Economic Analysis of British Columbia

central 1

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B.C. enters economic downturn on Covid-19 impacts, more uncertainty

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Global economy in uncharted waters, authorities act to stem downturn

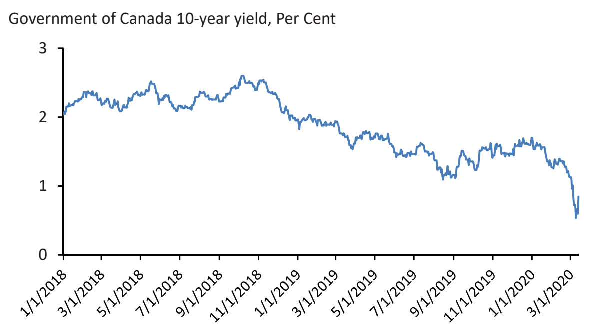
The global economy is in uncharted territory as the direct shock and efforts to stem the effects of the Covid-19 pandemic has pushed economy into a recession. Initial hopes that massive containment measures by Chinese authorities would isolate the virus within China's Hebei region and within the country have proven optimistic. More than 165,000 persons and counting have been affected by the virus, with spread of the outbreak accelerating across the world as the number of China cases falls.

While focus remains rightly so on protecting lives and limiting spread, the advance of the virus is having significant repercussions on the economy. Initial measures to curb the spread in China shone a spotlight on the importance of China's role in the global supply chain as the factory to the world and a significant source of consumer and global travel demand. Markets were expecting (hoping for?) a V-shaped recovery in the economy following a modest slowdown. Rising cases in Japan, South Korea, Italy and Europe and increasingly North America means a much lower likelihood of containment and a deeper slowdown in the economy.

Global travel demand has plunged, more countries are limiting entry through their borders, while large scale events are being cancelled. Major sporting events, including entire professional sport seasons, have been suspended until the pandemic passes. Local movement restrictions have been expanded, including in large urban areas like San Francisco, while travel across the US – Canada border has been severely restricted. Organizations are increasingly mandating travel restriction and implementing work-from-home options, while schools are also being closed in bids to limit the spread and pressures on health systems.

Markets have responded viciously. Equity markets have plunged as virus fears have hammered profit expectations and triggered credit concerns. The TSX has declined more than 30 per cent since mid-February reflecting both the viral fears and crash in oil prices. The latter owed to a breakdown in the OPEC-Russia supply arrangement and the likelihood of oversupply in a demand constrained environment. Benchmark WTI had declined 20 per cent to near $25/barrel while heavy Canadian crude is down to near $10/barrel. Bond yields have plunged, credit markets squeezed and central banks have cut rates, with the Bank of Canada cutting twice in 50 bps increments in March to ¾ of a per cent. More monetary easing is likely. The Canadian dollar is near 70 cents vis-à-vis the U.S.

Interest rates plunge as Covid-19 and low oil cut growth outlook



Source: Statistics Canada, Central 1 Credit Union

The drag on the global economy due to the virus remains uncertain and will depend on its spread and longevity in other countries. Effects are expected to be temporary and an economic rebound will ensue once the virus dies down and fears ease. In the interim there will be severe economic dislocation from a cascade of demand weakness across countries. The OECD cut its baseline global growth outlook by 0.5 per cent to 2.4 per cent in 2020 as a result of COVID-19, but its negative risk scenario of 1.5 per cent is more likely. Global growth will return with easing of pandemic fears, while interruptions in current supply and inventory depletion will drive a backfill in activity.

Canada's economy falls into a brief recession this year, with a sharp quarterly slowdown in Q2 and full-year growth at 0.6 per cent, before a mild recovery thereafter. However, risk is to the downside and annual growth could be closer to zero, dependent on how the pandemic evolves. Growth will be cut by social distancing measures and government policies to stem the spread including border restrictions and mandated closures of schools and other venues. Consumer spending will obviously pull back, including housing activity. Transmission of lower oil prices will negatively impact Canadian income and growth, although households will benefit. Many businesses will operate under a period of duress as lower spending, and in some cases mandated closures, impact revenues. Federal initiatives to extend credit to businesses of varying sizes and their employees will provide support during the difficult period.

Bank of Canada cuts will provide support, particularly via housing market channels. The federal government is supporting growth through various measures. The federal government announced a $27 billion stimulus plan which includes support for households impacted by Covid-19 via Emergency Care Benefits, long-term income supports, increased benefits for lower income households, mortgage payment deferrals options on CMHC-insurance backed mortgages, and waiving of EI wait periods for affected individuals. Small businesses can also access wage subsidies, while business income taxes and filings are deferred. Additionally, measures to support credit markets through mortgage purchases programs, capital credit buffers at banks, among others have also been enacted.

Canadian interest rates will be anchored by economic risks. We forecast The Bank of Canada to cut to 0.25 per cent before April, a rate that extends through 2020.

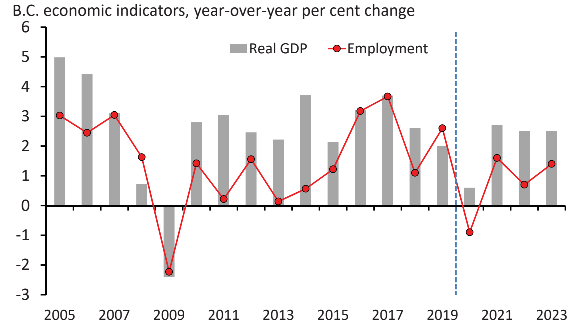
B.C. growth to slump to 0.6 per cent, rebound expected in 2021

It is an exceptionally difficult time for forecast economies given rapid changes in the environment. A slowdown in economic growth is a foregone conclusion for the province. We forecast growth in gross domestic product to slow to 0.6 per cent from 2.0 per cent in 2019 with any risk to the downside. We expect a return to stronger rebound to emerge late in 2020 as pandemic fears ease and economic activity returns to normal, lifting growth to 2.6 per cent in both 2021 and 2022. There will be a period of above trend growth as pent-up demand propels activity. B.C.'s economy will remain a relatively strong performer compared to its peers, reflecting minimal long-term impact from the plunge in oil prices.

Drag of Covid-19 will effect nearly all facets of the economy in the short term as needed policy measures curtail short-term economic growth. The effects are already flowing through the economy via declines in international tourism which will collapse in through to mid-year. Travel from Asia-Pacific, particularly China, have already plunged reflected travel restrictions in China and by international airlines. Covid-19 had also created a sharp downturn in international travel demand. A barrage of conferences and events

B.C. economic growth to decline to 0.6% on Covid-19 hit

B.C. economic indicators, year-over-year per cent change



Source: Statistics Canada, Central 1 Credit Union

which typically attract international visitors have been cancelled. The downturn will directly impact accommodations and food services, and related retail. This activity will not be made up in future quarters.

This downturn deepens with the federal announcement to close borders to individuals who are not Canadian citizens or permanent residents, or direct family members. U.S.- Canada border restrictions are also in place, banning non-essential travel with exemptions due to the integrated nature of the U.S. and Canadian economy. Of the 8.6 million inbound international travelers to B.C. in 2019, more than a quarter were from outside the U.S. Asia-Pacific travelers made up 11 per cent of the total. The initial assumption was that a severe decline would by driven almost entirely by those from Asia-Pacific regions, but ongoing spread of the virus and government measures means a broader downturn. International inflows could drop by 30 per cent to B.C. this year, however, this is muddied by the policies that will divert all international travel (excluding U.S. and Mexico flights) to Canada through the four major airports of Vancouver, Toronto, Montreal and Calgary. The actual magnitude of travel declines will depend on evolution of the virus and government policies.

Similarly, sectors such as TV and film have already stalled and will remain until the pandemic passes.

Household consumption demand will decline in 2020 therefore retail sales will decline. Job losses in some sectors, fears of recession, and the barrage of Covid-19 advisories to "flatten the curve" to limit stress on healthcare systems through social distancing measures are factors. A slowdown in spending on both goods and services is likely as household routines are altered. Events and spectator sports have been suspended in light of Covid-19. Positives for household consumption include lower gas prices from the global oil price slump and a tight labour market induced wage growth. That said, the cut in demand will dominate. Spending growth rebounds late year, although total retail sales growth is forecast to hold unchanged on weakness in durable goods consumption.

A strong population growth trend is forecast to slow from 1.4 per cent in 2019 to less than one per cent this year before rebounding to an above trend level in 2021. Demand for Canada remains high, but lower global mobility, health concerns, and increased travel restrictions will slow inflow of new Canadians. Some catch up will lift migration flows above trend in 2021. A stronger B.C. economy vis-à-vis its oil producing Prairie contributes to inflows from other provinces.

Housing sector momentum picked up steam into 2020 but that will slow sharply into the third quarter. Purchasing activity declines as movement restrictions increase and fear keeps individuals from house-hunting while the sharp correction in equity market has likely cut down payment availability. Economic uncertainty will keep buyers on the sideline. However, sharp cuts to lending rates, particularly mortgage rates will provide a powerful incentive to return to the housing hunt. Home prices will pause with a drop off in sales before trending higher into 2021.

A weaker growth profile is forecast for urban markets, where Covid-19 impacts are most severe. Nevertheless, weaker growth is prevalent across regions. The downturn in the global economy and lower commodity prices will delay a recovery in B.C.'s mining sector and related investment until 2021. Forestry has likely bottomed following a market-induced contraction in 2019 and some improvement in U.S. housing construction but will continue to drag on the economy. B.C.'s rural and interior markets will bear the brunt of this pain.

The construction sector remains a bright spot. Record housing starts and near record high levels of units under construction promises elevated residential investment spending in 2020. Adding to this is major capital spending in the non-residential sector. This includes work on the liquefied natural gas plant in the northwest, Site C dam, and other government projects. That said, there is downside risk to this positivity. A wider spread of Covid-19, and increased measures to slow the spread could impact construction activity.

Downturn in tourism and a broader slowdown in the external economy cuts exports in coming months before rising on an economic rebound and lower Canadian dollar.

The negative demand shock from the pandemic will be to temporary job losses during the first half of 2020, particularly impacting sectors associated with tourism, entertainment, accommodations/foodservices, and retail. That said, declines are expected broadly, with rebound thereafter. Meanwhile, affected businesses could face liquidity pressures resulting from the unexpected decline in revenues. Bank of Canada rate cuts, federal support for businesses and federal policy to address the Covid-19 and oil price decline shock are expected to provide some buffer against these declines.

Average annual employment declines 0.9 per cent in 2020 with a rebound of 1.6 per cent in 2021. Average unemployment climbs modestly to 5.3 per cent, as labour force participation also falls back during the economic downturn. Corporate incomes are forecast to pullback this year with some stabilization into 2021.

Risks to the current outlook are to the downside as economic impacts, and policy responses related Covid-19 continue to flow on a daily basis.

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Provincial Forecast

	2017	2018	2019	2020	2021	2022	2023
GDP at market prices	7.1	4.5	4.6	1.7	4.5	4.6	5.1
Real GDP, expenditure-based	3.7	2.6	2.0	0.6	2.7	2.5	2.5
Household consumption	4.6	2.3	1.4	-0.2	3.2	3.2	3.4
Government expenditure	2.9	3.0	2.5	1.4	1.1	1.3	1.2
Government capital formation	14.2	6.3	14.2	7.0	-0.8	-4.1	-0.6
Business capital formation	4.4	0.6	2.4	5.2	6.2	-1.1	-2.4
Residential structures	-0.2	-2.5	0.7	-1.7	3.3	3.5	1.1
Machinery and equipment	3.3	5.5	4.2	3.9	1.1	-1.9	3.2
Non-residential structures	15.1	1.7	5.8	18.0	13.0	-8.0	-11.5
Final domestic demand	4.4	2.2	2.2	1.5	3.2	1.7	1.7
Exports	2.7	4.2	1.4	0.8	1.9	3.6	4.0
Imports	5.6	2.9	1.3	2.5	3.7	2.7	2.0
Net exports, $2007 bil.	-22.2	-21.6	-21.8	-24.1	-26.9	-26.6	-24.9
Employment	3.7	1.1	2.6	-0.9	1.6	0.7	1.4
Unemployment rate (%)	5.1	4.7	4.7	5.3	5.0	5.0	4.7
Personal income	6.2	4.3	5.0	2.7	5.2	4.4	4.7
Disposable income	7.0	4.1	4.6	2.8	5.3	4.4	4.6
Net operating surplus: Corporations	18.0	-0.4	0.8	-9.1	-6.0	0.5	0.5
CPI	2.1	2.7	2.3	1.7	2.3	1.9	1.9
Retail sales	9.3	2.0	0.6	-1.0	4.5	4.4	4.8
Housing starts, 000s	43.7	40.9	44.9	34.9	42.1	40.3	40.3
Population Growth (%)	1.3	1.6	1.4	0.6	1.2	1.1	1.1

Key External Forecasts

U.S. Real GDP	2.4	3.0	2.3	1.2	2.3	2.0	2.2
Canada Real GDP	3.1	2.0	1.6	0.6	1.7	2.1	2.0
European Union Real GDP	2.7	1.5	1.2	0.4	1.8	1.6	1.7
China Real GDP	6.0	6.6	6.1	4.9	6.4	5.7	5.5
Japan Real GDP	1.9	0.8	0.7	-0.2	1.1	0.9	0.8
Canada 3-month t-bill, %	0.71	1.37	1.66	0.30	0.50	1.00	1.30
Canada GoC long-term Bond, %	2.18	2.36	1.80	1.10	1.50	1.80	2.00
U.S.-Canada Exchange Rate, cents/ dollar	77.1	77.2	76.2	73.0	74.0	75.0	77.0
Crude Oil WTI USD$ per barrel	51	65	57	37	44	50	55

Real Gross Domestic Product: Industries Provincial Forecast	2017	2018	2019	2020	2021	2022	2023
All Industries	240,658	246,506	251,415	253,025	259,844	266,273	272,824
% change	4.0	2.4	2.0	0.6	2.7	2.5	2.5
Agriculture	2,865	3,245	3,230	3,165	3,191	3,240	3,292
% change	-1.2	13.2	-0.4	-2.0	0.8	1.5	1.6
Forestry	1,822	1,912	1,762	1,693	1,670	1,672	1,684
% change	-3.5	5.0	-7.8	-3.9	-1.3	0.1	0.7
Fishing, hunting, trapping and agriculture and forestry support	298	292	293	289	292	296	300
% change	-1.9	-2.1	0.1	-1.2	1.2	1.3	1.4
Oil and Gas Mining	3,705	4,528	4,614	4,717	4,819	5,099	5,390
% change	1.7	22.2	1.9	2.2	2.2	5.8	5.7
Other Mining	4,580	4,686	4,758	4,626	4,852	4,755	4,745
% change	-3.5	2.3	1.5	-2.8	4.9	-2.0	-0.2
Support activities for oil, gas, and other mining	713	835	804	760	704	634	647
% change	-4.1	17.1	-3.7	-5.4	-7.4	-10.0	2.0
Utilities	5,261	4,940	4,982	4,965	5,060	5,154	5,258
% change	5.6	-6.1	0.9	-0.3	1.9	1.9	2.0
Construction	20,478	21,110	21,476	22,681	23,804	24,175	24,052
% change	10.8	3.1	1.7	5.6	5.0	1.6	-0.5
Residential Construction	8,939	9,272	9,289	8,994	9,195	9,693	9,800
% change	2.5	3.7	0.2	-3.2	2.2	5.4	1.1
Non-Residential Construction	2,039	2,308	2,599	2,748	2,847	2,892	3,010
% change	-8.0	13.2	12.6	5.7	3.6	1.6	4.1
Engineering Construction	6,150	6,128	6,059	7,227	7,831	7,419	6,861
% change	37.9	-0.4	-1.1	19.3	8.4	-5.3	-7.5
Other Construction	3,350	3,401	3,527	3,712	3,932	4,171	4,381
% change	8.7	1.5	3.7	5.2	5.9	6.1	5.0
Manufacturing	17,354	17,711	17,817	17,773	18,131	18,381	18,773
% change	5.6	2.1	0.6	-0.2	2.0	1.4	2.1
Food Products	2,153	2,155	2,230	2,215	2,265	2,316	2,374
% change	3.5	0.1	3.5	-0.7	2.3	2.3	2.5
Wood Products	2,986	2,975	2,680	2,639	2,649	2,713	2,765
% change	-0.9	-0.4	-9.9	-1.5	0.4	2.4	1.9
Paper and Allied Product	1,451	1,483	1,446	1,458	1,464	1,473	1,485
% change	3.8	2.2	-2.6	0.8	0.5	0.6	0.8
Primary Metals	1,471	1,453	1,353	1,348	1,363	1,372	1,409
% change	10.9	-1.2	-6.9	-0.4	1.1	0.7	2.7
Non-Metallic Minerals	1,378	1,591	1,620	1,624	1,681	1,715	1,745
% change	15.2	15.5	1.8	0.2	3.5	2.1	1.8
Fabricated Metals	1,167	1,383	1,525	1,572	1,592	1,600	1,606
% change	7.1	18.5	10.3	3.1	1.3	0.4	0.4

Labour Market Indicators: British Columbia
Provincial Forecast

	2017	2018	2019	2020	2021	2022	2023
Employment by Industry: British Columbia							
Total	2,466.8	2,493.6	2,559.0	2,536.3	2,577.7	2,596.8	2,632.4
% Change	3.7	1.1	2.6	-0.9	1.6	0.7	1.4
Agriculture	26.2	23.6	26.6	26.1	25.9	25.6	25.6
% Change	7.4	-9.9	12.7	-2.0	-0.7	-1.1	-0.2
Other Primary	49.8	49.7	44.5	44.6	44.7	44.1	44.4
% Change	-2.0	-0.2	-10.5	0.2	0.2	-1.2	0.6
Manufacturing	174.2	174.3	165.7	161.4	161.4	159.3	159.0
% Change	2.4	0.1	-4.9	-2.6	0.0	-1.3	-0.2
Utilities	12.9	13.9	12.2	12.0	12.1	12.1	12.2
% Change	-4.4	7.8	-12.2	-1.7	0.9	-0.1	0.8
Construction	228.6	238.4	236.6	235.7	238.3	240.4	242.5
% Change	8.2	4.3	-0.8	-0.4	1.1	0.9	0.8
Transportation & Warehousing	139.4	135.8	140.6	135.2	136.4	138.1	141.8
% Change	1.1	-2.6	3.5	-3.8	0.9	1.2	2.7
Trade	374.0	368.4	389.2	383.0	388.1	390.2	395.1
% Change	1.1	-1.5	5.6	-1.6	1.3	0.5	1.3
FIRE	156.2	150.8	158.9	158.7	162.2	164.6	168.3
% Change	14.9	-3.5	5.4	-0.2	2.2	1.5	2.2
Professional, Scientific, Managerial	299.7	309.1	336.0	336.8	342.7	344.1	346.7
% Change	-0.2	3.1	8.7	0.2	1.8	0.4	0.7
Accomodation & Food Services	182.6	187.7	191.2	179.8	189.2	190.9	196.4
% Change	4.8	2.8	1.9	-6.0	5.2	0.9	2.9
Education Services	166.6	168.6	178.7	178.8	178.9	178.0	177.0
% Change	1.0	1.2	6.0	0.0	0.1	-0.5	-0.6
Health & Welfare Services	303.5	323.2	312.6	318.6	325.8	333.2	340.9
% Change	4.1	6.5	-3.3	1.9	2.3	2.3	2.3
Other Services	251.2	245.7	250.3	248.1	253.3	255.9	261.0
% Change	8.7	-2.2	1.9	-0.9	2.1	1.0	2.0
Government Services	101.9	104.3	116.0	117.8	118.6	120.2	121.7
% Change	-1.7	2.4	11.2	1.5	0.7	1.3	1.3

Terms

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