

B.C. Economic Forecast Update 2019-2022

Highlights:

- GDP growth to remain moderate following 2019 slowdown
- Economic growth trend slows in 2019 on weak exports and retail spending
- Labour market holding firm as service sector expands
- Resale housing in recovery, but housing starts to dip in 2020
- Major project construction remains a growth driver

Mixed conditions in B.C. economy

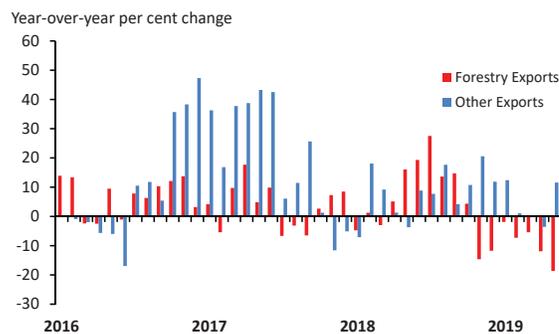
In an environment of weak global economic growth, persistence of trade uncertainty, and a soft Canadian growth profile, British Columbia's economy continues to hold its own despite the province's export-related headwinds.

Following growth of 2.6 per cent in 2018 and 3.7 per cent in 2017, gross domestic product is expected to slip to 2.1 per cent this year and marks the slowest pace of growth since 2015. A rebound to three per cent is expected in 2020 and a return to about two per cent thereafter.

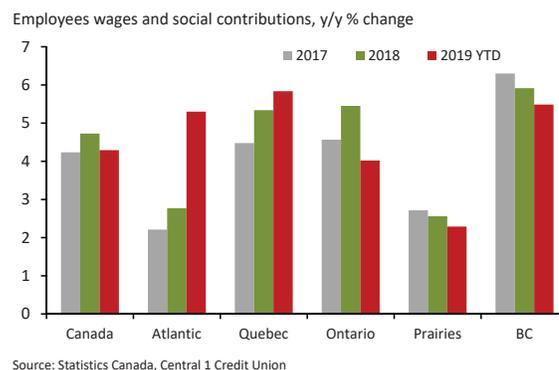
Weak export activity has been a key drag on this year's economy. A world of trade wars and uncertainty has hampered the broad export picture, commodities and business investment. B.C. is also experiencing a homegrown forestry crisis which is dragging on growth. A crash in lumber prices, high input costs and lack of available timber has pushed forestry-related exports down by 18 per cent in the first three quarters. Mining exports are also feeling the pinch of the global slowdown. Dollar-volume goods exports were down 5.6 per cent, owing largely to these sectors. Export sales were broadly higher for other products.

Retail spending has also underperformed and is expected to grow by less than one per cent this year—the lowest growth since a four per cent contraction

Forestry drag on international exports



Labour income growth remains robust



in 2009. While this is a signal of weaker consumer demand and broader economic growth, drag has primarily reflected a decline in spending on automobiles and to a lesser extent on housing-related spending. Metro Vancouver area sales have underperformed mild gains elsewhere in B.C. This also does not capture rising online purchases in the retail space.

Underlying consumer demand is likely stronger than suggested by the retail sales environment. While late-year employment trends have eroded, annual employment growth is forecast to be above 2.5 per cent with both the household Labour Force Survey and employer-based Survey of Employment, Payroll and Hours showing significant growth. A tight labour market has led to wage acceleration. When combined with employment, growth in aggregate wage earnings remains highest among provinces, albeit slower than 2018.

A strong labour market, government spending, and growth in professional services specifically in the high-tech sector has driven up building investment this year, specifically in the Metro Vancouver area. Non-residential permits rose 35 per cent during the first three quarters, driven by gains in commercial office towers, and government investments.

Housing is also in recovery with MLS® sales on the rise since bottoming in the spring, fueled by deep cuts to contract mortgage rates, steady economic growth and a tight labour market. While annual resale market home sales and values will fall short of 2018 levels, sales growth of 13 per cent and median price growth of nearly four per cent is forecast for 2020. Federal mortgage stress tests and provincial measures to dampen demand will remain a constraint in the sales rebound. However, economic factors and the federal First Time Home Buyers Incentive Plan support further momentum.

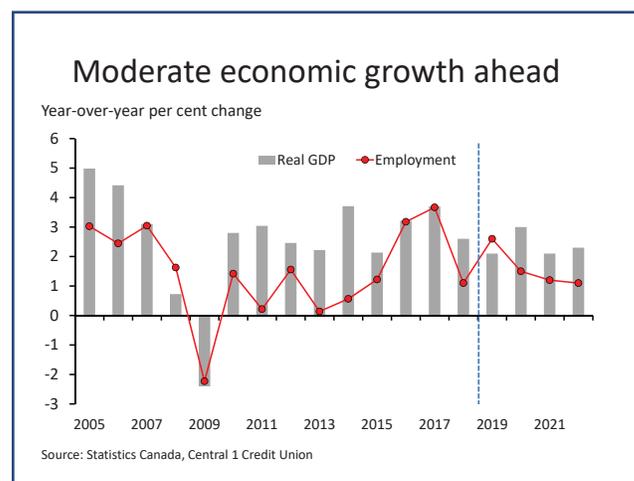
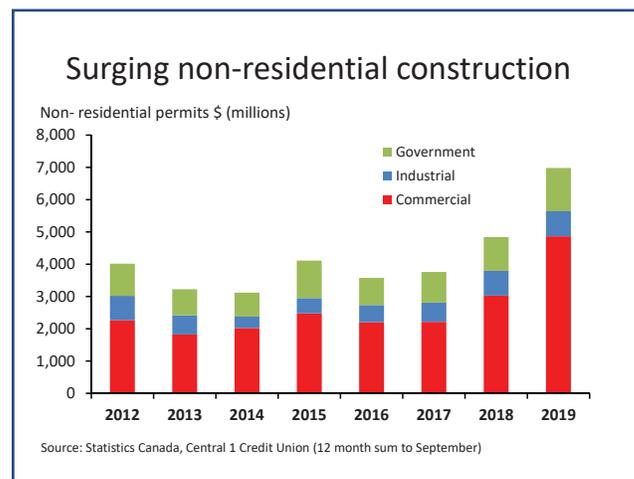
Housing starts have surprised on the upside with an expected gain of seven per cent this year to 44,000 units. Despite a housing policy drag, elevated starts reflect the high number of pre-sold projects in the pipeline planned and sold prior to the resale downturn and elevated levels of rental construction. A pullback is forecast owing to more recent sluggishness in the pre-sale environment, which will lower starts to 37,000 units in 2020, although this remains a historically strong performance.

Economic growth moderately strong following 2019 lull

Despite erosion in growth trend this year, B.C.'s economy will remain moderately strong, and will exceed national growth of about 1.5 per cent.

A weak global economic environment and downturn in the forestry sector will continue to hamper exports, with growth of only one per cent annually through 2021. Growth in service exports, particularly in technology services, and non-commodity goods will continue to provide support given a favourable Canadian dollar and low interest rate environment.

A positive trend is expected for consumer demand, with expansion of 2.1 per cent and three per cent in 2020 and 2021 on gains across goods and services. Retail sales growth returns to a pace of four per cent. Demand remains buoyed by a tight labour market and rising wages, while population growth driven by international migrants, visiting students, and temporary workers add to spending in the economy. Growth will



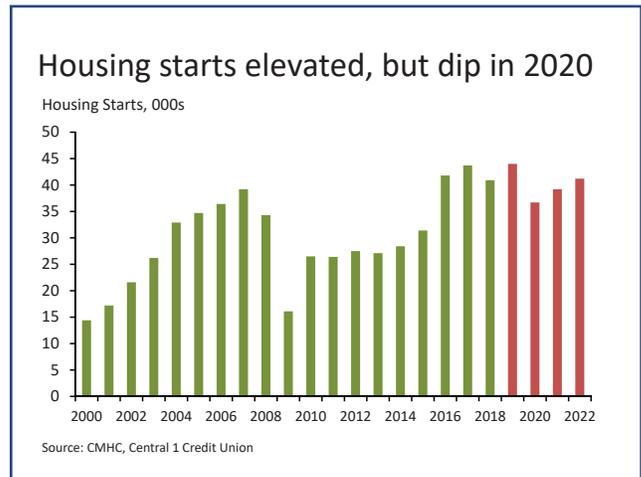
likely be constrained in part by availability of labour as businesses find difficulty in finding suitable employees due to shortages of skilled labour. Average employment growth is forecast to decline to 1.5 and 1.2 per cent over the next two years, with an unemployment rate hovering near four per cent.

Lower housing starts in 2020 reflect market conditions in 2018 and 2019 but will be a temporary dip. This year's sharp increase in starts contributes to higher residential investment spending trends in 2020, before softening thereafter as fewer 2020 housing starts contribute to tempering of growth. Housing starts are forecast to return to a pace of near 40,000 units in 2021 as market conditions support rising sales and home prices. Meanwhile, increased government investment in affordable housing initiatives lift non-market and rental housing construction.

As with prior forecasts, major project investments underpin B.C.'s outsized growth forecast. Specifically, the ramping up of construction on the \$40 billion Shell-led LNG Canada project near Kitimat and the associated pipelines over the next five years will support the capital investment cycle, although a portion will be offset by imports of equipment and pipes required

for the project. Other ongoing projects include the BC Hydro Site C dam; hospital and school construction; and various public works projects which will add to this upward cycle in infrastructure spending. High levels of residential and non-residential building points to rising constructions costs going forward.

Consumer price inflation is forecast to ease to 1.8 per cent in 2020 and return to 2.0 per cent in 2021.



Bryan Yu

Deputy Chief Economist

byu@central1.com / P 604.742.5346

Mobile: 604.649.7209

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Chief Economist: **Helmut Pastrick** Deputy Chief Economist: **Bryan Yu** Business Economist: **Alan Chow** Regional Economist, Ontario: **Edgard Navarrete**
Production: **Judy Wozencroft**

B.C. Forecast Table

	2017	2018	2019	2020	2021	2022
GDP at market prices	7.1	4.5	4.1	5.2	4.1	5.0
Real GDP, expenditure-based	3.7	2.6	2.1	3.0	2.1	2.3
Household consumption	4.6	2.4	1.7	2.1	3.0	3.3
Government expenditure	2.9	3.0	1.9	1.7	1.5	1.4
Government capital formation	14.2	6.3	16.0	9.9	-1.9	-5.5
Business capital formation	4.2	0.7	2.8	9.9	4.0	-1.5
Residential structures	-0.4	-2.2	-1.8	3.9	-0.1	5.2
Machinery and equipment	3.3	5.5	3.2	9.6	2.0	-1.6
Non-residential structures	15.1	1.7	9.5	20.2	10.0	-11.0
Final domestic demand	5.3	2.2	2.4	3.8	2.7	1.7
Exports	2.7	4.2	0.6	1.2	1.3	3.3
Imports	5.6	2.9	2.6	4.2	3.0	1.0
Employment	3.7	1.1	2.6	1.5	1.2	1.1
Unemployment rate (%)	5.1	4.7	4.8	4.2	4.0	3.8
Personal income	6.6	5.3	5.2	4.5	4.4	4.8
Disposable income	7.3	5.5	5.0	4.5	4.3	4.7
Net operating surplus: Corporations	19.7	0.0	-5.6	5.4	-3.1	1.4
CPI	2.1	2.7	2.5	1.8	2.0	2.1
Retail sales	9.3	2.1	0.9	4.0	4.8	4.8
Housing starts, 000s	43.7	40.9	44.0	36.7	39.2	41.2
Population Growth (%)	1.3	1.4	1.4	1.3	1.2	1.1
Key External Forecasts						
U.S. Real GDP	2.2	3.0	2.2	1.7	1.9	2.0
Canada Real GDP	3.0	1.8	1.5	1.6	1.7	2.0
European Union Real GDP	2.5	1.5	1.2	1.4	1.5	1.6
China Real GDP	6.0	6.6	6.4	6.2	5.9	5.7
Japan Real GDP	1.9	0.8	0.6	0.5	0.6	0.9
Canada 3-month t-bill, %	0.71	1.37	1.60	1.30	1.35	1.50
Canada GoC long-term Bond, %	2.18	2.36	1.75	1.45	1.55	1.85
U.S.-Canada Exchange Rate, cents/dollar	77.1	77.2	76.2	75.5	76.5	77.0
Crude Oil WTI USD\$ per barrel	51	65	56	58	60	62
Henry Hub Natural Gas Price, US\$ per mmbtu	3.0	3.2	2.8	2.8	2.9	2.9