B.C. Economic Briefing

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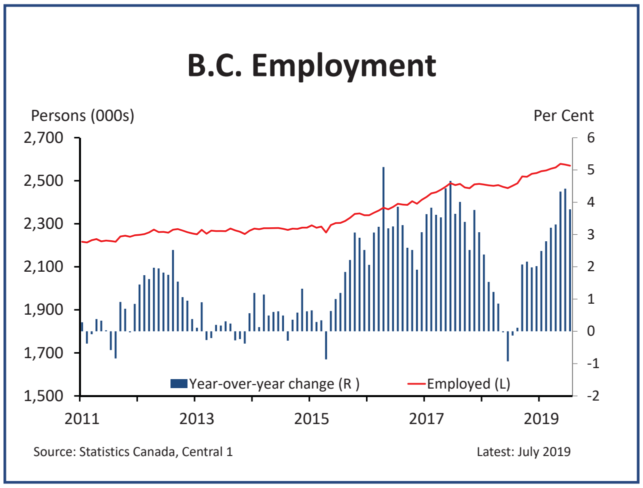
Highlights:

- B.C. employment declines 0.2 per cent in July on private sector pullback
- Unemployment rate edges lower to 4.4 per cent
- Housing starts remain elevated in July but fall from peak
- Lower Mainland home sales post first year-over-year gain since January 2018



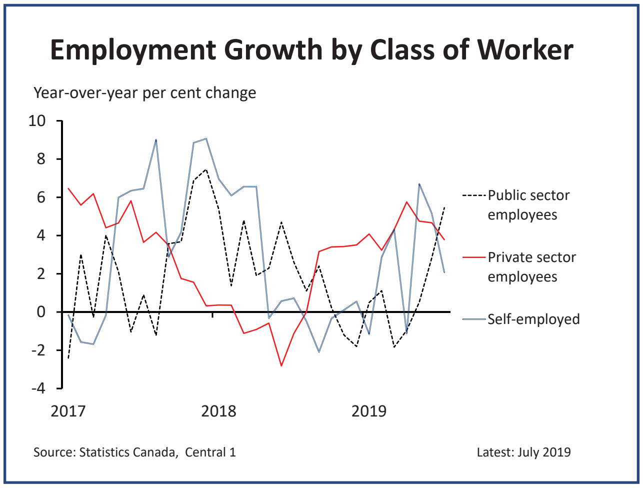
B.C. employment eases in July but conditions remain tight

Canada's labour market disappointed in July as employment fell by 24,200 jobs from June, driven by a drop in private sector employment. That said, year-over-year growth was solid at 1.9 per cent, while average hourly wages rose 4.5 per cent. The unemployment rate rose 0.2 percentage points from June to 5.7 per cent, reflecting both the dip in employment and a rise in people searching for work.

B.C. employment also fell during the month, with total employment down 4,800 persons, or 0.2 per cent from June, to just under 2.57 million persons. A sharp decline in full-time employment (down 0.6 per cent) accounted for the entirety of the pullback, as part-time hiring increased. Similar to the national picture, private sector hiring retrenched in July, marking a third consecutive decline after strong early-year gains. Public sector employment rose, while self-employment dipped. Net provincial declines were led by Metro Vancouver, which fell by 5,600 persons or 0.4 per cent, as the rest of the province eked out a small gain.

Industries leading July's pullback were concentrated in the goods-producing sectors, including utilities (down 12 per cent or 1,600 persons), natural resources (down 5.6 per cent or 2,500 persons) and manufacturing (down 2.5 per cent or 4,200 persons). Service sector employment generally rose, but drops were posted in transportation and warehousing; and professional, scientific and technical services. Growth in education and accommodations and foodservices employment offset some of these other losses.

While July's numbers were a mild disappointment, it is hard to get too down on B.C.'s labour market conditions. Twelve-month employment growth came in at 3.8 per cent, with hiring up sharply in both the private (3.8 per cent) and public sectors (up 5.5 per cent). The unemployment rate edged down further to 4.4 per cent as fewer people looked for work, but B.C.'s rate has consistently been the lowest in the country as employers desperately seek skilled workers. Metro Vancouver unemployment came in at 4.0 per cent. Average hourly wages rates in the province also accelerated to a 3.5 per cent year-over-year rate. A slowdown in the broader economy and resource sector is forecast to pare annual employment to a still solid 2.5 per cent.

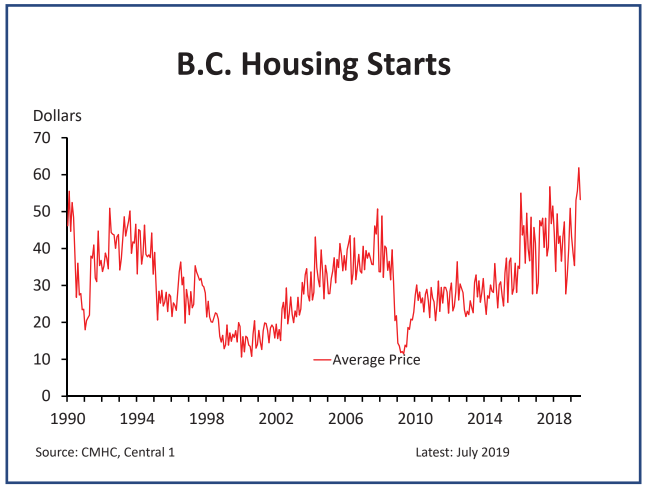


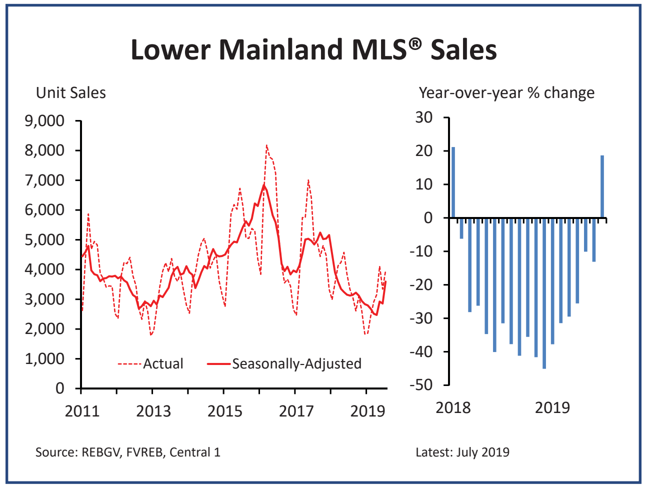
Housing starts decline after record June

When you have reached the peak of summit, there is often one direction to head. After June's record high performance, housing starts pulled back in July albeit remained at a still lofty level. Annualized starts in B.C.'s urban markets were at nearly 60,000 units in June and fell to 50,850 units in July as multi-family construction pulled back.

Among metro areas, Vancouver led the decline with starts falling to an annualized pace of 31,850 units from 41,500 units in June. Victoria starts rose from 2,460 units to 3,650 units in July, while Abbotsford-Mission rebounded from a pace of 800 units to 2,940 units. Kelowna area construction declined from 2,900 units to 1,500 units. Monthly volatility is not abnormal given the impact of large multi-family projects on any individual month.

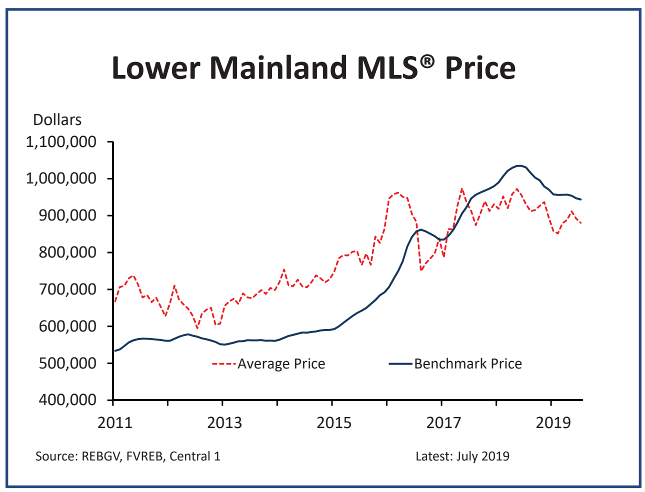
Nevertheless, through the first seven months of 2019, urban area housing starts have well outpaced expectations with an 18 per cent gain led by a 25 per cent increase in Metro Vancouver. Starts are down in Victoria and Kelowna over the same period. This surprisingly strong performance is unsustainable in our view given weakness in the resale home market over the past year and reflects projects with long lead times that were planned and pre-sold in years prior to the downturn. Detached housing starts are down 20 per cent this year, with growth led by a 31 per cent increase in multi-family activity. Sluggish pre-sales over the past year, healthy resale inventories and high levels of units still under construction will lead to a sharp pullback in starts later this year and through 2020. Housing starts are forecast to end 2019 slightly lower than 2018, with a drop of 15 per cent next year to 33,200 units, inclusive of rural areas.





Lower Mainland home sales show more life in July

Has the deep freeze in the Lower Mainland housing market finally thawed with the summer heat? While it is too early to say, July's strong pick up in sales up suggests more buyers sitting idle on the sidelines have found an attractive entry point into the market owing to significant mortgage rate cuts and declining prices. Federal mortgage stress tests remain a key constraint to homeownership and has delayed purchasing for many would-be purchasers over the past year. Rising wages given a strong labour market, time to save for higher down payments and lower prices are likely inducing more purchases.



In a month when sales typically decline, July sales in the Lower Mainland surged 18 per cent following a prior month of weakness. This was the first year-over-year gain (up 15 per cent) since January 2018. July's pick up confirms the bottoming of the sales cycle has passed, but levels are still soft with seasonally-adjusted sales at a level last seen in 2014.

Higher sales eroded inventory levels in July, while the new listings trend also eased. The latter has declined in recent quarters as sellers have held off in listing properties given weakness in demand. Outside of speculators, and those going through various life changes, households generally do not need to sell given strength in the labour market and growth in the economy. The sales-to-active listings ratio —a measure of relative supply and demand conditions—rose to the highest level in more than a year and to a level more consistent with a balanced market. Home prices declined further in July. The unadjusted average value fell 1.3 per cent from June to $880,400 and 5.4 per cent year-over-year. The benchmark value posted a drop of 0.4 per cent from June and 8.4 per cent year-over-year. In both cases, the rate of decline has slowed.

Low borrowing costs, decent growth in the economy and a rising population will provide support to homeownership demand despite the overhang of federal and provincial policy measures. That said, a subdued sales environment will continue with benchmark prices forecast to ease by another four per cent by year-end.

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