Economics

B.C. Economic Briefing

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Highlights:

- Housing price trends hold steady despite the free fall in sales
- B.C. employment rate still down by 14 per cent compared to February
- Sales to China down 18.9 per cent
- Global growth is set for the worst year since the Great Depression

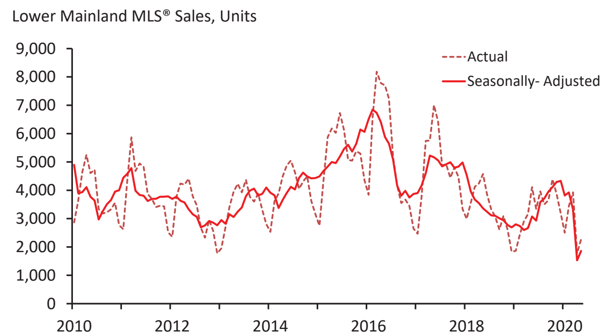
Lower Mainland home sales bounce higher after April plunge

Lower Mainland home sales picked up in May following April's COVID-19 induced collapse, but market activity broadly remained frozen as economic and public health concerns kept buyers on the sidelines, while sellers hesitated to open their homes for viewing. Total sales in the Metro Vancouver/Abbotsford-Mission area reached 2,272 units, a 45 per cent year-over-year decline which was like that observed in April. That said, our calculation suggests a modest rebound with seasonally- adjusted uptick of about 20 per cent month-to-month after declining by half the previous month. A similar pattern was observed across detached and multi-family units. Sales remain half of pre-COVID-19 levels seen in February.

Similarly, more sellers returned to the market but the number remained sharply below normal levels. While year-over-year new listings declined 30 per cent compared to a 60 per cent decline in April, and seasonally- adjusted figures rose 60 per cent month-to-month. Pivots by realtors using virtual showing technology, increased sanitization processes, and potentially a move to the exits by some investors likely contributed to the increase. Single-detached listings posted the strongest rebound.

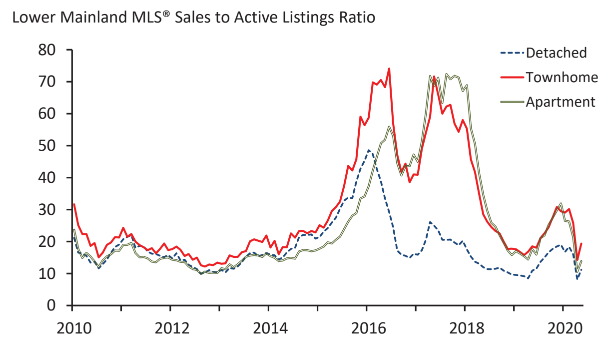
A flood of supply this is not. Lower new listings due to COVID-19, and the likelihood that some sellers delisted their homes for sale or allowed their listings to expire has contributed to a decline in inventory trend (or active listings). Indeed, the sales-to-active listing ratio rebounded closer to balanced conditions at about 14 per cent during the month, although market conditions are soft. Sales-to-active listings ratios were highest for townhomes (20 per cent) and apartments (14 per cent), with detached units at 12 per cent.

Sales bounce higher but remain low



Source: REBGV, FVREB, Central 1 Latest: May 2020

Sales to active listing ratios firm



Source: REBGV, FVREB, Central 1 Latest: May 2020

Price trends have generally held steady despite the free fall in sales reflecting the abnormal nature of the market freeze and quick supply adjustment. The average MLS® price rose 0.7 per cent following a 4.2 per cent decline in April. This was a less than normal May increase, pointing to price softness. Compositional effects do matter, and given fewer sales and listings in the market, the number may reflect a higher share of motivated sellers cutting into headline numbers. Benchmark housing price index values point to a 0.1 per cent decline in prices over the latest month, with apartment values slipping.

This remains an abnormal period in the market as COVID-19 has led to suppression in economic activity and health fears. As the phased re-start gathers steam, housing market activity will follow suit. That said, the economy will be in a much weaker state than pre- pandemic levels through 2020, unemployment will remain elevated, and population growth low. Low interest rates and relatively stable labour market conditions for higher income earning households will support demand, but we expect further price declines in the five-10 per cent range through 2020.

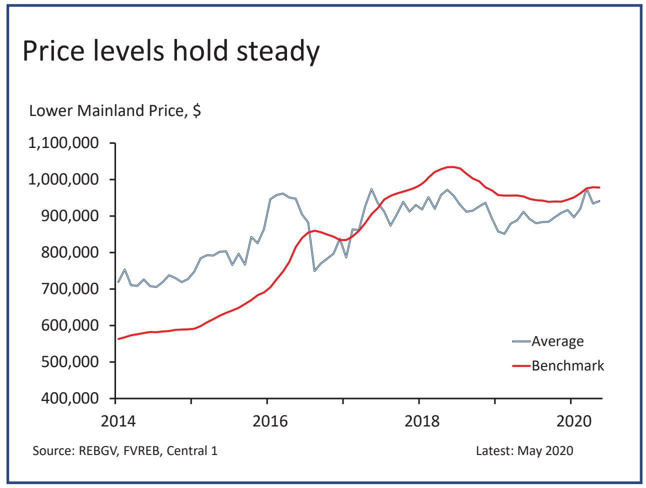
CMHC announced new measures this week that tightened up mortgage underwriting criteria for insured mortgages which will cut purchasing power for potential buyers. These include a reduction GDS/TDS ratios to 35/42 from previous maximums of 39/44. A minimum credit score of 680 is required for at least one buyer and borrowed non-traditional down payments will not be treated as equity. As private mortgage insurers are unlikely to follow, the effect on the market is limited.

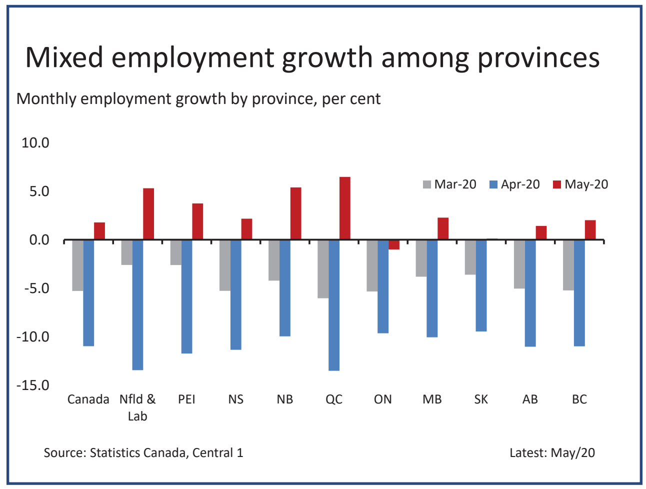
Canadians head back to work as economies restart

The Canadian labour market began its long road to recovery in May as a small portion of COVID-19 job losses unwound amidst partial easing of public-health restrictions and re-opening of more non-essential businesses. The numbers however understate improvements observed by the end of the month as it is based on a reference period of May 10 to 16, and various provinces accelerated their restarts during the second half of May.

Nationally, Labour Force Survey employment rose by 289,600 persons (1.8 per cent) during the month. This was the largest monthly gain on record but taken in context it recaptured only about 10 per cent of losses over the prior two months and remained 14 per cent lower than February levels. Further improvement in hours worked emerged with the number of people working less than half their usual hours down 8.6 per cent. The average unemployment rate rose to a record high of 13.7 per cent despite employment gains as more out of work individuals searched for employment. Plenty of slack persisted, with Statistics Canada reporting 35 per cent of the potential labour force was underutilized, which includes the unemployed, those who wanted a job but did not look for one, and those employed but for less than half their usual hours.

Provincial performance varied widely, reflecting different stages of restarts. The strongest employment increases were observed in Quebec and Atlantic Canada, while Ontario was the main drag with a drop of one per cent.





In B.C., the number of employed persons rose by 43,300 or two per cent to 2.185 million persons. Compared to February, employment was still down by 14 per cent. Gains were driven entirely by full-time work which rose 3.2 per cent, as part-time employment declined three per cent. Increased hours for many individuals likely contributed to this shift. Total hours worked in the economy rose about three per cent on a seasonally-adjusted basis.

A surge in labour force participation, which rose from 58.2 per cent to 60.6 per cent drove the unemployment rate up to 13.4 per cent from 11.5 per cent in April, as the number of unemployed individuals jumped by 60,000 persons.

Metro Vancouver employment declined 0.7 per cent suggesting a stronger employment rebound in smaller markets, while the unemployment rate came in at 14.1 per cent.

Provincial employment gains were nearly universal. The largest increases were in sectors that were also among the hardest hit over the past two months. Accommodations and foodservices employment jumped 14.9 per cent (or 12,400 persons), educational services rose 7.4 per cent (or 11,900 persons), and wholesale and retail trade gained 3.6 per cent (11,800 persons). Combined, these three sectors generated about 83 per cent of the net gain from April. Sectors to post contractions were construction (-0.7 per cent), transportation and warehousing (- 5.8 per cent), and business and building support (-2.4 per cent).

A rising employment trend continues through June and likely through the third quarter as more businesses ramp up operations following the COVID-19 induced closures. That said, the recovery phase will be uneven and shallower than the downturn. Physical distancing requirements will mean customer-facing industries such as foodservices and accommodations will operate at lower capacity than previously the case and require fewer employees, tourism will remain dormant given travel restrictions, and it is unclear whether consumers will re-engage quickly amidst fears of COVID-19. Businesses will be less likely to expand operations as they try to recover what was lost earlier this year while fearing a possible second viral wave later this year.

Canadian exports hammered by COVID-19 in April, B.C. less affected

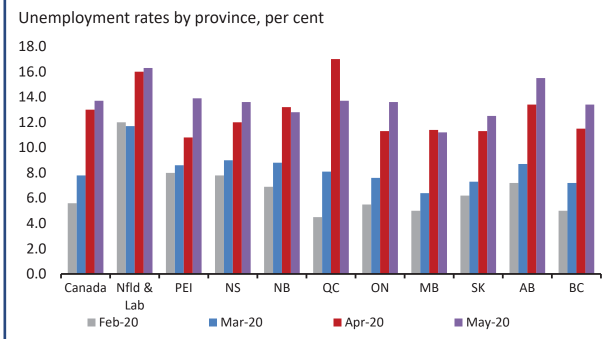
Adding to the parade of negative data due to COVID-19, international trade activity collapsed in April amidst a global recession and widespread shutdowns in retail, foodservices and manufacturing sectors such as much of the auto industry. National exports declined 29.7 per cent from March and 35.2 per cent year-over-year to the lowest level in more than a decade. Imports declined 25.1 per cent to the lowest level since February 2011.

B.C. fared better than other provinces given less exposure to the hardest hit sectors. Nevertheless, exports fell 18.7 per cent from a year ago to $2.88 billion adding to early-year weakness amidst a global recession. We calculate a monthly decline of about 10 per cent from March after adjusting for seasonal factors. The largest year-over-year drops and drivers of the decline were industrial products such as metallic and non-metallic mineral products (down 33 per cent), and industrial machinery and parts (down 29.1 per cent). Forestry products, already down sharply prior to the pandemic, continued to descend and were down 25 per cent from a year ago. Food products were a bright spot with export sales up from March but remained lower year-over-year.

Imports fell 22 per cent year-over-year, with declines across product segments. The drop in imports reflects less retail spending in the economy as consumers stayed home and stores closed temporarily. Lower production cut the needs of intermediate products, while businesses likely held back on investment due to the economic climate.

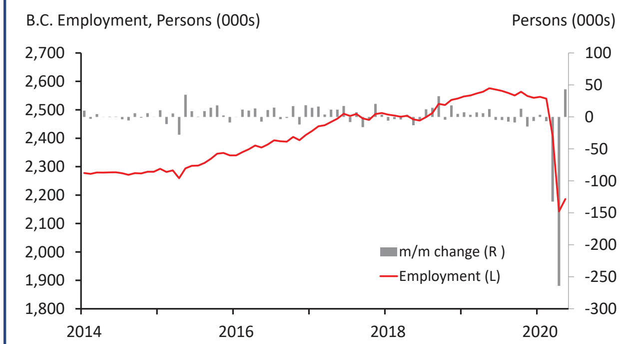
Year-to-date exports fell 14.8 per cent through April led by a drop in resource exports. Sales to the U.S. declined a relatively modest 7.3 per cent over the period. In contrast, overseas exports were the main drivers of the decline with sales to China down 18.9 per cent.

Unemployment rates rise as more people look for work



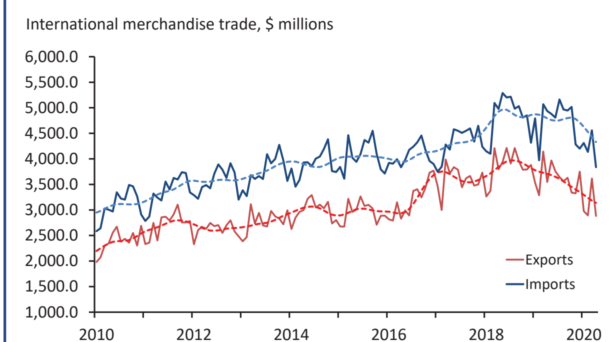
Source: Statistics Canada, Central 1 Latest: May/20

B.C. employment picks up after historic declines

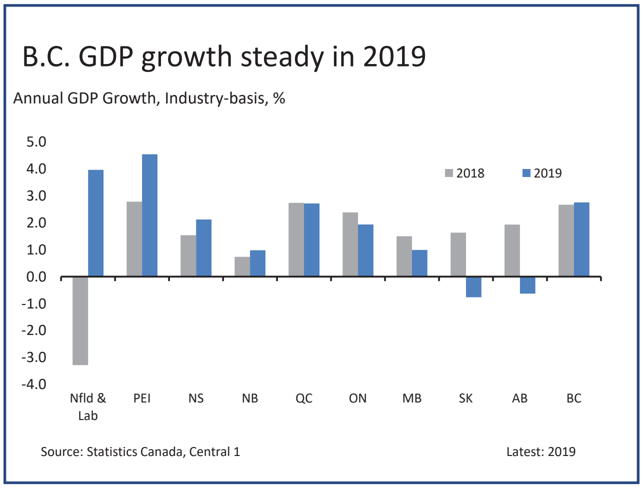


Source: Statistics Canada, Central 1 Latest: May 2020

Weak export trend hammered further by COVID-19



Source: Statistics Canada, Central 1 Latest: Apr 2020



While the global economy is early stages of economic recovery, the export environment will remain challenging. Global growth is set for the worst year since the Great Depression, driving broad weakness in consumer spending, housing construction and business investment. Exports are forecast to decline by about 10 per cent this year.

B.C. economy performed better than expected in 2019

While it seems like a lifetime ago given current circumstances, we finally have an official of estimate of provincial economic output for 2019 from Statistics Canada. Based on industry-output, B.C.'s gross domestic product (GDP) grew at a surprisingly strong pace of 2.8 per cent in 2019, which was a touch higher than 2018 growth. Growth was third highest among provinces, trailing a sharp rebound in Newfoundland and Labrador (up 4.0 per cent) follow a 2018 contraction, and Prince Edward Island (up 4.5 per cent). Nationally, growth came in a 1.7 per cent.

B.C.'s gain outpaced industry consensus. Our growth outlook for B.C. was for expansion of 2.0 – 2.2 per cent. Despite weak retail spending, and a forestry sector crisis impacting the manufacturing sector the economy continued to chug along.

Both retail (up 0.7 per cent) and manufacturing (up 0.9 per cent) underperformed as expected, while the resources sector contracted. In contrast, various other sectors propelled growth. Output in the construction sector surged 10 per cent due to a flurry of non-residential construction (up 20 per cent) amidst investments in commercial towers, schools and health facilities. Engineering construction also surged reflecting infrastructure work. In contrast, residential investment fell 1.3 per cent. In other sectors, finance and insurance expanded 3.5 per cent. The real estate, rental and leasing sector rose 3.5 per cent but should be noted that two-thirds of this sector reflects growth in the value of housing services (or imputed rent) of owner-occupied dwellings rather than as widely believed to be home sales. Other services sectors including professional, scientific, and technical services (up 4.5 per cent) and healthcare and social assistance (up 3.9 per cent).

GDP growth will plunge this year amidst the COVID-19 health crisis and impact of temporary sector shutdowns. While the economy is in the early stages of recovery, the rebound will be staggered, and capacity will be constrained due to health measures. GDP is set to contract around seven per cent before a partial rebound in 2021.

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