B.C. Economic Briefing

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Highlights:

- B.C. employment declines extend into December
- Housing starts reach record high in 2019 due to Metro Vancouver strength
- Lower Mainland home sales rise in December; market conditions tighten
- Exports decline 14 per cent in November
- Mild relief in October lumber production is likely temporary

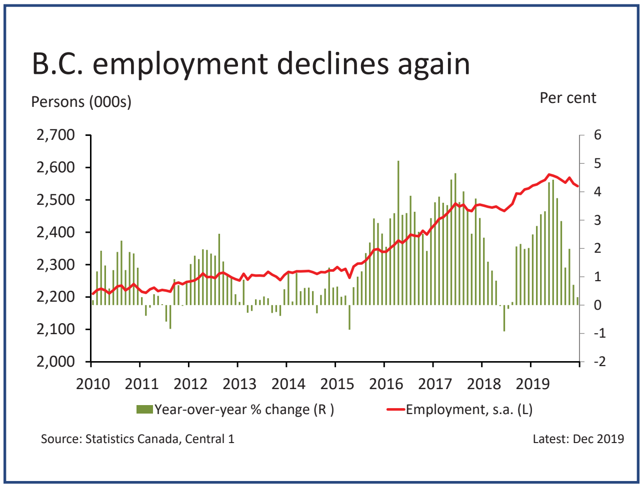
B.C. labour market ends 2019 on a low note

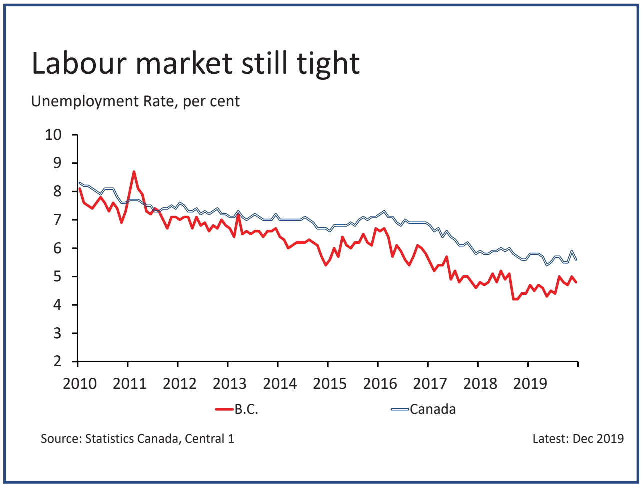
Following a rough November, Canada's labour market partly rebounded in December with the Labour Force Survey employment estimate up by 31,900 persons or 0.1 per cent, month-to-month, while the unemployment rate fell 0.3 percentage points to 5.6 per cent. Provinces in central Canada drove national gains, while B.C. faltered again to end the year.

B.C. employment slipped 0.3 per cent, to add to November's 0.7 per cent decline. This marked a decline of 7,700 positions to 2.542 million persons. Full-time employment held steady with a 0.1 per cent decline while part-time employment stumbled with a 1.2 per cent drop. Metro Vancouver, with a drop of 0.8 per cent from November, drove the latest provincial decline. While short-term fluctuations are common, employment trends in the province have eroded since mid-year, paring year-over-year employment growth in December to a scant 0.3 per cent which points to slowdown in economic activity in the back half of 2019.

During the latest month, goods-producing employment rose 1.2 per cent on stronger construction employment, while public administration, trade and finance/real estate/insurance contributed to a 0.6 per cent services sector decline. Broadly however, manufacturing and resources have contracted over the past 12 months reflecting sectoral woes, while services employment has expanded.

Recent employment stumbles signal caution on the economy, but it should be noted that the labour market remains tight. The average unemployment





rate remained lowest among provinces at 4.8 per cent in December, slipping from 5.0 per cent the previous month. While this reflects a labour force contraction and slip in participation rate, job vacancy rates in the province remain high while average wage growth in the LFS survey continued to trend above five per cent. This still points to persistence of labour shortages. Labour availability and rising costs may be one factor holding back employment growth, although a slowdown in economic growth, particularly the resource sectors, is certainly weighing on the job situation.

With December in the bank, annual employment growth still performed well despite the recent downturn due to early year momentum. Full-year employment growth settled at 2.6 per cent with solid gains across the full-time and part-time spectrum, and both within the paid and self-employed tenure jobs. These numbers mask second half weakness and poor hand off to 2020.

Record high housing starts in 2019, can it last?

The pace of B.C. housing starts slipped in December but still ended the year at a robust pace which lifted annual housing starts to a new record high going back to at least 1990. Monthly urban B.C. starts came in at a seasonally adjusted annualized rate of 41,667 units in December according to CMHC, which was down from a pace of 46,647 in November, owing entirely to a drop in multi-family starts. A decline in Kelowna activity accounted for most of the decline.

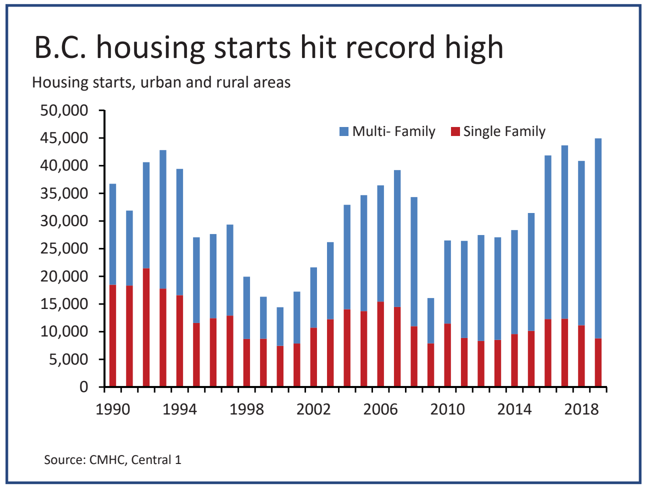
Despite the slip, full-year urban area starts reached 43,215 units which was up 12 per cent from 2018, with B.C. posting the strongest gain outside of Atlantic Canada. Including rural areas, housing starts rose 10 per cent. This was a positive surprise for the provincial economy in 2019. However, almost the entirety of the gain came in the Lower Mainland with starts increasing 20 per cent in Metro Vancouver and Abbotsford-Mission seeing a 62 per cent gain as multi-family starts surged. In contrast, starts fell in both Victoria (down 18 per cent) and Kelowna (down 13 per cent). Starts in other urban areas were steady from 2018, while rural activity contracted 28 per cent.

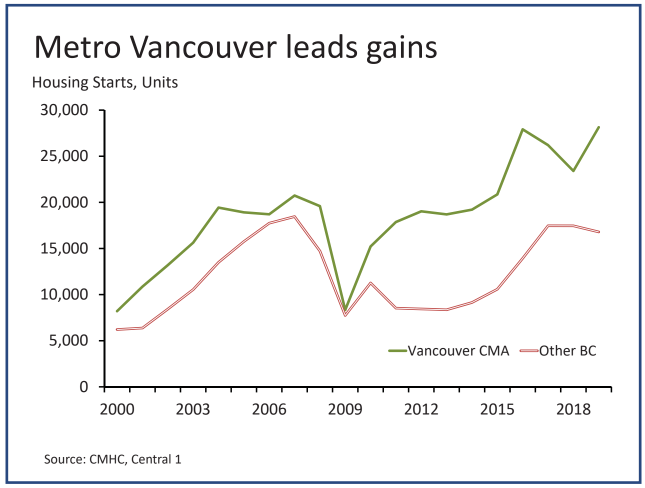
The trend in housing starts is undoubtedly strong, but we do question whether this can last. Single-detached starts fell 21 per cent in 2019, while multi-family units, predominantly condominium apartments, rose 23 per cent. This suggests that policy measures and a weak resale market curtailed demand as single-family homes are custom built or built on spec by builders. In contrast, a large share of apartments are pre-sold years before construction, which continued to propel starts in 2019.

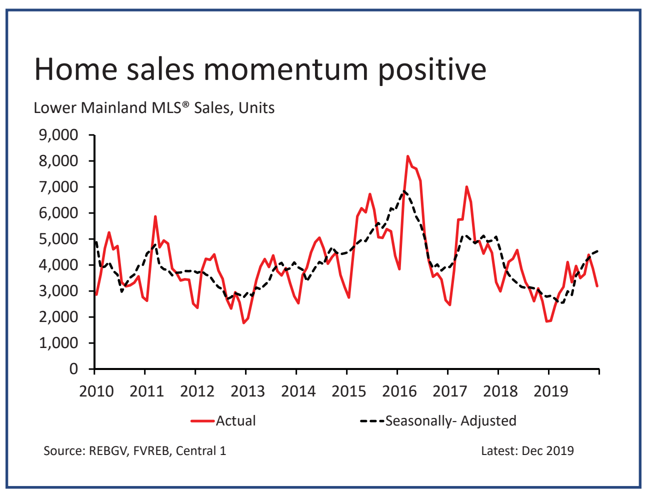
Demand remains supportive of housing starts, with low interest rates, strong labour and firming resale market suggesting increase in sales. Meanwhile, rental markets are tight and governments are investing in affordable measures which is boosting rental starts. That said, the lull in resale markets and weaker pre-sale conditions since 2018 will slow some new project construction this year. We forecast starts to dip 20 per cent in 2020, but remain at a historically elevated pace.

Lower Mainland housing market tightens as 2019 closes

The Lower Mainland resale market finished the year on a high note with positive sales momentum and tightening market conditions. Home sales in the Metro





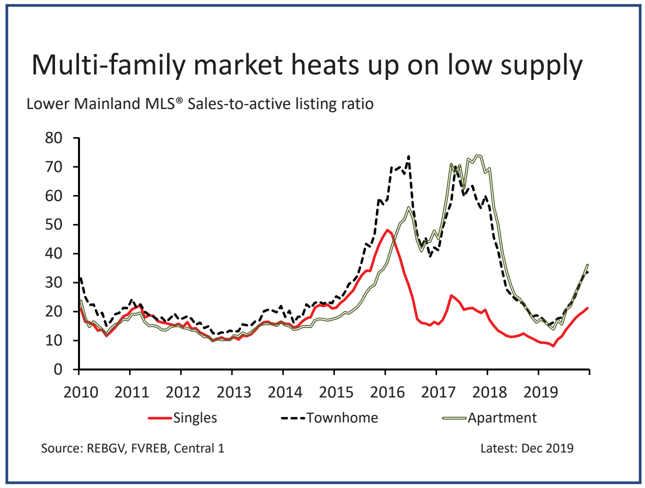


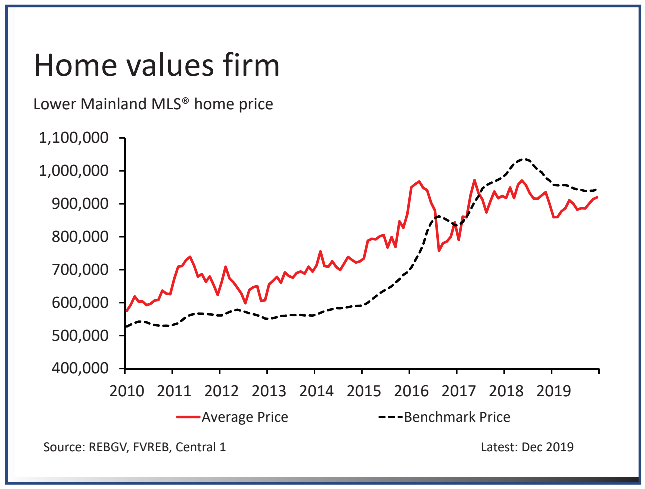
Vancouver/Abbotsford-Mission region came in at nearly 3,200 units in December, marking a year-over-year surge of about 74 per cent during the month. Seasonally adjusted monthly sales continued to recover following deep early-year declines, albeit with the pace of growth decelerating from recent months. Nevertheless, sales are within about 10 per cent of levels observed prior to the introduction of mortgage stress tests and other provincial tax measures meant to temper the market. The combination of deep mortgage rate cuts over the past year, firm hiring trends in the region, and pent up demand have driven the recovery.

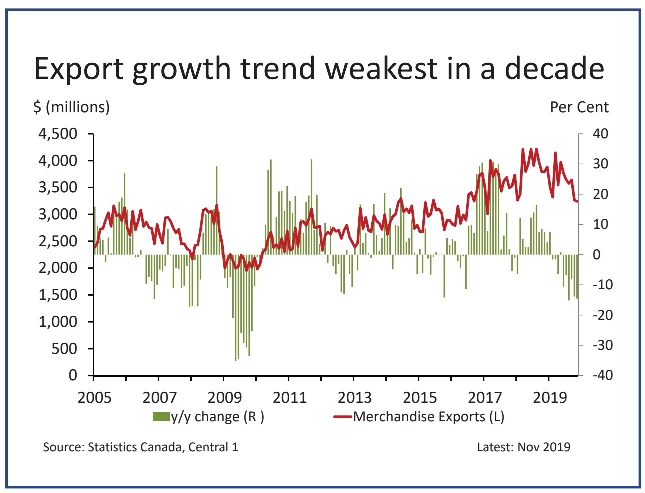
A lack of supply is setting the market up for moderate price growth in 2020. The combination of rising sales and persistently low new listings is driving inventory levels lower. Low new listings, which fell four per cent in 2019, is somewhat puzzling as stronger sales tend to incent owners to list, but this could reflect more households investing into renovations during the recent downturn, while some are cash-strapped to move up in the market. Active listings are down about 25 per cent from a year ago and lowest since spring of 2018. Sales-to-active listing ratios are now flirting sell-ers' markets, with apartment and townhomes sectors firmly entrenched. The more affordable multi-family market is heating up rapidly as entry level buyers have seen attractive entry points into the market following price declines and mortgage rate cuts, despite the constraint of stress tests. Buyers are finding more competition for quality and well-priced units in the market leading to rising values.

Price levels are on the rise with both the average and benchmark price indices up about 0.5 per cent from November (and one per cent once seasonal effects are accounted for). The average price came in at $919,500, with the benchmark value at $944,300. Price levels are still lower than a year ago but have been trending higher for the last four months across all product segments. These trends are expected to continue through 2020 given a low rate environment, tight rental markets, and expansion in the regional economy.

On an annual basis, Lower Mainland home sales eked out a small 1.2 per cent gain due to the recent upswing, but this followed a 31 per cent drop in 2018.







Exports drag on economic growth, resource communities impacted

There were more signs of slowing provincial economic growth in the fourth quarter as B.C. international exports failed to rebound after an October contraction. While holding relatively steady on higher sales of food, metal/mineral products, and transportation equipment product sales, exports continued to deteriorate on further weakness in forestry and energy.

Dollar-volume exports fell to $3.24 billion in November, marking a 14.5 per cent year-over-year drop. While rail disruptions impacted trade performance across the country in November, B.C. exports have deteriorated for the past year. Recent year-over-year declines rank among the deepest over the past decade, while exports have tumbled 20 per cent since reaching a mid-2018 high.

Resource industries remained the lowlight for B.C.'s export sector. Year-over-year energy sales were down 25 per cent in the latest month, while forestry products declined 22 per cent. The downward spiral in the forestry sector and production has been well documented and is discussed in further detail below. Adding to these woes have been downturn in metallurgical coal prices due to a weaker global economy and steel demand which is impacting mining operations in the Kootenay and Northeast. These pullbacks are leading to employment cuts in the sectors, impacting communities across the province. Excluding energy, mining and forestry resources, exports were up five per cent on a year-over-year basis as a low Canadian dollar is still supporting other sectors.

Further weakness in November intensified year-to-date declines, with exports through the first 11 months down 6.7 per cent from same period in 2018 due entirely to resource sales. Declining sales to the U.S., Japan and South Korea were responsible for most of the weakness. Imports were down a modest 1.7 per cent, contributing to a widening international merchandise trade deficit.

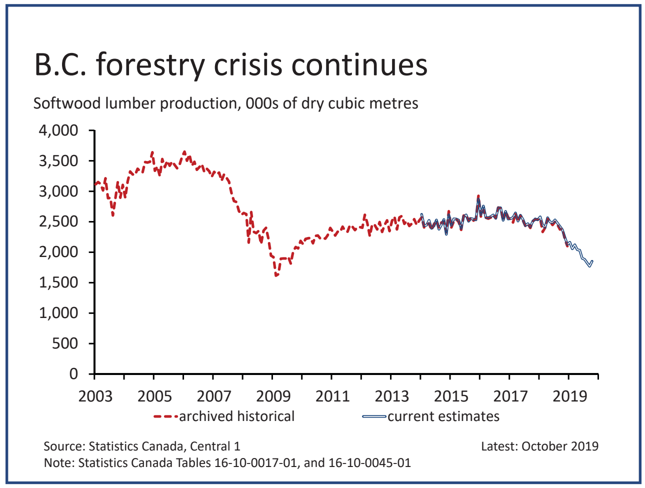
Lumber production climbs in October but downdraft continues

B.C.'s reeling forestry sector experienced a brief reprieve in October as sawmill production showed modest increase in output from September. Nevertheless, the sector remains depressed as observed in November export data.

Seasonally adjusted, production rose 4.6 per cent from September, marking the first gain since March. However, at 1.97 million dry cubic metres in October, total factory production was down 21 per cent year-over-year, albeit an improvement from the 27 per cent drop in September. Regionally, coast production declined 42 per cent with the interior down 19 per cent. The latter makes up 90 per cent of production.

2019 production will come in about 20 per cent lower than 2018 as a perfect storm hit the sector. The combination of a reversal in the 2018 lumber price surge, oversupply in southern U.S. supply, lumber tariffs, and stumpage fees have hammered profitability. Meanwhile, the lasting impacts of the mountain pine beetle epidemic and wildfires in recent years have cut long-term timber supply and increased costs. This has led to firms permanently shutting mills or reducing shifts across the province, cutting thousands of jobs. Adding to these factors is an ongoing strike on Vancouver Island that has been in effect since mid-year.

The data will show further weakness into 2020 as Canfor announced curtailment at all its mills for a two week period at the end of December due to market conditions. Downstream effect will also intensify.



Capacity reduction and lower lumber production will impact other downstream production that rely on residual such as the pulp and paper, and other wood products, alongside industries such as trucking and transport.

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