B.C. Economic Briefing

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Highlights:

- Residential building permits down 19.2 per cent in August
- Total active businesses in B.C. up 1 per cent from May but remain 10.4 per cent below last year
- Population growth stalls in Q2 2020, and forecast to slip below 1 per cent in 2020/21

Slowing construction trend evident in building permits

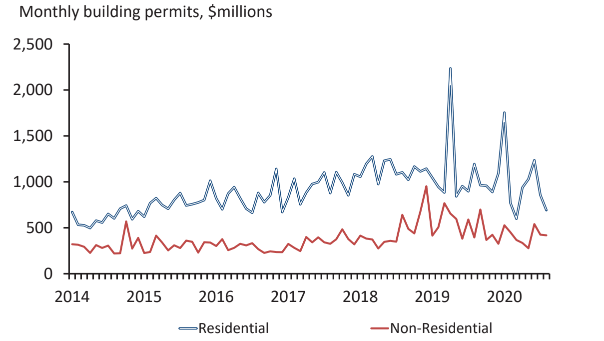
B.C. building permit volume dove for a second straight month in August pointing to a slowing trend in construction activity heading into the fall. Dollar-volume permits fell 13.3 per cent from July to $1.11 billion (seasonally- adjusted), following a near 28 per cent drop the previous month. Residential permit volume led the pullback with a 19.2 per cent decline to $692.9 million, while non-residential permits slipped 1.5 per cent to $418.3 million.

While monthly permit volumes fluctuate significantly, and some give back was expected after June's surge associated with Vancouver's Oakridge mall redevelopment, activity looks to be trending lower. Relatively low presales of new condos in recent years continues to limit the pace of new project starts, although the latest month has seen a pick up in permits related to single family homes which could also reflect renovation spending. Through eight months, total residential permits were down 12.2 per cent.

Similarly, non-residential permit volumes are down sharply this year after an elevated 2019. The mild change from July masked a large increase in industrial (up 61 per cent) and public-sector (up 11 per cent) permits. Commercial permits fell 12.7 per cent. Year-to-date, non-residential permits fell 22 per cent.

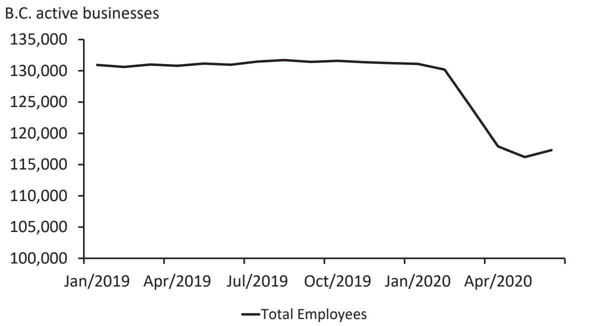
On the whole, total permits have declined 15 per cent through eight months compared to the same period in 2019. Among metro areas, permits are 15 per cent lower in Metro Vancouver, down 33 per cent in Abbotsford-Mission, and 35.8 per cent in Kelowna. Victoria is the exception with permits up 17 per cent.

August building permit volume slumps on residential pull back



Source: Statistics Canada, Central 1, latest Aug

Active businesses edge up in July as economic restart gains traction



Source: Statistics Canada, Central 1, latest July 2020

Building construction permits will likely remain constrained. While a hot resale market should lift pre-sale activity this is unlikely to drive activity until at least a year out, while new construction is also facing a period of lower immigration. This could delay a residential building upswing. Non-residential activity will be limited by a challenging business environment and lower investment as well as rising vacancy rates in commercial buildings. Evidence of a persistent economic turnaround and stronger outlook will be required to drive capital investment.

Economic restart triggers mild uptick in July active businesses

The latest business openings and closures data from Statistics Canada pointed to a picture of modest improvement but a mixed performance following pandemic related closures. Total active businesses in B.C. rose one per cent from May to 117,312 businesses which outpaced a flat Canadian performance. However, this was still 10.4 per cent below year ago levels as the pandemic forced businesses to close.

Business opening and closing data was also promising as the restart phase triggered more businesses to resume activity. As expected, the number of businesses that closed eased for a second straight month in June to 8,314 businesses, down 9.2 per cent from May. That said, levels were 13 per cent higher than a year ago suggesting persistent stress even into the restart phase. More businesses also re-opened. Total openings rose 27.6 per cent to 9,081 businesses and 33 per cent above a year ago.

Broadly, the number of active businesses rose across metro areas, with a 0.8 per cent increase from May in the Vancouver metro area underpinning the provincial performance. In Kelowna, this number increased one per cent and 2.2 per cent in Victoria. Relative to February, Metro Vancouver has seen a deeper decline than other areas.

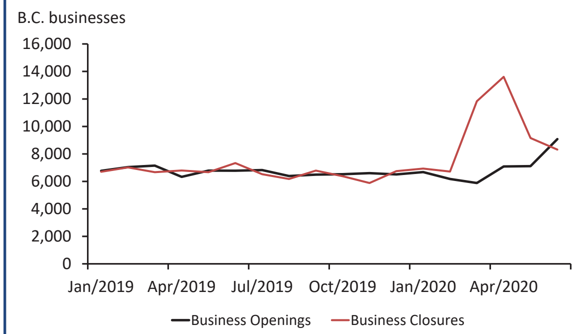
On an industry basis, closures have aligned with economic trends. Relaxation of health measures led to restaurants re-openings, as well as businesses related to private personal services, arts/entertainment, and retail services. As a result active business growth was led by gains in these areas, while many other less hard hit sectors posted net declines during the month which is somewhat concerning. A broadly challenging economic environment may be causing organizations across industries to recalibrate given the medium-term outlook and adjust or exit if needed.

The number of active businesses and re-openings likely continued through the summer as domestic tourism picked, and sectors such as TV and film also restarted. Like the rest of the economy, the pace of recovery will likely lose momentum in the fall given rising COVID infection trends, decimation of international travel, and broadly weaker revenue outlooks.

Pandemic stalls population during second quarter as immigration declines and temporary residents plunge

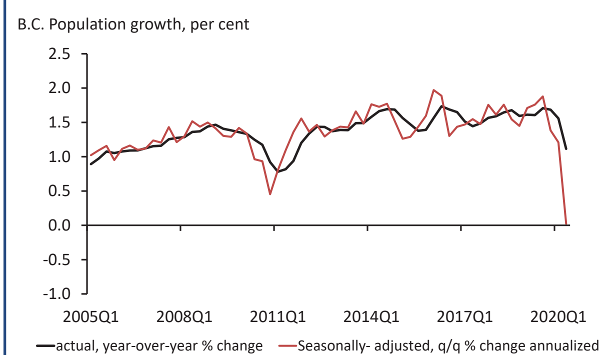
B.C.'s estimated population reached 5.147 million persons as of July 1. On a year-over-year basis, population growth slowed to 1.1 per cent (56,757 persons) from a 1.6 per cent (78,877 persons) reading on April 1. On a quarter over quarter basis, seasonally- adjusted population essentially stalled from the previous quarter.

Pace of closures remain elevated, as openings pick up



Source: Statistics Canada, Central 1, latest July 2020

Pandemic stalls population during Q2

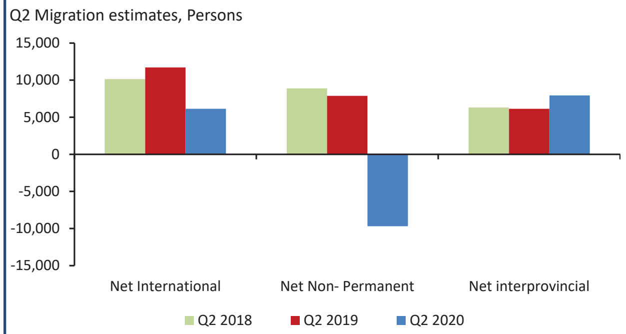


Source: Statistics Canada, Central 1, latest July 1 2020

That population growth halted during Q2 was no surprise. Pandemic measures hammered the global travel sector while Canada implemented restrictions on entry for non-residents. While newcomers who received residency status were allowed to enter Canada, some may have delayed moves due to the health crisis. Meanwhile, processing delays at consular service offices also contributed. Non- permanent residents including students and temporary workers were restricted from entering the country.

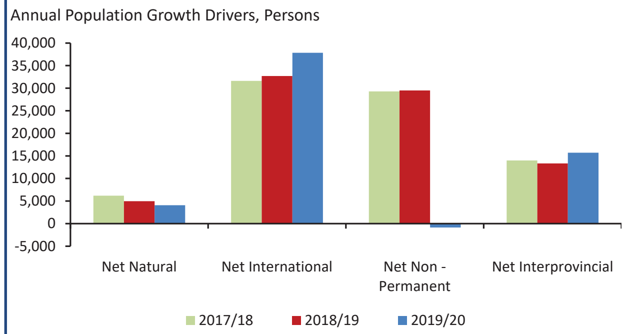
Excluding non-permanent residents, net international immigration during the second quarter came in at 6,133 persons, down 47 per cent or 5,584 from same period in 2019. Same-quarter net immigration averaged 9,418 persons over the previous five years. A decline of 55 per cent in in-migration to 6,114 persons drove the decline but fewer individuals also left the country during the period, limiting negative pressure on population. The impact of the current environment was especially prevalent in reversal in net non-perma-

Key population drivers positive despite pandemic, non-permanent flows decline



Source: Statistics Canada, Central 1, Q2 2020

Key population drivers positive despite pandemic, non-permanent flows decline



Source: Statistics Canada, Central 1, July basis

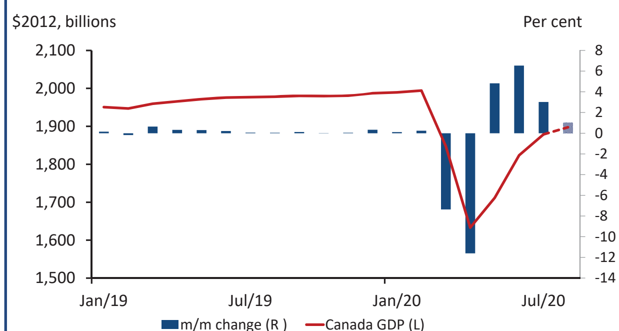
nent residents. Levels fell for a third straight quarter, but the net decline of 9,700 persons in the second quarter nearly quadrupled the first quarter decline and compared to a positive increase of 7,888 person in same-quarter 2019.

While international immigration fell, net gains from other provinces increased as B.C. lost fewer residents to other regions. In-migration reached 21,561 persons which was up 1.4 per cent from the second quarter 2019, while out-migration fell 10 per cent to 13,621 persons. Total net interprovincial migration of 7,940 persons rose 30 per cent from a year ago. Alberta accounted for 45 per cent of net migration, with Ontario attributing 35 per cent. Broadly, net interprovincial migration has trended higher since the third quarter of 2019.

Despite the second quarter stall in population due to the pandemic, the province still managed a decent year of growth on a July/July basis due to stronger lead in to the latest quarter. Growth of 1.1 per cent was the lowest since 2011. Excluding net non-permanent, four-quarter net international immigration of more than 37,838 was among the highest in decades on high levels of in-migration and compared to 32,701 persons in 2018/19. The main drag on annual population was a drop in net non permanent residents of nearly 900 persons, after a lift of 30,000 persons a year ago. Net interprovincial migration rose 18 per cent to 15,708 persons.

Pandemic related factors will continue to constrain growth through 2020 and into 2021, but population growth in 2020/21 is forecast to slip below one per cent. On the other side of the health crisis when therapeutics and rapid testing should become available, we anticipate a rebound in growth as borders re-open, students return, and companies bring in workers to meet growth needs.

Canada economy expands in July, momentum further slows in August



Source: Statistics Canada, Central 1, July actual, August preliminary

Canadian economy continues to recover, grown momentum waning

Canadian economic output continued its recovery in July. Industry gross domestic product (GDP) expanded by three per cent in July, slowing from a 6.5 per cent increase in June. With the latest gain, the gap between GDP and February's pre-pandemic level has narrowed to about six per cent. This recovery phase is losing steam however, and preliminary August estimates points to a further growth erosion with expansion of one per cent.

July figures showed expansion across all industry sectors. Manufacturing grew by 6.5 per cent, driven by the motor vehicle sector, as factories ramped up production and made up for closures earlier in the year. Some of the hardest hit sectors rebounded sharply as provinces relaxed measures around in-housing dining at restaurants, hotels, and TV and film. Growth in accommodations and foodservices rose 20 per cent from June, while arts/entertainment/recreation surged 14 per cent. However, these two sectors were still down 33 and 52 per cent from a year ago. Transportation and warehousing rose 5.7 per cent from June but was down 22.7 per cent from a year ago.

Preliminary August numbers points to slower momentum which should be expected. Some sectors have full recovered, including retail, finance/insurance/real estate and there is little driver of further growth given the economic environment. Goods production is likely to be constrained by the global economic recovery, while the hardest hit sectors in tourism and hospitality will be heavily constrained by physical distancing requirements and international travel restrictions which are unlikely to end (although could be relaxed) until a vaccine is available and distributed.

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