B.C. Economic Briefing

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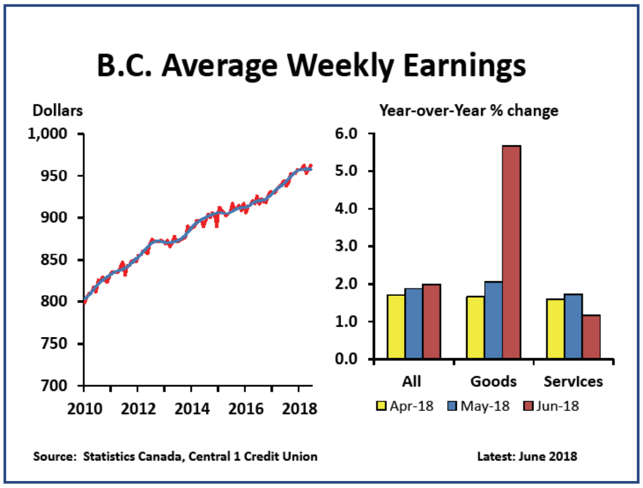
Highlights:

- Wage earnings and employment up in June
- Business confidence soft
- Sawmill production bounces back in the second quarter



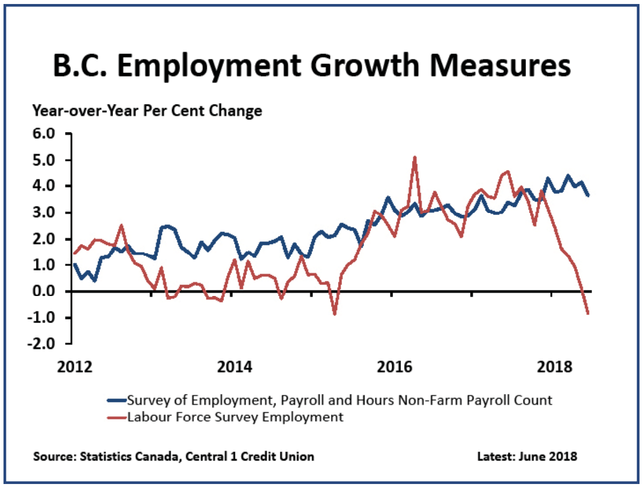
Average weekly earnings up 0.6 per cent in June, job count continues to rise

Higher pay cheques in most industries in June lifted B.C. average weekly earnings according to the latest Survey of Employment, Payrolls, and Hours (SEPH). Average weekly earnings (inclusive of overtime), rose 0.6 per cent from May. The gain exceeded the national gain of 0.3 per cent, but B.C.'s year-over-year increase of two per cent trailed the national increase of 2.8 per cent.

At $963.19, the average weekly earnings level was only fifth highest in the country, but reflective of industry composition.

Compared to May, weekly earnings rose in 16 of the 20 industries. The largest gains occurred in the relatively higher paying goods-producing sectors, including forestry and logging (up 11 per cent to $1,410), utilities (up 16 per cent to $2,178) which likely reflects ramp up in projects like BC Hydro's Site C Dam, and manufacturing (up 4.2 per cent). The services-producing sector, which makes up the vast majority of overall employment recorded average weekly earnings growth of 0.4 per cent. Notable gains were in lower paying sectors, including accommodations and foodservices (up 3.8 per cent); and art, entertainment and recreation (up 3.1 per cent) which support the tourism sector. Information and culture wages rose 8.1 per cent to $1,362, which could reflect rising wages in the tech sector. Weaker earnings growth was observed in retail and wholesale trade (up 0.9 per cent); flat in transportation and warehousing, and lower wage earnings in public administration (down 2.3 per cent)

Despite June's increase, the trend has been flat since the beginning of 2018. Relative to the fourth quarter, average weekly earnings declined in tourism-related



sectors, real estate and rental and leasing - which relates to the housing slowdown, and administrative and support roles. Goods-producing sectors have fared better, with mild growth of about one per cent in trade, transportation and warehousing.

This is somewhat of a puzzle given what has been strong gain in payroll counts, a very low unemployment rate, and a nation-leading job vacancy rate. Average hourly wages have also risen near five per cent, year-over-year based on the Labour Force Survey. Various factors could explain this, including compositional effects, related to industry, full-time/part-time tenure, and the gig economy. A tighter labour market is expected lead to more upward momentum in average weekly earnings during the second half of 2018.

On the jobs front, the number of persons on payroll rose for the fourth time in five months to reach 2.28 million persons, up 0.2 per cent on the strength of utilities (up 4.5 per cent), information and culture (2.9 per cent), and real estate, rental and leasing (up 2.5

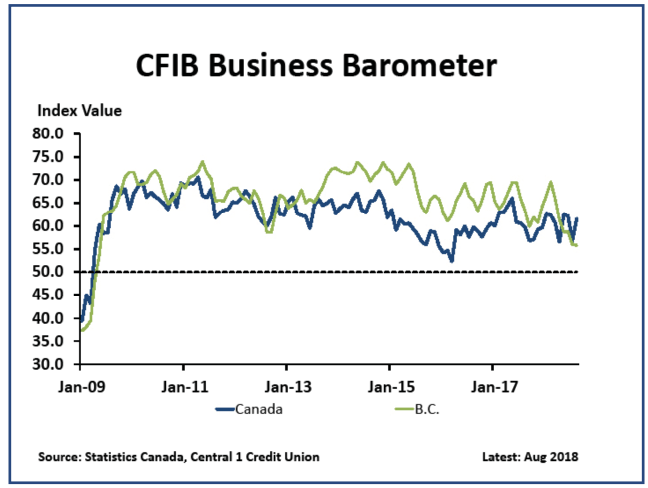
per cent), as professional services fell. On a year-over-year basis the count was up 3.7 per cent in June with goods-sector employers reporting a four per cent increase in payroll counts, with services up 3.4 per cent. Key growth segments were utilities (up 21.4 per cent), construction (up 5.4 per cent), information and cultural industries (up 17.4 per cent), educational services (up 9.4 per cent) and accommodations and foodservices (up 3.2 per cent).

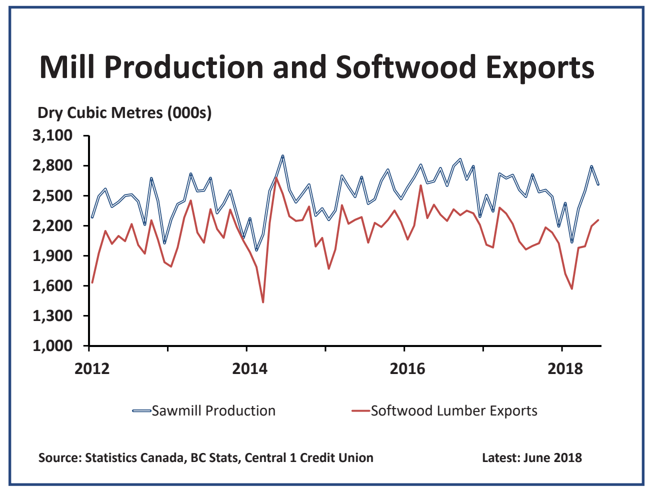
Strong growth in SEPH payroll counts contrasts with flat year-over-year employment estimated from the Labour Force Survey (LFS). These measures typically move in tandem over longer periods, but the current gap is substantial. This reflects various factors. The SEPH measures the number of non-farm jobs rather than employed persons which is captured in the LFS. As a result, agriculture workers and those self-employed are in the latter but not in payroll counts. Multiple-job workers are counted once in the LFS but multiple times in the SEPH. Finally, employees from outside B.C. would likely be capture in B.C. SEPH counts, but as LFS employed in another province.

Business confidence soft despite moderate economic growth

The latest Canadian Federation of Independent Business (CFIB) Business Barometer reading pointed to a rebound in small- and medium-sized business confidence in August following a July plunge. The reading, on a scale of 0 to 100, rose from 56.8 points in July to 61.6 points in August, but remained moderate and below June's level. Some of the alarm has subsided following a frenzy of negative North American Free Trade Agreement (NAFTA) stories. Recent signs that a new NAFTA deal may be near, strong GDP growth in the second quarter, and relatively firm data in recent months could buoy spirits going forward. If NAFTA renegotiation fails to reach a near-term deal, confidence will remain low, potentially impacting hiring and investment. The recent appeals court decision which overturned approvals of the Trans Mountain pipeline expansion could also be a damper, particularly in Alberta.

B.C.'s confidence reading remained soft for a fourth straight month in August, and alongside Alberta, was one of only two provinces to record a month-to-month decline. The Barometer reading of 55.9 points was the lowest since May 2009 during the Great Financial Crisis phase of the broader economy. This weak sentiment comes despite a time when the economy continues to track a solid pace of more than 2.5 per cent. It's possible that weaker expectations reflect a natural erosion after a stellar pace of growth in recent years, particularly given a slowdown in the housing





market and related retail and business activity. Wildfire activity could also be impacting interior region business conditions, which will fade.

That said, barometer reading may reflect repercussions of strong economic growth in recent years, rather than economic malaise. Relatively few businesses pointed to insufficient demand as a limitation on production or sales growth. Meanwhile, positive full-time hiring intentions were among the highest in the country at 19 per cent, albeit lower than prior months, with 12 per cent looking to scale back. Shortage of skilled labour was a major constraint facing businesses, which aligns with low unemployment rates and high job vacancy rates. Subdued expectations over the next year may reflect tight labour market which will ultimately lift wages, tax hikes, and NAFTA uncertainty.

Sawmill production picks up in the second quarter

On the forestry front, production at B.C.'s mills jumped in the second quarter following a plunge earlier in the year, due in large part to supply and rail bottlenecks. Total production reached 2.61 million dry cubic metres in June, up two per cent on a year-over-year basis. At its trough, production was down more than 10 per cent early in the year. The rebound has lifted output back to the range observed for most of 2017, with production being supported by demand from a strong U.S. economy. U.S. softwood lumber tariffs have largely passed through to the final consumer, driving high profitability for B.C. operations.

While demand remains strong, and profitability high, Central 1 expects output, both direct forestry and logging output and related manufacturing to ease over the next two years. In the short-term, B.C. wildfires are expected to impact mill operations in some communities, while slowing of broader economic growth and fibre availability issues due to the long-term impacts of mountain pine beetle will also temper activity going forward.

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