B.C. Economic Briefing

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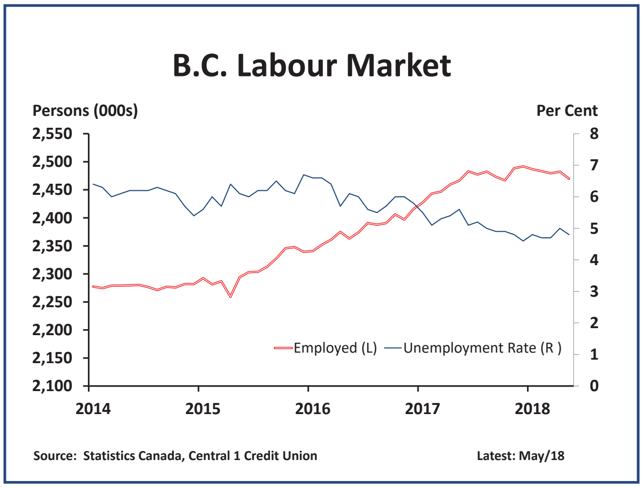
Highlights

- Employment momentum eases 0.5 per cent in May
- Housing starts remain elevated on Vancouver area construction
- International exports pull back
- Lower Mainland home sales sluggish, detached prices erode



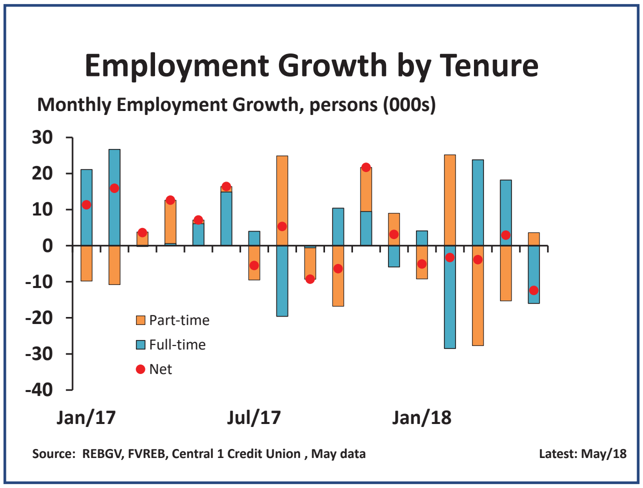
Declining employment trend masks tight labour market environment

Employment levels in B.C. continued to soften in May, according to the latest Labour Force Survey (LFS) estimates. A pullback in full-time positions drove a 0.5 per cent (or 12,000 persons) dip in total employment from April. Since peaking in December, employment declined in four of the five months, albeit with net losses owing to a plunge in part-time workers and those self-employed. Declining momentum lowered year-over-year employment growth to a negligible 0.1 per cent, which was the weakest gain since early 2015. Lower May monthly employment can be entirely attributed to a pull back in the Vancouver metro area, which fell 1.4 per cent from April and 0.6 per cent year-over-year.

Nationally, employment was little changed from April, with gains in the Atlantic provinces and Quebec offsetting losses in some other provinces. Similarly, B.C. underperformed the year-over-year national gain of 1.3 per cent, but this is coming off an exceptional year of employment growth in 2017.

Among industries, employment growth was mixed with 11 of 16 industry groupings showing contraction from April. Statistically significant declines were recorded in construction (down 2.2 per cent); business, building and support services (down 3.9 per cent); and professional, scientific, and technical services (down 2.1 per cent).

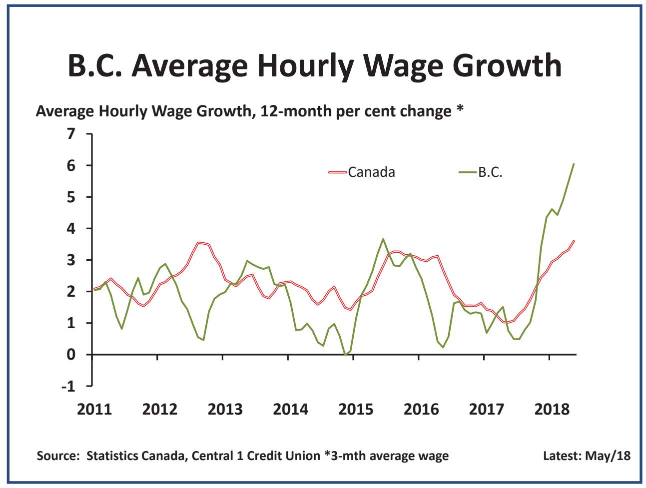
Similarly, year-over-year growth showed significant volatility. On the downside, agriculture (down 11.8 per cent); business, building and support services (down 11.5 per cent); and finance, insurance, and real estate (down 8.2 per cent) were key drags. These losses



were largely offset by accommodations and food services (up 3.8 per cent); utilities (up 11.6 per cent); professional, scientific, and technical services (up 5.7 per cent); and healthcare and social assistance (up 6.1 per cent).

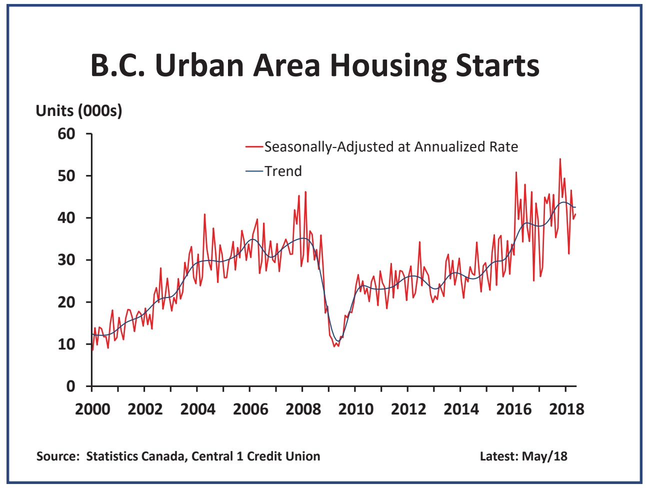
While employment momentum is clearly disappointing and a potential drag on consumer demand growth and future economic growth, this is in large part a reflection of a tight labour market rather than weak economic activity. Unemployment rates remain exceptionally low, declining from 5.0 per cent in April to 4.8 per cent in May, with a plunge in the Vancouver metro area from 4.5 per cent to 3.8 per cent. Labour force participation rates and employment rates are elevated, pointing to a labour market that is at or near capacity. While employers are converting part-time workers to full-time hours, and absorbing contract workers in-house, positions are going unfilled and as employers are constrained by a shortage of skilled workers. This is also borne out in the Canadian Federation of Business monthly business barometer survey covered last week. Year-over-year growth in average hourly wages continue to accelerate, rising from 5.6 per cent in April to 6.9 per cent in May.

Year-to-date employment growth was 1.2 per cent through the first five months of 2017. A pick up is anticipated as high wage growth further lifts labour market participation and in-migration adds to the labour force. Average annual employment growth is expected to reach 1.7 per cent, which is below our previous forecast of about two per cent. The unemployment rate is forecast at 4.5 per cent.



Housing starts remain resilient despite slowing market conditions

New housing project starts in B.C. remained robust in May, with the slowdown in the resale market trend yet to seep into new build activity. Total urban-area starts edged up from April to an annualized pace of 40,890 units (seasonally-adjusted), up three per cent from April. Single-detached starts edged lower, while multi-family starts rose 4.6 per cent on increased apartment and townhome starts. While monthly volatility is the norm, housing starts continue to track near record pace.



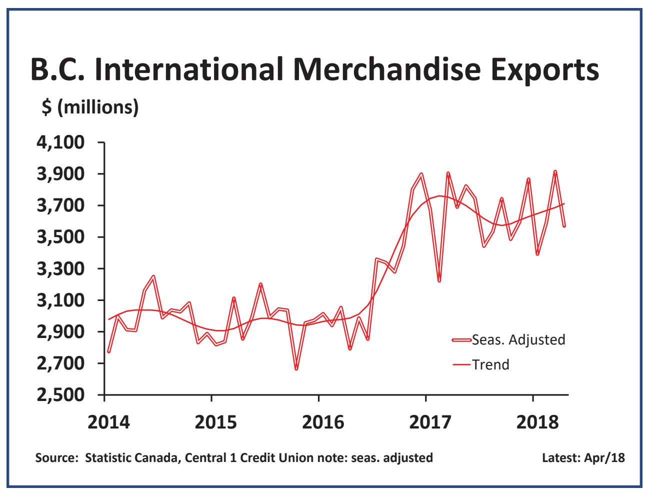
Among census metropolitan areas (CMA), Vancouver led the May increase. Starts are trending at a steady pace in the region. Victoria starts were nearly unchanged from April on a seasonally-adjusted basis, while Kelowna area activity pulled back after an April surge.

Year-to-date, urban area starts were up six per cent through five months, with an eight per cent increase in the Vancouver CMA accounting for most of the absolute increase in starts. Victoria starts have surged 34 per cent from same-period 2017 but will narrow as the year progresses. Kelowna area starts are down by nearly half, following a rental product surge in 2017.

Starts are forecast to slow and end the year slightly below last year's 43,500 unit performance. Slower resale market activity and higher resale inventory will impact pre-sale market conditions, contributing to a slowdown in the flow of projects getting to market. That said, this will be more pronounced in 2019 and 2020. Project planned and pre-sold in recent years are still flowing through the construction pipeline.

Export sales dip in April

B.C. merchandise exports to international markets took a step back in April following a March surge.



Despite strengthening forestry exports, total exports fell 2.5 per cent on a year-over-year basis to $3.66 billion, marking a deceleration from a flat gain the prior month. Seasonally-adjusted, we calculate a near nine per cent decline from March. In comparison, national exports rose 1.6 per cent from March (seasonally-adjusted) and about three per cent year-over-year.

April's pull back held export sales in a volatile but range-bound trend. Energy (down 22 per cent year-over-year), and metal ores and minerals (down 13 per cent year-over-year), were the main drags during the month. In contrast, forestry products sales and consumer goods exports accelerated, with the former being helped along by alleviation of rail transport bottlenecks. Declines in energy and raw resource exports look to have been driven by a combination of lower shipments and export prices relative to a year ago.

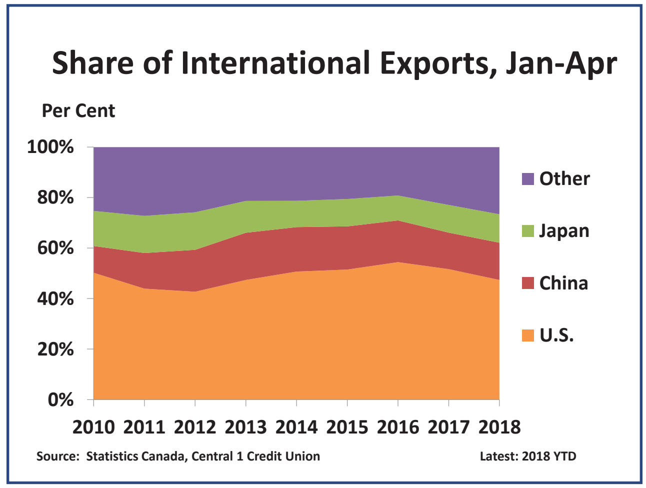
Year-to-date exports are essentially unchanged from a year ago and down in real (shipment) terms. Energy exports have been the key drag on a year-to-date basis. Exports to the U.S. have slumped by eight per cent, with sales to Mexico down 20 per cent. This has been offset by a surge in exports to India (up 90 per cent), with strong gains also observed to the United Kingdom, Hong Kong, Indonesia and Taiwan. This could signal a rotation in exports to higher growth markets, and diversification away from North American markets in light of trade tensions.

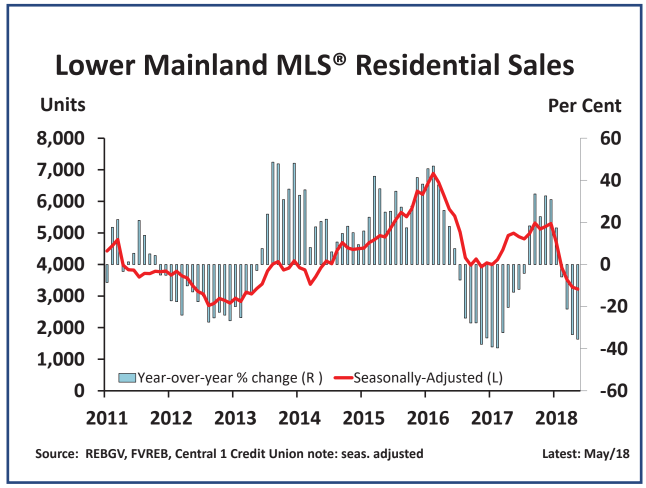
B.C.'s export outlook has been clouded with the intensification of the trade dispute surrounding NAFTA renegotiation. Canadian aluminum and steel is no longer exempt from U.S. tariffs, which will hit Kitimat area refinery operations, and likely lead to lower exports. While B.C. is less exposed to U.S. markets relative to other provinces, further escalation of protectionist measures is a downside risk to export activity and more broadly, business investment. That said, growth in emerging markets and the global economy, and a competitive Canadian dollar is expected to support overall exports.

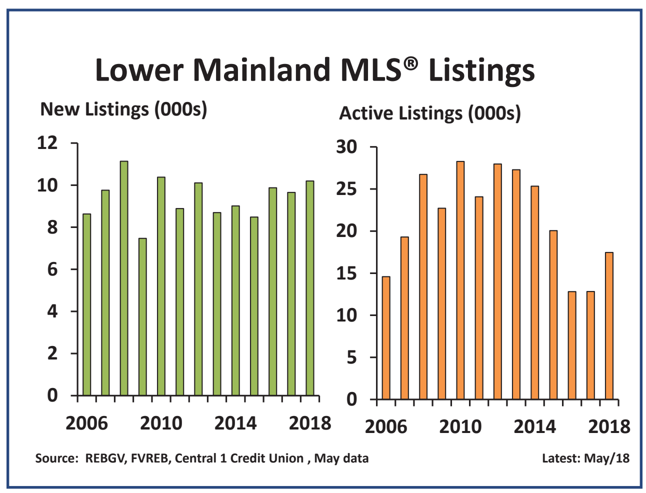
Merchandise imports growth was steady compared to March, with year-over-year levels up 19 per cent in April. Year-to-date, imports rose 14 per cent. Retaliatory tariffs by Canada on various U.S. goods to match the $16.6 billion of goods affected by U.S. tariffs could curtail import demand, although there will likely be some pass-through into prices, particularly for production inputs and some consumer products. This is inflationary for end consumers.

Lower Mainland housing market sluggish in May, detached values turn lower

Lower Mainland area home sales sank 34 per cent in May on a year-over-year basis. Total unadjusted sales in the real estate board areas covering Metro Vancouver and Abbotsford reached 4,575 units -- the lowest same-month performance since 2013. That said, seasonally-adjusted sales were little changed from April pointing to a bottoming of the trend. Detached homes sales and apartment sales were generally flat, with townhome sales lower.







Market conditions have downshifted rapidly since the beginning of the year as credit constraints, owing mostly to federal B-20 stress test measures, and provincial tax policy uncertainty weigh on the demand cycle. Lower purchasing power has more buyers on the sidelines, leaving more units sitting on the market for longer as owners remain firm with their price expectations. Fewer sales have been the main contributor to a rise in month-end inventory, which rose to the highest level since late 2015, adjusted for seasonal factors. New listings, while on the rise since the beginning of the year, are not out of line with average levels observed since 2000. Sluggish sales alongside new condo completions will further lift inventory. That said, inventory levels are still low on a historical basis and a surge is not anticipated. This would require a spike in new listings, but given strength in the economy and tight labour market, prospective sellers may choose to sit out of the market and de-list rather than significantly cut prices. An exception is pre-sale speculators who are more likely to divest.

Current sales-to-active listings ratios point to a buyers' market in the detached market. Apartment and townhomes have cooled rapidly from a boiling point in 2017, but ratios remain firm due to low inventory. Policy changes and high prices have caused buyers to move down the housing ladder from detached dreams to multi-family reality, and more generally to lower priced homes.

The average price rose 1.4 per cent from April to $971,900, with the constant-quality benchmark price index up 0.5 per cent. That said, price levels are showing signs of rolling over. Detached home prices are declining in line with buyers' market conditions, particularly at the upper end of the pricing spectrum. The average price was unchanged from a year ago at $1.47 million, but both average and benchmark prices are trending lower. Average apartment and townhome prices also show signs of a peak, due in part to composition of sales (fewer high end units) and erosion at the margin as buyer bargaining power has increased. This follows rapid price growth in the past year.

Subdued market conditions are expected to continue, albeit with a stronger sales flow forecast for the second half of the year. Price growth will remain soft, with further downside for detached units. A solid economic foundation and tight labour market will continue to support housing demand, while low inventory levels are anticipated to support price levels.

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