Economy to benefit from ramp up in capital investment

B.C.’s economy is set for a flurry of investment spending as major projects in the province get underway and construction ramps up. The latest Capital and Repairs Expenditures Survey from Statistics Canada shows growth in capital spending intentions of 12.9 per cent this year to nearly $34 billion, marking a third straight year of significant growth. This was the strongest increase among provinces and compared to a national gain of 2.5 per cent. Quebec was second at 5.7 per cent, while intentions fell in five of the ten provinces.

Capital investment intention growth for 2019 is driven by an 18 per cent increase in construction intentions to $22.6 billion and a four per cent increase in machinery and equipment investment to $11.4 billion. While capital intentions are just that—intentions, that could be thrown off by changes in the economic landscape or other shocks—the latest figures point to strong investment plans in the province, which will boost economic growth and partly offset a downturn from the housing sector. There is also upside risk to intentions, particularly on government projects that may not have been announced prior to the end of 2018.

Intentions reflect a flurry of projects underway or announced in the province. Some of these includes investment towards LNG Canada’s liquefied natural gas plant and associated Coastal Gaslink Pipeline, the Site C Dam, Pattullo bridge replacement, St. Paul’s Hospital replacement and other investments. On an industry basis, growth is driven by utilities (up 21 per cent from actual 2018 levels to $4.8 billion), transportation and warehousing (up 35.6 per cent to $7.6 billion) and public administration (up 14 per cent to $4.2 billion). These industries accounted for about 86 per cent of the net gain. In the case of public investments, a strong gain in investment intentions aligns with provincial government plans to invest heavily in infrastructure, hospitals and schools.

Weekly earnings growth softens in December

The latest Survey of Employment, Payroll, and Hours (SEPH) results pointed to mild improvement in the labour market in December. According to the survey, which is based on administrative data sources, B.C. average weekly earnings edged up 0.1 per cent from November to $982.21, which was in line with the national performance. A significant drop in average hours worked for hourly employees from 29.3 hours in November to 28.4 hours in December, was a blight and likely reflected some weakness in holiday shopping season and labour availability. B.C. wage earnings growth exceeded most other regions with five provinces posting declines in wages over the period. Strong growth in Quebec, and Newfoundland and Labrador, propped up the national reading.
Still, year-over-year growth in B.C. was the fourth highest among provinces at a solid 2.6 per cent in December. Actual weekly earnings remained fifth highest due in large part to the structure of the economy and less exposure to resource and manufacturing jobs. Fixed-weighted hourly earnings rose 2.4 per cent year-over-year, suggesting that gains have largely reflected higher wages than shifts in the full-time/part-time split and changes in industry employment.

Weekly earnings growth in B.C. peaked in mid-2018 and the trend has slowed. Employers are still scrambling for workers given an unemployment rate below five per cent and high levels of job vacancies—wage hikes may have hit a temporary ceiling while employers offer more non-wage benefits.

Smoothing out some monthly volatility with Q4 2018 over Q4 2017 comparisons, sectors which have experienced the strongest growth in weekly earnings include: forestry, logging and support (up 18 per cent to $1,400); mining and energy extraction (up 10 per cent to $2,150); and retail trade (up 5.9 per cent to $644); and, construction (up 4.5 per cent to $1,220). On the flip-side, average weekly earnings were weaker in manufacturing (down 1.4 per cent to $1,095), while growth in sectors including education, arts and entertainment; and, information and culture services were +/-1.0 per cent. In sectors with more hourly paid workers, stronger wage growth has been offset by a slip in hours worked, potentially reflecting labour availability.

On the employment front, B.C. payroll counts rose slightly by 0.1 per cent from November but compared to a 0.1 per cent national decline. Year-over-year growth remained strong at 2.6 per cent and second strongest in the country alongside New Brunswick. For 2018, SEPH payroll counts rose 3.6 per cent, which was strongest in the country. This also far outpaced estimated employment growth of 1.1 per cent from the more often-watched Labour Force Survey, which likely reflects a combination of estimation error in the latter and the exclusion of farm workers and self-employed in the SEPH. Growth in goods-producing (up 4.3 per cent) and services-sectors (up 3.4 per cent) was strong in 2018, with utilities (up 18 per cent), arts and entertainment (up 9.3 per cent) and information and culture (up 11.6 per cent) as highlights.

Inflation pressure remains highest in Canada but decelerates from December

B.C. consumer price inflation remained firm and the highest in the country in January despite slipping from November. Year-over-year growth in the consumer price index (CPI) fell to 2.4 per cent in January from 3.0 per cent in December. This remained well above national headline inflation of 1.4 per cent. Relative to December, the actual CPI rose by a lower than normal 0.1 per cent.

A drop in gasoline prices, which fell four per cent from December and 4.4 per cent year-over-year, contributed to the drop but inflation generally decelerated. Excluding energy products, CPI inflation fell from 3.1 per cent in December to 2.6 per cent in January but remained firm.
Among products, households have experienced little growth in the price of goods, which was up 1.6 per cent year-over-year. Gas prices were a factor but semi-durable and non-durable goods inflation was less than headline at 1.2 and 1.4 per cent. Clothing prices are up only 1.1 per cent from a year ago, with furniture prices down and other household products generally flat. Retail competition among brick and mortar and online shopping has kept prices in check.

In contrast, services price inflation is strong at 2.8 per cent, despite slipping from 4.1 per cent in December. Shelter cost inflation firmed to 3.1 per cent from 2.7 per cent due to higher rent, rising property taxes and other factors. Communications price inflation was up 2.9 per cent after a one-off surge the prior month. Childcare service costs are also notable and were up 8.1 per cent. Public transit costs are up 3.4 per cent. In contrast, travel costs fell. The rise in services-related inflation likely reflects strength in the domestic economy, low unemployment and wage pass-through. Technology services, such as Netflix and other streaming platforms have gained pricing power, which is also factoring into higher price pressure and were up 10 per cent.

**Business confidence wanes in February**

The latest Canadian Federation of Independent Business’ (CFIB) monthly Business Barometer pointed to softer confidence in B.C. during February. At 55.4 points, the index fell 1.9 points from January marking a fourth straight decline. B.C. underperformed the Canadian reading, which rose 2.9 points to 59 points.

B.C.’s recent slide bears watching and a relatively low index reading likely aligns with slower economic growth this year. Slower consumer demand, businesses affected by less housing market demand, shortage of available labour and rising wages are weighing on confidence and growth prospects.

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