Economics | Current Economic Trends

B.C. Economic Briefing

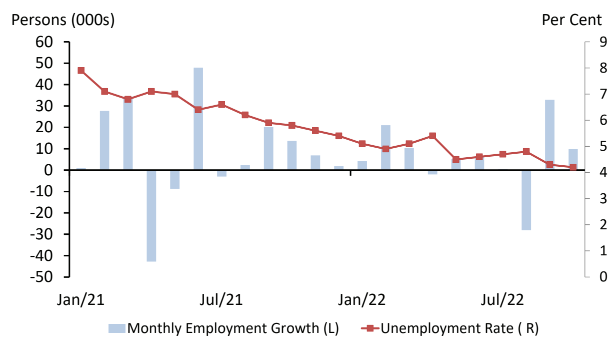
Volume 28 • Issue 44 • Week of October 31 - November 4 2022 | ISSN: 1981-355

central 1 Economics

Highlights

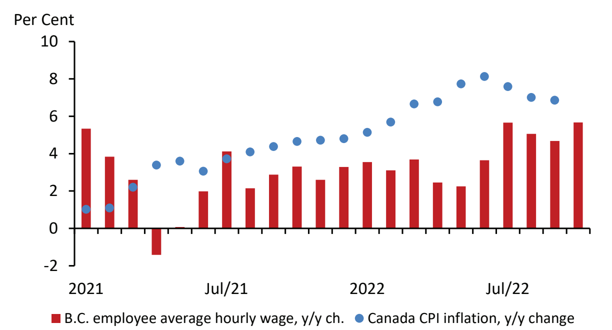
- B.C. employment rises by 9,800 persons on goods-producing sector gains
- Unemployment rate lowest among provinces
- Permit volumes flat for the month of September
- Lower Mainland home sales remain weak, but downtrend stabilizes
- Home prices continue to erode
- While majority of the industrial sectors reported monthly declines in both exports and imports, the trade volume remained above 2021 level in B.C.

B.C. adds jobs in October, unemployment falls to 4.2 per cent



Source: Statistics Canada, Central 1 latest: Oct/22

Average hourly wage growth accelerates



Source: Statistics Canada, Central 1 latest: Oct/22

Hiring momentum remains positive while jobless rate steady at 4.2 per cent

Bryan Yu, Chief Economist

B.C.'s labour market remained strong through October with the latest Labour Force Survey estimates pointing to hiring momentum while the province's jobless rate inched lower. Estimated employment in the province rose 0.4 per cent or a modest 9,800 persons in October. While this lagged behind the national gain of 0.6 per cent, it followed a sharp September rebound of 1.2 per cent. Moreover, this re-established a modest upward trend after volatility in the prior two months which, in our view, reflected estimation noise rather than any real economic drivers. Relative to pre-pandemic February 2020 levels, B.C. employment was up by 4.5 per cent. This exceeded the national increase of 2.7 per cent and lagged behind only Prince Edward Island (5.4 per cent) and Alberta (4.7 per cent).

October's labour market details were a bit mixed. While headline numbers were positive, employment growth was led by part-time work which rose 1.0 per cent, while full-time employment gained only 0.2 per cent. That said, the latter is near the mid-year peak. Stronger gains in part-time work could reflect an increase in voluntary workers attracted by opportunities and higher wages as labour force participation rates crept up.

Among industries, growth was driven by the goods-producing sector in October. Specifically, construction employment rose by 6,000 persons or 2.5 per cent, while manufacturing employment jumped by 11,500 persons or 6.9 per cent. While the housing market is slowing, building continues on pre-planned projects while major project activity remains strong. With slowing global growth and the weaker housing market, trends should temper in both sectors.

Services-sector employment growth was generally negative which could speak to more challenging conditions percolating through. Finance/insurance/real estate employment fell sharply by 7,100 persons or

4.2 per cent which likely owed to weak resale market housing activity, while significant declines were also recorded in accommodation/foodservices (-3.1 per cent), and education (-3.4 per cent). Given the structure of employment, it is not surprising that gains were concentrated outside Metro Vancouver. Estimated employment fell by 12,400 persons (0.8 per cent) in Metro Vancouver.

Despite mixed trends, there is little doubt that B.C.'s labour market remains exceptionally tight. The unemployment rate fell from 4.3 per cent to 4.2 per cent, the lowest among provinces (Metro Vancouver's rate rose from 3.9 per cent to 4.6 per cent). This aligns with the province's high job vacancy rate and challenges faced by organizations to find workers and/or matching skills. Wage growth is picking up with the average hourly wage up 1.4 per cent over the latest month and 5.7 per cent year-over-year. This partly reflects industry and job composition, but the trend has remained strong as employees demand higher wages due to inflation and a plethora of job opportunities, while employers look to retain and attract workers.

Labour market conditions are anticipated to cool into 2023 as higher interest rates work through the economy and curb economic growth. This is expected to temper hiring and wage growth, although the latter will take time to appear.

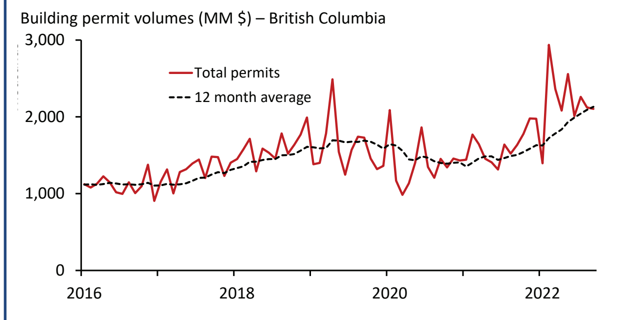
Non-residential permit volumes up, residential volumes down

Alan Chow, Business Economist

Total dollar volume of B.C. building permits was essentially flat for the month of September with only a slight decrease of 0.9 per cent over the previous month. At $2.1 billion, this level was comparable (up just 0.6 per cent) to the average volume seen over the previous 12 months. That said, there was substantial divergence by sector as the value of total residential volumes fell 7.2 per cent contrasted by a 19.1 per cent increase in non-residential permit volumes.

Within residential, both single-family homes and multi-family homes decreased by a relatively similar amount. The permit volume of single-family homes fell 7.8 per cent while the value of multi-family homes decreased by 7.0 per cent. Single-family home permits, however, are now 8.6 per cent below the 12-month average whereas the value of multi-family homes is 7.9 per cent above the 12-month average. This is a single data point but could signal a slide in residential building intentions given weakness in the housing market.

Permit volumes down slightly in August but trend continues upward



Source: Statistics Canada, Central 1 latest: Sep/22

The increase in non-residential permits was due to a large increase in commercial permit volumes, which are up 37.9 per cent over the previous month. Industrial permit volumes and public permit volumes decreased by 10.4 per cent and 3.2 per cent, respectively. The share of commercial permits with respect to non-residential permits is increasing. The total value of commercial permits represents 64.7 per cent of total non-residential volumes for the month of September, 14.5 per cent higher than the 12-month average. Overall, non-residential permit volumes are down 6.2 per cent over the previous 12-month average.

Total volumes in the B.C. metropolitan areas were up 3.9 per cent. Abbotsford-Mission area saw permit volumes increase 103.4 per cent over the previous month owing to a large commercial project permit being granted this month. Kelowna similarly experienced a 60.9 per cent increase in total permit volumes with a big jump in commercial permit volumes. Vancouver saw a 2.2 per cent decrease in volumes in comparison to Victoria's 12.3 per cent decrease.

Lower Mainland home sales may be bottoming out, but prices grind lower

Bryan Yu, Chief Economist

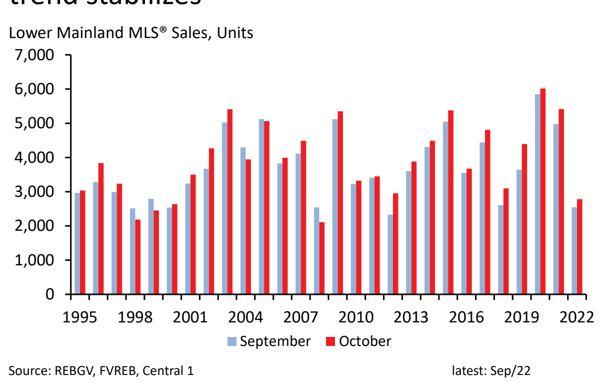
Lower Mainland MLS® home sales showed faint signs of reaching a bottom in the latest October real estate board statistics. While interest rate-sensitive buyers remained anchored to the sidelines due to rapid rate hikes, sales flow held steady amidst strong population growth. Furthermore, lower prices may be incentivizing some buyers armed with higher down payments and existing home equity to peck at perceived deals.

Nevertheless, at 2,784 units in October, total MLS® sales in the region spanning Metro Vancouver and Abbotsford-Mission remained low. This marked a 48.5 per cent decline from a year ago and was consistent with September's decline. While steep year-over-year declines owed in part to record pandemic-period demand, sales are 30 per cent below the 10-year October average from 2010-2019 reflecting the rapid rise in mortgage interest rates, specifically variable rates. On a seasonally-adjusted basis, sales nudged up from September. With short-term interest rates still moving higher and fixed-term rates elevated, low sales are expected to persist well into 2023. On an annual basis, home sales are on track to reach 44,000 sales this year marking a 38 per cent decline from 2021, but 10 per cent higher than 2019 due to stronger early year performance.

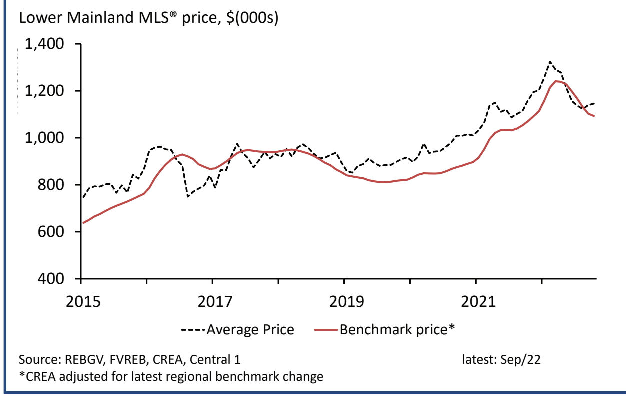
Market conditions, as measured by the sales-to-active listings ratio sits in a range consistent with a balanced market at about 18 per cent, although price erosion suggests conditions are favouring buyers. The sales downturn has yet to be met by a flood of new listings and inventory. Prospective sellers have seen the price peak and are loathe to reduce prices, having moved away from panic selling owing to a strong labour market and low rental vacancy rates.

Nevertheless, sales prices are generally grinding lower. The average price reached $1.14 million which was up 0.6 per cent from September but down 14 per cent from peak. Sales composition contributes to monthly fluctuations. Benchmark values which adjust for housing attributes continued to decline with the composite down 0.9 per cent in October and 12 per cent from peak. Ground-oriented dwelling prices, which soared during the pandemic, have retrenched more significantly with detached homes down 1.1 per cent in October and 13 per cent from peak. The appetite for space has been derailed by the reality of eroding affordability. In contrast, more affordable and easily rentable apartment prices fell 0.3 per cent from September and 7.0 per cent from peak. With expectations of further rate hikes to come, a slowing

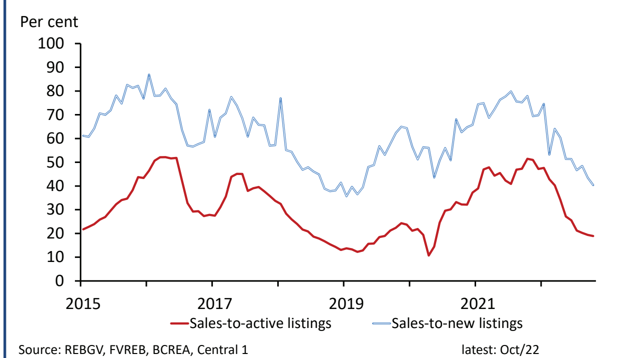
Weak sales continue into October, downward trend stabilizes



Benchmark price erodes further while average values steadies



Market conditions weaken on fewer sales, supply constraints still supporting prices



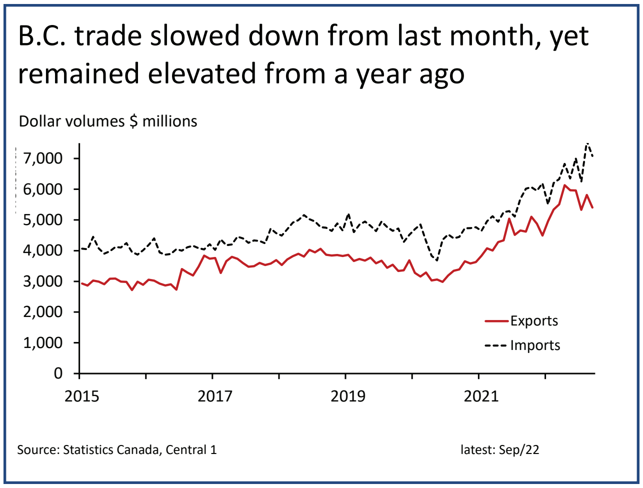
economic environment and greater financial stress, we anticipated prices to ease further. Prices are expected to decline 20 per cent from peak.

B.C. international trade slows in September

Ivy Ruan, Economic Analyst

Canadian merchandise exports rose 1.3 per cent in September compared with August, retrieved some of last month's losses, and widened trade surplus to $1.1 billion from $550 million in August. That said, B.C. exports slumped sharply. We calculate a 6.2 per cent month-to-month decline in B.C. exports after adjusting for seasonality which extended a substantial down-ward slump dating back to May. That said, provincial businesses exported goods valued at $5.4 billion to international markets in September, which was still up 14.0 per cent year-over-year following last month's 21.6 per cent growth.

The latest slide in goods exports owed entirely to the resources sectors which is grappling with weaker prices amidst slow global growth. The year-over-year



performance in exports of energy products dropped to 16.5 per cent to $2.0 billion following August's 50.9 per cent gain. The normalization in energy prices remained the driver to the slowdown in energy exports' growth. In addition to energy, exports of forestry products and building and packaging materials also eased on a seasonally-adjusted basis but was 6.8 per cent higher on a year-over-year basis. The sector is grappling with relatively low prices and demand. Consumer goods exports reported another steady gain of 10.0 per cent compared to the same month last year. In contrast, metal ores and non-metallic minerals continued to see declines in export sales (down 24.7 per cent y/y, following August's 13.6 per cent contraction).

National imports were up 0.4 per cent in September from the previous month, and B.C. reported a 6.9 per cent monthly decline on a seasonally-adjusted basis. September's total imports came in at $7.1 billion in B.C., up 10.7 per cent compared to last year. Consumer goods continued to lead the yearly growth in imports, reporting a 12.1 per cent year-over-year increase to $2.1 billion, followed by large growths seen in industrial machinery (up 31.9 per cent y/y) and metal ores and non-metallic minerals (up 76.6 per cent y/y).

Despite monthly slowdown, strong export activities partially offset import sales in B.C., bringing the provincial trade balance to a deficit of $1.7 billion in September. Moving forward, a more challenging commodity price environment and slower global growth is likely to temper exports, while import values will be supported by a weaker Canadian dollar.

For more information, contact economics@central1.com.