Economics | Current Economic Trends

B.C. Economic Briefing

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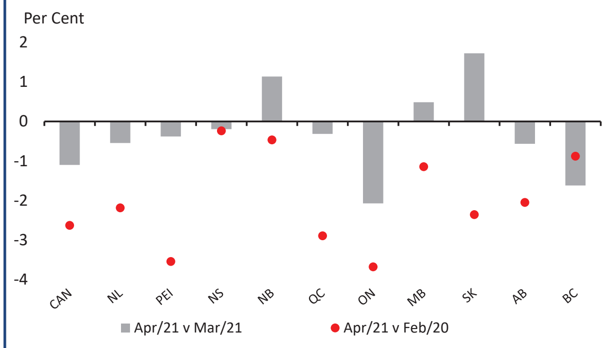
central 1 Economics

Highlights

- Third wave of pandemic rolls back job gains in April, Canada employment decline by 200k
- B.C. “circuit breaker” cuts employment by 1.6 per cent, unemployment rate edges higher to 7.1 per cent
- Exports slip on reversal of natural gas price surge
- Lower Mainland housing market remains hot in April but momentum eases
- Average price climbs 1.1 per cent, benchmark value up three per cent
- Building permits decline in March after February spike

Third wave triggers sharp employment declines; B.C. fares well in pandemic recovery



Source: Statistics Canada, Central 1

Pandemic third wave hits Canadian labour market in April

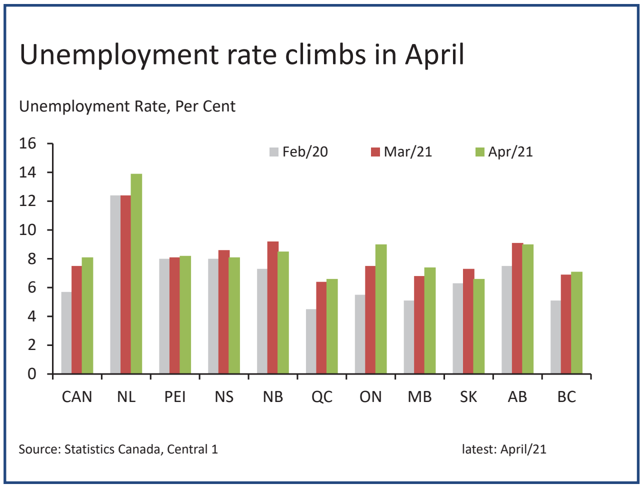
Not surprisingly, the Canadian economy lost jobs in April as the third wave of the pandemic and more restrictive public health restrictions to curb case counts and pressures on the health system curtailed recovery momentum. National employment fell by 207.1k persons (1.1 per cent) in the latest month with the unemployment rate at 8.1 per cent compared to 7.5 per cent in March. This was almost bang on with Central 1’s call for a 200k loss and 8.1 per cent unemployment[1]. The latest employment roll back was driven by Ontario (down 2.1 per cent) and B.C. (down 1.6 per cent) and retraced about two-thirds of the March gain. Ontario’s stay-at-home order, capacity restrictions and school closures drove increased layoffs, while B.C.’s enacted a “circuit breaker” which curtailed indoor dining and some gym activities. Since narrowing the employment gap to 1.5 per cent of pre-pandemic levels, the latest pullback widened this gap to 2.6 per cent.

Given the drivers of the pullback, job losses were concentrated in a handful of industries. Accommodations/foodservices accounted for more than a quarter of net losses with a 6.4 per cent drop (59.2k persons), education services contracted 2.4 per cent (35.8k persons), and wholesale and retail trade employment fell 3.1 per cent (89.1k persons). At the same time, finance and real estate, professional, scientific and technical services, and natural resources were partial offsets and reflected the shelter of working from home, hot housing market, and commodity sector resurgence. The concentration of job losses and experiences from previous COVID-19 waves suggest a vigorous bounce-back once the current wave is under control. That said, surging case counts in Alberta and Nova Scotia have since led to more severe restrictions contributing to more short-term job losses. Full recoveries in hard hit sectors related to hospitality and tourism will be dependent on vaccine rollout and border re-openings.

Circuit breaker trips up B.C. employment recovery

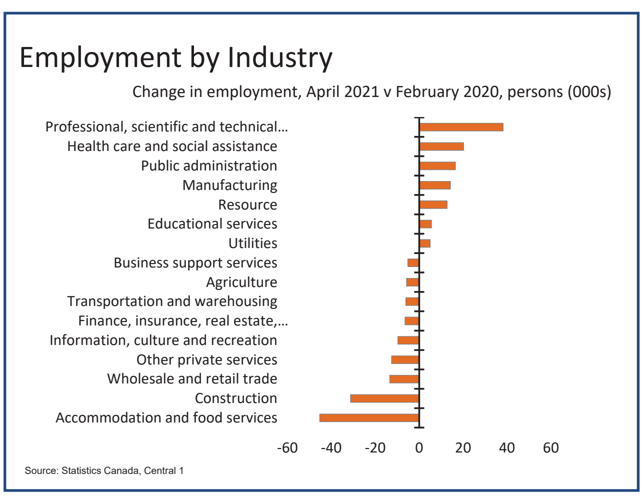
B.C.’s “circuit breaker” paused indoor restaurant dining, cancelled group fitness classes, and closed the Whistler Blackcomb resort among other measures and put an end to 11 straight months of employment growth. Total employment fell 1.6 per cent or 43.1k persons. After popping above pre- pandemic levels in March, levels rolled back to 0.9 per cent (23.2k persons) below February 2020 levels. Nevertheless, B.C. remains in a relatively strong position with only Nova Scotia and New Brunswick closer to pre-pandemic levels.

1 Based on Reuters Consensus Poll for week of March 3, 2021



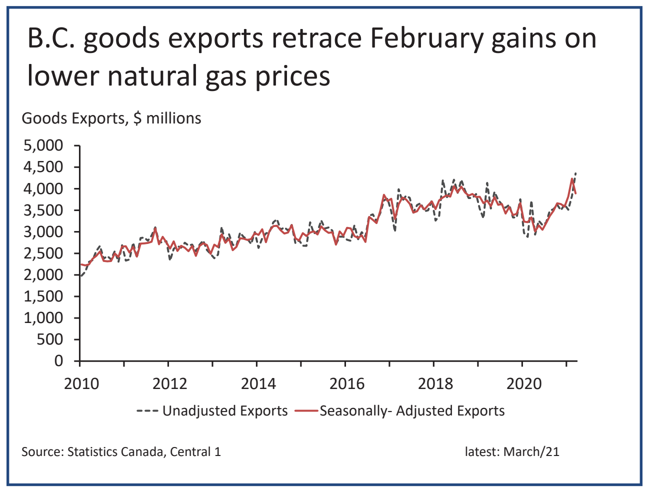
The provincial unemployment rate rose from 6.9 per cent in March to 7.1 per cent and compared to 5.1 per cent in February 2020. The modest increase reflected a drop in labour force participation. Metro Vancouver employment losses were consistent with the provincial picture with a 1.7 per cent decline, but the unemployment rate fell from 7.5 per cent to 6.9 per cent.

Employment losses in B.C. were led by sectors most affected by the health measures. Accommodations/ foodservices employment declined by 21.9k persons or 12.3 per cent, while information/ culture/ recreation shed 16.9k workers (12.8 per cent). Employment also declined in construction (1.9 per cent), wholesale/ retail trade (1.1 per cent) but were not significant. Performance in other industries were generally steady with notable increases in manufacturing (up 2.8 per cent) and professional/ scientific/ technical services (up 2.7 per cent). Not surprisingly, given the composition of job losses, part-time workers experienced the sharpest decline with a 6.1 per cent drop (37.4k persons) while full-time work was only mildly affected with a 0.3 per cent decline. Self- employed workers accounted for nearly all of the monthly decline.



While the economy has proven resilient despite the latest decline, the K-shaped recovery in the labour market persists. Of the 16 industry sectors, seven are above pre- pandemic levels. Higher employment has reflected strong demand in health care, professional services and technology, public services and resources. In contrast, hospitality/tourism, other private services, retailers and transportation related sectors continue to struggle. This gap will narrow as social and economic restrictions are eased. Given the quickening pace of vaccines, expect employment to pick up more quickly in June. Tourism driven employment will need an easing of easing of border restrictions which could be delayed until late this year.

Retreat in natural gas prices leads B.C. export retracement in March



B.C. international goods exports fell back in March as expected due to the reversal of February's natural gas price surge, while shortages in semi-conductor sectors and other temporary supply side bottlenecks also contributed to a pullback. Year-over-year growth in goods exports reached $4.35 billion. While a robust 17 per cent higher than a year ago, this compared to a 33 per cent gain the previous month. Based on our calculations, seasonally- adjusted exports fell 8.1 per cent on a monthly basis. Through the first quarter, sales rose 22 per cent.

Energy exports declined 4.5 per cent on a year-over-year basis compared to a 73 per cent increase in February. Sales fell 34 per cent from February. Natural gas prices had spiked in February due to the cold snap in the southern U.S. but reverted returning back in March. Industrial machinery and parts sales fell 20 per cent from a year ago, compared to a 14 per cent drop in February.

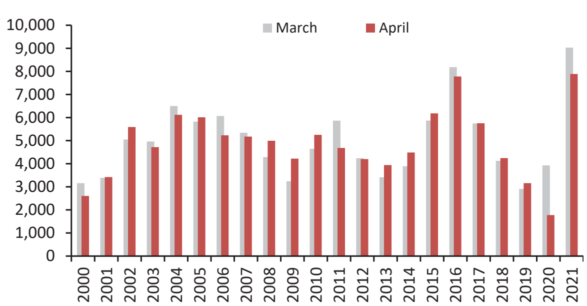
Partial offsets included forestry products export which continued to rise on surging lumber prices. Forestry exports rose 53.8 per cent from a year ago, compared to 41.7 per cent in February. Strong housing construction in the U.S. and Canada, renovation demand, and supply constraints is driving sales. While likely to revert at some point, wood product prices look to remain sky high this year, although real production and sales growth is relatively modest. Sawmill production during the first two months rose 6.4 per cent from same-period 2020 highlighting the impact of higher prices. Metal and non-metallic mineral product exports accelerated with year-over-year growth of 36 per cent, compared to a 24 per cent increase in February.

While monthly performance has been volatile, export growth will remain positive. High commodity prices, strengthening demand in key exports like the U.S. which is being lifted by rapid vaccine deployment and large fiscal outlays to drive the economic recovery will continue to support B.C. exports.

Lower Mainland housing market remain hot in April but momentum eases

April marks another record sales high but momentum eases

Lower Mainland MLS ® sales by month



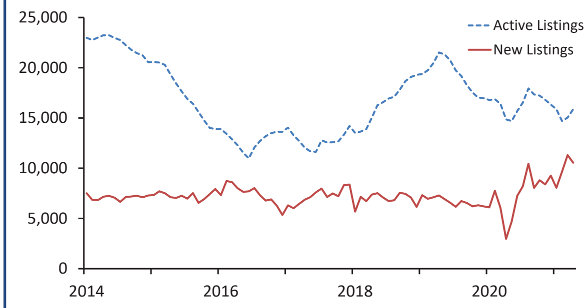
Source: REBGV, FVREB, Central 1 latest: April/21

There was a little less thunder in April's housing market as Lower Mainland sales edged down and price growth slowed to suggesting a turn in housing momentum after a blistering pace of activity in recent months. Nevertheless, market conditions remain exceptionally strong and well above pre- pandemic levels.

MLS® sales in the combined Metro Vancouver and Abbotsford -Mission region reached 7,888 units in April. Like recent months, this was again a same-month record, exceeding the previous April high set in 2016 by 1.4 per cent. Year-over- year, sales more than

Inventory climbs on easing sales and elevated new listings

Lower Mainland New and Active Listings, Seasonally - Adjusted



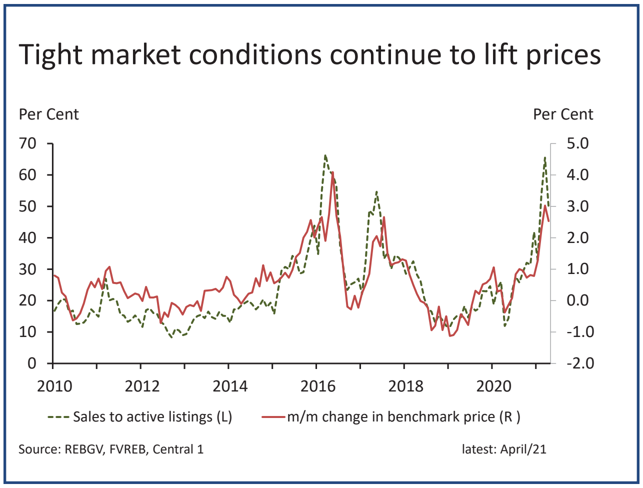
Source: REBGV, FVREB, Central 1 latest: April/21

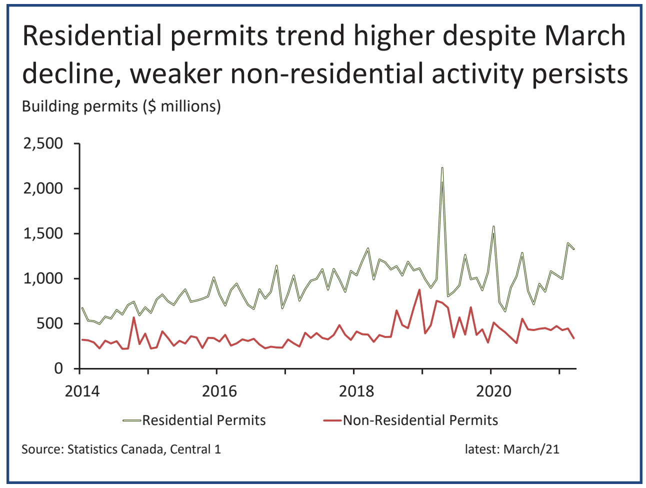
quadrupled (up 344 per cent) but reflected the combination of current market strength a temporarily plunge in sales recorded early in the pandemic. Consistent gains were observed across housing types. Relative to the trailing 10-years, sales nearly doubled average April levels.

While sales remain vigorous, underpinned by a low mortgage rate environment and pandemic shifts in purchasing behaviour, the trend may be finally turning – providing some relief to buyers engaging (and losing) heart stopping bidding wars. By our calculation, sales fell 5.7 per cent from March on a seasonally- adjusted basis but still doubled pre- pandemic February 2020. Erosion in affordability, buyer exhaustion, and a smaller pool of buyers given the frenzy of recent activities may be playing into the sales slip.

Market conditions remained exceptionally tight despite the slip in sales and elevated new listings as more owner test the market in a high price environment. That said inventory rose to a multi-month high, adjusted for seasonal factors. The sales-to-inventory ratio fell below 50 per cent from 65 per cent in March but well above a normal balanced market of 15 – 20 per cent.

Given strength in market conditions, prices continued to move higher albeit at a slower pace. The average value rose 1.1 per cent to $1.15 million, marking a 23 per cent increase from a year ago. The benchmark price continued to rise at an exceptionally strong pace at three per cent from March, albeit a slower pace than the previous month, with year-over-year growth of 15 per cent from. Price appreciation continues to be led by detached and other ground- oriented dwellings but apartment prices have picked up pace.





Ongoing moderation in the sales trend is expected as we move towards the end of the pandemic. Current sales are unsustainably high and normalization is anticipated over the back half of the year which is expected to slow the pace price growth but not trigger a correction.

Building permits pull back after February spike

The pace of building intentions reverted in March following an apartment led spike in February but construction trends remained positive in early 2021. Dollar-volume building permits declined 9.4 per cent to $1.67 billion following a 29 per cent prior month spike. Year-over-year, total permits were 60 per cent higher, with year-to-date growth of 11 per cent through the first quarter.

Despite February's gain being driven by a spike in new home construction, the March decline did not reflect a rollback in this activity. Residential permits declined five per cent from February to about $1.33 billion, following a 40 per cent increase the previous month. Levels were still double year ago levels and aligned with strong growth in housing starts in 2021 and reflective of robust housing demand that allowed large multi-family projects to move forward and boost in detached homes.

In contrast, non- residential permit volume fell 24 per cent from February and 16 per cent from a year ago. Year-to-date, permits fell 13 per cent, driven largely by a 16 per cent drop in commercial and government permit volumes. The pandemic has contributed to a weaker investment cycle.

Regionally, permit volume growth has been driven by markets outside of Metro Vancouver, where permits declined 15 per cent. Kelowna permits are up 285 per cent on huge gains in both the residential and non-residential space. Abbotsford- Mission permits rose 56 per cent and Victoria permits increased 32 per cent.

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