B.C. Economic Briefing

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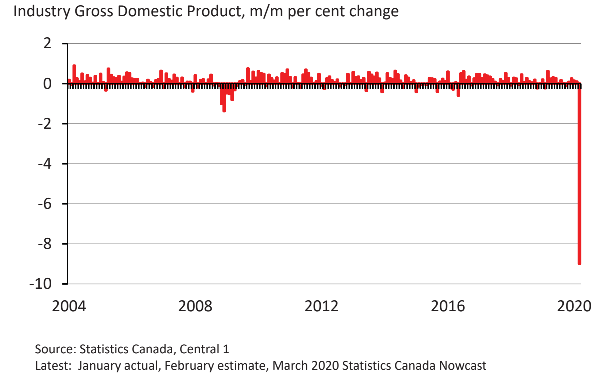
Highlights:

- Statistics Canada suggests Canadian economic activity dropped 9 per cent in March; largest monthly decline on record
- Sharp downturn in housing market
- Employment Insurance counts to surge

Canada GDP plunges historic 9% in March according to Statistics Canada



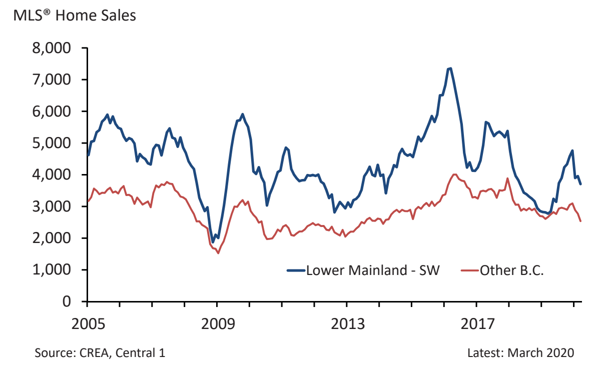
COVID-19 health crisis hammers the economy

How much has Canadian economic activity been hit due to the COVID-19 health crisis and containment measures? An almost unfathomable amount.

Statistics Canada produced a nowcast for March to gauge the current economy amidst the twin hits of the virus effects and the oil price collapse. Its preliminary estimate for industry gross domestic product (GDP) point to a 9.0 per cent decline in economic activity from February. During the Great Financial Crisis, the deepest one month drop was 1.4 per cent in December 2008. The agency does not normally publish nowcasts, and indeed February data has yet to be formally released, but these are unprecedented times. Not surprisingly, and consistent with March Labour Force Survey data, services were hardest hit with severe contractions in travel and tourism sectors, restaurants, accommodations and other services. Recall that LFS data showed an employment decline of about one million persons, or 5.3 per cent, with hours worked down 15 per cent, but reflected a reference week ending March 21. This nowcast is broader in scope. Including the March estimate, Q1 GDP was estimated to have contracted 2.6 per cent from Q4 2019, which was much worse than our forecast. This marks an annualized contraction of about 10 per cent for Q1.

Q2 is likely to be worse. Containment efforts ramped up in late March into April. Based on applications for Employment Insurance and the Canada Economic Response Benefit, employment likely fell in the range of 2 million persons. The number of employed persons working no hours or reduced hours in March had

B.C. MLS® sales decline in March, early pandemic effects bite



already reached 2 million, many of which who would fall into technical unemployment in April. The Bank of Canada noted in its anticipated policy rate announcement and accompanying Monetary Policy Report, a contraction expectation of 15 to 30 per cent in Q2 2020 relative to Q4 2019. This is not an annualized figure but an unrivalled contraction on record. The sharpest q/q decline during the GFC was -2.3% in Q1 2009. Bank of Canada's assessment implies an annualized quarterly decline of 40 to 70 per cent, but at those levels there is less relevance of the actual number.

Housing market begins to freeze in March

B.C. MLS® home sales fell for a third straight month in March but COVID-19 effects only started to impact the housing data. According to the latest Canadian Real Estate Association (CREA) figures, sales reached a seasonally-adjusted 6,244 units, down 7.2 per cent from February. On an unadjusted basis, sales were

17.5 per cent above same-month in 2019, but growth was down from 26.6 per cent in February. Despite the gain, this compared to a low base-year, and levels were 15 per cent below the average since 2000.

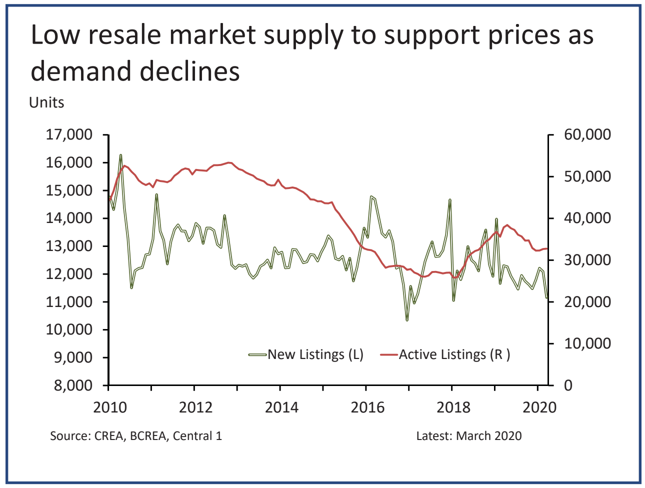
Sales retreated in most areas of the province with declines of 6.2 per cent in the Lower Mainland- Southwest markets, 12 per cent on the Island, five per cent in Northern B.C., and five per cent in the southern interior.

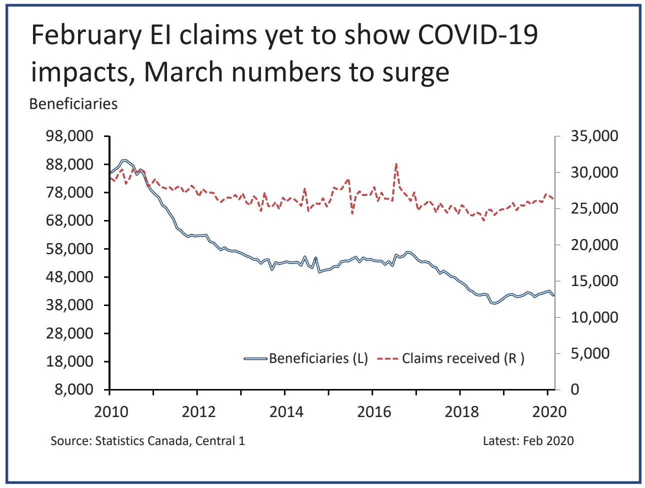
The mild home sales performance in March masks a sharp downturn in the market as government measures to limit the spread of COVID-19 ramped up in the later stages of the month. The freezing up in broader society and economic activity extended in the housing sector. Early month sales were reportedly strong, with sales and listings diving in the second half. As sales reporting lags purchasing activity, March numbers were boosted by previous purchase decision. The sales downturn will likely extend multiple months, reflecting physical distancing measures, and the economic stress caused by temporary business closures and layoffs.

New listings flow already eased in March with levels down 7.7 per cent seasonally- adjusted amidst a sharp decline in the Lower Mainland- Southwest as sellers likely started to step away given discomfort of having strangers in their homes and expectations of weaker market conditions.

A rebound is expected in the second half of the year as more parts of the economy re-open and demand picks up on low interest rates and pent-up demand. That said, this will depend on the evolution of the pandemic and how successful government programs are in bridging household incomes through the health crisis. Longer duration of the pandemic and delayed re-openings of the economy could generate permanent damage to the economy as more businesses close and individuals face a longer period of unemployment.

Price trends will likely retreat in the short term given the circumstances but magnitude is uncertain. Fewer listing will mean less downward price pressure. At the same time, the units sold in the market may reflect more sellers that have a need rather than a wish to sell. The next few months will not provide much information in the way of a post-pandemic pricing environment. Heading into COVID-19, markets were firm with balanced or sellers' markets prevailing. The average price rose 4.7 per cent in March to $770,730, while benchmark prices for the Lower Mainland, Vancouver Island and Okanagan all firmed during the month with gains of more than 0.5 per cent.





Employment insurance counts shed little light on state of labour market

In what should be a hotly anticipated leading indicator in light of the COVID-19 health crisis and massive upheaval in labour markets, Employment Insurance counts are largely an afterthought given a timing lag in publication. The latest data release is for the month of February, which preceded much of the COVID-19 impact on the economy. Indeed, March Labour Force Survey data already showed more than1 million Canadian job losses in March, not including those with a reduction of hours. B.C. losses were similar to the national loss with a five per cent contraction.

Contrast this with the U.S. which publishes weekly unemployment insurance initial claims data with a one week lag. In the four week period leading up to April 11 there were 21 million claims stateside, suggesting 13 per cent of the labour force have lost their jobs in recent weeks. Timely data is not available in Canada, although the government has announced that more than six million Canadian have applied for Employment Insurance benefits and the Canada Emergency Response Benefit. There is double-counting as affected workers apply for all programs, but sharp employment losses are essentially guaranteed for April. Employment losses exceeding one million in April would not surprise.

Back to the data, February EI counts largely provide a reference point prior to the COVID-19 hit. The number in B.C declined 3.4 per cent to the lowest level since May, and essentially unchanged on 12- month basis. Monthly declines were reported in nearly all economic regions. The number of EI claims received fell 1.3 per cent from January but will surge going forward.

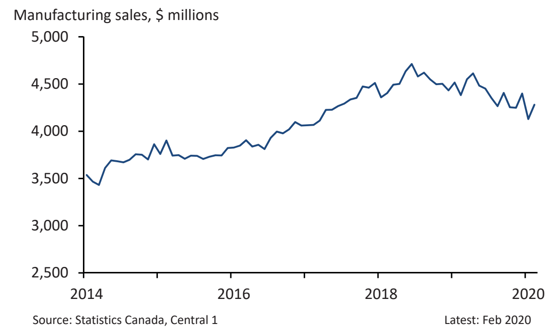
February manufacturing sales rise in last hurrah

In what is likely one of the last hurrahs prior to disruptive impacts of COVID-19 on B.C.'s economy become fully visible in the data, manufacturing sales rose sharply in February. Despite the effects of a sharp COVID-19 related slowdown in China's economy which cut into demand and disrupted supply chains and domestic rail blockades in Canada, B.C. manufacturing shipments jumped 3.7 per cent from January to $4.28 billion, albeit levels were down 2.3 per cent year-over-year. Despite the gain, a negative underlying trend extending back more than a year persisted. This has largely owed to weakness in the forestry sector. Nationally, factory shipments rose 0.5 per cent month-to-month, with year-over-year sales down 0.9 per cent.

Sectors leading monthly growth included paper production (up 7.5 per cent), non-metallic minerals (up 26 per cent), wood products (up 5.8 per cent), fabricated metals (up 8.7 per cent), and machinery (up 4.3 per cent).

Activity will likely drop sharply going forward, particularly in April. Lockdowns across the world to combat the spread of COVID-19 has frozen large parts of the economy. The Canadian economy contracted at an annual rate of about 10 per cent in first quarter, with economic activity to drop in the 50 per cent range in Q2. A drop in export and domestic demand will curtail demand for a large share of manufactured goods, although the industry will still outperform service oriented sectors particularly in those related to food products and personal care items.

Manufacturing sales edge higher but downtrend continues in February



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