B.C. Economic Briefing

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Highlights:

- B.C. employment climbs by 15,300 persons in October, unemployment rate at 4.7 per cent
- Housing starts backtrack in October
- Deteriorating export trend interrupted by September rebound
- Lower Mainland resale market conditions firm, sales rise again
- 2018 GDP growth led by consumers, government and non-residential investment

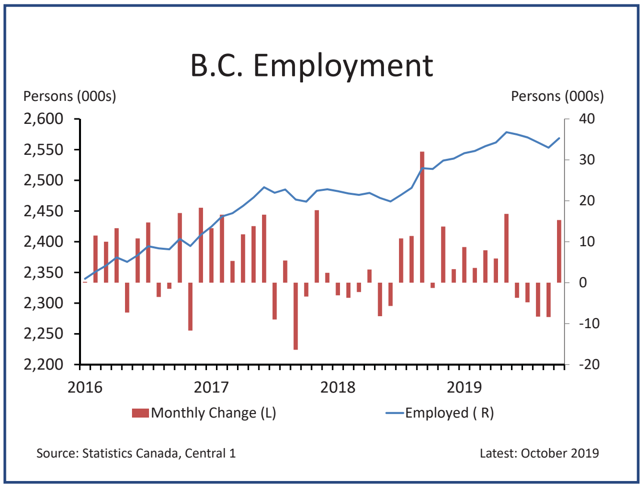
Labour Force Survey shows rebound in September employment

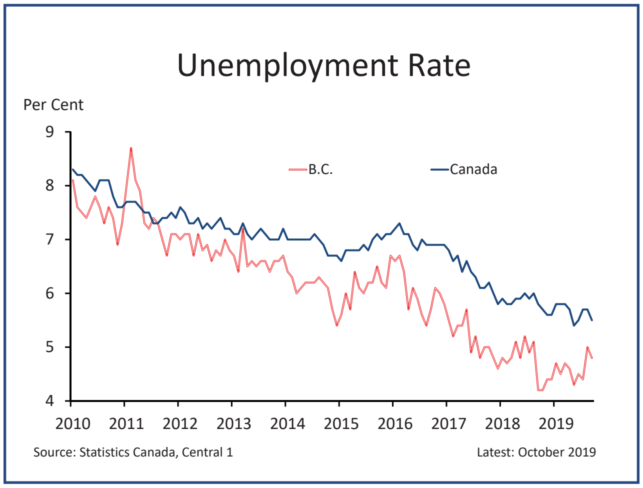
There was good news in B.C.'s labour market in October, according to the latest data from Statistics Canada's Labour Force Survey. Estimated employment climbed for the first time since May, jumping 0.6 per cent or 15,300 persons to near 2.57 million persons (seasonally adjusted). This regained about two months of losses and points to stabilization after a recent dip. Full- time employment, particularly amongst the 55+ crowd, gathered momentum, contributing to the majority of the increase and moved higher for a second month with a 0.6 per cent increase.

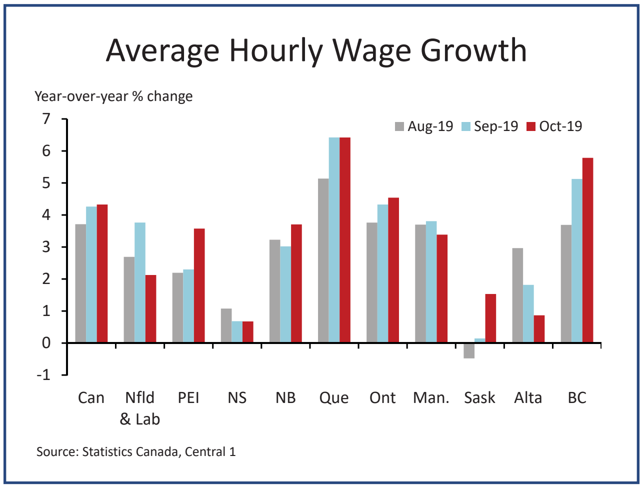
While headline numbers were strong, net employment growth owed mostly to the Vancouver Census Metropolitan Area (CMA), where gains reached 28,000 persons or 1.9 per cent. On aggregate, employment fell in the rest of the province. Recent trends in Kelowna and Victoria have been negative.

Provincially, services employment was up a robust 0.8 per cent from the prior month, and 3.5 per cent year-over-year. Gains were specifically stronger in finance/insurance/real estate (up 1.4 per cent from September and 7.0 per cent from a year ago); public administration (up 6.0 per cent from September and 19.5 per cent, year-over-year) and accommodations and food services (up 6.3 per cent from September and 4.5 per cent year-over-year). Service-sector employment growth has spanned across most sectors over the past year.

In contrast, weakness was observed in the goods producing sector which posted a 0.7 per cent monthly decline and a 4.3 per cent dip from a year ago. Employment in the natural resource sector has taken a







hit over the past year, likely in part due to the downturn in forestry, and was down 19 per cent from a year ago. Manufacturing declined 1.7 per cent from September and 4.8 per cent year-over-year.

Despite recent fluctuations in employment, B.C.'s labour market has remained firm. While year-over-year employment growth in October at two per cent was middling compared to other provinces, average year-to-date growth has led the country with a three per cent gain. B.C.'s unemployment rate also remained lowest among provinces at 4.7 per cent, compared to 5.5 per cent nationally and followed by Quebec at 5.0 per cent. The tight labour market has contributed to accelerating wage growth, with average hourly wages up 5.8 per cent year-over-year, compared to 4.3 per cent nationally. Inability to find workers in this environment, and resistance to higher wages from some employers, may be constraining hiring.

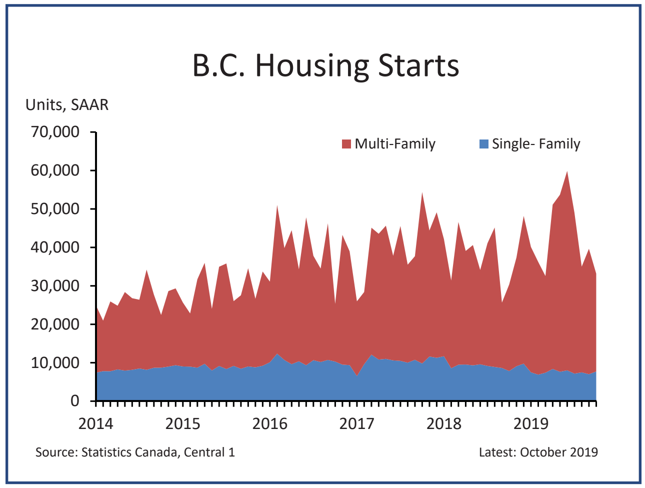
New home construction runs ahead of 2018 despite October slip

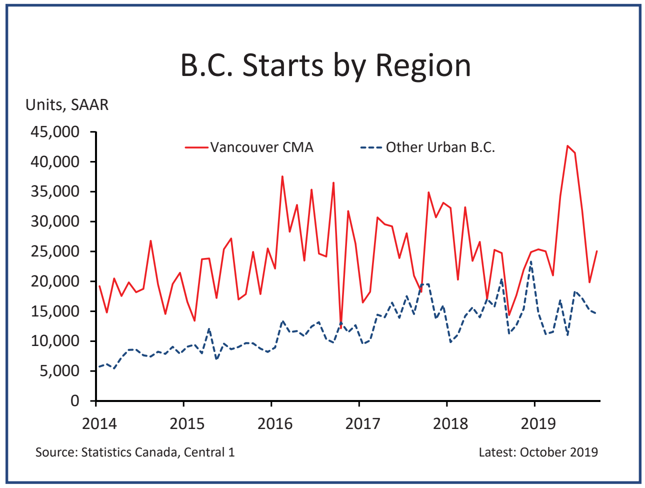
Housing starts in B.C. moderated in October, maintaining a volatile but elevated trend. Urban area starts declined to a seasonally adjusted annual rate of 33,174 units, down from 39,632 units in September but up nine per cent on a year-over-year basis. The monthly drop-off entirely reflected fewer multi-family unit starts which declined from a rate of 32,618 units in September to 25,465 units in October. Single-family starts rose during the month.

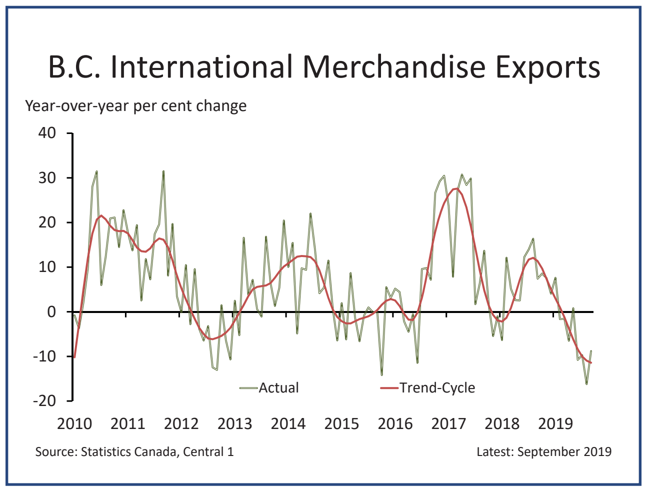
Among the large metro areas, the Vancouver CMA led the pullback, with starts down from a 25,000 unit pace to 15,650 units in October. While starts in the region fluctuate sharply, it is a notable that this was the lowest pace since September of last year. The region has been the main driver of increased housing starts in 2019 reflecting condos pre-sold prior to the resale market downturn. Recent moderation in trend suggests that the weaker pre-sale market since 2018 is finally biting into construction. In other markets, Kelowna saw starts more than double from September to an annualized 3,870 units pace, while Abbotsford-Mission rose 13 per cent to 2,335 units and Victoria declined to 3,880 units after a September surge.

Even with October's dip, starts are running well ahead of a year ago and continue to contribute to economic growth. Year-to-date urban area starts are up 15 per cent, driven by a 25 per cent increase in multi-family construction, while single-family units are down 18 per cent. Vancouver CMA starts are up 21 per cent and are driving this increase, alongside gains in Abbotsford-Mission. Kelowna (down three per cent) and Victoria (down 11 per cent) have been a mild offset. Small and mid-sized urban area start are up five per cent.

Inclusive of rural areas, we forecast housing starts to rise this year by 10 per cent to about 44,000 units, before declining to a still elevated 37,000 units in 2020.







Low mortgage rates, a firm labour market, and population growth will continue underpin demand. Government policy will also be supportive with investment in affordable housing and the Federal Homebuyer Incentive Program, but this will be offset in part by the drag of weaker pre-sales since 2018 and ongoing effects of the federal B-20 measures.

Exports climb in September, but struggles continue

B.C. exports rebounded in September following August's plunge, but the trend continued to deteriorate.

International goods exports reached $3.61 billion in the latest month. This marked a disappointing 8.8 per cent drop from a year ago, but an improvement from August's 16 per cent decline. Stronger exports in metal ores and non-metallic minerals (up 45 per cent) and electronic and electrical equipment/parts (up 10.6 per cent) were the main drivers of the uptick.

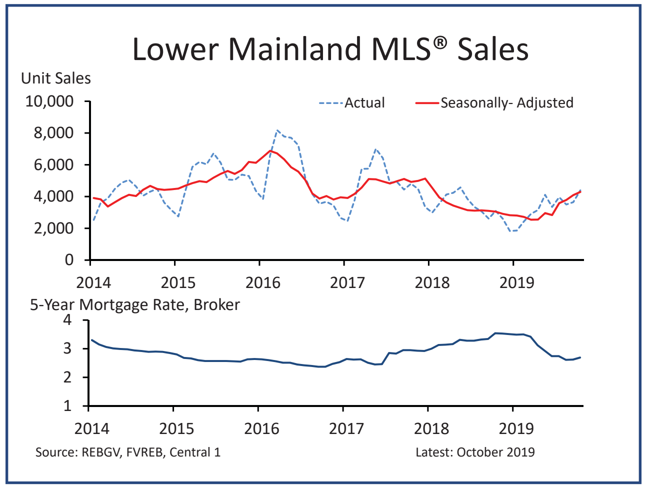
Despite the increase, the export cycle remains weak and a drag on economic growth. According to our calculations, seasonally-adjusted sales fell five per cent in the third quarter marking a fourth straight quarterly contraction. Year-to-date exports fell 5.6 per cent through the first three quarters, with forestry product sales down 18 per cent, and metallic and non-metallic mineral products down nearly 25 per cent from same-period 2018. The drop in forestry aligns with a sectoral recession, as lower demand and prices, and higher costs have led to production curtailments and mill closures. Slow global growth is also impacting other commodities sectors.

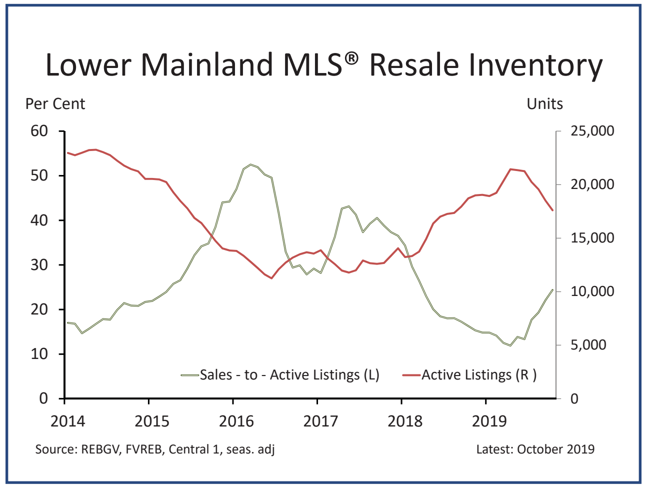
That said, outside of the resource space, goods exports are up four per cent, suggesting the low Canadian dollar remains supportive of demand for a wide range of goods but not enough to offset declines in these other sectors.

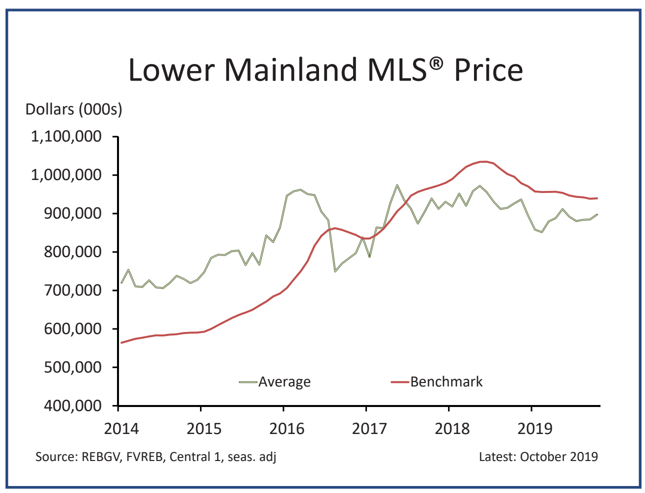
Lower Mainland housing recovery continues

Housing sales continued to rise through October fueled by low mortgage rates, lower prices, and pent-up demand. The federal First Time Homebuyer Incentive may also be providing some lift for lower priced units in the market. MLS® sales in the Lower Mainland (Abbotsford - Mission and Metro Vancouver) reached nearly 4,400 units during the month, marking a 42 per cent increase from a year ago. Upward momentum since April has seasonally adjusted sales at the highest level since early 2018, although levels remain significantly below levels observed prior to implementation of federal mortgage stress tests by about 15 per cent.

Market conditions have firmed considerably with rising sales. Resale inventory (active listings) are falling, reflecting the increased sales volume and declining new listings environment. Active listings are down 5.4 per cent from a year ago. The ratio of sales-to-inventory has risen to 24 per cent which is a level typically associated with a sellers' market and rising price environment. Current trends point to a clear recovery in housing market conditions, and a nascent recovery in home values following price declines seen over the past year. Positive market trends look to continue as mortgage rates are expected to ease through early 2020.







The average price level reached $897,332 in October, which was up slightly from September by 1.4 per cent, but down three per cent from a year ago. Seasonally adjusted values were unchanged from September.

Average values are influenced by product and geographic sales composition. The MLS® housing price index adjusts for these factors. The latest numbers suggest a return to housing price appreciation, specifically in the more affordable apartment condominium sector, as well in the detached market. Broadly, the HPI is down 5.6 per cent from a year ago and about eight per cent from peak. Home prices are expected to trend higher from this point on.

GDP slows to 2.6 per cent in 2018, but supported by consumers and government spending

By a sliver, B.C. retained the title of having the strongest economic growth among Canadian provinces in 2018, according to the latest expenditure accounts from Statistics Canada. Alongside Prince Edward Island, B.C.'s real gross domestic product (GDP) expanded by 2.6 per cent to outpace national growth of two per cent. Quebec and Ontario were close behind with expansions of 2.5 and 2.2 per cent, while Newfoundland and Labrador contracted 3.6 per cent.

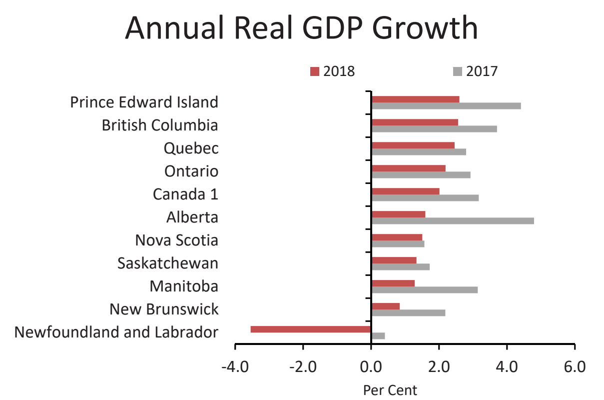
Nominal GDP rose 4.5 per cent, as price levels rose 1.9 per cent during the year.

While down from 3.7 per cent in 2017, the latest real GDP figures confirm moderately strong growth last year, albeit with slower growth across most expenditure categories. Household consumption slowed from 4.6 per cent but remained steady at 2.3 per cent as durable goods consumption declined to 0.9 per cent from 8.3 per cent in 2017, owing to drop in vehicle sales and housing market related spending. Expenditure on household services remained robust at three per cent, reflecting population growth and labour market expansion. Household consumption contributed more than half of total growth in 2018.

Residential investment was a drag, with a 2.5 per cent contraction as the sharp downturn in the resale market sales curtailed associated spending on acquisition and transaction spending. Non-residential investment spending remained moderately strong at three per cent, but decelerated from 10 per cent the prior year and primarily reflected slower spending growth on structures.

Government expenditures outpaced the broader economy with direct consumption up three per cent, marking a similar gain to 2017. Adding to this was clear evidence of the positive government investment cycle, with fixed capital formation up 6.3 per cent following a 14 per cent gain in 2017.

On the trade front, exports rose 4.2 per cent. While international exports growth improved 3.2 per cent from one per cent in 2017, the real winner was a sharp increase in sales to other provinces of six per cent, specifically related to increased goods sales. Import growth slowed to 2.9 per cent from 5.6 per cent in



Source: Statistics Canada, Central 1

2017, meaning net exports were a positive contributor to provincial growth during the year.

On the income front, growth accrued largely to labour during the year. Growth in total employee compensation, which reflects wages and salaries and social contribution, remained high at 5.9 per cent, compared to 6.3 per cent in 2017, reflecting higher compensation and expansion in employment. In contrast, corporate profits were essentially unchanged after a sharp increase in 2017 of 18 per cent.

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