Economics | Current Economic Trends

B.C. Economic Briefing

Volume 27 • Issue 44 • Week of November 1 - November 5 2021 | ISSN: 1981-355

central 1 Economics

Highlights

- B.C. employment rate 2 per cent above February 2020 levels;
- B.C. has tightest labour market in Canada;
- Total building permit volume increased by 4.7 per cent to $1.51 billion following a 7.7 per cent drop in August;
- Housing demand continued to be fueled by the low interest rate environment and investor demand as students returned and borders re-opened to travelers.
- Insufficient inventory propels home values higher

B.C. employment remains on the rise through October

Bryan Yu, Chief Economist

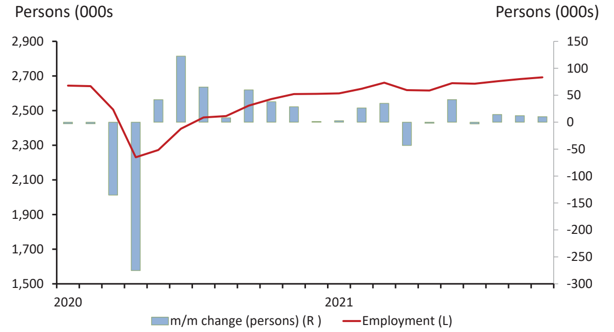
B.C.'s labour market continued to improve through October as the economy added jobs at a steady clip, while the jobless rate continued to decline.

Total employment rose 0.4 per cent or 10,400 persons during the month. This compared to a 0.2 per cent increase nationally. While the monthly increase was not particularly significant, the trend was positive with a third straight gain. This has pushed employment above February 2020 by nearly two per cent which is the strongest recovery among provinces.

Moreover, the details remained constructive. Full- time employment surged 1.9 per cent or 38,400 persons more than offset part- time losses and lifted total hours worked in the economy. Based on our calculation, seasonally- adjusted hours worked rose by more than 1.5 per cent.

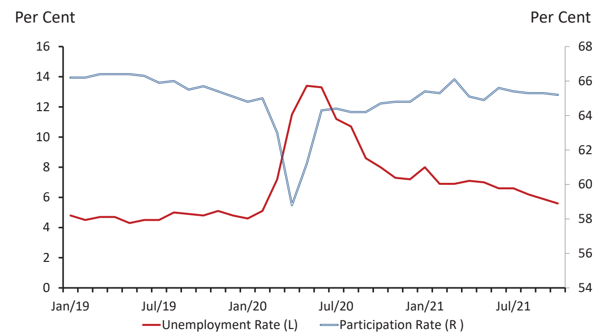
Employment growth outpaced labour force expansion to drive the unemployment rate down to 5.6 per cent, marking the lowest rate during the pandemic and not too far from the 5.1 per cent seen in February 2020. Moreover, labour force participation rates have fully recovered, and the employment to population ratio has returned to just short of pre-pandemic levels. This

B.C. labour market maintains positive momentum in October



Source: Statistics Canada, Central 1 latest: Oct 2021

B.C. labour market continues to tighten

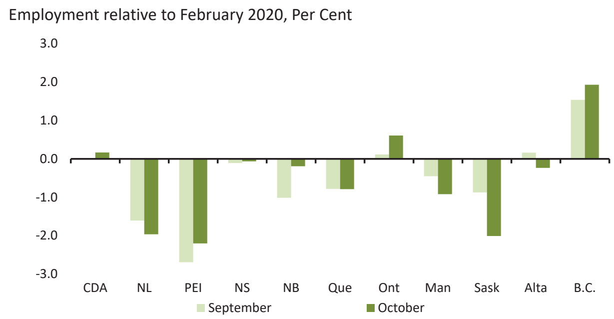


Source: Statistics Canada, Central 1 latest: Oct 2021

is consistent with signs of labour shortages in the economy. Recent job vacancy rate data pegs B.C. as having the tightest labour market among provinces. Average hourly earnings rose 3.3 per cent year-over-year, although pandemic effects on employment composition continues to inflate these values.

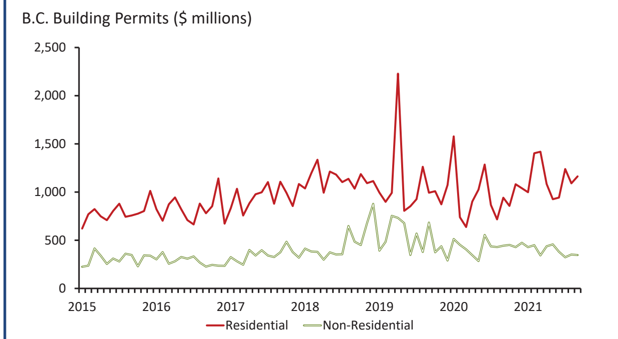
On an industry basis, employment growth mirrored some national patterns. Wholesale and retail trade (up 5.0 per cent or 20,000 persons) drove the entirety of the net gain, while growth in healthcare and social assistance also came in at a solid 2.0 per cent (7,200 persons), and public administration also advanced. This offset significant declines in professional/scientific/technical services (down 5.0 per cent or 12,800 persons), building and business support (-5.3 per cent), and a surprising decline in hospitality (down 4.4 per cent or 8,000 persons). Paid employment drove overall employment growth as self- employment fell, with net gains largely in the public-sector.

B.C. employment recovery strongest among provinces



Source: CFIB, Central 1

Building permits rise but trend range-bound



Source: Statistics Canada, Central 1 latest: Sep 2021

The Vancouver Census Metropolitan Area underperformed the rest of the province as employment fell 0.3 per cent although the unemployment rate slipped to 5.8 per cent from 6.2 per cent.

B.C.'s labour market continues to recover at a solid pace and this should continue as social interactions continue to normalize, businesses re-invest, and international tourism picks up steam. Recent changes to federal pandemic programs like wage and rent subsidies, as well as income benefits will likely impact both demand for workers and labour participation rates and will be monitored.

Building intentions increase in September, remain range-bound

Bryan Yu, Chief Economist

B.C. building intentions remained range-bound in September with total permit volume increase 4.7 per cent to $1.51 billion following a 7.7 per cent drop in August. The gain was led by a 6.6 per cent increase in residential permits to $1.17 billion with both single and multi-family permits up. Non- residential permits fell 1.5 per cent to $346 million.

Monthly permit volumes are typically volatile, reflecting the indivisibility and scale of multi- family projects and non-residential activity. Generally, residential permit volumes continued to trend well above 2020 performance, aligning with elevated housing starts and still elevated resale market activity. Year-over-year, permit volume rose 23.5 per cent in September, while year-to-date volume was up 17 per cent. Single-family homes have experienced stronger growth with a year-to-date increase of 40 per cent owing to strong housing demand outside the larger urban areas and home renovations, while multi-family permits rose 8.6 per cent.

In contrast, non-residential permits faltered and extended the soft trend observed through the pandemic. This reflects pandemic uncertainty for many firms which has held back capital investment, while public investments may have also eased strength in recent years. During the month, industrial (down 14 per cent) and institutional (down 16.7 per cent) permits drove the dip but was largely offset by a five per cent increase in the larger commercial sector. Through nine months, non- residential permits fell 9.2 per cent on a 22 per cent contraction in institutional permits while commercial permits fell 5.6 per cent. Not surprisingly, there has been a steep drop off in permits for office buildings (down 19 per cent), hotels and restaurants (down 50 per cent), while investment in schools and education and medical facilities declined 28 per cent. Gains were observed for factories (up 39 per cent) and trade and services industries (up 48 per cent).

Inclusive of both residential and non-residential permits rose nine per cent over the first nine months. Among metro areas, permits rose 19 per cent in Abbotsford-Mission, more than doubled in Kelowna, and rose 48 per cent in Victoria. Permits in Vancouver fell 10 per cent. Activity outside metro areas has been particularly strong.

Adjusted for rising construction costs, real provincial permits rose 1.6 per cent, led by a residential gain of nearly eight per cent, while non-residential activity fell 12 per cent.

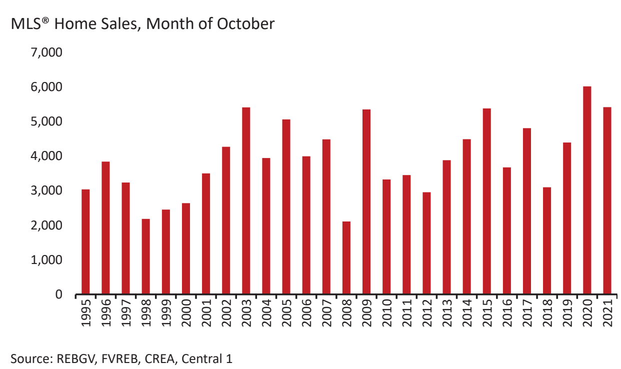
Going forward, we expect a rotation towards business investment as the pandemic wanes. Housing markets will remain strong but growth is pared after robust 2021 performance and some headwinds from rising interest rates.

Robust housing demand fuels strong sales in October

Bryan Yu, Chief Economist

The Lower Mainland housing market remained very active through October as buyers continued to flood the market and overwhelm the flow of new and existing inventory. Metro Vancouver and Abbotsford-Mission area sales reached 5,415 units. While down 10 per cent from a year ago, due largely to huge run up in sales in latter 2020 and early 2021, this was the second highest on record and 23 per cent higher than same- month 2019 and 37 above the same-month average for 2010 through 2019. The pandemic spike may have waned as pent-up demand was satiated, but demand continued to be fueled by the low interest rate environment and a likely pick up in investor demand as students returned and borders re-opened more fully to travelers.

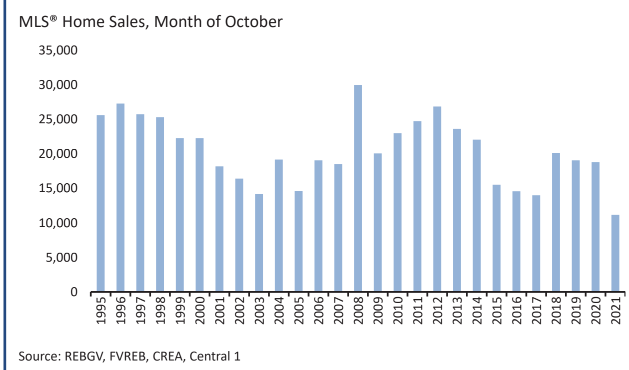
Lower Mainland MLS® sales remain robust



Seasonally- adjusted figures will be published later this month by the Canadian Real Estate Association but our calculations point to a rise in sales of about five per cent from September.

Sales flow continues to overwhelm the flow of listings as sellers are withholding units from the market. While similar base year effects to sales had new listings down 28 per cent year-over-year, the trend was down and 10 per cent below the trailing 10-year average for the month. More telling were active listings that were 40 per cent below year ago levels and sitting at record lows. Indeed, this may be a vicious cycle as insufficient inventory means sellers are unable to find suitable next homes and choose instead to stay put or delay listings. The result is a severe lack of choice for buyers and what looks to be another upswing in prices as buyers clamber for available units. The sales-to-active listings ratio tightened again to near 50 per cent and points to acceleration in prices.

Lower Mainland MLS® inventory plunges to record low



Market tightens, price pressures on the rise

At $1.16 million the average price rose 4.1 per cent from September and 15 per cent year-over-year. While compositional effects matter, the benchmark housing price indices also gained at a hefty pace of 1.5 per cent for single-family homes and townhomes, and 1.3 per cent for apartments. Going forward, rising mortgage rates will take some of the wind out of the market as affordability further erodes. However, excessively low inventory will likely ease sales but not prices, while demand rotates towards more affordable apartment markets.

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