Economics | Current Economic Trends

B.C. Economic Briefing

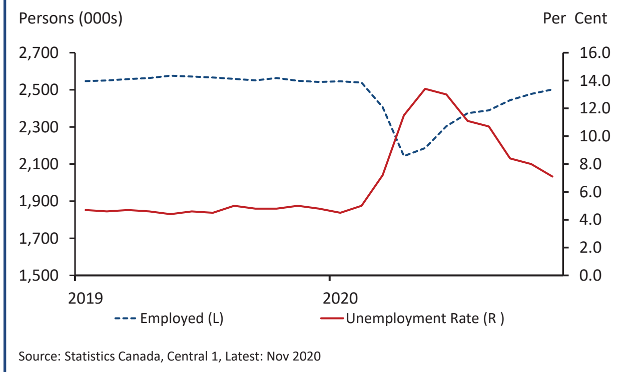
Volume 26 • Issue 48 • Week of November 30 -December 4 2020 | ISSN: 1981-355

central 1 Economics

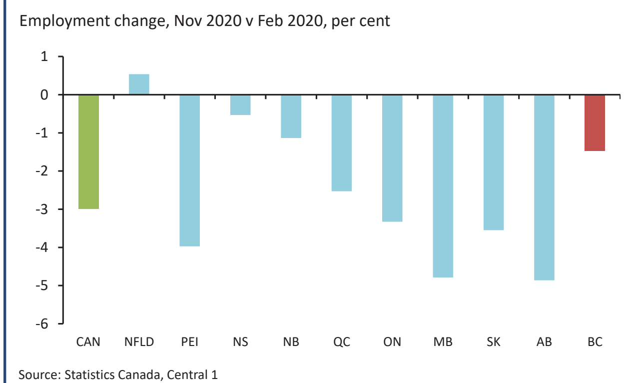
Highlights:

- Labour market continues to mend but some challenges ahead
- B.C. full-time employment levels 2.8 per cent below February levels
- Exports accelerate in October but overall 2020 export trends will be down
- Housing sales cycle is cresting - market conditions continue to support price growth
- B.C. construction intentions continue to slow

B.C. labour market continues to firm through November



B.C. narrows the employment gap from February quicker than most peers



B.C. posts strong November employment gain, but COVID-19 likely to stall future gains

B.C.'s labour market firmed in November with a strong gain in employment and declining jobless rate. That said, the numbers will prove to be somewhat stale as there has been a sharp rise in COVID-19 cases since the Labour Force Survey reference week of November 8-14. Greater restrictions on social interactions and a drag on consumer sentiment will likely show a more significant slowing in job creation in December's survey.

The province gained 23,900 jobs during the month from October, marking a gain of one per cent, slowing from the prior month increase of 1.4 per cent. That said, this far exceeded the national increase of 0.3 per cent, and among large provinces, B.C. posted the strongest gain. Atlantic Canada provinces posted stronger gains but given population base, is less of a factor for national figures. With the latest increase, the gap from pre-pandemic employment narrowed to 1.5 per cent from February levels, which is significantly stronger than three per cent nationally. Alberta is faring the worst with employment five per cent below February, reflecting both the pandemic and weak energy sector.

B.C. unemployment declined sharply to 7.1 per cent as the labour force was largely unchanged. Flat population growth and a steady labour force participation rate of 64.2 per cent near pre-pandemic levels limited labour force expansion.

Metro Vancouver outpaced the rest of the province with a 1.2 per cent (13,800 person) employment gain, although the unemployment rate was slightly higher at 7.4 per cent.

Below the surface, provincial figures in November were constructive. Full-time employment accounted for the entirety of the gain with levels up 42,100 persons (2.2 per cent). This offset an 18,200 person decline in part-time employment, and reflects a combination of hiring and increase shift in part-time work to full-time hours as the economy heals. Full- time employment is still below February levels by 2.8 per cent, while part-time work is 3.6 per cent higher. Weak demand, various ongoing restrictions, and other factors continue to hold back the economy. The gap in total hours worked in the economy is similarly narrowing with unadjusted hours down 1.8 per cent from a year ago, compared to a 5.4 per cent figure in October.

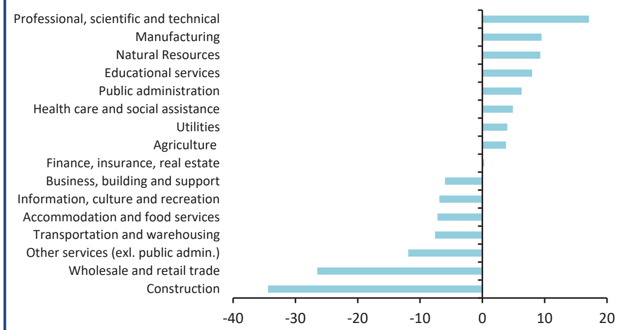
On an industry basis, growth was driven by services-producing sectors. Accommodations and foodservices employment rose four per cent (7,300 persons), accounting for nearly one-third of net employment growth. Wholesale and retail trade employment 1.7 per cent or 6,200 persons, transportation and warehousing (up 5.1 per cent or 6,300 persons) were substantial gainers, as were resources (up 10.5 per cent or 4,500 persons), and professional. On the flip-side, information/culture/recreation shed jobs (3.8 per cent or 4,400 persons), while manufacturing fell 2.7 per cent or 4,700 persons.

The latest industry level data shows wide divergence in performance relative to February. Employment in resource extraction (largely due to a strong forestry sector performance), agriculture, and manufacturing are well above pre-pandemic levels reflecting natural physical distancing. Meanwhile, sectors with ease of remote work transition including professional, scientific and technical services, public administration, and real estate/finance/leasing have continued to expand and similarly are fully recovered. More resources to keep schools safe have also lifted education employment. In contrast, sectors still dragging are those associated with building closures, weak hospitality sectors, and other hard to distance activities. Construction is also down sharply from February on lower housing starts and weaker non-residential construction.

The uneven recovery thus far and concentration of weakness in specific sectors points to slowing of the recovery into the first quarter. The hardest hit sectors require a vaccine to be made widely available before tourism re-opens and consumers are confident and social restrictions are lifted. This suggests ongoing sluggishness, before a notable improvement by mid 2021.

Recovery phase a tale of mixed fortunes

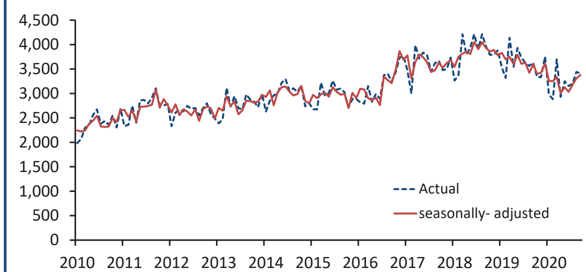
Net employment growth/loss in B.C. by industry, Nov 2020 v Feb 2020, **Persons**



Source: Statistics Canada, Central 1

Export trend on the rise but 2020 will be a down year

B.C. merchandise exports, $ millions



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

Exports accelerate in October but overall 2020 export trends will be down

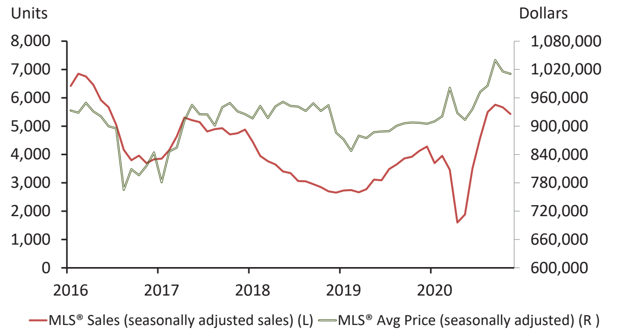
B.C. goods exports to international markets climbed sharply in October. Total sales reached $3.55 billion during the month, marking a 6.5 per cent year-over-year increase. This marked the first 12-month gain since early 2019. Adjusted for seasonal factors, the export trend has been on the rise since April when the pandemic added to woes already observed over the past year. Rising exports are being propelled by high forestry product prices and strong demand. Forestry product exports accelerated to a 33 per cent year-over-year increase in October, while metallic mineral and metals (up 45 per cent year-over-year) was also a strong contributor. In contrast, the impact of the pandemic on global demand remains evident. Exports of industrial machinery, equipment and parts while up from September, was still 12 per cent lower year-over-year, while electrical equipment sales were down slightly. Energy exports, declined 22 per cent year-over-year despite edging higher from October owing to weakening natural gas and coal prices.

Through ten months, goods exports declined 10.6 per cent. Forestry product sales has seen a deep early year deficit narrow, but was still down 8.6 per cent. Energy sales declined 25 per cent, while industrial machinery and parts sales declined 11 per cent. Bright lights included a uptick in consumer goods (1.6 per cent), and metal ores and non-metallic mineral exports of 3.5 per cent.

Housing prices continue to track higher with strong housing demand

Housing affordability is set to be a hot topic in 2021 as strong demand continued to lift home values in November.

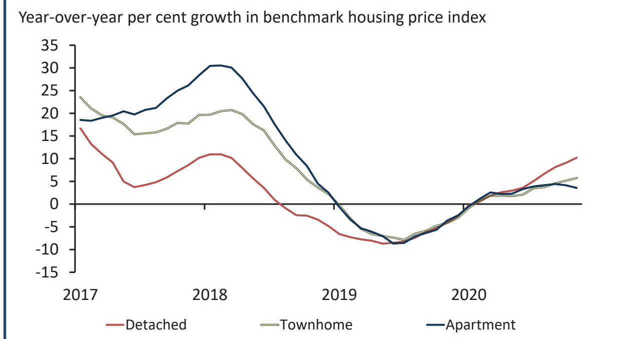
Home sales and prices remain robust through November in Lower Mainland



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

Detached home values outpaces other products in 2020

Year-over-year per cent growth in benchmark housing price index



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

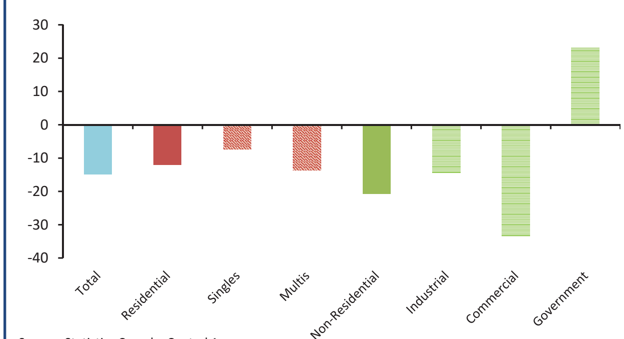
The latest MLS® data for the combined Metro Vancouver and Abbotsford-Mission area (Lower Mainland) showed another strong home sales performance. Sales reached 5,189 units, up 34.3 per cent year-over-year. While sales momentum has slowed, with year-over-year growth down from recent months, and seasonally-adjusted sales easing for a second straight month after a September peak, levels remain the highest since mid-2016. November marked the highest same-month sales since 2015. Low mortgage rates, steady employment for higher earning individuals, and a shift in spending patterns have driven demand.

The sales cycle looks to be cresting, which is normal given the strong run-up after the early pandemic collapse. However, inventories remain relatively low as sales have broadly outpaced growth in new listings. Sales-to-active listings trends above 30 per cent signaling a sellers' market. That said, there is nuance in the details. Sales growth has been powered by demand for ground-oriented units driving double-digit declines in inventory relative to a year ago. In contrast, the pandemic has shifted demand away for condo apartments, particularly in the Vancouver core regions, as families seek more living and green space, while investors see little demand for rental units given few new immigrants and temporary students. Sales growth has been more modest, while inventory is up sharply.

Broadly market conditions continue to support price growth. The average regional average price reached $1.01 million, up a rapid 11.6 per cent year-over-year. Seasonally- adjusted, levels slipped for a second month, but sales composition does factor. The MLS® Housing Price Index, which adjusts for housing characteristics, rose 0.2 per cent from October and 6.4 per cent from same- month 2019. However this was driven by detached homes (up 1.2 per cent, and 10.3 per cent), while apartment prices fell 0.7 per cent and up 3.6 per cent on the year.

Construction intentions broadly lower in 2020, government spending supportive

B.C. Year-to-date building permit growth, per cent



Source: Statistics Canada, Central 1

Low mortgage rates have thus far promoted affordability, while contributing to home price growth. 2021 is expected to see further price growth given the demand and supply imbalance but at a slowing pace. Condo prices should also rebound as vaccine expectations lift both confidence in higher density living apartments while investor demand picks up with re-opening of borders.

Construction intentions erodes despite strong resale market demand

Building permit volume continued to trend lower in October pointing to further slowing in B.C. construction. Dollar-volume permits fell 7.1 per cent from September to $1.23 billion owing largely to a decline in residential permits as non-residential activity edged higher. The drop partly reflected give back after a gain of 20 per cent the prior month, but permits were down 6.8 per cent year-over-year during the month. Through ten months, total permits declined 14.9 per cent

Residential permits fell 12 per cent to $803.9 million after gaining 32.6 per cent in September. Not surprisingly the drop owed to multi-family starts which fell 18 per cent, with year-over-year decline of 27.7 per cent. Vancouver Metro area declines drove this pullback. Residential permits, while volatile, continued a declining trend extending since 2018. The combination of added housing regulation in prior years and more recently the pandemic have curtailed new project development.

Year-to-date, permit volumes were down 12 per cent through the first ten months of the year. Among metro markets, Abbotsford-Mission (-39 per cent), Metro Vancouver (-10.7 per cent), and Kelowna (-30 per cent) posted deep declines from a year ago, while Victoria residential permits were flat.

While strong resale market trends are supportive of demand for new homes, a countervailing force is weakness from low population growth this year, both from new immigrants and students. This will likely contribute to a soft period of new project sales, lengthening build out and delaying start dates for projects.

Non-residential permits rose in October but similarly has declined sharply from 2019 performance. Permits rose 3.8 per cent to $430.7 million from September on the strength of a large jump in commercial permits outside B.C.'s largest urban areas. Monthly permits are highly volatile, but on a year-to-date basis fell 21 per cent as private-sector intentions more than offset a 23 per cent increase in public-sector permits. A subdued economic growth trend into 2020, hammered further by the pandemic has contributed to the decrease. In contrast, government spending on schools and health facilities are contributing to the latter.

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