Economics | Current Economic Trends

B.C. Economic Briefing

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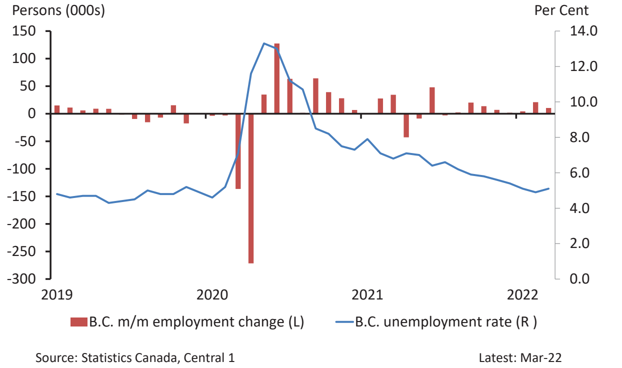
central 1 Economics

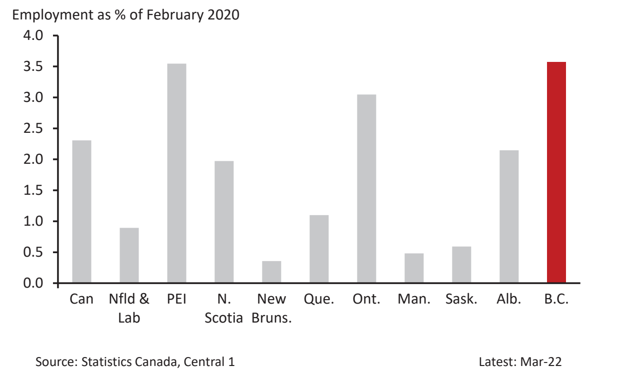
Highlights

- B.C.'s labour market remained firm in March despite 0.2 per cent increase in its unemployment rate
- B.C. reported 130 per cent building permits' growth in February, driven by gains in multi-family residential construction intentions and St. Paul's Hospital project
- Strong housing demand and price growth continued through March in the Lower Mainland despite higher interest rate

Employment uptrend continues, labour force expansion lifts unemployment rate



B.C.'s pandemic jobs performance still leads



B.C. jobs uptrend continues through March

Bryan Yu, Chief Economist

Strong labour market conditions continued through March in B.C. despite an uptick in the province's unemployment rate. B.C. employment increased by 10.5k persons or 0.4 per cent to surpass 2.73 million in March. While the change was statistically insignificant, this matched the Canadian performance and, importantly, marked an eighth consecutive monthly increase. Modest public health restrictions in B.C. during recent COVID-19 waves have kept the economy on a positive track, contrasting with sharper fluctuations in other large provinces.

On a year-over-year basis, employment rose 2.8 per cent, which lagged the 4.0 per cent national increase. That said, this reflects smoother growth trends in B.C. Relative to February 2020, B.C. employment has increased 3.5 per cent and outpaced all other provinces.

Metro Vancouver contributed most of the net increase as employment rose by 9.2k or 0.6 per cent.

Below the surface, performance was a bit softer than headline figures. B.C. full- time employment retraced by 8.3k or 0.4 per cent but followed a sharp increase in February (2.2 per cent). In contrast, part-time employment rose 3.3 per cent. Among industries, the main drivers were lower-wage sectors including "other private services" up 9.2k or 8.9 per cent, which reflects broader re-openings of gyms in February and some other high-touch services. This contributed to the rise in part-time work. Other sectors showing stronger growth included transportation/warehousing (9.2k), and professional/scientific/technical services (5.2k). In contrast, losses were recorded in manufacturing (-6.5k) and education services (-7.1k).

More broadly, sectors that have performed well through the pandemic include manufacturing, professional/scientific/technical services, and health services where employment is up more than 10 per cent. Hospitality employment remains 10 per cent lower, but also reflects inability to find workers as many have moved on to other sectors following early pandemic layoffs.

B.C.'s unemployment rate popped higher to 5.1 per cent from 4.9 per cent in February, one of only three provinces to record an increase. Metro Vancouver's unemployment rate rose from 5.1 to 5.4 per cent. However, the increase was due to expansion of the labour force which increased 0.6 per cent. Strong hiring conditions are incentivizing individuals to search for work, lifting the participation rate from 65.1 per cent to 65.4 per cent. This is a sign of a strong labour market.

Increased tourism flows and services spending is likely to propel modest employment gains in months ahead, although there is risk to broader consumption and housing from higher interest rates. Strong population growth will both support consumer spending and contribute to labour force expansion in quarters ahead.

B.C. led the national building permit growth in February

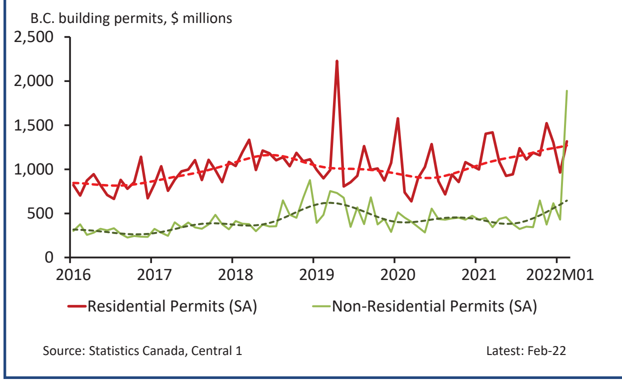
Ivy Ruan, Economics Research Associate

B.C. construction intentions more than doubled in February to a seasonally adjusted $3.21 billion (up 130 per cent), to more than reverse January's decline. Residential permits regained 36.7 per cent in February, offsetting the loss in January, however, remained 6.1 per cent lower than the same month in 2021. February's burst in activity owed to non-residential building construction which surged 339.5 per cent in B.C. Growth was entirely due to the $1.5 billion St. Paul's Hospital project in Vancouver. Total permits volume was 73.2 per cent higher than February 2021.

Multi-family residential construction permits regained growing momentum (57.9 per cent) in February following last month's decline. Single-family homes permit's growth rate remained relatively steady (3.7 per cent) from last month. Major census metropolitan areas (CMAs) reported gains in their residential permits from last month, whereas Kelowna CMA was the only area continuing to see the decline. Vancouver CMA reported a 97.8 per cent gain after a slower January and Abbotsford-Mission CMA saw 138.5 per cent growth in residential building permits. Uncertainties related to interest hikes may temper the housing market in the short term, yet economic recovery, growing population and long-term city planning could continue to motivate residential developers' construction activities in B.C.

Non-residential permits' numerous gain (339.5 per cent) in February was driven solely by institution component (1231.6 per cent), which offsets the declines in industrial activities (10.1 per cent) and commercial activities (2.4 per cent). The new St. Paul's Hospital project is expected to be completed by 2027, creating over 10,000 jobs during construction and potential development opportunities in surrounding areas. Despite the monthly decline, industrial building intentions were 38.6 per cent higher than the same month in 2021. Commercial building permits, on the other hand, were 15.6 per cent lower than February 2021. Interest rate hikes could impact borrowing abilities, in addition to inflation of raw materials and labour shortage, affecting to the decisions of new business/industrial constructions and redevelopment.

B.C. building permits surge on non-residential construction



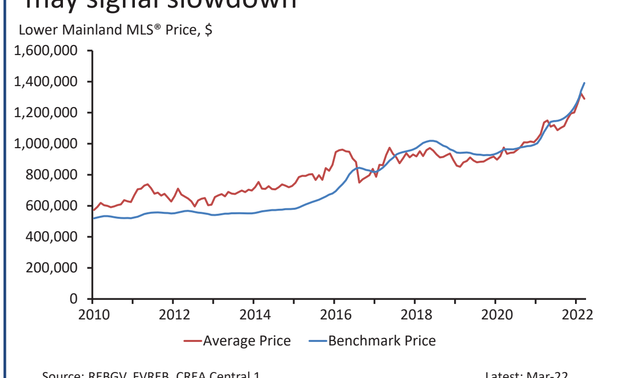
Strong housing market activity continues in Lower Mainland, higher rates to cool activity

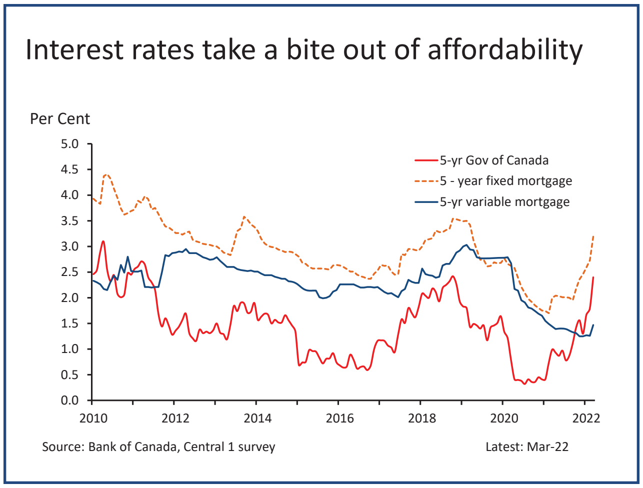
Bryan Yu, Chief Economist

Housing market conditions are expected to cool on higher interest rates, but strong housing demand and price growth continued through March in the Lower Mainland. The latest benchmark home value for the region shot up 3.8 per cent m/m to a record $1.39 million and marked a 28 per cent over the past 12 months.

Demand remained strong in March despite, or in part due to, the rising mortgage rate environment. MLS® sales in the region reached 6,839 units. While down 24 per cent on a year-over-year basis, this is largely due to a comparison to the record high a year ago. March sales were still the third highest on record and 40 per cent higher than the same-month average from 2010 – 2019. While fixed-rate mortgages were already on the rise, intense activity reflects buyers eager to lock in their pre- approved rates or and taking on variable mortgages.

Benchmark prices up, but slip in average value may signal slowdown





This ongoing frenzy and continuation of sellers' market conditions have propelled more bidding wars, explaining the sharp increase in benchmark price. Benchmark detached home prices rose 3.5 per cent to $1.98 million, townhomes rose 4.9 per cent to nearly $1.05 million and apartments gained 3.7 per cent to $859,500.

That said, there are signs that the boom times are ending. The pull forward in sales will not last and new listings also remained elevated in March, suggesting more sellers are looking to take advantage of the high pricing environment and risk of a slowing market. A decline in the average home price could also be signaling a turning point as it tends to lead benchmark indices. Buyers may be shifting to lower priced homes and areas due in part to affordability erosion.

It is safe to expect that sales will decline further. Central 1's broker rate survey showed a 5-year fixed rate near 3.2 per cent at the end of March, up 75 basis points from the beginning of the year. This compares to a low of 1.7 per cent in early 2021 and levels have already surpassed pre-pandemic levels. Variable rates remain low but are anticipated to rise at a brisk pace with Bank of Canada hikes this year. Affordability will continue to erode and while rates are not particularly high, prices have increased more than 40 per cent during the pandemic. As a result, more buyers will move to the sidelines jarred by higher carrying costs alongside generally high inflation, while others will adjust by moving down-market.

We anticipate some downward pressure on prices. Very recent gains have likely owed to unwarranted gains as buyers overbid in a low inventory environment. Higher interest rates are expected to curtail demand significantly, while more sellers add to inventories. A temporary 10 per cent decline would not surprise. However, the economic and population growth are offsetting drivers.

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