B.C. Economic Briefing

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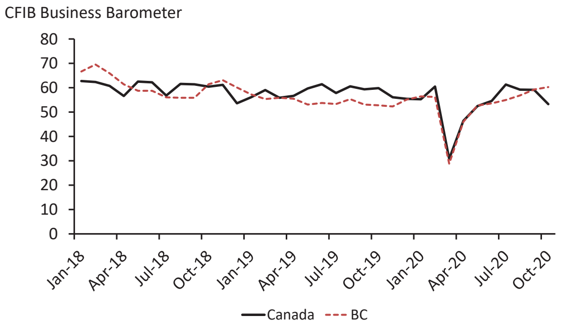
Highlights:

- Small business confidence down in majority of provinces but stays firm in B.C.;
- Business counts still sharply below pre-pandemic levels by 8.3 per cent;
- Building permit growth highest in Metro Vancouver;
- Average weekly earnings were unchanged from July at $1,094

B.C. business sentiment steady as increased restrictions cut national optimism



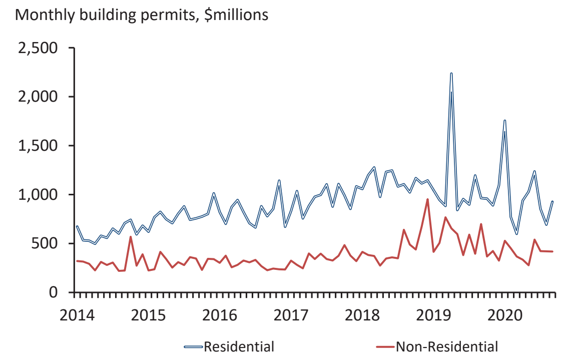
Source: CFIB, Central 1, latest Oct 2020

Eroding business sentiment across Canada spares B.C. in October

With COVID-19 cases on the rise across the country, small business confidence understandably turned lower in October as a return to health-related restrictions in Ontario and Quebec hotspots hammered sentiment. The national Business Barometer produced by the Canadian Federation of Independent Business (CFIB) plunged to 53.3 points from 59.2 points in September. A value above means on net businesses expect better conditions over the next 12 months, but a normal value is closer to 65 points. Sentiment was lowest in hospitality, private services, and transportation.

While sentiment weakened sharply in seven of ten provinces, plunging in Ontario and Alberta, B.C. sentiment remained relatively firm. The index edged higher from 59.3 to 60.3 points, which is somewhat surprising given rising case-loads although the government has taken a measured approach and has yet to significantly increase restrictions. Business optimism may also have been supported by increased domestic tourism in recent months. Short-term three-month sentiment in B.C. remained weak at 37.1 points as virus uncertainty persists and the expectation of a stall in economic activity weighs. On the labour market front, 26 per cent of firms signaled further reductions of full-time staff. While this has declined since the onset of COVID, due to realized cuts and the recovery phase, it still exceeds the share looking to hire (14 per cent). Small business performance and confidence will ultimately depend on the evolution of COVID-19 and the likelihood of a reintroduction of suppression measures in the winter.

Building permits rise in August, trend soft



Source: Statistics Canada, Central 1, latest Sep 2020

Building permit volumes rebound in September, weaker trend persists

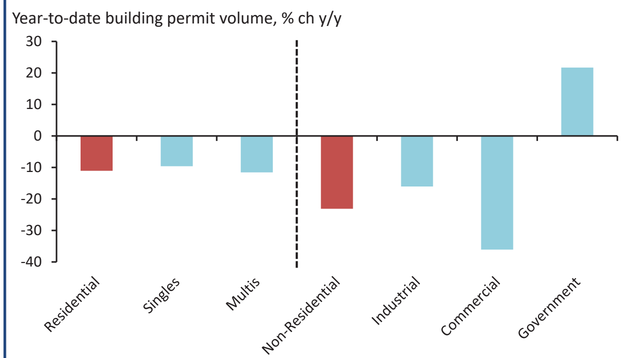
Volatility in building intentions continued into September as dollar-volume permits rose sharply after two months of decline. Permits reached a seasonally-adjusted $1.345 billion, up 20.8 per cent from August, and the highest level since June. Residential permit volume surged 33.8 per cent to $926.9 million. Non-residential permits were essentially unchanged with volume down 0.5 per cent as a drop in commercial permits were offset by higher public-sector investment.

Regionally, Metro Vancouver permits led the increase with permits up 30 per cent from August with a 57 per cent increase in residential activity.

While permits fluctuate sharply on a monthly basis, trends generally remain lower than a year ago. The pandemic had a temporary and limited negative impact on building intentions. Residential permits through the first three quarters declined 11 per cent from same period 2019. This reflects a period of weak presale condo activity over the past couple of years due in part to policy measures to slow housing activity leading to fewer new homes in the construction pipeline. However, renovation demand likely provided a lift in recent months. Robust resale activity in the pandemic period should provide support for new housing demand, but short-term effects will be through single-family housing construction, while apartment construction will take years to break ground.

Non-residential permits are on a steady path, but down 23 per cent year-to-date. Private sector activity is down sharply with industrial permits 16 per cent lower, and commercial permits down 36 per cent. Government permits have provided a partial offset with a 21.7 per cent increase. While public-sector spending remains supportive of construction, impacts of the pandemic on business revenue and uncertainty will likely restrain a rebound in private investment.

Permits down sharply from 2019



Source: Statistics Canada, Central 1, latest Sep 2020

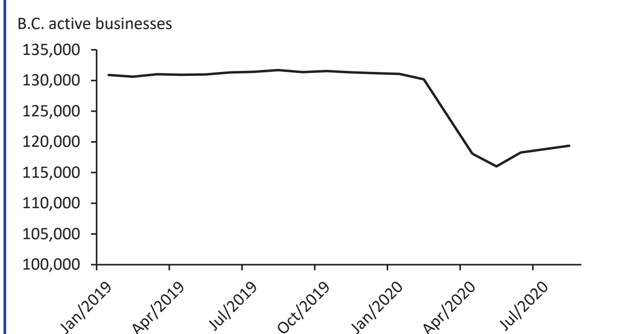
Business re-openings climb in July but remain eight per cent below February levels

Consistent with recovering economic conditions following the worst of pandemic-related downturn, the number of active business establishments in B.C. rose for a second straight month in July. Total active businesses, defined as those with one or more employees in a given month, rose one per cent from June to 119,364 businesses. The number of business closures continued to retreat to a normal level with 6,299 closures during July, down 18.4 per cent from June and 2.8 per cent from same-month 2019. Despite a deceleration in openings from June, levels still outpaced closures, lifting active business counts.

A substantial component of these openings reflect re-openings of temporarily closed businesses during the pandemic. According to Statistics Canada, nearly 54 per cent of businesses closed in March and April had re-opened by July, compared to 49.5 per cent nationally. However, business counts are still sharply below pre-pandemic levels by 8.3 per cent (10,820 businesses), and down 9.1 per cent year-over-year.

Among the largest urban areas, the Vancouver metro remains hardest hit with active businesses down 9.3 per cent from February, with other markets like Kelowna, Victoria, and Abbotsford- Mission down closer to six per cent. This gap reflects Vancouver's exposure to key hospitality/tourism industries decimated by the pandemic, large office district and businesses reliant on these office workers now operating remotely.

Active business counts gradually improve with recovery



Source: Statistics Canada, Central 1, latest July 2020

Active business counts are down across most private sectors, but the deepest declines relative to February remained unsurprisingly arts/entertainment/recreation (-17 per cent), accommodations and foodservices (-12.6 per cent), information and cultural sectors (-11 per cent). Less affected were finance/insurance/management of companies (-3.9 per cent), and professional/scientific/technical services (-3.1 per cent). Re-openings of businesses will continue with the economic recovery, but a more substantial recovery will depend on the availability of vaccines or therapeutics, re-opening of global travel, and return to offices.

Payroll employment continues to rise in August, weekly earnings flat

Payroll count data is largely rear-view mirror data at this point given September employment estimates from the Labour Force Survey (LFS) are already available. Nevertheless, the data provides a more complete picture of the labour market evolution through COVID-19 based on more robust payroll information. Based on the Survey of Employment, Payroll, and Hours (SEPH), B.C. payroll counts rose 1.6 per cent (33,380 persons) from July to 2.11 million persons, compared to a 0.6 per cent gain in the LFS. That said, SEPH counts were still 10 per cent lower than February, compared to a six per cent in the LFS. The gap could reflect shift to self employment, captured in the LFS, as well as individuals on COVID-related leave but still tied to the workplace, and fewer multi- job holders in hospitality and healthcare industries.

August payroll employment growth was recorded across the majority of industries, in part aligning with the recovery phase of the economy. Accommodations/foodservices employment jumped 7.1 per cent (10,969 persons) accounting for nearly a third of the increase. Construction (up 2.7 per cent), construction (up 3.3 per cent), and public administration (2.4 per cent) were also key drivers. In contrast, the education sector shed 8.2 per cent.

Relative to February, sectors still bearing the brunt of the downturn were concentrated in hospitality and those where physical distancing is difficult including arts/entertainment/recreation (down 46.7 per cent), accommodations/foodservices (down 29.1 per cent) and other private services (down 14 per cent). A significant number of sectors remained down by more than 10 per cent. Sectors holding steady included office-oriented professional services which allows for remote work.

Average weekly earnings were unchanged from July at $1,094. Goods-sector weekly wages rose 1.4 per cent to $1,304 led by stronger gains in forestry (8.4 per cent), utilities (11.3 per cent) and other resources (3.9 per cent). In contrast, services-sectors weekly wages, which makes up about 80 per cent of total employment, fell 0.5 per cent. Declines were observed in finance/insurance (-2.8 per cent), education (-2.2 per cent) and other private services (-1.1 per cent).

On a year-over-year basis, weekly earnings were up a robust nine per cent. However, this reflects sharp employment losses in lower paid sectors during the pandemic, leading to an average skewed to higher paid sectors/workers. As these jobs returns, average weekly earnings will decline.

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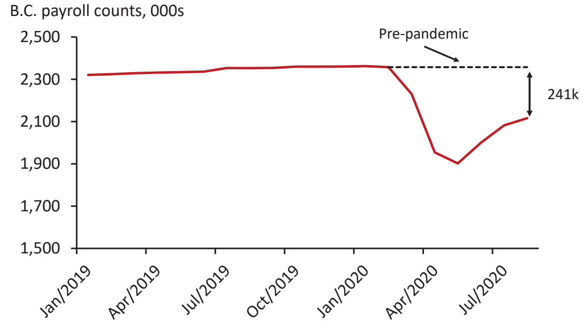
Payroll counts down 10% from pre-pandemic phase, lags Labour Force Survey recovery



Source: Statistics Canada, Central 1, latest Aug 2020