Economic Analysis of British Columbia

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Northeast B.C. Regional Economic Review and Outlook 2019-2021

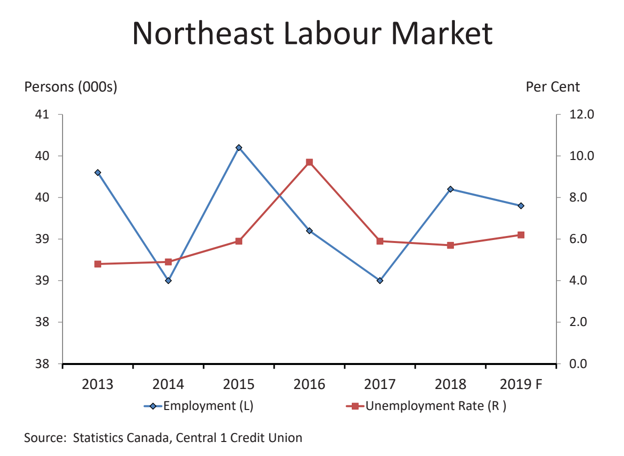
Highlights:

- Northeast B.C. economy remains in a soft patch with weak employment gains, flat population, and delayed turnaround in housing market
- Soft energy sector, forestry slump, lower construction activity a drag on economic activity
- Number of businesses in the region edged higher in 2018 by less than one per cent but owed mostly to self- employment gains
- Capital investment in major projects including Site C and LNG pipelines will continue to support economy, but employment benefits regions across B.C.
- Employment growth to turn higher with one per cent gain in 2020 and 0.8 per cent increase in 2021
- Housing cycle to strengthen with economic growth

Summary

Northeast B.C. is anchored by the cities of Fort St. John and Dawson Creek alongside smaller municipalities like Tumbler Ridge, Chetwynd and surrounding areas. The region continues to experience challenging economic conditions as global economic uncertainty, volatility in commodity markets weight on regional natural gas investments, forestry and mining. Regional economic activity has received some support in recent years as prior capital investments in natural gas processing, re-opening of coal mines by Conuma, and major project construction such as Site C, The latter has contributed to higher employment in the region, although many of these workers are from outside the region and from other parts of B.C. or Canada limiting the economic benefits to the region and its communities.

Labour force employment growth remains weak, business formation remains subdued and housing markets have yet to turn around. An economic soft patch is expected to continue through 2019 and into 2020 with mild employment growth and delayed improvements in the housing market. Stronger economic activity will require stabilization in the broader global economy and rising commodity prices. Advancement of construction in LNG Canada's liquefaction plant in Kitimat and associated LNG pipelines will provide a lift to employment over the next two years, and also propel an increase in natural gas exploration and drilling. Population growth is forecast to hold steady this year and expand by about 0.4 per cent thereafter.



Regional Economic Scan

Headline labour market data weak, but major projects boosting area employment

Employment in B.C.'s northeast region retreated this year following increased hiring in 2018. Average employment reached 2.9 per cent or 1,100 persons in 2018 to 39,600 persons. Nearly gains have been given back this year with year-to-date employment down 2.4 per cent. Industry-level employment points to losses dominated by the construction trades, wholesale and retail trade, and miscellaneous service workers. Offsetting growth has come in finance/insurance/real estate, professional/scientific/technical services, and surprisingly in forestry. Declines in part-time employment drove all of the year-to-date decline. Completion of a number of natural gas plants over the past year and sluggish new home construction have likely contributed to lower construction work.

Regional employment trends need to be observed with caution given volatility in the data that is part and parcel to smaller markets. This reflects relatively small samples in the Labour Force Survey (LFS), while employment can fluctuate due to shifts in commodity markets, or unexpected staffing changes at local employers which can have significant impacts given the employment base. Unemployment rates and labour force participation rates are generally more stable indicators and less effected by sampling issues. Unemployment as a share of the labour force has climbed this year to 7.2 per cent, compared to 6.3 per cent during first half of 2018. The labour force participation rate at 73.7 per cent has edged down and are below early decade highs.

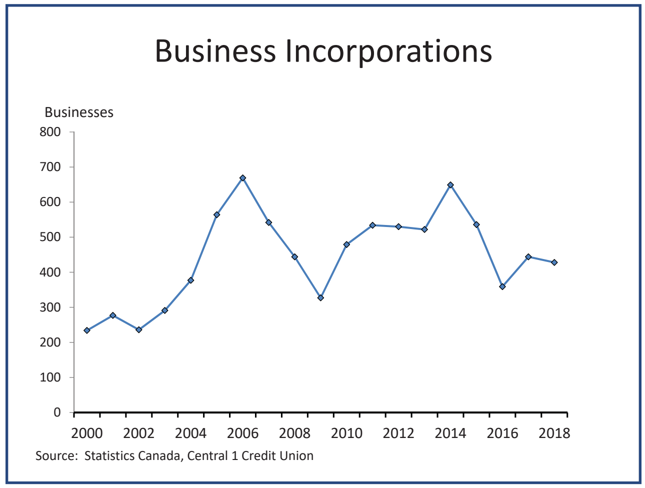
While LFS data is soft, other data points to firm but easing conditions. The region's job vacancy rate was below year-ago levels in Q1 at 3.9 per cent and compared to a 4.4 per cent provincial rate. That said, this remained above the national rate of 3.1 per cent and Alberta at 2.5 per cent. The number of job vacancies at 1,580 positions was nearly identical to same quarter 2018 although this is still high by historical comparison suggesting insufficient number of skilled workers. Interestingly, estimated of quarterly payroll employment suggests a significant ramp up in hiring in the region, with payroll counts up 10 per cent from a year ago. How does this square with LFS data? LFS is based on place of residence and may underestimate local area employment, while payroll counts reflect location of the job. Work on Site C and other engineering projects attract workers from outside the northeast which add to payroll counts but may not be filled by local workers. June 2019 Site C employment reports 3,930 construction and non-construction contractors working on the project. Of these, 2,870 were B.C. workers, but only 829 resided in the Peace River Regional District. Many of these individuals are not captured in the LFS estimates but do contribute to the local consumer demand.

The number of persons receiving employment insurance benefits continue to dwindle with levels in the northeast down 18 per cent from the first five months of 2018 at 1,126 beneficiaries. This is the lowest since late-2014, and before the energy price melt down. Benefits were extended temporarily in response to the sectoral downturn. That said, benefits naturally decline due to expiration of benefits.

Business environment still weak

The pace of business formation has passed its cyclical low but remains subdued Total incorporation of businesses reached fell from 444 businesses in 2017 to 428 in 2018. This was above the recent low observed in 2016 when only 359 businesses incorporated, levels were below the five and ten year average of 480 incorporations.

While new business formation has stabilized, albeit at a soft pace, business count data suggests challenging conditions for existing businesses.



Statistics Canada's Business Register includes active businesses in Canada that have a corporate income tax account. The Business Register provides more timely information on business-sector expansion in regional areas. Information is limited to businesses with at least $30,000 in overall (taxable and non-taxable) revenue. Due to changes in methodology, only data from 2014 onwards are comparable. Businesses are classified as either those with or without employees.

The total number of businesses registered in the Northeast Development Region was estimated at 10,444 in 2018. This included 6,312 businesses without employees and 4,132 businesses with employees. Those in the latter could include contract workers, firms with family help, or owner operated (self-employed) individuals. Household structuring of finances may also contribute.

Total business counts rose 0.8 per cent in 2018 but was entirely the result of a 2.2 per cent or 138 unit increase in the number of businesses without employees, while the number of businesses with employees declined 1.2 per cent or 52 businesses. Growth in the former could reflect a general increase in entrepreneurship, but more likely downsizing at small companies, and jobs cuts in other organizations have pushed some individuals to incorporate. The number of firms with employees has declined in recent years. A scan of counts by firm size suggests a general shrinking in the size of companies in the northeast. Over the past three years, contraction in the number businesses with employees have been concentrated in Fort St. John and Chetwynd

A rough approximation of the change in employed workers in the region based on business location counts and employee count range points to a drop of about 3 per cent from 2017 to 2018. There were significant deviations by municipality. Tumbler Ridge employment rose 5.7 per cent, but declined in

Northeast BC Businesses by Employee Range - 2018

	Without employees	Total, with employees	1-4	5-9	10-19	20-49	50-99	100-199	200-499	500 +
Northeast DR	6,312	4,132	2,456	713	492	311	98	42	15	5
Peace River RD	5,959	3,830	2,305	648	456	272	90	40	15	4
Tumbler Ridge	83	67	31	14	9	7	3	1	2	0
Pouce Coupe	107	58	41	8	5	1	1	2	0	0
Chetwynd	361	245	124	45	39	24	10	2	1	0
Dawson Creek	1,050	718	380	150	97	57	21	7	4	2
Taylor	207	116	83	16	7	6	1	3	0	0
Fort St. John	2,352	1,807	1,060	297	234	137	48	24	5	2
Northern Rockies RD	353	302	151	65	36	39	8	2	0	1

Source: Statistics Canada

Business Counts by Region and Select Census Subdivision

	Without Employees					With Employees				
	2014	2016	2017	2018	2017/18 % change	2014	2016	2017	2018	2017/18 % change
Northeast DR	5,903	6,195	6,174	6,312	2.2	4,459	4,401	4,184	4,132	-1.2
Peace River RD	5,508	5,803	5,789	5,959	2.9	4,047	4,039	3,873	3,830	-1.1
Tumbler Ridge	116	111	84	83	-1.2	81	70	69	67	-2.9
Pouce Coupe	112	102	96	107	11.5	72	68	65	58	-10.8
Chetwynd	344	325	322	361	12.1	260	261	248	245	-1.2
Dawson Creek	923	986	981	1,050	7.0	706	707	722	718	-0.6
Taylor	240	224	208	207	-0.5	160	136	122	116	-4.9
Fort St. John	1,894	2,269	2,353	2,352	-0.0	1,724	1,923	1,820	1,807	-0.7
Northern Rockies RD	395	392	385	353	-8.3	412	362	311	302	-2.9
British Columbia	368,659	390,943	424,542	444,685	4.7	190,363	195,860	198,604	201,904	1.7

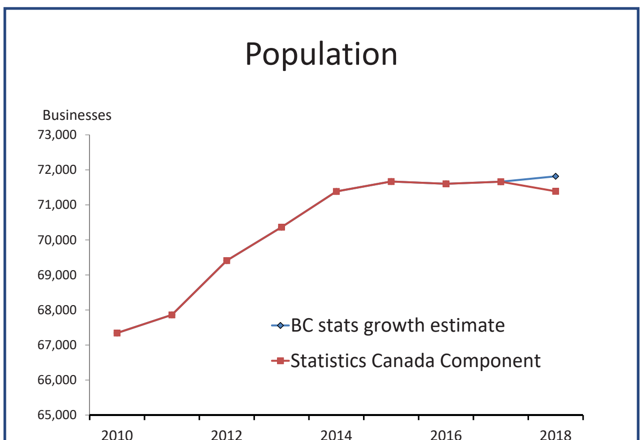
Source: Statistics Canada

Chetwynd (7.5 per cent), and Fort St. John (5.6 per cent).Tumbler Ridge has experienced a substantial turnaround reflecting coal mine re-opening in the area, which have lifted not only direct employment as well as demand for related service.

Population treading water, area loses people to other provinces and rest of B.C.

A key indicator that reflects health in the economy is population growth. Recent estimates align with the weak labour market and business formation indicators with continued to show signs of contraction. However, levels depend on the data source referenced, which is either Statistics Canada or B.C. Stats.'

Statistics estimates population indirectly, based on components of growth including vital statistics, im-migration entries, and estimates of inter-provincial and intra provincial flows. This method points to a slight decline in the Northeast regional population base of



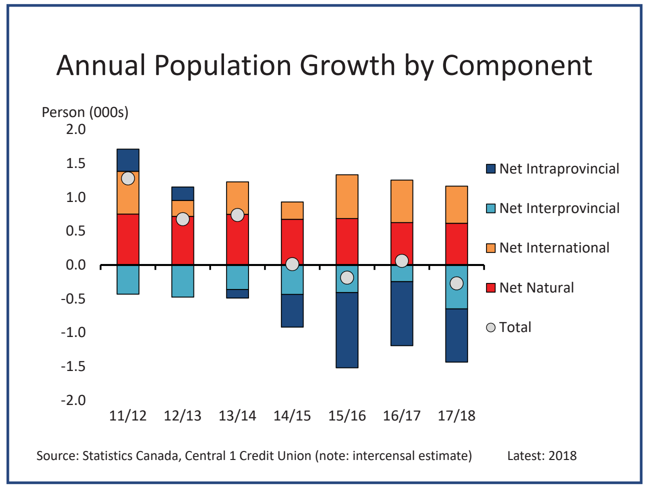
Source: Statistics Canada, Central 1 Credit Union

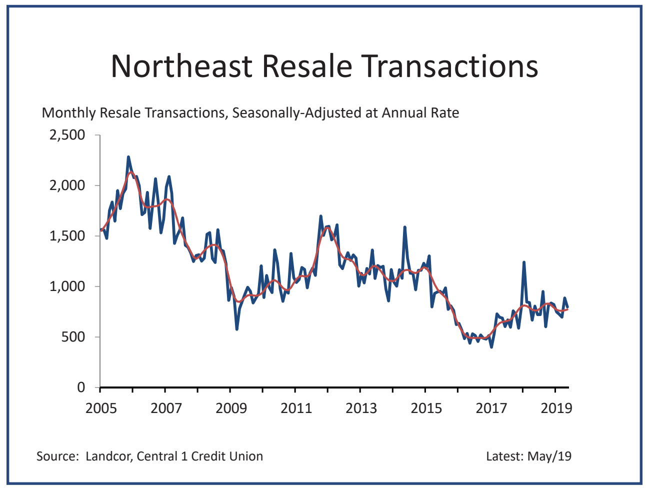
0.4 per cent or 273 persons in 2018 following a flat 2018. B.C. Stats estimates population directly based on housing data, health records and other variables as predictors, which estimated a 0.2 per cent increase.

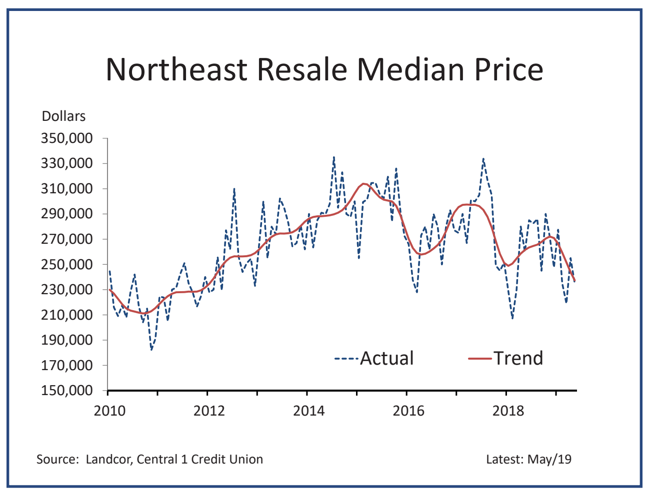
Both methods are valid growth estimates, and at best suggest continuation of a flat to negative population trend. However, B.C. Stats provides estimates at the municipal level which is informative when examining local area conditions.

The majority of the region's population are in municipal areas, with about one third residing in rural areas.

B.C. Stats' estimated growth of 0.2 per cent in 2017 lifting population to 71,425 persons following a 0.1 per cent contraction in 2017. The latest estimates point to relatively stronger population growth in Chetwynd (up 2.2 per cent) and Tumbler Ridge (up 1.8 per cent). The latter contracted sharply in recent years following closures of local coal mines, and only partial re-openings thereafter. Fort St. John expanded by 0.6 per cent with Dawson Creek growing 0.4 per cent. While estimates differ, Statistics Canada's component method provides information on some of the drivers of population at a headline level. Positive contributors to population are net natural (births less deaths), reflecting demographics of the region, international migration inflows, and net non-permanent residents. In contrast, net losses to other provinces and others areas of B.C. has accelerated in recent years. This is a direct effect of relatively weaker economic conditions in the region, and still sluggish investment cycle in the energy patch. On an interprovincial basis, the region lost a net 650 persons to other provinces in 2018, while a net 790 persons moved to other parts of B.C.







Housing market cycle pauses after 2018 improvement

Housing sales volume improved significantly in 2018 with arms-length resale transactions reaching 800 units, compared to about 650 units in 2017. However, this was only half of levels observed during the mid-2000s and 70 per cent of 2014 levels. The market has found considerable difficulty in generating traction with sales down seven per cent through the first five months of 2019 compared to same-period 2018. Detached homes sales have fallen 13 per cent over the same period. That said, sales in the region are generally low given population levels, and this decline represents a difference of only 21 sales from a year ago.

Year-to-date, Dawson Creek sales declined 19 units or 23 per cent, while Fort St. John sales increased by nine units or seven per cent. Outside of these urban centres sales fell by 11 units or 14 per cent.

Sluggish sales conditions have generated downward pressure on home values. Median home values have generally held range- bound. The median resale value in the Northeast came in at $301,000 during the first five months, which was similar to full-year 2018. However, monthly estimates have trended below $300,000 for most of 2019. Including multi-family homes, the median price has declined to about $260,000 year-to-date, but monthly values have trended lower. Broadly the housing market remains weak. Housing sales-to-listings conditions in the northeast, proxied by the Northern Lights real estate board region, and the BC Northern board area point to prevalence of a buyers' market.

Total Resale Transactions									
	2014	2015	2016	2017	2018	% ch.	2018 YTD May	2019 YTD May	% ch.
Northeast	1,176	904	510	658	808	22.8	287	266	-7.3
Fort St. John	697	499	254	302	384	27.2	125	134	7.2
Dawson Creek	312	255	149	214	225	5.1	82	63	-23.2

Median Price									
	2014	2015	2016	2017	2018	% ch.	2018 May	2019 May	% ch.
Northeast	298,250	300,000	270,000	285,000	269,198	-5.5	256,811	239,164	-6.9
Fort St. John	350,000	351,000	335,000	339,000	328,700	-3.0	327,878	295,926	-9.7
Dawson Creek	250,000	249,000	250,000	256,250	265,000	3.4	258,409	238,680	-7.6

Source: Landcor, Central 1 Credit Union, YTD median price is weight three month average of median value

Detached Transactions - Includes New and Resale Transactions, Select Markets									
	2014	2015	2016	2017	2018	% ch.	2018 YTD June	2019 YTD June	% ch.
Fort St. John	473	303	184	206	274	33.0	116	111	-4.3
Dawson Creek	284	233	146	183	177	-3.3	79	63	-20.3
Chetwynd	35	43	21	44	40	-9.1	20	20	0.0
Tumbler Ridge	12	8	19	18	39	116.7	24	18	-25.0
Taylor	23	13	8	9	5	-44.4	2	6	200.0

Detached Average Price - Includes New and Resale Transactions, Select Markets									
	2014	2015	2016	2017	2018	% ch.	2018 YTD June	2019 YTD June	% ch.
Fort St. John	417,699	424,889	412,969	405,719	385,306	-5.0	368,396	392,239	6.5
Dawson Creek	289,012	299,921	291,642	291,274	290,048	-0.4	288,106	287,761	-0.1
Chetwynd	256,055	296,109	292,786	275,818	268,348	-2.7	247,625	272,500	10.0
Tumbler Ridge	219,792	139,438	163,068	149,828	148,788	-0.7	143,867	151,994	5.6
Taylor	334,124	372,271	329,875	308,500	407,779	32.2	417,500	373,250	-10.6

Source: Landcor, Central 1 Credit Union

Municipal level data is volatile given relatively few sales among regions, and a breakout of resale and new homes is unavailable outside the census agglomeration areas of Dawson Creek, Fort St. John, and the broader Northeast region. Sales data has remained mixed among markets, albeit with sales generally deteriorating in the first half of 2019 compared to same-period 2018. Average home values have held up, although this is a combination of changes in existing home sales and upward bias on prices due to newer home construction.

New Home Market

Like resale market conditions, new housing construction in the Northeast remains shallow. Housing starts have shown no improvement this year following 2018 weakness. Fort St. John housing starts fell to 60 units in 2018 from 110 units in 2017. Through mid-year, starts are up mildly to 26 units from 21 during same-period 2018. Dawson Creek has recorded only six starts through the first half, from 17 recorded during the first half of 2018,

Building permits have rebounded this year, suggesting moderate improvement in building intentions. That said, levels continue to trend at a relatively weak pace. Residential building permits were up 54 per cent through mid-year to $20.4 million. Most of this gain reflects a surge in Fort St. John, with first half permits up to $13.2 million from $2.0 million in same-period 2018. Dawson Creek permits were down. Mixed performances were observed in other municipalities. Permits are trending below the long-term averages, reflecting a period of weaker economic conditions and population growth.

Non- Residential Building Construction gains in 2019

Similar to the housing market, construction on non-residential building have weakened over the past few years, specifically for private sector activity. This

Residential Building Permits ($ 000)

	2014	2015	2016	2017	2018	5-year Avg	10-year Avg	YTD June 2018	YTD June 2019	YTD ch.
Northeast DR	176,601	150,496	46,370	48,870	35,328	91,533	93,345			54.7
Northern Rockies, RM	1,834	2,044	702	522	308	1,082	3,026	93	153	64.5
Chetwynd, DM	761	975	514	257	412	584	999	100	71	-29.0
Dawson Creek, C	36,867	16,008	3,403	4,185	9,531	13,999	17,777	7,045	2,128	-69.8
Fort St. John, C	122,942	111,524	30,128	31,838	17,669	62,820	54,184	2,052		546.3
Peace River-Liard, RDR	10,221	14,169	10,060	10,352	6,595	10,279	12,198	3,559	4,032	13.3
Pouce Coupe, VL	1,295	2,141	1,230	645	513	1,165	1,430	253	665	162.8
Taylor, DM	2,247	3,145	164	736	83	1,275	1,538	49	48	-2.0
Tumbler Ridge, DM	434	490	169	335	217	329	2,192	54	65	20.4

Non-Residential Building Permits ($ 000)

	2014	2015	2016	2017	2018	YTD June 2018	YTD June 2019	YTD ch.
Northeast DR	89,226	87,298	124,904	70,440	54,063	33,446	38,831	16.1
Northern Rockies, RM	3,716	1,810	8,414	105	320	278	2,824	915.8
Chetwynd, DM	12,773	355	3,815	2,979	742	312	1,428	357.7
Dawson Creek, C	19,846	14,310	36,698	23,817	25,670	21,320	3,731	-82.5
Fort St. John, C	39,150	54,376	51,304	22,829	19,873	7,414	16,131	117.6
Peace River-Liard, RDR	7,890	16,412	24,374	19,372	6,641	4,100	14,707	258.7
Pouce Coupe, VL	600	30	0	0	0	0	10	**
Taylor, DM	3,127	0	299	1,258	807	22	0	**
Tumbler Ridge, DM	2,124	5	0	80	10	0	0	**

Source: BC Stats, Central 1

reflects the subdued labour market, challenging housing conditions and generally weaker demand in the economy. Private- sector building permits fell 30 per cent in 2018 to $47.5 million, and down from more than $80 million in 2015. This has largely reflected commercial activity. First half private construction intentions are down 22 per cent from a year ago.

In contrast, public-sector permits remain steady, which could reflect spending on health and education across the province and other investments. Permits more than doubled in 2018 to $6.58 million and has already surpassed this total in 2019 at nearly $13 million. One significant project is the $31 million Anne Roberts Young NE Elementary School ($30.8 million) which is scheduled to complete in late 2020. Spending on buildings related to the Site C dam may be a lifting permit activity. Various natural gas plants have been completed over the past two years.

Building permits are only one component of non-residential construction investment. A substantial amount is related to engineering construction including work related to the Site C dam, roadways, and other infrastructure. This is not easily easily estimated.

Other projects currently underway include the Coastal GasLink Pipeline Project related to the LNG Canada plant, and Highway 97 bridge replacement.

Economic Outlook

Labour force, population and to a lesser extent housing data are lagging indicators of the economy, although have feedback effects on consumer spending trends. Future growth prospects for the region depends on evolution of the key base sectors particularly the commodities outlook which will drive investment, and major capital expenditures – both private and public. While down from a peak of near 20 per cent in the mid-2000s, roughly 10 per cent of regional employment is directly tied to resource extraction, which is the highest rate in the province.

External economic outlook

As a resource driven region, global economic trends and demand for commodities are important driver of regional activity. Global economic growth remains in a fragile state. Trade uncertainty continues to dominate headlines and are manifesting in weakening trade, growth expectations and investment. Global economic

Projects Under Construction

Construction Type	CONSTRUCTION SUBTYPE	Project Type	Municipality	DEVELOPER	Start	Completion
Infrastructure	Roads & Highways	Transportation	Chetwynd	BC Ministry of Transportation and Infrastructure	2018-Q3	2019-Q3
Institutional	Education	Educational Services	Fort St. John	School District 60	2018-Q4	2020-Q4
Infrastructure	Utilities	Utilities	North Peace	BC Hydro	2017-Q2	2021-Q4
Infrastructure	Utilities	Utilities	Hudson Hope	BC Hydro	2017-Q4	2020-Q1
Infrastructure	Utilities	Utilities	Tumbler Ridge	Moose Lake Wind LP	2016-Q3	2019-Q3
Infrastructure	Utilities	Utilities	Fort St. John	BC Hydro	2015-Q4	2020-Q4
Infrastructure	Utilities	Utilities	Hudson Hope	BC Hydro	2015-Q3	2022-Q2
Infrastructure	Utilities	Utilities	Taylor	Zero Emission Energy Developments Inc.	2017-Q4	2019-Q2
Industrial	Oil & Gas	Liquefied Natural Gas - Natural Gas Pipeline	Dawson Creek	Coastal Gaslink Pipeline Ltd.	2018-Q4	2023-Q4
Infrastructure	Utilities	Utilities	Fort St. John	BC Hydro	2015-Q3	2024-Q4
Commercial	Retail	Retail	Fort St. John	G8 Properties	2016-Q4	2023-Q4

conditions have deteriorated over the past year as the U.S.–China trade and tariff war escalated and deepened global economic uncertainty. Adding to this are concerns around the impact of Brexit. Global trade is running below long-term trends while key bellwether indicators of growth—including manufacturing purchasing managers' indices—have declined to the lowest levels since 2012 as tariffs have taken a toll and caused capital investment to slow. The International Monetary Fund lowered its outlook for the economy a notch by 0.1 percentage points in its latest July outlook to a sluggish 3.2 per cent in 2019 and 3.5 per cent in 2020. Softer inflation has emerged with deterioration in the economy and has cut interest rate expectations, alongside the sluggish outlook.

While the U.S. economy has generally held firm and labour markets remain tight, economic momentum has slowed with weaker industrial production and exports, soft housing construction, and low inflation. This has driven market expectations for central bank interest rate cuts. The U.S. Fed cut its policy rate by a quarter point in July to a range of 2 □ 2 ¼ per cent. This was shortly followed by the Trump administrations announcement of further hikes on Chinese goods, although some of his was walked back temporarily. Another cut this year is likely.

In Canada, growth has disappointed and Gross Domestic Product (GDP) is forecast to expand by less than 1.5 per cent this year. While the Bank of Canada will try to push off following the U.S. Fed's rate cuts, Central 1 forecasts the Bank of Canada to cut twice during the first half of 2020, reflecting recent escalation in trade uncertainty and interlinkages within the global economy. The risk is for rate cuts to be pulled forward into 2019 if the Trump administration moves forward with auto tariffs targeted at the EU and Japan, which would further weaken growth.

Commodity prices have generally turned lower over the past year reflecting the external slowdown. Bank of Canada commodity price indices (smoothed 3-month average) show a year-over-year decline of 12 per cent for energy products, two per cent in metals and minerals, 33 per cent forestry and six per cent agriculture products

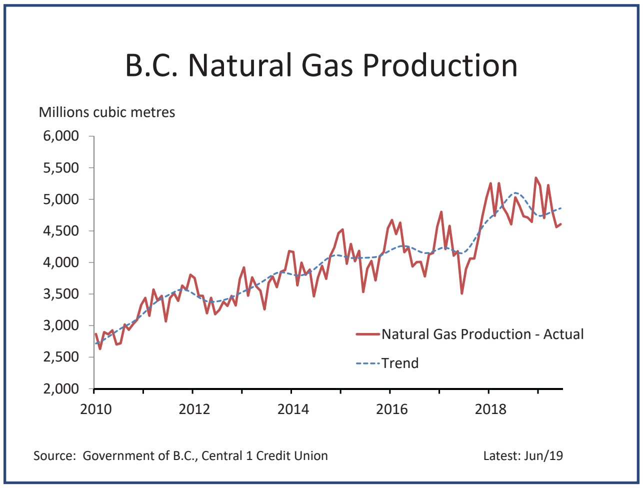
B.C.'s economy is treading modestly through this weaker backdrop, buoyed by a strong labour market, still robust construction cycle and promises of future major project construction; however, it is not immune to this deteriorating backdrop. Economic growth in B.C. is forecast to slow to 2.2 per cent this year from 2.4 per cent in 2018. Export weakness, specifically in forestry, is a drag, as is a slowdown in retail spending on big-ticket items, and sluggish resale market. Growth rebounds in 2020 to 2.6 per cent as major project construction picks up, before trending closer to 2.0 per cent thereafter. New home construction will be a drag on growth in future years, as recent resale market weakness leads to fewer apartment start going forward

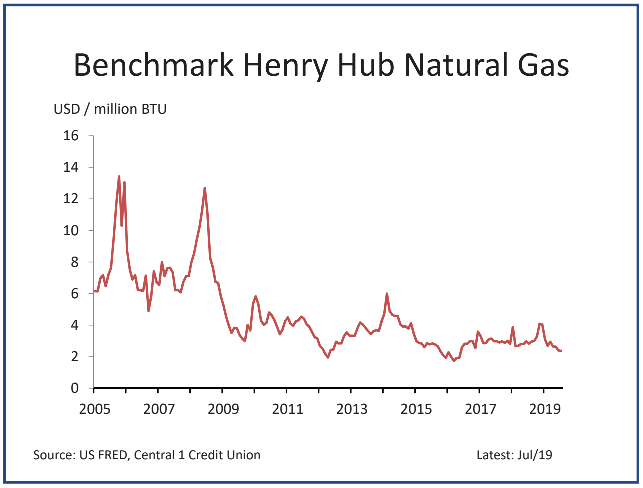
Key Industries Outlook

Energy Sector

Following a blockbuster 2018 where B.C. natural gas production rose 14 per cent, production has eased in 2019 despite the increased capacity from the addition of Veresen plants (Towers, Sunrise, and Saturn) built in recent years. Following a peak in trend in mid-2018, natural gas production has tailed off, with production in the first half of 2019 down roughly one per cent.

A combination of factors have likely contributed to the recent pullback. Natural gas prices have deteriorated through 2019. Spot prices of benchmark Henry Hub declined from $2.90/mmbtu at the beginning of the year to $2.11/mmbtu in August, reflecting elevated production U.S. production[1]. Low prices are likely contributing to weaker growth in dry gas exports. Price trends are expected to rebound moderately to an average of $2.36/mmbtu during the second half of 2019 according to the EIA,Chart - B.C. Natural Gas Production





Oil production curtailments in Alberta is also a factor in more subdued demand and production given operations given lower demand for energy inputs in early 2019.[2] Growth in pentane and condensate production, a higher value by-product of natural gas drilling, with the latter a diluent to bitumen transport has also slowed this year but remains moderately positive. Propane and butane production growth remains strong.

With commercial oil and gas extraction exclusively in B.C.'s northeast, provincial industry gross domestic product estimates provide a sense of underlying regional economic strength. Oil and gas output expanded by a mere 0.3 per cent in 2018, following growth of 15 per cent in 2016 and 1.7 per cent in 2018. Central 1's forecast for 2019 is for a one per cent gain this year and next. Growth is expected to accelerate in 2022 reflecting increased preliminary drilling activity in advance of LNG demand.

While current production is important, the future of production and employment is dependent on the capital investment flow.

According to Statistics Canada's Capital and Repair Expenditures Survey, investment in the oil and gas extraction tangible assets declined in 2018 by 30 per cent to $3.6 billion. This was the lowest since 2016, but likely owed to a lull following plant construction the prior year. Projected investment based on survey responses pointed to a continuation of modest range-bound investment in the sector, with 2019 expectations at $4.1 billion.

That said, land rights sales have been exceptionally low in 2019. Calendar year crown sales of land rights has reached only 11,191 hectares which is trending towards a record low unless sales pick up sharply over the next few months. This is underperforming government forecasts for activity. Low prices, uncertainty in oil markets, significant gas supply in the U.S., and a lag before LNG production is holding back activity. Total tender bonuses, which reflect market exuberance for the rights and forward expectations, reached only $2.816 over the first nine months. Low land right sales could reflect supply of hectares available for disposal, but generally relates to market conditions. Average bonus bids per hectare was $234 over the period compared to $916 in 2018 and an average above $2,300 from 2007 to 2014.

1 Energy Information Administration. Natural Gas Weekly. August 14

2 https://www.neb-one.gc.ca/nrg/ntgrtd/mrkt/nrgsst-mprfls/bc-eng.html

Aligning with slowing production and investment expectations, the number of drilling rigs exploring and/or developing oil and gas has plummeted. According to Baker Hughes rig counts, there were fewer than eight averaged in August which was down by half from a year ago. The trend has been range-bound but generally near the lowest level since at least 2007.

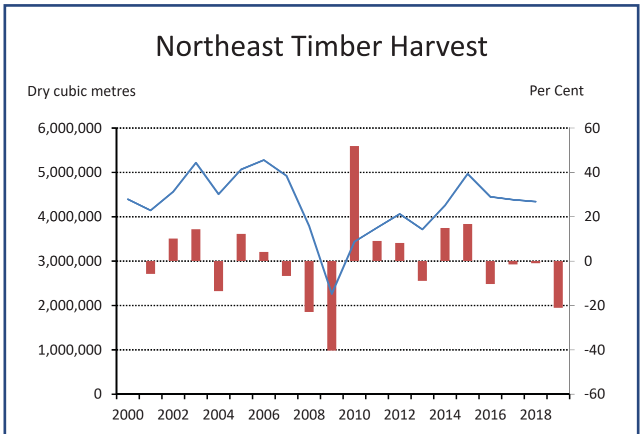
Central 1's forecast for B.C.'s oil and gas drilling output is for subdued growth over the next two year period. Global economic uncertainty, challenges in the Alberta oil patch, high levels of U.S. gas production and lull before demand from liquefied natural gas projects kicks in from LNG Canada and Woodfibre LNG which will also command higher prices in the gas patch. The EIA's August Short Term Economic Outlook for forecasts Henry Hub at $2.85/mmbtu, which is higher than 2019's $2.64, but well below 2018's average of $3.27. This unlikely to spur significant activity in the sector. Note that price volatility is normal, and intrayear swings are expected reflecting weather patterns, speculative trading in markets, and other supply and demand factors. The World Bank forecasts a similar price trajectory over the near term, with its long-term forecast pegged at $3.20/mmbtu in 2020 with an upward trajectory to $4.00 by 2030.

Given a soft domestic environment, B.C. production growth is tied to completion of LNG Canada's export terminal in Kitimat and exporting natural gas to markets in Asia. Construction of LNG Canada's project is expected to be completed by 2024. The project includes a $12 billion export terminal in Kitimat, the Transcanada Coastal Gas Link 700 km pipeline to the Dawson Creek Area The project would boost construction and investment through a three-year period and induce increased drilling in the latter period of the cycle. Direct impacts on oil and gas production occurs from 2022-2025.

Forestry

B.C.'s forestry sector is in a deep slump following robust conditions through most of 2018. High lumber prices drove excess production which has since driven prices lower by 40 per cent. This is specifically impactful for B.C. producers given impact of softwood lumber tariffs. A rising number of mills have closed due to current market conditions, lack of long-term timber supply due to the last impacts of the mountain pine beetle epidemic, and high input costs. Sawmill closures is a last trend that will persist given supply side challenges.

While less impacted by the mountain pine beetle epidemic than other regions, Northeast B.C. has not been immune to the downturn. Louisiana-Pacific



Source: Ministry of Forests, Lands and Natural Resources, Central 1 Credit Union Note: 2019 YTD Change

OSB mill in Fort St. John announced its indefinite curtailment in June which was effective August 9, citing slumping demand and high wood costs. The firm reportedly employed 190 people and had capacity of 800 million square feet. Louisiana Pacific's Dawson Creek plant is in better shape, with the plant receiving $4.5 million in funding earlier this year to convert to SmartSide Lap Siding production – generating higher value production.[3]

Canfor sawmills in Chetwynd and Fort St. John were curtailed for four weeks this year due to market conditions, while shutdown at the Taylor pulp mill was also extended through September. West Fraser also curtailed production. Lower production impacts not only manufacturing employment but also regional timber harvest activity.

Northeast timber harvest through the first half of 2019 has declined sharply. Following steady volume near 4.3 million cubic metres from 2016 through 2018, first half harvest has declined by 21 per cent which aligns with broader provincial trends.

Direct provincial forestry harvesting activity and related manufacturing is forecast to contracts by about seven per cent this year with flat weak activity thereafter.[4] Broadly, B.C. forestry activity will remain in a subdued state. Rising housing demand in the U.S. over the next few years will support demand, and prices will rise as excess lumber supply abates. While this will provide some support for B.C. producers, timber supply availability will be the main constraint to production. The northeast is likely to fair better on this latter point given less MPB impact in the region.

3 https://www.dawsoncreekmirror.ca/dawson-creek-news/canadian-government-announces-4-5-million-of-funding-for-lp-mill-conversion-1.23617413

4 https://www2.gov.bc.ca/gov/content/industry/forestry/competitive-forest-industry/forest-industry-economics/fibre-mill-information

Coal Sector

The regional coal sector has improved following the 2016 crash. Production at Comuna's three Tumbler Ridge area mines of Brule, Wolverine and Willow Creek has ramped up since being purchased out of bankruptcy from Walter Energy in 2016 as market conditions firmed. Employment has returned to the region, with their operations supporting about 900 direct jobs and 3,000 direct jobs according to company estimates. This is behind strengthening population and building trends in the Tumbler Ridge area following sharp losses in 2015 and 2016, although the area has seen net population losses since peak.

Stability in the sector is reflected in Port of Prince Rupert tonnage date. Conuma has recently filed an application to expand its operations, reflecting prospective long-term demand from China and India. Through the first seven months metallurgical tonnage through the Ridley Terminal was down a modest five per cent following a sharp rebound in 2018.[5] Across the province, physical coal exports through rose 2.4 per cent through mid-year on a year-to-date basis. In 2018, exports rose 11 per cent in 2018 to 33 million tonnes following a nine per cent increase in 2017. At this point, export prices for B.C. coal have been firm in 2019 despite headwinds from weakening macro -economic conditions in China as supply disruptions support prices. Average export prices for B.C. coal to international markets were $224 per tonne thus far in 2019, compared to a full-year average of $222 in 2018 and $220 in 2017. In 2016, the average price was a low $151.

Coal exploration spending in B.C. rose in 2018 according to the British Columbia Mineral and Coal Exploration Survey. Exploration activity in the sector rose 58 per cent in 2018 to $50 million following five years of contraction, but not all of this was in the traditional areas of the northeast and Kootenay, with other areas also seeing increased activity.[6] According to the report, coal exploration expenditures in the region rose from $2 million in 2017 to $6 million in 2018. The vast majority of provincial coal exploration is in the Kootenay area ($36 million).

There are a handful of mines currently proposed for the northeast but will be dependent on market conditions particularly as related to steel demand, which drives demand for iron ore and metallurgical coal. This includes Colonial Coal Flatbed and Hugenot properties. Project starts will likely depend on the macro-environment, particularly in Asia markets, as supply disruptions are temporary and reflect steel demand. The IMF's July World Economic Outlook forecasts softening global growth, with China's growth to decelerate from 6.6 per cent in 2018, to 6.2 and 6.0 per cent in 2019 and 2020. This may be optimistic given deterioration in the U.S. – China trade relationship since that period. This will hamper commodity prices.

Agriculture

Farm activity in the region has declined from 2011 through 2016 according to the latest Census of Agriculture. The total number of farms declined from 1,560 in 2011 to 1,335 units. On a land basis, land for pasture fell five per cent over the period, while cropland held edged higher.

Based on 2016 data, the main farm types in the region were hay (539), beef cattle ranching, including feedlots (229), horse (126) and oil seed and grain (191). The largest losses in farm units were observed in horse (-56) and hay farming (-129), while oilseed and grain farms increased slightly.

The current state of agriculture needs to be inferred from provincial statistics. Wheat sales in B.C. rebounded 52 per cent in 2017 following a sharp 2016 declines. Levels were up one per cent in 2018 but fell in Q1 2019 by 40 per cent on a year-over-year basis. Livestock sales have held steady. Cattle sales slumped in 2016, and has shown little growth over the past two years and into 2019. In contrast, sales of calves have been strong with 30 per cent gains over the past two years. Prices both final and feedlot and weather conditions factor into livestock and crop conditions.

Major Project Inventory Review

Construction of mega projects in the north will remain a key source of economic activity and employment in the region, although it is likely that a significant portion of employment will be filled by workers from other part of the province due to insufficient skilled labour supply in the immediate area.

As of the Q1 2019, the combined capital value of all projects at various stages of construction in the Northeast was $18.3 billion, up 37 per cent from a year ago.[7] Not surprisingly, the bulk of this remains the $10.7 bil-

5 http://files.rupertport.com.s3.amazonaws.com/snapshots/128/June%20Monthly%20Traffic%20Summary.pdf?Expires=1503601411&AWSAccessKeyId=AKIAJT7NKA535OKDFPBQ&Signature=eTt3J0W%2FH0vHEKaR1UVKdoyrBYw%3D

6 https://www.ey.com/Publication/vwLUAssets/EY-BC-minerals-coal-exploration-survey-2018/$FILE/EY-BC-minerals-coal-exploration-survey-2018.pdf

7 Due to delays in the Major Projects Inventory release, Q4 2016 is the latest issue available

Projects Proposed

Project Name	Capital Cost $(mil)	Construction Type	CONSTRUC-TION_SUBTYPE	Project Type	Municipality	DEVELOPER	PROJECT_CATEGORY_NAME	Start	Completion
Zonnebeke Wind Energy Project	50	Infrastructure	Utilities	Utilities	Chetwynd	Zonnebeke Wind Project LP	Utilities (incl sewage treatment)		
Sukunka Wind Energy Project	50	Infrastructure	Utilities	Utilities	Chetwynd	Sukunka Wind Project LP	Utilities (incl sewage treatment)		
Babcock Ridge Wind Farm	50	Infrastructure	Utilities	Utilities	Tumbler Ridge	Boralex	Utilities (incl sewage treatment)		
Highway 97 South Taylor Hill (Middle Section)	25	Infrastructure	Roads & Highways	Transportation	Taylor	BC Ministry of Transportation and Infrastructure	Transportation & Warehousing		2022-Q4
Red Willow Wind Farm	480	Infrastructure	Utilities	Utilities	Tumbler Ridge	Red Willow Wind LP	Utilities (incl sewage treatment)	2019-Q4	2020-Q4
Sundance Clean Methanol Refinery	1500	Industrial	Manufacturing - Petrochemical	Petrochemical Manufacturing	Chetwynd	Canadian Methanol Corp.	Manufacturing	2020-Q3	2023-Q4
North Montney Mainline	1700	Industrial	Oil & Gas	Natural Gas Pipeline	Peace River	NOVA Gas Transmission Ltd.	Transportation & Warehousing		
Horn River Basin Light Industrial Park	40	Commercial	Other Commercial	Commercial/ Industrial	Fort Nelson	Northern Rockies Regional Municipality	Residential/Commercial		
Sukunka Coal Mine Project	444	Industrial	Mining	Mining	Tumbler Ridge	Glencore	Mining & Oil & Gas Extraction		
Taylor Wind Project	900	Infrastructure	Utilities	Utilities	Taylor	Taylor Wind Project Ltd.	Utilities (incl sewage treatment)		
Kemess Underground Copper-Gold Mine	524	Industrial	Mining	Mining	Chetwynd	Northgate Minerals Corp.	Mining & Oil & Gas Extraction		
Carbon Creek Mine	301	Industrial	Mining	Mining	Hudson Hope	Cardero Resource Corp.	Mining & Oil & Gas Extraction		
Fortune Creek Gas Plant	760	Industrial	Oil & Gas	Oil and Gas Extraction	Fort Nelson		Mining & Oil & Gas Extraction		
Wapiti River Coal Project		Industrial	Mining	Mining	Tumbler Ridge	Canadian Dehua International Mines Group Inc.	Mining & Oil & Gas Extraction		
Bullmoose River Coal Project		Industrial	Mining	Mining	Tumbler Ridge	Canadian Dehua International Mines Group Inc.	Mining & Oil & Gas Extraction		
Murray River Coal Project	400	Industrial	Mining	Mining	Tumbler Ridge	HD Mining International Ltd.	Mining & Oil & Gas Extraction		
Tumbler Ridge Bioenergy Project	15	Infrastructure	Utilities	Utilities	Tumbler Ridge	Ainsworth Energy Co. Ltd.	Utilities (incl sewage treatment)		
Sundance Low Carbon Gasoline Refinery	2500	Industrial	Manufacturing - Petrochemical	Petrochemical Manufacturing	Chetwynd	Blue Fuel Energy Corp.	Manufacturing	2019-Q4	2020-Q1
Hackney Hills Wind Park	400	Infrastructure	Utilities	Utilities	Fort St. John	Aeolis Wind Power Corporation	Utilities (incl sewage treatment)		
Gething Coal Project	1360	Industrial	Mining	Mining	Hudson Hope	Canadian Kailuan Dehua Mines Co., Ltd./ Shandong Energy Feicheng Mining Group Co. Ltd	Mining & Oil & Gas Extraction		
Wartenbe Wind Energy Project	140	Infrastructure	Utilities	Utilities	Chetwynd area	Dokie Wind Energy Inc.	Utilities (incl sewage treatment)		
Belcourt/ Saxon Coal Mines	100	Industrial	Mining	Mining	Tumbler Ridge area	Belcourt-Saxon Coal LP	Mining & Oil & Gas Extraction	2019-Q4	2020-Q4
Hermann Coal Mine	55	Industrial	Mining	Mining	Tumbler Ridge area	Western Canadian Coal Corp	Mining & Oil & Gas Extraction		

Source: BC Major Project Inventory

lion Site C Dam construction which commenced work in 2015 as is about four years into its nine year construction cycle. Most of the remainder is associated with the $6.2 billion Coastal Gaslink Pipeline which facilitates LNG Canada's terminal, which started in late 2018 and expected to build out through late 2023. Other significant projects under construction include BC Hydro's Peace Region Electricity Supply Project and the Fort St. John Town Centre development.

Completed projects over the past year have included the Wyndwood Pipeline Looping Project and North Pine Liquids Facility.

The known dollar value of proposed projects within northeast B.C. remained elevated in the first quarter at $11.9 billion. This is lower than same-quarter 2018 by 35 per cent, which largely reflects commencement of the Coastal Gaslink Pipeline which moved to construction stage. Noting only those with proposed start dates, the main contributors to the proposed project value include the Sundance Clean Methanol Refinery for Chetwynd with a value of $1.5 billion and the Sundance Low Carbon Gasoline Refinery ($2.5 billion), located on the same site. This project is in the permitting stage. A RCMP detachment ($43 million) in Fort St. John was scheduled to begin construction in Q2.

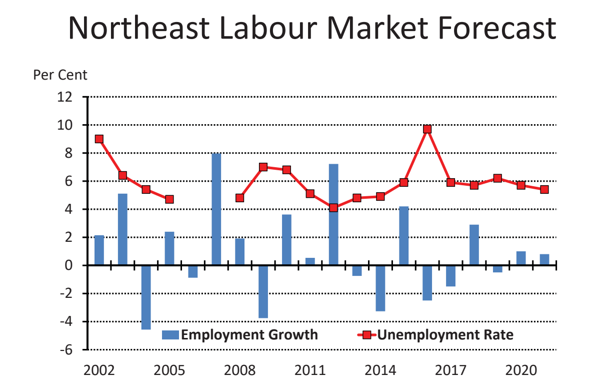
Coal mining and wind-oriented utilities are potential drivers of growth, but are largely in consultation and approval stage suggesting some time before projects reach construction stage.

While substantial and the source of potential growth for the region, caution is warranted given the current macro-economic environment which remains challenging. Many of these projects are in early-stage planning, have yet to receive environmental permits, or are tied to LNG and coal market prospects. The majority of projects do not list an estimated start or completion date in the Major Projects Inventory.

Project starts are unlikely to drive substantial uplift in non-residential permits as they largely are engineering and infrastructure projects.

Northeast Forecast

Economic trends in northeast B.C. will remain mild into 2020 in advance of strengthening activity thereafter. Uncertainty in the global economic backdrop, and low natural gas prices will hamper resource investment. That said, major project investment will continue to support construction work in the region. Construction of Site C will remain a key employer in the region,



Source: Statistics Canada, Central 1 Credit Union

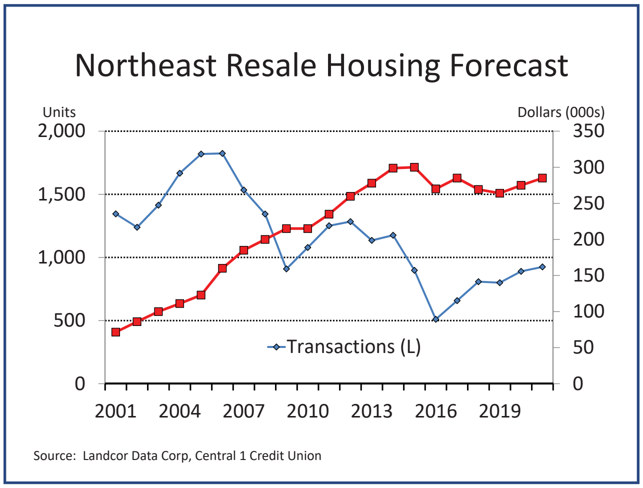
although employment growth from the project is marginal as it is near peak project employment. Pipeline construction will boost employment in the area during the LNG buildout phase. Due to insufficient labour supply and skills in the local region, much of the employment will be drawn from residents living outside the Northeast, including from the central interior and Alberta. This employment will not be captured in regional Labour Force Survey estimates but will be positive for regional spending activity.

Average employment in the northeast as per the Labour Force Survey is forecast to edge down this year, before rising one per cent in 2020 and 0.8 per cent in 2021. The unemployment rate trends in a range of 5.5 per cent to 6.0 per cent.

Population growth is forecast to rise 0.4 per cent in both 2020 and 2021 following a flat performance this year. Major project construction will draw modest gains to the area via interprovincial and intra-provincial migration, although the region will still see outflows to other parts of B.C. due to education and labour market opportunities. Large project construction may provide a temporary boost to population, but given prevalence of work camps, have little impact on housing demand. A rise in operation jobs or sustained capital investment cycle is needed to drive permanent inflows.

Weakness in the housing market is at bottom and is forecast to strengthen over the next two years, albeit still trending at a relatively shallow pace. Home sales edge down this year by one per cent, before rising 11 per cent in 2020 and four per cent in 2021. The median price declines two per cent this year to $264,000 before rising thereafter. Caution is warranted in home values given a relatively thin market for transactions. Residential permit volume rebounds 40 per cent this year, and grows 30 per cent in 2020, but remains half of 2014 levels. Not surprisingly, slow price growth and buyers' market conditions will restrain new home construction and renovation activity. Residential dollar-volume permits rise six per cent to $52 million but is not much different than the past two years. Growth is moderate in 2019 and 2020 at 15 per cent annually, although levels remain low.

Bryan Yu
Deputy Chief Economist
byu@central1.com
604.742.5346
Mobile: 604.649.7209



Northeast BC Economic Outlook

	2016	2017	2018	2019	2020	2021
Labour Force (000s)	43.3	41.0	42.0	42.0	42.2	42.4
% ch.	1.6	-5.3	2.4	0.0	0.5	0.5
Total Employment (000s)	39.1	38.5	39.6	39.4	39.8	40.1
% ch.	-2.5	-1.5	2.9	-0.5	1.0	0.8
Unemployment Rate	9.7	5.9	5.7	6.2	5.7	5.4
Residential Transactions	510	658	808	800	890	925
% ch.	-43.6	29.0	22.8	-1.0	11.3	3.9
Median Price	270,000	285,000	269,198	264,000	275,000	285000
% ch.	-10.0	5.6	-5.5	-1.9	4.2	3.6
Residential Permits ($ millions)	46.4	48.9	35.3	50.0	65.0	70
% ch.	-69.2	5.4	-27.8	41.6	30.0	7.7
Non-Residential Permits ($ millions.)	124.9	70.4	54.1	75.0	124.0	125
% ch.	43.1	-43.6	-23.2	38.6	65.3	0.8
Population (000s)	71.6	71.7	71.8	71.8	72.1	72.4
% ch.	-0.1	0.1	0.2	0.0	0.4	0.4

BC Expenditure GDP Growth

	2016	2017	2018	2019	2020	2021
GDE	3.2	3.8	2.4	2.2	2.6	2.1
Machinery & Equipment	11.5	-0.6	2.7	0.8	8.6	0.6
Non-Residential Structures	-11.3	29.7	-3.7	9.6	20.1	8.8

BC Industry GDP Growth

	2016	2017	2018	2019	2020	2021
Oil and Gas Mining	14.9	1.7	0.3	1.0	1.3	1.2
Other Mining	-1.9	-3.5	2.3	3.4	1.0	1.7
Support activities for oil, gas, and other mining	-28.6	-4.1	17.1	1.7	5.7	3.2
Construction	2.1	10.8	3.1	4.5	5.5	2.1

Chief Economist: **Helmut Pastrick** Deputy Chief Economist: **Bryan Yu** Senior Financial Economist: **David Hobden** Regional Economist, Ontario: Edgard **Navarrete**
Production: **Judy Wozencroft**