Economics | Current Economic Trends

B.C. Economic Briefing

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central 1 Economics

Highlights

- B.C. employment holds steady as full-time gains offset by part-time losses
- Wage growth accelerates on tight market
- Lower Mainland home sales decimated in July falling to lowest level since 2000
- Average home prices continued to decline
- Building permits decline 20 per cent in June
- Exports fall for the second consecutive month
- Lower lumber prices cut down on exports of forestry and related product volumes

B.C. labour market holds steady in July

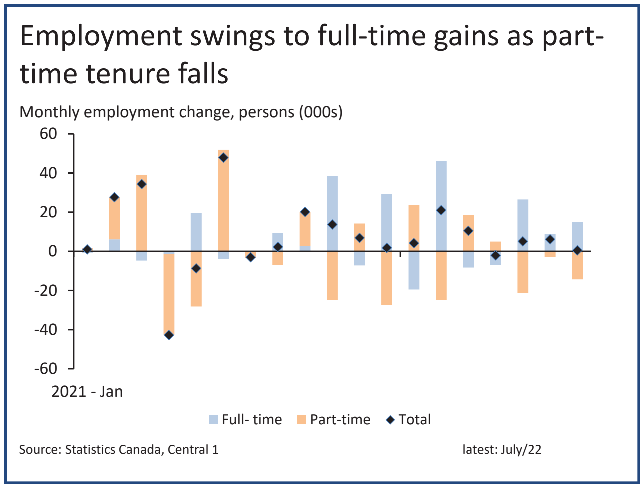
Bryan Yu, Chief Economist

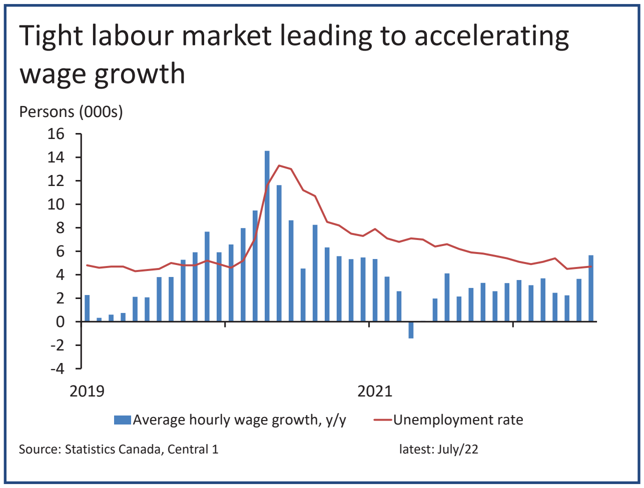
Consistent with the national picture, British Columbia's economy likely lost momentum in July according to the latest Labour Force Survey figures. Employment was unchanged during the month at 2.747 million persons, slowing from a 0.2 per cent gain in June. That said, with the unemployment rate sitting at 4.7 per cent, nudging up from June, this may also reflect labour supply constraints alongside some headwinds to demand.

Regionally, Metro Vancouver area changes were insignificant with a 2.7k (0.2 per cent) employment decline and flat unemployment rate of 4.8 per cent.

A swing to stronger growth in full-time employment (up 0.7 per cent or 14.9k persons) which was offset by lower part-time work (-2.5 per cent or 14.3k persons), suggests that employers are extending hours in some sectors due to labour shortages. Total hours worked, while up 3.2 per cent from a year ago, decelerated and slipped from June on a seasonally-adjusted basis, likely owing to job market composition.

With headline employment largely unchanged, there were few noteworthy changes below the surface. Like the national picture, employment among females 25 and older declined but this was at a comparatively modest 0.3 per cent. On an industry-basis, manufacturing posted a sharp decline (-8.9k or 4.9 per cent) to reverse a June increase, while healthcare and social assistance (-9.3k or 2.4 per cent) also fell significantly. In contrast, notable gains were in construction (+4.6k or 2.0 per cent), and information/culture/recreation (up 12.2k or 8.7 per cent) which likely reflects an upswing in live events.





Despite the hiring slowdown, total employment remained nearly four per cent above pre-pandemic February 2020 levels — among the strongest in the country. The unemployment rate remained low at 4.7 per cent and the labour force participation rate unchanged at 65.1 per cent. The province continues to face rising wage pressures. Average hourly wages accelerated to 5.7 per cent year-over-year from 3.7 per cent in June, as wages rose 0.7 per cent m/m.

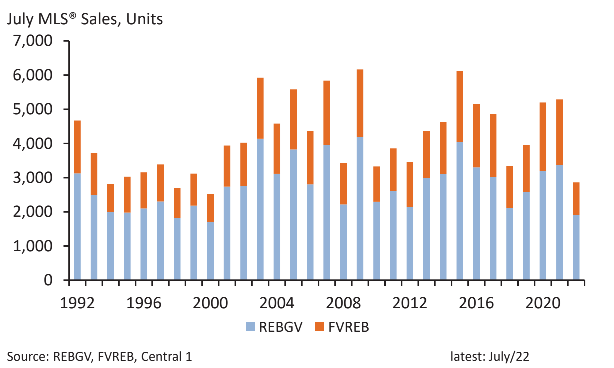
Going forward, mixed economic conditions are expected to contribute to range-bound hiring. Services- and tourism-oriented growth will be supportive, but the rapid housing market deterioration will curtail employment demand both directly and in ancillary sectors such as retail and finance. Technology companies are also reducing headcounts as part of a broader sector downturn. That said, labour supply remains tight and will continue to support wage growth.

Home sales decimated on higher interest rates, buyer fear

Bryan Yu, Chief Economist

July Lower Mainland housing data is in and — to little surprise — the combination of higher interest rates and fears of a substantial price correction have decimated transaction activity. Home sales plunged with Real Estate Board of Greater Vancouver (REBGV) sales down 44 per cent from a year ago and Fraser Valley Real Estate Board (FVREB) sales down 51 per cent. Combined sales for the region spanning Abbotsford-Mission, Metro Vancouver and the Sea-to-Sky region came in below 2,900 which was the lowest same-month sales since 2000. Seasonally-adjusted, our calculation shows a 22 per cent monthly sales decline marking a fourth straight decline. Official figures will be released by CREA mid-month.

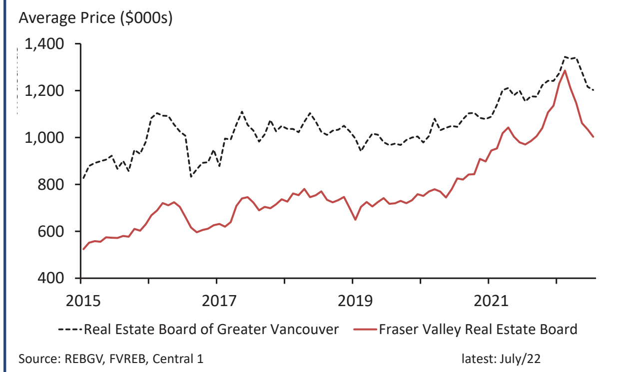
Lower Mainland housing market post weakest July sales since 2000



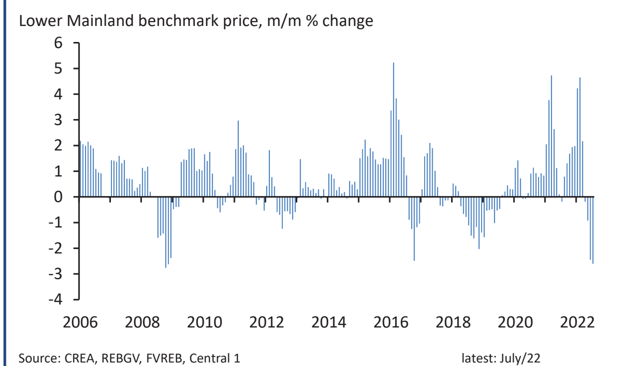
Market conditions have deteriorated as homebuyers are swept to the sidelines due primarily to affordability erosion. 5-year fixed rates range from 4.5-5.0 per cent, and while likely cresting and potentially easing, are the highest in more than a decade. Variable rates have been the go-to product for many buyers during the pandemic given a substantial gap with fixed rates and surging prices, but that party is over as the Bank of Canada continues to hike rates to cool inflation, lifting prime rates and by extension variable mortgages in lock step. Following the Bank's 100 basis point hike in July to push the target overnight rate to 2.5 per cent, we expect another 75 basis points in hikes by year-end, lifting prime to 5.2 per cent. Higher interest rates have reduced purchasing power, while elevated inflation is also factoring into additional financial stress. Fears of declining prices also have buyers taking a wait-and-see approach.

The sales-to-inventory ratio has rapidly shifted into what is normally associated with a balanced market at 16 per cent in the FVREB and 18 per cent in the REBGV, even as inventory broadly remained steady. However, momentum matters. The rapid adjustments

Average home price continues sharp downward momentum



2.6% benchmark price decline marks steepest one- month decline since 2008



from an accelerated sellers' market in a mere three months points to a huge shift in negotiating power that favours (skittish) buyers. That said, many sellers are also loath to cut prices — angling for yesterday's prices in today's market and opting to take a step back from the market.

The latest MLS® benchmark price for the combined real estate board areas fell 2.6 per cent from June to $1.2 million, led by a 3.3 per cent drop for detached homes while townhomes and apartments fell by less than 2.0 per cent. The REBGV's benchmark fell 2.3 per cent with the FVREB down 3.0 per cent. This would mark the largest single-month decline in the benchmark value since October 2008. The combined benchmark value has declined roughly 6 per cent from the March peak.

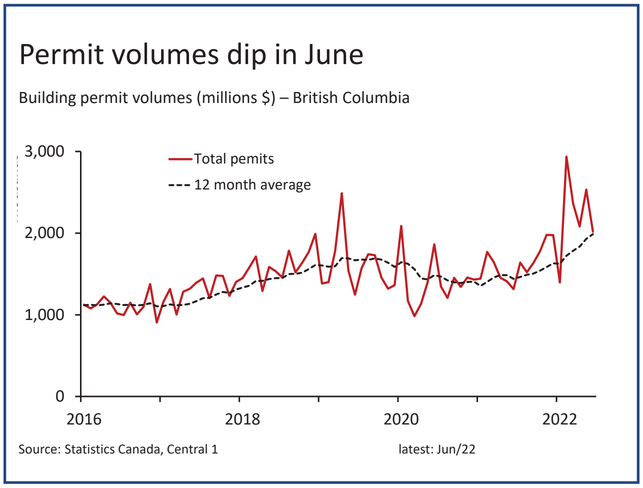
That said, average price levels have dropped more rapidly with the FVREB value down 3.0 per cent from June and more than 20 per cent from peak, with REBGV down about 1.1 per cent from June and 10 per cent from peak. While part of this large downturn reflects composition effects, it is likely more reflective of market conditions as benchmark values tend to lag turning points seen in average values. We anticipate further downside risk to average prices for the broad region with a peak to trough average price decline of 20 per cent and 10-15 per cent for the benchmark value.

June building intentions down but overall trend is still positive

Alan Chow, Business Economist

Total dollar volume building permits fell sharply in June by 20.3 per cent from the previous month but remained higher than the previous 12-month average trend by 1.5 per cent. However, it should be noted that higher construction costs contributed to this trend performance. June's lower volumes were seen through all types, with non-residential permits falling 35.2 per cent and residential permits, which make up the bulk of the dollar volume, down 12.9 per cent.

Multi-family homes posted a deeper decline, down 14.5 per cent. Single-family homes also fell, but not by as much, down only 7.5 per cent. Overall, the trend for multi-family homes is still upward as it is up 11.3 per cent above the 12-month average whereas single-family homes were almost flat, down 2.5 per cent from the 12-month average.



On the non-residential side, commercial permit volumes were down 26.5 per cent, but overall, the trend is still positive, up 21.3 per cent over the previous 12 months average because of large projects. Industrial permits were also down 7.9 per cent, but up 10.5 per cent over the last 12 months. Institutional and public permits fell 63.3 per cent both over the previous month and over the average for the year, although volatility is rather high for this as a large project can skew the volume upward as seen in February 2022.

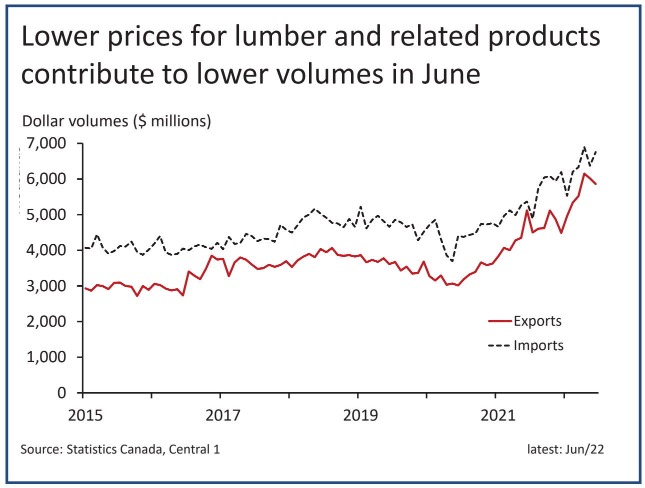
The decline was seen across most metros in B.C. Vancouver saw an overall decline of 18.9 per cent while Victoria saw a decrease of 15.3 per cent. Kelowna was also down 41.0 per cent and Nanaimo and Chilliwack were down 29.0 per cent and 20.5 per cent, respectively. Kamloops and Abbotsford saw growth of 12.4 per cent and 5.6 per cent.

Exports fell 2.6 per cent in June

Edgard Navarrete, Regional Economist

Exports continued to slow down in June falling an additional 2.6 per cent m/m (to $5.9 billion) adding to the 2.1 per cent m/m contraction in May. While exports are cooling, imports turned around in June and increased by a robust 6.0 per cent m/m (to $6.8 billion) putting an end to the skid last month where imports fell 7.6 per cent m/m. Both imports and exports continue to track higher than activity in either segment last year. Year-to-date, imports and exports remained 25.5 per cent and 32.0 per cent higher respectively.

Of the eleven sectors surveyed each month, exports fell in four but several of these four were significant sectors accounting for the slower volumes in June. Forestry products and building and packaging materials (down 8.8 per cent m/m), consumer goods (down 3.1 per cent m/m) and metal ores and non-metallic minerals (down 30.8 per cent m/m) all fell — together accounting for about 36 per cent of all exports. Eroding prices are a significant driver of this decline.



Losses in these areas were offset by gains in energy products (up 2.3 per cent m/m) a large export area for the province.

Lower prices for lumber contributed to the fall in forestry products and building and packaging materials export volumes.

For more information, contact economics@central1.com.