B.C. Economic Briefing

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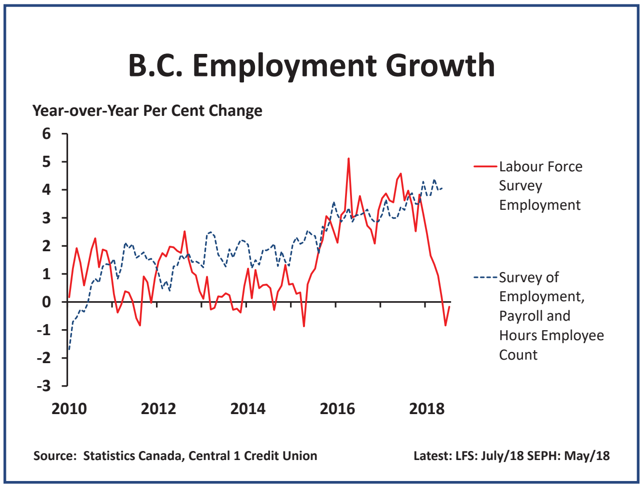
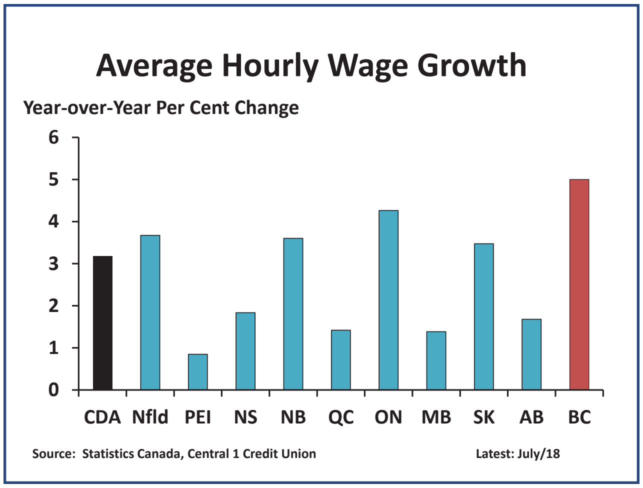
Highlights:

- B.C. employment up 0.5 per cent in July, unemployment rate declines
- Housing starts rebound after June decline
- Second quarter non-residential permits ease





Employment growth revs up in July

Headline employment growth in B.C. improved in July, but continued to underwhelm according to the latest Labour Force Survey (LFS) results. Arresting a noticeable downward trend observed since the beginning of the year, average employment in July rose 0.5 per cent (11,200 persons) to 2.47 million persons led by full-time gains. This was among the strongest performances across provinces. National employment growth came in at 0.3 per cent and lifted provincial employment to the highest level since April. Nonetheless, levels were virtually unchanged from a year ago and down 0.2 per cent.

July's employment gain was concentrated outside the Vancouver Census Metropolitan Area (CMA), which posted a 0.5 per cent decline in employment from June. Growth was lifted by Victoria and other smaller urban centres in the province.

Nine of the 16 industry groupings in B.C. posted employment growth during the month, although gains were generally statistically insignificant. Services producing sectors led overall growth during the month with a 0.8 per cent gain (up 15,900 persons) as goods-sector employment declined. Manufacturing employment fell 1.7 per cent (3,000 persons) and utilities employment declined by 9.8 per cent (1,500 persons). In the services-oriented sector, growth was led by a 6.9 per cent (8,700 person) increase in the information/culture/recreation group, and finance/insurance/real estate (up 2.7 per cent or 3,900 persons). Transportation and warehousing (down 4.8 per cent), was an offsetting drag.

With July's gain, year-to-date employment is tracking a sluggish 0.8 per cent through seven months with industry performances a mixed bag. Average employment is down in agriculture, information and culture despite a monthly gain, transportation and warehousing, and the finance/insurance/real estate. Offsetting this were significant gains in construction, utilities, professional services and health care/social assistance. Factors such as a slowing resale market may be impacting real estate-related services, while strong housing construction, major projects and growing population continue to lift other sectors.

A fair question is whether we should be concerned about this weak employment growth trend and if it reflects a poor economy. While there is drag from the housing market, the current employment malaise is more of a reflection of intensification of labour shortages and a skills mismatch. Full-time employment is firm while part-timers and self-employment has eased, pointing to more gainful employment opportunities.

B.C.'s economy is operating at or near full-employment, boasting an unemployment rate of 5.0 per cent in July which was by far the lowest in the country.

Nationally, the rate was 5.8 per cent, with the second lowest rate observed in Ontario at 5.4 per cent. B.C.'s metro areas outside Kelowna have unemployment rates below five per cent. Provincial job vacancy rates are highest in the country, suggesting ease in finding employment if desired. While the pace decelerated from June, year-over-year growth in average hourly wages at five per cent remained exceptionally strong and exceeded the 3.2 per cent national increase.

It should also be noted that the LFS is only one measure of employment. Estimated employment from Statistics Canada's Survey of Employment, Payroll and Hours (SEPH), which is based on payroll information through administrative records, shows year-over-year growth in the 3 – 4 per cent range this year. The reality is likely somewhere between the two survey results.

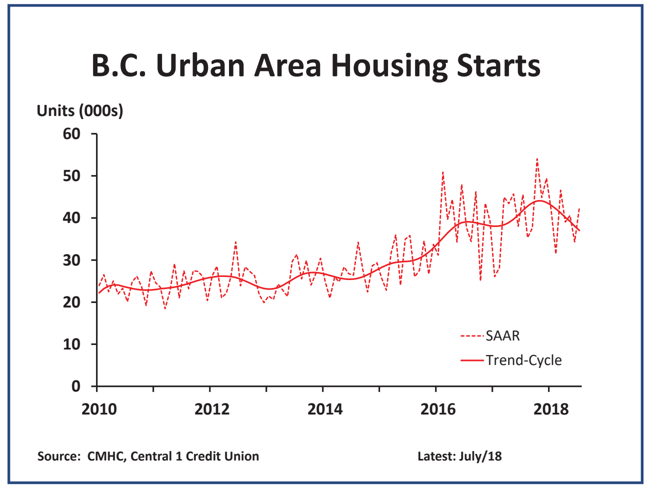
LFS employment is forecast to pick up in the second half of this year as population growth translates into availability of labour. Central 1 forecasts full-year employment growth of 1.1 per cent and an unemployment rate of 5.1 per cent.

Apartment construction leads housing starts rebound in July

B.C. housing starts returned to an elevated pace after a sharp retrenchment in June. Total urban-area starts rose to a seasonally-adjusted annualized rate of 42,558 units in July, up 24 per cent from the 34,300 pace in June, but down six per cent on a year-over-year basis. An increase in the number of apartment projects getting underway drove the increase, as single-detached activity fell back to trend after a June increase.

Among B.C.'s large metro regions, July's gain reflected a return to trend in metro Vancouver, which jumped 48 per cent from June to an annualized rate of 25,234 units. Abbotsford-Mission starts surged, while Kelowna and Victoria housing starts declined. Smaller urban markets also contributed to the monthly gain.

Volatility in monthly housing starts is normal, given three quarters of new construction are multi-family units and the scale and number of units associated with individual apartment projects. Looking past the fluctuations, the pace of activity has decelerated since the near-record pace of the fourth quarter, but levels remain high by historical standard. This reflects strong condominium demand recent years, which take time to reach construction stage. Current sluggishness in the market due to more stringent mortgage lending policy and provincial housing measures will impact new housing construction in future years, as slower pre-sale market conditions push out build dates.



Through the first seven months, actual urban-area starts were just ahead of same-period 2017 by 1.2 per cent. Multi-family starts are up 6.6 per cent (or 665 units), which has more than offset a seven per cent (395 unit) decline in single-detached construction. Starts are level in Metro Vancouver, down by half in Abbotsford-Mission despite a July increase, and down nearly 30 per cent in Kelowna. Victoria starts are up 14 per cent over the period. Among smaller urban markets, Kamloops starts have more than doubled, with strong gains also observed in Courtenay and Vernon, while starts have fallen in Nanaimo.

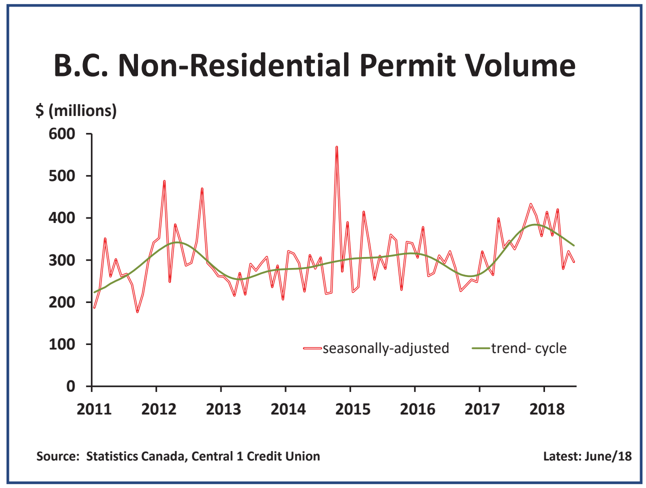
Total starts, including rural areas are forecast to reach 41,700 units this year, marking a four per cent decline from 2017. Nonetheless, this is a strong performance which is forecast to moderate through the end of the decade to about 38,000 units annually. Higher interest rates, policy measures and slower economic growth will dampen construction of privately owned dwellings. That said, some part of this drag is offset by more rental units, as high demand and rents drive private construction, and investment in affordable rental units by government also contributes.

Second quarter non-residential building intentions slump

Non-residential building intentions in B.C. have slumped in the second quarter, putting an end to what was comparably high and a rising trend in prior quarters. After gaining modestly in May, dollar-volume permits fell 7.8 per cent to $296 million. A 40 per cent in industrial permits since May was the primary culprit, while commercial permit volume edged lower, and institutional and government volume rebounded nine per cent after a 19 per cent prior month decline.

With the exception of Victoria, which responded to a weak May with a strong 63 per cent rebound, permit volume fell across metro areas. Vancouver permits declined 8.5 per cent from May, Abbotsford-Mission fell 67 per cent, and Kelowna declined 35 per cent.

While recognizing that volume is volatile, the trend has deteriorated. Year-to-date growth through the first half decelerated to 3.9 per cent from 14 per cent in May. Contrary to the latest monthly pattern, commercial permits were up 21 per cent over the period, with industrial permits up a mild two per cent, and public intentions down 32 per cent. There are signs that business confidence may be eroding as global trade issues flare up, observed in a weak reading in the latest Canadian Federation of Independent Business (CFIB) business barometer, which could be eating into investment. Meanwhile, factors such as wildfires may also be contributing to the recent downshift. Nonetheless, with the economy still expanding at a moderate pace near three per cent this year, and about 2.5 per cent next, this recent decline will reverse and investment in new structures are expected to rise. Non-residential building construction will remain a positive contributor to growth over the next couple of years.



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