Economics | Current Economic Trends

B.C. Economic Briefing

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central 1 Economics

Highlights

- B.C. businesses relatively optimistic in January
- December building permits unchanged, slumps in 2020
- B.C. payroll employment climbs 0.4 per cent in November, contrasts with national drop
- Active business counts continue to recover in October

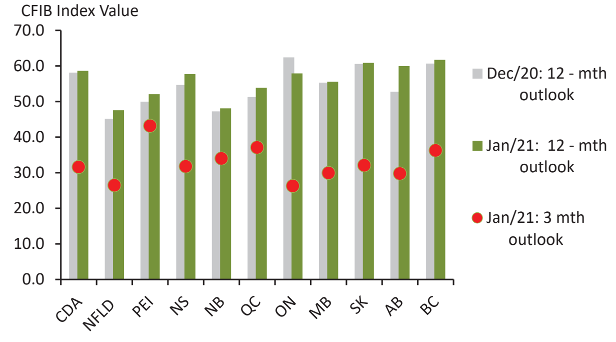
Business confidence steady in B.C.

Confidence among B.C.'s small and medium sized businesses held steady in January to outperform all of its provincial peers. According to the latest Business Barometer survey results from the Canadian Federation of Independent Business, B.C. businesses remain moderately upbeat about the future. The Barometer index value, which is scaled from 0 to 100 points, came in at 61.7 points for B.C., up from 60.7 points in November. With a demarcation line of 50 points, more businesses expected better performance over the next 12 months period than those anticipating a weaker one. This is to be expected given 2020's pandemic shock, expectations of wide vaccine deployment, and the fact that businesses have learned to navigate business interruptions. The weakest businesses have already exited.

Nevertheless, B.C.'s reading was tops in the country and compared to a national reading of 58.7 points. Moreover, B.C. was the only province outside the Atlantic region to show an improvement in short-term expectations, although at 36.3 points, levels were still low. B.C.'s second wave measures have been much less restrictive than those observed in Manitoba, Ontario and Quebec where government's have implemented closures of retail stores, restaurant dining, and other measures. That said, significant short-term pessimism is likely warranted given the uncertainties related to COVID-19 spread which could trigger more restrictions at any time.

Broadly, the CFIB's survey continue to point to improving but still subdued business conditions. Investment intentions are climbing nationally, but still well below

Business confidence rises in B.C., uncertainty persists

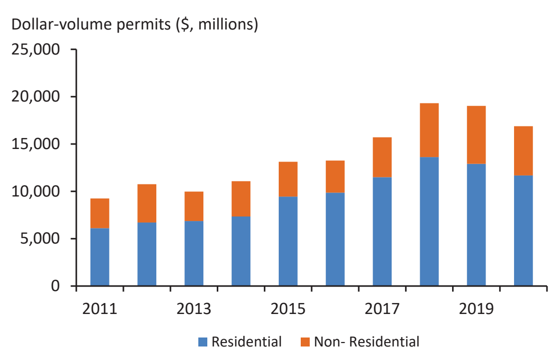


Source: CFIB, Central latest: Jan 2021

pandemic levels, reflecting the uncertainties in the economy and hesitation to make any significant outlays until the recovery is realized. Capacity utilization came in at 74 per cent. B.C. firms are also split on hiring, with 18 per cent looking to increase full-time staffing over the next three months and 17 per cent looking to cut. This likely reflects differences in industries.

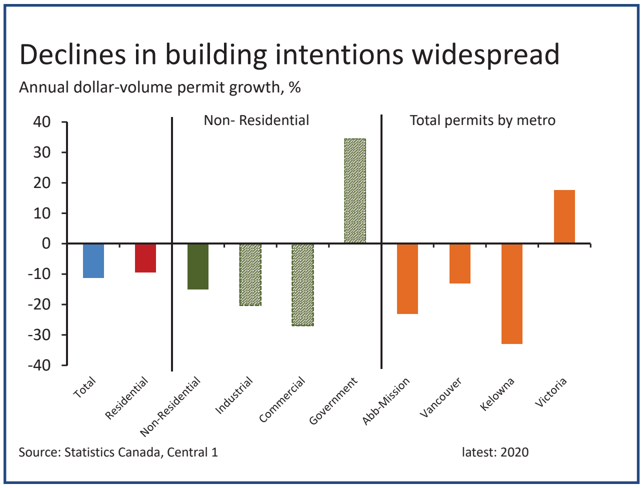
Building permits pull back sharply in 2020 despite late year momentum

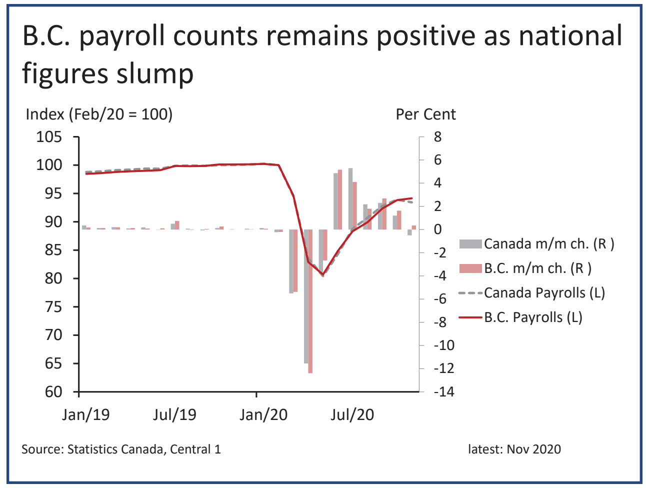
Building permits drop 11 per cent in 2020



Source: Statistics Canada, Central 1 latest: 2020

Provincial building permit volumes held steady in December following a strong gain November, contributing to a modest upward trend to end off the year. Dollar volume permits for the month reached $1.464 billion which was essentially unchanged from November and 3.2 per cent higher than same month 2019. While





residential permits pulled back 4.5 per cent to $997.6 million this is on the heels of a 25 per cent gain in November. Consistent with housing starts, residential permits have led recent gains. Non-residential permits rose 11 per cent to 466.5 million on a 52 per cent increase in private-sector building intentions but offset by a drop in institutional permits. Non-residential activity has generally held range- bound.

Among metro areas, Vancouver area permits rose nearly 11 per cent on a 39 per cent increase in non-residential activity, while Kelowna permits surged 38 per cent and Victoria permits rose 14 per cent. This suggests a sharp decline outside metro B.C. regions in December.

Despite positive momentum to end the year, building intentions fell sharply in 2020. Dollar volume permits for the year declined 11.3 per cent to $16.9 billion, and the lowest since 2017. Among metro areas, only Victoria posted growth. Provincial residential permits declined 9.5 per cent while non- residential permits declined 15 per cent. The combination of a weaker housing market in 2019 and slower pre-sale sell through largely contributed to the residential downturn, which was further amplified by the pandemic. Non-residential weakness likely reflected the pandemic downturn, which led to closures of businesses and a shift to survival mode rather than invest in brick-and-mortar operations. Private sector declines of more than 20 per cent reflect this, with a partial offset from public investment. Residential intentions are likely to edge higher in 2020 coinciding with steady housing starts, while non-residential permits remain shallow until the second half amidst strengthening economic activity and increased investment appetite. Public-sector investment in schools and health facilities should remain supportive.

B.C. employment trends outperform in November

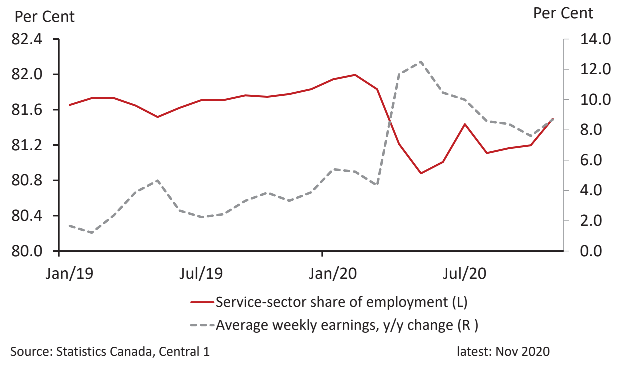
November's payroll counts for B.C. remained broadly consistent with a trend of rising employment observed in the Labour Force Survey. Payroll counts rose 0.4 per cent (7,800 persons) in the province to 2.219 million persons. Nationally, counts contracted by 0.5 per cent as the heightened COVID-19 second wave triggered further economic restrictions in Manitoba, Alberta and Ontario. More severe measures in Ontario were implemented in late December. Year-over- year, payroll counts were down six per cent.

Payroll counts continued to lag Labour Force Survey employment which rose one per cent during the same month, and down 1.8 per cent year-over-year. While typically moving in tandem over longer periods, the measure differ due to data collection methods, while payroll counts also exclude self employed and agriculture workers. Multi-job holders are also captured once in the LFS but may be on multiple payrolls.

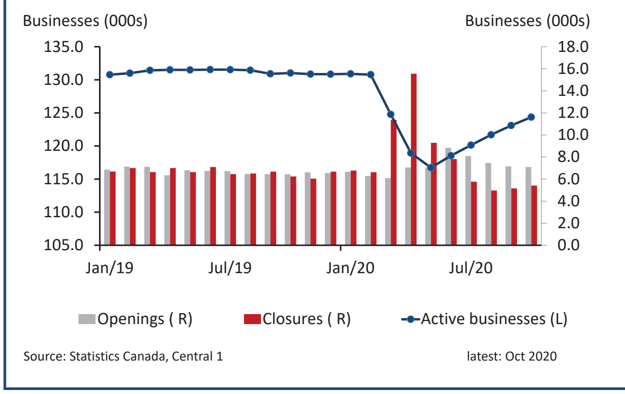
Among industries, payrolls growth was relatively widespread across industries. Notable gains were recorded in mining/oil and gas (up 3.3 per cent or 637 persons), arts/entertainment/recreation (up 3.4 per cent or 1,174 persons), while finance/insurance/real estate added 3,300 positions or a 1.9 per cent gain. That said, the majority of sectors have fewer employees on payroll as compared to pre-pandemic February, specifically the hospitality and tourism sectors where losses are still about 30 per cent, 11 per cent declines in personal private services, and four per cent decline in retail/ wholesale trade.

LFS employment slowed in December amidst the second wave which likely temper gains in payrolls into the first quarter and beyond. Sectors such as technology, professional services and goods production will

Strong headline weekly earnings reflect employment composition



B.C. active business counts continue to rise through October



continue to expand but at a slowing pace. The hardest hit sectors in the pandemic require vaccines to be widely deployed to support consumer confidence and to re-open travel and events. However, full recoveries are unlikely in these sectors before sometime in 2022.

Average weekly earnings held range-bound from recent months but rose significantly from October by 0.7 per cent to $1,100. Earnings in goods producing sectors rose 1.4 per cent to $1319, while services earning rose 0.2 per cent to $1,056. Weekly earnings were 8.7 per cent above year ago levels, but largely reflects job losses among lower paid occupations and part-time workers due to the pandemic and not wage inflation. As services sector employment recovers, average weekly earnings will retrace.

Recovery phase lifts active business counts into October

Active business counts in B.C. rose one per cent in October despite a mild increase in business closures amidst the economic recovery phase. There were 124,361 businesses with at least one employee in the province, up one per cent from September. Nationally, active business counts rose 0.6 per cent during the month. With the latest increase, more than half of the drop off in active businesses observed from February to May has been recouped, with October business counts down 4.9 per cent from February. These may not however be the same businesses as the pandemic has led to temporary closures and re-openings, permanent exits, and emergence of new businesses.

The increase in active businesses occurred despite a 4.8 per cent increase in business closures from September to reach 5,408 businesses. This was still about a one-third of April's peak closures and 13 per cent below year ago levels. This was offset by 7,100 openings (reflecting both temporarily closed businesses) and new entrants, although the pace of openings slowed from recent months.

Among metro areas, Victoria (up 1.0 per cent or 84 businesses) and Kelowna (up 0.8 per cent or 46 businesses) posted the strongest growth in active business counts, while Metro Vancouver (up 0.5 per cent or 368 businesses) and Abbotsford- Mission (up 0.3 per cent or 14 businesses) lagged. Gains were stronger outside the large urban areas with counts rising one per cent. Metro Vancouver continues to underpin the declines from February with levels down 4.5 per cent, alongside drops outside the metro regions.

Industries driving October gains included the embattled accommodations and foodservices sectors (up 1.2 per cent), construction (up one per cent), retail (up 1.2 per cent) and information and cultural industries which includes part of the strong tech sector (up 2.9 per cent). The majority of sectors continued to rebound with resources, professional/technical services, and finance/real estate near normal levels.

That said, many sectors have a long way to return to pre-pandemic enterprise counts. Business counts in accommodations and foodservices were still 6.3 per cent lower than February, 8.8 per cent lower in the arts/entertainment/recreation, and more than five per cent lower in retail trade and transportation/warehousing sectors. These sectors will depend on successful deployment of the vaccine which will allow a return in tourism, return to offices, and face to face contact. Given the second wave of the virus and delayed vaccine rollouts, this normalization is unlikely until sometime in 2022.

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