B.C. Economic Briefing

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Highlights:

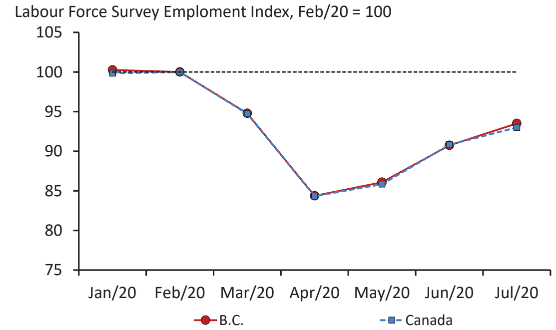
- B.C. employment climbed 3 per cent in July but remains 6.5per cent below February level;
- Back to school decisions to impact employment outlook;
- Thirst for real-estate unquenchable;
- Home sales in Metro Vancouver and Abbotsford-Mission up 31.5 per cent on a year-over-year basis – highest since 2015;
- Retrenchment in sales and prices expected in the fall;
- B.C. exporters have been spared the worst but export trends remain dismal; down 15 per cent year-to-date

Hiring climbs in July amidst economic recovery progress

Canada's economic recovery continued to progress in July following its pandemic driven collapse during the Spring. Economic restarts and business re-openings further lifted re-hiring across the country. Based on the latest Labour Force Survey, national employment rose by 2.4 per cent or 418,500 persons from June. As expected, this slowed from the previous month's surge of nearly one million gains (5.8 per cent) but still marched in the right direction. While erasing half of the pandemic driven losses from February through April, total employment at 17.8 million persons remains lower than February by 1.3 million persons (seven per cent). Average unemployment declined to 10.9 per cent from 12.3 per cent in June and peak of 13.7 per cent in May.

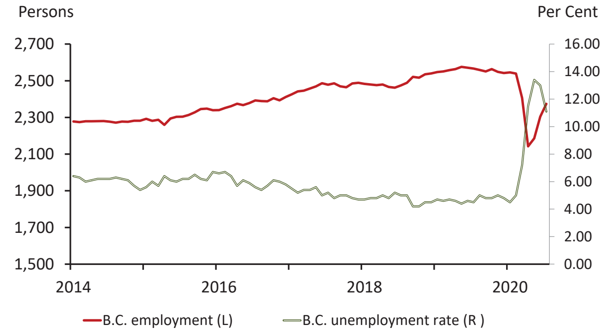
Part-time work contributed heavily to the net gain with a rise of 11.3 per cent from June which drove 82 per cent of the net employment gains. While part-time employment was hit harder due to the nature of sectors impacted (namely hospitality, retail and other face-to-face service sectors), rehiring is occurring with fewer hours offered due to a weak economy. Industries leading the July gains included accommodations/foodservices (up 12 per cent), other private services (up 5.8 per cent) and wholesale and retail trade (up 3.9 per cent).

B.C. employment rebound aligns with Canadian trend, gap remains substantial



Source: Statistics Canada, Central 1

Unemployment rate remains elevated despite employment growth



Source: Statistics Canada, Central 1

While total hours worked in the economy jumped 5.3 per cent, levels were still 11 per cent below February. Statistics Canada's measure of labour utilization – which includes the unemployed, those not in the labour force and wanted a job but did not look for one, and those working half their usual hours for reason related to COVID19 – sat at 22 per cent. This is down from more than a third in April, but well above pre-pandemic levels of about 11 per cent. For many of these workers, incomes were supplemented by the Canada Emergency Response Benefit.

B.C.'s labour market showed a similar pattern. Employment rose at a relatively stronger pace of three per cent (or 70,200 persons) from June to 2.374 million persons and narrowed the gap from February to 6.5 per cent or 164,900 persons. The Vancouver CMA drove increase with a 3.8 per cent gain, but still 10 per cent off February levels. The unemployment rate fell to 11.1 per cent from 13 per cent in June.

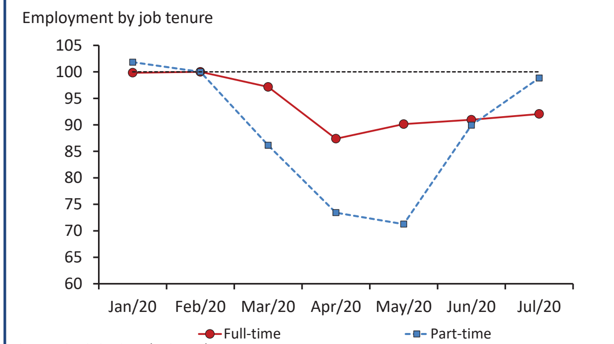
Provincially, full-time employment rose 1.2 per cent but was still 8.0 percent lower than February. Part-time work has nearly fully recovered with a 9.9 per cent increase in July, but likely includes those underemployed and previously considered full-time workers. In terms of regaining February employment levels, B.C. is behind New Brunswick, Saskatchewan, Manitoba and Quebec.

Similar to the national picture, services-producing industries drove the increase. Accommodations/foodservices (up 16 per cent) accounted for more than a third of the net gain as restaurants ramped up and hotels re-opened. Information and culture industries (up 10 per cent), other private services (up six per cent), retail/wholesale trade (up 6.8 per cent) were other key drivers. Among goods producing sectors, manufacturing employment jumped 4.9 per cent.

Recoveries from the employment trough vary by sector. Those with the strongest gain also remain well below February levels. Employment in accommodations/foodservices were still 11 per cent below February levels, private services were down 18 per cent, and information/culture down 16 per cent. Construction was 12 per cent lower, while business/building/support was down 22 per cent (likely reflecting ongoing work from home). Employment in most other sectors were within 10 per cent of February levels. Bright spots included utilities (up 27 per cent) and professional/scientific/technical services (up 8 per cent) with the latter able to expand amidst a remote environment.

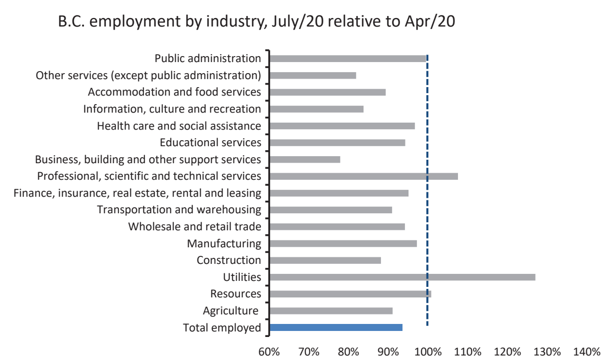
It is likely that the pace of recovery will slow going forward if not stall temporarily. Many of the gains can be considered the low-hanging fruit of the initial restart, and in part supported by federal measures like the Canada Emergency Wage Subsidy. Given rapid growth in part-time work, employers may move to increase average hours than bring more employees on board. The economy will only gradually move toward full recovery given the impacts of physical distancing on operations, border closures and a weak global economic backdrop. Federal measures will also expire later this year. Hospitality sectors will continue to be impacted. Lower revenue expectations will likely slow rehiring and expansion, and potentially cause firms to close if revenues do not recover quick enough. Another factor is the back to school season, and whether parents will be comfortable sending their children back full time, which could also impede availability of some workers.

Part-time employment rebounds to near February levels, full-time employment lags



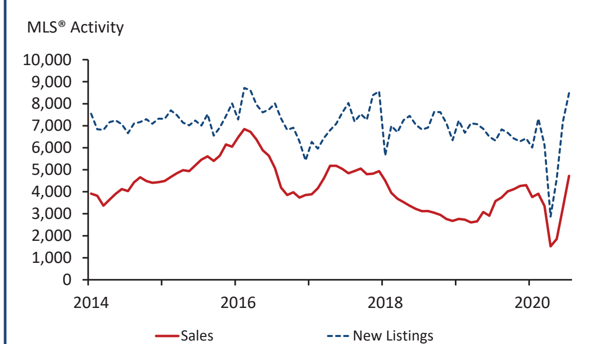
Source: Statistics Canada, Central 1

Employment recovery among sectors vary



Source: Statistics Canada

Home sales spike in July, surpass pre-pandemic levels



Source: REBGV, FVREB, BCREA, Central 1

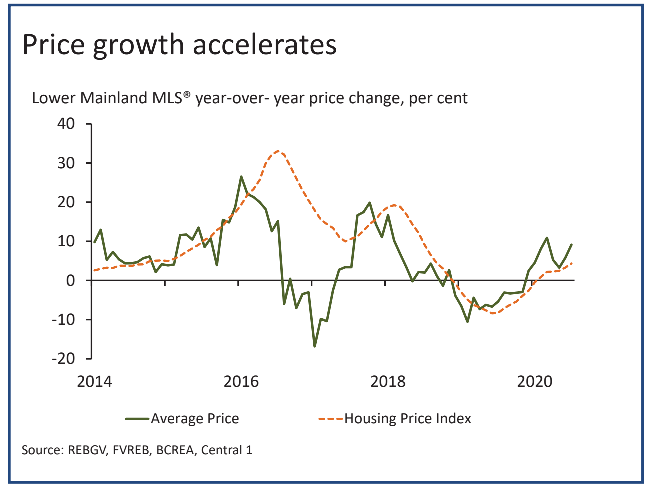
Remarkably strong housing demand drives prices higher

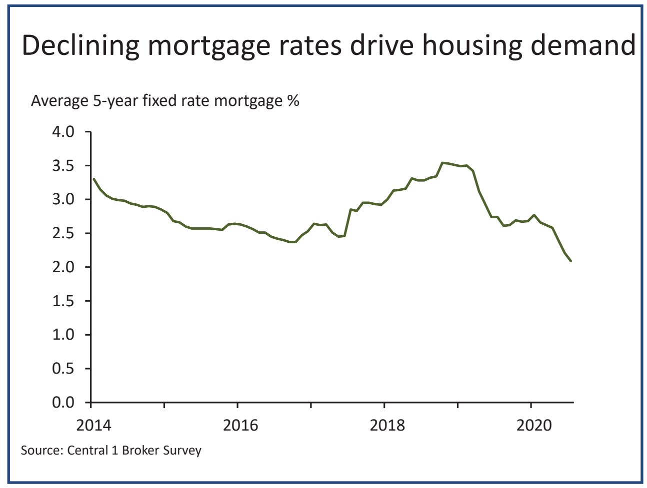
The thirst for real estate seems to be unquenchable despite households still navigating pandemic driven economic and labour market downturn. Home sales in the Lower Mainland rocketed higher in July, with sales in the region covering Metro Vancouver and Abbotsford-Mission up 31.5 per cent on a year-over-year basis. This was the highest June sales since 2015. Seasonally- adjusted, sales rose 44 per cent based on our calculations, and exceeded levels entering the pandemic downturn. This is not restricted to the Lower Mainland, strongly in other markets such as Toronto.

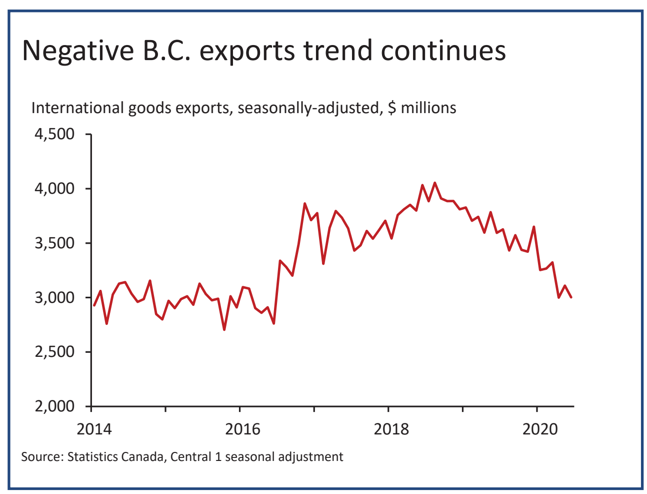
The speed of this recovery remains remarkable. A delayed spring market following measures to encourage individuals to stay home, health-related fears and the early economic suppression policies has undoubtedly contributed to a stronger than normal summer upswing. At the same time, the rebound is at odds with sharp job losses, lower population growth, and business destruction. That said, a number of factors continue to propel demand. Low mortgages are enhancing affordability with 5-year fixed rates available at near two per cent, down from about 2.6 per cent in the spring. Job losses have generally been concentrated in lower paid occupations while higher paying individuals have been able to shift to work-from-home. The pandemic may also be driving a shift in mindset of buyers as they reallocate expenditures associated with recreation and tourism to housing, and work-from-home may be pushing households to search for additional space. The two-month rebound has pushed year-to-date sales growth to 6.7 per cent.

With rising demand came accelerated price growth. The average price rose 9.1 per cent year-over-year to $960,850, compared to a 5.8 per cent increase in June. Similarly, the constant-quality housing price index (HPI) also gained traction with year-over-year growth of 4.3 per cent compared to 3.3 per cent in June. Month-to-month growth in the HPI accelerated after holding steady in recent months. Growth reflects tightened market conditions with sales rising faster than new listings and inventory. The sales-to-active listings ratio sat at 27 per cent during the month which was firmly entrenched in a sellers' market and putting upward pressure on prices. More robust growth in average prices reflect higher demand/sales growth for detached housing relative to apartment condos.

At this juncture, we remain still expect a retrenchment in both sales and prices in the fall months. Pent up demand built up during the early stages of the pandemic will satiate, while the economic environment remains weak despite strong rebounds following the provincial restart. Economic output is expected to remain below pre-pandemic levels into 2022, pointing to a period of lower business revenues and elevated unemployment. The listings flow should also rise with the current period of higher prices while the demand flow slows.







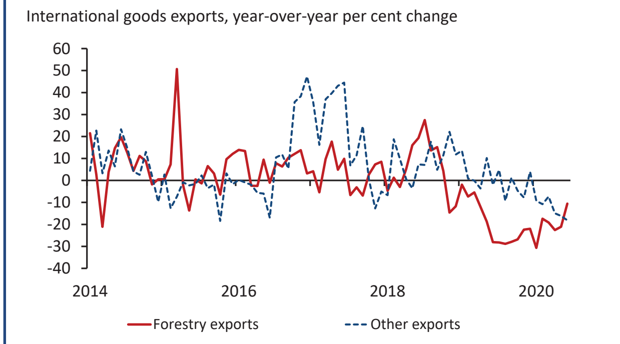
Exports continue to erode in June

While Canadian international trade surged in June following a pandemic induced collapse in prior months, B.C. exports continued to erode amidst a weaker global growth environment. National exports rose 17 per cent in June, while B.C. export fell 3.5 per cent (seasonally- adjusted). While this may seem like a calamity for the western province, B.C. did not experience a pullback of anywhere near the same magnitude as some other provinces. Specifically, dollar-volume national exports fell 35 per cent from February through April, hammered by the shuttering of North American vehicle and parts manufacturing, while low oil prices and cuts to production also weighed sharply. About two-thirds of June's monthly increase owed to the motor vehicles and parts sector.

With lower exposure to these sectors, international export sales in B.C. have fallen a relatively modest 10 per cent from the period high. June data pointed to a mixed performance among sectors. Resources pulled back sharply with energy (which includes coal) and raw metals and minerals both pulling back by 15 – 20 per cent. These were partly offset by higher exports of processed metal and mineral product exports (up 39 per cent), the influential forestry sectors (up 3.0 per cent). Improvements in some sectors likely reflect increased demand for inputs as economies restart around the globe.

While B.C. exporters have been spared the worst, export trends still remain dismal. Year-over-year exports fell 16 per cent in June, which is not far from the 20 per cent national decline, reflecting a declining trend well before the pandemic hit in the forestry sector, and processed metals and minerals. These declines were further amplified by the pandemic. Year-to-date exports declined 15 per cent, compared to a 12 per cent decline in imports. Given the global environment exporters should see a modest uplift amidst stronger than expected US housing trends, but the broad economic recovery will contain improvement into 2021.

Pandemic amplifies decline, broader export follow forestry lower



Source: Statistics Canada, Central 1

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