B.C. Economic Briefing

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Highlights

- Employment steady in April as unemployment rate creeps higher
- New home construction robust despite fewer apartment starts
- Small-business confidence moderates

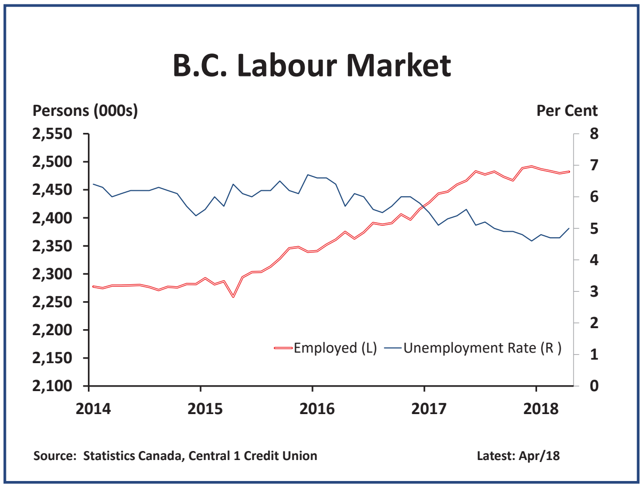
Soft employment growth continues in April but labour market remains tight

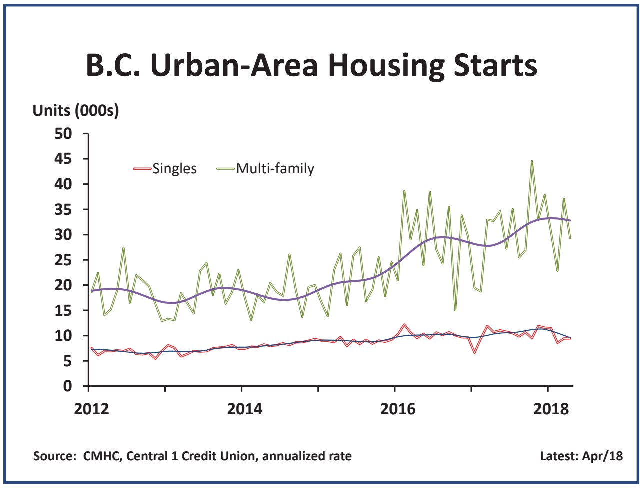
B.C.'s economy recorded little change in the number of employed persons in April, to extend a soft hiring trend going back to mid-2017. Estimated employment rose 0.1 per cent to 2.48 million persons following three months of steady erosion with no net gains since the summer. That said, B.C. still managed to outpace a flat national reading which saw job losses in most other provinces, led by declines in Quebec and Saskatchewan.

April continued to show a divergence in the regional trend. Employment in the Vancouver Census Metropolitan Area (CMA) declined one per cent from March, marking a third straight monthly decline, while employment gained traction in the rest of B.C. following some erosion through 2017.

Like headline employment growth, employment changes in most industries were insignificant. The exceptions were declines in the finance, insurance, real-estate, rental and leasing sector (commonly seen as FIREL) which fell 4.1 per cent from March, and a similar decline in business support services. Significant offsetting gains were observed in transportation and warehousing (up 3.0 per cent), professional/scientific and technical services which include part of the hi-tech sector (up 2.9 per cent), and accommodations and foodservices. Job losses likely relate to a slowing housing cycle, while the rest of the economy continues to grow.

B.C.'s unemployment rate remained low at 5.0 per cent but rose 0.3 percentage points from March as more people searched for work. Labour force participation rates are still high after peaking in mid-2017. Unemployment in the Vancouver CMA is even lower at 4.5 per cent. A tight labour market is likely contributing to low employment growth in recent quarters. After





stellar employment growth in 2017 of 3.7 per cent and dwindling joblessness, employers are having difficulty in finding workers and are adapting in part by extending hours worked, which is lifting full-time employment at the expense of part-time gains. Wages continue to rise with year-over-year growth in average hourly wage at 5.6 per cent, and median wage growth of over seven percent. These pressures are evident in the small business confidence survey examined below.

Slow hiring has average year-to-date employment up only 1.6 per cent through four months. Some pick-up is anticipated as increased labour supply allows for more positions to be filled. Full-year growth is forecast at 2.0 per cent for 2018 and 1.4 per cent in 2019, with an unemployment rate of 4.5 per cent.

Housing starts robust in April despite pullback, future decline expected

To little surprise, housing starts in B.C. reverted lower in April following a surge in March apartment starts.

Total urban-area starts declined to a seasonally-adjusted annualized rate of 38,750 units, down 16.7 per cent from a 46,500 unit pace in March. Despite the pull back, the trend remained robust and has held above a 40,000-unit pace since the second half of 2017.

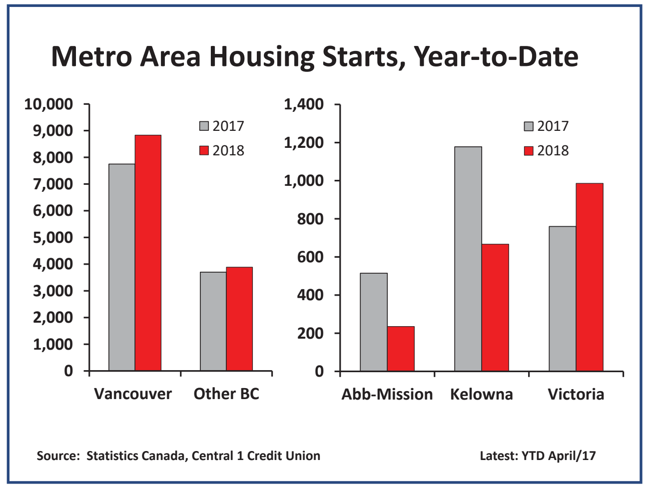
Monthly housing starts data is highly volatile, due largely to a swing in the apartment and townhome sectors, given the infrequency and high number of units associated with projects starts. Both apartments (down 22 per cent) and row units (down 19 per cent) declined from April and drove the monthly drop, but the trend has generally remained positive. Strong pre-sale activity in past years, reflecting high levels of demand for relatively affordable units in urban areas, downsizing and investment demand, continues to underpin project starts.

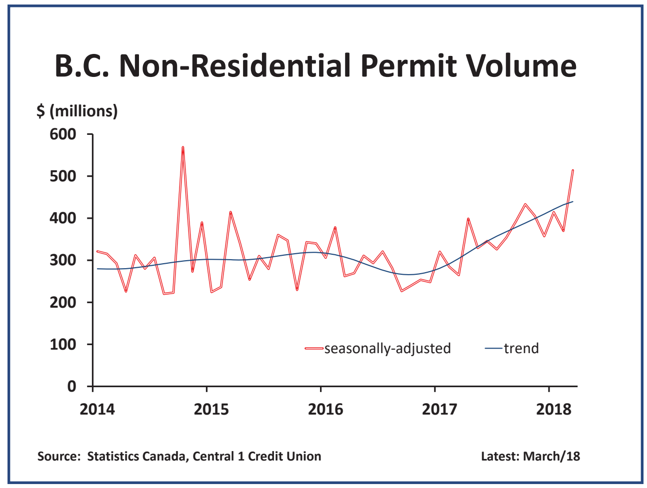
That said, demand is being curtailed by tighter credit conditions, namely higher mortgage rates, and more stringent mortgage lending criteria for federally regulated financial institutions. Provincial government housing market policy has also added to uncertainty with hikes to the foreign buyer tax, proposed speculation tax, school tax hikes on high-valued properties, and other measures. These factors have already led to a slump in resale market activity in early 2018, while a decline in the single-detached housing starts trend may also reflect a pullback in custom homes and spec building on the part of builders.

Regionally, April's monthly decline was led by the Vancouver Census Metropolitan Area (CMA), which fell from an annualized pace of 32,385 units in March to a 23,400 unit pace in April (down 28 per cent), while Abbotsford-Mission starts fell to a pace of 400 units from 1,200 in March. In contrast, Kelowna starts more than doubled and Victoria activity held steady. Following robust performances in 2017, housing start trends have eased outside the Vancouver CMA.

Through the first four months, urban-area housing starts are tracking 11 per cent above same period 2017, pointing to another robust year of housing construction. Multi-family starts are up 15 per cent, while detached starts slipped. Growth is driven by a 14 per cent increase in the Vancouver CMA despite the April dip and a 30 per cent increase in Victoria. Kelowna and Abbotsford-Mission starts were down by nearly half through the period. The decline in Kelowna largely reflected a surge in rental starts in early 2017. Among mid-sized markets, Chilliwack and Vernon have posted strong gains in housing starts in 2018.

New home construction is expected to slow as demand constraints slow pre-sale uptake, and elevated levels of units under construction also signal builders





to slow production. That said, factors supporting a high level of housing starts are: income, job and population growth, low mortgage rates, high consumer confidence, investor demand, and pent-up demand for ownership and rental housing. Market conditions with rising prices and low rental vacancy rates will spur investment in new construction. Increased government funding for social housing units is a new factor.

Annual housing starts are forecast to ease to 40,000 units this year as policy measures bite, slightly lower than in 2017, but among the highest levels recorded.

Building permits jump in March

Aligning with an elevated housing starts trend was another strong showing for residential building permits in March. Seasonally-adjusted permits surged 17 per cent from March and 67 per cent from a year ago to $1.25 billion. Through the first quarter, residential building permits rose 27 per cent on a year-over-year basis.

While permits fluctuate, a rising trend in early 2018 speaks to stronger than expected building intentions. Apartment and townhome permits drove the increase with a 21.2 per cent increase in permit volume, while single-family permits rose 7.6 per cent. The trend in the former is still rising but expected to slow in the quarters ahead. Among B.C.'s metro areas, March permit growth was led by the Vancouver Census Metropolitan Area (up 27.8 per cent to $1.16 billion) while Kelowna rose by half to $83.3 million. Permit volume declined in both Abbotsford-Mission and Victoria.

Dovetailing with residential momentum was a surge in building intentions by private firms. Total non-residential building permits jumped to a seasonally-adjusted $514 million in March to extend a year-long upswing. This marked a 39 per cent increase from February, and a near-doubling from a year ago. Commercial, and to a lesser extent, industrial activity led the increase as government permits held steady from February. Total non-residential permit volume was up nearly 60 per cent in the first quarter from same-period 2017 as growth in the economy has triggered increased investment spending by businesses and government. Non-residential building will be a positive driver of economic growth for B.C. this year.

Small business confidence eases in April

Small business confidence in B.C. waned in April, according to the latest CFIB Business Barometer reading. The index reading fell from 65.9 points in March to 61.4 points in April. While holding above a 50-point reading, which means more owners surveyed expect stronger business performance relative to those expecting a weaker performance over the next year, this was the lowest reading since November and soft when compared to the post-2008/09 period. That said, this followed the general national trend and B.C. confidence is still amongst the highest in the country.

Part of this erosion may reflect a strong 2017 economic growth performance for the economy which is unlikely to be repeated, particularly as housing falters and export policy uncertainty persists. Full-time staffing intentions remain elevated, with 23 per cent of business looking to increase headcounts and only ten percent looking to reduce. Business concerns are high when it comes to shortages of skilled labour (46 per cent) and capacity. Meanwhile, rising wages (reflecting a tight labour market), higher fuel costs and regulatory issues are further dragging on optimism.

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