Economics | Current Economic Trends

B.C. Economic Briefing

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Economics

Highlights

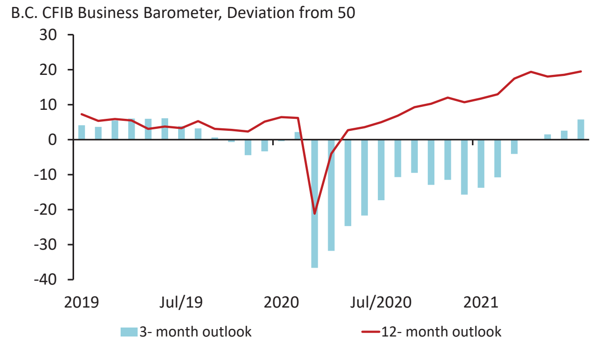
- Vaccine progress and re-openings buoy business confidence in July
- B.C. CPI inflation slips to 2.4 per cent in July
- Third wave job losses a drag on non-farm payroll counts

Business confidence maintains upward momentum

Small- and medium- sized business confidence remained on the upswing in July as vaccine progress and re-opening trends buoyed sentiment according to the CFIB (Canadian Federation of Independent Business). The group's Business Barometer indicator showed a rise in B.C.'s 12- month outlook to an index reading of 69.5 points; up a point from June, while the 3-month outlook rose to 55.8 points, marking a seventh straight increase and highest since June 2019. The index ranges from 0 to 100 points, with a value above 50 suggesting on net that businesses expect improvements in the period ahead.

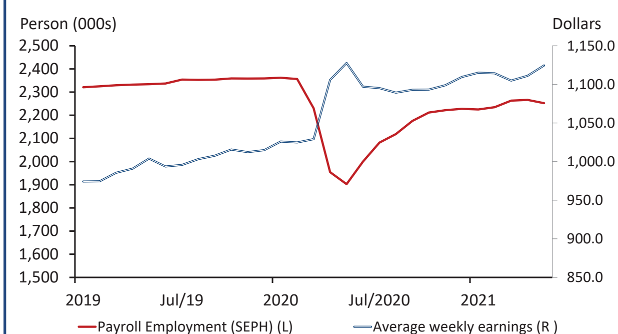
B.C. businesses are more optimistic than their provincial peers. While the 12- month reading was on par with the national reading it was third highest behind only Ontario and Alberta. Similarly, the three- month outlook was also third highest. This is not surprising. The economy has rebounded quicker amidst relatively moderate social and economic restrictions, and employment has returned to pre-pandemic levels. Moreover, the province is advancing through Step 3 of the re-opening plan underway, and operations are normalizing in many sectors. Further relaxation of measures could come as early as September 7, allowing for normal contact, large events and more spectator events. Domestic tourism is likely robust, offsetting what will be a slower recovery in international tourism which will be contingent on entry restrictions and global state of the pandemic. Broadly, constructive trends will buoy the hardest hit sectors in the economy.

Vaccine progress and re-openings buoy business sentiment



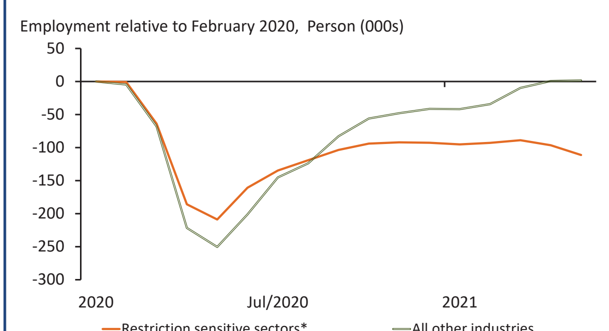
Source: CFIB, Central 1 latest: Jul/21

Employment down in May, layoffs in lower paid sector lifts average weekly earnings



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

Restriction sensitive sectors weigh heavily on total payroll counts, improvement ahead



Source: Statistics Canada, Central 1 latest: May/21
*transportation/warehousing, arts/entertainment/rec, hospitality, other private services

Hiring plans are strengthening in line with confidence. Of businesses surveyed, 25 per cent planned to increase full-time hiring over the next three months, and 14 per cent looked to reduce levels. This suggests re-openings are driving increase demand for labour. That said, the small business sector has yet to fully recovery as only 80 per cent of businesses were fully open, while 40 per cent operated at normal or above staff and revenues.

Headline inflation dips to lowest level since March

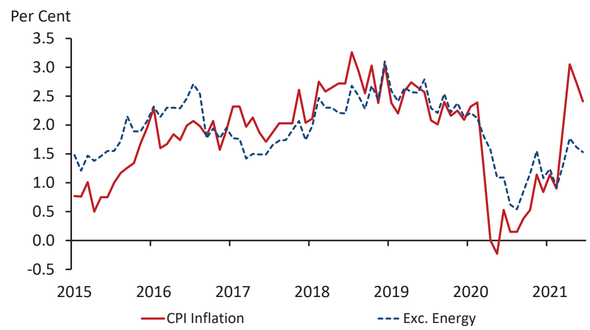
B.C.'s headline CPI inflation decelerated in June despite a rise in prices from May as base year effects faded. Year-over-year growth in the consumer price index (CPI) fell to 2.4 per cent in June from 2.7 per cent in May and marked the slowest pace since March. This compared to national inflation of 3.1 per cent.

Similar to the national picture, gasoline prices were a main drag on headline inflation. While prices climbed two per cent from May and were up 25 per cent year-over-year, this compared to a 38 per cent increase the prior month. This highlights the unique pandemic circumstances. Gas prices fell sharply early in the pandemic but picked up sharply in June 2020 contributing to shallower gain. High crude prices have continued to propel prices this year.

Outside of broader energy prices, inflationary pressure was benign but mixed. Excluding energy, prices rose 1.5 per cent from a year ago. Shelter costs are pinching households but driven by homeownership costs which rose six per cent on higher replacement costs and insurance, although mortgage interest costs have been an offset due to the low-rate environment. Of course, given housing price appreciation, owners may not be too concerned. Renter households have seen benign growth in accommodation costs (0.9 per cent) as provincial rent freeze legislation and lack of immigration has tempered demand.

Food prices rose 1.3 per cent year-over-year on flat restaurant pricing, while clothing and footwear prices decelerated to a 2.1 per cent gain, down from 4.4 per cent in May. Higher cost pressures persisted for childcare and housekeeping at 4.3 per cent, while household furnishing rose 6.7 per cent.

CPI inflation eases in June, boosted by energy prices



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

Going forward, cost pressures are likely to arise for services as the economy fully re-opens. Firms are likely to adjust prices higher for restaurant meals, recreation and tourism services after holding back during the pandemic. Demand for clothing will likely pick up as return to offices drives demand and price pressures. That said, the pace of inflation will moderate over the next year

Non-farm payroll counts decline with third wave restrictions

Not surprisingly, payroll counts rolled back modestly in May as third wave restrictions led to increased layoffs. Non-farm payrolls in B.C. fell by 0.6 per cent or 14,000 positions from April according to Statistics Canada's Survey of Employment, Payroll and Hours (SEPH). The 2.25 million positions were the lowest since February.

Directionally, May's decline was consistent with a drop of 1.5 per cent employment in the April Labour Force Survey. As SEPH employment is based on paid hours or benefits in a given month, third wave layoffs in April likely showed up later in SEPH data. Other factors also contribute to differences in survey estimates including self- employed and agriculture workers who are not included in LFS (Labour Force Survey) estimates, as well as multi-job holders who can show up multiple times in the SEPH survey.

Higher non-farm payrolls are expected by July data reflecting a relaxation of health restrictions and re-hiring by services sectors. LFS employment rose 1.6 per cent in June.

On an industry basis, lost positions were concentrated in restriction- sensitive sectors. Specifically, the number of accommodation/foodservices fell 4.7 per cent representing half of the net loss, while arts/entertainment/recreation fell 5.4 per cent, retail and wholesale trade declined 1.8 per cent and transportation/warehousing fell 3.4 per cent. A partial offset included ongoing strength in professional/scientific/technical services (up 2.2 per cent).

SEPH employment in May) was still 4.4 per cent lower than February 2020 with the steepest declines in the hospitality sectors (down 30 per cent) and arts/entertainment/recreation (down 41 per cent). While many sectors still lag pre-pandemic levels, which could reflect weaker demand and shifts in multi-job holders, resource employment has surged with stronger commodity prices while work-from-home and demand for technology workers lifted professional services and technology hiring. Health services and public administration have also added employees during the pandemic.

Average weekly earnings in May rose 1.2 per cent from April to $1,124 but owed in part to layoffs in lower paid sectors which bumped up the average.

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