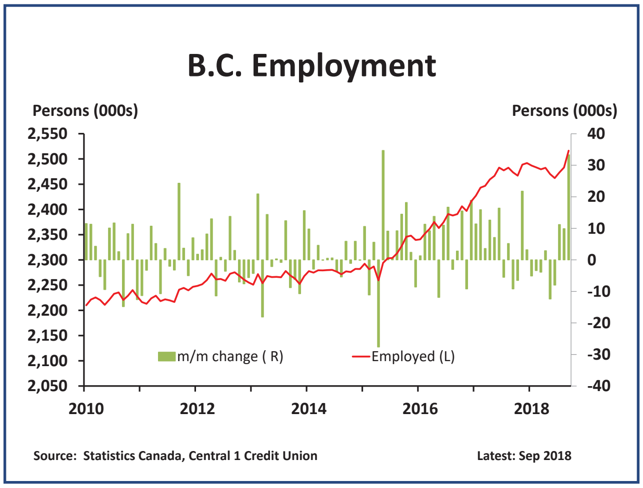
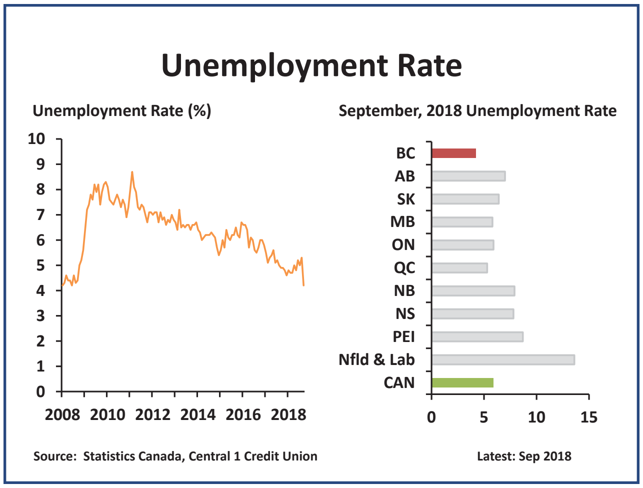
B.C. Economic Briefing

Volume 24 • Issue 40 • Week of October 1-5 2018 | ISSN: 1981-355

Highlights:

- B.C. employment surges in September
- International exports on the rise
- Weak market condition drive Lower Mainland prices lower





Labour market momentum intensifies in September

B.C. employment surged in September, marking a fourth consecutive monthly increase and pointing to a firm rebound after a weak first half. Estimated employment surged by 33,300 persons during the month, marking a 1.7 per cent increase from August. Gains were propelled by similar growth in the full-time and part-time sectors. Vancouver metro area employment growth exceeded the rest of the province with a two per cent increase, accounting for 28,100 of the total net job gain.

Recent momentum better aligns with underlying economic momentum in the province, as well as more robust growth observed in the payroll count measure of employment (as discussed in last week's briefing). Recent gains have pushed year-to-date employment close to our annual forecast of 1.2 per cent for 2018. That said, given inherent volatility and sampling error in Labour Force Survey employment, a future pull-back is not out of the question.

Among industries driving September employment, goods-production was particularly strong. Agriculture employment rose 4,600 persons (23 per cent), manufacturing was up by 6,400 persons (3.8 per cent), and construction edged higher. Services-growth was also robust with 0.9 per cent gain from August. Key sectoral contributors included transportation and warehousing (up 3,400 persons or 2.5 per cent), and health and educational services. All of September's gains were in paid-positions, as the number of self-employed workers pulled back.

With September's robust jobs performance, B.C.'s unemployment rate plunged to 4.2 per cent from 5.3 per cent in August, marking the lowest level since June 2008. Scant growth in the labour force contributed to this pullback, although estimates can be questioned as well as whether labour force growth (as a reflection of population gains) is well estimated. Nonetheless, low unemployment rates underscore B.C.'s current status as the tightest labour market among provinces. Quebec's unemployment rate was second lowest at 5.3 per cent.

Year-over-year growth in the average hourly wage rate slipped from a trend of about five per cent to 3.8 per cent in September, but remained well ahead of the vast majority of provinces. Going forward, B.C.'s labour market will continue to improve. LNG Canada's decision to invest in a $40 billion liquefication plant in Kitimat will spur construction jobs for workers residing across B.C., on both the plant and associated pipelines, while also creating ancillary job opportunities. A tight labour market is a constraint, but we an expect an increase in interprovincial workers and foreign workers to meet the needs of the economy. Employment growth climbs to two per cent in 2019, with and sub-five per cent unemployment rate.

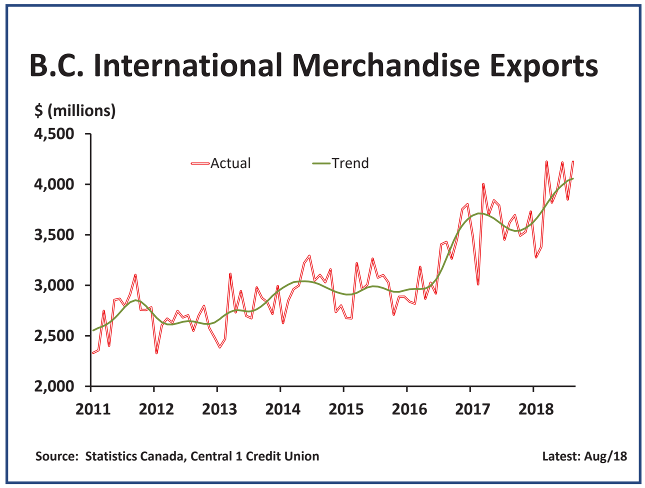
International goods exports up 16 per cent in August

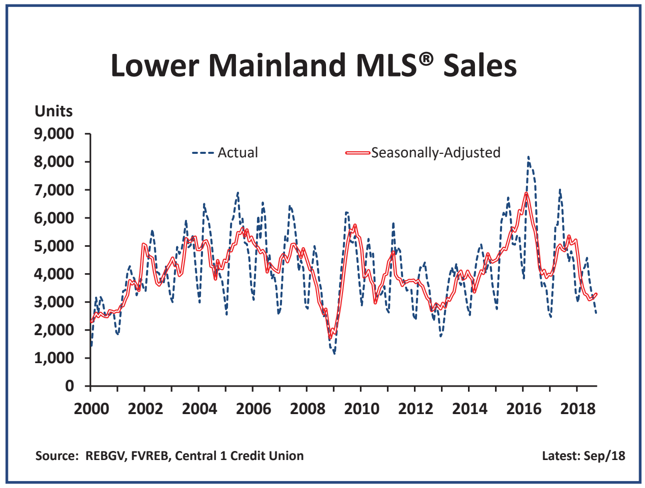
B.C. international exports accelerated in August with dollar-volume merchandise sales of $4.22 billion, marking a 16.6 per cent increase from same-month 2017. This marked an improvement from July's 11.5 per cent gain. On a seasonally-adjusted basis, export sales regained lost traction from July and remained at an elevated range-bound pace.

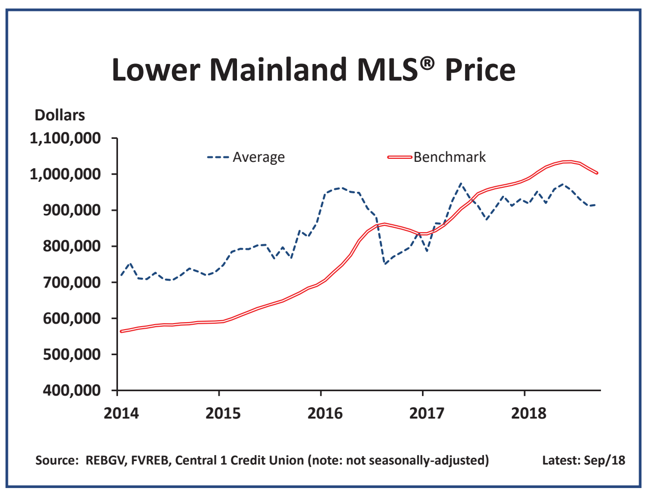
The primary driver of August's acceleration in export growth was a 77 per cent increase in raw metal ores and non-metallic minerals exports, which had slumped 43 per cent the prior month. Growth in forestry product exports were up a hefty 14 per cent, but slowed from a 26 per cent pace in July. Metallic and non-metallic mineral products growth was steady at 12 per cent. Transportation equipment sales are up sharply this year, but make up a relatively small part of B.C. international exports.

Through eight months, dollar-volume exports rose seven per cent, with robust gains across most segments except energy, which fell three per cent. Going forward, exports will be boosted by growth in the U.S., global growth and a favourable exchange rate. Risk has receded with the successful renegotiation of NAFTA, now known as the US-Mexico-Canada Agreement (USMCA), which provides stability and a generally status quo environment for exporters.

Import growth has outpaced export gains this year with a year-to-date increase of 13.8 per cent. Growth has largely been in the energy and resources sectors. Import growth will rise going forward. Despite a slowdown expected due to tighter domestic credit conditions, higher duty-free limits for online goods in the USMCA, and machinery and equipment imports related to LNG will drive inflows in future years.







Price correction in swing Lower Mainland as weak demand continues

Weak housing demand in the Lower Mainland (combined Abbotsford-Mission and Metro Vancouver regions) continued through September. MLS® sales fell 41 per cent, year-over-year, to 2,611 units, marking the lowest same-month performance since 2012.

While deteriorating from August's 38 per cent decline, one fewer weekday this September relative to a year ago was likely an added drag on reported sales. Nevertheless, the current sales pace remains sluggish. Seasonally-adjusted monthly sales bottomed in June, but are trending at the lowest levels since previous cycle lows observed from mid-2012 to mid-2013. The combination of B-20 lending restrictions and high home values, rising interest rates, and a plethora of provincial policy measures have shunted buyers to the sidelines and given pause to those still able to purchase as prices erode.

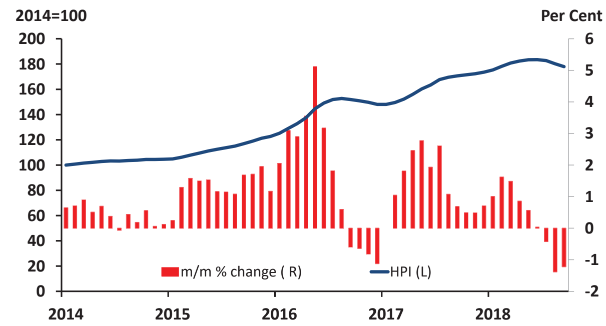
The average home value was flat in September at $915,026, compared to August and same-month 2017. However, levels are influenced by product and geographic sales composition, which can mask the trend. The constant-quality housing price index is a better indicator and has shown a clear turn in home values over the past three months, with the pace of decline accelerating. The broad benchmark fell 1.2 per cent from August on an unadjusted basis, and 0.9 per cent seasonally-adjusted. Declines are being led by a steeper decline in the single-detached market, although a negative trend is evident for apartment and townhomes. Price indices are down about three per cent from the mid-2018 peak.

Sellers in the higher-end detached market are facing a moderate correction. Benchmark detached home values on the west side of Vancouver City and municipality of West Vancouver fell about 11 per cent, year-over-year. Multi-family prices have held up but are also on the decline.

Housing market weakness looks to continue into 2019 as the initial impacts of policy shocks wane. That said, the tighter credit environment and policy measures will constrain a recovery. Total regional MLS® sales will decline by about 25 per cent this year and be only marginally higher in 2019.

Home values will continue to ease lower. Low sales are contributing to a build up in inventory levels, while new listings perked higher in September. The latter may reflect more owners looking to sell investment properties, or completion of new construction inventory hitting the market. Sales-to-active listings ratios are tracking close to a buyers' market for the region as a whole, particularly in the detached market. Buyers will be able to negotiate better pricing terms in the market, and another five per cent decline in the broad price index is expected before stabilization.

Lower Mainland MLS® House Price Index



Source: REBGV, FVREB, Central 1 Credit Union (note: not seasonally-adjusted) Latest: Sep/18

Bryan Yu
Deputy Chief Economist
byu@central1.com / P 604.742.5346
Mobile: 604.649.7209