# B.C. Economic Briefing

central 1

Volume 24 • Issue 22 • Week of May 28-June 1 2018 | ISSN: 1981-355

## Highlights

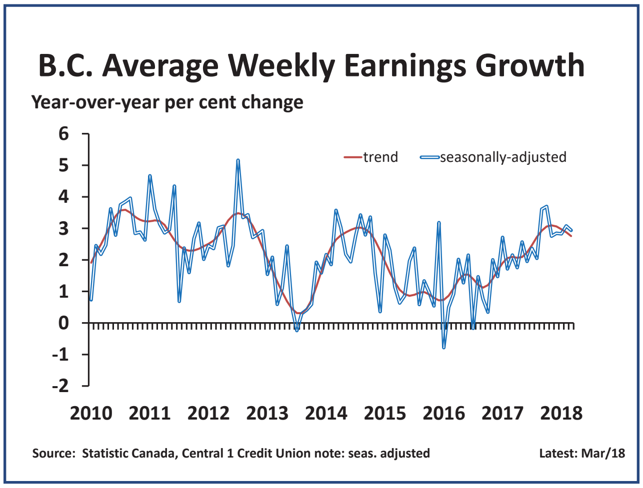
- Average weekly earnings up nearly three per cent in March
- Non-farm payrolls surge
- New dwelling construction and renovations post strong start to 2018
- Small business confidence erodes in May

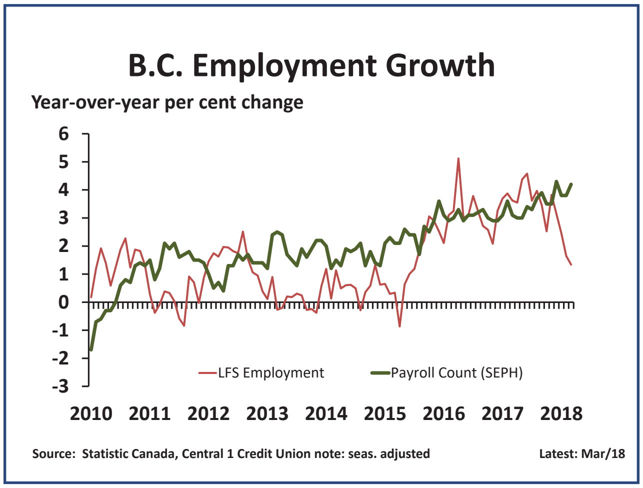
## B.C. wage earnings march higher in March

Average weekly earnings (AWE) in B.C. marched higher in March after little change in February. Earnings rose a strong 0.4 per cent on a month-to-month basis to $962.44, according to the Survey of Employment Hours and Earnings (SEPH), with year-over-year growth steady near three per cent. National AWE was unchanged from February and up a comparable 3.1 per cent.

Growth in monthly AWE was mixed among sectors. The goods-producing sector posted a reversal of prior month gains, declining 0.9 per cent to $1,209. A jump of 6.4 per cent in forestry and logging pay was offset by declines of more than nine per cent in mining and energy resources and utilities. In contrast, weekly earnings in the services producing sector rose 0.8 per cent. Employees in the wholesale trade (up 2.4 per cent), the arts, entertainment and recreation (up 10 per cent), and real estate, rental and leasing (up 3.6 per cent) experienced stronger than average growth in earnings. Declines were seen in information and culture, finance and insurance, and management and administrative support areas.

Monthly headline average weekly earnings are typically volatile, with various factors influencing levels, including hours worked and part-time/full-time split of employees and changes in employment composition. Broadly however, the trend has remained strong. Smoothing out some of the volatility, AWE is up about three per cent on a year-over-year basis which is the firmest pace since 2014. Growth is led by real estate/rental/leasing (up 13 per cent), managerial services (up 16 per cent), trade (up seven per cent), and utilities (up 11 per cent). Up until recent months, the housing




market was strong, while expansion of areas like the technology sector and other service exporters provided support. Upward wage momentum is consistent with the latest readings from the fixed weighted index of average hourly earnings, which was up 2.9 cent in March, led by sectors. That said, this is below a more than five per cent increase in the average hourly wage rate as estimated in the Labour Force Survey (LFS), reflecting estimation methods and employment composition effects.

Solid growth in the economy and a low unemployment rate are lifting wages in B.C., which is expected to continue. That said, real estate-dependent wage earnings will ease due to a downturn in home sales.

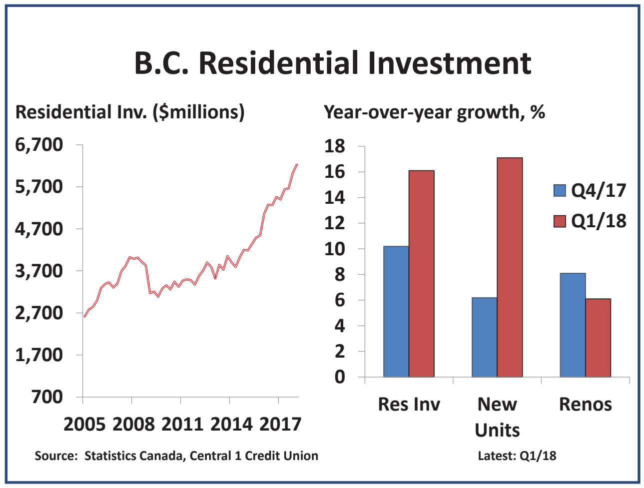
Payroll employment counts surged 0.4 per cent from February and 4.2 per cent higher than a year ago, which was the strongest among provinces. Year-over-year growth has trended above 3.8 per cent since late-2017. This has significantly outperformed growth in LFS estimates, which was up only 1.8 per cent over the same period. While the two measures typically move in tandem over time, they can diverge in the short run. Part of this difference may reflect declines in agriculture employment this year, which is included in the LFS but not payroll counts. Payroll counts have climbed sharply across many sectors over the past year, reflecting broad based growth in the economy. The strongest gains have been observed in utilities, wholesale trade, information and culture, management of companies, arts entertainment and recreation, and accommodations and food services.

## Residential construction investment surges 16 per cent in Q1

While housing market demand is decelerating, B.C. residential construction investment was robust during the first quarter of 2018 and remained a strong contributor to economic growth. Not considering inflation, residential construction investment jumped 16 per cent on a year-over-year basis during the first quarter to a record-high $6.17 billion, up from a 10 per cent gain during the fourth quarter. This was the third highest gain among provinces and compared to a national increase of eight per cent.  On a seasonally-adjusted basis, B.C. residential investment rose three per cent from the fourth quarter and marked a fourth successive quarterly gain.

Strong housing starts in 2017 and early 2018, and record number of units already under construction contributed to the new cycle high. New dwelling units accelerated from a six per cent year-over-year pace in the fourth quarter to 17 per cent in the first quarter of 2018, with broad gains in both single-detached and multi-family activity. Renovation spending growth was steady at six per cent, year-over-year. New construction makes up more than half of total investment activity, with renovations about a third. Acquisition costs, which relate to value of services during acquisition of new dwellings, such as land development, taxes, and services charges, were up 45 per cent year-over-year.

Residential investment growth is expected to decelerate with the broader housing market. Lower resale activity will likely slow growth in renovation spending and acquisition costs. Housing starts, while surprisingly robust to start 2018, are forecast to slow with weaker resale market activity, although government investment provides offset. Completion of homes and decline in the number of units under construction will further dampens investment flow. Residential investment is expected to be a negligible growth driver for the economy over the next two years but is unlikely to




experience a significant contraction given the number of projects yet to start, and a solid labour market and economic backdrop which will maintain steady renovation spending.

## Small business confidence slumps in May

On the small business front, optimism in B.C. slumped in May according to the Canadian Federation of Independent Business. Its Business Barometer reading fell to 58.8 points, marking a third straight decline. A value above 50 means more firms anticipate better business conditions over the coming year, relative to those expecting worse conditions. While still in positive territory, a value near 65 is aligned with stronger growth in the economy. Relative to other provinces, B.C. optimism has faded and was seventh among provinces in May, marking a sharp contrast with the preceding six months when B.C. was near the top.

May's drop may be an aberration. Economic indicators remain solid in the province and the proportion of businesses citing good business conditions is high, at 44 per cent. That said, growth is forecast to slow from 2017 which may be influencing forward looking expectations by business. Additionally, several factors are likely weighing on business sentiment including: insufficient labour availability, wage inflation (due in part to minimum wage hikes), higher energy costs, and increased tax burden.

**Bryan Yu**
Deputy Chief Economist
byu@central1.com  /  P  604.742.5346
Mobile:  604.649.7209