B.C. Economic Briefing

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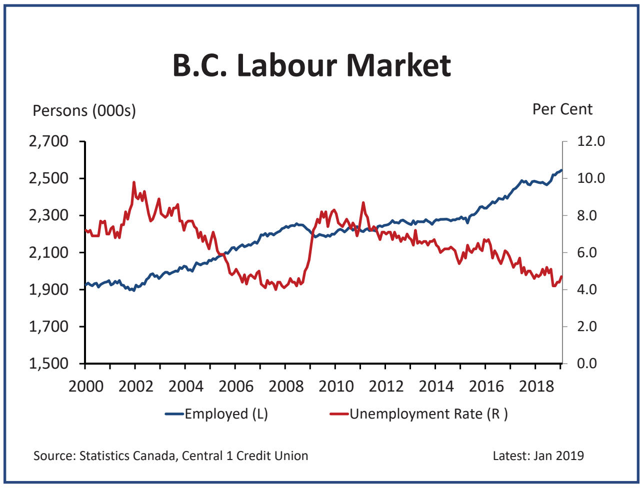
Highlights:

- Part-time hiring lifts B.C. employment in January
- Lower Mainland housing demand remains weak, prices retreat
- Housing starts firm to start 2019
- Record breaking building permits reached in December



Employment momentum positive in January but driven by part-time work

B.C. employment rose for the third straight month in January and the sixth time in seven months, pointing to an ongoing upward trend in hiring since mid-2018. Total employment rose to a seasonally-adjusted 2.544 million persons, up a modest 0.3 per cent or 8,700 persons from December. Year-over-year employment was up a solid 2.5 per cent or 61,900 persons. In comparison, national employment rose 0.4 per cent from December and 1.8 per cent year-over-year.

While January's headline numbers marked a solid start to the year and extended upward hiring momentum, details were on the soft side. Full-time employment fell 0.7 per cent (13,900 persons) from December and the third time in four months, with all gains owing to a 4.1 per cent rebound in part-time employment. On the bright side, the growth came from the private and public sectors as self-employment dipped. B.C.'s unemployment rate edged higher to 4.7 per cent from 4.4 per cent as labour force participation climbed. Nevertheless, B.C.'s jobless rate held steadfast as the lowest among provinces and evident of persistent labour shortages. Quebec's unemployment rate was second lowest at a distant 5.4 per cent, with the national rate at 5.8 per cent.

The Vancouver Census Metropolitan Area posted stronger employment growth than the rest of the province, with robust growth of 0.7 per cent from December. That said, the growth lagged on a year-over-year basis at 1.8 per cent. Vancouver's monthly gain will likely be lower in February's data given it equates to an annualized gain of 8.4 per cent and estimation error. The unemployment rate sits at 5.2 per owing to a lift from population growth and labour force participation.

Provincially, average hourly wage growth accelerated from a 1.7 per cent year-over-year pace in December to 2.3 per cent in January. This remains well below peak growth of about five per cent observed in the first half of 2018. Wage growth is somewhat disappointing given labour market tightness, but it could reflect job composition, increasing gig work and employers being unable to hike wages due to retail competition. Employers may also increase non-wage benefits or employer-paid social benefits to remain competitive. That said, competition for talent is expected to drive wage acceleration going forward.

Among industries, employment growth was mixed. On the downside, natural resources employment (down 18,000 persons or 9.3 per cent) and construction (down 11,200 persons or 4.5 per cent) were the main drags on employment. Given these are higher paying sectors, it also constrained upward pressure on wages. On the upside, services-producing sectors posted a strong gain of 26,700 persons or 1.3 per cent from December. There was broad strength in this sector, led by significant growth in transportation and warehousing (up 4.6 per cent or 6,400 persons), information and cultural industries (up 5,600 persons or 4.4 per cent) and accommodation and foodservices (up 4,500 persons or 2.9 per cent).

Average employment is forecast to rise 1.2 per cent in 2019 with the unemployment rate trending within a range of 4.5 to 5.0 per cent. Labour supply will remain a key constraint for employers.

Downtrend in Lower Mainland home sales continues as prices retreat

With slumping prices and weak sales, January's housing market conditions in the Lower Mainland largely rhymed with December. MLS® sales in the combined

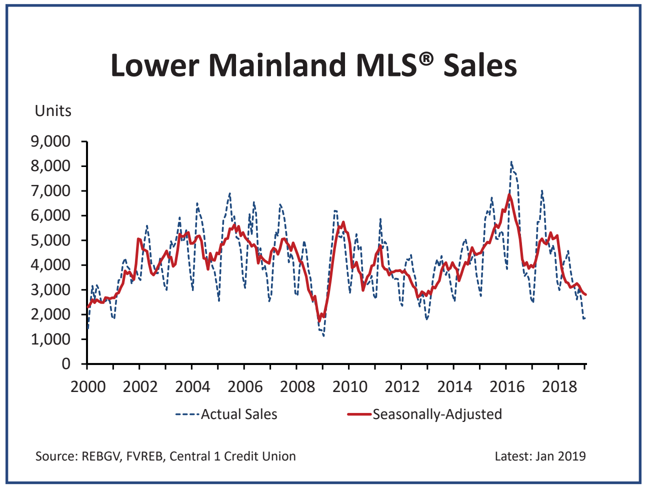
Metro Vancouver and Abbotsford-Mission region fell by 38 per cent year-over-year to 1,860 units, compared to a 45 per cent drop in December. This marks the fewest January sales since 2009 when a paltry 1,132 units sold.

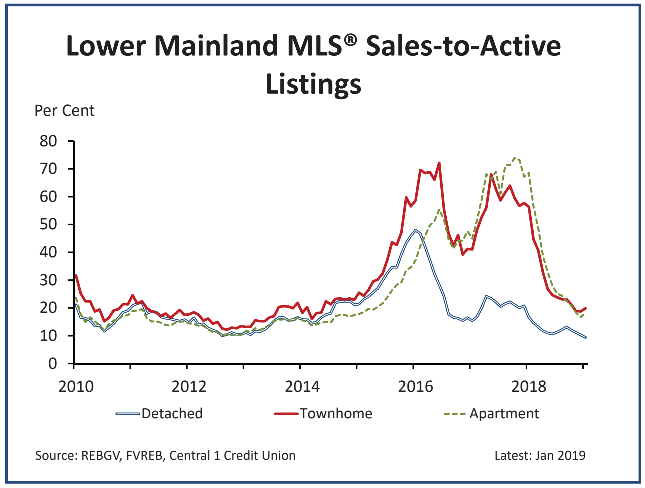
On a seasonally-adjusted basis, we estimate that sales fell from December by two per cent. The downswing in demand has lasted longer than we expected. After a brief respite in the fall months, sales fell again in late 2018. Federal B-20 mortgage stress tests, higher interest rates and provincial tax policies have undoubtedly curtailed demand over the past year. Some financial institutions have recently lowered offer rates in response to lower bond yields, but posted rates have not changed—keeping prospective buyers out of the market. While the economy and population growth remain firm, deteriorating confidence in the housing market has likely set in to further entrench the downturn. Eroding prices, broader economic—and in some cases—political uncertainty is likely keeping some buyers on the sidelines.

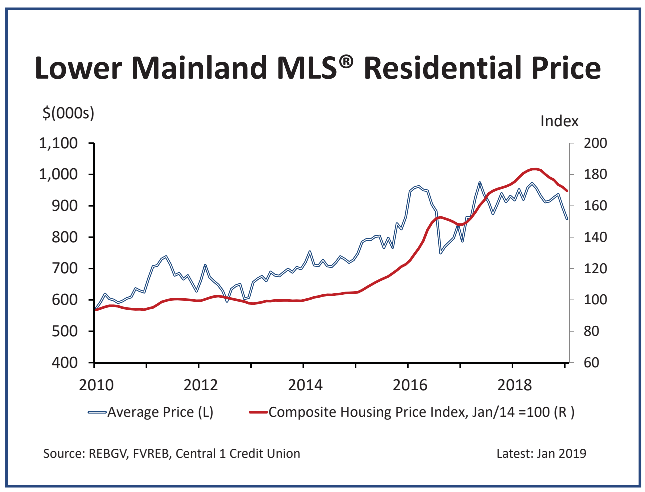
New listings jumped in January, about in trend with the long-term average. Nevertheless, sluggish demand has led to higher listing inventory. The current sales-to-active listings ratios are in the buyers' market territory, with the weakest conditions in the detached market with a sub-10 per cent ratio. While apartment and townhome ratios are at a level we would normally associate with a balanced market, the rapid downshift through 2018 aligns to a significant worsening in conditions.

Home values continue to melt with weak demand conditions. The average MLS® price fell four per cent from December to $858,122 and 6.5 per cent year-over-year. While sales composition is a factor with average values, the MLS® constant-quality housing price index (HPI) is declining. The composite HPI fell 1.4 per cent from December and was down about 7.5 per cent from the mid-2018 peak, although seasonal factors may be in play. Year-over-year the HPI fell 3.3 per cent. The sharpest deterioration remains in the detached home market, although declines in the apartment and townhome sectors are not far behind. This is good news for buyers able to qualify under more restrictive credit conditions. However, the low sales volume and normal new listings flow is consistent with many owners holding firm with price expectations.

Further price erosion is forecast as the market adjusts. A peak-to-trough decline in the composite HPI of 10 to 12 per cent is expected, which would bring values back to early 2017 levels. Demand would likely pick up as a result, given firm economic and labour market conditions and buyers looking for deals.



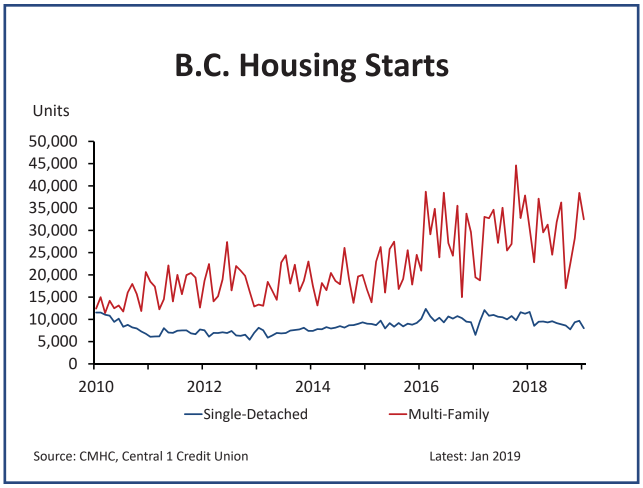


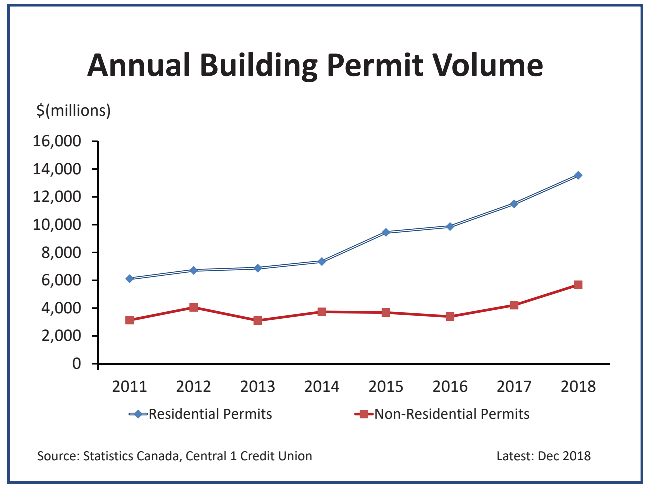


Housing starts post surprisingly strong to start 2019

Gearing off solid permit data, housing starts in B.C. remained elevated in January. Urban area starts reached 40,508 units (seasonally-adjusted annualized rate). While down from December's 48,170 unit pace, levels remain elevated—and frankly—stronger than anticipated given resale market sluggishness.

Starts in both the detached and multi-family market decreased in January. Detached starts fell 18 per





cent to an annualized pace of 8,017 units to extend a general downtrend since late-2017. Multi-family starts held range-bound at a high level of 32,491 annualized rate but fell from 38,450 in December. While demand has eased with tighter credit conditions and provincial policy, housing starts continue to be propelled by the high number of projects planned and presold in prior years.

Among B.C.'s metro markets, January's pullback was largely due to the unsurprising drop off in starts in Victoria and Abbotsford-Mission. This follows abnormal surges in December owing to volatility in multi-family starts. Vancouver metro starts were little changed at an annualized pace of 25,413 units while Kelowna starts picked up to 4,240 units from 3,358 units in December.

Despite the solid start to 2019, housing starts are forecast to pull back this year in light of a weaker demand environment. Including rural areas, starts are forecast to decline about 19 per cent from 2018 to 32,200 units.

Construction still has legs as permits surge in December

In a sign that the B.C. construction cycle still has legs despite the steep downturn in the resale housing market, building permit volumes surged in December. Strength in both the residential and non-residential markets contributed. Total monthly permits reached $2.1 billion in December, marking the first time on record that permits exceeded two billion dollars. Permits rose 22 per cent from November and 39.1 per cent, year-over-year. Non-residential permits led December's gains with a huge uplift of 35 per cent to $867.8 million, which is more than double the trend observed through most of the year. Permits rose across all segments, led by a 32 per cent gain in commercial construction and more than 50 per cent increase in public-sector activity. Residential permits rebounded 14.3 per cent following a November decline and held near the upper end of the range seen over the past year.

Regionally, the latest gain was driven by Metro Vancouver which posted a strong gain of 28 per cent in the residential space (which aligned with strong housing starts pick up in December) and 23 per cent in non-residential permits. The latter reflects work on commercial properties, such as the renovation of the Canada Post building and other new offices in the region. Abbotsford-Mission permits rose on a tripling of non-residential activity, while residential permits fell. Activity contracted in Kelowna and Victoria. Markets outside the four metro areas also contributed to higher permits.

Monthly volatility aside, building permits posted a phenomenal year underscoring strong real estate demand. The total value of permits reached $19.2 billion, which was up 22 per cent from 2017. Growth was shared across metro areas. Residential permit growth contributed to more than half the gain at 17.8 per cent, while non-residential permits rose nearly 35 per cent. The latter has reflected strong economic growth in recent years and business re-investment, relatively low office vacancy rates and major project construction. While a repeat performance is unlikely, strong permits bode well for construction activity this year. Residential permits will retrench this year as builders take a cue off weak resale market demand and the curtail in housing starts. The slower market will also dampen renovation spending.

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