B.C. Economic Briefing

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Highlights:

- B.C. unemployment rate dips to 4.3 per cent on solid job gains
- Lower Mainland home sales less terrible in May
- Goods exports dip in April
- B.C. lumber production plunges in early 2019

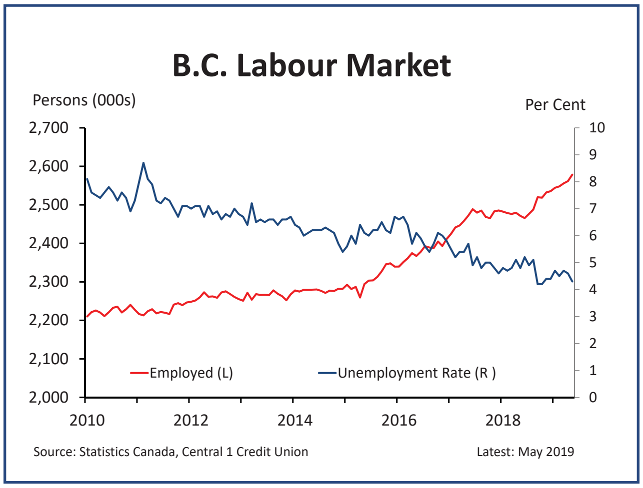
Boom times for B.C.'s Labour Market?

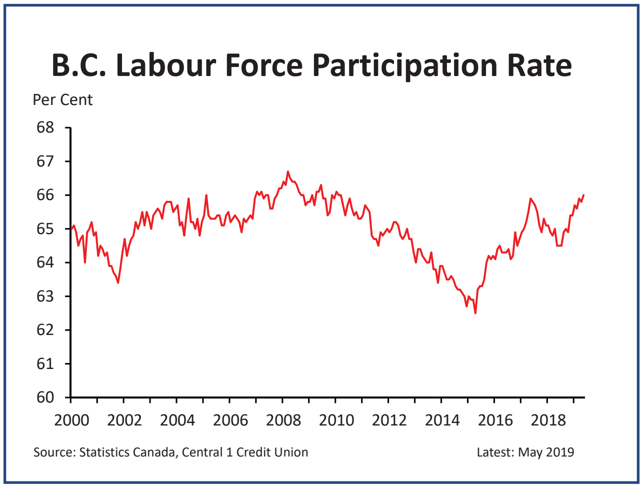
B.C.'s labour market momentum continued through May as employers ramped up hiring despite lingering uncertainty in the broader economy. Total employment jumped by 16,800 persons or 0.7 per cent from April to a seasonally-adjusted 2.578 million persons. This was a statistically significant increase, outpacing the national gain of 0.1 per cent, and trailed only Nova Scotia and New Brunswick. Year-over-year growth surged to 4.3 per cent (more than 107,000 persons) in B.C., which was the strongest reading since mid-2017 and outpaced all other provinces. While we are wary of single-month data, employment has accelerated since mid-2018.

Details were solid. Both full-time and part-time tenure employment rose from April with full-time employment up 0.6 per cent and part-time employment up 0.8 per cent. Average unemployment declined from 4.6 per cent of the labour force to 4.3 per cent, underscoring what is still the tightest labour market in the country. Labour force participation has climbed to previous cycle highs observed pre-financial crisis. Average hourly wages accelerated to 2.1 per cent year-over-year in May from a 0.6 per cent gain in April. That said, growth remains well below early-2018 trends.

Vancouver census metropolitan area (CMA) employment growth lagged the provincial picture with a 0.4 per cent monthly gain but with year-over-year growth hitting 6.3 per cent, hiring remains robust. If anything, labour shortages persist with an unemployment rate of 3.9 per cent.

On an industry basis, provincial employment gains were driven predominantly by the goods-producing sector, which posted a gain of 2.1 per cent or 10,400 employed from April. Specifically, employment in agriculture jumped 11.5 per cent (3,000 persons), utilities jumped 14.2 per cent (1,700 persons) and manufacturing jumped 4.8 per cent (8,100 persons). Natural resource employment eased. On the services-front, employment rose 0.3 per cent or 6,400 persons. There were few significant changes in services sectors, with wholesale and retail trade up 2.5 per cent (9,500 persons). Offsetting some of the gains was a drop of 4.5 per cent or 8,700 persons in accommodations and foodservices.





The latest labour market numbers point to a solid consumer sector, despite weakness in export trends and soft retail sales numbers. With gains aligning with strong gains in payroll employment counts, hiring looks to be significant and employers will continue to grapple with labour availability. Risks remain on the horizon which could slow the trend. Deteriorating global trade could further impact exporters and business confidence, while the slower housing market is expected to curtail housing construction over the next two years.

These will be offset by ramp-up in major projects such as the liquefied natural gas terminals and pipelines in the north, and public works and infrastructure elsewhere in the province.

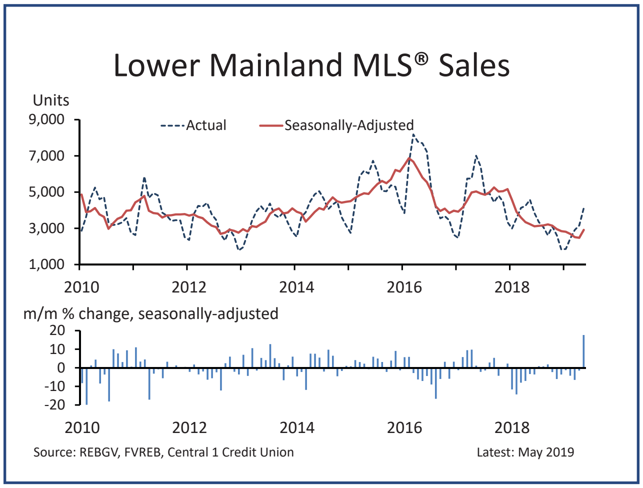
From terrible to just poor, Lower Mainland sales bounce higher in May

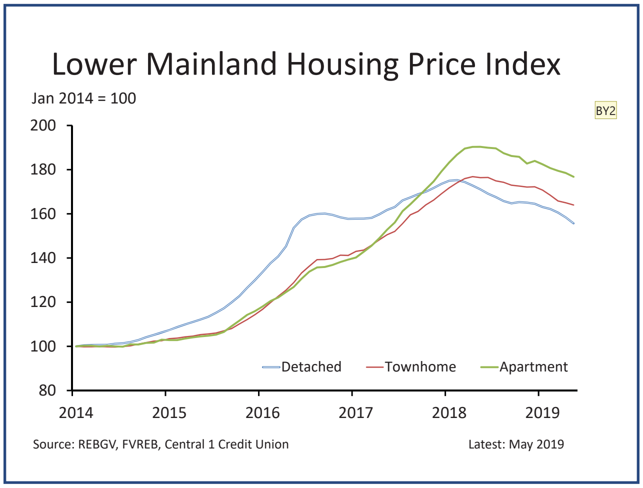
Call it a slight win for the housing market in May. Lower Mainland sales weren't terrible, they were just poor. MLS® sales volume in the area spanning Metro Vancouver and Abbotsford-Mission jumped 30 per cent from April on an unadjusted basis to 4,112 units. This far exceeded the average increase of six per cent observed over the past 20 years suggesting a pickup in demand. The pickup was led by markets in the Real Estate Board of Greater Vancouver, which excludes Fraser Valley markets such as Surrey and Langley. Nevertheless, the sales environment remained weak.

Sales were 10 per cent below year ago levels, marking the fewest May sales since 2001 when 4,073 units were sold. Adjusting for seasonal factors, we estimate a gain of 18 per cent from April, and consistent with levels during the sales downturn observed in 2012-13. Sales remain constrained by federal mortgage stress tests and provincial policy measures. Buyers may also be skittish to pull the trigger on sales in a declining price environment. Condominium apartment sales were down 15 per cent year-over-year, with detached sales down seven per cent. Townhome sales were roughly unchanged on a same-month basis.

Inventory continues to creep higher as low sales lead to homes sitting on the market for longer, while the flow of new listings remains modest. Active listings surpassed 22,500 units, marking highest level since late 2014. The sales-to-active listings ratio, which is a barometer of market tightness, firmed to a level more consistent with a balanced market. However, the free fall over the past year points to an environment where buyers are still in the driver's seat in negotiation.

Increased sales in markets north of the Fraser River and seasonal uplift contributed to a higher average price in May, which rose 2.6 per cent to $911,450. More telling is further deterioration in the MLS® benchmark housing price. At $953,800, the benchmark value fell 0.3 per cent. Seasonally-adjusted, the benchmark value has declined since March of 2018 and is 8.5 per cent below peak or a $87,000 differential. Price levels deteriorated across unit types but led by erosion in the detached and apartment condominium markets. Relative to peak levels, benchmark





values are down seven to nine per cent across all unit types.

While it remains to be seen if May's sales bump marks the start of a rising sales trend rather than a temporary burst of activity, the sales trend has likely bottomed. A modest upward trend is anticipated later in 2019, although price levels are forecast to decline through the end of 2019. We forecast a peak to trough decline in benchmark price of 12 to 15 per cent and a retracement to early 2017 levels. Detached declines are closer to an end, while condominium prices have further to decline, given the supply of new construction expected to complete.

Exports pullback in April

International merchandise exports from B.C. retreated in April following a surge in March. Dollar-volume exports fell 17 per cent from March to $3.38 billion after a 13 per cent prior month gain. Year-over-year sales declined 10 per cent. Weaker exports were led by declines in raw metal and non-metal minerals, giving up all of March's gains, and was largely traced

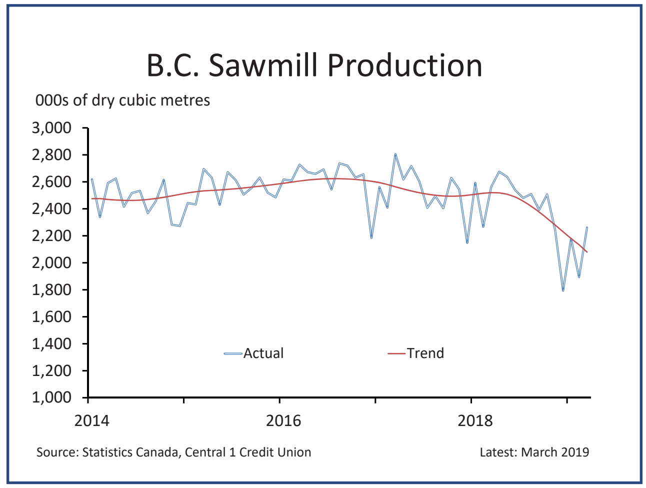
to a decline in sales to India. Exports in this sector were down 29 per cent year-over-year. Forestry exports deteriorated with sales down 11.9 per cent year-over-year, reflecting both lower prices and volume shipments. This weakness was offset by sales of motor vehicle parts, consumer goods and machinery and equipment—suggesting that a low Canadian dollar is favourable for various non-resource export sectors.

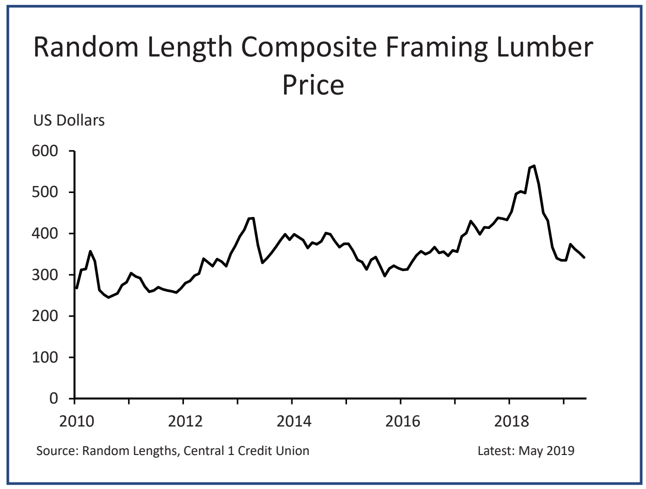
April's pullback pushed year-to-date exports into negative territory, with sales through the first four months of 2019 down 1.4 per cent on a same-period basis. Metal and mineral products and forestry have driven the decline. Several factors will weigh on export growth going forward. Volleying of tariffs between the U.S. and China has slowed global trade and added significant economic uncertainty to broader growth and investment. Meanwhile, deteriorating relations between Canada and China could lead to further fraying of trade. China has effectively banned canola imports and have added further hurdles for other products. These actions could be expanded, impacting B.C. originated goods.

Lumber production plunges to start 2019

B.C. lumber production has plunged this year extending downward momentum observed since the third quarter of 2018. Softwood lumber production reached 2.26 million dry cubic metres in March, marking a near-12 per cent year-over-year decline. Through the first quarter of 2019, production fell 15 per cent compared to the same period in 2018.

Producers are taking it on the chin from various directions. Weak housing starts in the U.S., sluggish domestic housing markets and the rotation of Chinese demand to its other trading partners has curtailed vol-





ume. Lumber prices have spiraled lower. The Random Lengths Framing Lumber Composite Price has been trending 30 per cent below year ago levels—marking a three year low—at near $350 USD per million board feet in recent months. For Canadian lumber producers, tariffs on about 20 per cent of shipments to the U.S. are also a substantial bite at lower price levels, impacting profitability and viability of mills.

Timber availability is a key constraint compounding the market downturn and reflects the lingering impacts of the Mountain Pine Beetle epidemic. Beetle killed wood is increasingly not viable for commercial processing and annual allowable cuts for salvage purposes have been scaled back. Adding to this, the severe wildfires of 2018 impacted about 300,000 hectares of the harvestable land base, concentrated in the timber supply areas of Prince George, Morice, Lakes, Quesnel and Cassiar.[1] Wildfires impacted a total of 1.3 million hectares,

[1] BC Ministry of Forests, Lands, Natural Resource Operations and Rural Development. Impacts of 2018 Fires on Forests and Timber Supply in British Columbia https://www2.gov.bc.ca/assets/gov/farming-natural-resources-and-industry/forestry/stewardship/forest-analysis-inventory/impacts_of_2018_fires.pdf

but most was not considered harvestable areas. Including impacts of 2017 fires, harvestable land bases were most hard hit in the Quesnel timber supply area (12.7 per cent) and Williams Lake (6.7 per cent). These losses could curtail future production and allowable cuts. Some companies have swapped timber licenses in recent years to stabilize medium-term supply for their mills.

Current challenges have led various producers—including Canfor and West Fraser—to announce temporary mill shutdowns or curtailments of production.[2] Tolko recently announced the shutdown of its Quesnel mill and shift cuts in Kelowna. Forestry is forecast to be a negative growth driver for B.C.'s economy over the coming two years.

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[2] Canadian Forest Industries https://www.woodbusiness.ca/heres-how-many-bc-sawmills-have-taken-down-time-so-far/