Economics / November 2018

Economic Analysis of British Columbia

Volume 38 • Issue 4 | ISSN: 0834-3980

B.C. Regional Economic Outlooks 2018-2020

HIGHLIGHTS

- Northern B.C. economic fortune set to improve with construction of the liquefied natural gas plant and related pipelines
- Employment growth trends to favour northern B.C.
- Weaker housing cycle to constrain growth in larger urban areas as construction falls, but general economic trends remain solid
- Mild housing price correction forecast for Metro Vancouver, upward price cycle on Island contin-ues, northern B.C. prices on the rise
- Unemployment rate expected to remain below five per cent provincially with Vancouver Island and Lower Mainland-Southwest being the main anchors
- Population growth led by southern B.C. markets driven by international migration and demograph-ic demand, improvements expected in the North

Table of Contents - Regional Summary

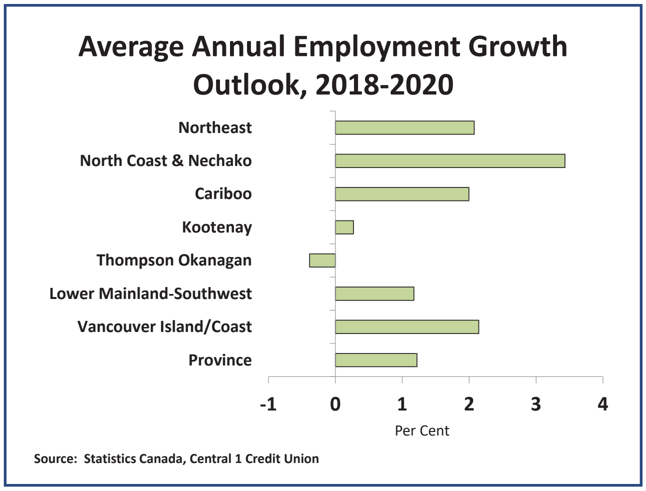
Summary

British Columbia's economy is entering a slower growth phase following a strong period of expansion in recent years. Economic growth—as measured by Gross Domestic Product (GDP)—is forecast to slow from 3.8 per cent in 2017 to a moderate range of about 2.5 to 3.0 per cent per cent from 2018 to 2020. Growth averaged more than three per cent from 2014 through to 2017. However, economic momentum will differ across regions, reflecting the structure of the provincial growth profile.

The main drag on the economy will be a slower housing market, reflecting the ongoing impacts of rising interest rates and the introduction of the federal mortgage 'stress test' and provincial government tax policies to slow demand. Recent declines in the volumes of home sales are contributing to flatter retail sales trends. The declines are expected to contribute significantly to lower housing construction trends through to 2020, particularly in the larger urban markets in the South Coast region of the province.

In contrast, the broad economic environment and outlook remains solid and supported by business investment, a tight labour market and population growth. Tight industrial capacity; solid exports and manufacturing trends; growth in the high-tech sector; government spending; and other services continue to remain growth drivers.

The construction of LNG Canada's $40 billion liquefied natural gas (LNG) plant in Kitimat, and the pipeline linking it to Northeast B.C. will provide a strong lift to

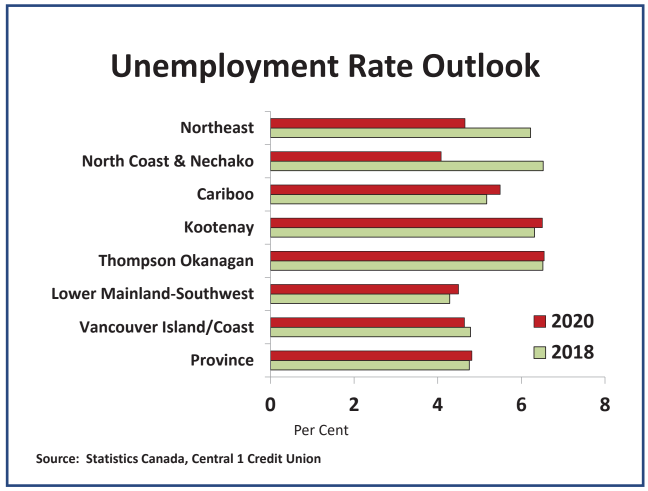


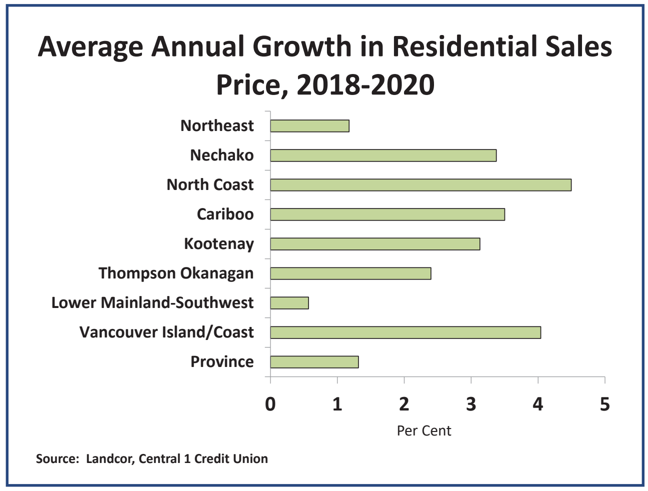
the construction cycle over the forecast period. Non-residential permit trends will align with this construction activity.

The structure of economic growth will mean a slower pace of growth for B.C.'s south coast and southern interior economies over the next three-year period. Growth trends will remain positive though will be limited by a weaker housing cycle, peaking of the tourism cycle, and slower consumer demand growth. Labour shortages in large urban areas are also a limiting factor, which will only partly be offset by population growth. A turnaround in the economy is forecast for B.C.'s northern areas as activity ramps up on the LNG plant, triggering growth in construction, employment, and regional spending. Project employment will be felt across the northern interior as workers are drawn from various B.C. communities.

Employment expansion is forecast to be subdued, averaging about 1.2 per cent per year. The Lower Mainland-Southwest, Vancouver Island and Coast and Thompson-Okanagan see the sharpest erosion of employment growth from 2016 and 2017. This is owed to slower growth and insufficient labour supply in the south coast region. In contrast, northern market employment growth will outpace other areas of B.C. as hiring picks up for the LNG plant construction and related projects. Due to skills shortages, B.C. is unlikely to be able to supply the required labour. Therefore it's likely that labour from other parts of Canada and abroad will filter into the province without being captured by regional labour market statistics. The provincial unemployment rate will hold steady just below five per cent. However, the trend is forecast to ease in Northern B.C., offset in part by some in-migration. South Coast markets will continue to record rates below five per cent, with the southern interior markets hovering near six per cent. The tight labour market will continue to drive wage inflation with relief provided through a lift in population and international immigration

Subdued housing market activity will continue to impact larger more expensive housing markets like Metro Vancouver, and to a lesser extent Victoria and Kelowna. Cuts to purchasing power due to the federal mortgage 'stress test' and provincial, area-specific policies such as the 'speculation tax' have curtailed demand significantly. Housing market momentum will be weaker than prior years, with modest declines in home values in the Lower Mainland-Southwest. Elevated demand and higher home sale prices on Vancouver Island are due to stronger population growth as retirees relocate to the Island. Southern





interior markets are forecast to experience a lower sales cycle and downward pressure on prices as it's affected by rising interest rates demand from Alberta buyers, which will likely wane. New home and renovation spending will ease with slower resale housing activity, partly owing to lower sell-through of pre-sale condominiums. Northern interior markets will experience firming in sales and construction as demand rises with economic fortunes.

Vancouver Island and Coast

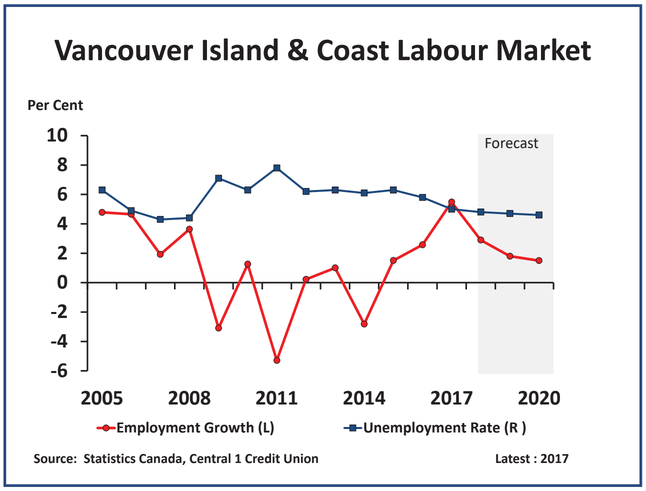
Vancouver Island is booming. It has been one of Canada's top growth stories since its growth surge started in 2014 after stumbling through the early parts of this decade. The Vancouver Island and Coast region is anchored by the Victoria Census Metropolitan Area (CMA) at the southern tip and the Nanaimo Census Agglomeration. The region has a population of more than 800,000 persons and includes urban areas such as Parksville, Campbell River, Duncan and Courtenay. Economic growth is expected to decelerate though the Island will continue to show moderate expansion through the forecast period of 2018 to 2020.

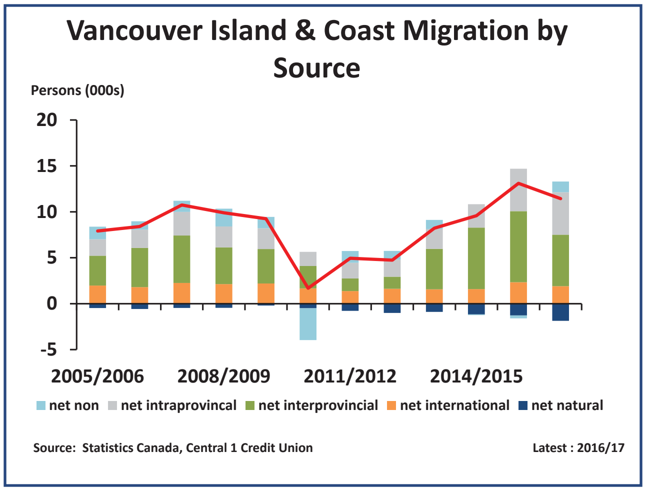
Employment growth surged by 10 per cent from 2014 through 2017. This was highest among Canada's large economic regions and a driver of migration and increased labour force participation in the region. Vancouver Island employment increased 5.5 per cent last year following a 2.6 per cent increase in 2016. Momentum has continued with employment levels trending up nearly three per cent through October 2018. Growth sectors have included accommodations and foodservices; information and culture; and wholesale and retail trade. Public-sector employment, which contributes eight per cent of total employment and is concentrated in Victoria, has surged by a third. Manufacturing employment has retraced sharply after two years of gains.

The low unemployment rate continues to trend below five per cent in 2018 and underscores tightness in the labour market. The unemployment rate is even lower in Victoria at closer to four per cent. Significant sampling variability at regional levels means trends should be viewed with caution. Nonetheless, industry-specific employment growth trends in the regional areas align with improved economic performance.

Tourism is robust, particularly in regions outside of Victoria. This is observed through surging hotel room revenues since 2012 and the highest hotel occupancy rate since 2001 at 62.5 per cent. A low Canadian dollar and a divisive U.S. political environment have lifted demand from international and domestic tourists. Westjet and Air Canada have increased flights to Victoria, contributing to the Victoria International Airport[1] expansion that is expected to be completed by spring 2020 .

Manufacturing activity has been mixed. While employment has recently retreated, Viking in Victoria hired 50 people to make conversion kits for aircraft into water-





bombers.[2] The region continues to benefit from the National Shipbuilding Strategy at Seaspan's Victoria Shipyard.[3] Public-sector highway investments have ramped up and major projects have been approved—including the $110.6 million Comox Valley Water Treatment Project to upgrade the region's drinking water system in 2019.

Growth and confidence is underpinning business formation. Led by the Capital, Cowichan Valley and Nanaimo regional districts, incorporations exceed highs observed in the mid-2000s and net business counts are tracking roughly the pace of population growth since 2014. Firming of investment in the region has been reflected in surging non-residential building permit volume, which was up 20 per cent each year in 2016 and 2017.

The latest population estimate for 2017 pegs the population at 817,200 persons. Growth reached 1.3 per cent in 2017 following a 1.5 per cent gain in 2016. Population has climbed by more than 10,000 persons

1 The Victoria International Airport is expanding its ground-level departure lounge, doubling its seating capacity. Construction on the $19.4M upgrade is expected to be completed by spring 2020.

2 https://www.timescolonist.com/business/fifty-to-be-hired-locally-for-work-on-waterbombers-1.23321508

3 https://www.timescolonist.com/news/local/new-coast-guard-ship-coming-to-victoria-for-finishing-sea-trials-1.23119502

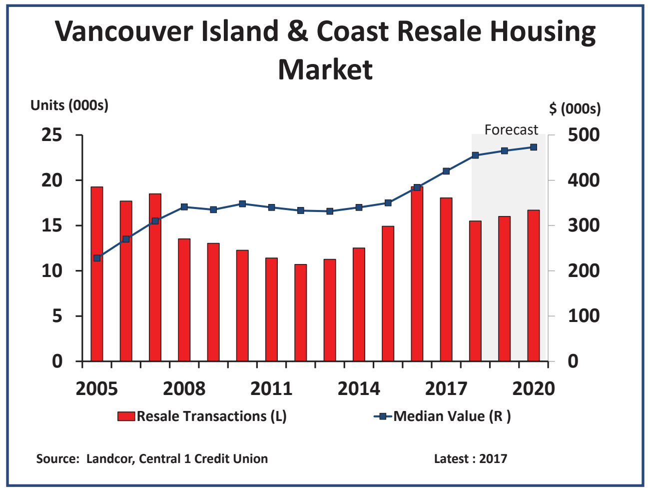
annually for the last three years. Victoria, which makes up about 45 per cent of the island population, and Nanaimo have seen their population swell, although most areas on the island have grown at a modest pace over the past two years.

While the region has long been a draw for retirees, and the slingshot age cohort of out of province and international students attending post-secondary institutions, the flow of prime working age households is rising. B.C. Stats local area population estimates points to strong growth across the Island, led by Nanaimo, the Victoria capital region, and Duncan. North Island growth, which continues to be driven by resources, and retiree demand is slower. This growth cycle has generated a strong organic lift to household demand.

Rising inflows from the 25 to 44 age group is good to see. While improved economic opportunities are clearly a draw, this also suggests families are relocating to the region from the Lower Mainland as home prices have gotten out of reach. Young families are flocking to the Island in search of more affordable housing, while others may also be cashing out, and relocating at a lower cost. Through the first half of 2018, the median detached home price in Vancouver was $1.27 million. In contrast, the detached home value was $785,000 in Victoria, $565,000 in Nanaimo, and $510,000 in Parksville. Price levels were below $500,000 across all other census agglomerations, with central Island and retiree markets near to upper end of price range. While lifestyles and job opportunities differ, this price gap is a draw for households across the homeownership spectrum of entry-level to retiree purchasers. A modest housing price correction in Metro Vancouver could slow this trend, but the substantial price gap and lifestyle of the Island remains a draw.

The region's supercharged housing demand cycle driven by job growth and population gains remains robust, though it is slowing. Vancouver Island home sales peaked in 2016 at 19,300 units led by growth in apartment sales and levels have since declined. Nonetheless, elevated sales and low inventory continue to lift home values. For a second straight year, the median transaction value climbed more than nine per cent to $454,000 in 2017. This growth is understated due to a higher share of apartment sales, though all home types experienced double-digit per cent growth. The median annual home price rose by 25 per cent from 2013 to 2017.

Median price growth in Victoria has slightly underperformed the Island's other urban centres, reflecting the rotation of sales to lower-priced apartments. Price growth has surged across the Island on strong demand conditions.



While robust, the housing sales cycle has cooled sharply alongside the rest of Canada in 2018. Credit availability has curtailed with the introduction of the federal mortgage 'stress test' on households. Homes are generally less affordable to households than in 2017, particularly in larger expensive markets like Victoria and Vancouver. Home sales across the rest of the Island have declined by a lesser extent. Policy measures that disincentivize the purchase of 'recreation homes' in areas such as Victoria and Nanaimo will also be a drag to home sales. Resale transactions are forecast to drop 14 per cent this year and edge higher in 2019 and 2020.

Sales-to-listings ratios remain firmly planted in sellers' market territory. Although, there are signs that price growth is softening in Victoria as quick-sellers adjust prices lower while others wait to sell. Positive momentum into 2018 drives the median Island home value to $455,000 this year, marking a eight per cent gain. Victoria price levels climb in line with regional trend, but medium-sized urban market exhibit stronger gains. The average annual median price for the Island is forecast to grow at about two per cent in 2019 and 2020 to reach $473,000.

Population growth, undersupplied housing markets and rising prices have encouraged new housing development, further amplifying the economic growth cycle. Residential permit volume has climbed more than 20 per cent annually since 2013. While higher constructions are a factor, new housing and renovation spending has lifted activity and generated jobs in the process. Urban area starts on apartment construction rose to a 20-year high in 2017 and led by Victoria. This flow will continue to support construction employment and output through 2019.

Vancouver Island/Coast	2016	2017	2018	2019	2020
Labour Force (000s)	389.0	407.0	418.0	425.0	431.0
% ch.	2.0	4.6	2.7	1.7	1.4
Total Employment (000s)	366.5	386.6	398.0	405.0	411.0
% ch.	2.6	5.5	2.9	1.8	1.5
Unemployment Rate	5.8	5.0	4.8	4.7	4.6
Participation Rate	58.8	60.8	62.0	61.5	61.0
Residential Transactions	19,290	18,107	15,500	16,000	16,700
% ch.	29.2	-6.1	-14.4	3.2	4.4
Median Price	384,000	420,000	455,000	465,000	473,000
% ch.	9.7	9.4	8.3	2.2	1.7
Residential Permits ($ millions)	1,397.8	1,721.2	2,100.0	1,950.0	1,800.0
% ch.	29.3	23.1	22.0	-7.1	-7.7
Non-Residential Permits ($ millions.)	443.4	533.3	462.0	447.0	450.0
% ch.	18.3	20.3	-13.4	-3.2	0.7
Private Non-Res Building Permits ($millions)	288.1	329.7	312.0	287.0	290.0
% ch.	28.1	14.4	-5.4	-8.0	1.0
Public Non-Res Building Permits ($millions)	155.4	203.6	150.0	160.0	160.0
% ch.	3.6	31.1	-26.3	6.7	0.0
Population (000s)	807.0	817.2	829.4	840.2	851.1
% ch.	1.5	1.3	1.5	1.3	1.3
Victoria CMA	2016	2017	2018	2019	2020
Labour Force (000s)	194.4	199.9	205.4	208.0	211
% ch.	2.8	2.9	2.7	1.3	1.4
Total Employment (000s)	184.3	192.3	197.0	200.0	203
% ch.	3.5	4.3	2.5	1.5	1.5
Unemployment Rate	5.2	3.9	4.1	3.8	3.8
Residential Permits ($ millions.)	751	954	1,150	1,050	960
% ch.	26.1	27.0	20.6	-8.7	-8.6
Non-Residential Permits ($ millions.)	273	372	270	270	275
% ch.	43.7	36.2	-27.5	0.0	1.9
Population (000s)	373	377	383	387	391
% ch.	1.6	1.2	1.3	1.2	1.0
Select Resale Housing Markets	2016	2017	2018	2019	2020
Victoria Residential Transactions	8,331	7,340	6,100	6,300	6,500
% ch.	32.9	-11.9	-16.9	3.3	3.2
Victoria Median Price	508,500	556,000	590,000	588,000	595,000
% ch.	7.1	9.3	6.1	-0.3	1.2
Nanaimo Residential Transactions	2,888	2,810	2,550	2,700	2,750
% ch.	23.8	-2.7	-9.3	5.9	1.9
Nanaimo Median Price	344,000	395,000	425,000	430,000	435,000
% ch.	9.0	14.8	7.6	1.2	1.2
Campbell River Residential Transactions	1,065	1,077	950	960	1,000
% ch.	37.8	1.1	-11.8	1.1	4.2
Campbell River Median Price	285,000	331,000	390,000	399,000	403,000
% ch.	6.7	16.1	17.8	2.3	1.0

Sources: Statistics Canada, CMHC, Landcor, Central 1

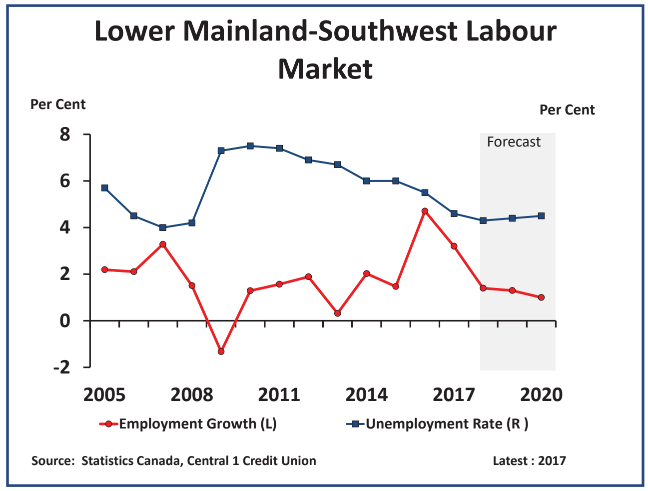
Lower Mainland- Southwest

The Lower Mainland-Southwest has experienced strong growth in recent years. The area is anchored by the Vancouver Census Metropolitan Area (CMA), and Abbotsford-Mission CMA and spans the Fraser Valley, through the Sea-to-Sky Highway to Whistler, the Sunshine Coast Regional District and urban areas such as Chilliwack, Squamish, Gibsons and Sechelt. With a population of more than 2.9 million, the economic region comprises just over 60 per cent of B.C.'s population.

Economic growth has been supported by a low Canadian dollar which has boosted tourism flows, TV and film production activities, and other service exports associated with the high-tech economy and traditional goods exports. Low interest rates, moderately strong population expansion, and investment have underpinned robust housing demand and new home construction in the region. Government investment in transportation infrastructure, commercial redevelopment of office spaces and retail nodes, and general business investment aligned with a strong economy, have also contributed to expansion.

Lower Mainland-Southwest employment growth has averaged nearly four per cent annually over the past two years, surpassing nearly all major metro areas of the country. Gains were strong in the Metro Vancouver area, with Abbotsford-Mission lagging behind. Sectors leading the pace were professional services, information and culture, construction, and wholesale and retail trade. Following 2017 gains, employment declined in Metro Vancouver during the first half of 2018 before a third quarter rebound. The policy-driven downshift in the housing market resulted in concentrated employment losses in related-industries including retail, while employment in most other sectors continued to climb. The bottoming trend of home sales in mid-2018 supports upward employment growth into 2019 as growth in ancillary service sectors pick up. That said, employment driven by new home construction will wane as decreased housing sales curtails new building.

That said, workers available to fill open positions is a constraint to growth. The unemployment rate is hovering below five per cent, which is among the lowest in the country, while the job vacancy rate is among the highest in the country. Employees have the upper hand in the local labour market as employers are forced into bidding wars for talent through higher overall compensation (i.e., wage/salaries and benefits). Labour force expansion is impeded by weaker interprovincial migration as improved economic conditions in Alberta and Ontario lower the westward flow. High



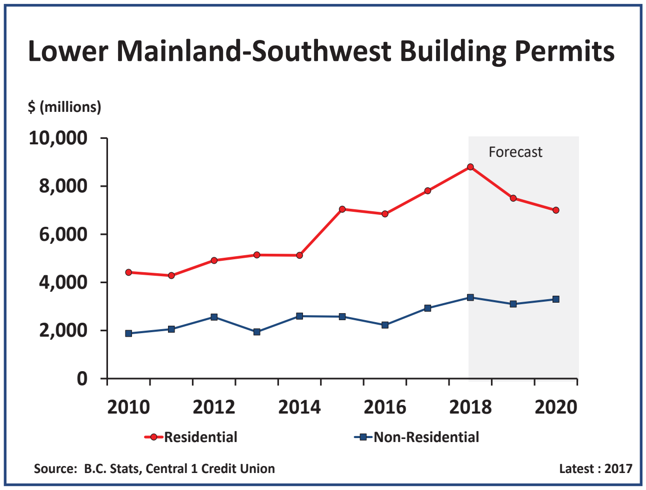
home prices push some residents to other regions and act as a deterrent for those considering moving to the region.

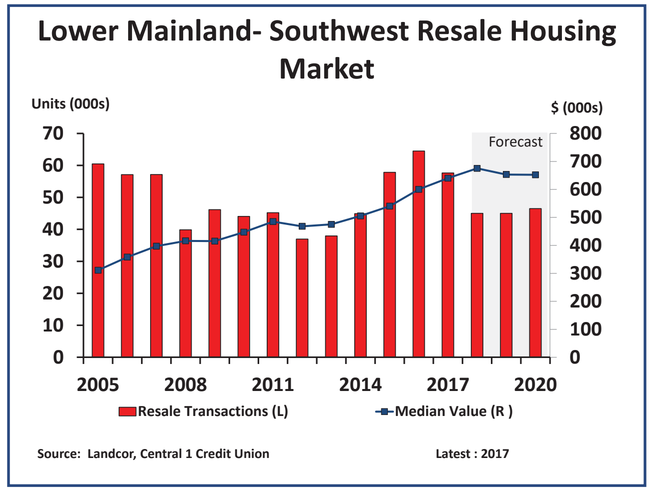
The region's economic growth will decrease though looks to remain moderately strong over the forecast period, despite labour market supply challenges and a weak housing market. Service-exports such as tourism, TV and film production and high-tech will continue to be supported by a favourable Canadian/U.S. currency exchange rate. Benefits will flow across the region through to Whistler and the Sunshine Coast.

The region's tech sector will boost growth and continue to expand at a stronger pace than the rest of the Lower Mainland- Southwest economy. While Metro Vancouver did not land the Amazon HQ2, it is benefitting from the Seattle-based giant's local investments. This includes an expansion of its technology operations which triggers the redevelopment of the old Canada Post building and the construction of another fulfillment centre in Tsawwassen. Amazon plans to add 3,000 persons to its workforce to reach about 5,000 in the city. The company occupies 80 per cent of WeWork's space in the city. In recent years, companies such as Microsoft, Samsung and Sony have deepened their footprints in the region. Continued expansion of the tech sector will keep lifting market wages, attracting labour talent, and fueling the 'start-up culture'.

TV/film production and visual effects development remains a strong sector, although growth has decelerated following a period of rapid gains. Direct spending in the sector rose 12 per cent in 2017 to $3.8 billion after an even stronger gain in 2016[4]. Competitive tax credits, a favourable Canadian dollar, and local

4 Vancouver Economic Commission. http://www.vancouvereconomic.com/blog/vecs_take/new-study-3-8-billion-spent-by-film-tv-and-vfx-animation-industries-in-2017/





talent have buoyed the industry. The newly minted US-Mexico-Canada Agreement (USMCA) will provide greater certainty for exporters.

The investment cycle will remain robust and boost private and public spending. Non-residential building permits reached a record high of $2.93 billion and tracked higher through the first half of 2018. It is forecast to climb to 15 per cent this year to $3.38 billion. Redevelopments on the Brentwood Town Centre redevelopment and the BC Children's and Women's Hospital continue, while a slowdown in consumer spending and housing demand put the brakes on some commercial investments. Construction and related employment will also be buoyed by various high dollar-value projects that are expected to get underway over the next few years including: Canada Post redevelopment by Quadreal, Amazon distribution centre, Walmart distribution centre, Patullo Bridge replacement, new Vancouver Art Gallery and a significant number of hydroelectric and highway improvement projects. Non-residential permit volumes will ease by eight per cent in 2019, though remains strong at $3.1 billion.

Estimated population growth rose by 1.5 per cent or 45,500 persons this year, driven mostly by international migration. A substantial chunk of the increase was in the form of net non-permanent residents, reflecting temporary workers holding work permits and international students on student visas. Rising inflows of international immigrants, driven in large part by higher federal intake targets, will support labour force expansion over the coming years. Population growth is forecast to trend at about 1.4 per cent or about 40,000 persons per year. The region remains an attractive destination for international migration, which will continue given the federal government's intentions to increase inflows to Canada. Population growth will continue to support housing and consumer demand in the region.

Lower Mainland-Southwest employment growth is predicted to climb 1.3 per cent in 2019 after a 1.4 per cent increase in 2018. The unemployment rate trends near 4.5 per cent over the forecast period, with the economy absorbing labour force gains. The Vancouver CMA is forecast to lead growth in 2019 with a 1.3 per cent increase compared to a slower gain of 1.1 per cent in Abbotsford-Mission.

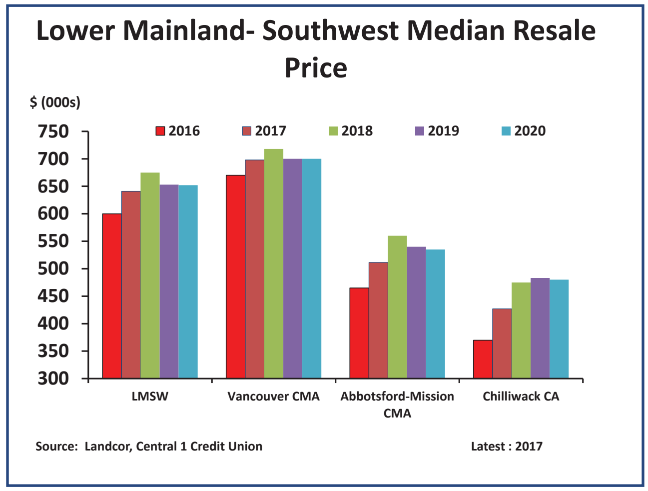
A modest housing price correction is underway in the region triggered by rising interest rates and tighter federal mortgage criteria which is intensified by provincial policy measures. The introduction of the federal mortgage 'stress test' eroded potential purchasing power for buyers with higher down payments—those with a 20 per cent deposit or more. Buyers in higher priced markets are less able to bridge the loss of purchasing power through other savings. As a result, higher priced urban areas like Metro Vancouver are bearing the brunt of the new policy with lower sales activity. Hikes to the foreign buyer tax, proposed speculation taxes and increased school tax on high value homes further curtailed demand. Monthly MLS® sales in the combined Metro Vancouver and Abbotsford-Mission area fell nearly 40 per cent from the period preceding the introduction of 'stress test' by mid-year, which was sharpest among large urban areas.

Following a period of rapid-price growth, sales of detached homes have remained weak since mid-2016 due to affordability, the introduction of the foreign buyer tax and other measures. Priced out buyers shifted focus to the more affordable multifamily market, contributing to condominium price escalation, although sales have declined this year.

Residential resale transactions in the Vancouver Metro area are forecast to decline 23 per cent this year to the lowest level since 2013. Sales in Abbotsford-Mission decline more than 15 per cent to the lowest level since 2015.

Prices are falling, with MLS® benchmark values down three per cent from peak. Some areas such as West Vancouver and the westside of Vancouver City have experienced steeper declines driven by the detached market. A declining trend will lead to a median price decline in 2019 of about three per cent in Metro Vancouver and 3.6 per cent in Abbotsford-Mission, while Chilliwack records a mild increase of two per cent. The combination of positive economic growth, a tight labour market, and moderate levels of housing inventory supports the values.

Residential construction will slow as weaker demand contributes to slower sell-through of pre-sales and new home inventory climbs with completion of existing projects. Residential building permits will decline 15 per cent in 2019 and ease in 2020, though remain moderately high despite the downturn.



Lower Mainland Southwest	2016	2017	2018	2019	2020
Labour Force (000s)	1,626.9	1,663.0	1,680.0	1,703.0	1,723.0
% ch.	4.2	2.2	1.0	1.4	1.2
Total Employment (000s)	1,537.4	1,586.5	1,608.0	1,628.5	1,645.5
% ch.	4.7	3.2	1.4	1.3	1.0
Unemployment Rate	5.5	4.6	4.3	4.4	4.5
Residential Transactions	64,507	57,794	45,000	45,000	46,500
% ch.	11.5	-10.4	-22.1	0.0	3.3
Median Price	600,000	641,000	675,000	653,000	652,000
% ch.	11.1	6.8	5.3	-3.3	-0.2
Residential Permits ($ millions)	6,846.3	7,806.9	8,800.0	7,500.0	7,000.0
% ch.	-2.8	14.0	12.7	-14.8	-6.7
Non-Residential Permits ($ millions.)	2,226.9	2,928.4	3,375.0	3,100.0	3,300.0
% ch.	-13.6	31.5	15.2	-8.1	6.5
Private Non-Res Building Permits ($millions)	1,813.2	2,241.8	2,800.0	2,500.0	2,700.0
% ch.	-11.3	23.6	24.9	-10.7	8.0
Public Non-Res Building Permits ($millions)	413.7	686.6	575.0	600.0	600.0
% ch.	-22.1	66.0	-16.3	4.3	0.0
Population (000s)	2,924.9	2,959.6	3,005.1	3,049.5	3,091.4
% ch.	1.4	1.2	1.5	1.5	1.4

Vancouver CMA	2016	2017	2018	2019	2020
Labour Force (000s)	1,437.4	1,469.5	1,485.0	1,506.0	1523.5
% ch.	4.2	2.2	1.1	1.4	1.2
Total Employment (000s)	1,359.2	1,400.9	1,419.5	1,438.0	1454
% ch.	4.7	3.1	1.3	1.3	1.1
Unemployment Rate	5.5	4.7	4.4	4.5	4.6
Residential Permits ($ millions.)	6,162	6,830	8,100	7,000	6500
% ch.	-4.7	10.8	18.6	-13.6	-7.1
Non-Residential Permits ($ millions.)	2,028	2,639	3,030	2,800	3000
% ch.	-14.3	30.1	14.8	-7.6	7.1
Population (000s)	2,542	2,571	2,609	2,648	2688
% ch.	1.3	1.1	1.5	1.5	1.5

Abbotsford-Mission CMA	2016	2017	2018	2019	2020
Labour Force (000s)	97.5	98.8	99.5	100.5	101.8
% ch.	0.2	1.4	0.7	1.0	1.3
Total Employment (000s)	91.1	93.4	95.0	96.0	96.5
% ch.	0.1	2.5	1.7	1.1	0.5
Unemployment Rate	6.6	5.5	4.5	4.5	5.2
Residential Permits ($ millions.)	189	357	290	275	265
% ch.	-6.1	89.2	-18.9	-5.2	-3.6
Non-Residential Permits ($ millions.)	57	117	136	125	130
% ch.	-37.9	105.5	16.5	-8.1	4.0
Population (000s)	188	191	193	195	198
% ch.	2.4	1.2	1.2	1.0	1.5

Select Resale Housing Markets	2016	2017	2018	2019	2020
Abbotsford-Mission Residential Transactions	4,769	4,236	3,500	3,300	3,300
% ch.	44.4	-11.2	-17.4	-5.7	0.0
Abbotsford-Mission Median Price	465,000	511,500	560,000	540,000	535,000
% ch.	23.2	10.0	9.5	-3.6	-0.9
Vancouver Residential Transactions	53,266	47,571	36,500	37,000	38,500
% ch.	7.1	-10.7	-23.3	1.4	4.1
Vancouver Median Price	670,000	698,000	718,000	700,000	700,000
% ch.	14.5	4.2	2.9	-2.5	0.0
Chilliwack Residential Transactions	3,389	3,333	2,700	2,600	2,600
% ch.	51.2	-1.7	-19.0	-3.7	0.0
Chilliwack Median Price	369,900	427,000	475,000	483,000	480,000
% ch.	18.9	15.4	11.2	1.7	-0.6

Sources: Statistics Canada, CMHC, Landcor, Central 1

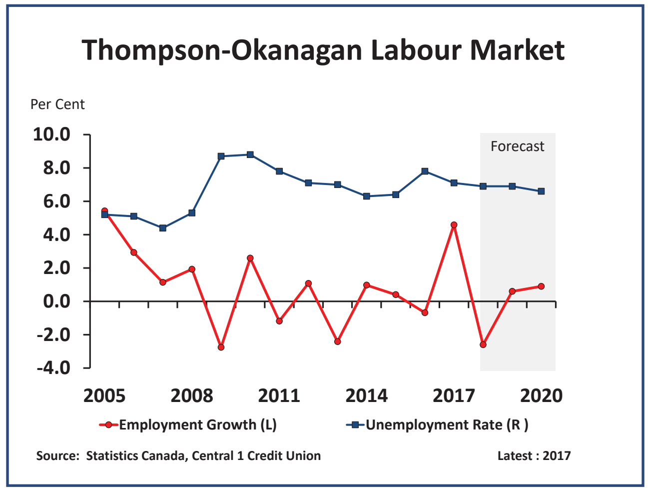
Thompson-Okanagan

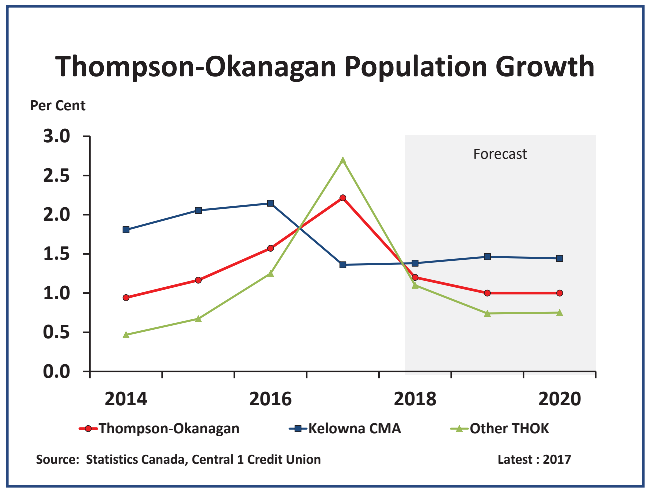
Thompson-Okanagan is home to 565,000 residents as of 2017 estimates. The area extends from the Thompson-Nicola region in the east, through the Columbia-Shuswap region to the B.C.-Alberta border and down through the Okanagan and Keremeos and is anchored by the Kelowna census metropolitan area (CMA). Kelowna represents about 30 per cent of the regional population and Kamloops roughly 16 per cent. The remainder of the regional population is dispersed among many small and medium-sized municipalities including Vernon, Penticton and Salmon Arm, as well as Summerland, Revelstok, Oliver and Golden.

Last year was a strong year for the Thompson-Okanagan economy. Employment increased 4.6 per cent driven by the Kelowna metro area. This exceeded provincial growth and the region's own longer-term average growth for the period 2002 to 2017 of 1.4 per cent. Strong employment growth opportunities attracted potential workers and increased the labour force by 3.8 per cent. The unemployment rate dropped from 7.8 in 2016 to 7.1 per cent in 2017. The Kelowna CMA was a significant engine of growth in the region with its unemployment rate falling significantly due to increased hiring compared to those entering the workforce.

Strong employment growth was posted in 2017 across most sectors with a few exceptions. The services-sector is the main industry in the region, though the goods-producing sector still contributes 24 per cent overall. Within the goods-sector, construction posted strong employment gains led by robust growth in residential and non-residential investments. New housing construction and renovation spending supported residential investments while strong industrial and commercial investments supported non-residential investments in the region. Moreover, tourism supported growth in residential and commercial investments as the region attracts visitors from other parts of B.C. or Alberta.[5] Manufacturing declined more than ten per cent to follow the sharp decline of nearly 20 per cent from 2016. However, sector declines of this magnitude may not reflect local area employment losses, rather weakness in other parts of B.C. or Alberta. A significant number of individuals in the region work in other parts of B.C. or Alberta.

Forestry in the area is supported by demand from the U.S. given its growing new homes market and strong demand from Asia, particularly China for input materials.





The services-sector is where most of the economic activity happens, as the region becomes a retirement and vacation destination, thanks to its wineries and landscapes. People are relocating to the region to enjoy their golden years. This is evident through 23 per cent of its residents being over 65 years of age, compared to 18 per cent for the rest of the province. Several key sectors are needed to service an older demographic and tourism resulting in 2017 job gains in: trade, transportation, finance, insurance, real estate, and health and social services. Business, building and other support services also posted strong growth.

Population increased by a robust 2.2 per cent in 2017 as people from B.C. and other parts of Canada relocated to the region. This reflects the increase in job opportunities and lifestyle demand from retired households. Migration of international permanent residents and temporary workers contributed to population growth. With a growing educational services sector, some have migrated to the region to study.

5 https://www.destinationbc.ca/getattachment/Research/Research-by-Region/Thompson-Okanagan/Thompson-Okanagan-Regional-Tourism-Profile_2017.pdf.aspx

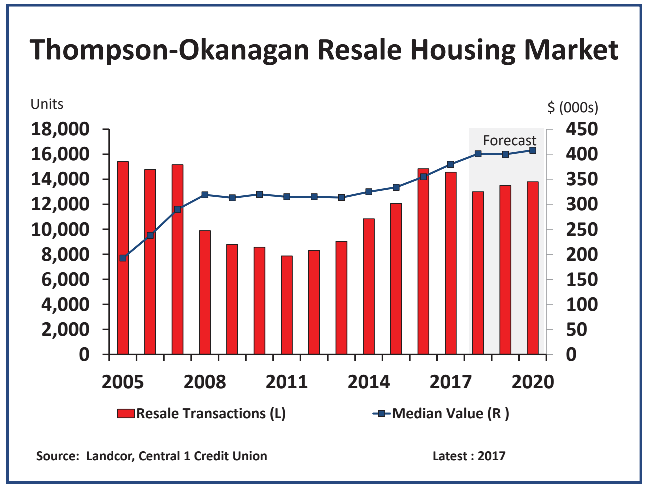
Following a strong start to 2018, residential home sales in the Thompson-Okanagan have tapered off. Tighter mortgage regulations, prospects of a provincial speculation tax and other measures have curtailed housing demand. Even with the moderation, the region's housing market remains stable and aligned with its strong population gains. Many residents have remained in their existing home or rental given the current challenge to purchase homes. Growth in the construction sector and residential permit volumes are supported by residents' choosing to renovate, rather than buy another home.

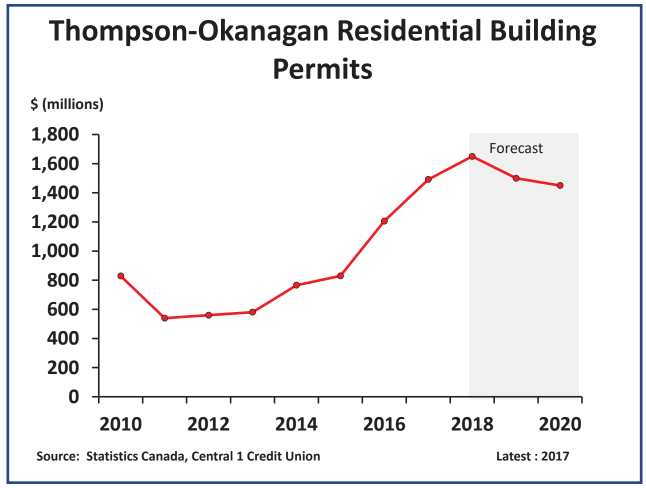
Median values rose seven per cent for the year, with an 11 per cent increase in Kelowna, seven per cent increase in Kamloops and five per cent in Vernon. Price conditions have softened with lower sales momentum, but levels have remained firm into 2018.

Going forward, Employment will decline by 2.2 per cent in 2018, though it will be statistically insignificant given last year's gains. The average unemployment rate is forecast to hold steady near 6.5 per cent, with a dip in labour force participation. Key sectors such as tourism will slow down as people take 'staycations', where they rest at home rather than abroad. Construction will also slow although LNG Canada's investment in the liquefied natural gas plant will boost regional employment reflecting a mobile workforce. Average employment edges higher in both 2019 and 2020 by less than one per cent. Population growth will slow to 1.2 per cent, with further deceleration to one per cent through to 2020.

Residential transactions will decline in 2018 by 13 per cent in the Kelowna CMA and by 11 per cent in the region overall. Median price growth will edge lower as the market adjusts to lower demand as higher interest rate and policy measures continue to constrain demand. Population growth remains an underlying support.

Non-residential investments led by consumer and industrial permit volumes growth will contribute to elevated total volume above $500 million, but the trend will decline in both 2019 and 2020.





Thompson-Okanagan	2016	2017	2018	2019	2020
Labour Force (000s)	269.3	279.6	271.7	273.5	275.0
% ch.	0.9	3.8	-2.8	0.7	0.5
Total Employment (000s)	248.3	259.7	254.0	255.2	257.0
% ch.	-0.7	4.6	-2.2	0.5	0.7
Unemployment Rate	7.8	7.1	6.5	6.7	6.5
Residential Transactions	14,851	14,600	13,000	13,500	13,800
% ch.	23.1	-1.7	-11.0	3.8	2.2
Median Price	355,000	380,000	401,000	400,000	408,000
% ch.	6.3	7.0	5.5	-0.2	2.0
Residential Permits ($ millions)	1,205.9	1,491.7	1,650.0	1,500.0	1,450.0
% ch.	45.4	23.7	10.6	-9.1	-3.3
Non-Residential Permits ($ millions.)	391.3	468.5	530.0	528.0	490.0
% ch.	-9.5	19.7	13.1	-0.4	-7.2
Private Non-Res Building Permits ($millions)	249.6	299.1	380.0	378.0	350.0
% ch.	-21.5	19.8	27.1	-0.5	-7.4
Public Non-Res Building Permits ($millions)	141.7	169.4	150.0	150.0	140.0
% ch.	23.8	19.6	-11.5	0.0	-6.7
Population (000s)	552.4	564.6	571.4	577.1	582.9
% ch.	1.6	2.2	1.2	1.0	1.0

Kelowna CMA	2016	2017	2018	2019	2020
Labour Force (000s)	98.9	106.0	107.8	109.0	109.7
% ch.	1.3	7.2	1.7	1.1	0.6
Total Employment (000s)	90.9	100.2	102.0	102.8	103.5
% ch.	-1.2	10.2	1.8	0.8	0.7
Unemployment Rate	8.0	5.4	5.4	5.7	5.7
Residential Permits ($ millions.)	622	769	830	770	750
% ch.	69.1	23.7	7.9	-7.2	-2.6
Non-Residential Permits ($ millions.)	167	181	240	250	240
% ch.	-27.9	8.2	32.8	4.2	-4.0
Population (000s)	199	202	205	208	211
% ch.	2.1	1.4	1.4	1.5	1.4

Select Resale Housing Markets	2016	2017	2018	2019	2020
Kelowna Residential Transactions	6,056	5,414	4,700	4,800	5,000
% ch.	21.8	-10.6	-13.2	2.1	4.2
Kelowna Median Price	432,500	480,000	520,000	515,000	523,000
% ch.	9.5	11.0	8.3	-1.0	1.6
Kamloops Residential Transactions	2,316	2,493	2,300	2,500	2,500
% ch.	20.6	7.6	-7.7	8.7	0.0
Kamloops Median Price	337,750	362,400	380,000	378,000	383,000
% ch.	1.9	7.3	4.9	-0.5	1.3
Vernon Residential Transactions	1,763	1,782	1,550	1,530	1,600
% ch.	38.7	1.1	-13.0	-1.3	4.6
Vernon Median Price	355,000	372,450	383,000	380,000	388,000
% ch.	10.9	4.9	2.8	-0.8	2.1

Sources: Statistics Canada, CMHC, Landcor, Central 1

Kootenay

The Kootenay region is home to just under 123,000 residents, as of the latest Statistics Canada estimates from 2017. It is comprised of many small towns and municipalities, with the largest areas being the census agglomeration of Cranbrook and the City of Nelson.

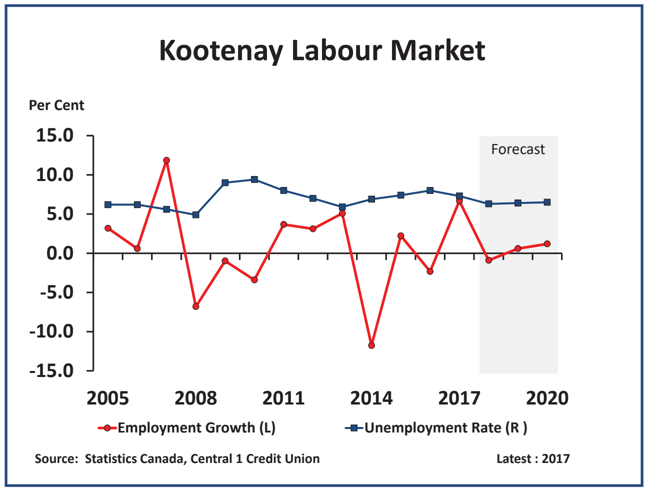
The regional economy is diverse with a mix of tourism and resource producing sectors, despite a relatively small population base. Given the Kootenay's proximity to Alberta, tourism is a key driver for recreation, tourism and secondary housing activity in areas including Cranbrook, Invermere, Kimberley and Fernie. The region is also home to Teck Resources coalfield operations near Elkford and a lead-zinc smelter at Trail in the western Kootenay. Other key industries include forestry and agriculture.

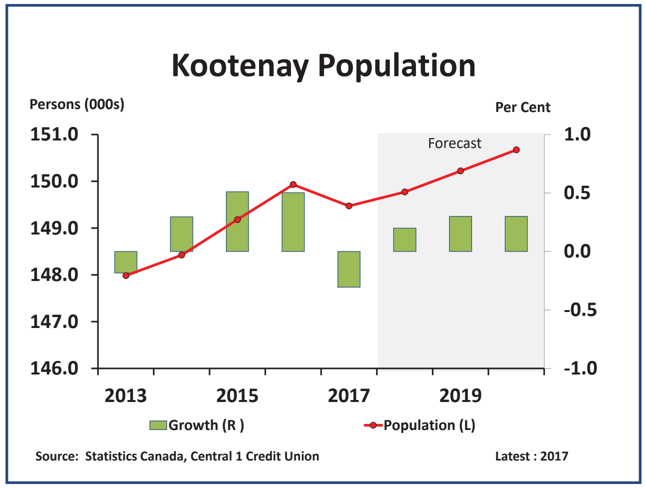
Kootenay's labour market data has been volatile in recent years. Estimated employment surged nearly six per cent in 2017 after the unemployment rate peaked above the long-term average at 8.1 per cent in 2016 due to declining employment and labour force growth. Almost all employment growth last year was in full-time work, with gains likely contributing to a boost in job market confidence.

A rebound in Alberta's economy contributed to growth in the region, as a significant share of Kootenay residents work in Alberta across the Rockies. With the impact of the negative oil price from 2014 shock mostly dissipated, Alberta's unemployment rate trended down as job seekers return and many seeking full-time employment.

Housing market conditions have improved with stronger local economic conditions and a lift in Alberta, which is a source of recreational housing demand. In 2017, resale transactions rose nearly 15 per cent with the median price up more than five per cent at $258,000 which has exceeded the rate of inflation. A portion of this housing activity was also due to increased growth in the secondary homes market. Approximately 20 per cent of home sales in the Kootenay are traced to Alberta buyers. Federal measures to tighten mortgage qualification criteria have had little impact on the region, reflecting a recreational market and relatively low prices.

Kootenay's existing homes market was hot last year and the gains funneled through to the new homes market and related activities, such as renovations. In 2017, residential permit dollar volumes increased 25.7 per cent to $243.9 million.





Non-residential permit volumes were discouraging when compared to residential permit volumes. This was related to a marked decline in private non-residential permit volumes that were slashed to $43.5 million from $75.6 million in 2016. Public non-residential building permit volumes continued to increase from 2016 as public funds earmarked for projects continued to flow. Nonetheless, non-residential activity is volatile and swings are not uncommon.

Population growth has been mild at near 0.5 per cent in 2015 and 2016, before a slight contraction in 2017. Interprovincial migration is a key driver of regional population growth, reflecting retiree demand and lifestyle factors.

Kootenay has an older population where 53.8 per cent of residents are over 45 years of age, compared to 47.4 per cent over 45 years of age across B.C. Therefore there is a strong need for workers in the goods-sector, particularly resources such as forestry and coal. Employment is also needed in the services-sector, including accommodation and food services for tourists, and health and social services for aging residents.

Forest products continue to lead B.C.'s exports, comprising of more than 30% of provincial goods exports in 2017. Despite U.S. tariffs, impacts on domestic producers have been limited as costs have been passed onto consumers due to strong lumber demand. Smaller scale producers have experienced some negative effects. Growth in forestry economic output was due to strong U.S. demand for lumber to feed into increased new home construction. In 2017, new housing construction in the U.S. increased by 2.6 per cent following more than six per cent growth in 2016. The Kootenay area has benefitted from demand, with timber harvests showing solid growth in 2018. While the broad sector is expected to contract over the next five years as the impact of the mountain pine beetle (MPB) crisis over the past two decades, reduces timber availability. Kootenay is positioned to take advantage of high prices given it was less affected by the MPB infestation.

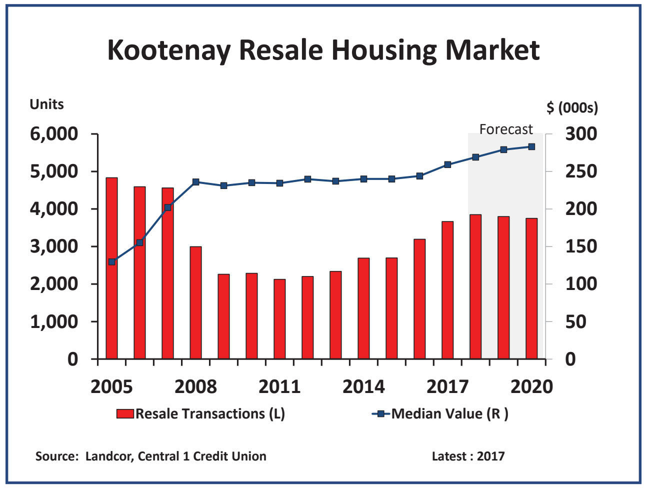
Coal is the province's second largest export and a key commodity to trade for a region like Kootenay. Higher commodity prices buoyed the industry over the past year, although price levels have moderated. Current U.S.- China trade relations are a negative risk for metallurgical coal prices and the expansion of regional operations and exploration activity.

Tourism recovered in 2017 as Alberta's economy rebounded, and helped to lift overall economic growth. The region's accommodation and food services sector are a sizeable chunk of the economy. Annual data from B.C. Statistics points to a robust increase of 9.3 per cent to hotel/inn room revenues in 2017. Growth has likely decelerated but remains a driver of regional employment growth.

Kootenay economic growth is expected to ease over the forecast period. The positive tourism cycle is likely near peak, while deterioration in global growth and trade is softening commodity prices including coal.

Employment growth is forecast to hold steady edge down 0.9 per cent this year, before rising 0.7 per cent in 2019 and 1.3 per cent in 2020. The average unemployment rate holds steady near 6.5 per cent in 2018. Retirements are a factor in low employment growth.

Home sales are forecast to steady in 2019 due to flat local employment and higher interest rates, after a five per cent increase this year. Recreational demand from Alberta may be constrained due to flat home values in that province and further weakening of oil prices which impede the province's economic growth, investment and job growth.



Median price growth for an existing home in Kootenay will increase by about four per cent in 2019, partly reflecting a more balanced market than in previous years. Sales and prices will be flat in 2020. Residential permit volumes are forecast to rise 19 per cent this year but pull back to trend in 2019 with a 14 per cent dip.

Constrained business confidence will affect investments. Non-residential building permits rebound this year to an average trend of about $60 million after a decrease in 2017.

The region's population will grow in 2018 by just 0.2 per cent from 0.1 per cent last year. Natural growth will continue to trend down, and interprovincial movements will decline as people leave the area to look for opportunities elsewhere.

Kootenay	2016	2017	2018	2019	2020
Labour Force (000s)	73.3	77.6	76.0	76.5	77.5
% ch.	-1.7	5.9	-2.1	0.7	1.3
Total Employment (000s)	67.4	71.9	71.2	71.6	72.5
% ch.	-2.3	6.6	-0.9	0.6	1.2
Unemployment Rate	8.0	7.4	6.3	6.4	6.5
Residential Transactions	3,200	3,674	3,850	3,800	3,750
% ch.	18.7	14.8	4.8	-1.3	-1.3
Median Price	244,000	258,000	269,000	279,000	283,000
% ch.	1.7	5.7	4.3	3.7	1.4
Residential Permits ($ millions)	194.1	243.9	290.0	250.0	249.0
% ch.	6.5	25.7	18.9	-13.8	-0.4
Non-Residential Permits ($ millions.)	90.8	66.1	76.0	59.0	65.0
% ch.	9.7	-27.2	15.0	-22.4	10.2
Private Non-Res Building Permits ($millions)	75.6	43.5	48.0	36.0	45.0
% ch.	-3.8	-42.5	10.4	-25.0	25.0
Public Non-Res Building Permits ($millions)	15.2	22.6	28.0	23.0	20.0
% ch.	263.1	48.8	23.7	-17.9	-13.0
Population (000s)	149.9	149.5	149.8	150.2	150.7
% ch.	0.5	-0.3	0.2	0.3	0.3
Select Resale Housing Markets	2016	2017	2018	2019	2020
Cranbrook Residential Transactions	473	462	510	520	520
% ch.	8.7	-2.3	10.4	2.0	0.0
Cranbrook Median Price	250,000	271,000	290,000	300,000	303,000
% ch.	0.0	8.4	7.0	3.4	1.0
Nelson Residential Transactions	364	346	315	340	330
% ch.	20.5	-4.9	-9.0	7.9	-2.9
Nelson Median Price	334,500	378,250	405,000	410,000	415,000
% ch.	6.5	13.1	7.1	1.2	1.2

Sources: Statistics Canada, CMHC, Landcor, Central 1

Cariboo

Cariboo region is in the central interior, spanning Mackenzie from the north through south to Valemount and 100 Mile House. It is anchored by the Prince George Census Agglomeration, which comprises more than half of the region's estimated population of 156,00 persons, alongside urban areas such as Williams Lake and Quesnel. Roughly a third of the region's population resides in rural markets.

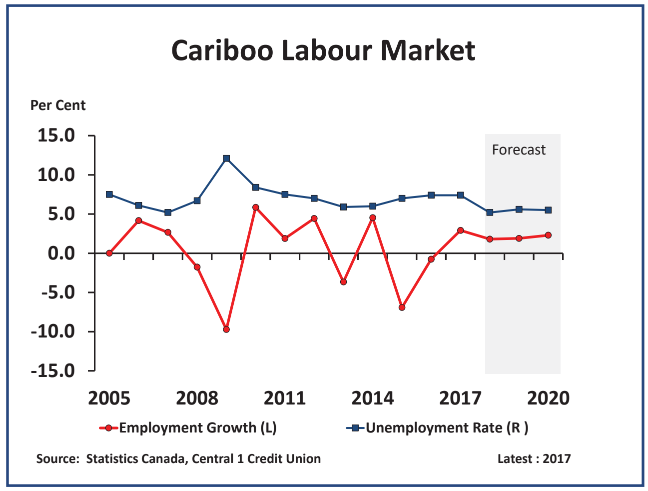
Cariboo's economic conditions ebb and flow with the broader commodity market conditions due its proximity to other northern markets and its involvement in forestry and mining. Resource extraction and manufacturing make up a large share of regional employment at seven and 11 per cent, which is significantly higher than the provincial level.

Employment fell sharply in 2015 as a direct effect of the downturn in the local economy. A second source of employment weakness was the effect on mining and energy sector in B.C. workers employed in other parts of the province or oil patch in Alberta. Average employment declined from a post-financial crisis peak of 85,300 persons in 2014 to a low of 78,800 in 2016 before increasing. While economic weakness was concentrated in the region's services-industries, it was also reflected in resource-industries. The regional unemployment rate has tracked above seven per cent over the past three years while the job vacancy rates are lower than all other regions in B.C., signaling a slack labour market.

Population trends have been subdued with net outflows to other regions of B.C. The trends align with mixed economic activity, with levels generally contracting despite recent stability. Relative affordability and investments in the colleges and vocational programs have partially offset outflows. Prince George benefits as the main regional hub for jobs that contribute to the economy. A mild improvement is forecast with growth of about half a per cent in 2019 and 2020.

Nonetheless, growth has returned a strong employment rebound through the first half of 2018 before some give back in the third quarter. Recent employment gains are owed to higher construction activity, while the manufacturing and export cycle also contributed after a slow start to the year. Construction employment gains reflect work on local housing and business investment, and other projects across the province.

Residential construction intentions are up sharply according B.C. Stats data, and expected to rise nearly



40 per cent in 2018. Growth was led by Prince George and Williams Lake, which aligns with higher housing starts. Year-to-date housing starts in Prince George is up more than ten per cent past mid-year, while Quesnel and Williams Lake were also up sharply. Starts are typically volatile in smaller markets and rebuilding efforts in areas affected by forest fires are a factor.

LNG Canada and the Coastal Gaslink Pipeline projects will lift consumer activity in the Prince George hub and fuel employment growth as construction attracts workers to other parts of the region. Average employment is forecast to rise 1.8 per cent this year, marking the highest level since 2014. The average unemployment rate declines to below six per cent from more than seven per cent in recent years.

The forestry sector has firmed after early year rail and transportation bottlenecks. Sawmills are running at capacity due to U.S. demand, despite softwood lumber tariffs, which are largely passed onto final consumers. Timber harvest in the Cariboo Natural Resource District rose 13 per cent year-to-date through July, after a sharp 2017 retrenchment. Activity will remain stable in the near-term, but medium-to-long term growth will be constrained as the impacts of the Mountain Pine Beetle limit timber supply. Central 1 forecasts that direct forestry output and related manufacturing will ease through the end of the decade due to supply constraints. Individuals working in the mining sector continue to experience a challenging backdrop, given low investment in exploration and mine construction.

Major projects under construction include the $19 million College of New Caledonia Heavy Mechanical Trade Centre expected to complete late this year, as well as various civil works infrastructure projects.

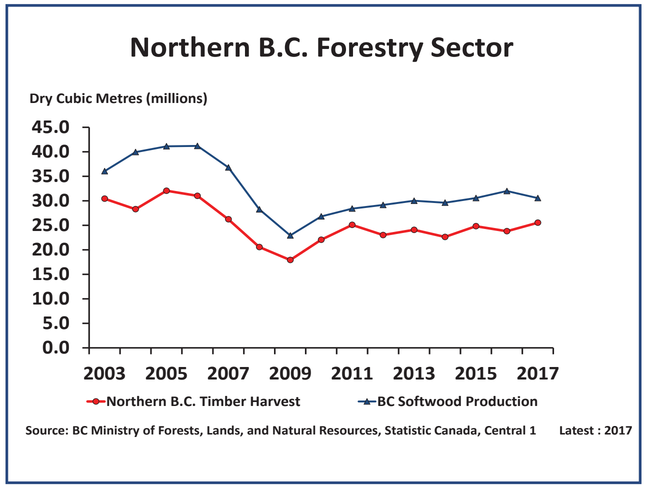
Work on BC Hydro's Site C dam will continue to employ workers in the Cariboo. While the dam is in B.C.'s Peace River district, roughly 65 per cent of the

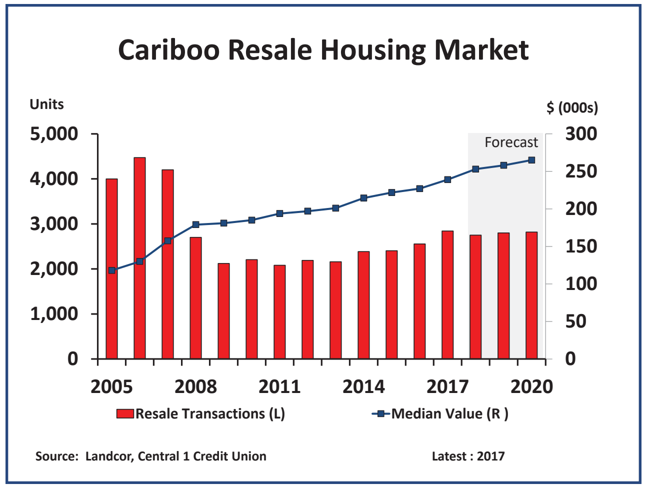
2,050 B.C. resident workers in construction and non-construction contractors, were from outside the direct local region. It is likely that a significant portion of workers are from the Cariboo area. Site C will continue to provide work for residents across B.C., although growth will ease as the project reaches its peak.

Considerable uncertainty persists about the future of the Kinder Morgan TransMountain pipeline expansion. The massive $40 billion Shell-led LNG Canada project will trigger investments across the northern interior. This includes the construction of the plant in Kitimat, Coastal Gaslink pipeline linking northeast gas to the facility and increased well drills in the northeast. Labour force participation in the area will be boosted as residents find work on the projects across the province.

Employment growth is forecast to average two per cent for 2019 and 2020, lifting employment back to 2014 levels.

Housing markets conditions have firmed since 2015, lifted by low interest rates and improved local economic drivers. Although sales remain a far cry from mid-2000 peaks. A re-balancing of market conditions and low interest rates have contributed to rising median home values across Cariboo. Detached home values have risen at more than four per cent pace over the past two years and accelerated in 2018. While the federal mortgage 'stress test' has curtailed demand, strengthening economic conditions will maintain upward sales momentum and rising sale prices. The median value for resale properties is forecast to rise nearly six per cent this year, two per cent in 2019, and three per cent in 2020 to $260,000.





Cariboo	2016	2017	2018	2019	2020
Labour Force (000s)	85.1	87.5	87.0	89.1	91.0
% ch.	-0.5	2.9	-0.5	2.4	2.1
Total Employment (000s)	78.8	81.1	82.5	84.1	86.0
% ch.	-0.8	2.9	1.8	1.9	2.3
Unemployment Rate	7.3	7.4	5.2	5.6	5.5
Residential Transactions	2,554	2,845	2,750	2,800	2,820
% ch.	6.2	11.4	-3.3	1.8	0.7
Median Price	227,000	239,000	253,000	258,000	265,000
% ch.	2.5	5.3	5.9	2.0	2.7
Residential Permits ($ millions)	135.7	134.1	200.0	180.0	175.0
% ch.	29.1	-1.2	49.2	-10.0	-2.8
Non-Residential Permits ($ millions.)	94.7	73.8	102.0	100.0	105.0
% ch.	63.9	-22.1	38.2	-2.0	5.0
Private Non-Res Building Permits ($millions)	88.0	53.1	65.0	70.0	80.0
% ch.	61.9	-39.7	22.4	7.7	14.3
Public Non-Res Building Permits ($millions)	6.7	20.7	37.0	30.0	25.0
% ch.	96.7	208.2	78.5	-18.9	-16.7
Population (000s)	157.2	156.4	156.6	157.2	158.0
% ch.	0.5	-0.5	0.1	0.4	0.5
Select Resale Housing Markets	**2016**	**2017**	**2018**	**2019**	**2020**
Prince George Residential Transactions	1,472	1,657	1,600	1,620	1,630
% ch.	0.5	12.6	-3.4	1.2	0.6
Prince George Median Price	253,600	265,000	287,000	290,000	299,000
% ch.	4.8	4.5	8.3	1.0	3.1
Williams Lake Residential Transactions	592	646	640	650	620
% ch.	21.3	9.1	-0.9	1.6	-4.6
Williams Lake Median Price	210,000	220,000	233,000	238,000	240,000
% ch.	7.7	4.8	5.9	2.1	0.8

Sources: Statistics Canada, CMHC, Landcor, Central 1

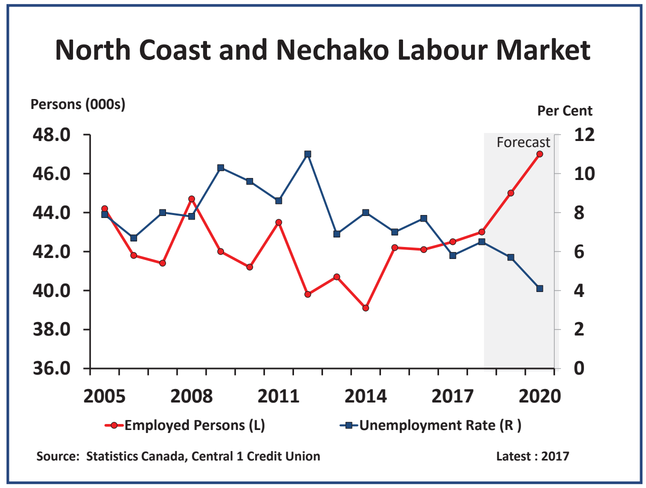
North Coast and Nechako

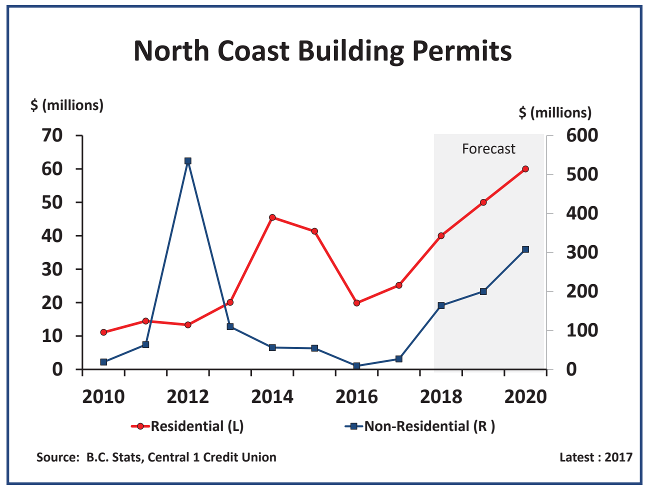
The North Coast and Nechako (NCNE) regions make up B.C.'s northwest quadrant, which is home to a combined 100,000 persons. The North Coast is anchored by Prince Rupert and Terrace with populations of more than 10,000 persons, and Kitimat of near 7,500 persons. The largest population centres in the Nechako area include Smithers with about 5,430 persons, Vanderhoof and Houston.

The region is geographically large and economically diverse, albeit with industries concentrated in local areas. Forestry, mining, primary metal manufacturing, tourism, transportation and warehousing via the Port of Prince Rupert contribute to the regional economy to varying degrees. Prospects of major liquefied natural gas (LNG) projects have been present over the past half-decade. Early-stage pre-construction work and changing expectations have impacted buyer confidence and housing market performance—though these hopes are finally being realized. LNG Canada has given the green light to its massive LNG project in Kitimat, which will buoy the immediate region and other areas in the north.

Economic activity in the region has fluctuated in recent years. Average employment in the North Coast and Nechako area fell sharply from 43,500 persons in 2011 to 39,100 persons in 2014 before rebounding in recent years. Fluctuations in labour market activity captured in Statistic Canada's Labour Force Survey need to be taken with some caution, given the small sample size used to calculate the region's estimates can lead to some error bias. Even with this considered, the survey results point to weaker employment during the period. Broadly, this aligns with key economic events including the closure and reconstruction of the Alcan plant in Kitimat, as well as fluctuations in the housing market cycle, which is often a coincident indicator for economic activity.

At the industry level, the region has recently observed a modest rebound in resource extraction employment, growing manufacturing employment and increased construction activity. Services-producing sector employment has been steady with growth in areas such as trade and transportation and warehousing. Industry employment trends are consistent with the completion and re-start of the Rio Tinto Alcan smelter rebuild, pre-construction work related to potential liquefied natural gas projects, growth and expansion of the Port of Prince Rupert and steadying of the commodity sector. Regional employment may have fluctuated with construction work in other parts of B.C. as residents find work outside the area. That said, Census 2016 data suggests that the share of workers in the NCNE commuting to other regions is minimal.





The housing market provides another avenue to gauge economic activity and consumer confidence. Like the employment cycle, activity has been mixed. Sales on the North Coast have retreated since 2014, as dashed LNG hopes and weaker commodity prices reduced demand. The trend picked up steam this year as signs emerged that an LNG project would go ahead. Nechako area sales have increased at a modest pace.

Housing prices have reflected sales patterns.. Detached home values flattened in the North Coast in recent years near $275,000, following a 50 per cent increase during the 2011-2014 boom. Nechako prices continue a steady rise to $236,000.

Population growth has been lifeless, with the region seeing outflows to other parts of the province due to stronger job prospects. A strong lift of 11 per cent in the Smithers anchored Nechako region is likely an estimation error that will reverse in 2018. Residential permit data, a prelude to new home construction, remained moderate in the North Coast at $25 million but rebounded in the Nechako.

The tide has turned for the area's economic future. Demand for wood products is firm, the Prince Rupert port is expanding and weakness in the mining sector has bottomed. Most importantly, the construction of the Shell-led LNG Canada project plant in Kitimat is set to positively transform the regional economy for years to come.

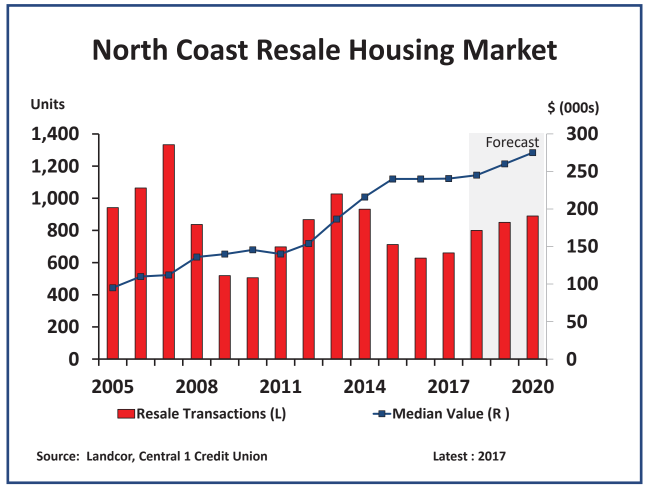
The project includes an export terminal in Kitimat valued at up to $40 billion and a 700 km Transcanada Coastal Gas Link from Dawson Creek. The project will boost construction and investment through a three-year period across the north, generating jobs and increasing regional spending. Kitimat and Terrace have already benefitted from early stage investments and expectations of future activity.

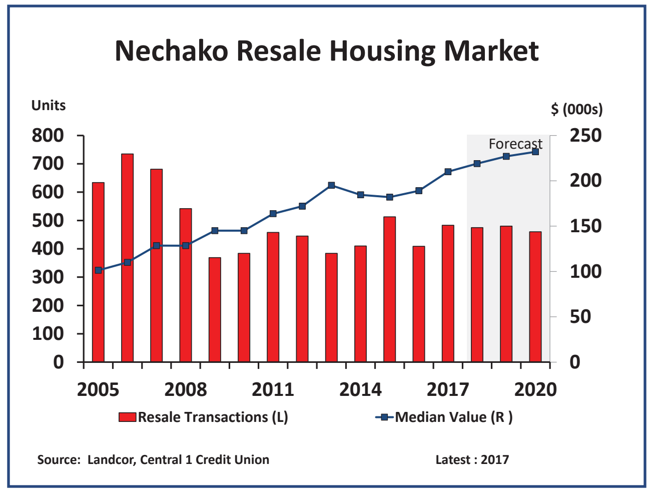
Forestry activity has remained stable amid solid demand from the U.S. and high lumber prices. 2017 timber harvest levels in the Skeena natural resource region were the highest since 2011 and have broadly trended higher since 2014. Levels declined in the first half of 2018 by eight per cent, which may reflect rail bottlenecks that hampered exports and impacts of wildfires in the region. Forestry product demand is expected to endure but the region will continue to be hampered by the ongoing impacts of the mountain pine beetle epidemic, specifically in the Lakes timber supply area.

Port activity in Prince Rupert is on the rise reflecting its expansion as an international shipping hub to the Asia-Pacific region. Total cargo through the port rebounded by 30 per cent in 2017 to 24.3 million tonnes, marking a record high. The record was driven by output from restarts of northeast coal mines. Fairview Terminal Phase 2 was completed in the second half of 2017 and increased cargo capacity of the intermodal terminal to 1.35 million twenty-foot equivalents (TEUs), from less than 800,000. AltaGas' $450 million Ridley Island Propane Export Terminal is currently under construction and is expected to be completed in 2019. This terminal will ship B.C. and Alberta propane exports. Project estimates included 200 to 250 workers for its construction, and 40-50 permanent jobs upon completion.

Mining remains a weaker link for the regional economy with capital and mineral exploration posting sluggish growth since 2014. Copper Fox Metal's proposed Schaft Creek project has been withdrawn from the environmental assessment process.

Mixed employment trends have aligned with business formation and investment trends. North Coast business incorporations rebounded in 2017 led by a bump in Terrace, following three years of deceleration. The





flow remained near long-term highs in Smithers. Non-residential building permits have fluctuated with major project construction.

Construction of LNG Canada's Kitimat plant will be a huge boon to the region. Estimated peak employment during construction phase is 4,500 to 7,500 persons, while the plant will employ up to 450 persons permanently. The NCNE will get the first shot at employment, though not all the required labour and skills will be available from the local area. Employment growth in the North Coast and Nechako is forecast to rise 1.2 per cent this year before accelerating in 2019 and 2020 by more than four per cent. The employment growth will absorb some unemployed workers and draw new workers into the labour pool. LNG project drives this growth, but most workers will likely be drawn from outside the region and other parts of B.C. and Canada due to an insufficient labour pool. Population growth is forecast to track a trend of 0.5 per cent.

The business investment cycle is forecast to lift non-residential building permits to more than $300 million on the North Coast by 2020 where permit values were just $27 million in 2017. Nechako area permits remain flat in the $10 - $15 million range.

Housing market activity will firm as the project progresses with strength concentrated in the North Coast. Housing needs should be largely met by work camps constructed for the project. Nevertheless, increased economic activity, rental demand, and speculative interest is forecast to send sales and prices significantly higher. Resale transactions in the North Coast will climb 21 per cent this year and will continue to climb an average of five per cent the following two years to reach nearly 900 sales. Nechako area sales trend at a range-bound pace.

Median resale home values in the North Coast are forecast to climb nearly six per cent in 2019 and 2020 to reach $275,000, with growth concentrated near Kitimat and Terrace. Nechako area price gains are forecast to rise four per cent in 2019 and two per cent in 2020, as Kitimat area growth reverberates to neighbouring regions. Residential building permits in the North Coast are forecast to rise at a 20 per cent pace to reach $30 million by 2020, lifted by stronger economic activity and demand for housing. Levels in the Nechako are generally range-bound near $20 million.

North Coast & Nechako	2016	2017	2018	2019	2020
Labour Force (000s)	45.5	45.1	46.0	47.7	49.0
% ch.	0.3	-1.0	2.1	3.7	2.7
Total Employment (000s)	42.1	42.5	43.0	45.0	47.0
% ch.	-0.2	0.9	1.2	4.7	4.4
Unemployment Rate	7.6	5.8	6.5	5.7	4.1
North Coast					
Residential Transactions	627	659	800	850	890
% ch.	-11.9	5.1	21.4	6.3	4.7
Median Price	240,000	240,000	245,000	260,000	275,000
% ch.	0.0	0.4	2.1	6.1	5.8
Residential Permits ($ millions)	19.9	25.2	40.0	50.0	60.0
% ch.	-51.9	26.7	58.9	25.0	20.0
Non-Residential Permits ($ millions.)	9.1	26.8	164.0	208.0	308.0
% ch.	-83.3	195.5	512.1	26.8	48.1
Private Non-Res Building Permits ($millions)	8.5	19.7	160.0	200.0	300.0
% ch.	-83.6	133.1	712.2	25.0	50.0
Public Non-Res Building Permits ($millions)	0.6	7.1	4.0	8.0	8.0
% ch.	-78.4	1055.0	-43.6	100.0	0.0
Population (000s)	57.3	56.2	56.5	56.8	57.1
% ch.	-0.0	-1.9	0.5	0.6	0.5
Nechako					
Residential Transactions	409	483	475	480	460
% ch.	-20.3	18.1	-1.7	1.1	-4.2
Median Price	189,000	210,000	219,000	227,000	232,000
% ch.	3.8	11.1	4.3	3.7	2.2
Residential Permits ($ millions)	17.3	26.5	20.0	19.0	22.0
% ch.	36.3	52.9	-24.6	-5.0	15.8
Non-Residential Permits ($ millions.)	10.6	45.0	15.1	11.0	18.0
% ch.	-27.2	324.2	-66.5	-27.2	63.6
Private Non-Res Building Permits ($millions)	9.6	43.7	10.0	8.0	15.0
% ch.	-21.5	356.1	-77.1	-20.0	87.5
Public Non-Res Building Permits ($millions)	1.0	1.4	5.1	3.0	3.0
% ch.	-56.1	31.8	270.4	-41.2	0.0
Population (000s)	39.7	44.2	42.0	42.1	42.1
% ch.	-0.0	11.5	-5.0	0.1	0.1
Select Resale Housing Markets	**2016**	**2017**	**2018**	**2019**	**2020**
Prince Rupert Residential Transactions	201	223	195	200	220
% ch.	-3.8	10.9	-12.6	2.6	10.0
Prince Rupert Median Price	258,500	257,000	295,000	305,000	315,000
% ch.	7.3	-0.6	14.8	3.4	3.3
Terrace Residential Transactions	159	183	270	290	275
% ch.	-21.7	15.1	47.5	7.4	-5.2
Terrace Median Price	272,000	285,000	300,000	315,000	324,000
% ch.	0.7	4.8	5.3	5.0	2.9

Sources: Statistics Canada, CMHC, Landcor, Central 1

Northeast

B.C.'s Northeast economic development region spans the Peace River area and is anchored by the cities of Fort St. John and Dawson Creek, which comprise about 30 and 10 per cent share of the region's population. Smaller municipalities include Tumbler Ridge, Chetwynd, Taylor and Pouce Coupe, among others. Key economic sectors include metallurgical coal mining, forestry, agriculture and energy, specifically natural gas.

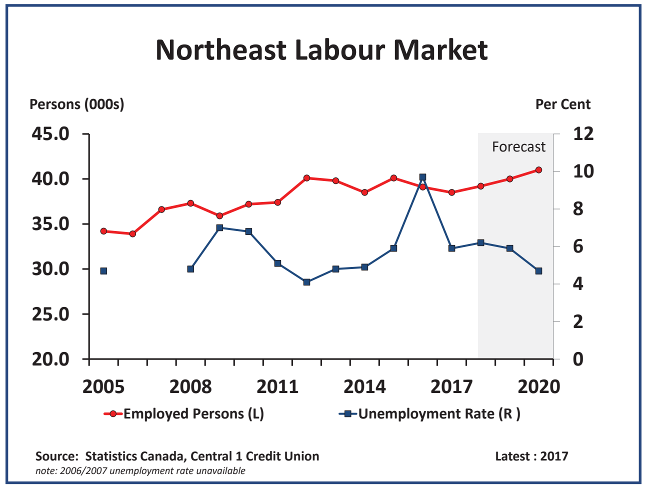
The region has experienced mixed but modest economic conditions in recent years. Weak energy and other commodity prices have contributed to a severe investment slump that triggered mine closures. The closures lead to lower employment growth and ensuing population outflow.

Annual employment fell for the second consecutive year and the fourth time in five years in 2017 to 38,500 persons. This was down 1.5 per cent from 2016 and compared to a peak of 40,100 persons in 2012 and 2015. Employment in 2018 has held range-bound, with levels broadly unchanged from the same period last year. Weaker trends have been more pronounced in the goods-producing sector, with resource extraction retrenching sharply in 2017 triggering weakness in supporting services sectors. The average unemployment rate surged from 5.9 per cent in 2015 to nearly 10 per cent in 2016, before dropping back to normal levels last year.

A subdued population trend has aligned with labour market performance. Fewer jobs and a bleak outlook in recent years contributed to a mild population contraction. Residents that could relocate searched for employment opportunities in northeast areas such as the south coast or Thompson-Okanagan. The outflow was particularly evident in areas like Tumbler Ridge, which was hard hit by the commodity downturn.

Nonetheless, the worst of the downturn has passed with signs of a modest improvement in economic trends in 2017. The employment growth trend has surged and is tracking close to two per cent. Stable commodity prices contributed to increased drilling and land rights investment, and the restart of several coal mines that shuttered during the commodity price meltdown in Tumbler Ridge. Ongoing construction of BC Hydro's Site C dam has also supported regional economic activity.

The energy sector continues to expand. Increased capacity at new gas plants and strong demand for natural gas liquids (NGLs) has lifted production. Natu-



ral gas production increased by nearly 14 per cent this year, with strong gains in NGLs reflected in the firming of investment in plants. Total wells drilled in northeast B.C. rebounded to a three year high of 621 in 2017. This was up from 356 in 2016 and the highest since 703 wells were drilled in 2014. Land rights bids jumped to $173.2 million in 2017 from $15.2 million in 2016 but remained a far cry from the average $1.1 billion during the 2005-10 period.

Central 1 forecasts an oil and gas output growth of three per cent per annum through 2020. Acceleration is forecast thereafter, reflecting increased drilling and production in advance of liquefied natural gas demand. In addition to impacts in the gas patch, LNG will also benefit northeast B.C. through higher incomes. Workers will find construction opportunities on the terminal and associated pipelines as the project gears up its supply for LNG exports.

In the coal sector, Conuma's purchase of Walter Energy's bankrupt operations and the subsequent re-opening of three of four mines, continues to support the Tumbler Ridge area. Moderately high coal prices should sustain operations, but slowdown in Chinese growth and global growth risks are expected to keep the fourth mine shuttered. No new coal mines are expected to start over the forecast period and exploration investment is expected to remain low.

Construction of BC Hydro's Site C dam is contributing to regional economic activity. Economic activity is understated and may not be captured in local employment statistics as the drilling and investment cycle attracts a mobile workforce. This is evidenced as two-thirds of more than 3,000 project workers, reside elsewhere in the province or Canada due to Peace's small population base and labour skills mismatch.

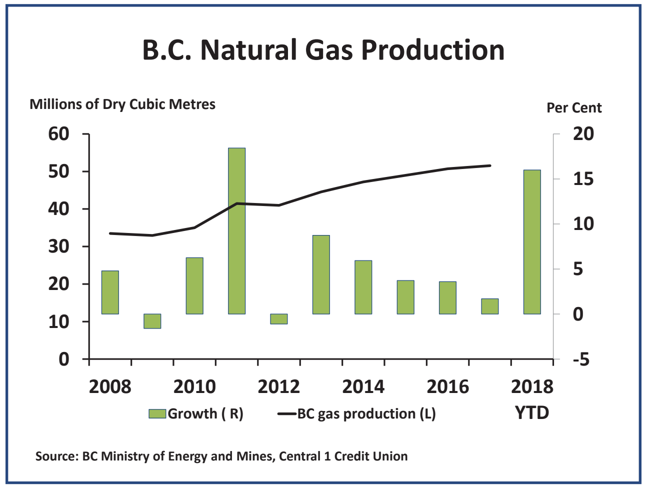
The northeast economy has underperformed with the housing market providing the signal. Recent housing sales have picked up traction but remain lackluster. Resale transactions are forecast to climb 18 per cent this year following a 30 per cent increase in 2017. Fort St. John provides the bulk of the lift at 790 unit sales though they are weak at 20 per cent below pre-2014 downturn levels. Residential permits have trended one third of the levels observed from 2012-15 over the past two years, reflecting low demand and high existing supply of inventory.

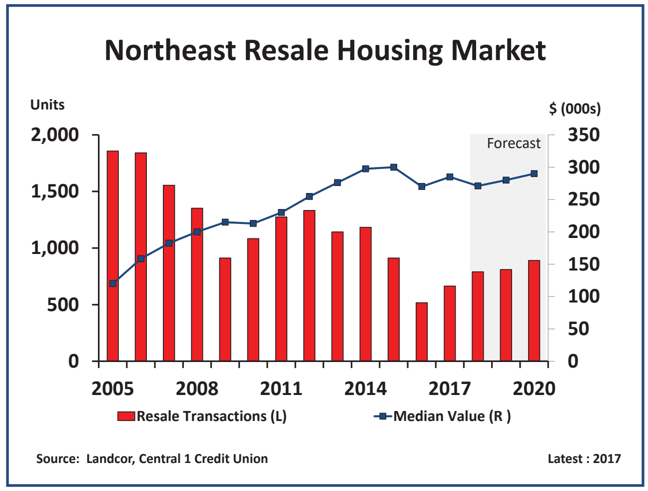
Median resale home values have fluctuated with demand patterns across the region. The median price peaked in 2015 near $330,000, declined midway in 2016 to $250,000, before rebounding mid-2017. Volatility has continued as prices experienced another downturn in early 2018 before trending higher near mid-year. Product and geographic sales composition factor into this drop, but subdued market conditions have weighed on prices.

Regional employment is forecast to trend higher over the forecast period following recent weakness. Employment growth will increase 1.7 per cent this year and average more than two per cent in 2019 and 2020. A mild upturn in population levels and a rebound in labour force participation rates will lift labour supply. The unemployment rate will ease to about six per cent in 2019 and 2020. Major project construction and an increased drilling cycle later in the decade, lifts employment. Non-residential building permits will rise 15 per cent in 2019 and 50 per cent in 2020 to $124 million.

Home sales and prices move gradually higher over the forecast period, with stronger gains expected after 2020 as LNG activity triggers economic activity. Sufficient resale inventory, weak demand and population declines are holding back resale construction. Dollar-volume residential permits were flat at $48.9 million last year as new housing requirements remain low and existing households abstain from renovating. Upward momentum is forecast with permit volume predicted to rise to about $65 million, albeit only half of 2015 levels.

Bryan Yu
Deputy Chief Economist, Central 1 Credit Union
byu@central1.com
www.central1.com
604.742.5346





Northeast	2016	2017	2018	2019	2020
Labour Force (000s)	43.3	41.0	41.8	42.5	43.0
% ch.	1.6	-5.3	2.0	1.7	1.2
Total Employment (000s)	39.1	38.6	39.2	40.0	41.0
% ch.	-2.6	-1.3	1.7	2.0	2.5
Unemployment Rate	9.7	5.9	6.2	5.9	4.7
Residential Transactions	516	672	790	810	890
% ch.	-43.4	30.2	17.6	2.5	9.9
Median Price	271,500	280,000	271,000	280,000	290,000
% ch.	-9.5	3.1	-3.2	3.3	3.6
Residential Permits ($ millions)	46.4	48.9	40.0	55.0	65.0
% ch.	-69.2	5.4	-18.2	37.5	18.2
Non-Residential Permits ($ millions.)	124.9	70.4	71.0	82.0	124.0
% ch.	43.1	-43.6	0.8	15.5	51.2
Private Non-Res Building Permits ($millions)	78.4	67.6	70.0	80.0	120.0
% ch.	-5.7	-13.8	3.5	14.3	50.0
Public Non-Res Building Permits ($millions)	46.5	2.8	1.0	2.0	4.0
% ch.	1034.1	-93.9	-64.8	100.0	100.0
Population (000s)	69.3	69.5	69.3	69.5	69.7
% ch.	-0.8	0.2	-0.2	0.2	0.4
Select Resale Housing Markets	**2016**	**2017**	**2018**	**2019**	**2020**
Dawson Creek Residential Transactions	148	220	240	270	300
% ch.	-42.0	48.6	9.1	12.5	11.1
Dawson Creek Median Price	250,000	251,750	267,000	275,000	285,000
% ch.	0.4	0.7	6.1	3.0	3.6
Fort St. John Residential Transactions	255	304	375	390	430
% ch.	-49.1	19.2	23.4	4.0	10.3
Fort St. John Median Price	335,000	339,000	325,000	335,000	350,000
% ch.	-4.8	1.2	-4.1	3.1	4.5

Sources: Statistics Canada, CMHC, Landcor, Central 1

Appendix Tables - Regional Summary

Terms

Economic Analysis of British Columbia (the “Analysis”) may have forward-looking statements about the future economic growth of the Province of Ontario and its regions. These statements are subject to risk and uncertainty. Actual results may differ due to a variety of factors, including regulatory or legislative developments, competition, technological change, global capital market activity and general economic conditions in Canada, North America or internationally. This list is not exhaustive of the factors that may affect any of the Analysis’ forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on the Analysis’ forward-looking statements.

The Analysis and Central 1 Credit Union disclaims any and all warranties, whether express or implied, including (without limitation) any implied warranties of merchantability or fitness for a particular purpose. The Analysis and Central 1 Credit Union will not accept any responsibility for the reader’s use of the data and/or opinions presented in the Analysis, or any loss arising therefrom.

Chief Economist: **Helmut Pastrick** Deputy Chief Economist: **Bryan Yu** Senior Financial Economist: **David Hobden** Regional Economist, Ontario: Edgard **Navarrete**
Production: **Judy Wozencroft**

Labour Force Survey Employment Growth (%)

	2016	2017	2018	2019	2020
Province	3.2	3.7	1.2	1.3	1.2
Vancouver Island/Coast	2.6	5.5	2.9	1.8	1.5
Lower Mainland-Southwest	4.7	3.2	1.4	1.3	1.0
Thompson Okanagan	-0.7	4.6	-2.2	0.5	0.7
Kootenay	-2.3	6.6	-0.9	0.6	1.2
Cariboo	-0.8	2.9	1.8	1.9	2.3
North Coast & Nechako	-0.2	0.9	1.2	4.7	4.4
Northeast	-2.6	-1.3	1.7	2.0	2.5

Source: Statistics Canada, Central 1 Credit Union

Labour Force Survey Labour Force Growth (%)

	2016	2017	2018	2019	2020
Province	3.0	2.7	0.8	1.4	1.2
Vancouver Island/Coast	2.0	4.6	2.7	1.7	1.4
Lower Mainland-Southwest	4.2	2.2	1.0	1.4	1.2
Thompson Okanagan	0.9	3.8	-2.8	0.7	0.5
Kootenay	-1.7	5.9	-2.1	0.7	1.3
Cariboo	-0.5	2.9	-0.5	2.4	2.1
North Coast & Nechako	0.3	-1.0	2.1	3.7	2.7
Northeast	1.6	-5.3	2.0	1.7	1.2

Source: Statistics Canada, Central 1 Credit Union

Unemployment Rate (%)

	2016	2017	2018	2019	2020
Province	6.0	5.1	4.8	4.9	4.8
Vancouver Island/Coast	5.8	5.0	4.8	4.7	4.6
Lower Mainland-Southwest	5.5	4.6	4.3	4.4	4.5
Thompson Okanagan	7.8	7.1	6.5	6.7	6.5
Kootenay	8.0	7.4	6.3	6.4	6.5
Cariboo	7.3	7.4	5.2	5.6	5.5
North Coast & Nechako	7.6	5.8	6.5	5.7	4.1
Northeast	9.7	5.9	6.2	5.9	4.7

Source: Statistics Canada, Central 1 Credit Union

Population Growth (%)					
	2016	2017	2018	2019	2020
Province	1.3	1.3	1.5	1.3	1.2
Vancouver Island/Coast	1.5	1.3	1.5	1.3	1.3
Lower Mainland-Southwest	1.4	1.2	1.5	1.5	1.4
Thompson Okanagan	1.6	2.2	1.2	1.0	1.0
Kootenay	0.5	-0.3	0.2	0.3	0.3
Cariboo	0.5	-0.5	0.1	0.4	0.5
North Coast	-0.0	-1.9	0.5	0.6	0.5
Nechako	-0.0	11.5	-5.0	0.1	0.1
Northeast	-0.8	0.2	-0.2	0.2	0.4

Source: Statistics Canada, Central 1 Credit Union

Residential Resale Transactions (units)

	2016	2017	2018	2019	2020
Province	105,954	98,840	82,165	83,240	85,810
Vancouver Island/Coast	19,290	18,107	15,500	16,000	16,700
Lower Mainland-Southwest	64,507	57,794	45,000	45,000	46,500
Thompson Okanagan	14,851	14,600	13,000	13,500	13,800
Kootenay	3,200	3,674	3,850	3,800	3,750
Cariboo	2,554	2,845	2,750	2,800	2,820
North Coast	627	659	800	850	890
Nechako	409	483	475	480	460
Northeast	516	672	790	810	890

Source: Landcor, Central 1 Credit Union

Residential Resale Transactions (% change)

	2016	2017	2018	2019	2020
Province	15.0	-6.7	-16.9	1.3	3.1
Vancouver Island/Coast	29.2	-6.1	-14.4	3.2	4.4
Lower Mainland-Southwest	11.5	-10.4	-22.1	0.0	3.3
Thompson Okanagan	23.1	-1.7	-11.0	3.8	2.2
Kootenay	18.7	14.8	4.8	-1.3	-1.3
Cariboo	6.2	11.4	-3.3	1.8	0.7
North Coast	-11.9	5.1	21.4	6.3	4.7
Nechako	-20.3	18.1	-1.7	1.1	-4.2
Northeast	-43.4	30.2	17.6	2.5	9.9

Source: Landcor, Central 1 Credit Union

Residential Resale Median Price ($)

	2016	2017	2018	2019	2020
Province	465,000	500,000	530,000	520,000	520,000
Vancouver Island/Coast	384,000	420,000	455,000	465,000	473,000
Lower Mainland-Southwest	600,000	641,000	675,000	653,000	652,000
Thompson Okanagan	355,000	380,000	401,000	400,000	408,000
Kootenay	244,000	258,000	269,000	279,000	283,000
Cariboo	227,000	239,000	253,000	258,000	265,000
North Coast	240,000	241,000	245,000	260,000	275,000
Nechako	189,000	210,000	219,000	227,000	232,000
Northeast	271,500	280,000	271,000	280,000	290,000

Source: Landcor, Central 1 Credit Union

Residential Resale Median Price (% change)

	2016	2017	2018	2019	2020
Province	8.6	7.5	6.0	-1.9	0.0
Vancouver Island/Coast	9.7	9.4	8.3	2.2	1.7
Lower Mainland-Southwest	11.1	6.8	5.3	-3.3	-0.2
Thompson Okanagan	6.3	7.0	5.5	-0.2	2.0
Kootenay	1.7	5.7	4.3	3.7	1.4
Cariboo	2.5	5.3	5.9	2.0	2.7
North Coast	0.0	0.4	1.7	6.1	5.8
Nechako	3.8	11.1	4.3	3.7	2.2
Northeast	-9.5	3.1	-3.2	3.3	3.6

Source: Landcor, Central 1 Credit Union

Residential Permits $(millions)

	2016	2017	2018	2019	2020
Province	9,863	11,498	13,140	11,504	10,821
Vancouver Island/Coast	1,398	1,721	2,100	1,950	1,800
Lower Mainland-Southwest	6,846	7,807	8,800	7,500	7,000
Thompson Okanagan	1,206	1,492	1,650	1,500	1,450
Kootenay	194	244	290	250	249
Cariboo	136	134	200	180	175
North Coast	20	25	40	50	60
Nechako	17	27	20	19	22
Northeast	46	49	40	55	65

Source: Statistics Canada, BC Stats, Central 1 Credit Union

Residential Permits $ (% change)

	2016	2017	2018	2019	2020
Province	4.4	16.6	14.3	-12.5	-5.9
Vancouver Island/Coast	29.3	23.1	22.0	-7.1	-7.7
Lower Mainland-Southwest	-2.8	14.0	12.7	-14.8	-6.7
Thompson Okanagan	45.4	23.7	10.6	-9.1	-3.3
Kootenay	6.5	25.7	18.9	-13.8	-0.4
Cariboo	29.1	-1.2	49.2	-10.0	-2.8
North Coast	-51.9	26.7	58.9	25.0	20.0
Nechako	36.3	52.9	-24.6	-5.0	15.8
Northeast	-69.2	5.4	-18.2	37.5	18.2

Source: Statistics Canada, BC Stats, Central 1 Credit Union

Non-Residential Permits $ (millions)

	2016	2017	2018	2019	2020
Province	3,392	4,212	4,795	4,535	4,860
Vancouver Island/Coast	443	533	462	447	450
Lower Mainland-Southwest	2,227	2,928	3,375	3,100	3,300
Thompson Okanagan	391	468	530	528	490
Kootenay	91	66	76	59	65
Cariboo	95	74	102	100	105
North Coast	9	27	164	208	308
Nechako	11	45	15	11	18
Northeast	125	70	71	82	124

Source: Statistics Canada, BC Stats, Central 1 Credit Union

Non-Residential Permits $ (% change)

	2016	2017	2018	2019	2,020
Province	-7.8	24.2	13.8	-5.4	7.2
Vancouver Island/Coast	18.3	20.3	-13.4	-3.2	0.7
Lower Mainland-Southwest	-13.6	31.5	15.2	-8.1	6.5
Thompson Okanagan	-9.5	19.7	13.1	-0.4	-7.2
Kootenay	9.7	-27.2	15.0	-22.4	10.2
Cariboo	63.9	-22.1	38.2	-2.0	5.0
North Coast	-83.3	195.5	512.1	26.8	48.1
Nechako	-27.2	324.2	-66.5	-27.2	63.6
Northeast	43.1	-43.6	0.8	15.5	51.2

Source: Statistics Canada, BC Stats, Central 1 Credit Union