

**Highlights:**

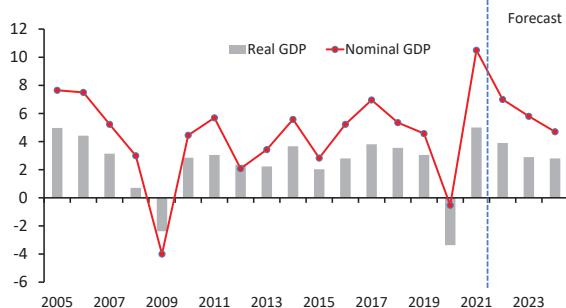
- Economy to expand 3.9 per cent in 2022 after 5 per cent increase in 2021, slows in 2023 and 2024
- Nominal GDP continues to be boosted by elevated commodity prices and inflation but trend slows
- Economic growth rotates towards services-spending while capital investment remains supportive through forecast period
- Housing market contribution turns negative after blockbuster 2021
- Unemployment rate to slide below five per cent, population growth provides some cushion
- Risks persist amidst COVID-19 variants and central bank rate hikes

B.C. Economic Outlook 2022-24 Update

Heading into year three of the pandemic, British Columbia remains in a relatively solid economic position, having weathered much of the challenges better than its provincial peers. We project that the economy expanded by 5 per cent in 2021 after contracting 3.8 per cent in 2020, while employment growth averaged 6.6 per cent. Momentum carries into 2022 with forecast growth of 3.9 per cent with ongoing rotation towards services-oriented demand from domestic consumers and tourists, and higher business investment. Housing is forecast to drag on growth following last year's surge.

B.C. economic expansion to remain moderately strong on consumer demand, capital spending

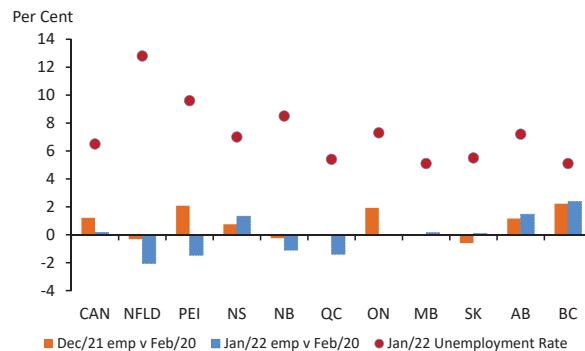
B.C. Gross Domestic Product, year-over-year per cent change



Source: Statistics Canada, Central 1 Credit Union

Current economic trends

Despite the effects of disastrous flooding and landslides in various regions of the province and a tightening of public health orders to cap off the year, B.C.'s economy looks to have maintained modest momentum in early 2022. The province recorded a sixth straight increase in employment in January, contrasting with deep losses elsewhere in Canada. This owed in large part to a lighter touch by provincial health authorities in B.C. during the Omicron wave – a key theme that has persisted through much of the pandemic. Although part-time employment has led growth, broadly, B.C. employment has climbed 2.4 per cent above pre-pandemic levels and is tops for the recovery phase. This has intensified labour market shortages, and indeed the province may have already reached full employment with an unemployment rate at 5.1 per cent, and near full recoveries in both the employment rate and participation rate.

B.C. labour market outperforms provincial peers

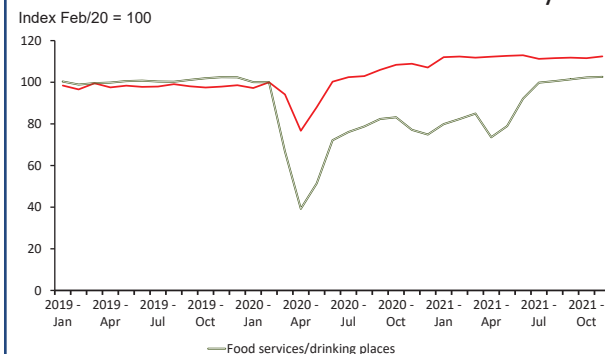
Source: Statistics Canada, Central 1

Top performing sectors have been tied to the knowledge economies and strength in housing markets. Indeed, the pandemic has accelerated digital adoption and supercharged by a low interest rate environment. This has contributed to ongoing expansion in the province, and while anchored by Vancouver, advent of remote work has allowed work to spread around the province. Tech sector and professional services employment has risen 10 per cent during the pandemic. Manufacturing has seen a boost from robust export demand. Health care, unsurprisingly continues.

Labour market indicators are well aligned with other key economic indicators, although the recovery continues to be uneven. Some sectors have emerged unscathed or thrived over the past two years, while others remain demand constrained, ebbing and flowing with provincial and federal health restrictions and global tourism activity.

Consumer demand has been bolstered by the broad growth in hiring alongside firm population growth. The latter rebounded at a quicker pace than provincial peers despite sluggish international inflows as a swath of Canadians relocated to the province during the pandemic. Retail sales were range-bound over the past 12 months but exceeded 2020 by 10 per cent on the year, bolstered by demand for vehicles, housing-related spending, and inflationary pressures. Spending also rotated more towards services spending as restaurant spending has recovered, but this remains incomplete as other events remain below capacity. Household spending drivers look to be in decent shape amidst growing employment and population, percolating wage growth, and elevated consumer savings, but rising cost of living is a headwind for wallets.

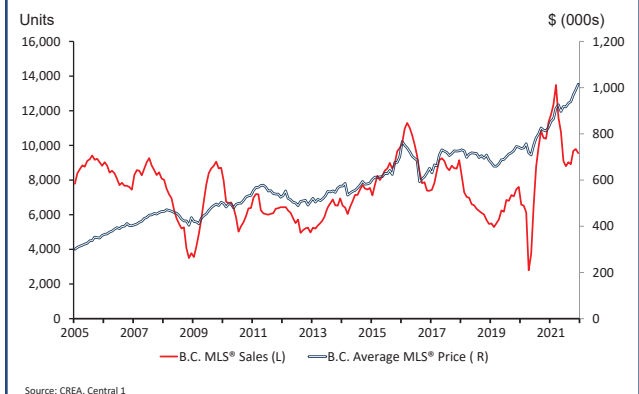
Retail spending remains robust through 2021, demand rotates towards services recovery



Perhaps unsurprisingly, surging **housing markets** fueled economic expansion over the past year as low interest rates, shift in pandemic preferences, and increasingly investor sentiment triggered robust demand for resale housing and a surge in housing starts. Provincial home values have increased nearly 40 per cent since the pandemic began as sales peaked at record highs during the spring. New construction, renovations and fees associated with transactions have buoyed the economy. Housing starts soared to a record high with amidst record demand for homes in smaller urban areas, reflecting the rippled out of households from large urban areas and inflows from outside B.C. Regions such as Vancouver Island and the Okanagan were key beneficiaries.

Housing is expected to be a drag in 2022. While housing construction remains elevated, new construction falls back. Affordability erosion and higher interest rates are expected to drag housing transactions lower by 10- 15 per cent. Prices will likely track higher into the Spring, but the rapid gains and frothiness increases the likelihood of a climb down of up to 10 per cent as rates rise and inventory moves up.

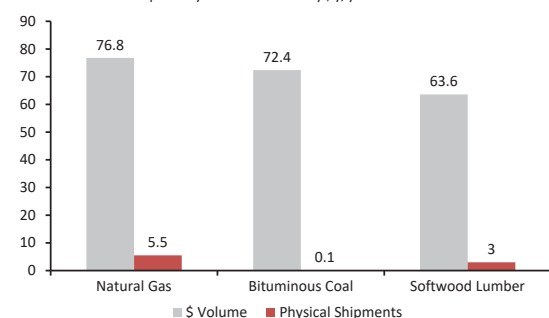
Housing market remains on fire into 2022



Strength in **manufacturing** employment has reflected stronger international **goods exports** which rose by more than a third in 2021. Resource- oriented growth specifically, 40 per cent increases in forestry, 70 per cent increase in energy and to a lesser extent, mining. That said, much of this increase is due to higher prices. On the energy front, natural gas exports were up 60 per cent but real volumes were flat, with similar patterns for coal. Forestry sector activity has been consistent with surging lumber prices lifting softwood export volume 70 per cent but physical shipments by a moderate six per cent. Gains are flowing into corporate revenue, profits and government royalties but contributing to sector employment growth and bodes well for investment going forward.

Export growth led by higher commodity prices

B.C. Dollar- Volume Exports by Select Commodity, y/y % ch.



Latest: 2021

Not all is rosy of course. **Services exports** are more difficult to track but remain constrained by the pandemic as international tourism remains decimated. Despite tracking higher, **international tourist entries** through B.C. are less than 50 per cent of pre- pandemic levels. The sector has been provided a boost by domestic Canadian tourists, but loss of conferences, required COVID testing, and other pandemic factors continue to hamper tourism and ancillary sectors. Indeed, hospitality, arts/entertainment/recreation and other private services employment remain well below pre- pandemic levels. TV and film activity took a modest step back in 2020 but likely rebounded last year, while knowledge- oriented tech sectors continued to expand at a strong pace.

Non-residential investment spending remains mixed. Major capital spending initiatives including the LNG project, B.C. Hydro Site C dam, and government investments in health infrastructure. At the same time, business investment in brick- and- mortar operations remained sluggish which is unsurprising given uncertainties surrounding health restrictions and sector- specific weakness in demand. Firms are likely to pick up investment this year as they catch up on delayed investment and to offset challenges from a tight labour market. Moreover, major project buildouts continue and are heading into peak construction phase for both LNG and Site C, while flooding and landslides from late November continue to support demand through rebuilding of transportation infrastructure. Resource firms will be incentivized to invest both in operations and for mining exploration.

Key forecast themes for 2022 - 2024

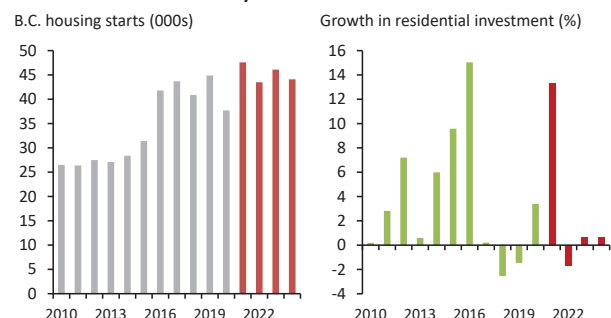
Our forecast is for **B.C.'s economy to expand** at a rate of about four per cent this year, 2.9 per cent in 2023 and 2.8 per cent in 2024. Growth exceeds the Canadian performance this year due in large part to the limited drag from Omicron restrictions during the first quarter. Other provinces grow at a stronger pace in coming years given more room for catch up.

Nominal GDP slows from 10.5 per cent in 2021 which was led by strong inflationary pressure including higher commodity prices and generally higher prices. Nominal GDP remains a hefty 7 per cent this year despite slowing inflation, followed by average growth of five per cent in the final two years of the forecast.

Key themes observed in 2021 are expected to continue. **Consumer demand decelerates** but remains elevated at 4.0 per cent this year and 3.0 per cent next year, buoyed by a rotation toward services while population growth accelerates sharply. Inflationary pressures are a dampening factor. This will contribute to stronger recoveries in hospitality and other hard- hit sectors. This rotation is also evident in exports as tourism sectors will continue to recover from pandemic declines, although full recoveries could take until partway through 2023.

Residential investment contracts this year by about 1.6 per cent, although resale market contribution to growth will be deeper in the red after a strong 2021 as sales flow normalizes and affordability erosion via high prices and interest rate hikes constrain demand. Housing starts decline nearly 10 per cent but flow through of construction activity keeps construction trend elevated, and the decline in housing starts is expected to be

Housing contribution to the economy tempers after blockbuster year

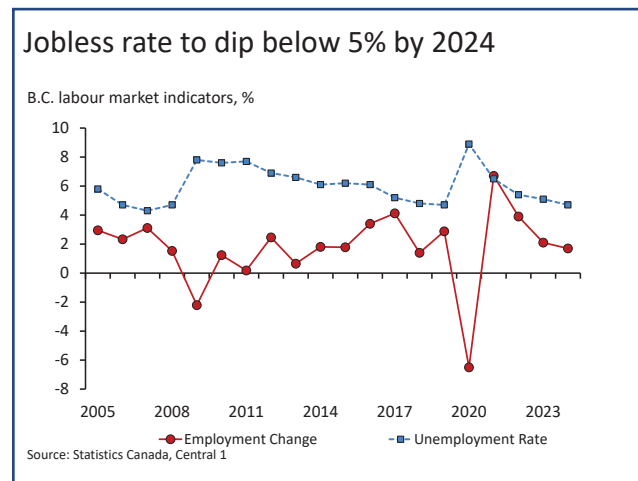


Source: CMHC, Statistics Canada, Central 1 Credit Union

short- lived as immigration boosts population growth to near two per cent this year and next. This supports an average of about 45,000 starts in 2023 and 2024.

B.C.'s non-residential investment cycle will expand through 2023 as business investment firms, and major projects build out through the peak construction cycle. Commodity markets also buoy private investment. The provincial government is likely to experience a rosier revenue outlook given broad strength in the economy, incomes and royalties. A solid fiscal picture suggests room for the government to remain vested in elevated capital spending on health care, education and climate- proofing B.C.'s public infrastructure. A bigger question mark for the economy comes partway through 2024 and in the second half of the decade when major capital energy projects roll off without any clear investments to take their place.

Labour market conditions are expected to tighten through the forecast period as employment growth outpaces new additions from in-migration, while aging demographics further puts downward pressure on supply. Employment is forecast to match GDP growth this year and slow to about two per cent thereafter, albeit supported by a boost in migration. The unemployment rates is expected to trend in a range of 5.0 – 5.5 per cent in 2022 and 2023, before declining to 4.7 per cent in 2024. Tightening labour market conditions will lift wages, increase investment in productivity measures.



We forecast Canada's economy to expand by 3.6 per cent this year, 3.5 per cent in 2022 and 2.2 per cent in 2024. Bond yields have already moved above pre- pandemic levels, and we anticipate the Bank of Canada to hike the overnight rate in March from the effective lower bound. The overnight rate reaches 1.25 per cent during the second half of 2022 and two per cent by mid- 2023.

Undoubtedly as was the case through the pandemic, outlooks are fraught with risk. We are assuming no new variants upend the economy or are generally mild. Other risk factors include central banks that may be too enthusiastic in hiking rates as transitory factors roll off, slowing an economy more than required.

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External outlook

Expansion aligns with broader trends of global growth as economies continue to shift towards the endemic phase of COVID- 19 rotating activity towards services and restoring health of supply chains. The latest global outlook out of the International Monetary Fund (IMF) pegs global growth at 4.4 per cent this year and 3.8 per cent in 2023. That said, this marked down from previous forecasts owing to slowing growth in China, lower than expected fiscal stimulus in the U.S. and tightening credit conditions. Monetary stimulus is being removed more quickly than previously anticipated as markets and central banks react to strong and more persistent inflationary pressures. Indeed, U.S. inflation hit a 7.5 per cent inflation reading in January marking a 40 year high. Higher interest rates will curb consumer demand, housing markets and to a lesser extent business investment.

British Columbia Forecast Table					
	2020	2021	2022	2023	2024
GDP at market prices	-0.6	10.5	7.0	5.8	4.7
Real GDP, expenditure-based	-3.4	5.0	3.9	2.9	2.8
Household consumption	-3.5	5.2	4.0	3.0	2.7
Government expenditure	1.1	1.2	1.5	2.0	1.9
Government capital formation	9.9	-4.3	1.5	2.3	3.3
Business capital formation	1.3	4.3	3.2	3.0	-0.3
Residential structures	3.4	13.3	-1.6	0.6	0.6
Machinery and equipment	-21.3	7.0	5.4	8.9	10.1
Non-residential structures	10.5	-6.6	8.1	3.2	-7.7
Final domestic demand	-1.2	4.0	3.2	2.8	2
Exports	-9.7	5.7	5.3	3.9	3.6
Imports	-8.0	6.1	5.5	3.2	2.2
Employment	-6.5	6.7	3.9	2.1	1.7
Unemployment rate (%)	9.0	6.5	5.4	5.1	4.7
Personal income	0.6	3.6	5.9	4.6	4.9
Disposable income	11.0	1.8	5.7	4.6	5
Net operating surplus: Corporations	19.0	5.9	3.4	6.3	-1.4
CPI	0.8	2.8	2.5	2.4	2.4
Retail sales	1.3	10.0	6.5	4.9	4.2
Housing starts, 000s	37.7	47.6	43.5	46.1	44.1
Population Growth (%)	1.1	1.0	1.8	1.9	1.6
Key External Forecasts					
U.S. Real GDP	-3.5	5.6	4.0	2.6	2.1
Canada Real GDP	-5.3	4.6	3.6	3.5	2.2
European Union Real GDP	-7.0	4.8	3.9	2.2	1.2
China Real GDP	2.3	8.0	4.8	5.0	5
Japan Real GDP	-5.0	1.6	3.3	1.8	1
Canada 3-month t-bill, %	0.50	0.15	0.80	1.80	2.15
Canada GoC long-term Bond, %	1.05	1.90	2.35	2.40	2.3
U.S.-Canada Exchange Rate, cents/dollar	74.6	80.0	79.0	80.0	79
Crude Oil WTI USD\$ per barrel	38.5	68.0	80.0	75.0	70
Henry Hub Natural Gas Price, US\$ per mmbtu	2.01	3.89	4.00	3.80	3.5

Source: Statistics Canada, IMF, Central 1

Terms

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