend higher over the forecast period following recent weakness. Employment growth will increase 1.7 per cent this year and average more than two per cent in 2019 and 2020. A mild upturn in population levels and a rebound in labour force participation rates will lift labour supply. The unemployment rate will ease to about six per cent in 2019 and 2020. Major project construction and an increased drilling cycle later in the decade, lifts employment. Non-residential building permits will rise 15 per cent in 2019 and 50 per cent in 2020 to \$124 million.

Home sales and prices move gradually higher over the forecast period, with stronger gains expected after 2020 as LNG activity triggers economic activity. Sufficient resale inventory, weak demand and population declines are holding back resale construction. Dollar-volume residential permits were flat at \$48.9 million last year as new housing requirements remain low and



existing households abstain from renovating. Upward momentum is forecast with permit volume predicted to rise to about \$65 million, albeit only half of 2015 levels.

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<b>Northeast</b>	2016	2017	2018	2019	2020
Labour Force (000s)	43.3	41.0	41.8	42.5	43.0
% ch.	1.6	-5.3	2.0	1.7	1.2
Total Employment (000s)	39.1	38.6	39.2	40.0	41.0
% ch.	-2.6	-1.3	1.7	2.0	2.5
Unemployment Rate	9.7	5.9	6.2	5.9	4.7
Residential Transactions	516	672	790	810	890
% ch.	-43.4	30.2	17.6	2.5	9.9
Median Price	271,500	280,000	271,000	280,000	290,000
% ch.	-9.5	3.1	-3.2	3.3	3.6
Residential Permits (\$ millions)	46.4	48.9	40.0	55.0	65.0
% ch.	-69.2	5.4	-18.2	37.5	18.2
Non-Residential Permits (\$ millions.)	124.9	70.4	71.0	82.0	124.0
% ch.	43.1	-43.6	0.8	15.5	51.2
Private Non-Res Building Permits (\$millions)	78.4	67.6	70.0	80.0	120.0
% ch.	-5.7	-13.8	3.5	14.3	50.0
Public Non-Res Building Permits (\$millions)	46.5	2.8	1.0	2.0	4.0
% ch.	1034.1	-93.9	-64.8	100.0	100.0
Population (000s)	69.3	69.5	69.3	69.5	69.7
% ch.	-0.8	0.2	-0.2	0.2	0.4
<b>Select Resale Housing Markets</b>	2016	2017	2018	2019	2020
Dawson Creek Residential Transactions	148	220	240	270	300
% ch.	-42.0	48.6	9.1	12.5	11.1
Dawson Creek Median Price	250,000	251,750	267,000	275,000	285,000
% ch.	0.4	0.7	6.1	3.0	3.6
Fort St. John Residential Transactions	255	304	375	390	430
% ch.	-49.1	19.2	23.4	4.0	10.3
Fort St. John Median Price	335,000	339,000	325,000	335,000	350,000
% ch.	-4.8	1.2	-4.1	3.1	4.5

Sources: Statistics Canada, CMHC, Landcor, Central 1