B.C. Economic Briefing

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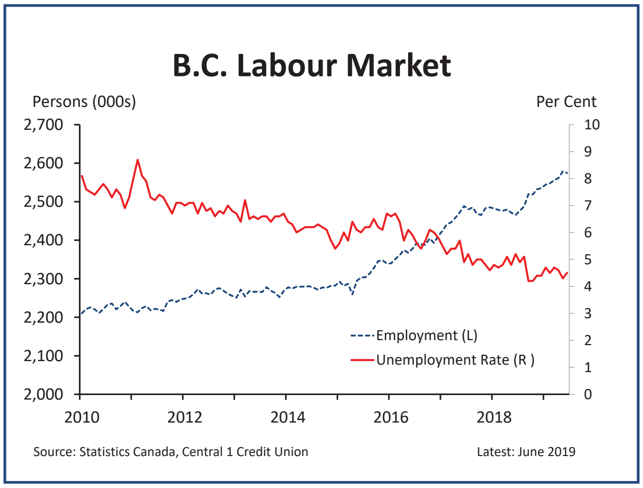
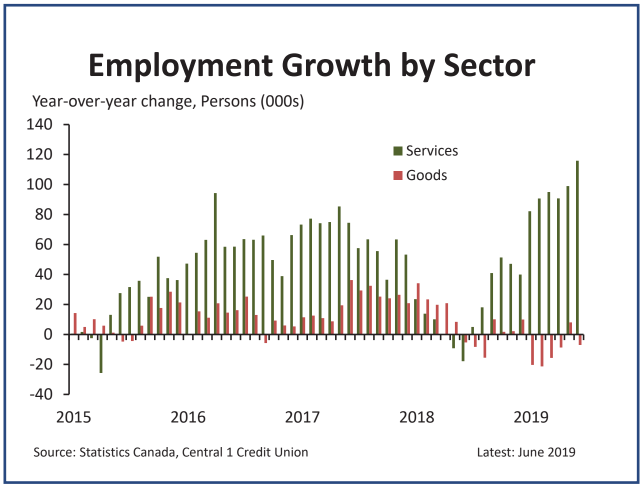
Highlights:

- Employment eases in June, but up 4.4 per cent from 2018
- Metals and mineral sales boost exports in May
- June MLS® home sales remain sluggish in the Lower Mainland, prices decline





Labour market steady in June but mixed employment among sectors

B.C.'s labour market took pause in June following a strong May showing. According to the latest Labour Force Survey data, estimated employment fell by 0.1 per cent (or 3,700 persons) on lower full-time employment to partly retrace some of May's 0.7 per cent increase, but the change can be considered statistically insignificant. Nationally, employment was unchanged but led by gains in Alberta and Saskatchewan

Despite the dip, employment momentum remains robust with levels up 4.4 per cent from a year ago with strong gains across both full-time and part-time tenure. Metro Vancouver outperformed the rest of the province with month-to-month growth of 0.3 per cent, and a 12-month gain of 6.7 per cent.

Labour market conditions are tight. Provincially, B.C.'s unemployment rate rose from 4.3 per cent in May to 4.5 per cent in June on the employment slip but remained lowest among provinces. Quebec was second at 4.9 per cent. Meanwhile, worker engagement remains high with the share of population working or looking for work trend near 66 per cent which is was the highest since May 2017 and prior to that 2010. Metro Vancouver's unemployment rate rose to 4.1 per cent from May's 3.9 per cent on a strong gain in job seekers. Low unemployment rates point to ongoing struggles for employers to find workers, aligning with high job vacancy rates published by Statistics Canada, and responses from the Canadian Federation of Independent Business monthly Business Barometer. Growth in average hourly wages is a mild 1.7 per cent, year-over-year, but could reflect shifts in industry composition.

On an industry basis, employment growth was mixed and reflected varying strength among economic drivers. Strong goods-producing sector expansion in May reversed course. Agriculture employment fell 15 per cent (4,400 persons) contributing to much of the loss, but is often volatile due to weather factors. Resource employment declined 3.9 per cent, and manufacturing declined 3.4 per cent which may reflect the downturn in the forestry sector. Construction slightly edged down but was little changed. Year-over-year, goods-sector employment was down 1.4 per cent or 7,000 persons.

In contrast, growth in services-employment picked up with a 0.6 per cent (or 12,400 person) increase from May and likely underpinned the rise in part-time work. Gains were concentrated in a 9,600 person or 2.5 per cent gain in wholesale/retail trade, 5.0 per cent (7,700 persons) increase in the finance/insurance/real estate sector, and 2.6 per cent (8,100 person) increase in healthcare and social assistance. Industry composition points to gains driven by a solid consumer sector and population growth. Service-sector declines were observed in accommodations and food services (down 3.4 per cent or 6,300 persons). On a year-over-year basis, service-sector employment rose 115,900 persons or 5.9 per cent.

Exports bounce back in May

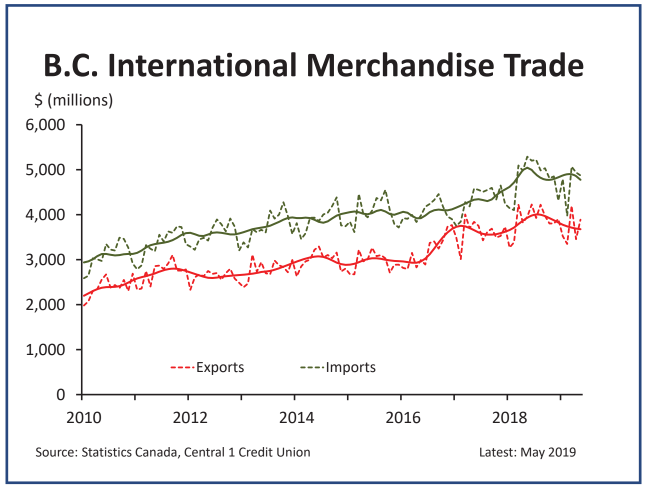
B.C. exports bounced back in May after an April plunge but remained shy of year ago levels. Merchandise exports to international markets reached $3.89 billion in May. While down 1.6 per cent year-over-year, this was improved from a near 10 per cent decline in April. Seasonally- adjusted, Central 1 calculates a monthly gain of about 12 per cent.

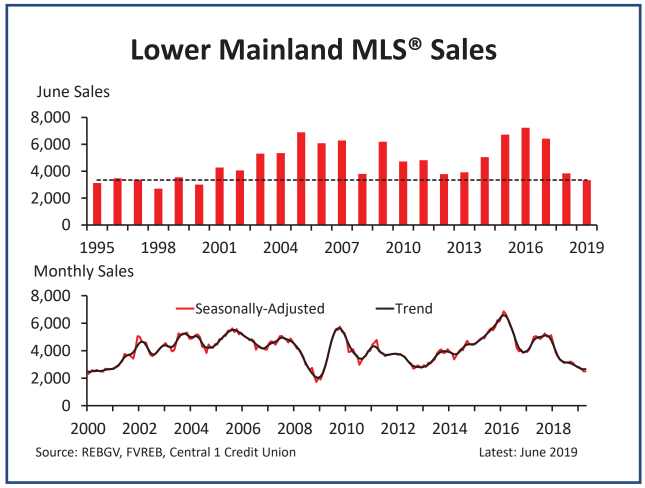
Improved export performance was driven largely by metal ores and non-metallic minerals, which rebounded from a near 30 per cent year-over-year decline in April to an 82 per cent increase in May. On a monthly basis, sales more than doubled. Positive contributors to growth included farm/fish and intermediate food products (up 17.2 per cent year-over-year), industrial chemical/plastic and rubber products (up 72 per cent), and consumer goods (up 6.6 per cent). Drags on growth were forestry products (down 18.6 per cent) and metal and non-metallic mineral products (down 23 per cent)

Despite significant monthly fluctuations, the broad trend has softened over the past year. While the competitive dollar continues to support demand, headwinds in the economy persist. Year-to-date exports are down 1.3 per cent through the first five months. Weak commodity demand has hampered resource shipments with mining products down 17 per cent. A nine per cent decline in forestry products reflects a combination of the sluggish U.S. housing market and lower prices, which for producers have been magnified by the softwood lumber tariffs. Lumber exports to Japan have also declined this year. Weak demand conditions and availability of timber supply constraints in B.C. is driving closures of sawmills across the province. Growth remains positive in most other sectors.

Among major export destinations, year-to-date export declines have been driven by a 12 per cent (or $242 million) decline in Japan, largely offset by a 36 per cent (or $225.9 million) increase to India. Exports to China were up by less than one per cent, while U.S.-destined exports remained unchanged.

Sluggish home sales continue through June, price erosion continues



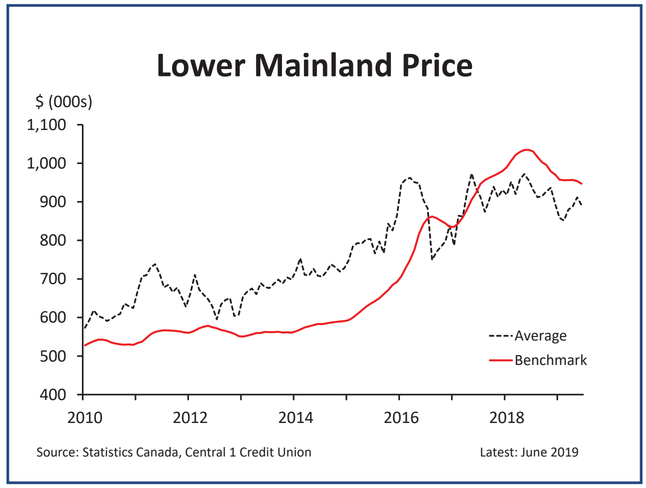


Following a moderate bounce in May, home sales partly retreated in June. MLS® home sales in the Metro Vancouver – Abbotsford- Mission area (Lower Mainland) reached 3,342 units during the month, down 13 per cent from same-month 2018. This compared to a 10 per cent decline the prior month and marked the fewest June sales since 2000. Condominium apartment sales, which drove much of May's increase, fell back and declined 22 per cent year-over-year. Detached sales declined 3.3 per cent, and townhomes fell 9.1 per cent.

On a seasonally-adjusted basis, we calculate a month-to-month sales decline of about five per cent in June following a gain of 14 per cent in May. The sales trend is slightly below prior cycle lows observed in 2012, but above the 2008/09 financial crisis period. That said, sales are likely fluctuating near a cycle bottom.

While the economy generally remains firm with strong employment gains, the sales downturn is largely policy driven, reflecting the federal mortgage stress tests and various provincial measures. A declining price environment and gap between seller and buyer price expectations is also contributing to the sluggish pace.

Resale home inventory is elevated despite a declining trend in new listings as current listings languish. Homes available for sale continued to climb but pace of growth has slowed, suggesting a crest in trend. Nevertheless, there are quite a few properties on the market, with listings up more than 20 per cent year-over-year to nearly 22,900 units. Detached inventory is trending lower, while condo apartments move higher. Apartment active listings were up 44 per cent from a year ago, supply of townhomes up 33 per cent and detached listings were virtually unchanged. The market is generally favouring buyers.



Weak market conditions, thin sales, and elevated inventory are putting downward pressure on prices. Unadjusted for seasonal factors, the average price fell two per cent from May and seven per cent year-over-year. Benchmark values, which adjusts for housing characteristics, continued to trend lower with a 0.7 per cent monthly drop and 8.5 per cent year-over-year decline. Apartment price declines have accelerated with the benchmark down 1.5 per cent from May, while detached home price declines have slowed. That said, year-over-year declines are consistent across products near eight per cent marking a modest correction. Slow erosion in prices and low sales point to differing price expectations between buyers and sellers. Sellers are willing to be patient given the firm economic back drop.

While policies remain a constraint to housing activity, sales have likely bottomed. Recent mortgage declines (with more to come), and lower prices will attract more buyers from the sidelines given ongoing labour market strength. Mortgage stress tests remain a hurdle. CMHC's share equity program launching in few months will lift purchases in less expensive markets. Conditions will continue to put downward pressure on prices, particularly in the condominium market as new projects complete and speculative units are released into the market. We forecast a peak-to-trough decline the broad benchmark price of 12-15 per cent. Current unrest in Hong Kong marks a upside risk for the market, and could trigger a return of Hong Kong – Canadians, but this is not a certainty.

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