Economics | Current Economic Trends

B.C. Economic Briefing

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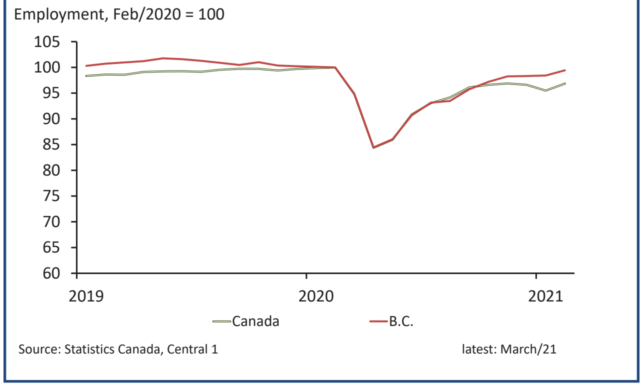
central 1 Economics

Highlights

- B.C. added jobs for 11 straight months & employment surged in March, but third wave likely to roll back gains
- Lower Mainland housing boom continues; Federal Government likely to step-in to cool market

Employment recovery strengthens into March, pandemic third wave points to Q3 uncertainty



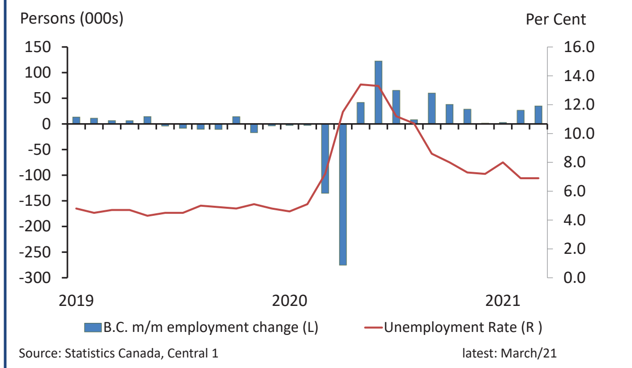
Employment surges in March, third wave likely to roll back gains

The Canadian labour market posted a mammoth gain in job gains in March as re-openings from the second wave of the pandemic lifted rehiring according to the latest Labour Force Survey (LFS) figures. Nationally, employment surged by 303,000 persons (or 1.6 per cent) marking the largest single month gain since September. Combined with February's rebound, total employment more than made up for January losses and sat 1.5 per cent below pre-pandemic February 2020 levels. Hours worked in the economy narrowed to 1.2 per cent of February levels.

The unemployment rate fell to 7.5 per cent from 8.2 per cent, marking the lowest level since the pandemic commenced. Similarly, employment as a share of the population rose to a pandemic high of 60.3 per cent, but remained significantly below the 61.8 per cent reading in February 2020 as labour market slack persists.

Less stringent lockdown conditions, specifically in Ontario (up 2.5 per cent or 182,300), was a significant driver of the increase as growth picked up strongly in retail/wholesale trade, health/social assistance, education, and other private services, and construction. Moreover, sectors less severely impacted by the pandemic including those in professional services, technology, and manufacturing continued to recover, highlighting the relative resilience of the economic recovery. That said, managing the health crisis is critical for momentum as gyrations reflect restrictions and re-openings, and sustained recovery requires limiting the COVID-19 spread and by extension public health restrictions.

B.C. employment growth continues, jobless rate settles at 6.9 per cent



Unfortunately, the March recovery is stale. The third wave has hit hard and fast. As of this writing, Ontario has moved issued a one month stay at home orders with the exception of essential purposes with severe restrictions on non-essential services and activities. Quebec has imposed earlier curfews for some regions, while Alberta and B.C. have tightened measures. Given variant spread, it is very possible that more stringent measures will be enacted. A partial roll back in April employment numbers is all but certain.

B.C. similarly added jobs at strong pace in March and outperformed the broader trend. Total employment rose 1.3 per cent (35,000 persons) during the latest month to 2.66 million persons. Despite troubling COVID-19 case count trends, the province has added jobs for 11 straight months as public health restrictions have remained relatively modest compared to other provincial peers. Employment has fully recovered to pre-pandemic levels, exceeding February 2020 by 0.75 per cent. However, a slip in full-time employment as part-time employment rose tempered some of the upswing in hours worked.

The unemployment rate was unchanged at 6.9 per cent as the labour force rose at the same pace as employment. This is a positive sign that more individuals are optimistic about finding work and pounding the pavement (or job search sites) to find work. Labour force participation and employment rates have returned to pre- pandemic levels, although low growth in the population is also a factor.

Metro Vancouver posted stronger employment growth (up 2.2 per cent) than the rest of the province, but the unemployment rate remains higher at 7.5 per cent.

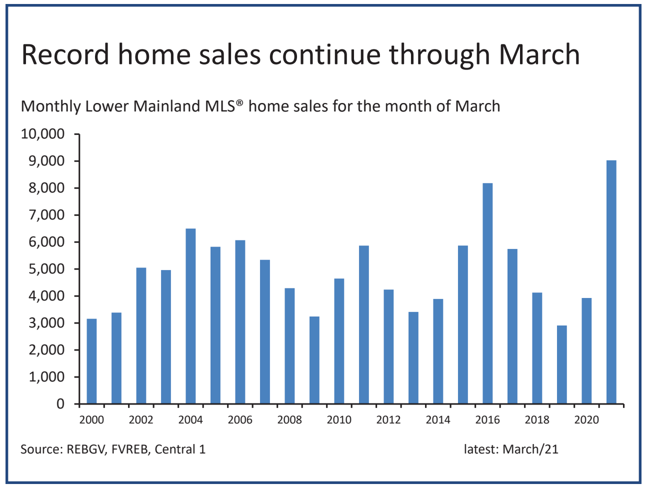
Among industries, B.C. gains were well dispersed. Specifically, construction (up 2.8 per cent), manufacturing (up 3.9 per cent), building services (up 5.8 per cent), and information/culture/recreation (up 6.1 per cent) were main drivers of the monthly gain. Public administration employment declined 5.1 per cent over the month.

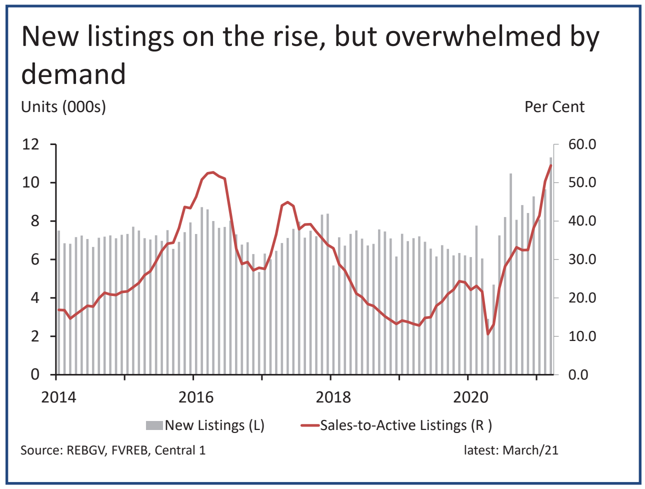
Monthly gains aside, K-shaped trends continue. Accommodations/foodservices employment is still down 11 per cent from pre-pandemic levels, while construction is off by 11 per cent. Indeed, lack of tourism and public health measures are biting, while soft construction reflects the impact of a drop in housing starts and less business investment. In contrast, professional services, technology, resources and government related industries have more than recovered.

Short-term trends will depend on the evolution of the pandemic. While B.C has thus far avoided stricter lockdown measures, the rampant third wave can change this in a hurry. The second quarter remains highly uncertain, although firms have been resilient in adapting to changing conditions. Longer term employment trends remain positive amidst the vaccine deployment and stronger economic growth in the U.S.

Lower Mainland prices continue pandemic surge as sales remain at record highs

In a now familiar story, the Lower Mainland housing market cranked out another record performance in March as the boom continued. MLS® sales more than doubled from a year ago to 9,030 units (up 130



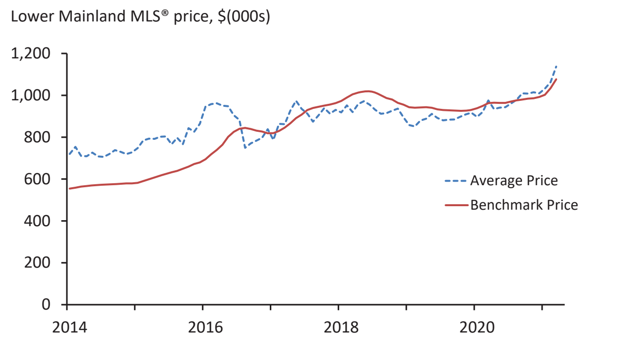


per cent). While there was some base year effect as temporary pandemic plunge in sales began in late March 2020, the drop predominantly affected April and May activity. March sales exceeded the 10-year same-month average by 90 per cent and the previous 2016 high by 10 per cent. Seasonally- adjusted sales rose 10 per cent from March.

The strong demand cycle continues to be driven by low mortgage rates and pandemic-era demand drivers, including increased desire for space, and elevated savings, despite ongoing economic uncertainty. These drivers have likely pulled forward some demand from future years by millennials, while rapid price growth may be triggering panic purchases as buyers fear being priced out of the market.

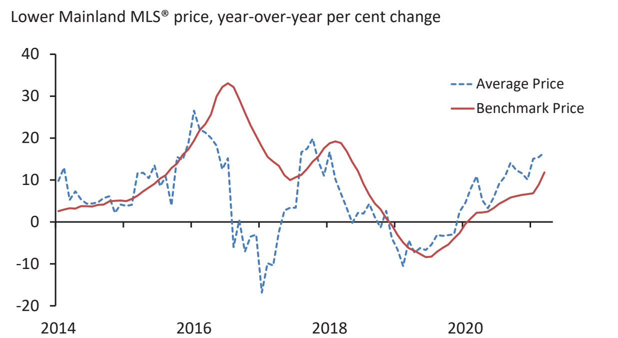
Prices are indeed surging. While new listings surged during the month to more than 13,000 units (up 90 per cent year-over-year) to a record high suggesting more sellers are selling into the hot market, this was overwhelmed by demand. Inventory only nudged higher, and active listings were still lower than a year ago by nine per cent. Sales-to-active listings remained well

Price levels surge in first quarter



Source: REBGV, FVREB, Central 1 latest: March/21

Average price up 16 per cent over past 12 months



Source: REBGV, FVREB, Central 1 latest: March/21

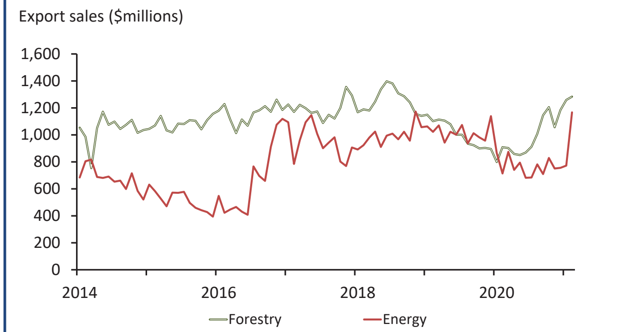
into sellers' market territory. The average price has soared 16.5 per cent or $161,121 from a year ago to $1.13 million. Seasonally- adjusted, this marked a four per cent monthly gain.

While composition matters, the constant quality house price index accelerated to a 4.1 per cent monthly gain (60 per cent annualized) and year-over-year increase of 11.8 per cent. Gains continue to be led by ground-oriented housing, although apartment prices are gaining traction suggesting as affordability challenges and increased investor demand is lifting demand.

Tight market conditions point to further price appreciation into the summer. Demand is expected to exhaust given affordability erosion and the abnormally high pace of home sales. Waning of the pandemic will shift demand closer to a normal state, while the pull forward of sales should also give way to a slowdown. However, this process will take time and with the boom reverberating across the country and broad price surge it is increasingly likely that the federal government will step in to cool the price growth through tax or regulatory policies.

Natural gas prices and forestry push exports higher in February

Energy spike and rising forestry drive February exports



Source: Statistics Canada, Central 1 latest: Feb/21

B.C. goods exports remained on the upswing in February, marking a stark contrast to national decline. Dollar-volume B.C. exports surged 30.6 per cent year-over-year to $3.65 billion during February, with monthly seasonally- adjusted growth calculated as a 10 per cent gain. This compared to a national gain of 2.7 per cent from February (and 4.1 per cent year-over-year) as transportation goods and metallic and non-metallic mineral sales declined.

Strong B.C. performance extended the upward trend since bottoming out in mid-2020. While the trend has been robust, the latest gain was a one-off. Energy exports contributed to the entirety of the increase from January with a 51 per cent increase and a 63 per cent year-over-year gain. This represented about half of the net year-over-year increase in total exports and owed largely to a spike in natural gas prices due to severe cold freeze in the southern U.S. which has since rolled back and will dampen export sales in future months. Forestry exports continued to rise on the back of higher prices and demand with a two per cent increase from January and a 42 per cent year-over-year increase. In contrast, lower export performance continued in industrial machinery, parts and transportation which aligns with broader declines in the sector.

Through two months, dollar-volume exports were 23 per cent higher than same period 2020 while international imports were unchanged.

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