B.C. Economic Briefing

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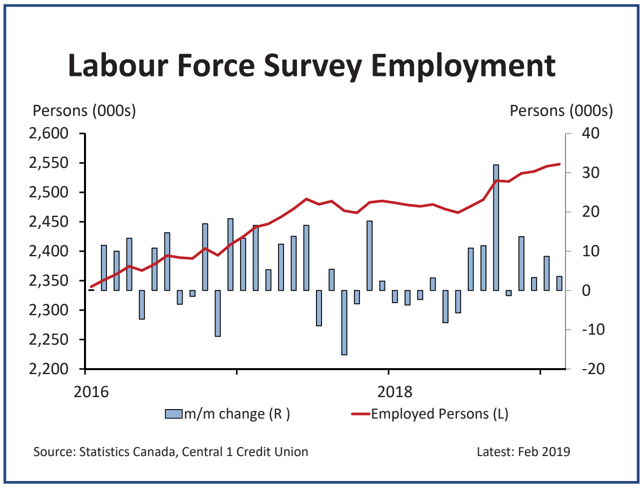
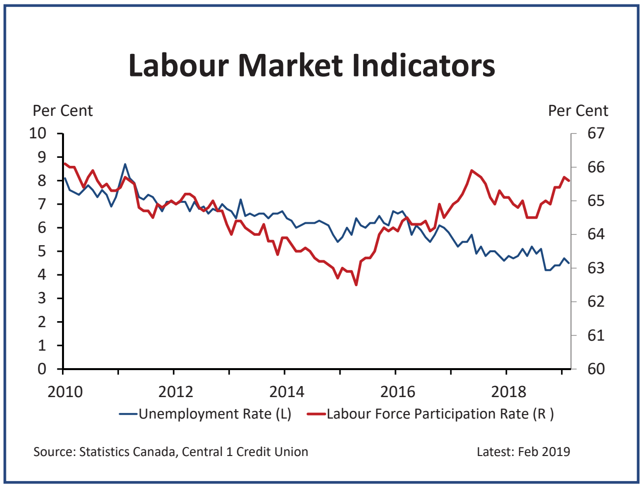
Highlights:

- Labour market remains firm in February
- Housing starts decline
- Lower Mainland home sales and price fall again in February
- International goods export rise 7.3 per cent in 2018
- Building permits retrench after December surge





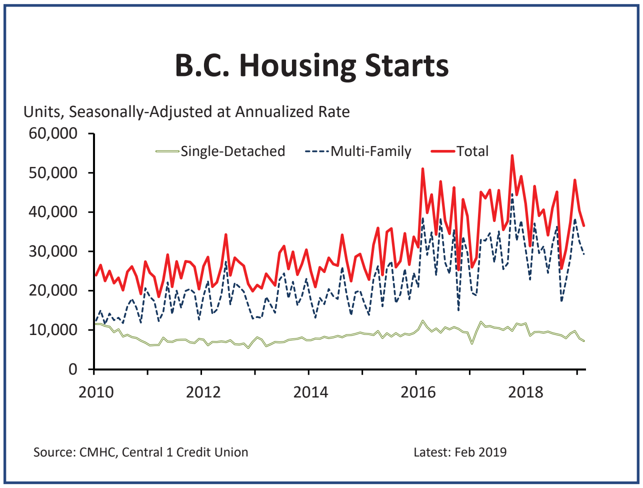
Little change in February employment, but trend is positive

Statistics Canada's February *Labour Force Survey* results pointed to a solid performance in B.C.'s labour market. On the employment front, total employment rose 0.1 per cent or 3,700 persons to 2.574 million persons, with gains in both full-time (up 2,300 persons) and part-time employment (up 1,400 persons). While gains were negligible, and statistically insignificant, hiring momentum has been positive. This was a fourth straight monthly increase and the seventh increase in eight months following a weak first half of 2018. Year-over-year, employment rose 2.8 per cent, which was the second strongest among provinces and exceeded the national gain of 2.0 per cent. The Vancouver CMA outperformed the rest of B.C. as employment rose 0.6 per cent from January and 3.1 per cent, year-over-year. Province-wide, total hours worked in the economy accelerated in February to 3.3 per cent from one per cent in January, reflecting solid full-time job growth.

Among sectors, there were few significant changes. On the downside, construction employment declined by 6,300 persons (2.7 per cent) and professional, scientific and technical services sector employment fell by 4,800 persons (2.2 per cent). Offsetting this were gains in health care and social assistance (up 5,100 persons or 1.6 per cent) and information, culture and recreation (up 4,100 persons or 3.1 per cent). On a 12-month basis, the service sectors have driven growth and have offset losses in the goods-producing sectors. Sectors related to technology and professional services, tourism and transportation and warehousing have been the key contributors.

Labour shortages remain pervasive. The unemployment rate fell to 4.5 per cent from 4.7 per cent. While this is above early-2018 lows, it is the lowest among provinces. B.C. employers are relying almost exclusively on population growth at this stage to meet hiring needs given elevated participation rates. Interestingly, wage inflation based on hourly wage rates has slowed. The latest reading was a disappointing 0.3 per cent year-over-year, compared to two per cent the prior two months and more than five per cent during the first half of 2018. This likely reflects a temporary pause while employers may be shifting to non-monetary forms of compensation.

In aggregate, the latest data points to a strong labour market in B.C. which will remain supportive of consumer demand. Employment growth is forecast to average 1.9 per cent this year, with the unemployment rate averaging 4.7 per cent.



Kelowna leads drop in provincial housing starts

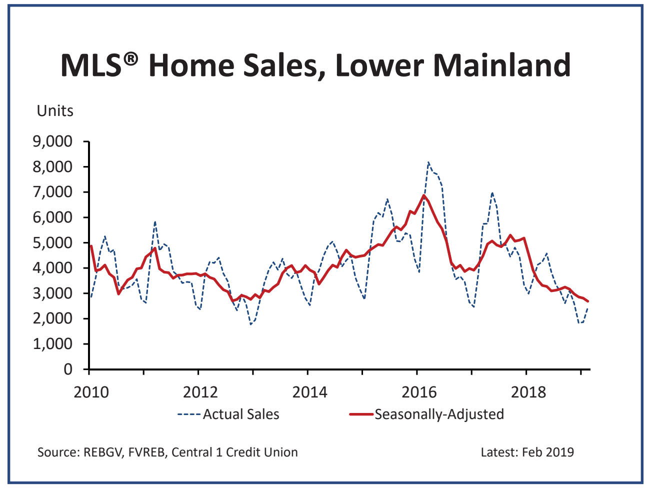
B.C. housing starts in urban areas declined in February to a seasonally-adjusted annualized rate of 36,550 units in February, down 10 per cent from January's pace of 40,400 units. The bulk of this drop owed to fewer multi-family starts, which declined 10 per cent to a 29,334 units. Among metro areas, the entirety of the latest month decline came in Kelowna, which recorded an annualized decline to 329 units from 4,208 units in January. In contrast, starts held firm in the Vancouver metro area at a relatively solid 25,000 units, and rose in Abbotsford-Mission and Victoria. Starts fell outside the metro areas.

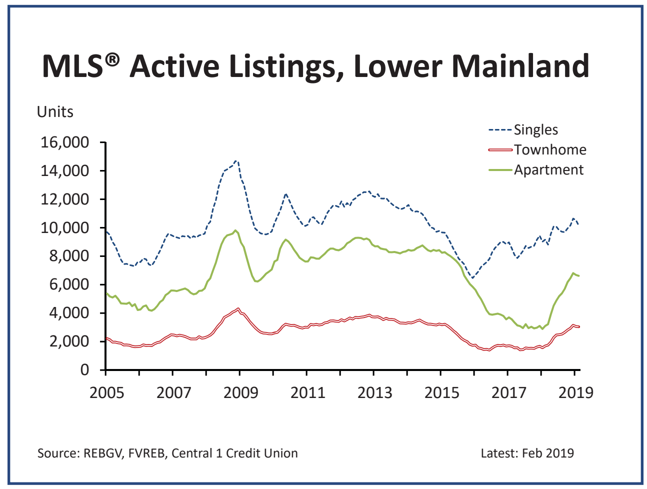
Housing starts remain surprisingly firm aligning with robust building permit numbers. However, the pace is forecast to decline through 2019. The policy-induced slump in the broader housing market is impacting pre-sale condominium sell-through, which will delay or curtail future projects. Current strength reflects projects planned and sold in recent years working through the pipeline, which will ease. B.C. housing starts, including rural areas, are forecast to fall to 32,600 units this year from 40,900 units in 2018.

Weak home sales continue into February, snowfall adds to market malaise

The Lower Mainland housing market remained in hibernation as February's blanket of snow suffocated any chance of a rebound. MLS® sales in the combined Metro Vancouver and Abbotsford-Mission area reached 2,436 units, down 31.5 per cent year-over-year. While an improvement from the 38 per cent drop in January, it was the fewest February sales since 2012.

Seasonally-adjusted, we calculate deterioration in sales of more than four per cent to extend the slump-





ing trend observed since the fall led by lower townhome and apartment sales. Total sales edged below the previous cycle low observed in 2012. That said, we should be cautious in interpreting this latest dip given abnormal weather conditions. New listings activity also fell significantly in February.

Nevertheless, the market remains weak as sales remain low due to federal mortgage 'stress tests' and various provincial tax measures. Adding to this is negative market sentiment, eroding prices have pushed some prospective buyers to the sidelines. Many sellers are unwilling to significantly lower prices to meet expectations, given the current downturn is largely policy-induced, rather than the result of economic stress.

Rising inventories reflect slower sell-through as units sit on the market longer and new listings add to the stock. However, inventory remains modest based on data going back to 1999, and there has been no sign of a flood of new listings. Inventory levels have shown signs of cresting on a seasonally-adjusted basis in recent months.

Nevertheless, sales-to-inventory ratios remained firmly entrenched in a buyers' market for detached homes.

While ratios remain held in a traditionally balanced territory for apartment and townhomes, the rapid drop in sales over the past year and shift from an overheated market has also triggered price declines.

The average regional price fell flat relative to January at $860,240, however, the trend has declined in recent months and down 10 per cent, year-over-year. Average prices tend to be noisy due to product and geographic composition of sales. The MLS® Housing Price Index (HPI) edged lower by 0.1 per cent from January and was down five per cent year-over-year and eight per cent from the June 2018 peak with similar declines from peaks across product segments. Price declines are most pronounced in the higher priced luxury market and in certain areas of the province. Subdued sales will continue to dampen prices by another three to five per cent, pushing the HPI back to early-2017 levels.

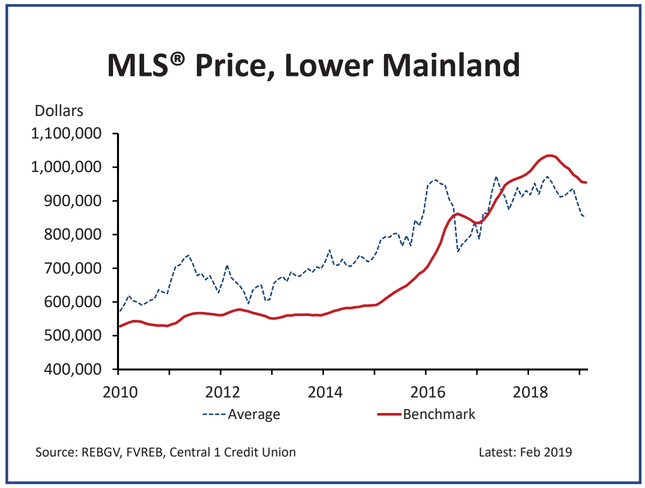
2018 international goods exports rose 7.3 per cent

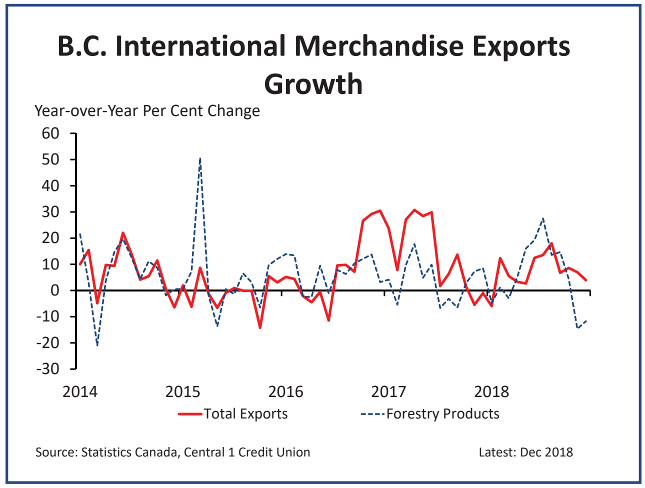
Better late than never. December merchandise export data—delayed due to the partial shutdown of U.S. federal government departments—was released this week. B.C. goods exports to international markets held firm in December with a year-over-year gain of four per cent to $3.88 billion.

That said, growth has decelerated in the last quarter, particularly in the forestry sector, which has seen a decline in lumber production and lower prices. Forestry product exports fell 12 per cent on a same-month basis in December and metal and non-metallic mineral products declined 21 per cent. Driving most of the overall gain were raw metal exports up 40 per cent, energy exports up 17 per cent and food products up 14 per cent.

For full-year 2018, exports rose a solid 7.3 per cent to $46.4 billion, compared to a 12.6 per cent increase in 2017. Metal and non-metallic minerals and related products were a key contributor to the increase in 2018 with a ten per cent gain. Forestry products, which fell sharply late in the year, also climbed five per cent. Higher commodity prices during the first half of 2018 were positive contributors, followed by a declining trend. Exports of consumer goods rose 13 per cent, while export demand for equipment and parts generally rose at a strong pace.

Dollar-volume imports surged 11.4 per cent last year to about $58 billion, driven by strong growth in energy (up 53 per cent), metallic and non-metallic mineral products (up 19 per cent) and motor vehicle and parts (up

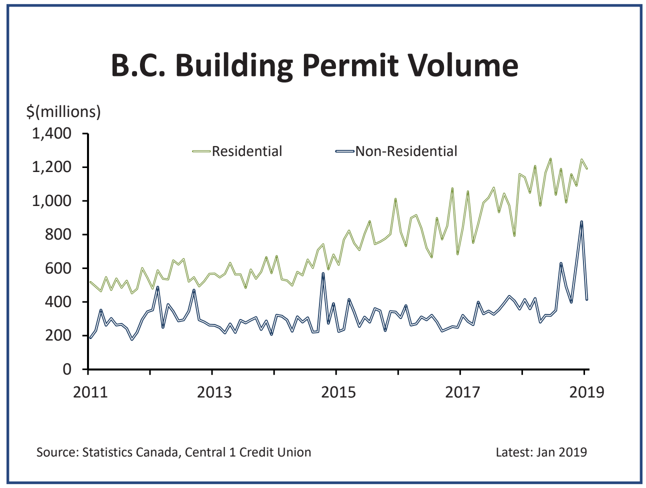




16 per cent). Import growth reflects consumer demand and demand for intermediate goods.

Export growth is expected to decelerate this year and next. Slowing global economic growth and dampened commodity prices will constrain export volume growth to about four per cent. Imports will remain relatively strong. While domestic consumer and housing demand dampen related imports, major project construction will trigger an increase in materials and equipment imports over the next few years. This trend will increase B.C.'s international merchandise trade deficit, which reached $11.5 billion in 2018, up from $8.8 billion in 2017.

Permit volume retrenches after record-setting December



Building permits volume ratcheted back down in January following December's surge in non-residential activity. Total permit volume fell 24 per cent to a seasonally-adjusted $1.6 billion following a record December performance but remained elevated and three per cent above year-ago levels. The decline owed to a 53 per cent drop in non-residential permits to $414.5 million, following two sharp monthly gains. Lower commercial permits in the Vancouver metro area led the decline. Residential permits remained high at $1.19 billion.

Permit volume declines were concentrated in the Lower-Mainland Southwest, with Abbotsford-Mission permits down 49 per cent and Vancouver CMA permits down 28 per cent. The latter posted declines in both residential and non-residential activity. In contrast, Victoria permits bounced back 19 per cent after a 30 per cent drop the previous month, while Kelowna held steady albeit at a lower pace than recent quarters.

Permit volumes are a leading indicator for construction. Levels remain firm, which is particularly surprising for residential construction, given weakness in the resale housing market and signs of weaker presale market activity for condominium projects. This may reflect prior development decisions and it is expected that residential permits will fall ten per cent this year as housing starts ease and renovation spending eases. Non-residential permits will be stronger on major project construction.

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