Central 1™

B.C. Economic Briefing

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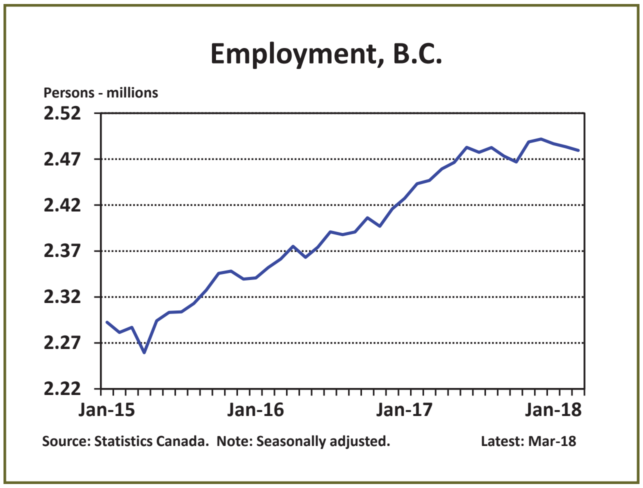
HIGHLIGHTS:

- March employment remains range-bound
- Exports languish
- Housing sales retreat in March

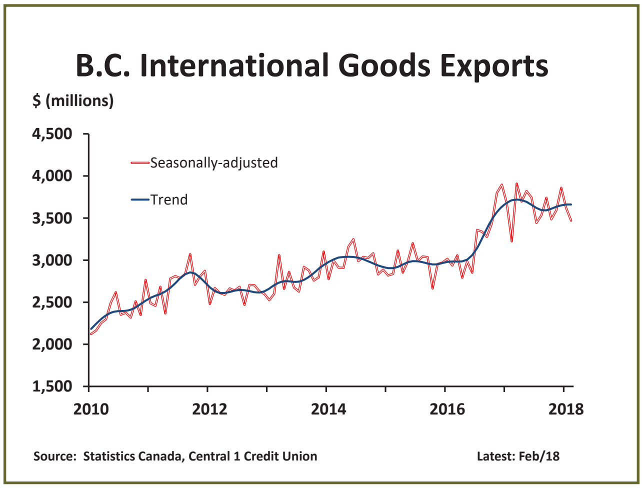


Part-time job losses offset full-time surge in March, unemployment low

B.C. extended its recent hiring lull in March with little change in headline employment. Estimated employment fell by 0.2 per cent (down 3,900 persons) from February, but the change was statistically insignificant. That said, employment has declined over the past three months with no net gains since the summer months. The silver lining in March was a rebound in full-time job growth following a February plunge. In comparison, national employment growth edged slightly higher by 0.2 per cent led by Quebec, Alberta and Saskatchewan.

Vancouver Census Metropolitan Area employment fell 0.6 per cent (down 8,700 persons) to lead the retreat, although like the provincial change, was statistically insignificant. On an industry basis, provincial employment fell the most in wholesale and retail trade (down 9,200 persons or 2.4 per cent) and information/culture/recreation (down 7,700 persons or 5.9 per cent), reflected in lower part-time work. Offsetting this was education, health care and utilities employment.

The flat employment trend has whittled away the strong year-over-year growth trends observed through most of 2017, which fell to



1.3 per cent (seasonally-adjusted). That said, a moderation is not unexpected given 2017's breakneck pace of 3.7 per cent.

While headline employment is soft, the labour market environment remains tight and is likely one reason for disappointing hiring picture. B.C.'s unemployment rate remained at 4.7 per cent which was by far lowest in the country and below the national average of 5.8 per cent. The second lowest was Ontario at 5.5 per cent. Labour force participation at 65 per cent continued to trend at a high level for B.C. standards. This points to a labour market that is operating at full-employment. Plenty of jobs remain unfilled in B.C., with the province consistently showing the highest job vacancy rate in the country in 2017, particularly in southern areas of the province. Improving economies elsewhere in Canada has curtailed flows of Canadian residents to the province

Aligning with this environment is rising wage pressures for employers, which confirms survey results from the CFIB business barometer discussed last week. The average hourly wage rate rose 5.6 per cent on a year-over-year basis, with the median wage up 4.3 per cent. The latter has held above four per cent since the fall.

Central 1 forecasts full-year average employment growth of 2.2 per cent this year and 1.4 per cent in 2019, with an unemployment rate of about 4.4 per cent. Labour supply is a key impediment which will continue to drive wage growth.

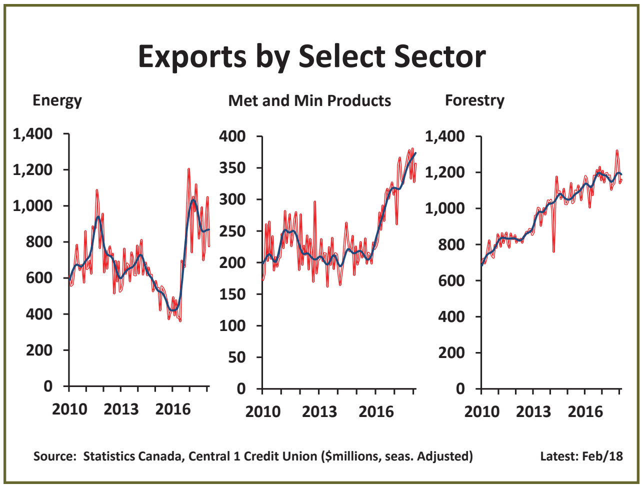
Range-bound exports continue in February

Year-over-year growth of B.C. international goods exports picked up in February to 7.6 per cent to reach $3.269 billion, following no gain in January, but sales remained range-bound. February's jump in year-over-year sales reflected a base-year effect due to weak sales a year earlier. Adjusting for seasonal factors, export sales fell for a second straight month, and while volatile, the underlying trend has shown signs of wavering momentum since mid-2017 following a sharp gain in the second half of 2016. Year-to-date, exports rose 3.3 per cent.

Current export trends show positive momentum for consumer goods, metallic and non-metallic mineral products and industrial equipment and parts. Factors such as a competitive exchange rate, global growth, and increased production capacity are contributing to these gains. Energy sales (which include natural gas, electricity, and coal) have been on a downswing since peaking in early 2017, while forestry product exports are range-bound. These reflect a combination of commodity price changes and production, though forestry sales have largely been propped up by surging lumber prices as real production and exports have declined.

Through the first two months, energy exports rose 2.7 per cent, while forestry product sales declined 1.8 per cent. Mining and related products rose 20 per cent, with industrial machinery and equipment up 14 per cent.

Dollar-volume imports jumped in February, pushing year-to-date growth to 8.5 per cent. A surge



in refined gasoline, metal and mineral products, and aircraft transportation equipment were the primary drivers.

Following a 13 per cent export gain in 2017, growth will slow this year. Commodity prices provide less of an uplift, while real shipments also decelerated. Total international goods exports have risen five per cent, with forestry and energy sales a drag. Risks to the export cycle include a NAFTA dissolution and a worsening dispute in China-U.S. trade relations.

Lower Mainland MLS® sales decline to four-year low in March

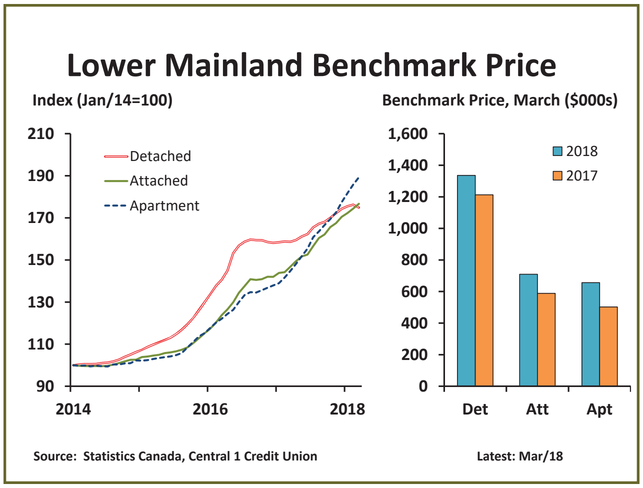
Lower Mainland home sales retreated again in March, adding to steep declines observed over the first two months of the year. This is a clear indication that the combination of tighter mortgage regulations, higher interest rates and policy uncertainty related to provincial government tax measures are weighing on market. At the same time, upward price pressures continued unabated in the relatively more affordable apartment and townhome market as detached values softened. Policy measures are likely pushing buyers down market, and combined with exceptionally low inventory, putting upward pressure on multi-family units, with a strong labour market, demographics factors, and homeownership desirability underpinning demand.

March MLS® sales in the Lower Mainland (combined Metro Vancouver and Abbotsford-Mission) fell 28 per cent year-over-year to 4,127 units which was the lowest same-month tally since 2014 and about 10 per cent below the 20-year average. Seasonally-adjusted, we estimate a 10 per cent drop from February, and 30 per cent from December, although late-2017 sales were likely boosted by some pull-forward activity in advance of mortgage regulation changes. While sales declined sharply across all product types since late-2017, detached market sales are particularly weak and in line with previous cycle lows in 2008/09 and 2012/13. Multi-family sales continue to track a moderate pace.

While sales retrenched, listings remained low for this time of the year. New listings fell seven per cent on a year-over-year basis and were 15 per cent below March norms. Inventory (month-end active listings), already rock bottom, further eroded. Lack of a new listing response in both strong and weaker markets could reflect a number of factors. A strong economy means owners are not in a rush to sell, while a mature housing market provides little incentive to move if in a desirable area, and owners may already have maxed out their affordability limits.

Sales-to-inventory ratios have declined, with detached market levels moving towards buyers' conditions, although still sky-high prices and tighter credit conditions will provide little solace for many buyers pining for their own white picket fence. Market tightness in the apartment and townhome is abating, but conditions continue to favours sellers due to insufficient inventory. Prices have aligned with these trends. Seasonally-adjusted benchmark price indices edged lower in the detached market by 0.8 per cent to $1.358 million, while apartment rose 1.9 per cent to a record $660,570 and townhomes continued to by 1.3 per cent to $713,800. Year-over-year, the apartment benchmark rose 31 per cent, with a 20 per cent increase in townhomes and 10 per cent increase in detached homes.

Downward sales momentum is expected to end shortly but sales are likely to trundle along at a relatively sluggish pace given the policy environment. Detached home prices will likely ease mildly over the next few months, but conditions remain ripe for continued, albeit, decelerated growth in apartment and townhome prices.



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