B.C. Economic Briefing

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Highlights:

- B.C. post surprisingly strong employment gain in September driven by Metro Vancouver gain
- Housing starts down 25 per cent in Metro Vancouver and Abbotsford-Mission, 60 per cent in Kelowna and 14 per cent in Victoria from August;
- Lower Mainland resale housing demand remains on a tear in September, prices rise
- Average home value at $1 million
- Forestry lifts August exports

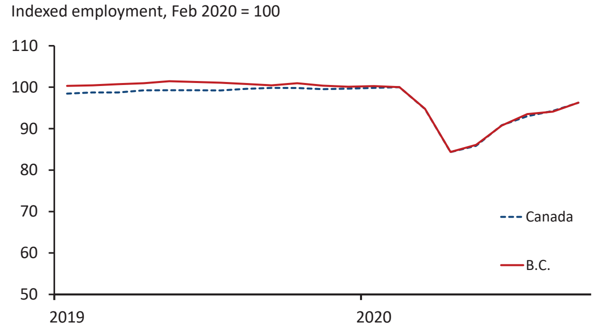
Employment surprises on the upside in September, but industry performance mixed

The labour market recovery in B.C. came in surprisingly strong as employment shot up another 2.3 per cent or 54,800 persons in September to reach 2.444 million persons. This followed a 0.6 per cent gain in August and outpaced the national increase of 2.1 per cent. With the latest gain, the employment gap from pre-pandemic February narrowed to 3.7 per cent or fewer than 100,000 persons. At the height of pandemic-induced economic restrictions, B.C. had lost nearly 400,000 jobs from February through April. The unemployment rate fell sharply by 2.3 percentage points from 10.7 per cent to 8.4 per cent reflecting a combination of job gains and a slip in labour force participation.

Metro Vancouver performed well during the latest month with employment growth of 2.7 per cent (35,400 persons) and unemployment rate decline from 12.4 per cent to 9.1 per cent. However, the regions continued to perform poorly and accounts entirely for net provincial job loss since February.

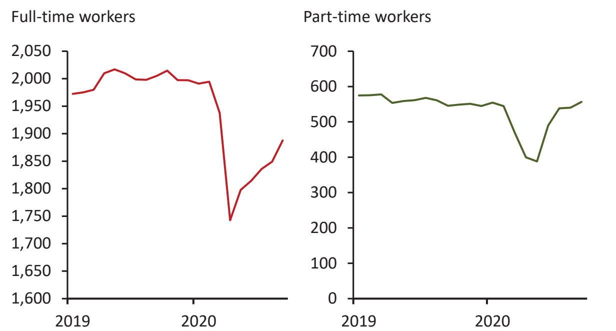
The provincial picture was broadly positive. Employment gains were recorded among both full- time (up 2.3 per cent or 38,500 persons) and part-time (up 3.0 per cent or 16,300 persons) tenured workers. That said more individuals are underemployed and working fewer hours than otherwise would be the case. Full-time employment is still 5.3 per cent below February levels as part-time employment has moved up by two per cent. Total hours worked are still down 10 per cent from February.

Employment recovery continues through September



Source: Statistics Canada, Central 1, Latest: Sep 2020

Underemployment persists as part-time work exceed pre-pandemic levels



Source: Statistics Canada, Central 1, Latest: Sep 2020

Industry performance was uneven moderating some of the optimism. September's gain was driven by services-sector hiring which jumped 3.3 per cent. The latest numbers point to pandemic response measures lifting hiring. With schools re-opening and a need for new measures such as remote learning options, physical distancing, and increased sanitation, education hiring shot up 10.5 per cent or 17,100 persons. Similarly, businesses and offices are seeing more employees returning to the workplace, which likely lifted employment in the business, building, and other support services (up 17.6 per cent or 15,700 persons). Other substantial drivers were information, culture and recreation (up 19.9 per cent or 18,500 persons). These three sectors contributed, alongside a strong increase in the finance, insurance, and real estate (FIREL) (up five per cent or 7,600 persons). In contrast, some of the hardest hit sectors (and recent drivers of the rebound) retraced in September including accommodations and food services (down 1.2 per cent) and other services (down 1.4 per cent) which could reflect reintroduction of some restrictions following rising caseloads. Goods sector employment fared worse. Construction employment slumped sharply by 6.8 per cent or 14,600 persons, offset in part by a strong manufacturing gain of 4.2 per cent (6,800 persons).

While the broad employment rebound remains strong, there remain key differences among sector rebounds. Those with natural physical distancing and ability to work from home have largely carried on. Relative to February, FIREL employment was essentially unchanged, while professional/scientific/technical services are up 4.5 per cent suggesting substantial demand for technology workers. Manufacturing is 5.2 per cent higher, with utilities up 42 per cent albeit representing a small fraction of the labour force. In contrast, weakness persists in accommodations and foodservices (down 8.5 per cent), other private services (down 10.4 per cent), wholesale and retail trade (down 8.3 per cent), transportation and warehousing (down 9.1 per cent), and construction (down 16 per cent).

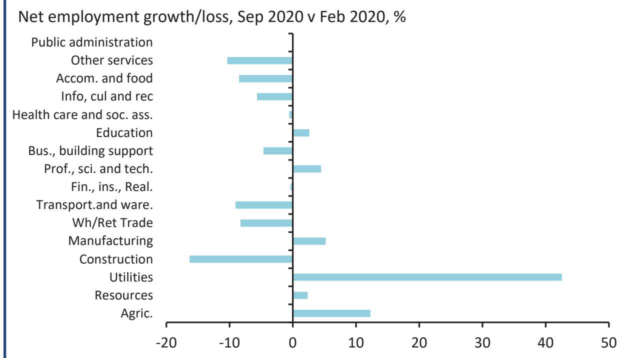
Despite the better than expected rebound, a slower phase of hiring is expected if not an outright stall. Hospitality sectors face an uncertain fall as the weather turns and temporary patios installed during the pandemic will be less attractive to customers. A lack of events and conferences will further impact this sector. Rising caseloads of COVID-19 both in B.C. and across Canada could also scale back return to work and a broader economic recovery as restrictions are tightened.

Housing starts drop sharply in September after recent improvements

B.C. housing starts pulled back sharply in September after a return to moderately strong levels of building in prior months. Annualized urban-area housing starts fell to 30,670 in September, compared to a pace of 41,530 units in August. This marked a 26 per cent drop from August, and 22 per cent decline year-over-year. Monthly volatility in housing starts is not uncommon given the influence that large multi-family projects can have in any given month. That said, this could be a sign that after a pause early in the pandemic that curtailed starts, builders have largely caught up. Starts continued to trend sharply below year- ago levels, with urban starts down 24 per cent through nine months.

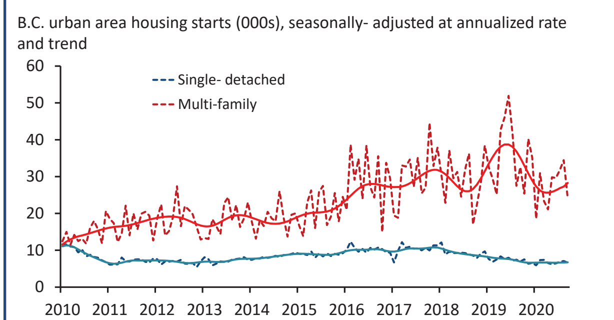
September's marked slowdown was driven by fewer multi-family unit starts where annualized units declined from 34,447 units in August to 24,039 units in September. Detached starts fell modestly. Housing starts declined across metro regions during the month with steep declines of about 25 per cent in Metro Vancouver and Abbotsford-Mission, 60 per cent in Kelowna and 14 per cent in Victoria.

Mixed industry performance with some sectors unscathed, others still hard hit



Source: Statistics Canada, Central 1

Multi-family starts roll back in September

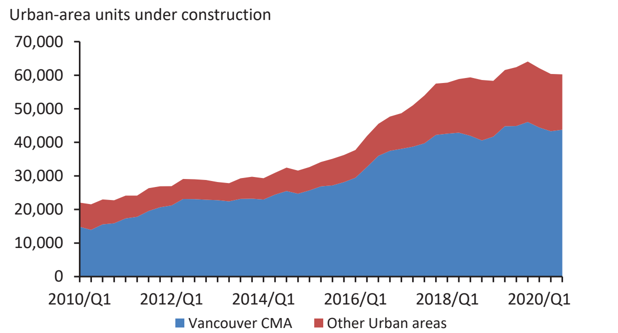


Source: CMHC, Central 1, Latest: Sep 2020

Notwithstanding monthly fluctuations, the underlying trend points to flat trend in detached housing starts this year, while multi-family starts are rising after an early year decline. However, both trail a strong 2019 by a wide margin. Year-to-date urban area multi-family starts have declined 26 per cent with detached units down 11 per cent. Metro Vancouver (-27 per cent), Abbotsford- Mission (-20 per cent), and Victoria (-9.0 per cent) were down sharply, while Kelowna rose four per cent. While the pandemic slowed starts earlier this year, the downtrend over the past year has reflected the impact of fewer condo presales last year as policy measures tempered housing demand.

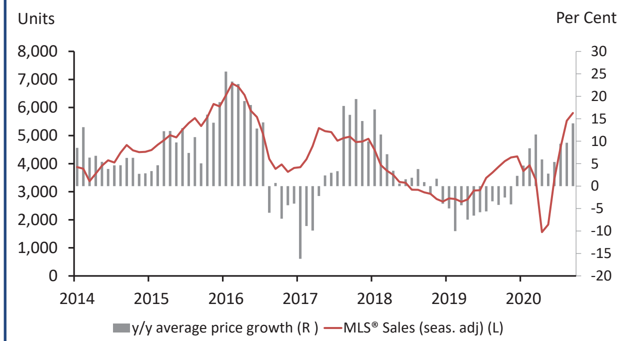
That said, units under construction elevated with 60,270 units at various stages of completion. This is down 3.4 per cent from a year ago, but still marks a historically high level due to complexity of multi-family projects being built and strong pace of starts last year. Nearly three quarters of units being built are in Metro Vancouver.

Units underway remains elevated despite decline in housing starts



Source: CMHC, Central 1, latest Q3 2020

Strong sales and price growth in Lower Mainland continues through September



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

Inclusive of rural markets, annual B.C. housing starts are forecast to decline 23 per cent this year to 34,700 units before rising to 36,300 units in 2021. A stronger pace of resale activity this year is expected to lift interest in new units both in Vancouver and other markets.

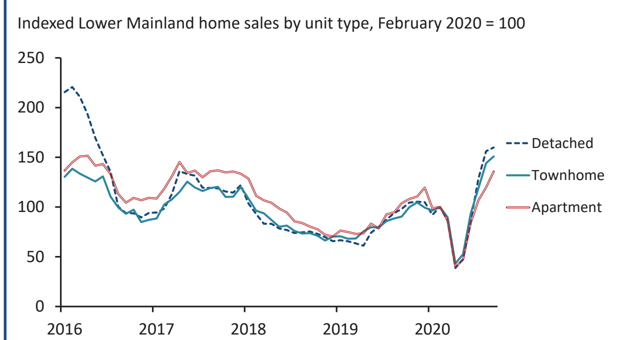
Resale housing demand remains on a tear in September, prices rise

Robust demand for housing continued unabated through September with strength likely carrying forward into October. MLS® sales in the combined Metro Vancouver/Abbotsford- Mission market area reached 5,847 units in September, marking a gain of 60.3 per cent from same month 2019. The pace of increase decelerated as seasonally- adjusted sales rose about five per cent month-to-month following gains of 20 per cent in August and 40 per cent in July. Nevertheless, activity has skyrocketed and with seasonally-adjusted sales the highest since May 2016.

Despite high levels of unemployment in the region, which came in at 9.1 per cent in September, the effects of low mortgage rates, steady employment for higher income earners, and changing preferences towards homeownership and demand for space has propelled demand. Sales of ground-oriented units has been particularly strong with sales of detached and apartment units up 75 per cent year-over-year, while apartment sales rose 36 per cent. The reorientation towards remote work have families prioritizing space, and a willingness to work further away from offices and the downtown core. Lack of recreational opportunities like travel and dining out may also be reallocating incomes towards housing.

Through September, regional sales rose 18 per cent over the same period of 2019 and are on pace to rise 20 per cent on a full -year basis.

Demand surges for ground-oriented units, sales up sharply from pre-pandemic levels



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

Market conditions are firmly entrenched in a sellers' market. While new listings remained elevated, strong sales have largely absorbed these units. The sales-to-inventory (active listings) ratio is trending near 30 per cent, whereas a balanced market is typically in the 15 – 20 per cent range. Market conditions are particularly tight for townhomes and detached units, while apartment sell through is slower but still favours sellers. Price levels continued to march higher with the average value at $1 million during the month and up 14 per cent year-over-year. Values have risen at a rapid clip in recent months, albeit in part due to a shifting composition of sales. That said, the constant-quality benchmark price rose 0.4 per cent with a year-over-year change of 5.8 per cent. Benchmark trends typically lag average values and further acceleration is expected. Current conditions point to further price appreciation despite what is expected to be a moderating economic recovery phase and housing demand.

Exports gain for second month on forestry performance

B.C. international goods exports rose for a second consecutive month in August driven largely by growth in forestry related sales and energy products. Total sales reached $3.38 billion during the month. While down 5.1 per cent on a year-over-year basis, this compared to an 11.2 per cent decline in July. On a seasonally-adjusted basis, sales rose 2.2 per cent from July following a five per cent gain the prior month. Provincial exports fell only modestly impacted during the pandemic downturn by about 10 per cent and the latest increases have largely returned to early year levels.

Despite the solid monthly headline gain, export performance was mixed. Based on Statistics Canada data, forestry export growth of 12 per cent and energy (up 4.7 per cent) were the main drivers of the increase. These offset substantial pullbacks in consumer goods (down 5.4 per cent), metallic and non-metallic mineral products (down 5.6 per cent), and electronic equipment (down 11 per cent).

Exports are still down significantly from a year ago. This reflects the severe forestry sector downturn since 2018 that preceded the pandemic. Upward momentum in forestry sales owes to higher prices and higher demand for housing contributing to the first year-over-year gain in sales since late-2018. That said, forestry exports are down nearly 30 per cent from mid-2018 as supply side factors have led to shuttering of capacity.

Severe weakness has also emerged for energy exports (down 24 per cent year-over-year), and industrial machinery and parts (down 13.6 per cent) reflecting low natural gas and coking coal prices, and weak investment trends. Firmer trends persist for consumer goods and food products, although is unspectacular.

Through August, year-to-date exports were down a disappointing 13 per cent from a year ago. A rebound will depend on the global growth trajectory, specifically in the U.S. and Asia Pacific markets. In turn this will reflect the evolution of the COVID-19 health crisis, availability and deployment of a vaccine.

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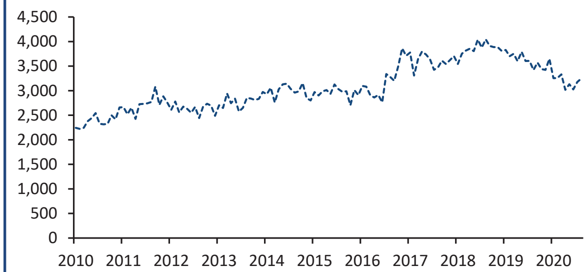
Exports climb but trend weak

B.C. merchandise exports, $ millions



Source: Statistics Canada, Central 1, Latest: Aug 2020