Economics | Current Economic Trends

B.C. Economic Briefing

Volume 26 • Issue 45 • Week of November 9 - 13 2020 | ISSN: 1981-355

central 1 Economics

Highlights:

- B.C.'s 2019 economic accounts show province's growth bolstered by 22 per cent jump in private-sector investment;
- Consumer spending slowed to weakest pace since 2019
- COVID-19 has ravaged the economy in 2020;
- B.C.'s economic output forecast to contract by nearly six per cent in 2020.

Economic growth in 2019 driven by non-residential investment

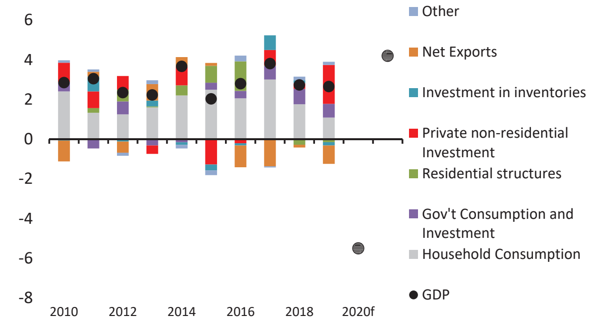
2019 seems like a distant memory in the age of COVID-19, but provincial economic accounts were finally released this week. The data confirmed that, heading into 2020, B.C.'s economy remained among the strongest in the country, and its growth was the strongest among Canada's large provinces. On an expenditure basis, real gross domestic product (GDP) expanded by 2.7 per cent, compared to a 1.9 per cent national expansion, and was on par with 2018's performance.

B.C.'s solid gain last year was achieved despite weakness in most key expenditure segments. Household consumption growth decelerated sharply to 1.7 per cent in 2019, down from 2.8 per cent in 2018. This was the slowest expansion since a 0.3 per cent gain in 2009. Slower consumption growth was driven by fewer vehicle sales which contracted by seven per cent, weaker ancillary spending related to housing, and flat non-durable goods purchases. Growth in services consumption remained robust at three per cent supported by strong growth in paid and imputed rent of over five per cent due to high demand. Household consumption makes up about 60 per cent of overall GDP. Overall consumption expenditures growth of 2.1 per cent was propped up by stronger government spending of 3.1 per cent.

Housing was a drag on the economy. Investment in residential structures contracted by 1.5 per cent during the year, following a 2.5 per cent contraction in 2018.

Major project investment drives 2019 growth, consumer drivers lag

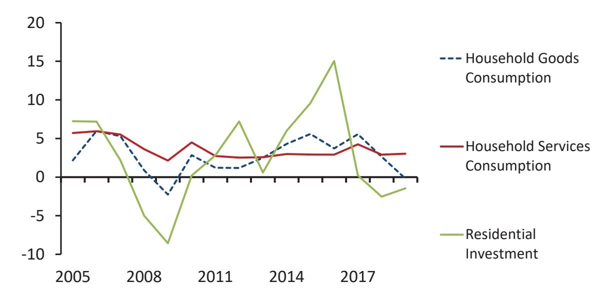
Select expenditure contribution to GDP Growth , British Columbia



Source: Statistics Canada, latest 2019, 2020/21 GDP forecast

Household spending on durable goods and housing constrained GDP growth in 2019

Per Cent Growth



Source: Statistics Canada, Central 1, Latest: 2019

Consecutive declines in home sales, and flow through of lower construction figures in 2018 to 2019 contributed to the pullback.

The trade picture was also dismal. Real export growth slowed to 0.9 per cent from 3.5 per cent in 2018, reflecting a stall in goods exports to both international and domestic Canadian markets. This was partly offset by slowing imports, which decelerated to a gain of 2.7 per cent, from 3.3 per cent in 2018. However, B.C.'s trade deficit rose, contributing to a drag on growth.

Weaker growth across key segments was offset by a huge increase in investment spending. Private- sector investment jumped 22 per cent from 2018 on a 35 per cent increase in structure investment. Machinery and equipment was flat. Private investment contributed about 74 per cent of headline growth. This surge reflected build out of liquefied natural gas projects including the Coastal Gaslink pipeline. Government investment, which gained 8.8 per cent also outperformed, reflecting investment in schools, hospitals and other infrastructure.

The above data is adjusted for price levels. Nominal dollar growth in output came in at 4.3 per cent, compared to growth of 4.9 per cent in 2018. Growth in the economy largely accrued to employees during the year with aggregate wages and salaries up 5.7 per cent, as net operating surplus or profits fell seven per cent, which also reflects the large capital outlays for investment and increased imports.

With mixed gains in 2019, headline growth marked a modest hand off to 2020. That said, it was all for naught as COVID-19 ravaged the economy this year. Economic output is forecast to contract by nearly six per cent in 2020 due to the pandemic-driven shuttering of parts of the economy earlier in the year, and ongoing effects of health measures. Rising COVID-19 cases in the fall and winter months will pause the recovery phase observed since May, but growth is forecast to reach about four per cent in 2021.

Bryan Yu
Deputy Chief Economist
byu@central1.com / P 604.742.5346
Mobile: 604.649.7209