

### Highlights:

- Non-farm payroll counts slip in August after strong July gain
- Small business confidence index for B.C. among lowest in country
- Sawmills slash production in July

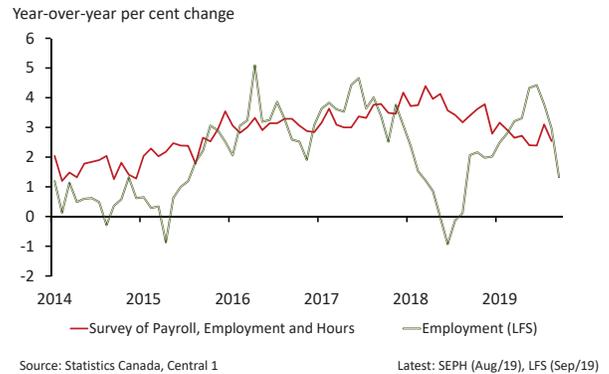
## Payroll counts slip in August, wage earnings growth mild

B.C. non-farm payroll counts in August gave back a portion of the substantial increase in employment recorded in July. Total payroll counts fell 0.3 per cent to 2.35 million persons following the prior month's 0.8 per cent gain. Despite the dip, the underlying growth trend remained positive. Year-over-year growth at 2.5 per cent exceeded the national increase of 2.1 per cent and was second only to Quebec's 3.1 per cent increase. Despite signs of slowdown in the export economy and consumer demand, employment growth generally remains firm.

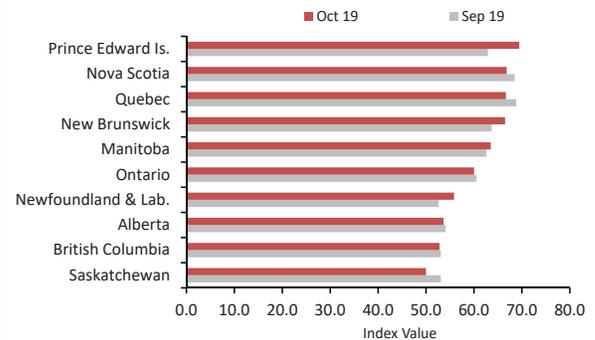
It is noteworthy to juxtapose this headline payroll count estimated via the Survey of Employment, Payroll, and Hours (SEPH) with employment estimates from the timelier Labour Force Survey (LFS). The latter has deteriorated since May, with year-over-year gains at a disappointing 1.3 per cent in September. While the two estimates tend to move in tandem over longer periods, short-term fluctuations are not uncommon. We view SEPH non-farm payrolls as a superior measure of employment given it is based on CRA administrative data and a survey of establishments, while the LFS is based on a household survey and has typically shown greater volatility. That said, the LFS misses self-employment trends and agriculture employment.

On an industry basis, growth in year-over-year payroll counts have been led by a three per cent increase in services-producing industries, specifically a nine per cent gain in educational services, a 4.3 per cent gain in professional, scientific and technical services, and a five per cent increase in health services. Broad weakness in goods-sectors, which rose 1.3 per cent driven was largely driven by a 9.5 per cent drop in forestry and logging employment.

## B.C. Employment Growth by Measure



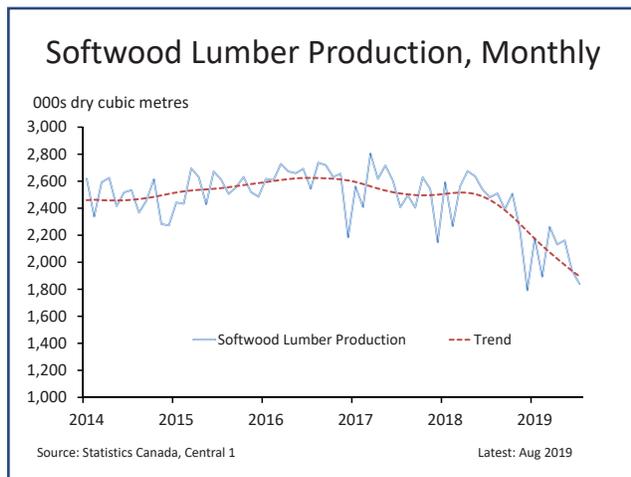
## CFIB Business Barometer



Average weekly earnings also strengthened in the latest month, rising 0.6 per cent from July to 1,001.70 which was in line with the national gain. Year-over-year, weekly wage growth was modest at 2.2 per cent and below the national gain of 2.9 per cent. The pace of year-over-year gain has slipped since the beginning of the year. While various factors contribute to weekly earnings, including job composition and hours worked, the latest gains largely reflect underlying wage inflation.

## Businesses spooked by weaker economic conditions

Small business sentiment in B.C. remained sluggish in October according to the latest Business Barometer reading produced by the Canadian Federation of Independent Business. B.C.'s reading came in at 52.8 points, down 0.3 point from September, and was the second lowest in the country behind Saskatchewan. Nationally, the index came in at 59.8 points, led by the Atlantic provinces.



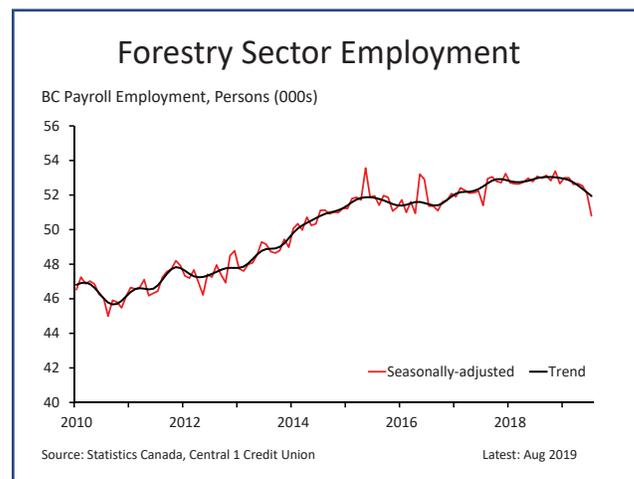
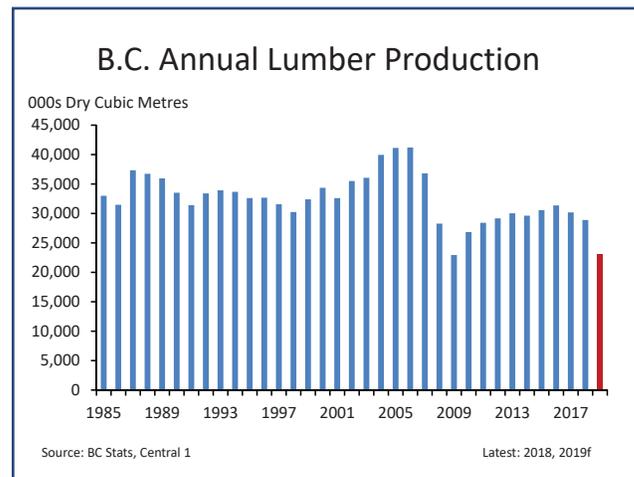
The index suggests B.C. businesses are the least optimistic they have been about future business conditions since 2009, spooked by clear weakness in multiple areas of the economy over the past year including retail spending, exports, and housing; although the latter is building momentum.

Hiring plans have also taken a hit. While 19 per cent of firms surveyed planned to increase full-time staff in the near-term, the trend has eased while the number planning to cut rose to 16 per cent, which was the highest since 2012. That said, firms are still citing challenges with shortages of skilled labour as constraints, although it is possible that owners are not meeting market wages which are rising in what is still a tight labour market.

### Sawmills continue to slash production

B.C. sawmill production showed no improvement in July as mills continued to slash production as the sectoral recession deepened. Aligning with negative manufacturing data, softwood lumber production declined to 1.8 million dry cubic metres, marking a 26 per cent year-over-year decline from same-month 2018. Year-over-year production has declined for 11 straight months. Mill production has been in free-fall over the past year.

While the declining trend let up slightly in July, there is little to no evidence to suggest a turnaround in the activity in the second half of the year. Lumber prices have continued to trend 30 per cent below year ago peaks, while pulp markets are also experiencing a sharp decline in prices. US housing starts have failed to generate meaningful traction despite low mortgage rates, and with the economy expected to slow, demand is unlikely to rise significantly. Meanwhile, B.C. mills have faced rising costs reflecting stumpage fees and an insufficient supply of timber due to the long-term effects of the mountain pine beetle epidemic. Multiple mills have closed in light of current conditions,



with others scaling back shifts to maintain employment.

Year-to-date mill production is down 19 per cent through first seven months of the year. In the absence of a significant rebound, production is expected to decline about 20 per cent, and be just a touch above the previous low in 2009, when the broader economy was grappling with the global financial crisis. Current global conditions are soft and not yet in recession, but it feels like one for the sector. The forestry sector will remain a drag on the economy over the next three years. Sector capacity lost through mill closures this year is unlikely to return when market conditions improve given long-term timber supply constraints. Employment in forestry, logging and support, and wood product and paper manufacturing has declined more than five per cent or by nearly 3,000 persons on a year-over-year basis. Levels are trending at the lowest place since 2014. This does not include individual self-employed contractors or affected workers in the transportation sectors.

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