B.C. Economic Briefing

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Highlights:

- March employment collapses on COVID-19 effects and policy measures
- Canada's unemployment rate soared 2.2 points to 7.8 per cent
- B.C.'s unemployment rate rose from 5.0 per cent to 7.2 per cent
- B.C. small business confidence at 37.8 points
- 30 per cent decline in housing starts this year would not surprise

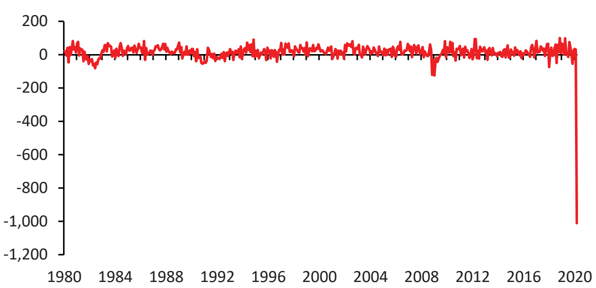
Canada sheds 1 million workers in March due to impact of COVID-19

As expected, Canada's labour market figures were gut-wrenching in March as the effects of government interventions to limit the spread of COVID-19 led to an unprecedented decline in employment and impacted the livelihoods of Canadians.

Based on a reference week of March 15 to March 21, estimated Canadian employment collapsed by 1.011 million persons from February, or 5.3 per cent, while the average unemployment rate soared 2.2 points to 7.8 per cent. In both cases, this marked the sharpest change on record going back to 1976. Losses predominantly reflect temporary layoffs as businesses plan to re-hire after measures are lifted. There is no real basis for comparison of the March decline. The worst single-month decline during the 2008/09 Great Financial Crisis was 124,800, with a peak-to-trough loss of 425,000 over a seven month period. As job losses continued after the reference week, further downside is likely for April.

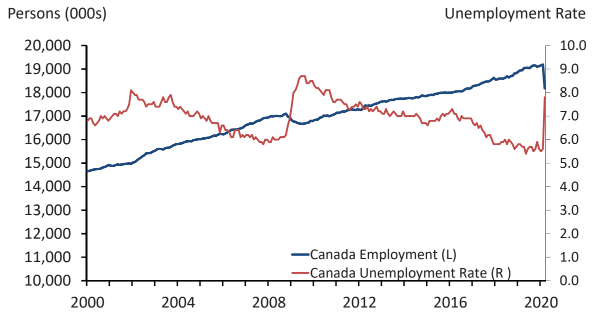
Nationally, full-time employment fell by 474,000 persons, or three per cent, while part-time employment plunged by 536,700 persons, or 15 per cent. While nearly all sectors experienced losses, those with the most public exposure were worst hit. Accommodations and food services fell 24 per cent; arts, entertainment and recreation declined 13 per cent; educational services fell 9.1 per cent and wholesale/retail trade declined 7.2 per cent. Natural resources, construction and public administration were largely unaffected. Sectors with the ability to work-from-home also held up.

COVID-19 effects and policies cut Canada employment by 1 million persons in March



Source: Statistics Canada, Central 1 Latest: March 2020

Unemployment rate surges, limited by drop in labour force participation



Source: Statistics Canada, Central 1 Latest: March 2020

Headline statistics tell only part of the story as many technically employed workers were fully or partially idled. The number of employed workers with no hours (up 1.3 million) or those who worked less than half of their usual hours (up 800,000 individuals) rose substantially. COVID-19 effects on business conditions drove these numbers. Total hours worked in the economy fell 15 per cent in March, reflecting the combination of job losses and idling of employed workers. Lower income workers have been hit hardest by the current losses.

The rise in the unemployment rate only tells part of the story, and levels could have been higher. The labour force shrank as diminished opportunities as many recent workers stopped looking for opportunities given the current environment.

The shock of COVID-19 is a national rather than provincial story, although labour market shifts during the month differed among regions. This partly reflects timing of measures taken by various provincial authorities to tackle the spread of the virus. Most provinces have enacted similar measures by April. The sharpest employment contractions occurred in Quebec (down six per cent), Ontario (down 5.3 per cent), B.C. (down 5.2 per cent) and Alberta (down 5.0 per cent).

April LFS numbers are likely to become worse through April as more employees were laid off since the last survey amidst the intensifying economic freeze. Millions of applications for Employment Insurance and Canada Emergency Response Benefit signals as much. Some of these workers could be returning to employed status sooner rather than later as businesses make use of the Canadian Emergency Wage Subsidy which provides a subsidy of up to 75 per cent for incomes up to $58,700 for hard hit businesses. Nevertheless, the social and economic impacts of COVID-19 will continue into at least mid-year.

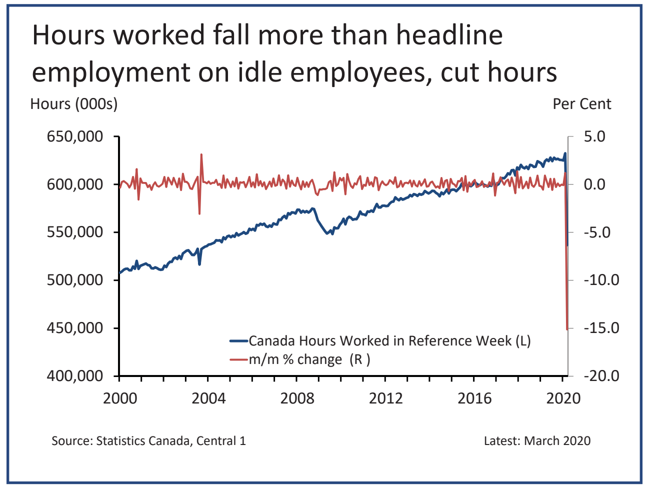
In B.C., the numbers played out much like the nation.

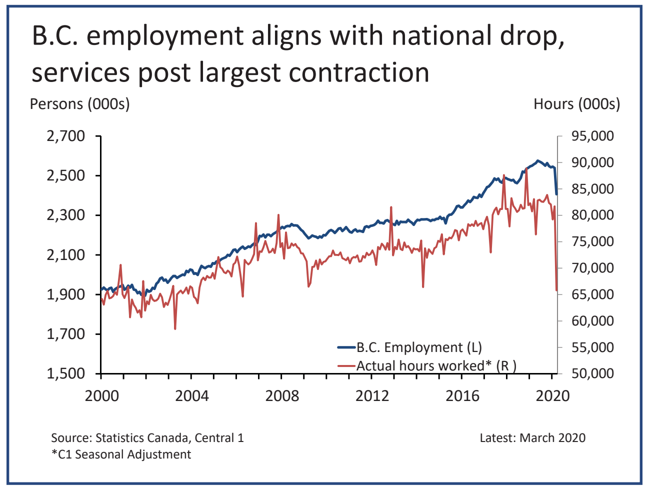
Total employment fell by 132,400 persons or 5.2 per cent to 2.407 million persons. Full-time work fell by 56,900 persons or 2.9 per cent, while part-time work declined 75,500 or 13.9 per cent. B.C.'s unemployment rate rose from 5.0 per cent to 7.2 per cent. Headline employment understates the full effect of the COVID-19 crisis on workers, and those employed but without or with diminished hours. Hours worked in the economy fell 20 per cent from both February and a year ago.

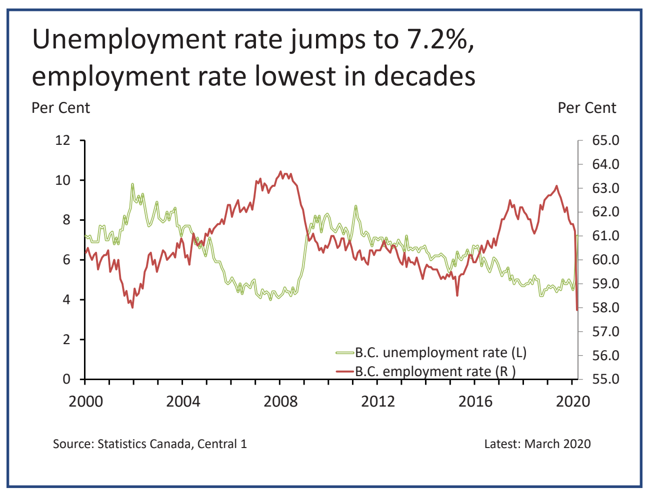
As can be expected, and aligning with the national figures, were sharp declines in the tourism-related and public-facing sectors. Accommodation and foodservices contracted by 36,400 employees or 18.7 per cent from February, with information, culture and recreation down 16,800 or 14 per cent. Wholesale/retail trade contracted by 40,000 employed persons or 9.9 per cent. Broadly, services fell 6.5 per cent, accounting for nearly all of the decline. Goods-producing sector employment was unchanged, with agriculture and manufacturing offsetting a drop in construction.

Regionally, Metro Vancouver recorded the vast majority of the job losses, with a drop of eight per cent or 117,000 persons. This represented 89 per cent of the total loss from February. Unemployment rose to 7.5 per cent of the labour force from 4.6 per cent in February. Concentration of the decline reflects the disproportionate impact on services-producing sectors.

Government policies to support workers through the pandemic through income support programs and wage subsidies for business will provide households







to the ability to bridge through the pandemic. Employment numbers should pick up with wage subsidies, despite many workers at home during the duration of the pandemic. That said, the recovery will be slow and many small businesses may be unable to survive the duration of the health crisis, curtailing a rebound.

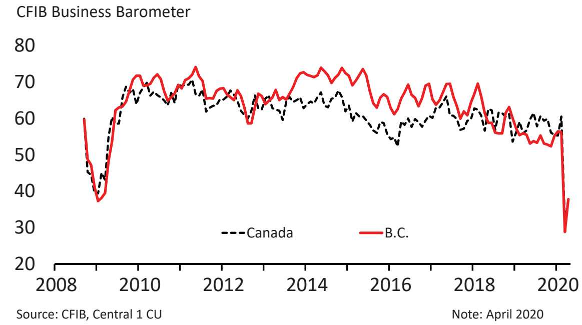
Small business confidence edges up, but remains near record low

Following February's stunning collapse, the Canadian Federation of Independent Business' sentiment index continued to plumb a near record low level. While April's national reading picked up to 37.7 points from near 31 points reported on March 25, the index was still below prior lows of the 1990s recession and 2008/09 Great Financial Crisis. A value above 50 means on net small and medium sized enterprises (SME) anticipate stronger business conditions 12 months out but it is also a coincident indicator of economic activity. Weak sentiment persisted across all industries outside transportation, and arts/recreation/ entertainment.

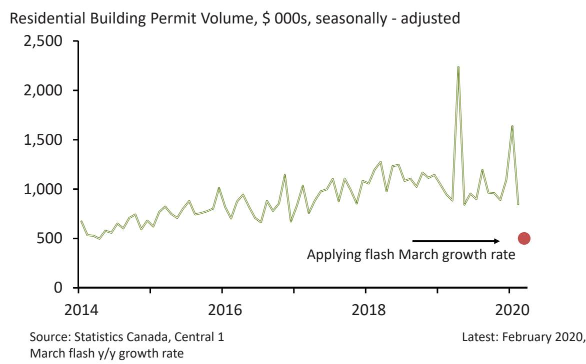
SME was lowest in Quebec at 24.4 points, and highest in New Brunswick at 47.3 points and Manitoba at 46.2 points. The index for B.C. was close to that national average at 37.8 points and compared to 28.8 points observed in the last report. Government measures to support households and the economy, tax payment deferrals, and cuts in interest rates have likely provided a lift to sentiment, but there is little doubt that SMEs are facing substantial challenges going forward. Federal measures have largely addressed bridging worker incomes during the COVID-19 disruption, including the Canada Emergency Response Benefit and Canada Emergency Wage Subsidy. The latter will help businesses keep employees but does less to address the impact weak cash flow. The most effected SMEs, including restaurants and other personal services will have difficulty covering fixed costs during this period of disruption, although a federally backed interest free loan of up to $40,000 could provide.

According to the CFIB survey results, 68 per cent of firms surveyed planned to cut full-time employment in the next three months, with only three per cent looking to add. There have been some sectors that have outperformed

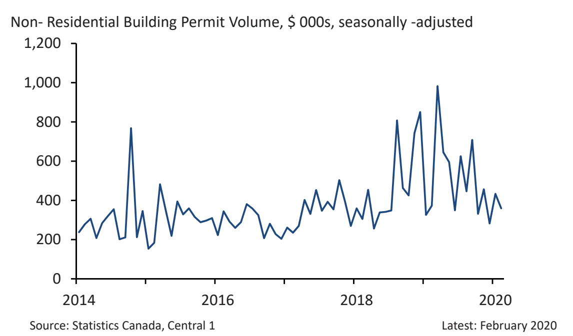
March plunge in confidence extends into April



Flash building permits point to steep March decline



Range-bound non-residential building intentions in February



Early building permit data points to lower construction intentions

Statistics Canada introduced a new "flash" measure this week to gauge the effects of COVID-19 on construction intentions. The agency released preliminary building permits estimates for March based on open source municipal data and data received prior to April 2. Municipalities included represented about 29 per cent of permit volumes in 2019.

The estimates suggest a steep decline in building permits in March and by extension, future construction activity both in new construction and renovation activity. The limited municipal data pointed to a 23 per cent year-over-year decline in March permits, with B.C. municipalities down 27 per cent. Residential permits drove the bulk of the decline, with included B.C. municipalities showing a 41.9 per cent decline, while non-residential permits fell 8.4 per cent. As B.C. implemented physical distancing policies earlier than many other provinces, construction intentions likely followed suit. That said, other factors including a pull forward in permit activity due to tax hikes may have also driven recent values.

This marks a significant worsening of trend if it generally aligns to February data where full information is available. That said, given much of the province is not included in the flash reading, this should be taken with caution. In February, seasonally- adjusted B.C.

residential permits fell 10.5 per cent year-over-year over but rose 30 per cent over the first two months of the year. Non-residential permits fell 7.0 per cent year but were up 13 per cent year-to-date.

Housing starts fall sharply in March

According to preliminary CMHC data, housing starts declined in most regions of the country in March suggesting some negative impact of COVID-19, although new home construction is generally volatile. In British Columbia, urban- area starts fell to an annualized rate of 30,750 unit from a pace of 38,500 units in February. This marked a 20 per cent monthly decline, but only a 5.9 per cent decline from a year ago. Interestingly, single-detached housing starts edged higher, the decline was entirely the result of fewer multi-unit starts which fell from a pace of 31,000 units to 23,240 units. Apartment starts led this decline.

While COVID-19 likely had an impact, starts are volatile and declines in multi-family starts like the one seen in March is not abnormal. Moreover, fewer March starts did not result from a drop in Metro Vancouver which posted a modest increase in construction. Rather, Kelowna, Abbotsford-Mission and Victoria all posted large declines from February.

During the first quarter, starts reached 7,327 units marking a 15 per cent decline from same-quarter 2020. Metro- Vancouver area starts fell 24 per cent, with Victoria down 16 per cent. In contrast, Abbotsford- Mission rose 60 per cent, and Kelowna rose 45 per cent, although starts in these metro areas represented about 500- 550 units each.

Housing starts are expected to slow due to the broad COVID-19 disruption to society. While construction sites remain open, it is likely that physical distancing measures, closures of non-essential services, and delays in permitting will further slow buildouts and delay projects. This is supported by the "flash" March building permit estimates. A 30 per cent decline in housing starts this year would not surprise. The number of units under construction during the first quarter remained near a record high above 62,000 units suggesting substantial economic activity still underway. That said, these numbers may be propped up by idled projects looking to complete.

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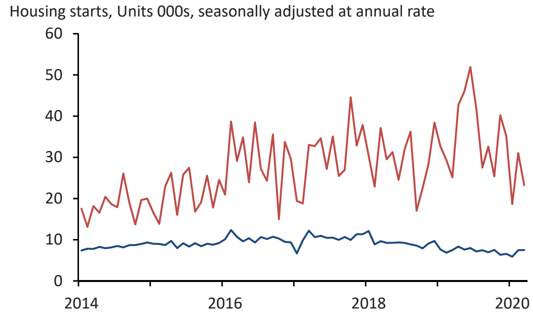
Fewer apartments drag on starts, but Metro Vancouver steady



Source: CMHC, Central 1 Latest: March 2020