Economics | Current Economic Trends

B.C. Economic Briefing

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central 1 Economics

Highlights

- Matching the national trend, B.C. reported robust gains in December employment
- Housing market downturn continued
- Small business confidence remained weak
- Trade volumes down in November

Part-time hiring drives December employment gains

Bryan Yu, Chief Economist

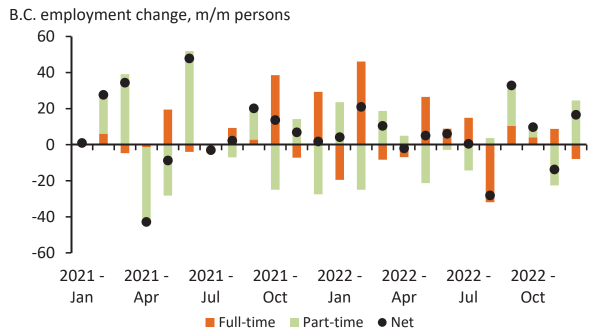
Consistent with the national blowout performance, B.C. ended the year with robust job gains in December and a drop in the unemployment rate to 4.2 per cent. B.C. employment rose by 16.6k persons (0.6 per cent) during the month, more than reversing November's slide of 13.6k. Nationally, employment rose 104k or 0.5 per cent in December. With the latest increase, B.C. employment is 4.6 per cent ahead of pre-pandemic 2020, exceeding the national recovery of 3.3 per cent and second only to Alberta among large provinces.

Metro Vancouver contributed less than half of the net employment gain (7.3k or 0.5 per cent), while the unemployment rate slipped to 4.4 per cent from 4.7 per cent.

While monthly job growth was robust, B.C. gains were driven entirely by part-time employment of 24.5k persons (+4.4 per cent). This reversed November's loss and offset a slide in full-time employment of 7.9k persons (-0.5 per cent). Moreover, recent B.C. employment patterns have fluctuated, suggesting competing factors like a slowing housing market and labour shortages have limited gains. Indeed, the rise in part-time work could reflect voluntary reduction of hours on the part of workers, as well as flexibility on the part of employers to find bodies for roles. Actual hours worked in the economy slowed from a year-over-year pace of 4.6 per cent to 3.7 per cent and slipped on a monthly basis after adjusting for normal seasonal influences.

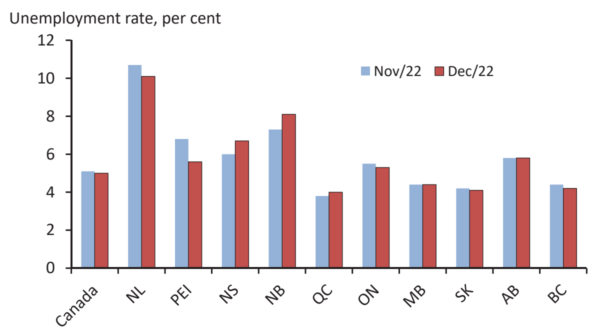
Among sectors, employment changes were insignificant in most sectors despite the large headline increase.

December employment surges, part-time roles drive gain



Source: REBGV, FVREB, Central 1 latest: Dec/22

B.C. unemployment rate among nation's lowest



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

Nearly all of the increase was observed in the services-producing sector as employment held steady in goods-sectors. Key growth drivers in the former included transportation and warehousing (+8.3k or 6.0 per cent), finance/insurance/real estate (+4.4 per cent or 2.7 per cent) and other private services (+7.5k or 6.6 per cent). There were few notable declines among sectors.

Labour shortages have become a common theme for employers and the latest data points to further pressure. The unemployment rate slipped to 4.2 per cent , near the lower end among peer provinces. Average hourly wage earnings remain robust at 4.9 per cent year-over-year but slowed from a 6.5 per cent rate in November. Part of deceleration may reflect job composition. Relief for tight labour markets is expected in coming months reflecting a slower economy and pass through of record population growth.

Lower Mainland home sales down 56 per cent year-over-year in December to cap off 2022

Bryan Yu, Chief Analyst

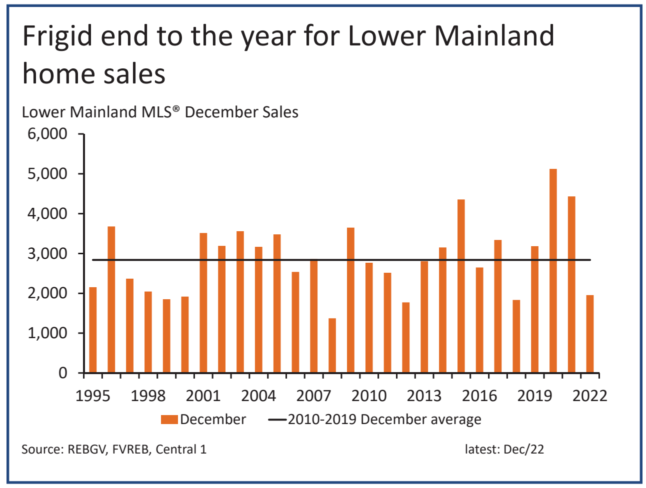
Metro Vancouver fell into a deep freeze in December as abnormally severe winter weather brought treacherous conditions and a dump of snow to the region. That said, the "snowpocalypse" can't be blamed for the frigid handoff for housing transactions and prices heading into 2023.

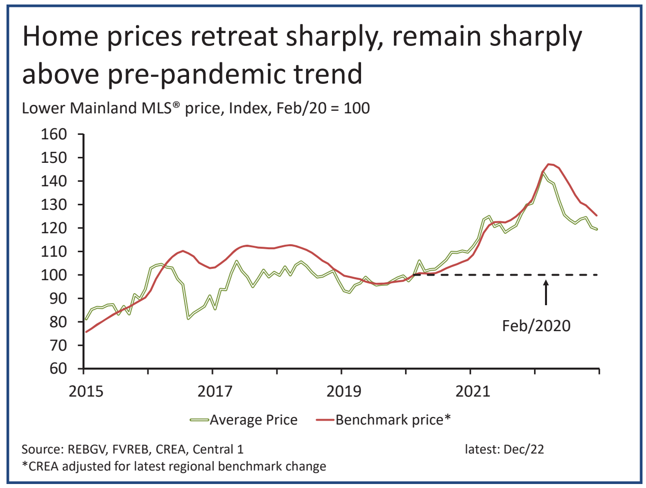
The latest combined MLS® data from the Greater Vancouver and Fraser Valley real estate boards (Lower Mainland), showed only 1,956 sales during the month, down nearly 56 per cent year-over-year. November's decline was similar. On a same-month basis, sales were down 31 per cent from the 2010-2019 December average. The impact of winter weather, while amplifying the dip, was likely mild given it coincided with the typical holiday period slowdown. Seasonally-adjusted sales are consistent with late-2018 but above levels observed during the financial crisis in 2008.

This frozen market continues to reflect severe erosion in housing affordability. The surge in mortgage rates during 2022, particularly for popular variable rate products, and pandemic price growth quickly pushed buyers out of the market. More recent price declines have been insufficient to offset rate impacts on carrying costs.

Price levels have remained remarkably firm when viewed through the lens of the pandemic surge. The average price in the Lower Mainland fell 0.8 per cent in December to $1.099 million which is about 17 per cent below the February 2022 high, but still up 20 per cent since the pandemic began. The composite price index, which adjusts for housing attributes, fell 1.7 per cent, down a consistent 15 per cent from peak. The sharpest peak-to-trough declines have been observed for detached units (-17 per cent), with townhome prices (-13 per cent) and apartments (-9 per cent) recording shallower declines. That said, ground-oriented units lead in comparison to pre-pandemic levels.

Sellers, having seen the peak of price levels, are hesitant to cut asking prices, while a strong labour market and low rental vacancy rates has limited panic selling. New listings continued to trend lower in December (possibly weather related) signaling seller patience and while active listings rose, this reflected weak sales and stale listings. Sales-to-listings ratios are trending at levels typically associated with a balanced market.



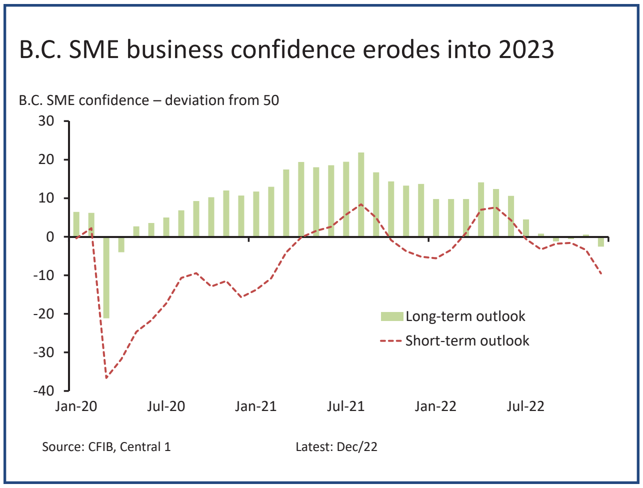


That said, market trends remain negative into mid-2023 and we anticipate weak sales and further home price erosion. Mortgage rates will remain a constraint for buyers and more listings are expected in the spring selling months which will curb price expectations and prices. Stabilization in mortgage rates and expected declines later in the year coupled with robust immigration flows are expected to propel home sales in 2024 onwards.

B.C. small business confidence trails national sentiment

Bryan Yu, Chief Economist

Small business confidence continued its stumbles in December according to the latest monthly Business Barometer results out of the Canadian Federation of Independent Business. This is not surprising given the drum beat of recession calls, elevated wage and supply costs, and interest rate hikes. Nationally, the latest data showed a fourth consecutive decline in short-term sentiment to 40.2 points. Any value below 50 means on net, the number of businesses surveyed with a negative 3-month outlook exceeds those with



a positive outlook. This was the lowest reading since January 2022 when the Omicron wave dominated headlines. The 12-month outlook improved slightly to 50.9 points but remained low and consistent with a low to negative growth environment.

While firms may be spooked by the external environment, many are feeling the pinch of inflationary pressures and labour shortages. The latter is a constraint to meeting demand which is keeping wage expectations higher than normal at 2.9 per cent, albeit sale prices are expected to climb at a stronger pace.

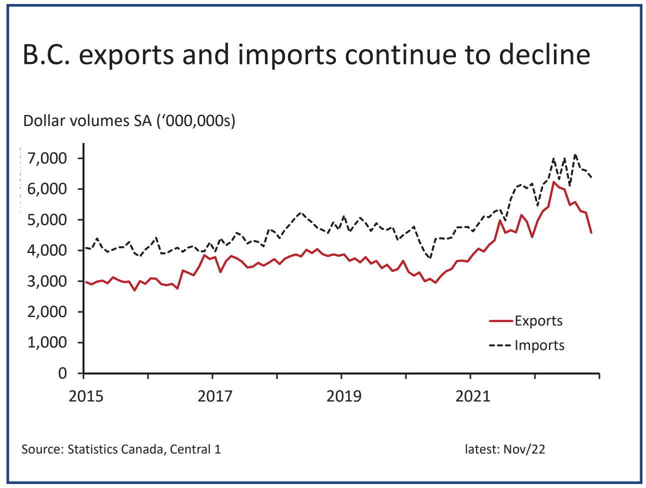
B.C. business sentiment is consistent with the national pattern. The 3-month index declined to 40.5 points, marking a sharp decline from 46.6 points in November. Meanwhile, longer-term sentiment came in at 47.4 points which was below the national pattern and low among provinces. More recently, B.C. has exhibited stronger inflation patterns, among the tightest labour markets in the country, which is contributing to wage growth, and substantial deterioration in the housing market and technology sector. Moreover, greater exposure of export markets to a slower Chinese economy may also have weighed on expectations. The latest data suggests more firms are looking to shed labour and pause hiring in coming months.

A period of weaker activity is expected during the first half of 2023 as higher interest rates curb economic activity and revenue.

B.C. exports and imports both decline in November

Alan Chow, Business Economist

B.C. exports reported a severe decline in November. On a seasonally-adjusted basis, exports fell 12.5 per cent from a revised $5.3 billion to $4.6 billion, its lowest level in a year. Imports also declined for the third consecutive month, albeit not as much, down just 3.4 per cent from the previous month to $6.4 billion on



a seasonally-adjusted basis. Unadjusted, exports were down 7.5 per cent year-over-year from $4.8 billion to $4.4 billion while imports were up 5.4 per cent from $5.9 billion to $6.2 billion.

The latest monthly decline in exports was largely attributed to a decline in energy. Dollar volume of energy exported in November was down 20.5 per cent over the previous month from $1.9 billion to $1.6 billion. November prices for natural gas and crude oil were much lower on decreased demand and higher production and, as a result, the lower export volume. Metal ores and non-metallic minerals exports also contributed to the decline, down sharply (69.2 per cent) from $423 million to $130 million. Shipping delays related to copper ore exports were a major contributing factor and as such, a rebound is expected in the future when delays have been rectified. Offsetting these declines was an increase in metallic and non-metallic mineral products, which increased 27.7 per cent from $261 million to $333 million. A rise in the export of precious metals was behind the increase.

The decline in imports was relatively broad-based. Of the 12 categories tracked, 9 experienced a decline in dollar volume. The largest decline occurred in motor vehicles and parts, down 16.5 per cent from $584 million to $487 million. Industrial machinery, equipment and parts was down 5.5 per cent from $1.1 billion to $1.0 billion and the dollar volume of consumer goods imports also fell slightly, down 2.2 per cent from $1.94 billion to $1.89 billion. The 3 categories which experienced higher dollar volume were basic/industrial chemicals/plastics/rubber (up 8.9 per cent), aircraft and other transportation equipment and parts (up 8.0 per cent), and metal ores and non-metallic mineral products (up 2.6 per cent).

For more information, contact economics@central1.com.