B.C. Economic Briefing

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Highlights:

- B.C. sheds 6,500 workers in February, unemployment rate rises to 5.0 per cent
- International exports plunge in January
- Lower Mainland housing market firm in February, prices on the rise
- Lumber production declines 20 per cent in 2019

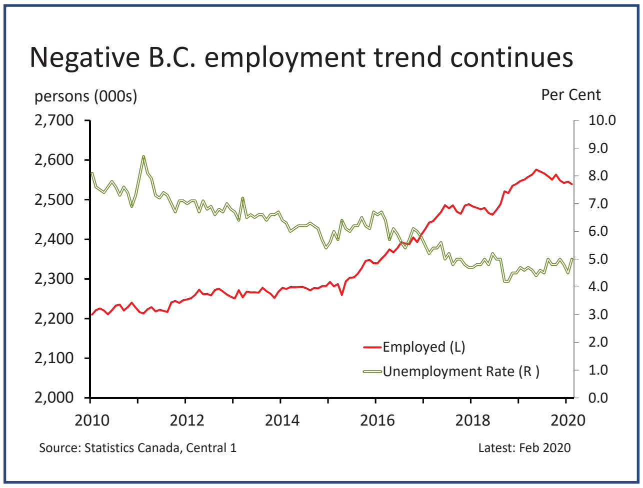
Negative employment trend extends into February, downside risk emerges

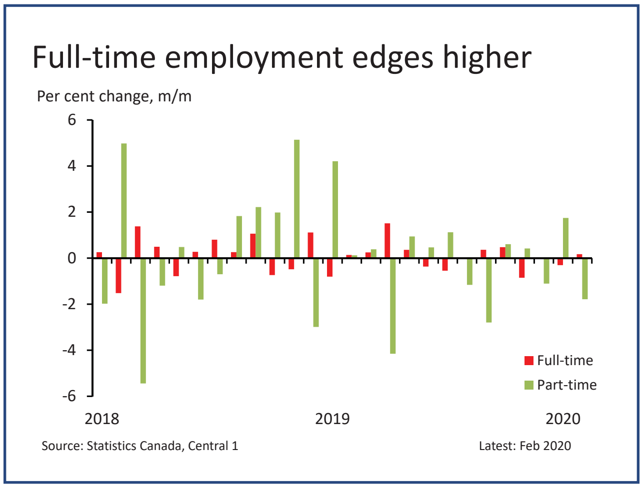
Softening employment patterns extended into February. Total employment in the province fell 0.3 per cent or by 6,500 persons in February to 2.539 million workers. Notwithstanding month-to-month fluctuations and February's insignificant monthly dip, the trend has eroded since May. Levels are down 0.4 per cent from a year ago, and employment has returned to December 2018 levels. While still among the lowest across Canada, B.C.'s unemployment rate rose half a point to 5.0 per cent, reflecting the fewer number of employed individuals and an increased number of job seekers. Employment declines were entirely by areas outside Metro Vancouver, which posted a flat February.

At the industry level lower employment was observed across a wide number of industries. Notably, resource production continued to slide with employment down 4.7 per cent from January and 22 per cent from a year ago. Manufacturing jobs also declined 2.6 per cent and 4.9 per cent year-over-year. transportation and warehousing declined 1.8 per cent from January, education fell 2.5 per cent, and information/cultural industries fell 1.9 per cent. Varying factors likely weighed.

Global economic conditions have weakened significantly due to spread of COVID-19, forestry remains in a slump, and rail protests impacted the flow of goods to market. Growth in construction and wholesale/retail trade partially offset losses in other sectors.

While headline numbers were soft, there were some positives in February. Full-time employment edged



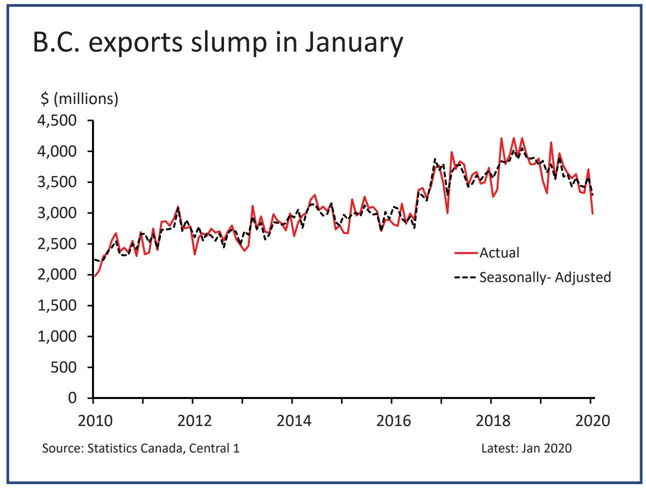


higher by 0.2 per cent (3,400 persons), partially offsetting a sharp decline in part-time work. This partly owes to a return to more normal weather patterns after severe conditions in January as hours worked in the economy rose nearly 4.7 per cent year-over-year to reverse a near four per cent decline in January. Hourly earnings also continued to accelerate, reflecting a still tight labour market and supported by technology and other services-sectors.

Uncertainty will be a dominant theme going forward, with negative risks to the labour market. Spread of COVID-19 outside China is causing severe disruption to the economy. Travel restrictions are in place in various countries and impose by organizations, leisure travel demand is down, supply chains have been interrupted, and consumer and business confidence has eroded. Central banks including the Bank of Canada have cut rates sharply, and federal government support is expected to support the economy. Fallout on the labour market will likely concentrate in tourism and commodity-oriented sectors, although a broader ripple through consumer spending may emerge if people limit domestic movement.

B.C. exports plunge in January

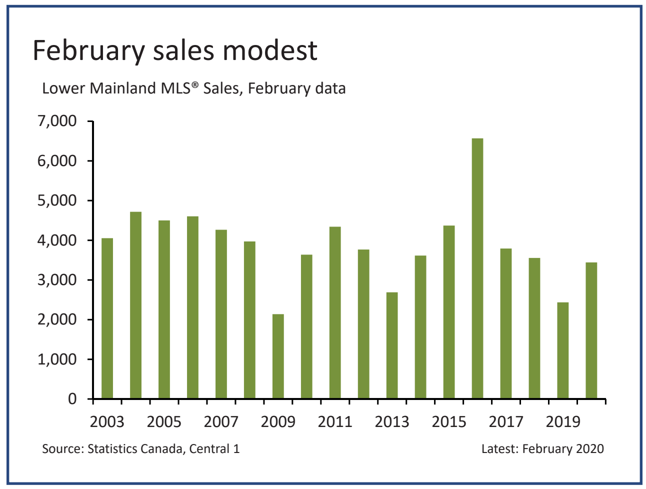
B.C. international exports plunged in January marking a downbeat start to 2020. Dollar-volume goods exports fell 15 per cent from same-month 2019 to $2.99 billion. Retrenchment in commodities- related goods led the drop with declines of near 16 per cent for energy products and metal and non-metallic mineral products, and a 30 per cent decline in forestry product sales. Minor offsets included growth in unprocessed metals and minerals, and electronic and electrical equipment shipments. On a seasonally-adjusted basis, we calculate an eight per cent export drop from December. Exports declined through 2019, owing largely to forestry sector retrenchment.

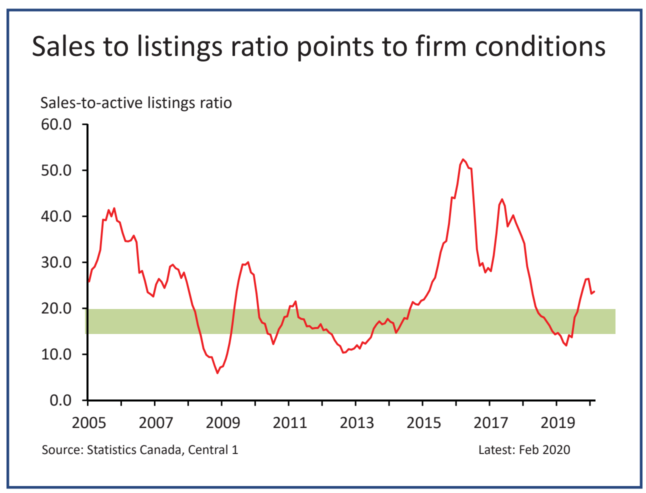


January's export slump continues to reflect soft global economic conditions as well as lower commodity prices for key B.C. exports including natural gas and coal. Subdued export activity will persist through the first quarter as protests ensnarled key rail infrastructure in February, while COVID-19 effects will cut economic growth and demand for goods.

Firm housing market lifts prices in February, lower interest rates to further fuel price growth

Lower Mainland home sales continued to trend well above year ago levels in February, as MLS® transactions rose 41.3 per cent to 3,442 units compared to a 34.6 per cent gain January. That said, this remains largely a base effect owing large part to policy-induced sales weakness through 2018 and early 2019. Sales were moderate, and excluding 2019, marked the fewest February sales since 2013 and more than 10 per cent below the average February performance from 2000-2019. Seasonally- adjusted, we calculate a modest improvement in February following a sharp January decline.





The lull in early 2020 likely owes to both demand and supply factors. Severe weather impeded sales in January, while February sales may have been curtailed by escalation of COVID-19 fears via lower consumer confidence and foot traffic. Relatively low listings are also limiting choice for buyers and sales. The ongoing spread of the virus and actions by global authorities around the world to stem the spread temper buying for the remainder of this quarter. Deep cuts to policy rates this past week by the Bank of Canada and U.S. Fed will result in ensuing mortgage rate declines, in turn fueling an increase in purchasing activity. This adds to relaxation of mortgage stress test rules for government-backed insured mortgages comes into effect April 6. The net impact will be higher sales and rising prices through 2020.

Market conditions remain firm due to limited resale inventories. New listings popped higher following a February pullback, but month-end active listings fell 17 per cent from a year ago and were flat on a seasonally- adjusted basis. Active listings are trending at mid-2018 levels. At 22 per cent, the sales-to-listings ratios is in line with a sellers' market and lifting price momentum.

Average prices rose 8.1 per cent from a year ago to $920,340 accelerating from a 4.5 per cent increase in January. Sales composition factors into the gain, but benchmark home values picked up steam. While still below peak levels from mid - 2018, the benchmark price rose 1.2 per cent from January to $962,500. Seasonally- adjusted prices rose 0.5 per cent and have been on the rise since August. Momentum has been strongest in the apartment market as a tight labour market, low interest rates, and population growth continue to support demand for affordable ownership options.

B.C. sawmill production lowest since 2009

The crisis in B.C.'s forestry sector persisted through December as lumber production continued to struggle. Softwood lumber production came in at 1.51 million dry cubic metres during the month, marking a 15.6 per cent year-over-year decline. While a slight improvement from November's performance, at best this suggests a bottom in production.

On a full-year basis, production fell 20 per cent, marking the lowest level since 2009. The perfect storm of weak market conditions, high input costs, lumber tariffs and the bite of the long-term impact of the mountain pine beetle epidemic on timber supply have led to permanent mill closures and sharp curtailments across the province. Job losses have followed in the logging and related manufacturing sectors.

A rebound in 2020 will be difficult to achieve despite higher U.S. housing starts and provincial government support for the sector. Forestry prices have increased from 2019 lows but were down eight per cent in February from a year ago. Meanwhile, recessionary risks in the global economy due to the spread of COVID-19 across the globe which will hamper consumer demand and investment. Rail disruptions are also a negative factor.

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