B.C. Economic Briefing

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Highlights:

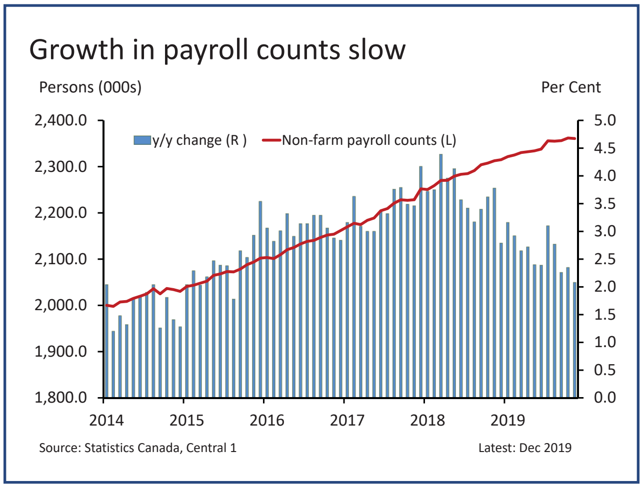
- Average weekly earnings unchanged in December
- Small business confidence remains subdued in February
- Capital investment expectations for 2020 up 7 per cent

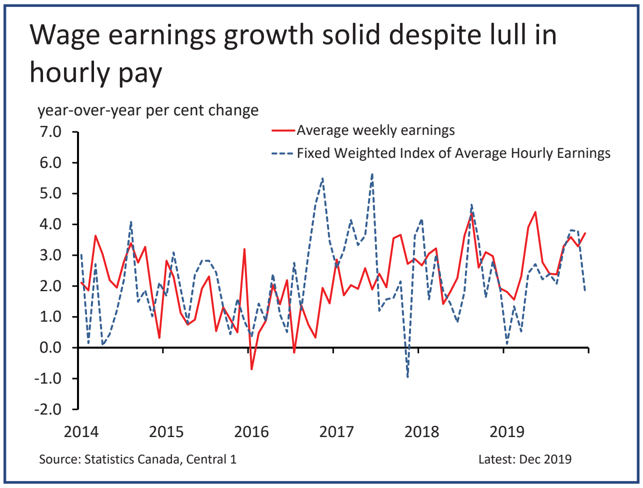
Weekly earnings stall in December but growth trend positive

B.C. employees saw little change in their pay from November as average weekly earnings were essentially unchanged at $1,012. Despite the lull, weekly earnings growth held firm and remained on a positive trajectory. Year-over-year growth accelerated to 3.7 per cent from 3.3 per cent the prior month and exceeded national growth of 3.4 per cent. Growth in B.C. was fourth highest among provinces.

While various factors drive earnings growth in any given month; including changes in hours worked, job composition, occupations and others, the trend is positive. Adjusting for monthly fluctuations, the 3-month average in wage earnings rose 3.5 per cent from the fourth quarter of 2018 with breadth among industries. Weekly earnings growth was driven by services-sectors (up 4.1 per cent), with considerable growth in professional/technical/scientific services, healthcare/social services, and arts/entertainment/recreation which rose more than six per cent. A strong technology sector, tight labour market, and elevated tourism (until recently) have factored into the increase. In contrast, resource extraction sectors, and real estate rental and leasing have seen significant declines relative to same-period 2018. A weak commodity sector, particularly forestry, have weighed.

The index of fixed weighted hourly index pointed to a mild increase in underlying wages from November of 0.2 per cent following strong growth the prior two months, however year-over-year growth slowed to 1.4 per cent from 2.7 per cent in November. This suggests





firms are leaning on employees more intensively via increased hours, lifting weekly earnings. The average number of hours for employees paid by the hour accelerated to a year-over-year pace of 3.5 per cent.

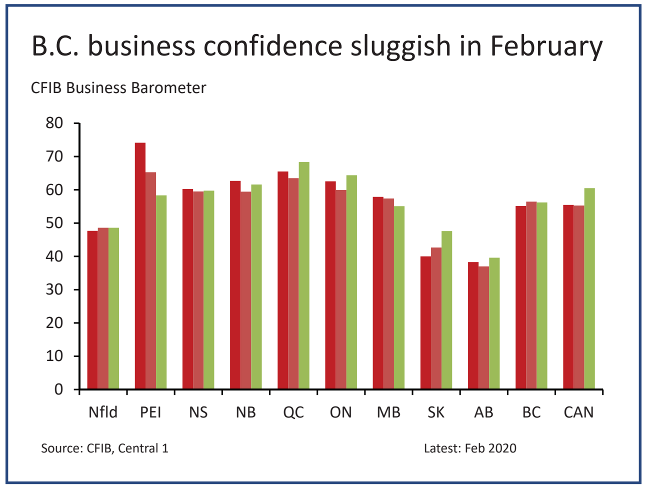
Employer payroll filings pointed to a deceleration in hiring momentum at year- end. Employee counts fell 0.1 per cent from November to 2.357 million persons. Year-over-year growth decelerated to 1.8 per cent, which was the first sub-2.0 per cent gain since August 2015. Similar to wage patterns, the drag has been predominantly resources with forestry employment down 14 per cent from a year ago, and mining 9.4 per cent lower. Higher growth has come from transportation and warehousing (up 3.3 per cent), professional/scientific/technical services (up 4.1 per cent), healthcare (up 4.5 per cent) and education (up 5.5 per cent). Public administration was also significantly higher by 5.6 per cent.

Subdued small business sentiment persists in early 2020

According to the Canadian Federation of Independent Business, sentiment at B.C.'s small and medium-sized business softened in February, contrasting with a general firming elsewhere in the country. The CFIB Business Barometer for B.C. slipped to 56.2 points from 56.4 points in January, as national sentiment rose five points to 60.5.

This means on balance, the number of businesses in B.C. expecting improved performance over the next year only slightly exceeds the number anticipating weaker conditions. Since 2010, the average barometer reading in B.C. was 65 points. Sentiment has been weak since early 2019. While levels are not as dire as observed in Alberta, Saskatchewan and Newfoundland & Labrador, which continue to grapple with the fallout of a poor energy markets, B.C.'s reading is nothing to celebrate.

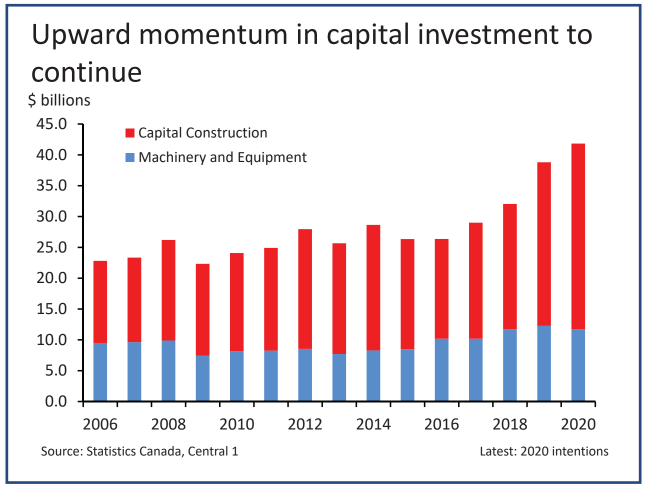
A subdued outlook reflects varying factors. Global factors including the coronavirus may be weighing on sentiment given greater dependence on China as a major export customer. Adding to this is a labour market that has softened but remains tight and taxation hurdles. Wages have climbed significantly due to shortages of skilled labour and low jobless, while employers are absorbing the Employer Health Tax into their expenses. Full-time hiring intentions suggest as many employers are planning to cut as to hire in the short-term, pointing to moderation in employment growth.



Capital investment to support economic growth in 2020 but risks remain

While good economic news has been in short supply this year, B.C. will likely be able to hang its hat on another year of strong capital investment growth. Investment intentions by firms point to the potential for another record year of spending by firms. 2020 investment intentions point to a gain of 7.8 per cent to $41.8 billion, compared to national growth of 2.8 per cent and was largest increase among provinces. This follows estimates of a surge of 21 per cent in 2019.

Capital construction growth is expected to drive B.C.'s increase with intentions of 30.1 billion (up 13 per cent) as machinery and equipment declines four per cent.



Among sectors, rising investment is predominantly driven by the transportation and warehousing sector where intentions are up 16 per cent and accounts for more than half of the net gains, which likely reflects investments in pipelines associated with the Coastal Gas Link pipeline in B.C.'s north, while spending growth on utilities climbs 17 per cent driving the bulk of the remaining growth, suggesting gains related to Site C and other projects. Elevated levels of government capital spending is expected to lift spending on schools, while public administration investment climbs 7.1 per cent. Spending on manufacturing is also expected to gain seven per cent, despite declines in forestry- related sectors which remains weak and in the case of paper, significantly lower than 2019.

Capital investments look to support economic growth this year. However, as the survey was conducted in late-2019, recent events related to Covid-19 impacts on the global economy and rail stoppages, could dampen activity.

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