B.C. Economic Briefing

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Highlights:

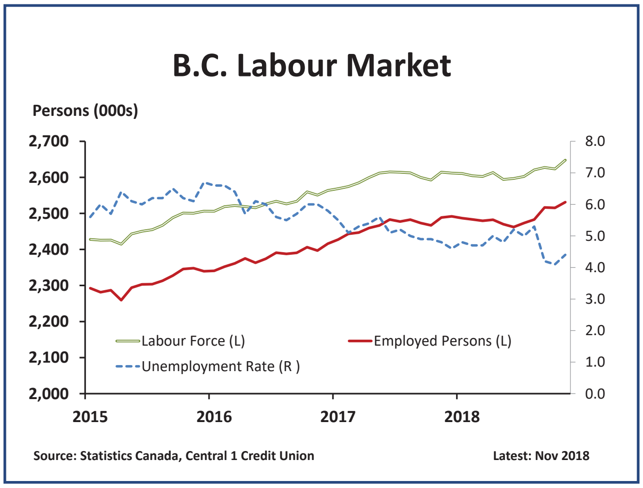
- Employment jumps by 15,900 persons in November
- Unemployment rates edges up to 4.4 per cent
- Goods exports soften in October
- Lower Mainland home prices decline

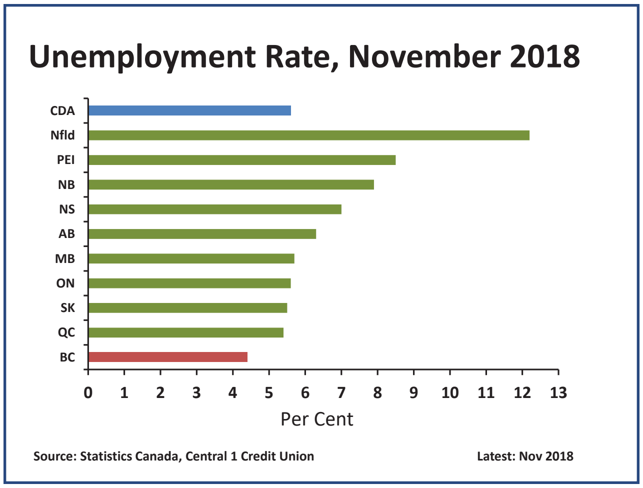
Positive hiring momentum continues through November

B.C.'s labour market remained on the upswing in November with employment up for the fourth time in five months. According to the latest Labour Force Survey (LFS) data, employment surged by 15,900 persons or 0.6 per cent from October to 2.53 million persons. This compared favourably to a 0.5 per cent increase for the country. However, the increase came from a surge in part-time employment which rose 33,500 persons offsetting a 17,500 persons dip in full-time tenure. Metro Vancouver accounted for the bulk of November's employment gains, with 21,200 more persons working, or a 1.5 per cent increase.

Among industries, November's employment growth was led by a 5,000 job increase (2.1 per cent) in construction, business/building support (up 7,200 persons or 7.3 per cent), and growth of 3,900 hires in the information and culture sector. On the downside, statistically significant losses were observed in education (down 3,800 persons or 2.2 per cent).

While LFS data can be volatile, November's employment gain added to the positive hiring trend observed since July following a dismal first half of 2018. Year-over-year employment growth reached 1.7 per cent in November. As we noted earlier this year, insufficient labour supply was a likely factor constraining hiring momentum in the LFS data—observed in high job vacancy rates and a low unemployment rate. Recent uplift in hiring is being facilitated by the expansion of the labour pool. Growth in the labour force outpaced employment with a 0.9 per cent gain from October. The upward trend in hiring since mid-year is due to the rising population and higher labour force participation rates. A tight labour market has encouraged unemployed individuals to look for jobs to take advantage of income opportunities.





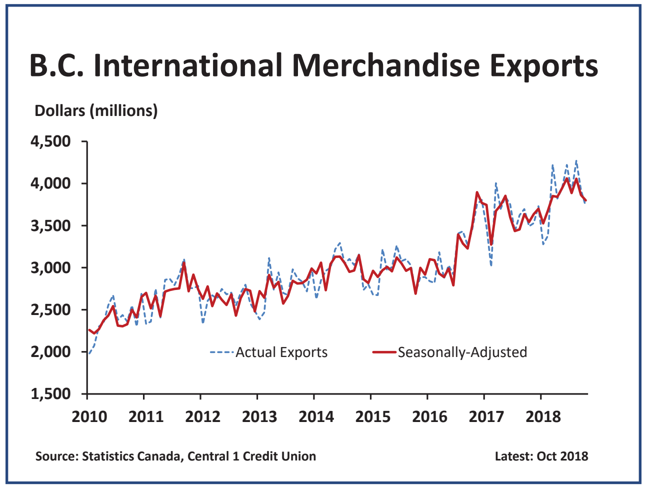
Nevertheless, the labour market remains tight. The unemployment rate reached 4.4 per cent, while up from 4.1 per cent in October. This remains near historical lows and is below all other provinces by more than a percentage point. Oddly enough, average wage growth has deteriorated in recent months despite tight conditions. Growth has rapidly deteriorated following a year-over-year pace of six per cent at mid-year. Levels are down one per cent in November and lagging the rest of the country. This may reflect shift in industry composition and job tenure.

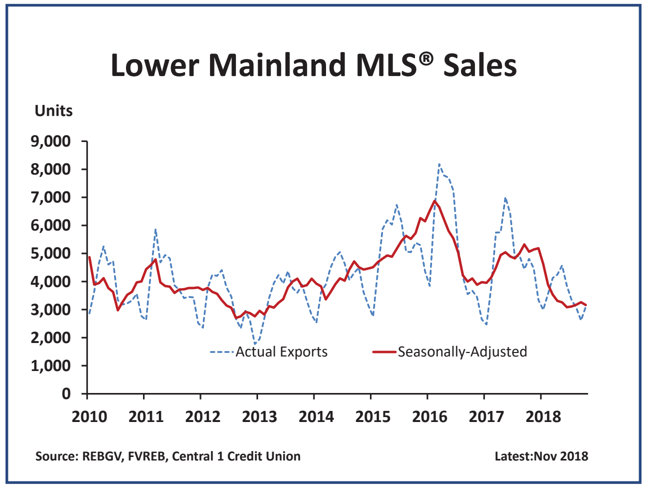
Annual employment growth is on track for a full-year gain of about one per cent, down from 3.7 per cent in 2017, with strength in full-time gains. However, this was largely driven by a sluggish first half and labour supply constraints. The unemployment rate averages 4.7 per cent. Employment growth is forecast to edge higher in 2019 despite a slowdown in housing-related activity and consumer spending. Investments in the liquified natural gas (LNG) project and other projects, plus, moderate growth in the economy will contribute to employment growth of 1.4 per cent—maintaining the jobless rate below five per cent and contributing to higher wage growth.

Soft export trend continues into October

B.C. international exports softened for a second straight month in October, weighed down by deteriorating sales in the forestry, aircraft and transport equipment, and lower energy sector sales. Total merchandise exports reached $3.729 billion in October. While sales were up 6.7 per cent year-over-year, recent monthly sales trend negative, following an August peak when sales were up 18 per cent year-over-year. Declining sales since the summer has reflected a combination of physical shipment and lower product prices.

A recent lowlight is the forestry sector, which has experienced a turn in fortunes since June with sales down 10 per cent (adjusted for seasonal factors) driving much of the downturn. The slump in prices is partly owing to softer demand in the U.S. The Random Lengths composite index for framing lumber has fallen 40 per cent since mid-year to $340/thousand board feet (USD). That said, a scan of sector trends pointed to more general softening in sales of metal and mineral products, energy products, and motor vehicle parts. Slower economic growth and trade uncertainty may be contributing to lower commodity prices and easing sales.





Export sales were up 7.4 per cent through the first ten months of 2018. Despite the recent downtrend, early year momentum has forestry product sales up 9.2 per cent, contributing to nearly half of the net gain. Raw metal and mineral and related product exports have climbed more than ten per cent. Energy sales were the main drag, and unchanged from 2017.

Among key trading partners, exports sales to the U.S. which make up about half of total sales, rose 3.4 per cent year-to-date. Exports to China were 8.8 per cent higher and Japan 12 per cent higher. These markets combined make up 75 per cent of international merchandise exports

Prices continue to erode in November on sluggish sales

Weak home sales continued through November, with MLS® sales in the combined Metro Vancouver and Abbotsford-Mission region down 41.6 per cent year-over-year, to 2,610 units. While the decline may be tear-inducing for the real estate industry—and even worse than October's 36 per cent drop—last year's sales were inflated by an increase in buyers looking to purchase prior to the implementation of the federal mortgage 'stress tests' on January 1, 2018.

Nevertheless, sales momentum continues to be muted as the combination of the 'stress tests', higher interest rates and provincial policies drag on activity. On a seasonally-adjusted basis, levels were range-bound with prior months, although our estimates suggest a slip in the sales flow of about four per cent from October. Seasonally-adjusted sales are down about 40 per cent compared to the end of 2017. Through the first 11 months of 2018, sales in the Lower Mainland were down 30 per cent. Annual sales are on track for about 41,000 units marking a near 30 per cent decline and the lowest level since 2012's 38,530 unit sales.

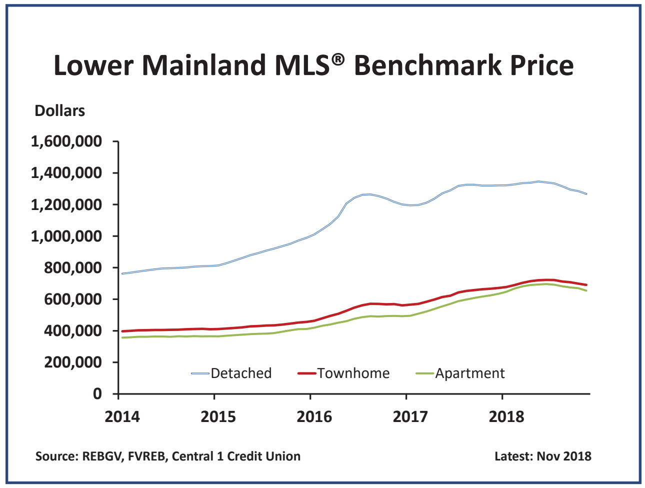
Market conditions continue to soften with lower sales. While the new listings flow is not particularly strong, inventory continues to rise as homes take longer to sell. Seasonally-adjusted active listings are the highest in more than three years, albeit moderate on a historical basis. Sales-to-active listings, which is a barometer of market strength, sits at 17 per cent. This level is typically associated with a balanced market, but momentum matters, and the level has dropped from a near 40 per cent reading at the beginning of this year.

Home prices are moderating. On an unadjusted basis, the average home value rose one per cent from October to $936,500 but is still down from an early year peak of about $970,000. That said, changes in average prices reflect a combination of sales composition and pure price declines.

A better measure is the MLS® benchmark housing price index, which adjusts for sales attributes. Values are in decline across product markets. Unadjusted, the benchmark value was up a scant 0.7 per cent from a year ago. Values dropped to near four per cent in the detached market, while apartments and townhome prices are up 4.9 per cent and 3.5 per cent, respectively.

Seasonally-adjusted values point to downward pressure in all markets. The overall benchmark was down 0.5 per cent from October and four per cent from the spring peak of $989,710. Detached home prices have stabilized following a year of declines, but apartments are shedding value. An increase in newly completed stock and supply, and concentrated impacts of lending restrictions on entry level buyers is pressuring the market. The benchmark price fell 1.3 per cent seasonally-adjusted from October and is down four per cent from its peak, with further declines to come.

The benchmark price for all units is forecast to ease by another three to five per cent before stabilizing.



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