B.C. Economic Briefing

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Highlights:

- B.C. employment climbs by 9,900 persons in August
- Sluggish housing market leads to lower prices in Lower Mainland
- Goods exports pull back in July
- Residential building permits dip - a sign of things to come?

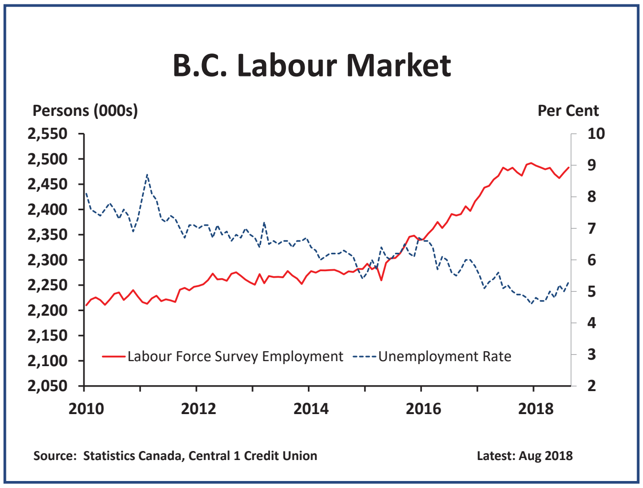
B.C. adds jobs for second straight month

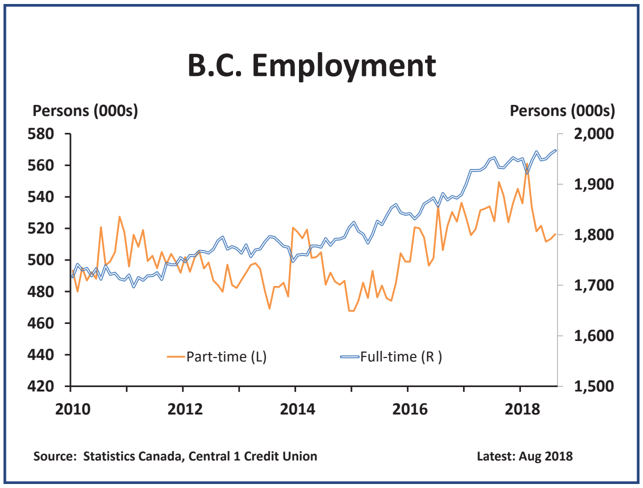
Canada's labour market disappointed in August. Employment declined by 51,600 persons (or 0.3 per cent), lifting the unemployment rate by 0.2 percentage points to 6.0 per cent. This was the largest one-month employment drop since January and largely erased July's gain. Year-over-year, employment slowed to 0.9 per cent, from 1.3 per cent in July, while average hourly wage growth slowed to below three per cent, albeit with a stronger median wage performance.

While headline performance weakened, all of the loss came in the part-time sector (down 92,000 persons) as full-time employment rose. Moreover, nearly all of this reflected another unusual performance in Ontario, which saw an 80,000 (1.1 per cent) drop in employment following July's 60,600 person gain. It is hard to see what could account for this swing.

Like most provinces outside Ontario, B.C. posted a mild gain in employment. Estimated employment in B.C. rose by 9,900 persons or 0.4 per cent from July. This was the second straight monthly increase and could speak to a turnaround in trend after a surprisingly weak first half of the year. Growth was led by a much needed surge in Metro Vancouver employment, which rose by an exceptionally strong 34,000 persons or 2.5 per cent from July. Provincially, full-time employment rose by 6,600 persons (0.3 per cent), with a relatively stronger gain of 0.6 per cent in part-time employment (3,200 persons).

On an industry basis, there were few notable movements in the provincial data. Manufacturing fell 3.4 per cent, which may reflect a drag due to wildfires in the interior, while educational services (down 3.0 per cent) and information, culture and recreation services (down 5.0 per cent) also fell. On the flip-side, transportation





and warehousing (up 3.8 per cent), and accommodation and foodservices (up 2.9 per cent were notable gainers.

Despite the bump, headline employment is virtually unchanged from a year ago due to early year sluggishness. A gentle ascent in full-time work has been offset by a decline in part-time work. Unemployment rose to 5.3 per cent of the labour force, up from 5.0 per cent in July due to higher labour force participation.

The juxtaposition of low employment growth and the lowest unemployment rate in the country should be viewed through the lens of an economy operating near capacity. Part-time workers may increasingly be taking full-time work, and businesses are scrounging to find warm bodies to fill available positions. Low employment growth is also being weighed down by a significant drop in the volatile agriculture sector. B.C.'s job vacancy rate is highest among all provinces, pointing to labour shortages, while average hourly wage growth is trending above five per cent as employers pay more to attract workers. More than ever, B.C.'s labour market is contingent on the people flow of interprovincial and international migration. The latter is performing well, and we expect it to boost labour force participation into 2019.

Average annual employment growth is forecast at 1.1 per cent this year and 1.6 per cent in 2019. The unemployment rate averages near five per cent.

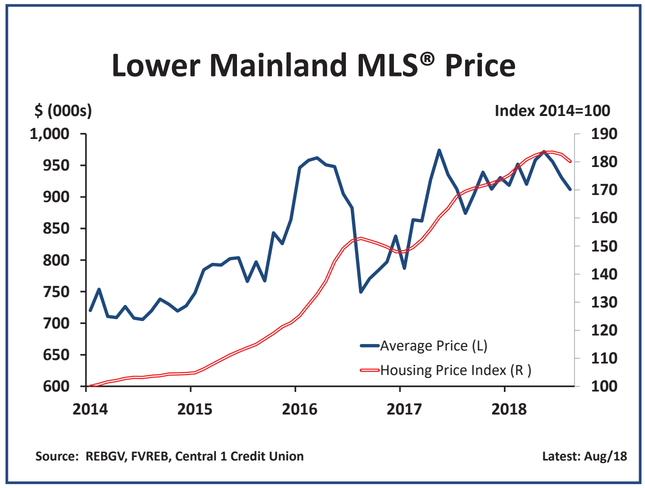
Lower Mainland housing prices decline in August

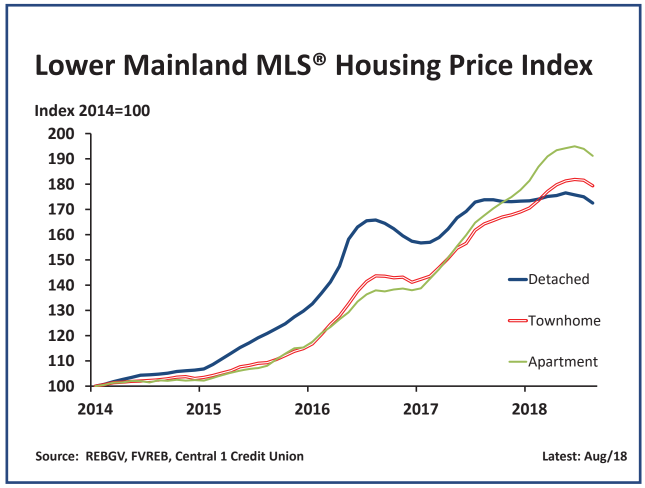
The year of discontent persists for the housing sector as federal B-20 mortgage stress testing measures, higher interest rates, provincial policy measures, and buyer skittishness continued to weigh on the market through August. Price levels are declining across all housing types as sellers tone down their expectations, in light of the shift in demand environment and shrinking of the pool of potential buyers.

MLS® sales in the combined Metro Vancouver and Abbotsford-Mission (Lower Mainland) fell 38 per cent on a year-over-year basis to 3,063 units. This was the fewest August sales since 2012. Similar declines were observed across housing types. That said, our estimate of seasonally-adjusted sales edged up two per cent, pointing to a bottoming of the cycle, albeit at a level near the previous cycle low. A vigorous second half rebound is unlikely given a rising interest rates profile and current housing policies

While sales have plunged, the market continues to be supported by modest levels of resale inventory. Active listings rose 33 per cent on a year-over-year basis, mostly due to fewer sell-through of units for sale. There have few signs of a surge in new listings, and inventory levels are still low on a historical basis. Sales-to-active listings, which serves as a barometer of market strength, is trending near 18 per cent seasonally-adjusted, which is a level typically associated with a balanced market. That said, this is being propped up by stronger conditions in the apartment and townhome sector with ratios near 25 per cent, while the recession in the detached market continues. A swath of new condos looking to complete in the next year is an upside risk to inventory. Completions may trigger and increase in resale listings of existing homes and sales by pre-sale investors.

Detached home sales are trending at levels last breached during the 2008/09 financial crisis, with a buyers' market sales-to-active listing ratio of 12 per cent. Rapid price gain/affordability erosion in 2016, implementation of the foreign buyer tax, and B-20 have all contributed to tailspin. Apartment and townhome conditions have also softened but have been propped up by a strong economy and demand for relatively affordable properties.





Prices are adjusting lower, albeit in a low volume environment. While up five per cent from a year ago to $916,940, the average price has generally been range-bound or drifting lower in recent quarters. The MLS® Housing Price Index, which adjusts for compositional effects, fell 1.4 per cent from July (unadjusted) with similar declines across product types. Seasonally-adjusted, the benchmark has fallen about three per cent since May, led by a six per cent drop in the detached market. Further downside is likely with a peak-to-trough pullback in the 5-10 per cent range.

Export trend positive despite July pullback

International goods exports pulled back in July, extending this year's erratic but generally positive trend. B.C. export sales growth decelerated to 8.8 per cent, year-over-year, from 11.5 per cent in June, to reach $3.76 billion. On a seasonally-adjusted basis, sales fell more than 10 per cent from June.

July's pull-back reflected weaker energy sales (down 6.9 per cent year-over-year), electronic and electrical equipment (down 13.3 per cent) and metal ores and non-metallic mineral products, which more than halved from May and fell 43 per cent year-over-year. In contrast, sales accelerated in forestry (up 26 per cent), and growth was strong across the machinery, auto and consumer goods sectors.

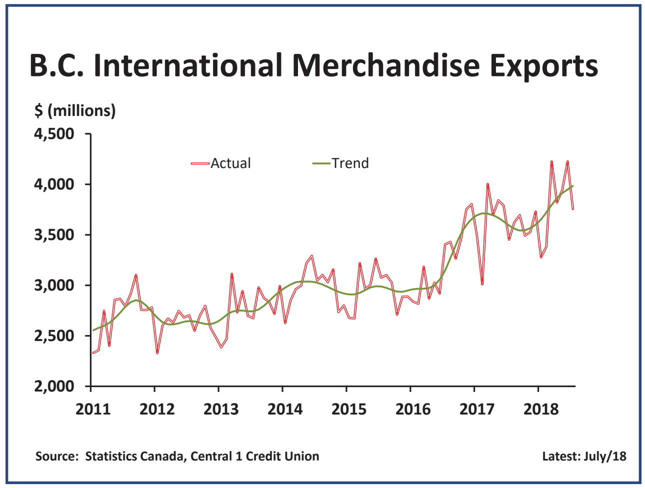
Despite July's pull back, exports are trending higher, helped along by strong growth in the U.S. economy, broader global expansion, a favourable exchange rate, and firm forestry prices. Year-to-date export growth reached 5.3 per cent through July. There remain risks of further trade disruption which could upend the export growth profile. While there is seemingly some progress on the NAFTA renegotiations, the U.S. could make good on tariffs on auto-related goods and other products, which would slow exports. Moreover, an eruption of global trade tensions could slow trade and economic growth, which would curtail both commodity prices and real demand for B.C. goods.

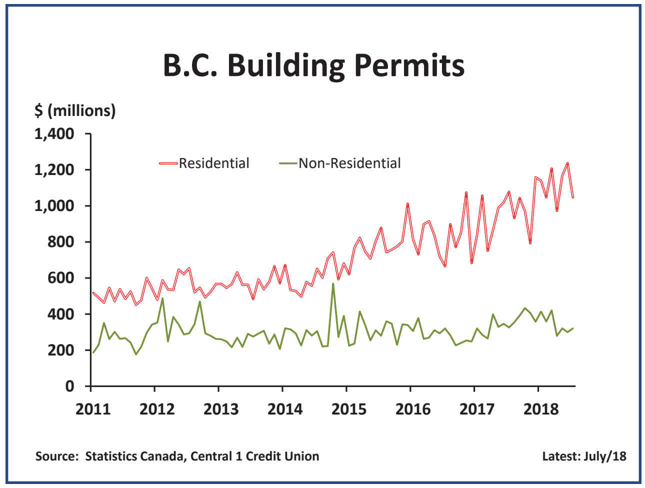
Residential permits take a breather in July as residential intentions slip

B.C. building permits slipped in July, as residential construction intentions took a breather following a strong June performance. Dollar-volume permits in B.C. declined 11 per cent from June to $1.37 billion, marking the lowest pace since April (down 2.6 per cent from same-month 2017). Among metro areas, the Vancouver Census Metropolitan Area reported a 13.5 per cent decline from June, while Victoria permits fell by more than half. This accounted for the vast majority of the pullback. Kelowna permits rose 13 per cent.

Residential permits declined 15 per cent or $190 million from June to a seasonally-adjusted $1.047 billion, accounting for all of the decrease in total monthly permits, due almost entirely to the multi-family sector. While the decline was steep, large monthly fluctuations are the norm for permits due to the impact of apartment structures. Year-to-date, levels were up nearly 19 per cent reflecting persistently strong housing starts and increased building costs. That said, the trend has likely peaked and intentions are likely to ease ten per cent through 2019. Like the resale market, housing policies are slowing pre-sale purchases, which will ultimately push out start dates for projects. Adding to this will be a dampening of the renovation cycle.

In contrast, non-residential permits rose nearly seven per cent from June to a seasonally $320.4 million. Growth in industrial permits and public-sector activity outweighed a decline in the commercial space. That said, the trend has been subdued since about March, and has narrowed the year-to-date gain to 3.6 per cent from 40 per cent in the first quarter. Government project permits, which fell 31 per cent through seven months, have been the key drag, although growth in the private-sector has also eased. Commercial permits were up 19 per cent and industrial permits rose 10 per cent through seven months. Despite this lull, non-residential volume is expected to rebound. Business conditions are still solid and exports are rising, which should underpin expansion.





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