



Highlights:

- Forestry a bright spot during the pandemic after a hammering in 2019; overall production still down sharply by 13 per cent through nine months
- B.C. economic losses narrowed into August

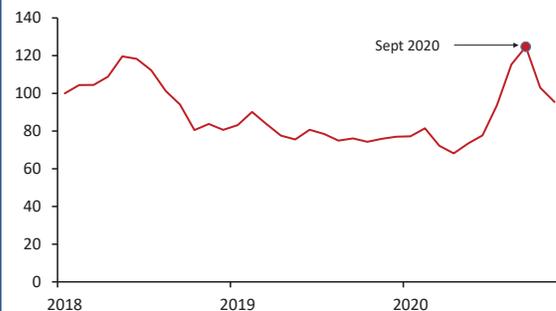
Recovery trend in forestry sector a bright spot for B.C. economy, Q4 prices easing

Forestry has been a bright spot for B.C.'s economy during the pandemic after being hammered in 2019 when low prices, trade frictions and supply constraints resulted in mill curtailment and permanent closures in the province. Further deterioration was expected with the onset of COVID-19 leading producers to further cut capacity, but pandemic economics surprised to the upside. U.S. housing starts remained firm, as did Canadian activity, while strong renovation demand lifted lumber and broader wood product demand.

B.C. has benefitted from this recovery. Recent manufacturing and export sales data has highlighted this trend. Dollar-volume wood product production rose strongly after a weak early-year performance. Year-over-year sales in September were up 46 per cent year-over-year, although year-to-date sales through three quarters were still 1.3 per cent lower than 2019 due to declining trend into 2020. Forestry prices were up 64 per cent year-over-year in September to a record nominal high according to Bank of Canada's commodity price index. This price action has driven more producers to ramp up production. Underlying lumber production has also contributed but not to the extent of prices. Softwood lumber production has rebounded sharply after bottoming out in April, and September sales rose 18 per cent year-over-year and nine per cent from August (seasonally-adjusted). That said, overall production is still down sharply by 13 per cent through nine months. Compared to 2018 trends, levels are down about 20 per cent. Prices are generally supporting the bottom line of producers, while real output has lagged (but still lifting sector employment).

Forestry prices surge as pandemic unfolds

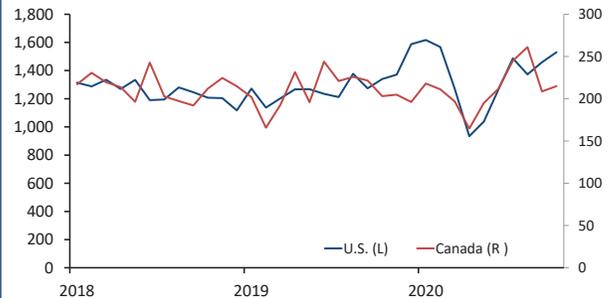
Bank of Canada Forestry Price Index, Jan/18 =100



Source: Bank of Canada, Central 1, Latest: Nov 2020

Housing starts firm despite pandemic

Housing Starts, 000s SAAR



Source: CMHC, U.S. Census Bureau, Central 1, Latest: Oct 2020

Buoyant market conditions look to have waned in the fourth quarter as supply catches up, renovation demand peaks, and troubles with COVID-19 may also be factoring into demand. The forestry price index has declined about 25 per cent from peak September levels, and year-over-year growth narrowed to about 25 per cent which will likely dampen sector momentum. Over the longer term, forestry production will continue to be hampered by timber availability, reflecting the long-term effects of the mountain pine beetle epidemic.

B.C. economic losses narrowed into August

Experimental measures of provincial economic activity from Statistics Canada showed improving economic conditions through the summer months, although magnitude of improvement differs by methodology of estimates.

Based on the principal component analysis method, B.C.'s index of economic activity rose for a third straight month in August after a May bottom. Following a February to May decline of 17 per cent in the index, the gap has narrowed to 6.7 per cent in August and mirrors the severe pandemic driven drop off in the economy, and subsequent recovery phase as sectors restarted. As the index combines movements of a range of economic indicators it is difficult to isolate the key drivers, but trends are likely consistent with factors such as ongoing weakness in tourism sectors and private service, while goods production, professional services, retail services and real estate largely bounced back. While B.C.'s early pandemic measures were relatively strict, the province had largely tamed the spread through the summer months allowing for a strong recovery.

In comparison to other provinces, B.C. fared well. Only Manitoba and Prince Edward Island posted February – August index gaps narrower than B.C. The largest were in Saskatchewan (-26 per cent) and Alberta (-34 per cent), which were also hit by the additional whammy of downward spiral in the energy sector. Ontario's index was still 14 per cent lower than February, as elevated cases have contributed to more regional measures even late in the summer. As a proxy for economic growth, it is worth noting that the index depends on available input data, and lack of key data in some provinces may be contributing overly negative or positive trends in the index.

Positive index trends are likely to wane. The COVID-19 second wave has hit hard in the fourth quarter leading to the re-introduction of restrictions of varying magnitude across provinces which will temper improvement. Relatively mild restrictions in B.C. relative to Manitoba, Ontario, and more recently Alberta will contribute to further outperformance by the province.

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

