Economics | Forecast / Outlook Reports

Economic Analysis of British Columbia

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central 1 Economics

B.C. Economic Forecast Update, 2021 – 2023

Highlights:

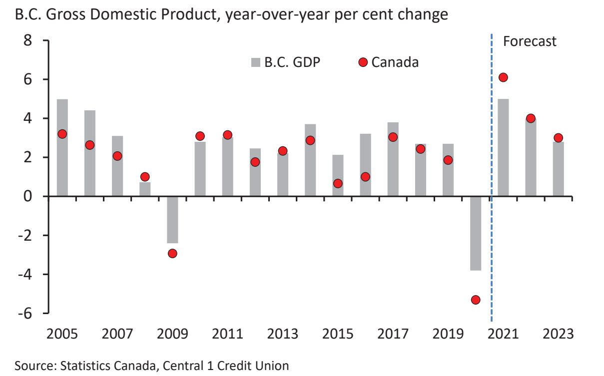
- Recovery continues through 2023 as pandemic wanes
- GDP growth to reach 5.0 per cent in 2021 after milder than expected 2020 contraction, growth of 4.0 per cent in 2022
- Employment growth to reach 7.0 per cent in 2021, unemployment trends down
- Economic activity rotates towards services-producing sectors as B.C.'s Restart Plan moves forward, events and tourism gain traction
- Housing sales cycle normalizes but strong demand cycle keeps housing starts above 40,000 unit per year through forecast horizon

Recent Economic Trends

British Columbia has navigated the pandemic environment better than many forecasters had expected and outperformed most other provinces. While facing similar challenges due to the series of COVID-19 waves threatening the health system and varying degrees of restrictions, B.C.'s recession turned out milder than anticipated although the downturn was still severe. Industry gross domestic product (GDP) contracted by 3.8 per cent in 2020, dwarfing the previous downturn in 2009 of 2.6 per cent during the Great Financial Crisis and was the deepest since 1982. However, this compared to a national contraction of 5.4 per cent with declines of more than five per cent in Ontario and Quebec, and 8.2 per cent in Alberta.

Like its provincial peers, B.C.'s downturn was highly uneven. High- touch services sectors affected by health restrictions, particularly associated with tourism, were decimated during the pandemic. In contrast, sectors able to quickly adapt to an online world and businesses able to shift to remote work stabilized, and in some cases thrived. B.C.'s economy recorded the deepest contractions in key services sectors including accommodation/foodservices and arts/entertainment/recreation, as well as those related to closures of physical office space.

B.C. navigates pandemic better than most peers



Source: Statistics Canada, Central 1 Credit Union

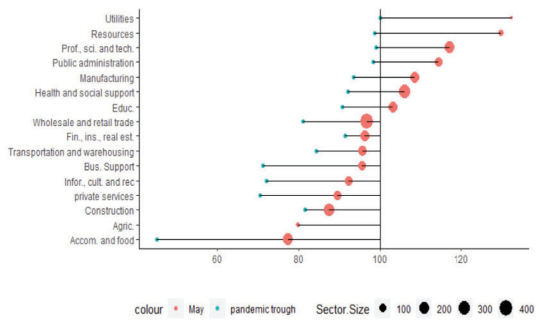
While the majority of sectors contracted in 2020, the economy was buoyed by the housing boom which lifted ancillary sectors and spending; accelerated construction on major projects such as LNG pipelines and the Site C Dam; and growth in professional services and high-tech sectors which generally transitioned seamlessly to a remote workplace. Indeed, the ability of businesses to adapt has been a hallmark of the pandemic, as office employees shifted to a work-from-home environment and retailers and restaurants adapted through online sales platforms. This deviation in affected sectors has largely impacted younger workers, females and lower income individuals. Reduction of labour income was largely neutralized by massive pandemic income support programs, while wage subsidies supported businesses operating at reduced revenues. Measures supported disposable incomes, consumption and excess household savings.

The recovery ebbed and flowed this year with the waves of COVID-19 infections and subsequent tightening and relaxing of public health restrictions, while vaccine deployment provided an undercurrent of optimism. After flirting with pre-COVID employment levels in March, third wave restrictions cut employment in April by 1.6 per cent and held steady in May as service sectors shed jobs. That said, at one per cent below February 2020, B.C.'s employment rebound has outpaced all of Canada's large provinces through May. This speed of recovery would have been unimaginable a year ago after a 15 per cent decline from February through April. Similarly, the unemployment rate while still elevated at 7.0 per cent compared favourably. B.C.'s relative outperformance partly owes to less severe restrictions compared to provinces like Ontario and Quebec. The uneven jobs picture amongst sectors persists.

Employment gains likely picked up in June given the province commenced its Restart Plan on May 25 and moved into Phase 2 on June 15. Restaurant dining rooms have re-opened, recreational travel within the province is allowed, and larger gatherings are permitted.

Uneven recovery continues, but restart to lift hard hit services sectors

B.C. employment as a % of February 2020

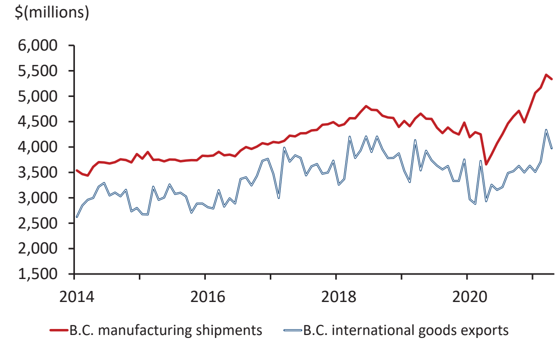


Source: Statistics Canada, Central 1

Sectors like housing continue to thrive amidst low interest rates, demand for space, and investment demand, which has pushed prices up more than 25 per cent over the past year, albeit consistent with the national picture. This sales cycle looks to have peaked as buyer fatigue has emerged, pull forward demand has partially been satiated, and vaccine deployment and partial return to normal refocuses households away from housing. Nevertheless, monthly sales were still 60 per cent above pre-pandemic levels. The robust environment has propelled new home construction higher with urban-area housing starts up 40 per cent from a year ago due largely to condo construction.

Meanwhile, global growth optimism, demand for housing, and supply chain disruptions have buoyed the export and manufacturing sector. While base period effects are in play, both manufacturing shipments and international good exports rose by a quarter through the first four months. A substantial portion of this gain is due to commodity prices. Specifically, lumber manufacturing rose 60 per cent over the past year, but growth in wood prices suggests a 15 per cent increase in real shipments, which is still robust. Other resources sectors have benefitted from higher prices and demand.

Resource momentum lifts manufacturing and goods exports, investment to follow



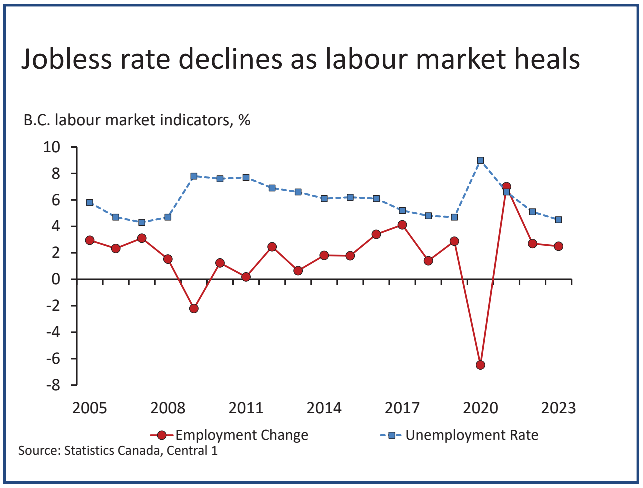
Source: Statistics Canada, Central 1

In contrast, travel restrictions, including border closures and quarantine requirements, have held international non-resident tourist inflows to less than 10 per cent of pre-pandemic levels, while hotel occupancy rates sat at 43 per cent in March. For the latter, 65 per cent is more typical and current levels are further inflated by hotel closures, lower capacity and conversion of some properties to housing. Weakness in these sectors will continue until a broader re-opening of international travel.

Path to normalcy drives economic rebound

The recovery phase is forecast to soldier on through the remainder of this year, with a strengthening in the back half that extends through 2022 and into 2023. Continued progress in B.C.'s Restart Plan, supportive growth from an expanding global economy and continuation of low interest rates support growth. Performance is contingent on keeping the pandemic in check with low case counts and ongoing vaccinations of second doses. Uncertainties related to COVID-19 remain top of mind given varied vaccine performance globally with low vaccination rates in emerging economies which could lead to the emergence of more challenging variants while also slowing global travel re-openings.

Growth in real gross domestic product (GDP) is forecast to reach 5.0 per cent this year following 2020's near four per cent contraction, followed by growth of 4.0 per cent and 2.8 per cent. B.C.'s growth lags the national expansion but partly reflects last year's shallower contraction. Employment growth reaches 7.0 per cent led by professional services, resources, public administration and manufacturing, although growth will increasingly rotate toward the hardest hit services sectors which re-emerge with loosening of restrictions. The average unemployment rate is 6.6 per cent, and 5.1 per cent in 2022.

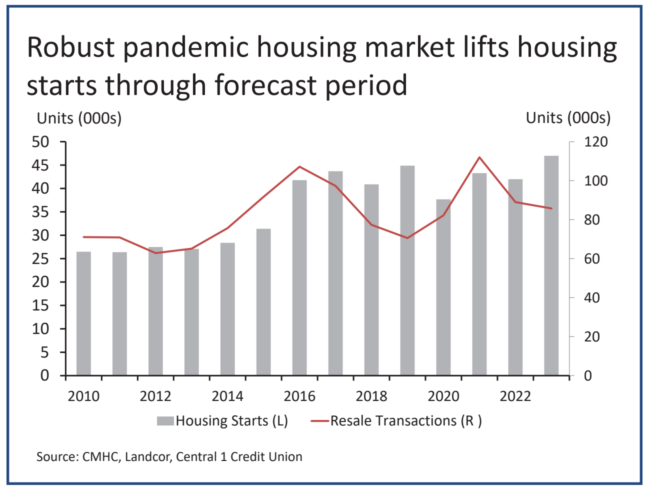


B.C.'s Restart Plan is well underway and while not quite a "summer of wow" the march to normalization continues. The province is in Phase 2 of its four- phase restart plan, and should reach Stage 3 by July 1 given the vaccinated share of the 18+ population has already passed the 70 per cent threshold; although this is still contingent on low case counts, and declining hospitalizations. Adding to relaxation of measures in Phase 1 and Phase 2, including in-restaurant dining, partial return to workplaces, recreational travel within the province, and larger gatherings, Phase 3 allows for further normalization such as normal indoor/outdoor gatherings, increased event capacity, no group limits on dining, and bigger work/event meetings.

This transition will provide a lift to the hardest hit accommodations/foodservices sectors and arts/ entertainment and recreation, although a full recovery is still unlikely until well into 2022 due to limits to the global travel environment and hugely divergent vaccine penetration among countries. Similarly, returns to offices will also provide a lift to ancillary services in urban cores, and lift demand for related retail activity. Excess savings is also likely to feed into a boost in higher than normal spending when services sectors normalize. Household consumption is forecast to rise 5.6 per cent, led by demand for services although spending on durable and semi-durable goods remains strong through 2021.

Robust expansion in the global economy, a trend to economic normalcy, and low interest rates support growth in goods exports this year and sectors like manufacturing and resources extraction. While commodity prices likely ease off cycle highs, production growth remains positive. Business investment, which slumped in 2020 is forecast to jump this year amidst higher profits, a clearer path to normal and permanent re-opening phase triggers reinvestment. A risk to business investment is an increase in closures of businesses artificially propped up by government support during the pandemic, while increased debt loads incurred by businesses could also delay investment. Publicly funded capital investment which has surged in recent years on investments in hospitals, road infrastructure, and education is forecast to pull back five per cent this year but remain near a record high.

B.C.'s housing market will contribute to economic growth over the forecast period. While the record pace of home sales pulls back through 2022, strength in the new home cycle will persist. Insufficient inventory in the market and high prices continue to lift demand for new construction, while developers will be looking to the future and a sharp rebound in population growth following the pandemic. Housing starts are forecast to climb to 43,000 units this year from 37,700 units in 2020, and average 45,000 units over the next two years.



Population growth has already started to rebound in early 2021 after a steep slowdown last year when a collapse in international migration offset strong growth in interprovincial migration. The pandemic supported the latter as remote work and demand for space pushed more households to smaller urban area and desirable locales in B.C. Broader re-openings of borders, higher immigration targets, and plans for post- secondary institutions to start in-class learning in the fall fuels a rebound in population growth. On a July-over-July basis, population growth slows to 0.7 per cent this year due to the plunge in migration during the second half of 2020, but rebounds to 1.1 per cent in 2022 and 1.7 per cent in 2023.

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British Columbia Forecast Table - June 2021

	2017	2018	2019	2020	2021	2022	2023
GDP at market prices	7.0	4.9	4.4	-2.4	8.9	6.3	4.0
Real GDP, expenditure-based	3.8	2.7	2.7	-3.8	5.0	4.0	2.8
Household consumption	4.8	2.8	1.7	-4.7	5.6	3.8	3.1
Government expenditure	2.2	2.5	3.1	1.3	2.2	0.5	1.2
Government capital formation	8.4	9.7	3.9	8.9	-4.7	-7.0	4.6
Business capital formation	4.3	0.6	9.3	-5.6	7.2	4.6	4.5
Residential structures	0.2	-2.5	-1.5	-3.7	9.1	1.0	6.8
Machinery and equipment	3.8	5.3	0.3	-17.7	9.4	6.3	5.1
Non-residential structures	12.9	1.9	35.3	-4.6	4.4	8.6	1.6
Final domestic demand	4.2	2.5	3.4	-3.3	4.8	2.7	3.1
Exports	2.8	3.5	0.9	-7.9	7.6	6.9	2.0
Imports	5.2	3.3	2.7	-6.1	7.2	3.8	3.0
Employment	3.7	1.1	2.6	-6.6	7.0	2.7	2.5
Unemployment rate (%)	5.1	4.7	4.7	9.2	6.6	5.1	4.5
Personal income	5.8	3.2	6.2	8.0	-2.9	4.0	3.2
Disposable income	6.8	2.0	6.2	13.4	-5.4	3.4	2.2
Net operating surplus: Corporations	18.6	2.0	-7.1	-4.2	3.5	17.0	6.2
CPI	2.1	2.7	2.3	1.0	2.4	2.3	2.1
Retail sales	9.3	2.0	0.6	1.3	8.5	5.6	4.2
Housing starts, 000s	43.7	40.9	44.9	37.7	43.3	42.0	47.0
Population Growth (%)	1.4	1.6	1.6	1.1	0.7	1.1	1.7
Key External Forecasts							
U.S. Real GDP	2.4	2.9	2.3	-3.5	6.8	3.9	2.0
Canada Real GDP	3.1	2.3	1.9	-5.4	6.1	4.0	3.0
European Union Real GDP	2.7	1.9	1.2	-7.0	4.5	4.0	2.2
China Real GDP	6.0	6.9	6.1	2.3	9.0	5.0	4.9
Japan Real GDP	2.2	0.3	0.8	-5.0	4.0	1.5	0.9
Canada 3-month t-bill, %	0.71	1.40	1.66	0.50	0.18	0.35	0.90
Canada GoC long-term Bond, %	2.18	2.33	1.73	1.05	2.00	2.20	2.40
U.S.-Canada Exchange Rate, cents/dollar	77.1	77.2	75.4	74.6	82.0	81.0	80.0
Crude Oil WTI USD$ per barrel	50.9	64.9	57.0	38.5	66.0	70.0	68.0
Henry Hub Natural Gas Price, US$ per mmbtu	2.99	3.17	2.57	2.01	3.10	3.25	3.10

Terms

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