Economics | Forecast / Outlook Reports

Economic Analysis of B.C.

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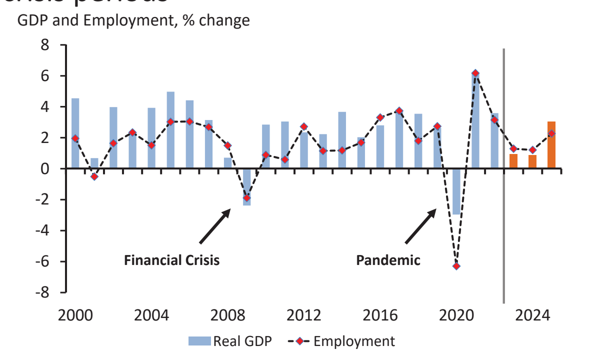
central 1 Economics

B.C. is closing in on its weakest year for economic growth in 20 years outside the COVID-19 pandemic and the 2008/09 financial crisis supported only by the strength of relentless population growth and ongoing boost from past major project construction. Household spending has slowed with the bite of inflation and runaway interest rates, weak private-sector expansion, and a retrenchment in sectors like forestry and housing. This sets the province up for another year of disappointing economic activity in 2024 as these patterns persist and impact of cumulative interest rate hikes deepen. Consumers and businesses will continue to adapt through constrained spending, hiring and investment, while an uncertain external economic environment will further constrain growth.

Real gross domestic product (GDP) is forecast to expand at 0.9 per cent this year, trailing the national performance with slight change in 2024 before turning up sharply in 2025. Consumer and housing activity drags on through 2024, followed by declining capital investment as major project construction ends. On a per capita basis, output declines. By 2025, a turnaround in housing and exports provides upward momentum. Hiring is forecast to remain below long-term trends with employment growth mildly above one per cent this year and next while stronger population growth drives B.C.'s jobless rate above six per cent.

B.C. economy slowest in 20 years outside crisis periods

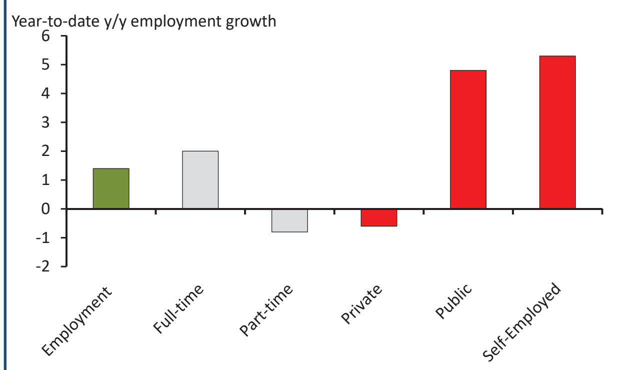


Source Statistics Canada, Central 1

Current trends

Recent economic data in B.C. has underwhelmed, trailing provincial peers, and indicative of an economy without much in the way of traction. The broadest measure of performance is the labour market where Labour Force Survey (LFS) employment has recently increased but was only 1.5 per cent higher than a year ago, lagging the national increase of 2.5 per cent, while hours worked have languished. Payroll employment gains have come in stronger, but LFS employment paints a mixed and subdued picture. Job growth has been entirely dependent on public-sector hiring and self-employment, and given self-reporting, the latter points to deterioration in job quality. B.C.'s unemployment rate has increased a full point over the last 12 months to 5.4 per cent, and outside pandemic patterns, is back to a level from 2017 albeit due to population growth has outstripping hiring gains.

Mixed labour market performance, private sector lags

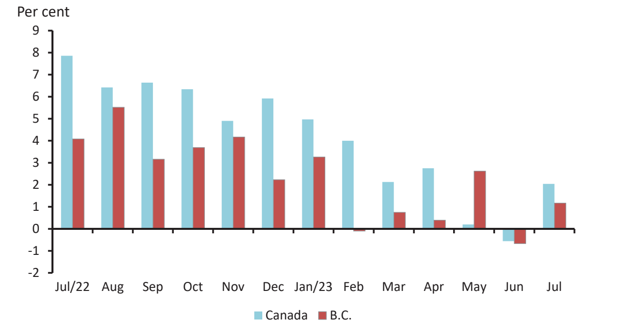


Source: Statistics Canada, Central 1

There have been broad signs of weakness among consumption, housing construction, and export activity. Erosion of buying power due to inflation and rotation of spending due to interest rate hikes to cover increased costs related to mortgages and unsecured debt (more urgent in B.C. given the highest debt loads among provinces) has curbed spending. Three quarter retail sales at 1.1 per cent growth was half that of national growth, and while some of this weakness owes to higher spending at restaurants and some leakage to international tourism, numbers are disappointing.

Core sales, which excludes autos and gasoline, are tracking zero year-over-year growth in recent months, and more broadly inflation-adjusted sales are negative. Weak spending is particularly evident when accounting for massive immigration-led population growth which hit a multi-decade high of three per cent at mid-year. This provides substantial tailwind to spending, but households are reducing their spending observed in declining real per capita retail sales. Retail spending trends have put a dent in business sentiment, which remains weak.

B.C. retail spending weakness points to negative consumer demand cycle

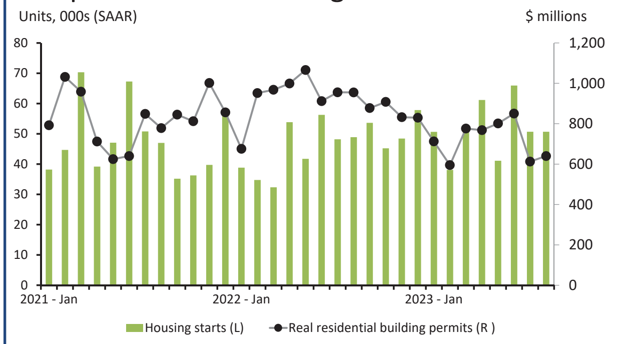


Source: Statistics Canada, Central 1

While difficult to assess with timely data, B.C. is relying more heavily on the government spending at the federal and provincial levels. This is consistent with hiring growth in public administration hiring (up 3.8 per cent year-over-year) and broader growth in the public-sector healthcare and education. Provincial budgeted expenditures for fiscal 2023/24 was for 7.5 per cent nominal growth.

Housing is in recession. The strong early year recovery in housing sales has proven short-lived as mid-year rate hikes and higher fixed rates pushed more buyers out of the market, even as population-induced demand rose. MLS® sales are set to fall 10 per cent this year to a decade low, although prices declineS through late 2023 are modest due to low supply. The residential construction cycle is depressed, reflected in double-digit rates of declines in sector employment, residential permits and real investment. While juxtaposed with a multi-family project driven spike in housing starts as single-family starts fell across the province, higher starts owe to Metro Vancouver projects planned years in advance rather than current market conditions. We expect starts to trend lower going forward as recent development projects are put on hold due to financing conditions and lack of buyers. Weak residential investment reflects the current slump in renovations and single family starts, while multi-family activity is spread out over years.

Residential construction cycle trends lower despite elevated housing starts



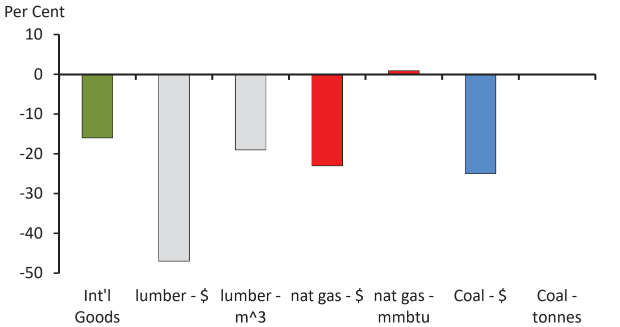
Source: Statistics Canada, Central 1

Capital investment remains a growth driver but also looks to slow with projects like the Site C Dam, LNG Canada, and Vancouver transportation projects reaching peak build out phase. Contribution to economic growth is narrowing and could reverse by next year and in 2025 despite ongoing public-sector investment in hospitals and smaller scale resource projects. Capital investment intentions for 2023 fell 3.3 per cent and B.C. was the only province aside from Nova Scotia with an expected decline for the year and growth in non-residential building permits which reflects structures only is decelerating. While capital investment has typically surprised on the upside in recent years, several headwinds are dragging at the current time, including high interest rates, rising inputs, declining profits, and weaker sentiment which is expected to put a dent in new spending.

A scan of industrial activity is similarly downbeat. Real goods exports make up about half of total B.C. exports, most of which are directed at international markets. This is an even larger share in nominal terms once commodity prices are incorporated. After rapid growth both in 2021 and 2022, international goods exports have slumped 16 per cent through August this year due to lower resource sector sales and commodity prices, while manufacturing production is down eight per cent. Specifically, forestry exports (down 30 per cent) and energy shipments which include coal (down 20 per cent) have led the pullback. While sharp declines in lumber and natural gas prices are a driver, slowing demand has led to lower production. International softwood lumber exports are down by half in nominal terms and 20 per cent in real volume. On the energy front, a retreat in prices has brought coal and natural gas export sales down 25 per cent, even as physical shipments have held steady. Weakness is also playing into more subdued investment.

Of course, it is not all unwelcome news, export sales of machinery and industrial equipment have increased, although nowhere near enough to offset resource sector sales. Moreover, there is still a shift in consumer

Declining exports led by lower prices, but commodity volume down or flat



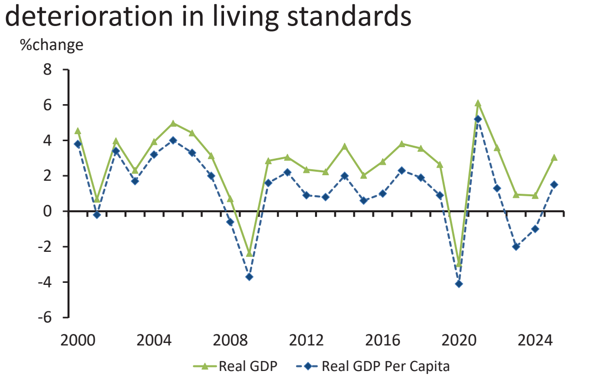
Source: Statistics Canada, Central 1

demand and export activity towards services such as tourism, although as labour market data shows, growth in the sector is decelerating.

B.C. economy to underperform through 2024

After a decade of being among Canada's provincial growth leaders, B.C. economic growth remains shallow over the next two years as higher interest rates fully impact households and businesses, while a weak housing market persists, and the global economy slows. Gross Domestic Product (GDP) is forecast to expand by 0.9 per cent this year with a similar pace next year before increasing to 3.0 per cent in 2025 as exports rise. This aligns with national patterns which we expect to see expand 1.1 per cent this year and decelerate in 2024 before recovering thereafter. While still growing, this marks a dismal pace far below the more than three per cent trend observed through the 2010s, and adjusted for population, economic well-being will outright decline this year and next.

Declines in per capita GDP signals deterioration in living standards



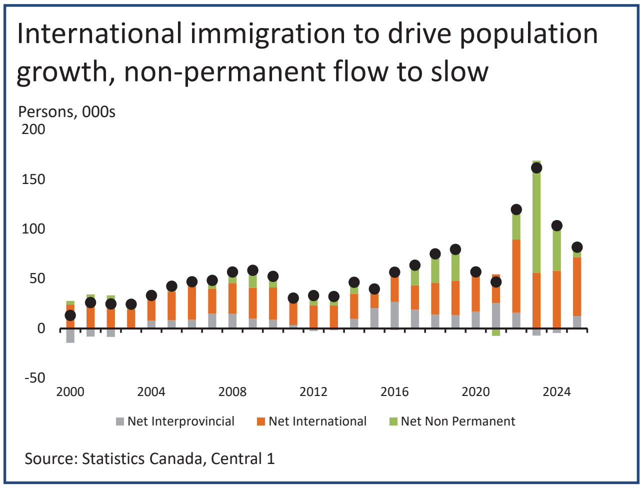
Source Statistics Canada, Central 1

Interest rates are forecast to remain elevated due to sticky inflation and central bank wariness of normalizing rates too early. We forecast the U.S. Fed is forecast to hike one more time this year before moving to the sidelines while the Bank of Canada holds the target for the overnight at 5.0 per cent through the first quarter before it begins a protracted journey to reach the neutral rate in mid-2025. Stagflation is increasingly a possibility as supply-side shocks could keep inflation higher, maintaining high interest rates and sluggish growth.

B.C. economic trends will ebb and flow with national patterns. Consumer spending will remain the weak link given the province's higher debt levels which will require greater shares of incomes be allocated to debt servicing as households face renewal of mortgages at much higher rates. Bank of Canada estimates suggest payments at renewal could rise 20-40 per cent over the two years. This impacts a portion of the 1/3 of households in B.C. that have mortgages with the remainder being renters or mortgage-free owners. Consumers will continue to belt-tighten, particularly as softening economic conditions also temper employment growth and job opportunities. Expect reductions in spending on interest rate sensitive durable goods, and broad slowdown among other products offset in part by modest increases in services-spending.

That said, population growth should prove to be a stabilizer and maintain positive aggregate consumer spending growth. Population growth is forecast at a two per cent growth rate in 2024 (on a July 1 basis) after a 3.0 per cent increase this year. Growth trend towards more normal patterns of 1.9 per cent and 1.5 per cent thereafter. Permanent resident inflows will continue to rise, flowing into Metro Vancouver, but we anticipate a slowdown in non-permanent residency owing to slowing economic conditions as well as prospects that housing affordability challenges could lead to policies to curb inflows. Similarly, net outflows of B.C. residents to Alberta in search of a lower cost of living and a faster growing economy are expected to increase although B.C. continues to attract more residents from other provinces.

The housing market will remain a contrast of short- and long-term pressures. High interest rates and high home prices keep buyers on the sidelines well into 2024 although sales flow build momentum. While market conditions will remain weak, a lack of resale



market inventory is expected to support prices particularly in large urban markets, with greater downside risk in suburban and mid-sized regions. That said, with underlying housing demand continuing to grow, we expect home sales to accelerate into 2025 in response to interest rate cuts. This year's surprise strength in housing starts which is forecast at 45,000 units gives way to a sharp decline in the 2024 to 36,600 units and 39,500 units in 2025 reflecting challenging market and financing conditions over the past year which will curtail the number of multi-family projects breaking ground going forward, particularly in Metro Vancouver. Measures to spur rental construction counter some of this pullback. Next year's 20 per cent decline is an unwelcome pattern given the severe housing shortage in the province that requires more, not fewer, housing starts. A period of construction sets the stage for upward price momentum when interest rates fall.

Real export growth tracks at a mild 1.4 per cent this year and 2.0 per cent next year before accelerating in 2025. Slowing global economic growth, both in the U.S. and Asia markets, the latter of which B.C. is more exposed to compared to other provinces, has led to weak conditions for mining and forestry, while natural gas prices have slumped. Completion of liquefied natural gas terminals and commencement of shipments buoy exports in 2025 onwards. At the same time, the investment cycle is set to tumble. The wind down of peak LNG and Site C construction in 2024 sets the stage for a sharp downturn in private investment with no clear private-sector project taking the baton. Public-sector projects provide ongoing support but will be insufficient.

Labour Market

B.C.'s labour market evolves with economic conditions. Employment growth is forecast to slow to 1.3 per cent this year and average 1.2 per cent in 2024, and like economic output falls below the longer-term trend. With population and by extension labour force growth outstripping employment gains, the unemployment rate is moves to 6.1 per cent in 2024 and come in at 5.6 per cent in 2025, marking the highest annual rates since the mid-2010s notwithstanding pandemic era high. Greater slack in the labour market and fewer job vacancies slow wage growth to three per cent next year, and below two per cent in 2025. Employees will find that the pendulum of negotiating power swings back towards employers, slowing wage growth and potentially reverse other aspects of work such as hybrid opportunities.

Inflation

B.C. consumer price inflation has tracked higher than the national figure this year, in part owing to differences in consumption patterns, drivers of energy prices, and what has been a lower unemployment rate for much of the past year. Consumer price index inflation is forecast to slip to 3.8 per cent this year, from 6.9 per cent in 2022. The path of inflation remains a wildcard, with macro-economic uncertainty, energy prices and labour market all factors. Broadly inflation we expect B.C. inflation to trend lower and average 2.9 per cent and receded to 2.5 per cent in 2025.

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Terms

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B.C. Forecast Table

Provincial Forecast	2021	2022	2023	2024	2025
GDP at market prices	14.2	9.6	3.7	4.2	4.7
Real GDP, expenditure-based	6.1	3.6	0.9	0.9	3.0
Household consumption	7.3	4.5	1.5	0.8	4.1
Government expenditure	7.9	1.7	2.8	2.6	1.9
Government capital formation	15.6	3.0	5.3	2.3	-0.8
Business capital formation	9.4	0.5	-2.7	-5.2	0.4
Residential structures	14.6	-5.3	-7.9	-1.7	6.5
Machinery and equipment	5.6	16.5	4.2	-2.7	-1.7
Non-residential structures	5.1	3.3	0.7	-11.3	-5.9
Final domestic demand	8.1	2.8	0.9	0.0	2.8
Exports	3.2	3.0	1.4	2.0	4.0
Imports	10.3	5.1	1.2	-0.2	3.3
Employment	6.2	3.2	1.3	1.2	2.3
Unemployment rate (%)	6.6	4.6	5.5	6.1	5.6
Personal income	6.0	7.8	4.8	4.3	5.2
Disposable income	4.8	7.5	4.7	4.4	5.4
Net operating surplus: Corporations	26.3	-0.4	-5.2	6.5	6.3
CPI	2.8	6.9	3.8	2.9	2.5
Retail sales	12.6	3.7	0.4	2.2	5.3
Housing starts, 000s	47.6	46.7	44.6	36.6	39.5
Population Growth (%)	0.9	2.2	3.0	1.9	1.5
Key External Forecasts					
U.S. Real GDP	5.7	2.1	2.2	1.4	1.8
Canada Real GDP	4.8	3.5	1.1	0.8	1.5
European Union Real GDP	5.3	3.5	0.8	1.3	1.5
China Real GDP	8.1	3.0	4.7	4.3	4.0
Japan Real GDP	2.2	1.0	1.3	1.0	0.9
Canada 3-month t-bill, %	0.1	2.4	4.8	4.0	2.7
Canada GoC long-term Bond, %	1.8	2.9	3.4	3.2	3.1
U.S.-Canada Exchange Rate, cents/dollar	79.8	76.8	75.0	74.0	77.5
Crude Oil WTI USD$ per barrel	68.0	95.0	75.0	80.0	75.0
Henry Hub Natural Gas Price, US$ per mmbtu	3.7	6.5	2.5	3.5	3.5