B.C. Economic Briefing

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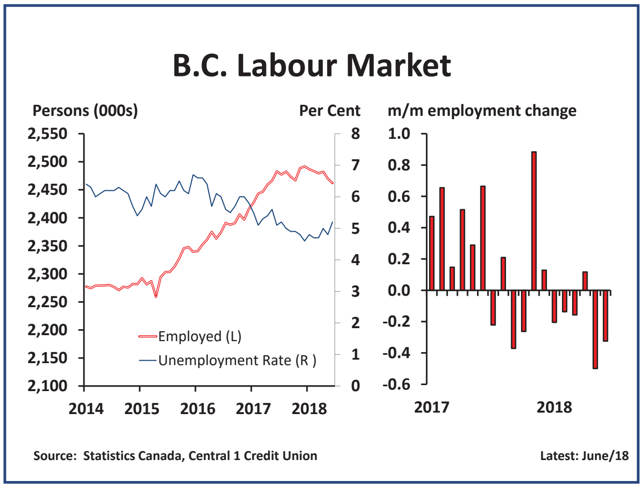
Highlights

- B.C. employment edges lower in June as downtrend continues
- Unemployment rate remains low supporting strong wage growth
- Exports flat on a year-over-year basis as energy sales drag
- Lower Mainland home sales downdraft continued into June



Employment trends continue to disappoint in June

B.C.'s labour market continued to tread water in June with estimated employment down 0.3 per cent or 8,000 persons to 2.46 million persons. While the loss was statistically insignificant, employment has declined in all but one month in 2018 and year-over-year growth has turned negative (-0.8 per cent) since late 2013. The Vancouver Census Metropolitan Area slightly outperformed the province as a whole relative to May, with a milder 0.2 per cent drop in employment, but levels were nearly two per cent below year-ago levels.

June's loss was accounted for largely by younger workers with an estimated employment decline of 7,200 persons or 2.1 per cent. Employment among men age 25 and over fell 0.4 per cent, with offset coming from higher employment among women in the same age group.

Aligned with fewer jobs for youth, was a significant decline in part-time workers of 1.9 per cent. On a year-over-year basis, full-time employment was essentially unchanged, with part-time employment down 4.2 per cent.

Significant swings among industries contributed to the net month-over-month losses. Wholesale and retail trade employment declined 2.2 per cent or 8,100 persons; finance, insurance, real estate, rental and leasing (FIREL) fell 1.4 per cent or 2,100 persons; agriculture fell 2,600 persons or 10.8 per cent; and healthcare (down 1.0 per cent), education services (down 2.0 per cent) and accommodations and food services (down 0.5 per cent) also reported declines. Partial offsets included gains in professional, scientific and technical services (up 3,600 persons or 1.8 per cent), business and support services (up 1.8 per cent), and some increase in resource extraction sectors.

A portion of the loss could reflect the impact of higher minimum wages effective June 1 on some service workers. Meanwhile, weak resale market housing volume is likely impacting the FIREL sector which was also down 10 per cent from same-month 2017.

The first six months of 2018 has undoubtedly been a disappointment on the employment front with less than one per cent growth on a year-to-date basis, and a far cry from last year's 3.7 per cent annual gain. That said, last year's increase was unsustainable, and labour supply and talent shortage issues are likely a constraining factor for hiring in the province. While up 0.4 per cent from May to 5.2 per cent due in part to an increase in people looking for work, B.C.'s unemployment rate remained lowest in the country, followed by Quebec at 5.4 per cent. Nationally, unemployment was six per cent of the labour force. A tight labour market remains conducive to strong wage growth. Although the trend has steadied, average and median hourly wage rates rose six per cent year-over-year which is nearly double the national pace.

Estimated employment is forecast to pick up in the second half to push annual growth to 1.5 per cent, as housing volumes turn higher and increased labour supply relaxes hiring constraints. The unemployment rate remains close to five per cent. That said, there are numerous risks to the economy outside of local control, including fall out of trade disputes between the U.S. and its trading partners including Canada, China, and the EU. U.S. steel and aluminum tariffs came into effect June 1, 2018, while Canadian retaliatory tariffs impacting these products, as well as a list of agricultural and consumer goods came into effect July 1, 2018. Intensification of tariffs could slow broader economic growth, trade and investment, filtering down into local labour markets.

Weak headline export data masks a firmer underbelly

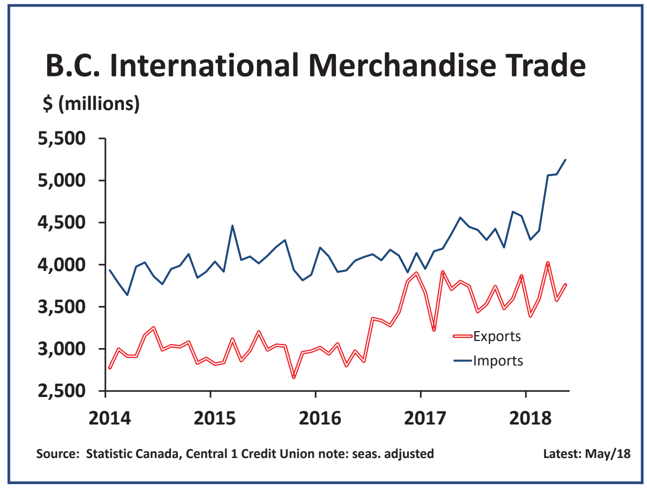
B.C. international merchandise exports steadied in May following a sharp April pull-back, but remained range-bound with levels observed over the past year, albeit with a moderate upward trend. Total unadjusted exports reached $3.86 billion in May, down 0.7 per cent year-over-year, but an acceleration from April's 2.2 per cent decline. Year-to-date, exports were virtually unchanged. Accounting for seasonal factors, we calculate a five per cent month-to-month increase in exports relative to April following a 10 per cent drop the prior month.

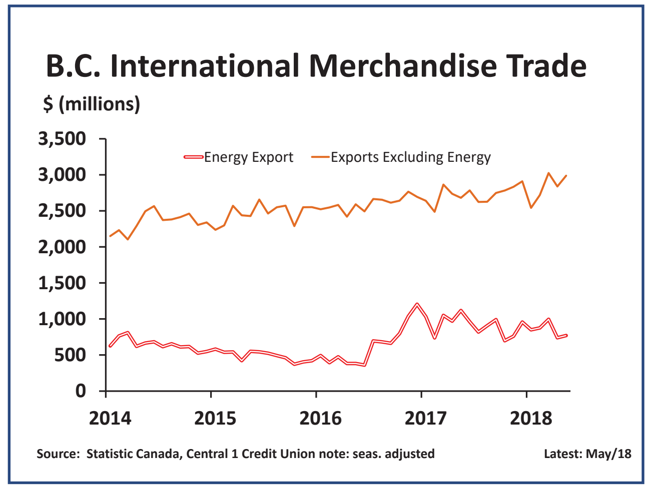
Headline exports strength is currently being constrained by weaker energy sales, which in B.C. primarily includes: coal (both metallurgical and thermal), natural gas, and electricity. Year-over-year sales were down 31 per cent in June and 14 per cent year-to-date. However, this steep decline reflects a drop in related export prices. While natural gas sales fell 30 per cent year-to-date, absolute shipments rose about six per cent. Similarly, coal shipments were up 10 per cent despite flat dollar volume sales.

Excluding the energy drag, year-over-year growth was 12 per cent, with year-to-date sales up 5.6 per cent through May. Sales, excluding energy, continue to trend higher, albeit at an erratic pace. Relative to April, year-over-year growth accelerated for metal and non-metallic mineral products to push year-to-date gains to 17 per cent. It is possible that sales were pulled forward as a precaution that exemption of Canadian aluminum products to U.S. tariffs would end, which it did on June 1. Meanwhile, forestry sales rose 16 per cent year-over-year, from four per cent in April and transportation bottlenecks eased. Consumer goods export growth were also solid but industrial machinery and equipment sales slowed.

On the import front, B.C. purchases from abroad have soared. May import growth slowed from April but remained robust at 15.3 per cent year-over-year, pushing year-to-date growth to 14 per cent. Almost 20 per cent of the increase reflected higher fuel imports (i.e. petroleum products) which doubled from a year ago, while vehicle imports (up 20 per cent) and intermediate goods gained.

Going forward, trade uncertainty will remain a hot topic. The latest data has yet to incorporate the impact of the aluminum and steel tariffs, although the impact will be minimal on B.C. exports, with value of tariffed goods representing about 1.5 per cent of all international goods exports. More concerning is the evolution of the trade dispute between U.S and China, which may further intensify. Tit-for-tat tariffs between these economic superpowers could slow broader economic growth and demand for B.C. exports. On the import front, B.C. consumers and businesses will experience only slight inflationary pressure from Canadian retaliatory tariffs.

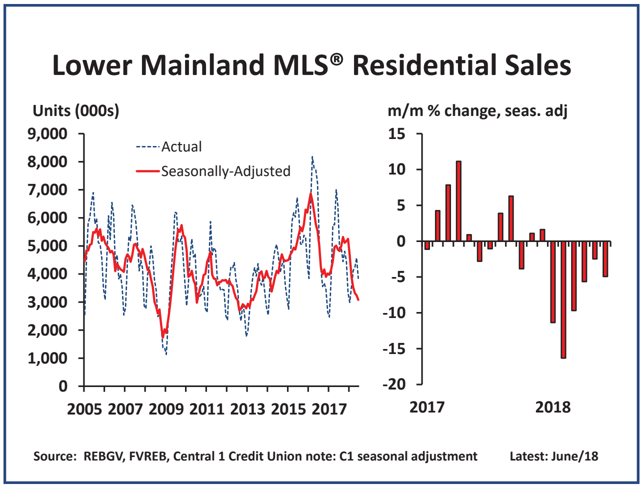


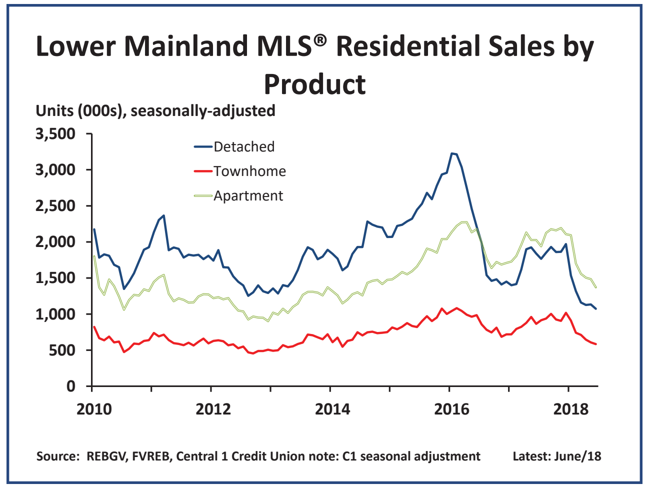


Lower Mainland housing market weakens again

Our call of a sales bottom in the Lower Mainland housing market may have been premature as activity took another leg down in June. Total MLS® sales in the region spanning Metro Vancouver and Abbotsford Mission fell 40 per cent on a year-over-year basis to 3,850 units, compared to near 35 per cent decline in May. This was the lowest June sales count since 2012. Detached home sales fell nearly 45 per cent on a year-over-year basis, with both apartment and townhomes 36 per cent lower.

Downward sales momentum re-accelerated with seasonally-adjusted sales down about five per cent from May. June's pull back was led by a sharp 10 per cent decline the region south of the Fraser River. Detached homes sales declined five per cent from May and are trending at the lowest level since early 2009. Apartment sales declined by about seven per cent to the lowest levels since late-2014.



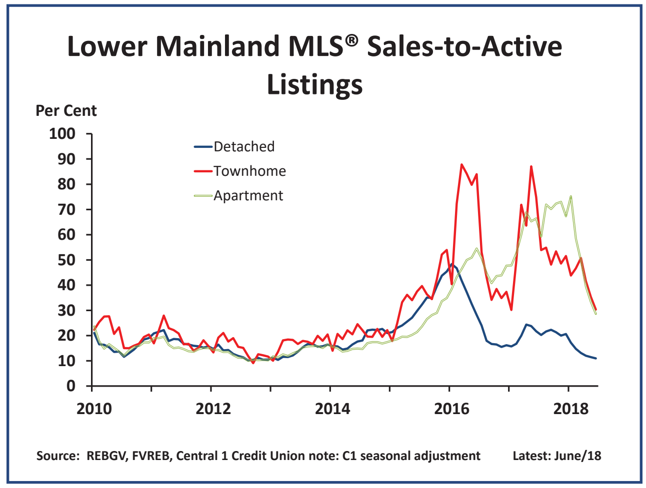


Credit constraints remain the key drag on sales. Measures requiring federally-regulated lenders to stress-test borrowers at the higher of the posted 5-year mortgage rate or contract rate plus two per cent have cut borrowing capacity and priced some prospective buyers out of the market. Anecdotally, some credit unions have also implemented variants of the stress test. The posted rate has also increased by 35 basis points since the beginning of the year to 5.34 per cent, further amplifying the stress test impact and curtailing first time-buying activity. Adding to the credit environment was evidence of slower economic growth and hiring momentum in the first quarter, although the latter partly reflected labour shortages.

Weaker sales are contributing to rising inventory trend despite a modest flow of new listings. The latter remained in-line with historical norms and declined on a year-over-year basis. Active month-end listings rose 38 per cent from a year ago and adjusted for seasonal factors, are the highest since mid-2015.

Sellers are finding more competition in the market as more buyers are sitting on the sidelines, contributing to a snap back to a balanced market since the beginning of the year. That said, the detached market is firmly planted in a buyers' market with a sales-to-active listing trending close to 10 per cent. Home sellers are finding a dearth of buyers given current price levels and lending conditions and will need to cut prices if they wish to sell. Relatively firm economic conditions will keep asking prices high and lead some owner to de-list properties. Multi-family market conditions are cooling and while lack of inventory is keeping the sale-to-listings ratios at levels favouring sellers, momentum matters. The recent climbdown should precede a flatter price trend.

The average MLS® price fell 1.7 per cent from May to $955,620, with year-over-year growth at 2.2 per cent. The constant-quality benchmark value was unchanged from May but fell 0.7 per cent on a seasonally-adjusted



basis. Average values for single-detached homes held steady in June at $1.46 million but fell about one per cent seasonally-adjusted in the townhome and apartment markets. A mild easing in related multi-family benchmark prices point to a shift away from higher-priced properties.

A pick up in sales is expected in the second half of the year, but annual sales are likely to be down by 20-25 per cent from 2017 to near 45,000 units and the lowest level since 2008-2009. Detached home values are expected to trend lower by five per cent as multi-family prices steady.

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