B.C. Economic Briefing

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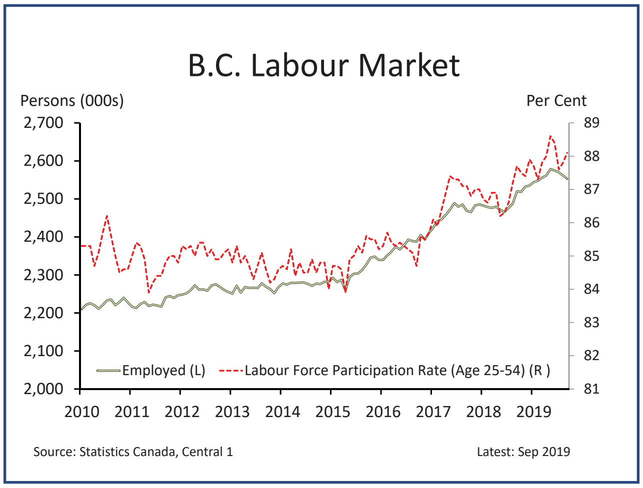
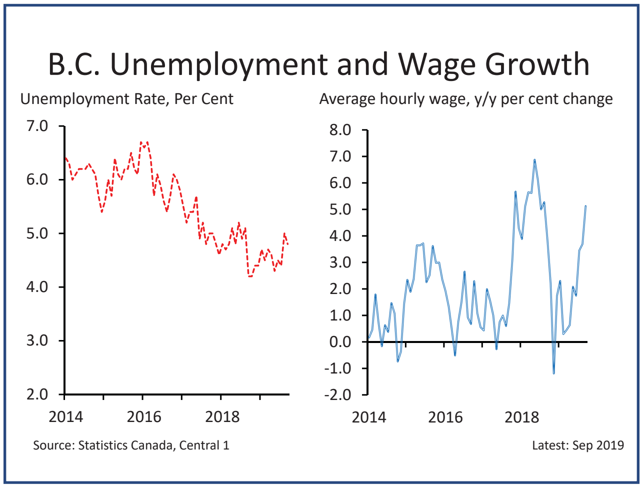
Highlights:

- B.C. employment dips 0.3 per cent in September
- Employee wages continue to climb
- Housing starts pick up again in September and set for blockbuster year
- Non-residential building permits slump in August





Employment falls again in September, but wages on the rise

The easing employment trend in B.C. continued into September with estimated levels down by 8,400 persons or 0.3 per cent from August to 2.55 million persons according to Statistics Canada's latest Labour Force Survey. While this was statistically insignificant, this marked a fourth consecutive decline and the lowest level since February. The recent downswing has more than retraced the sharp gain in employment observed from April to May and tempering in the economic activity. B.C. lagged the Ontario- driven national gain of 0.3 per cent. Year-over- year, B.C. employment growth slipped to 1.3 per cent.

Monthly details were generally mixed and much caution is warranted given volatility in monthly data. Declines were attributed entirely to the part-time tenure (down 3.1 per cent from August), while full- time employment rose 0.4 per cent during the month following recent declines. Total hours worked accelerated from a 0.7 per cent year-over-year pace in August to two per cent in September, while our seasonally adjusted calculation also rose significantly. The Vancouver Census Metropolitan Area drove the provincial trend with 1.1 per cent, or 16,100 persons, employment decline from August, albeit with similar slip in the unemployment rate to 4.8 per cent. Other metro areas generally posted higher employment.

On an industry-basis, the main drag on employment came from the information/culture/recreation industry which shed 15,000 positions from August or 10.8 per cent, and natural resources which fell 5.5 per cent (2,400 persons) from August and 17 per cent year-over-year. The latter likely reflects weakness in the forestry sector. Transport and warehousing and finance/insurance/real estate were significant offsets.

Broadly, a weakening trend in private- sector employment continued, with a fifth straight decline (0.2 per cent) while public- sector employment also retraced sharply by 12,700 persons or 2.7 per cent after a recent upswing. Self-employment provided offset to these losses. While monthly data is highly volatile, the recent trend points to hiring support from government and self-employed, as private sector hiring has eased.

This may reflect challenges of businesses to find people at current wages. The unemployment rate slipped to 4.8 per cent from 5.0 per cent, reflecting fewer individuals looking for work (specifically younger workers). Labour force participation rates for those in their prime working years (25 to 54) remain near record highs, with corresponding unemployment rates at a low four per cent. Average employee wages are accelerating, with the latest numbers showing a 5.1 per cent gain in average hourly wages from a year ago, compared to 3.7 per cent in August, and well outstripping inflation. Small businesses have referenced skills shortages as a key impediment to production according to the Canadian Federation of Independent Business in recent surveys, which is showing up in slower hiring and wage pressures.

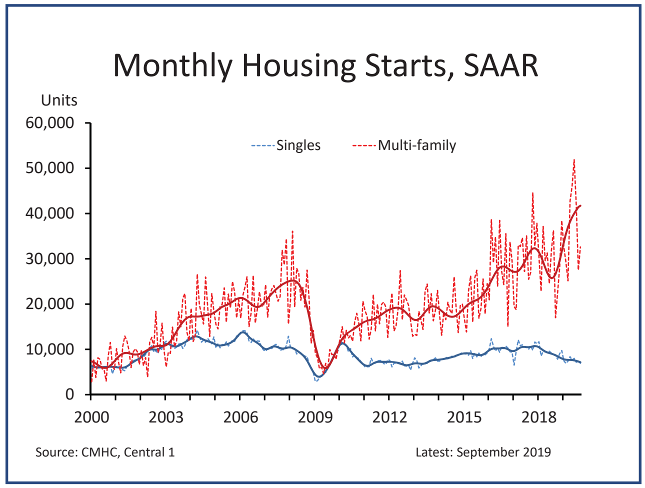
Despite the recent slip, average annual employment is expected to come in near 2.6 per cent this year even with a soft fourth quarter with the unemployment rate at 4.6 per cent. Employment growth slows to 1.3 per cent in 2020, with further downward pressure on unemployment due to the aging workforce.

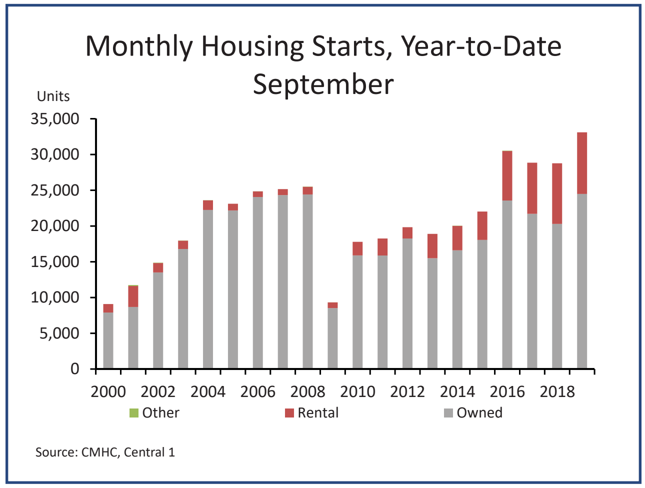
Robust housing starts continue through September, condos drive 2019 gains

Housing starts remained a positive surprise for the economy in September and continued to outpace our expectations for a more significant downturn in response to the policy-driven contraction in resale market transactions and for pre-sale condo sales.

Urban-B.C. housing starts rebounded to a robust annualized pace of 39,550 units in September following an August pullback to 34,950 units. This also marked a 54 per cent increase from a year ago. The metropolitan areas (CMA) of Vancouver and Victoria led September's increase. Vancouver starts rose from an annualized 19,830 units in August to 25,020 in September, while Victoria rose from 1,657 to 6,010 units. Abbotsford doubled to 2,070 units while Kelowna fell back after a August surge. That said, monthly swings are not uncommon due to the impacts of construction of multi-family product.

Urban area starts were up 15 per cent through the first three quarters to 33,101 units which has reflected increased apartment and townhome starts which rose 26 per cent, while detached home starts fell 20 per cent. While partly a reflection of project planned before the market downturn, it is clear that there is sufficient demand to get projects into construction phase. The driving force of this gain has been a 38 per cent increase in condominium tenure starts. Rental starts continue to be a substantial share of total new home construction. While up only 1.6 per cent, the share of total starts was 26 per cent. Rental starts have increased significantly in both level and share in recent years.





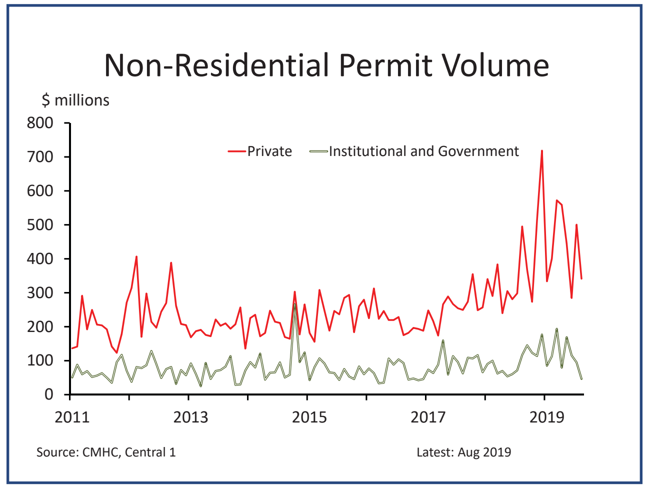
Regionally, starts through the first three quarters rose 23 per cent in the Vancouver CMA, doubled in Abbotsford-Mission, but fell 17 per cent in Kelowna and 15 per cent in Victoria.

Persistently strong housing starts means construction will exceed year ago levels. Including rural areas, quarterly starts have trended above 45,000 units during the first three quarters and will likely come in near 44,000 units and a gain of closer to 10 per cent. While we still expect the trend to ease in 2020 as slower presales over the past two years erode new construction, the pick up in resale transaction in recent quarters, low mortgage rates and signals that federal policy will work to increase demand for entry level buyers will provide support. Meanwhile, strong rental market demand and investments in non-market housing will also drive construction activity.

Gravity sets in for non-residential construction

Non-residential permit volume in B.C. pulled back in August suggesting a normalization in trend after a blockbuster first half of the year. August dollar-volume permit volume fell 34.8 per cent to $387.9 million from July, following prior month increase of near 50 per cent. Declines were observed across all segments from July with industrial and government permits down 50 per cent, commercial activity down 28 per cent. The census metropolitan areas of Vancouver (down 45 per cent), Abbotsford – Mission (down 34 per cent), and Victoria (down 47 per cent) all experienced sharp deterioration. In contrast, Kelowna permits more than doubled after a sharp decline in July.

Despite the pullback, permits remained 33 per cent higher through the first eight months of the year driven by commercial projects and government investment. The latter largely reflects spending on schools and hospitals, while a flurry of activity in sectors such as technology and spending on related building investment are contributing to the increase. Industrial permit volume is down 3.7 per cent. The non-residential investment cycle remains positive for economic growth.



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