B.C. Economic Briefing

Volume 26 • Issue 30 • Week of July 27 - 31 2020 | ISSN: 1981-355

Highlights:

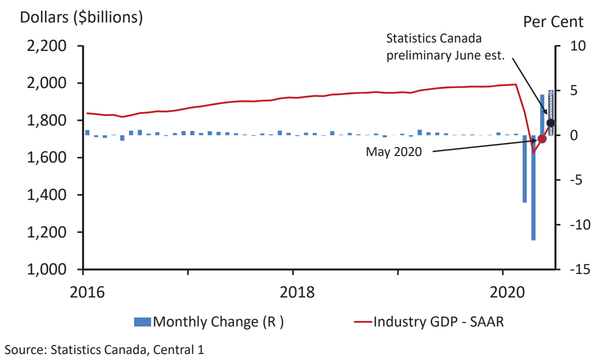
- National economy in recovery phase but a long road ahead in return to pre-pandemic output
- B.C. non-farm payrolls post surprising May decline, rising trend expected going forward
- Labour income fell by 12 per cent from February to May
- Year-to-date construction permit volumes declined 9.6 per cent
- CFIB business barometer shows stabilizing sentiment but challenges lurk below headline numbers

Canadian economic output climbs in May and June, but long recovery phase ahead

The long road to economic recovery for Canada commenced in May as real economic output rose after two months of historic declines. According to Statistics Canada's industry GDP estimates, the economy rose by a stronger than expected 4.5 per cent from April. The gain came as provinces moved to unwind some of the emergency measures implemented at the start of the pandemic to protect the health system, although the re-opening path of each province has varied. The data also remained encouraging. Preliminary estimates by the agency point to another five per cent expansion in June. Nevertheless, the hole remains deep. Even with the rapid ascent, May output declined 14.7 per cent from February levels, and June output will remain 10 per cent below. On a quarterly basis, second quarter GDP is set to decline 12.2 per cent from the first quarter. Annualized quarterly growth is for a -40.7 per cent print, although this is not all that relevant in the current context as it assumes the pace of contraction continues for a four-quarter period which is unrealistic.

Moving back to the May print, gains in production were widespread, which is not surprising given the deep declines in prior months although sectors with strong rebounds also remained dismal compared to February levels. The sharpest increases were in hard hit services. Accommodations and foodservices rose 24 per cent as dine-in services re-opened in some provinces, and restaurants allowed to re-open for limited service in Ontario. That said output was still down 57 per

Canada GDP better than expected, long way to recovery



Source: Statistics Canada, Central 1

cent from February. Retail trade rebounded 16.6 per cent, but down 16 per cent from February, while other personal services rose 14.5 per cent from April but declined 30 per cent from February. Other notable rebounds included construction, which rose 17.6 per cent during the month on large gains in non-residential construction but fell 14 per cent from February. Manufacturing sales rose 7.4 per cent, but down nearly a quarter from pre-pandemic levels.

The sharp rebound in activity during the restart phase is expected to give way to a modest and uneven recovery phase in the second half of 2020 and 2021. Output does not return to pre-pandemic levels until 2022. Firms will grapple with a lower demand environment than observed prior to the pandemic amidst higher levels of unemployment, global economic weakness, ongoing travel restrictions, and constrained capacity in some industries due to physical distancing. The Canadian Emergency Response Benefit for workers affected by the pandemic has cushioned some of the blow of job losses, but this program will end in August with affected workers expected to be supported by the employer wage subsidy program and employment insurance. That said, some workers will not be called back given the demand environment. Many small businesses may be unable to survive, and those that do will be hesitant to hire or make large scale investment decisions.

Non-farm payrolls post surprising decline in May, contrasting with Labour Force Survey gains

Based on the latest Survey of Employment, Payroll and Hours survey, non-farm payroll counts in B.C.

contracted by 2.9 per cent (57,122 jobs) from April to 1.897 million persons in May. This followed a 12.4 per cent decline in May and lifted cumulative losses from February to 460,190 positions or 19.5 per cent. Nationally, employment declined 4.1 per cent from April, and down 19.1 from February. Workers affected by pandemic-related job loss continued to receive income support via programs such a the Canada Emergency Response Benefit, or their workplaces supported by the Canada Emergency Wage Subsidy.

B.C.'s May decline was a surprise, given ramp up in the economic restart and observed employment growth in the Labour Force Survey (LFS) of 2.0 per cent over the same period. LFS employment also showed a shallower peak to trough (February – April) decline of about 16 per cent.

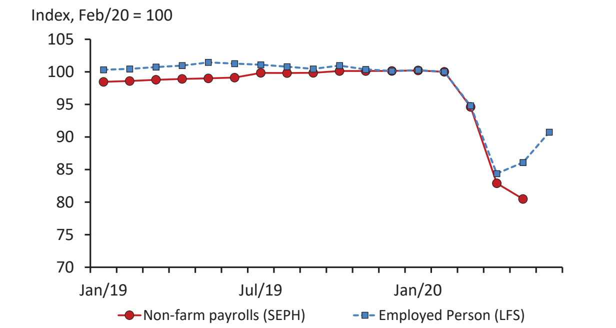
The significant divergence between the surveys likely reflects a number of factors.

- There is a difference in methodologies with the LFS being a based on information obtained from a sample of households, while the key SEPH data is based on administrative tax information. SEPH should be more accurate on this basis, although it excludes self-employed and farm workers. That said, declines in non-self- employed workers in the LFS is still less than SEPH.
- Individuals working (and laid off) in multiple jobs which is more likely in the accommodations/ foodservices sector would be counted multiple times in payroll counts.
- Another factor could be timing of layoffs. Workers may have deemed themselves unemployed in April when answering the LFS household survey, but remained on payroll temporarily, shifting losses to May under SEPH.

The latest May data points to declines across most industry in B.C. Services producing sectors with 3.3 per cent drop over the month led the decline. The sharpest declines were in the accommodations/foodservices (-12.4 per cent or 14,710 persons), with notable declines also seen in transportation and warehousing (-6.9 per cent), admin/support/waste management (-4.6 per cent), and arts/entertainment/recreation (-4.8 per cent). The goods producing sector declined 1.0 per cent, owing mostly to resources and manufacturing.

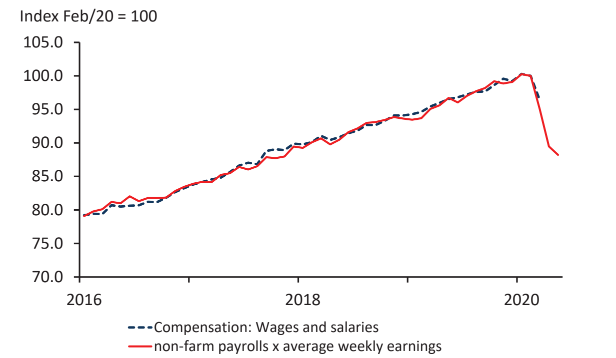
Relative to February, employment in sectors requiring more face-to-face interaction (which were more likely

Non-farm payroll post surprise decline in May, upturn ahead



Source: Statistics Canada, Central 1

Aggregate labour income tumbles, households supported by federal income programs



Source: Statistics Canada, Central 1

to be shuttered) remained sharply lower. Accommodations/foodservices and arts/entertainment/recreation were down by more than half. Employment in other personal services fell 33 per cent, while construction declined 15 per cent.

May data is at this point history, and a rebound in hiring will be observed in June data. The LFS showing a 5.4 per cent increase in June employment, and payroll counts will likely turn higher reflecting increased ramp up of economic activity. That said, after an initial burst in re-hiring, the recovery should moderate as businesses adjust to lower sales volume, even with ongoing wage support from the federal government as a slow economy persists and a potential second virus wave and further suppression policies keep businesses cautious.

On the earnings front, average weekly earnings in B.C. reached 1,123.79, up 1.6 per cent from April, and 12.2 per cent year-over-year. However, this does not reflect rising wage patterns but rather the severe loss of jobs in the lower paying occupations and industries, as well as fewer part-time workers, which is has lifted average earnings. The combination of employment losses and weekly earnings point to a labour income decline of about 12 per cent from February through May, and nine per cent year-over-year.

Building permits surge in June

June building permits rebounded rose for a third consecutive month in June to reach the highest level since January. Total permit volume rose 35 per cent from May to a seasonally- adjusted $1.81 billion. Both residential and non-residential permits surged during the month. Non- residential permits nearly doubled from May to $530 million, while residential permits also surged 20 per cent to $1.286 billion. The latter was the third highest on record.

Non-residential construction intentions were led by a sharp increase in institutional projects which more than doubled to $169.8 million, while commercial permits nearly doubled to $318.2 million.

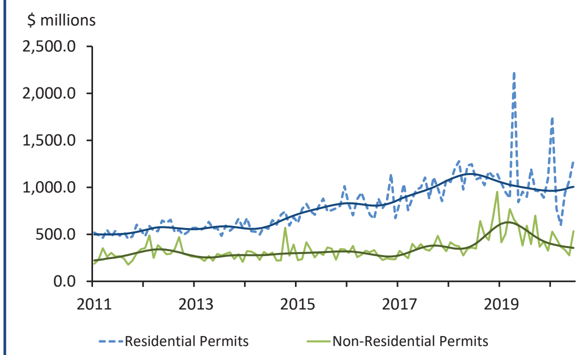
A key driver of June's increase was the redevelopment of Oakridge Centre in Vancouver into a mixed use residential/commercial project. This drove a 55 per cent increase in total Metro Vancouver permits. Total permits rose 17 per cent in Kelowna following a similar decline but continued to rise in Victoria with an 18 per cent increase.

Permit volumes are highly volatile and influenced by individual projects. Even prior to the pandemic, construction trends were easing. The latest uptick may reflect a rebound from a pandemic driven slowdown in activity as well as one-off projects. Year-to-date, total permits declined 9.6 per cent, with residential permits down 1.7 per cent and non-residential permits down 25 per cent. The construction cycle will be tempered by pandemic driven economic weakness filtering through lower population growth and presale housing activity on the residential front, while rising vacancy rates in retail and other commercial real estate due to business exits, and lingering uncertainties on the part of business will curtail investments.

Business sentiment stable in July but masks ongoing challenges

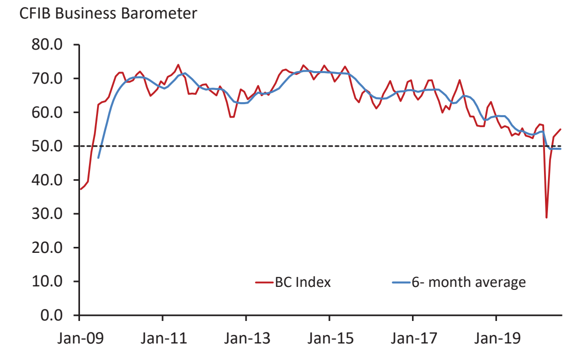
The Canadian Federation of Independent Business' (CFIB) latest Barometer reading for July pointed to a slight improvement in small business sentiment, but short-term expectations remain subdued. B.C.'s Barometer reading rose 1.4 points from June to 55 points. While the index is up sharply from a low of 29 points in March, it is well below the 5- year average

Building permit volume jumps in June



Source: Statistics Canada, Central 1

Small business sentiment stabilizing but trouble lurks beneath headlines



Source: CFIB, Central 1

of about 61 points. A value above 50 points suggests more businesses anticipate a stronger performance over the next 12 months, but levels are still low.

Caution is also warranted in interpreting the trend as a return to near-normal sentiment. The three- month outlooks remain exceptionally weak at 32.7 per cent which is well below levels seen in 2008/09, pointing to significant near-term uncertainty. Meanwhile, index values may be inflated due to the pandemic. Firms continue to adjust to a massive shock to the economy and may have lower expectations future business performance than in the past. The CFIB also noted that a significant number of businesses, many of which with weak business performance in earlier survey, no longer responded suggesting a number have already gone out of business.

Of those responding to the survey, 32 per cent looked to cut full-time staff while 16 per cent looked to hire.

Other CFIB survey data also suggests ongoing weakness for many businesses amidst physical distancing measures and varying levels of economic suppression. At the end of June, only 57 per cent of B.C. businesses were fully opened, compared to 58 per cent nationally, with 25 per cent with sales at or above normal levels, and 34 per cent with staffing at or above normal levels. There is also evidence that the pandemic is leading to significant business exits. Some firms have incurred substantial debt and are falling behind in payments due to loss of revenues. Nationally, about 14 per cent of respondents were considering bankruptcy or winding down, with these business concentrated in the hospitality and events industry. As surveys are voluntary, the findings may not be representative, but still point to challenging environment for businesses to navigate that will limit the economic recovery and hiring, and require ongoing government support through programs such as CEWS and CEBA to help bridge firms through the pandemic.

Bryan Yu
Deputy Chief Economist
byu@central1.com / P 604.742.5346
Mobile: 604.649.7209