B.C. Economic Briefing

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Highlights:

- Pace of B.C. employment recovery slows; full-time employment remains 7 per cent below February levels;
- July dollar-volume exports rose 5.1 per cent (month- to- month) but sustained export growth will be a challenge;
- Lower Mainland townhome and detached sales surge;
- B.C. building permits unsurprisingly retrenched in July.

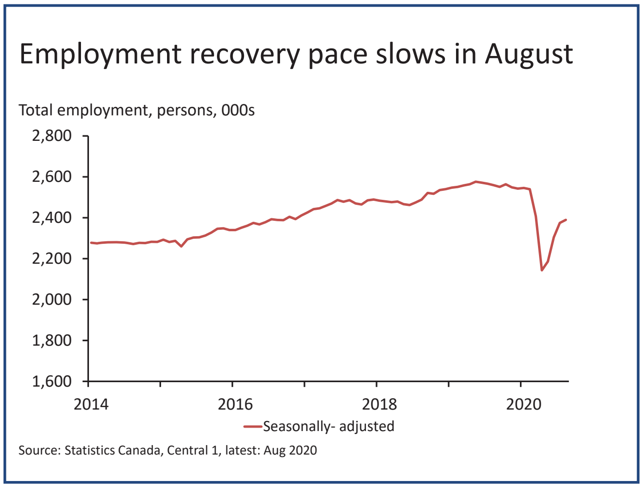
B.C.'s employment recovery slows in August, hard-hit service sector stalls

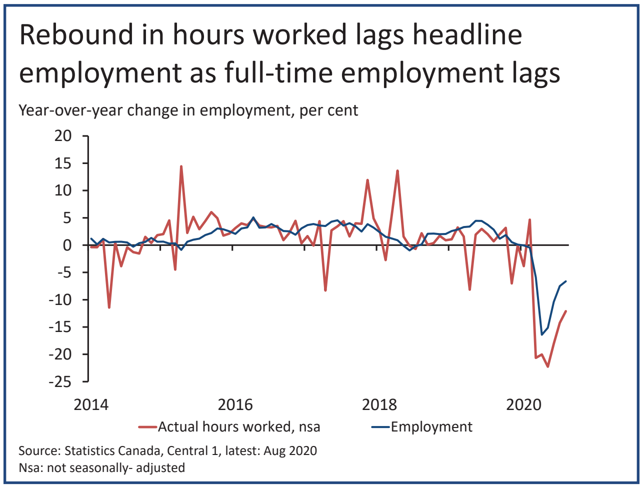
Labour market conditions in B.C. continued to mend through August but the pace of recovery slowed. The latest Statistics Canada Labour Force Survey (LFS) showed a monthly employment gain of 0.6 per cent (15,300 persons) to 2.389 million persons, compared to 3.0 per cent in July and 5.4 per cent in May. Metro Vancouver lagged the rest of the province with a decline of 0.2 per cent. B.C.'s increase lagged most of other provinces and the national increase of 1.4 per cent. The employment gap relative to February has narrowed to 5.9 per cent compared to a peak of 15.6 in April. Year-over-year, B.C. employment was still down 6.6 per cent.

The unemployment rate edged lower to 10.7 per cent from 11.1 per cent in July as labour force participation edged up. Metro Vancouver's rate came in at 12.4 per cent.

Among sectors, growth was concentrated in goods-producing sectors (up 4.6 per cent), while services-producing sectors fell 0.3 per cent. The latter has been much harder hit during the pandemic, and weak performance in August is particularly troublesome for the recovery. Goods-sector employment rose across segments, with the strongest gains in agriculture (up 27 per cent) and utilities (14.3 per cent).

Mixed performances were observed in services-sectors with declines in information/culture/recreation





(down 6.1 per cent), professional/scientific/technical services (down 4.6 per cent) showing sharp declines. In contrast, personal services rose 11 per cent, accommodations/foodservices gained 3.7 per cent, and business support services rose 4.1 per cent. Sectors related to tourism, commercial building services, and recreation/events still remain sharply lower than February levels.

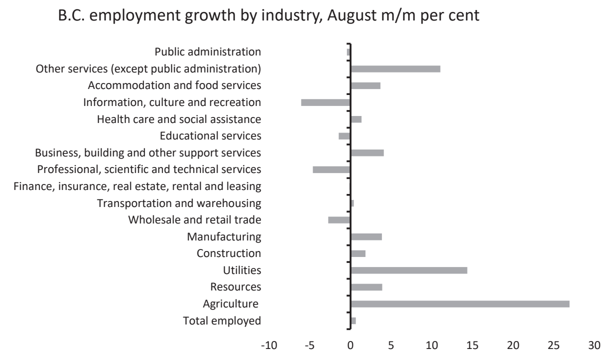
While improving, LFS details remain weak. Both full-time (up 0.7 per cent) and part- time (up 0.4 per cent) monthly job gains contributed to the headline increase. At the same time, full-time employment was still seven per cent below February levels while part-time employment fell less than one per cent. This points to even deeper underemployment than headline numbers. From our calculations, seasonally- adjusted hours worked rose about 3 per cent from July, but actual levels were 12 per cent lower than a year ago.

A closer look at reasons for part-time employment points to the effects of the pandemic on either family or economic circumstances. The share of part-time work due to personal preference fell from 34 per cent in August to 27 per cent a year ago. Meanwhile, those citing care for children rose from 12.6 per cent a year ago to 14.1 per cent. Those citing poor business conditions and didn't search for full-time work rose from 8.3 per cent to 14.5 per cent.

It is also worth noting that total unemployment was more than double February levels at 284,900 persons, albeit down from the peak of 345,500 persons in June. A rising number of job seekers has partly offset rehiring activity. The number of temporary layoffs has trended lower, suggesting individuals have been called back to their workplaces. However, the number of individuals citing permanent job loss has ballooned, reflecting both job seekers and the transition of some temporary layoffs into permanent cuts.

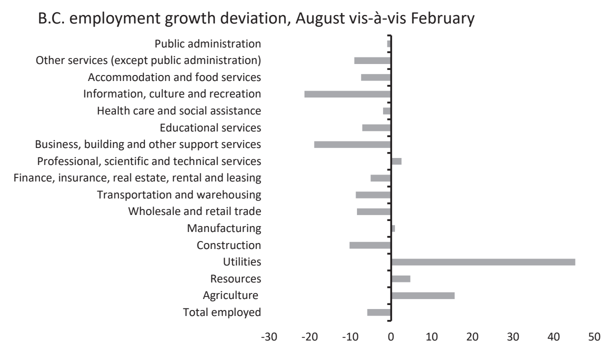
There is plenty to digest from the latest labour numbers but it signals a more challenging recovery phase ahead. Hiring in the harder hit service economy slowed to a crawl with mixed underlying performances. The future remains murky as the decimated tourism sector heads into the typically slower season which will receive no support from corporate events. Hospitality gains could roll back. Organizations are also adjusting new operating environment, which could lead to rationalization of both front-line and corporate positions. The female workforce will continue to be adversely affected in this environment reflecting industries affected and that fact that childcare burdens still fall disproportionately on mothers. This will remain particularly challenging given fears related to external childcare and schools. Our outlook remains for grinding but uneven rebound for employment through 2021 as the economy grows and a vaccine emerges. Nonetheless, average annual employment declines on average 7.1 per cent this year with an unemployment rate of 9.9 percent.

Mixed growth among sectors in August



Source: Statistics Canada

Recreation, business building support services still down sharply



Source: Statistics Canada

Goods exports partially recover pandemic losses, remain sharply lower from 2019

Source: Statistics Canada, Central 1, latest: July 2020

International exports firm in July

B.C. international goods exports rebounded in July pointing to a firming of activity following a pandemic-driven decline. Based on Central 1 calculations, total July dollar-volume exports rose 5.1 per cent (month-to- month) to a seasonally- adjusted $3.15 billion. This reversed a 3.6 per cent drop the prior month. Sharp increases in raw metals and mineral resources (up 19 per cent), metals and minerals products (up 14.5 per cent), and motor vehicle and parts (up 35.4 per cent) propelled the increase. Forestry exports rose 2.4 per cent, but given the sector contributes about 30 per cent to overall sales, was also a significant driver.

July's increase narrowed the sales gap from March to about 5.5 per cent, from a 10 per cent difference in April as economic restarts around the world lifted demand and commodity prices. Forestry specifically has seen a bounce-back in production activity after pandemic curtailments as housing demand has come in firmer than expected and lumber shortages have fueled a surge in prices. Sawmills have rushed to bring back capacity.

That said, export sales remain significantly lower than a year ago. Year-over-year exports were down 12 per cent in July, albeit better than the 16 per cent drop in June. Year-to-date, exports declined 14.7 per cent. Declining export trends had preceded the pandemic amidst slowing economic growth and impact on commodities, as well as a forestry sector adapting to long-term constraints of lower timber supply. The latter is structural and will remain a longer-term problem that limits the upside for sectoral exports. As the pandemic rages across the globe and economic activity is limited due to physical distancing and government measures, sustained export growth will be a challenge amidst weaker capital investment and softening of what has been a strong consumer recovery.

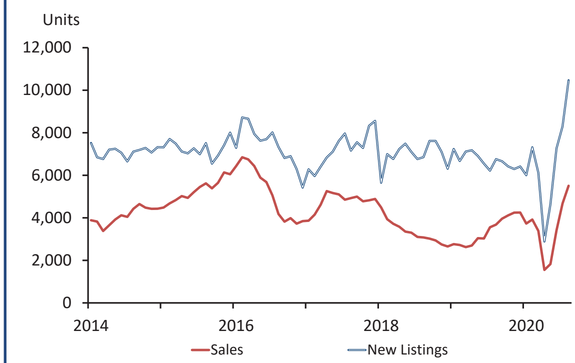
Lower Mainland housing market sizzles in August as buyers seek outdoor space

Lower Mainland home sales and prices continued to ratchet through August. MLS® sales in the combined Metro Vancouver and Abbotsford- Mission region reached 5,062 units in August, up 44.6 per cent from a year ago and compared to a 31.5 per cent gain in July. While large gains partly reflect a base-year effect of low sales in 2019, sales have spiked higher after pandemic lows in April and May sales.

From our calculation, seasonally- adjusted sales rose nearly 18 per cent from July following a 37 per cent increase the prior month. Sales have whipsawed, and now sit 47 per cent above February pre-pandemic levels, and at the highest level since mid- 2016. Year-to-date sales growth accelerated to 12 per cent, albeit from a low base. Sharp declines in mortgage rates, which have aided affordability, have proven to be a strong incentive for buyers to get off the fence even during a pandemic. Moreover, not everyone is hurting financially as job losses are concentrated in lower paying occupations pointing to less of an impact on home buying households who more likely had the option to work from home and have increased savings given the lack of spending options in the economy.

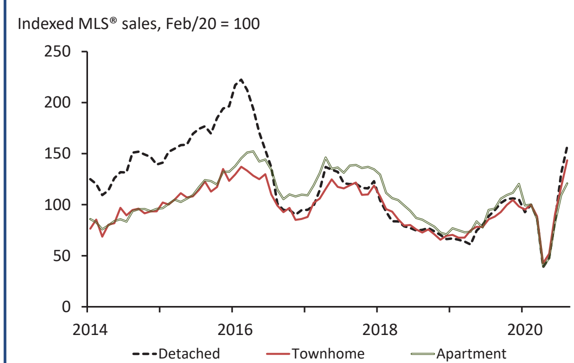
The pandemic has likely caused households to reprioritize spending towards housing and seek increased indoor and outdoor space. Indeed, among housing types, ground-oriented detached and townhome property sales have recorded the strongest rebounds. Seasonally- adjusted townhome sales are the highest

Sales and listings rise sharply in August



Source: REBGV, FVREB, Central 1, latest: Aug 2020

Demand for ground- oriented dwelling surge



Source: REBGV, FVREB, Central 1, latest: Aug 2020

going back to at least 2005, while detached sales surged to the highest level since mid-2016. Apartment sales have lagged but remain elevated near late-2019 levels.

Stronger market conditions have led to more sellers testing the market leading and a surge in new listings in August. While providing more choice for buyers (and supported sales), inventory remained insufficient. The sales-to-inventory ratio remained firmly in sellers' market at 25 per cent territory generating upward pressure on prices. Similar to the sales flow, townhomes and detached home conditions are tightest. The average price came in at $979,217, up 10.8 per cent from a year ago. This partly reflects shifting sales composition towards larger homes, but the constant quality housing price index also rose 0.7 per cent from July and 5.1 per cent from a year ago. The detached benchmark value rose 1.1 per cent, townhomes rose 0.6 per cent, and apartment values increased 0.3 per cent. Market condition points to further short-term price gains.

Low interest rates will continue to support demand, but downside risk from the pandemic continues. The economic recovery will likely slow as physical distancing measures and devastation in the tourism sector constrain growth and employment. Income support measures for households will be less generous going forward, while mortgage deferral programs are being wound down. Demand will dampen sales, while supply will likely pick up contributing to price erosion

Building permits slump after June surge

After a sharp increase in June, B.C. building permits unsurprisingly retrenched in July. Total dollar- volume permits reached a seasonally- adjusted $1.2 billion in July, down 34.2 per cent from June. This followed a 39 per cent increase in June. Residential permits declined 39.2 per cent to $776 million, after a 24 per cent increase in June. Non-residential permits fell nearly 22 per cent after nearly doubling in June, to $422.7 million.

While the declines were large, they were expected. June permits were driven by individual projects, specifically that of the large mixed-use redevelopment of Oakridge Mall in Vancouver which lifted both residential and non-residential activity – and less of a factor for July. Among metro areas, Metro Vancouver led the decline with a 54 per cent drop from June, while Kelowna declined 10 per cent. Permits rose in both Victoria (up 29 per cent) and Abbotsford- Mission (up 73 per cent) from June.

Looking through these sharp fluctuations, B.C.'s residential permit trend returned to a declining trend, aligning with lower housing starts compared to 2019. Year-to-date permits were down five per cent through July. Weaker permit volume will likely continue despite robust resale housing market trends. Pre-sale condominium demand has been weak in recent years, pointing to fewer projects in the construction pipeline. Any lift from the current market strength will take time to translate into new construction.

On the non-residential construction front, permits declined 25 per cent year-to-date, partly reflecting high levels of activity from late- 2018 through mid-2019. Private sector declines have fallen more than a third while public- sector permits rose nine per cent. Investment in schools and hospitals is likely lifting the latter. Construction will be more reliant on government spending on projects already in the pipeline as businesses are likely to be cautious

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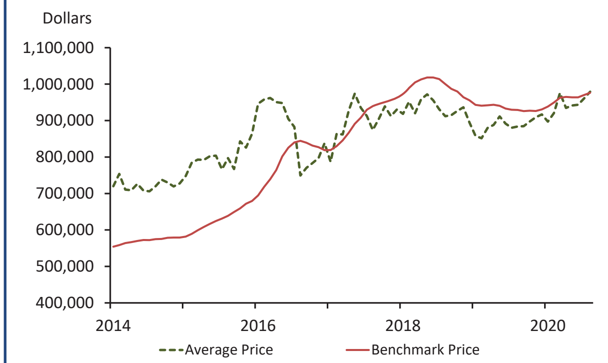
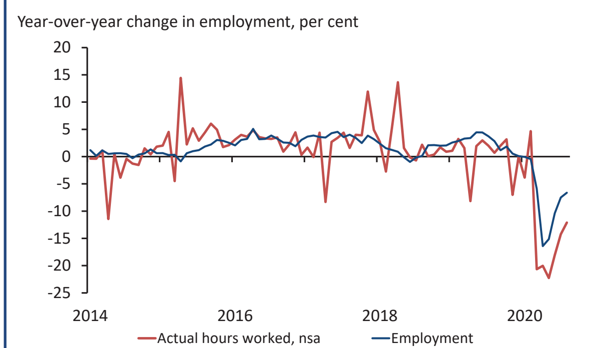
Sellers' conditions support rising home values



Source: REBGV, FVREB, Central 1, latest: Aug 2020

Rebound in hours worked lags headline employment as full-time employment lags



Source: Statistics Canada, Central 1, latest: Aug 2020
Nsa: not seasonally- adjusted