B.C. Economic Briefing

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Highlights

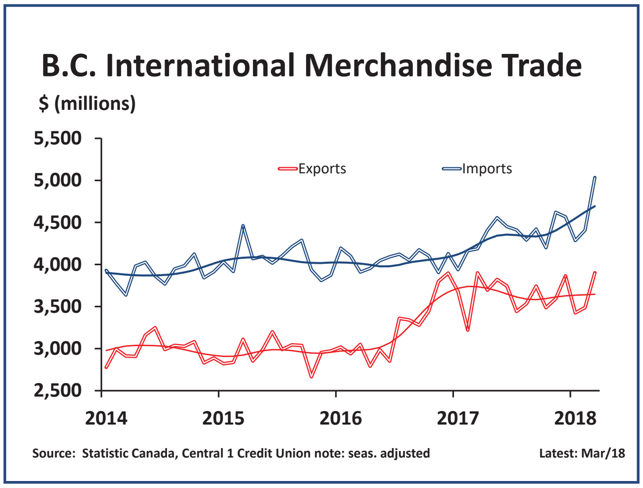
- Exports jump in March, little changed from 2017
- Another banner year for B.C. economy in 2017
- Lower Mainland home sales show stability in April after policy-induced downturn

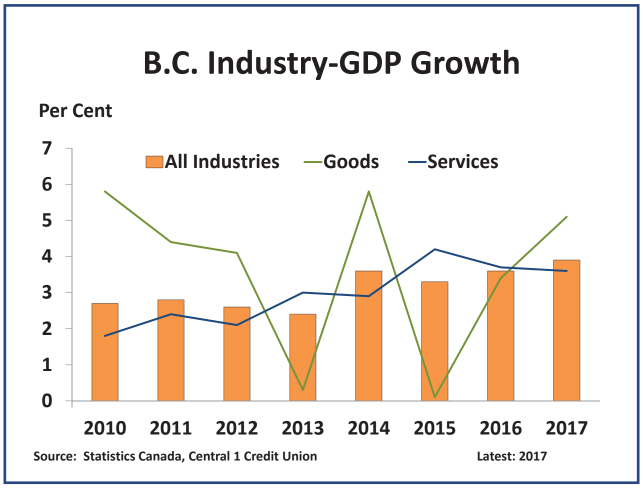
Exports pick up in March, but flat relative to 2017

Canadian international merchandise trade flows picked up sharply in March, and B.C. was no exception. Provincial dollar-volume exports held steady on a year-over-year basis at $4.03 billion in March, but monthly momentum picked up. Seasonally-adjusted, we calculate a near 12 per cent increase from February and the highest exports sales in 12 months. Resources drove much of the seasonally-adjusted increase with metal and non-metallic mineral sales doubling, and energy exports up 12 per cent following two months of declines. Consumer goods also gained significantly, while forestry shipments and food product sales edged lower.

Despite the March gain, first quarter export sales growth was slow, with levels only 0.2 per cent higher on a year-to-date basis. Energy sales, comprised largely of natural gas, coal (largely metallurgical), and electricity, fell 10 per cent, while forestry exports fell two per cent and food products declined five per cent. Offsetting gains have come from strong mining and processed metal sales, as well as consumer goods.

Dollar-volume sales growth reflects both price and physical volume effects. While energy exports are down sharply from a year ago, this largely reflects lower electricity exports (flow), while natural gas export sales have declined on a sharp pullback in prices from a year ago. Higher physical coal shipments have offset a modest price decline. Elsewhere, real forestry exports are down close to 10 per cent with dollar-volume sales propped up by high prices. Demand for wood products remains high, and sawmills are operating near peak capacity, but like other commodities, have been limited by rail bottlenecks. Mining exports have reflected a combination of both higher prices and production, while demand for consumer goods is solid.





Exports will trend higher through 2018. Growth in the U.S. and other global markets is strong, observed in upward revisions to growth by the International Monetary Fund, which pegs global growth at 3.9 per cent and the highest levels since 2011, while commodity prices are firm. Elevated resource prices and higher demand will support B.C. export sales. A key negative risk for exports remains protectionist sentiment and policies that have emerged and could escalate, such as a breakdown in NAFTA and tit-for-tat tariffs between the U.S. and China, but we currently deem these as unlikely.

While exports have been flat, dollar-volume international imports have surged. First quarter imports rose 12 per cent from same-period 2017, driven mostly by energy products, but broadly by industrial goods, motor vehicles and parts, and food products. The trade balance has widened, but this is not of much concern. Many of these imports are supporting the economy as inputs into production, while also reflecting strength in consumer spending.

Stellar B.C. economic growth confirmed

Statistics Canada's release of industry gross domestic product (GDP) confirmed another banner year for B.C.'s economy in 2017. Growth in real industry output rose 3.9 per cent, up from 3.6 per cent in 2016. This marked the fourth straight year that B.C. growth exceeded three per cent, and the strongest annual performance since 2006. B.C growth outpaced a strong national expansion of 3.3 per cent and was second only to Alberta, which rebounded with a 4.9 per cent surge following a 3.6 per cent contraction in 2016. B.C. has consistently been among the strongest economies in Canada since 2014.

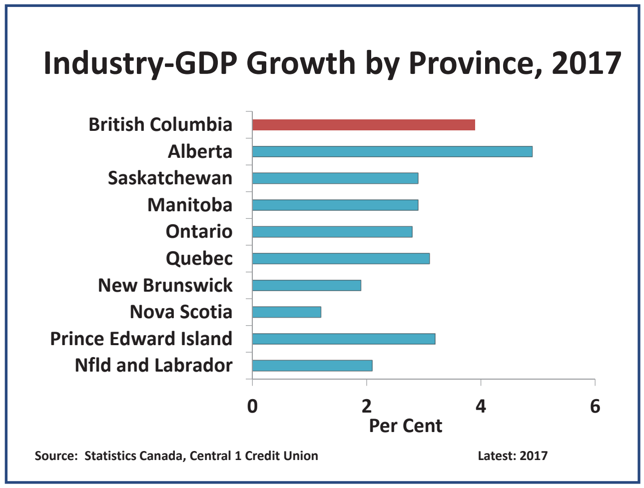
Alberta's gain reflected energy sector expansion after strong contractions over the previous two years. Higher oil prices and a rebound following wildfire induced shutdowns were drivers. Specifically, oil and gas extraction rose 7.8 per cent, with related support activities of mining and oil and gas extraction up 56.7 per cent. Real output in the latter had declined 60 per cent during the 2014 to 2016 period. Stronger energy sector conditions also filtered through related manufacturing sectors and demand for consumer and business services.

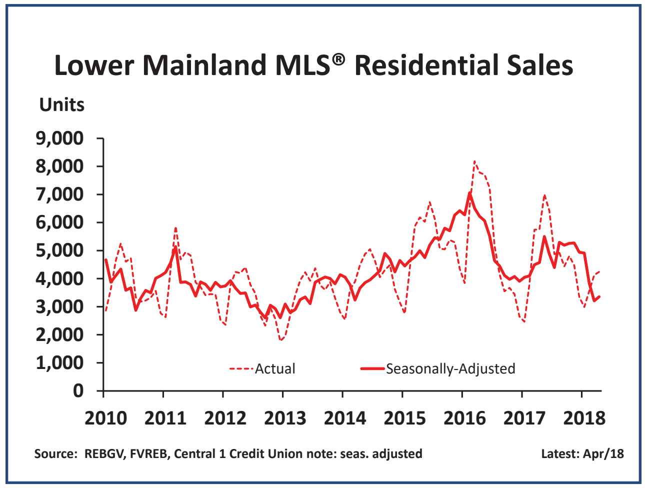
B.C. growth evolved largely as we expected but at a pace below our forecast of 4.3 per cent, with a few surprises. Robust gains were observed in both the goods-producing (up 5.1 per cent) and services-producing sectors (up 3.6 per cent).

Among goods-producing sectors, manufacturing growth was strong at 4.5 per cent, led by growth in primary metals (up 9.8 per cent), which is still seeing uplift from rising production at the rebuilt Alcan plant in Kitimat, as well as a 14 per cent increase in petroleum and coal production, and growth in electrical equipment, appliances and components. Increased capacity from past investment in plants, and stronger export demand were drivers.

Construction growth was surprisingly strong at 9.9 per cent. Residential building was in line with our expectation with a 2.2 per cent expansion, while non-residential building activity fell. However, engineering construction surged 48.7 per cent to underpin the gain, led by transportation (up 32 per cent) and oil and gas engineering (up 97.5 per cent). Projects included the Saturn Compressor expansion and Towerbirch in the Northeast, and Ridley Island Export Terminal construction.

On the commodity and resources front, crops and animal production contracted by 2.4 per cent, while mining, quarrying and oil and gas extraction was





essentially unchanged. As expected, forestry was a drag on the economy. Forestry and logging fell 4.3 per cent following a 1.3 per cent contraction in 2016, and wood manufacturing fell 2.1 per cent. Wildfires limited some production during the year, while transportation bottlenecks may also have been a factor.

Service-sector expansion of 3.6 per cent geared off the strong goods-sector performance, robust labour market, and demand for export services. Retail sales accelerated to 6.3 per cent from 5.7 per cent in 2016, lifted by demand at motor vehicles and parts dealers and housing-related materials, but with growth broadly spread out among segments. Transportation and warehousing expanded 7.5 per cent, while the finance, insurance, real estate and leasing (FIREL) sector expanded more than three per cent.

Technology sub-sectors also boomed, as tech hubs expanded and export demand increased. The broad information and communication technology sector output rose 4.7 per cent. Computer system designs services rose 13 per cent, data processing services rebounded nine per cent, and motion picture and sound recording studios output jumped eight per cent following a 12 per cent expansion in 2016. TV and film production has ramped up, which has partly reflected increased appetite from streaming services like Netflix. Tourism-oriented sectors also performed well with growth near four per cent.

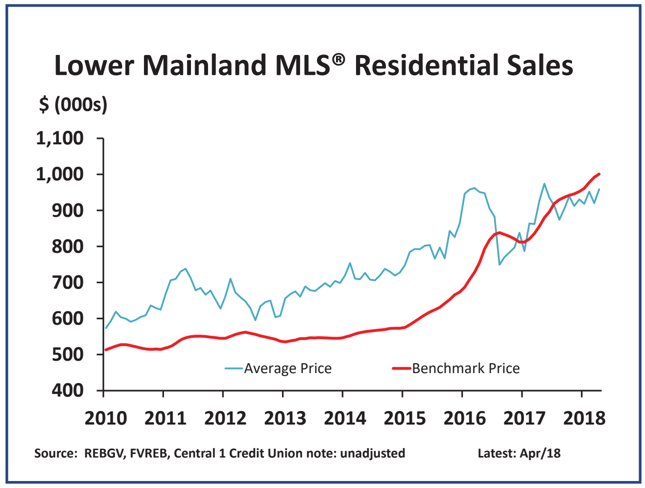
B.C.'s economy is expected to maintain solid momentum this year. Growth is forecast to expand by three per cent as a rotation toward business investment offsets moderation in household demand growth. The latter will be impeded by tighter lending restrictions in the housing market and rising interest rates. Central 1 forecasts growth of 2.3 per cent in 2019 and 3.3 per cent in 2020.

Lower Mainland home sales stabilize at low levels in April

The policy-induced swoon in the housing cycle, further amplified by rising mortgage rates, continued through April, but sales conditions look to have stabilized. MLS® sales in the region spanning Metro Vancouver and Abbotsford-Mission reached 4,240 units. Year-over-year, sales declined 26 per cent in April, compared to a 28 per cent drop in March. Seasonally-adjusted, sales look to have turned slightly higher, suggesting the market has adjusted to the tightening of B-20 lending standards and absorbed the uncertainties related to announced tax policies by the provincial government. That said, the sales flow is trending 30 per cent below the pace observed at the end of 2017. The last time sales were at this level was in during the first half of 2013.

Softer sales conditions and moderate new listings are putting upward pressure on resale inventory, particularly in the detached market, but broad market conditions remain balanced. Detached and general luxury home sales are sluggish, and buyers are at a distinct advantage with a well-stocked resale inventory. In contrast, apartment and townhome market conditions remain tight. Recent policy measures and credit constraints have pushed buyers down market, and in some cases out of the market. At the same time, underlying demand for housing remains strong due to robust economic growth and the lack of rental market supply, driving strong pricing conditions at the bottom-to-mid level market.

We do not anticipate a spike in housing supply. Most homeowners are not in a position where they need to sell, which typically only happens during a recession and job loss. Additionally, hoopla about increased property taxes on higher priced homes is partly mitigated by ability of older homeowners to defer taxes indefinitely at a below market interest rate.



The regional average price has been range-bound in recent months. On an unadjusted basis, the Lower Mainland average price was up four per cent to $958,400 from March, which reversed the prior month drop. Year-over-year, the average price was up 3.4 per cent. The MLS® benchmark price is aligning with market conditions. Growth of detached home prices is slower than a typical spring, and has rolled over on a seasonally-adjusted basis due to ample supply in the market and policies that have impeded purchases of more expensive units. In contrast, townhome price growth was robust, with growth of more than one per cent from March on a seasonally-adjusted basis. Apartment price growth decelerated but was still up a solid 0.7 per cent from March, seasonally-adjusted. Year-over-year, benchmark apartment prices were up 28 per cent, with a 20 per cent increase for townhomes, and eight per cent for detached homes.

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