



Highlights:

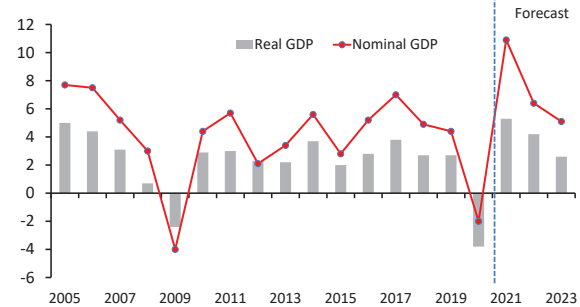
- B.C.'s economy will grow by a rate of 5.3 per cent in 2021, slowing to 4.2 per cent growth in 2022, and to 2.6 per cent growth in 2023.
- Employment growth reaches 6.5 per cent this year, and by 3.2 per cent in 2022, before slowing to 2.0 per cent in 2023.
- Annual average unemployment rate will decline from 6.6 per cent this year to approximately 5.5 per cent by 2023.
- Private sector to lead B.C.'s economic growth, led by technology, professional services and retail.
- B.C. export growth to slow but trade in services to maintain fast growth pace as tourism gains traction.
- B.C.'s home sales expected to decline by 15 per cent after a record performance in 2021, but robust market will continue to drive economic growth.
- Business investment to increase by more than 10 per cent in 2022 as economic confidence strengthens.

B.C.'s economic recovery continues, growth to decelerate slightly in 2022-2023

British Columbia (B.C.) remains on the path to a full economic recovery but as the last 18 months have already shown us, that path forward will remain bumpy and dependent on how the pandemic evolves and how quickly supply chain disruptions mend. Nevertheless, the trajectory remains positive like the broader Canadian picture as vaccine progress, and ongoing re-opening of the economy underpins growth. Moreover, B.C. will continue to outpace the national performance through 2022 as economic growth rotates away from housing activity and spending on consumer goods, and towards hard hit services-oriented sectors and increased business investment. Government spending on capital projects will remain robust.

Real GDP climbs 5.3% in 2021, nominal growth spikes above 10%

B.C. Gross Domestic Product, year-over-year per cent change



Source: Statistics Canada, Central 1 Credit Union

B.C. Gross Domestic Product (GDP) is forecast to reach 5.3 per cent this year after a near four per cent contraction in 2020 as the majority of economic sectors regain or surpass pre-COVID-19 levels of activity. The province will then see economic growth slow to a rate of 4.2 per cent in 2022 and to a rate of 2.6 per cent in 2023. A deceleration in growth is natural given this year's rapid rebound and as the economy returns to the longer-term output trend.

Nominal GDP (which reflects both real expansion and current prices) surpasses 10 per cent this year, which is a modern-day record, driven by higher prices for goods consumption, construction costs and high export prices. Nominal GDP will reach 6.4 per cent in 2022 and 5.1 per cent in 2023. This strong growth in nominal GDP will benefit both employees and corporate profits.

Aggregate employee compensation in the economy climbs by 9.3 per cent in 2021, 6.5 per cent in 2022, and 5.1 per cent in 2023. Corporate profits are set to rise more than 10 per cent this year, as export prices provide a strong lift, before easing to two per cent in 2022 and remaining flat in 2023.

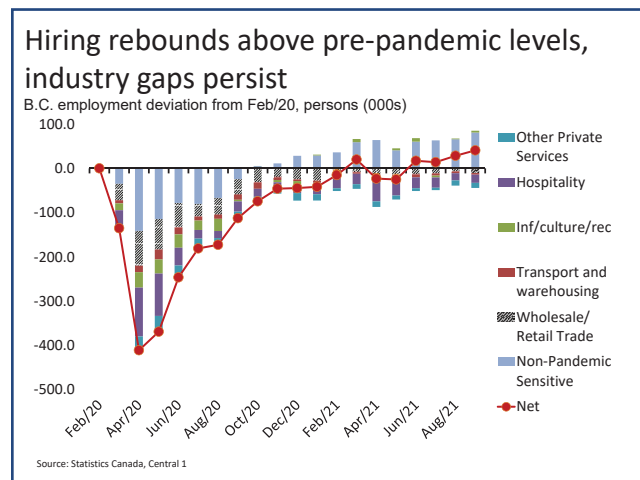
Canadian economic growth recovery continues but hurdles continue

B.C. growth modestly exceeds Canadian GDP growth of 5.0 per cent this year, and 4.1 per cent and 3.0 per cent in 2022 and 2023. While a slower profile than previously expected, Canada's strong vaccine progress and vaccine passports will continue to support broad services sector growth while an ironing out of supply chain disruptions looks to lift growth in Central Canada. High energy prices are beneficial to Canada for nominal GDP and act as buffer against import inflation. Interest rates are expected to remain accommodative despite a recent increase in five- and 10-year yields catalyzed by high inflation and expectations of earlier hikes to the U.S. policy rate. The Bank of Canada's overnight rate is forecast to remain at current levels until a 25-basis point (bps) hike well into the second half of 2022 and to climb 75 (bps) in 2023.

However, Canada and B.C. remain susceptible to potential negative shocks including future COVID-19 variants that could temper demand, while further supply chain shocks and risks of more persistent inflation that could trigger more rapid interest rate hikes.

B.C. to recover pre-pandemic employment losses quicker than peers: labour market tightening

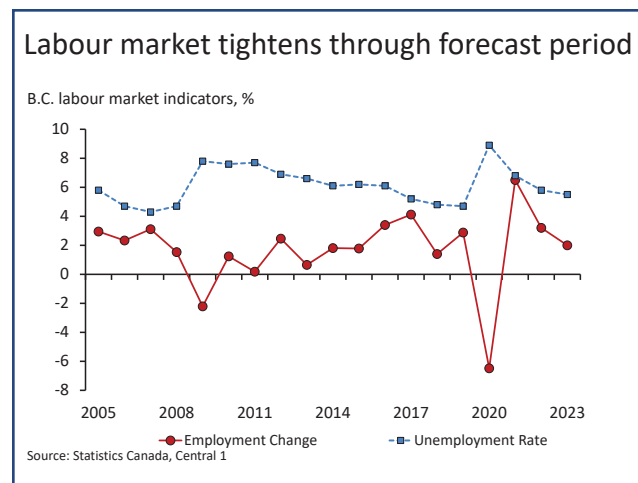
Labour market conditions are set to improve alongside economic growth. B.C. has fully recouped headline pandemic employment losses with levels up 1.5 per cent compared to February 2020, marking the strongest recovery among provinces. However, growth has been uneven and incomplete.



Professional and tech sectors seamlessly shifted into the remote space and buoyed by demand for digital products, have seen a boom in hiring and stronger wage growth. Hiring also increased in healthcare/ social assistance, and public administration but these pandemic sensitive sectors may need to hike wages in sectors now deemed a higher health risk. However, labour market slack remained elevated in sectors including hospitality and foodservices, and those associated with international tourism despite relatively lighter public health restrictions than other provinces.

Full-time employment has yet to recover, contributing to an incomplete recovery in the number of hours worked. Slack persists through to 2023 as unemployment and participation rates do not fully return to 2019 levels, which will limit growth in average earnings and broader wage growth.

Employment is forecast to grow by 6.5 per cent this year, and by 3.2 per cent in 2022, before slowing to 2.0 per cent in 2023. The average unemployment rate will decline from 6.6 per cent this year to approximately 5.5 per cent by 2023. Employment and participation rates continue to lag despite low population growth. The economic effects of higher unemployment have been neutralized by government income supports.

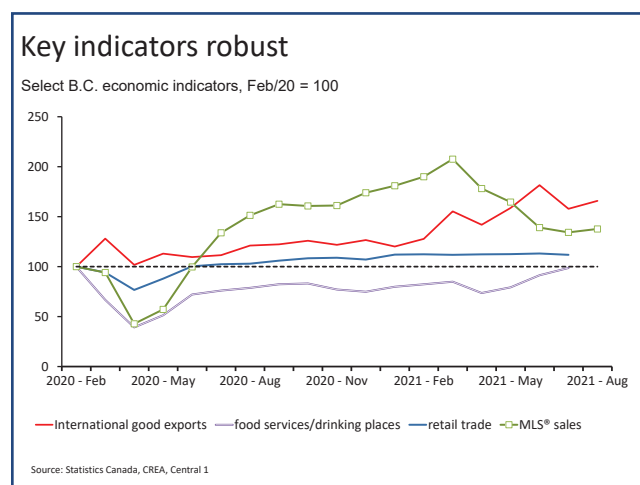


Strong average wage growth in 2020 largely reflected the loss of low paid positions during the pandemic rather than underlying wage gains, which will normalize with the economy.

Hard hit services sectors have recouped some of the deep pandemic losses as social restrictions eased, while border restrictions and COVID fears funneled more Canadians and their tourism dollars to B.C. but they remain sharply lower as offices remain slow to re-open.

Private sector to lead B.C.'s economic growth, led by technology, professional services and retail

On an industry-basis, the private -services sector will lead B.C.'s growth in 2022. Specifically, accommodations/food services and arts/entertainment/recreation will grow at a rapid pace, but those industries will still remain below pre-pandemic levels through 2023, reflecting tourism challenges, public health fears, and less business travel. Technology and professional services sectors will also outperform, as will retail trade as population growth buoys growth. Manufacturing and public administration are forecast to grow at a slower pace.



Export growth to slow but trade in services to maintain fast growth pace

B.C. has benefited from trends observed across North America i.e. robust demand for housing and broader goods. Goods exports and manufacturing are both tracking 30 per cent higher than 2020. Notably, wood product manufacturing has more than doubled as robust new home construction and renovation drove higher demand and a spike in prices. We estimate that 80 per cent of wood product gains reflected higher prices. Manufacturing has also gained in other sectors e.g. food manufacturing as more households stayed home and high global demand for durable goods lifted broader demand and commodity prices.

As global demand for goods normalizes with a waning pandemic, export growth is anticipated to slow following strong gains in 2021, but B.C. continues to benefit from expansion in the global economy. Growth in the export of services will grow at a faster pace. A broader tourism recovery will evolve with eased restrictions. As air travel normalizes and border restrictions ease, B.C. will see more international travelers, but will likely attract fewer domestic Canadian visitors. With international tourism inflows down 90 per cent, there is plenty of room for a rebound in this sector. However, business travel climbs but is not expected to recover as quickly through the forecast period as organizations permanently adopt remote meetings. Other services exports, such as TV and film production, will remain robust.

Consumer spending growth to slow

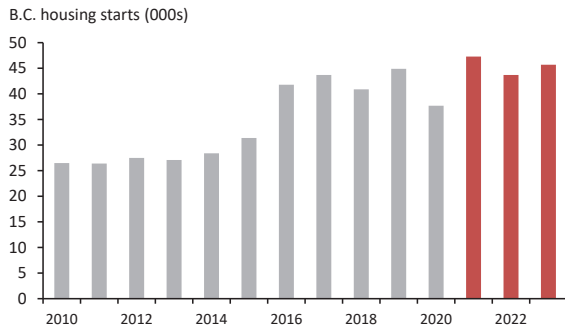
Consumer spending growth slows to 3.5 per cent in 2022 and 3.4 per cent in 2023, following an expansion of 5.6 per cent this year as people resumed spending on restaurants and hospitality and other personal services and recreation. Retail sales were 11 per cent higher than pre-pandemic February. The strong demand for durable goods (i.e. vehicles and electronics) witnessed during the pandemic as people worked from home and shunned public transit is anticipated to ease and spending will stabilize. Population growth will support consumer spending, although goods inflation could stem gains.

B.C.'s home sales are expected to decline 15 per cent after a record performance in 2021, but robust market will continue to drive economic growth

While remaining robust, B.C.'s housing market is forecast to be a drag on overall growth due a slowing down of strong 2021 gains. Home sales are expected to decline 15 per cent after a record performance in 2021, contributing to lower acquisitions related activity. On the other hand, home sales remain well above pre-pandemic trends, buyers remain active despite steep erosion in affordability, and residential investment growth is forecast to hit 14 per cent this year.

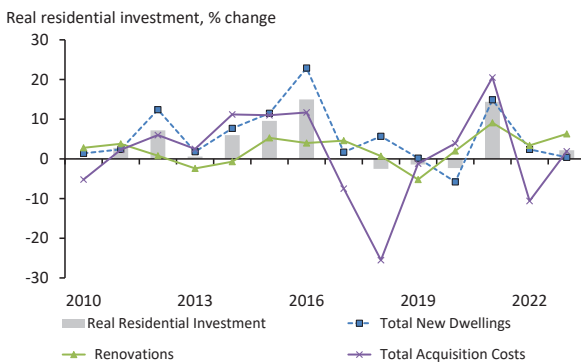
The events of the past year amplified the importance of housing in the lives of B.C.'s residents, not only as a place to live, but one to work and entertain and drove home ownership demand across the province. A surge in interprovincial migration has further contributed to demand. By extension, housing construction is also tracking a record pace triggered by insufficient supply and strong market conditions which will lift to a record high of 47,000 units this year.

Housing starts to remain strong



Source: CMHC, Central 1 Credit Union

Residential investment by component



Source: Statistics Canada, Central 1

Non-residential construction was mixed because business investment remains constrained by demand uncertainty caused by the pandemic, particularly for hard hit services sectors and small businesses. Federal programs continue to support operations, including wage and rent subsidies, but investment in brick-and-mortar operations and capacity have likely been delayed. Non-residential building permits have trended lower this year on lower commercial and government building activity, with the latter retracing a surge in 2020. Industrial investment has fared better due to stronger demand for manufacturing and warehousing activity. That said, large government investment in transportation infrastructure, medical facilities, as well as major project construction related to pipelines and liquefied natural gas in northern B.C. remain underway and continue to drive growth for the province.

Business investment to increase by more than 10 per cent in 2022

Investment is expected to rebound significantly. Business investment increases by more than 10 per cent in 2022 as uncertainty fades and general conditions stabilizes. Trends will include both large and small businesses upgrading their brick-and-mortar operations after pandemic interruptions, the emergence of new businesses, and increased spending on machinery and equipment. LNG Canada is near peak buildout and Site C dam continues which provide further support. Adding to this will be further work on major government infrastructure projects such as the ongoing expansion to the Translink's Millennium Line and a slew of school and hospital expansions and replacements in the pipeline.

Population growth to accelerate

B.C.'s population growth fared surprisingly well during the pandemic. Despite weak international immigration, the province saw a surge in interprovincial migration owing to remote work options, early retirements and relocation of to the province for recreational purposes. Population growth on a July basis reached nearly one per cent. We expect population to accelerate to 1.6 per cent in 2022 and 1.8 per cent in 2023. Students have returned as post-secondary institutions opened to in-class learning. Canada seeks to boost immigration to 400,000 persons annually in coming years of which B.C. will continue to attract a substantial share. This will continue to support consumer spending and housing demand.

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B.C. Forecast Table

	2018	2019	2020	2021	2022	2023
GDP at market prices	4.9	4.4	-2.0	10.9	6.4	5.1
Real GDP, expenditure-based	2.7	2.7	-3.8	5.3	4.2	2.6
Household consumption	2.8	1.7	-4.7	5.6	3.5	3.4
Government expenditure	2.5	3.1	3.2	1.2	1.4	1.9
Government capital formation	9.7	3.9	7.1	-0.1	7.1	5.7
Business capital formation	0.6	9.3	-5.6	9.8	7.4	3.6
Residential structures	-2.5	-1.4	-2.3	14.4	0.2	2.2
Machinery and equipment	5.3	0.3	-6.5	7.3	14.3	6.8
Non-residential structures	1.9	35.3	-10.2	4.7	13.0	2.8
Final domestic demand	2.5	3.4	-3.1	5.4	3.9	3.2
Exports	3.5	0.9	-6.5	6.2	5.4	1.8
Imports	3.3	2.7	-8.2	8.6	7.4	3.3
Employment	1.4	3.0	-6.6	6.5	3.2	2.0
Unemployment rate (%)	4.7	4.7	8.9	6.8	5.8	5.5
Personal income	3.2	6.2	5.8	3.1	5.1	4.6
Disposable income	2.0	6.2	8.2	1.1	5.0	4.6
Net operating surplus: Corporations	2.0	-7.0	-1.5	10.8	2.6	0.3
CPI	2.7	2.3	0.8	2.8	2.5	2.2
Retail sales	1.9	0.6	3.0	9.8	6.2	5.2
Housing starts, 000s	40.9	44.9	37.7	47.3	43.7	45.7
Population Growth (%)	1.6	1.6	1.1	1.0	1.6	1.8
Key External Forecasts						
U.S. Real GDP	3.0	2.2	-3.5	6.3	5.0	2.1
Canada Real GDP	2.3	1.7	-5.3	5.0	4.1	3.0
European Union Real GDP	1.5	2.0	-7.0	4.5	4.0	2.2
China Real GDP	6.7	5.9	2.3	8.0	5.5	4.9
Japan Real GDP	0.6	0.3	-5.0	4.0	1.5	0.9
Canada 3-month t-bill, %	1.40	1.66	0.50	0.15	0.35	0.90
Canada GoC long-term Bond, %	2.33	1.73	1.05	1.50	2.00	2.35
U.S.-Canada Exchange Rate, cents/dollar	77.2	75.4	74.6	80.0	81.0	80.0
Crude Oil WTI USD\$ per barrel	64.9	57.0	38.5	68.0	66.0	62.0
Henry Hub Natural Gas Price, US\$ per mmbtu	3.17	2.57	2.01	3.45	3.10	3.00

Terms

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