# B.C. Economic Briefing

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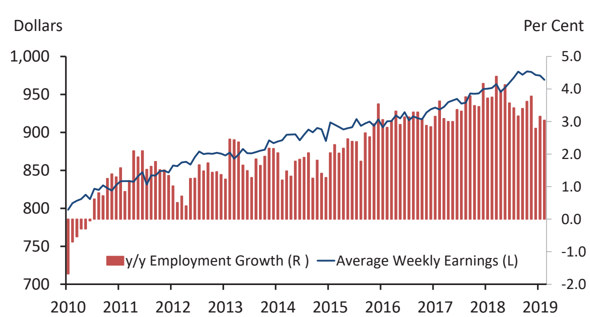
## Highlights:

- Non-farm payroll employment remains robust in February
- Average weekly earnings dip
- Small business confidence soft into April
- International tourism flows drop on weather factors and Lunar New Year effects
- Investment in building construction strong in early 2019, but set to decline




Source: Statistics Canada, Central 1 Credit Union

Latest: February 2019

## Hiring momentum solid despite softening weekly wages

The latest data from Statistic Canada's *Survey of Employment, Payrolls and Hours* pointed to further gains in hiring but a softening in weekly earnings. Non-farm payroll counts rose 0.3 per cent from January and 3.0 per cent from a year ago in February, confirming the solid employment growth momentum in the sister *Labour Force Survey*. Year-over-year gains were third highest in the country behind Prince Edward Island and New Brunswick and represented a gain of about 79,000 persons. At the industry level, strong gains have been observed in construction (up 6.4 per cent), transportation and warehousing (up 5.4 per cent) and arts, entertainment and recreation (up 10.7 per cent), among others.

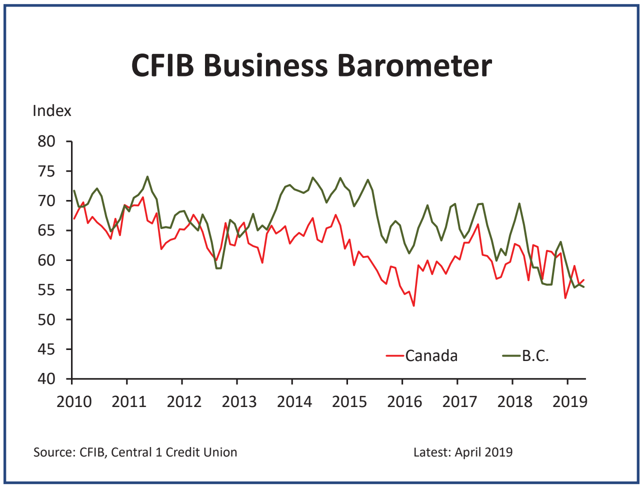
In contrast, B.C. weekly earnings edged lower for a fourth consecutive month in February despite the tight labour market. Average weekly earnings fell 0.6 per cent from January to $969.20 in February, with year-over-year growth at a mild 1.1 per cent. Nearly all provinces posted lower average weekly earnings relative to January, with the national reading down 0.3 per cent.

Goods-producing sector weekly earnings posted a stronger decline in the most recent month. Weekly earnings were down one per cent from January to $1,223 driven largely by the construction sector (down 1.8 per cent). Wages in the resources, utilities and manufacturing sectors increased. Meanwhile services-producing sector earnings fell another 0.6 per cent to $918. Retail and wholesale trade (down 1.6 per cent), management of companies (down 2.7 per cent) and arts and entertainment and recreation (down 5.6 per cent) were the main drags. In contrast, transportation and warehousing (up 2.5 per cent) and finance and insurance (up 5.7 per cent) were the key gains.

Caution is warranted when reading into declining weekly earnings given the influence of various factors, including hours worked (overtime), seniority and industry composition. An increase in part-time employment growth this year has been a factor as has higher employment in some lower paying sectors. Average hours worked for hourly employees trends two per cent lower than a year ago at 28.1 hours in February. Companies—constrained by labour shortage—may be filling in the gaps with more part-time workers contributing to the weakness in headline weekly earnings. Average hourly earnings remained firm at 2.6 per cent year-over-year for hourly workers, but growth has decelerated in recent months. Combined with strong employment gains, labour income remains supportive of consumer demand.

## Lacklustre business confidence partly reflects capacity challenges

Small business confidence in B.C. was little changed in April according to the latest Canadian Federation of Independent Business (CFIB) *Business Barometer.* The index came in at a lacklustre 55.5 points in April, down 0.4 points from March which was slightly below the national reading of 56.7 points. Since 2010, the average B.C. reading was 66 points which is typically associated with stronger economic growth. While the economy remains steady with a strong labour market, confidence has likely taken a hit from sluggish housing market conditions and slow growth in the



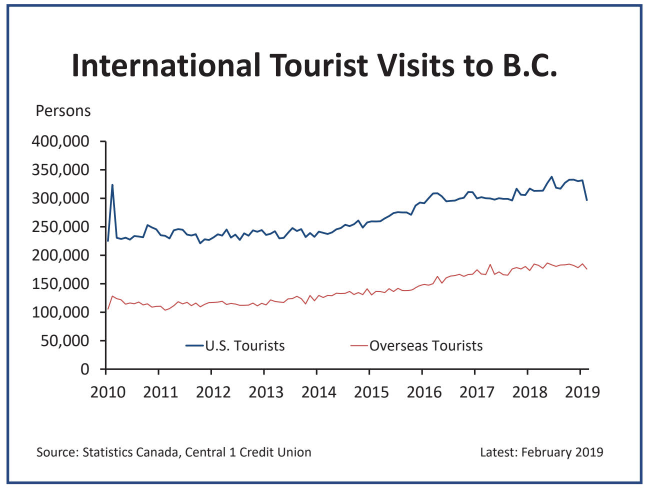

retail sector. Export volumes have also turned lower in recent quarters. Following stronger economic growth in recent years, businesses are less optimistic that the pace can continue.

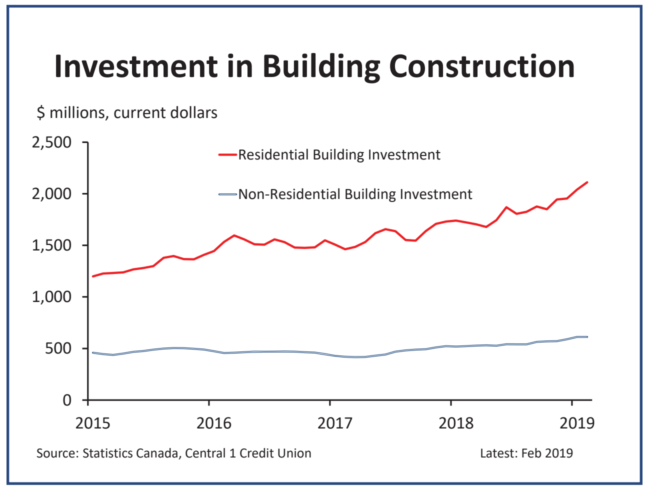
That said, businesses continue to expand. Full-time staffing plans in B.C. remained positive. Of firms surveyed, 21 per cent were looking to hire while 11 per cent were looking to cut. The intent to hire in B.C. was among the highest in Canada, behind Quebec and Manitoba. Similarly, the indicated health of businesses was among the highest in Canada, with 45 per cent noting good conditions while only nine per cent noting poor conditions. B.C.'s tight labour market is a constraint for employers, with 49 per cent noting shortages of skilled labour. Rising wages are an increased cost constraint.

## Weather and the Lunar New Year cut into February tourism activity

International tourist visits to B.C. fell sharply in February as severe snowfall hampered travel from the U.S. and timing of the Lunar New Year pushed more overseas visits into January. Total overnight visitors fell to a seasonally-adjusted 472,628 persons in February, marking an 8.4 per cent decline from January and five per cent decline on a year-over-year basis. This marked the fewest monthly tourist visits since September 2017 (seasonally-adjusted).

Visits from the U.S. declined 10.5 per cent to 296,723 persons. Overnight car visits plummeted 16 per cent as wintery weather kept potential tourists at home, with visits via plane steady. These numbers exclude a near-13 per cent drop in same-day auto travel and 18 per cent drop in same-day plane travel. Overseas tourist inflows fell 4.9 per cent from January to 175,865. The latter was driven by a drop in travel from Asia, particularly China, following a January pick up. An earlier Lunar New Year—February 5 in 2019 compared to




February 16 in 2018—shifted some travel plans into January.

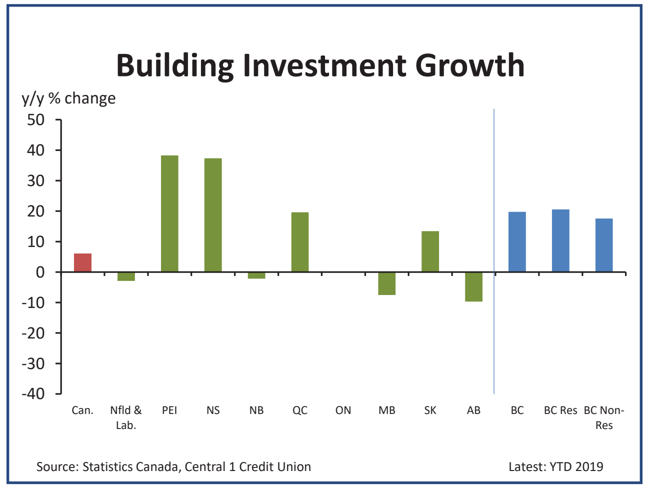
The latest tourism downshift should be seen as a one-off. A low Canadian dollar remains supportive for international tourism demand going forward. However, high gas prices north of the border could partly dampen demand from U.S. travelers while frayed Canada–China relations could negatively impact visitor flows.

## Housing still adding to economic growth but downturn expected

Despite the drag of a weak housing market and signs of declining housing starts, investment in building construction continued to trend higher in early 2019. Dollar-volume investment in buildings rose 2.6 per cent from January and 21 per cent year-over-year to a seasonally-adjusted $2.7 billion in February. Elevated activity reflects higher housing starts in late-2018, a near-record level of housing construction underway and solid non-residential construction. Residential building sector has led the growth with a 22 per cent year-over-year gain driven by a 40 per cent increase in townhome and apartment units, compared to flat single-family activity. Private sector growth of 17 per cent led non-residential building investment. Inflation made up about five per cent of the increase.

While still early in 2019, investment rose 20 per cent in B.C. over the first two months, compared to six per cent nationwide. Among B.C.'s Census Metropolitan Areas (CMA), year-to-date growth was strongest in Kelowna, with total building investment up 39 per cent. Vancouver CMA investment rose 21 per cent, with gains in non-residential activity (up 23 per cent) outpacing residential gains (up 20 per cent). Activity rose 20 per cent in Abbotsford-Mission and 6.5 per cent in Victoria.

The latest building investment figures point to a construction cycle that is still contributing to economic growth in the province, high demand for construction labour and sector inflation—this is expected to decelerate through 2019. Persistence of weak housing demand and declining housing starts will curtail building investment in the second half of the year and erode economic growth. Non-residential investment will remain firm, reflecting major project construction and associated building construction.





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