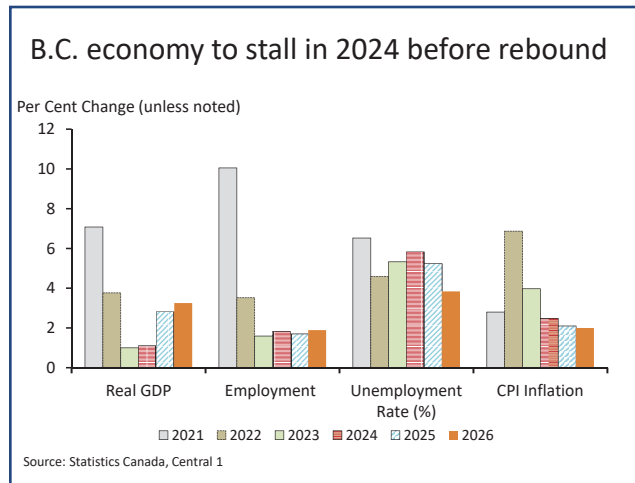




B.C. Economic Outlook 2024-2026

As British Columbia (B.C.), along with the broader Canadian economy, emerged from a period marked by formidable challenges including soaring inflation and unprecedented interest rate hikes, it is entering a transition year. Against the backdrop of global economic uncertainties and mounting household debt, 2024 is expected to be another sluggish year for the economy amidst financial pressures on households and businesses, although the housing markets show nascent signs of recovery.



However, the economy is expected to accelerate in 2025 and 2026 as exports rise and consumer demand improves on lower interest rates and strong population growth. More broadly, investment and business expansion are anticipated to rebound.

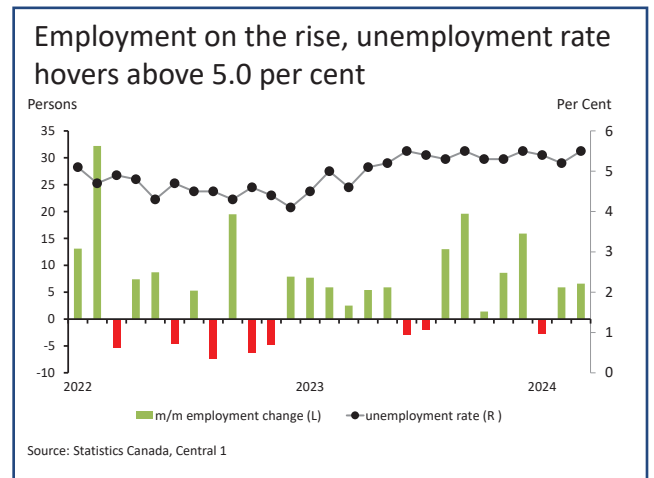
This outlook sees real economic growth of 1.1 per cent this year, before increasing in 2025 to 2.8 per cent and over three per cent in 2026. Employment growth comes in at a modest 1.8 per cent on average, lifted in part by increased capacity from population growth. This lifts B.C.'s jobless rate before turning lower over the next two years.

Key economic themes

B.C.'s economy has shown mixed patterns in early 2024 but broadly suggests a modest start to the year. After underperforming for much of 2023 labour market trends have firmed this year with total employment on the rise over the past six months. Year-over-year, provincial employment expanded by 2.6 per cent to outpace the national average as employers have absorbed more of the robust inflow of newcomers. A slower gain in payroll counts could reflect a drop in multi-job holders.

That said, the unemployment rate has nudged higher as strong population gains have outpaced the ability of the economy to absorb gains but at 5.5 per cent remains well below the national figure of 6.1 per cent. Job vacancies are returning to more normal levels, suggesting emergence of labour market slack, but wage growth in the province remains robust both in terms of average weekly earnings and average hourly wages. Wage growth, although elevated, is anticipated to moderate as softening economic conditions and rising unemployment curb wage pressures, contributing to inflation stabilization.

Headline labour market data tells part of the story. Beneath the surface more challenging conditions percolate. Job growth in 2023 was driven by public-sector work, albeit a substantial portion in health care, and self-employment which tends to be more tenuous, as well as a rebound in finance/insurance/real estate. Private sector job growth was nil. Meanwhile losses came in construction while some of the gains in hospitality were given back. Other data was less rosy.

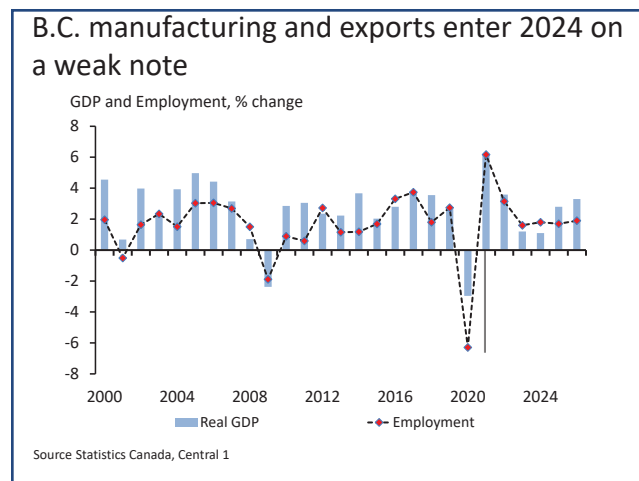


Retail sales rose by less than one per cent in 2023, and while there was some momentum near year-end, sales fell in January. Keeping in mind that consumer prices grew by four per cent in 2023, and population growth exceeded three per cent, many households pulled back on spending amidst elevated levels of household indebtedness, coupled with the lagged effects of interest rate hikes and mortgage renewals, will continue to contribute to subdued consumer demand in 2024.

Elevated interest rates have unsurprisingly held back housing. Underlying demand for housing is strong due to robust population growth, but home sales remain well below pre-pandemic levels as buyers (and sellers) look for more favourable financing and demand conditions. This is translating into a low volume but high price market as values rebounded after a brief decline last year. Levels were 10 per cent below the mid-2022 peak but are well above pre-pandemic levels. Housing starts were surprisingly resilient but seen as reflecting past project planning rather than current demand. In 2023, B.C. housing starts surged above 50,000 units driven by multi-family projects but recent patterns suggest this has already eased given high financing and construction costs. The Consumer Price Index (CPI) in B.C. increased by four per cent in 2023 on an annual average basis, following a significant rise of 6.9 per cent in 2022. Excluding energy, the annual average CPI rose by 4.4 per cent in 2023, compared to 6.1 per cent in 2022. These results are in line with the national pattern.

Manufacturing and exports enter 2024 on a weak note

Industrial activity has similarly underperformed. Manufacturing and international goods exports are down four per cent this year after falling sharply in 2023 as key exports fell out of favour in a higher interest rate environment and weaker commodity prices. Weaker terms of trade, or prices of exports vis-a-vis imports have cut into corporate profits and by extension investment.



B.C.'s forestry-dependent communities have experienced a flurry of damaging news in 2023 as the combination of market forces and impacts of longer-term forces affecting timber availability have triggered yet another cascade of mill closures. The importance of forestry as an economic base has declined over the decades despite remaining a key provincial export. In 2023, annual volume of exports from B.C. dropped 13.2 per cent, led by the 26.4 per cent decline in exports of forestry products and building and packaging materials. The longer-term trend in B.C. of a shrinking forestry sector in both size and relative importance for the economy is likely to continue given the ongoing challenges such as rising costs, forest fires, and fluctuations in demand.

While goods make up the bulk of trade activity, tourism services remained firm, buoyed by a low Canadian dollar and still robust global tourism following the pandemic. A slowing of visits late in the year could signal slowing momentum.

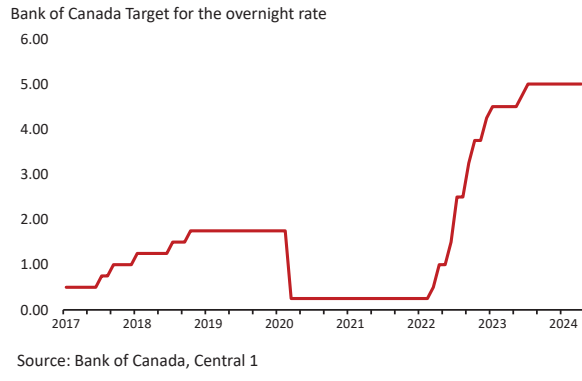
Consumer Spending and Business Conditions Outlook

This will be a sluggish year for B.C.'s economy but consistent with previous outlooks, no technical recession is forecast. Per capita output however is expected to contract. Elevated interest rates and relatively high debt levels remain the primary drag on the provincial economy in 2024 as more mortgages renew. That said, this also reflects an external economy, particularly the U.S. which continues to hum along which should support export activity. Consumers will remain in a holding pattern and slowing domestic activity in the province and Canada keeps hiring below two per cent, which in the short-term adds to labour market slack and easing wage growth. As households grapple with higher debt servicing costs and cautious financial outlooks, retail purchases will keep facing limitations, with growth rates remaining modest throughout the year.

Retail business conditions are anticipated to slow further in 2024, with declining corporate profits and weakening sentiment amidst modest demand. Meanwhile, business investment in machinery and equipment is expected to remain subdued, contributing to lackluster growth and productivity challenges.

Trends are anticipated to pick up in the second half of the year as both the Bank of Canada cuts and the U.S. Federal Reserve cuts rates, provide more support interest sensitive sectors like housing and business investment. The Fed is anticipated to lag on the rate reduction front. While lower rates will support broad based growth across Canada, B.C. will also enjoy the fruits of capital investment in liquefied natural gas

Bank of Canada: Rate peak, long road to normalization



and electricity generation with the completion of the LNG Canada plant and Site C which will lift export activity and create positive spillover effects in local areas and government finances. That said, with these major projects near completion, there is also a hole in capital expenditures going forward that is unlikely to be replaced by other resource projects.

Population and Labour Market Outlook

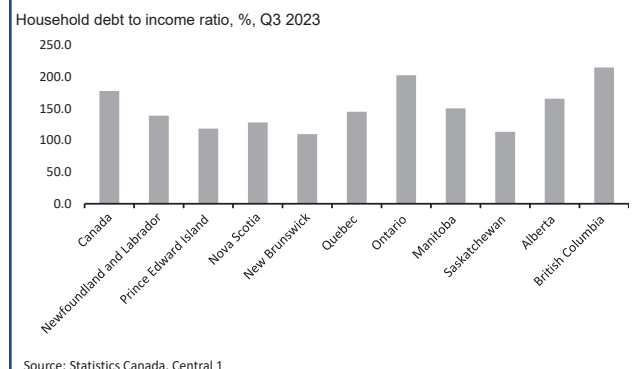
The Federal Government intends to lower the share of non-permanent residents relative to population to five per cent over three years. Currently, non-permanent residents make up 8.5 percent of B.C.'s total population and about 18 percent of Canada's non-permanent residents, mainly due to the presence of numerous post-secondary institutions and private colleges in the province. B.C. is anticipated to face the most severe effects of the caps on non-permanent residents, especially in terms of reduced student numbers. Moreover, B.C. reported the second-largest annual net outflow of 8,624 residents to its peer provinces last year, as Alberta continued to attract a robust increase in interprovincial migration. Although housing affordability is likely to remain appealing for B.C. residents considering relocation, limited employment opportunities and demand driven rental/housing prices in Alberta may dampen interest in the long run. B.C. population growth is forecasted to moderate to 2.7 percent in 2024 and further decline to 1.5 percent in 2025 but could come in lower contingent on interprovincial flows. This trajectory could offer relief from housing affordability pressures and contribute to stabilizing labor market conditions. The accumulation of surplus labor supply, driven by Canada's substantial influx of newcomers, outpaced the economy's capacity for absorption.

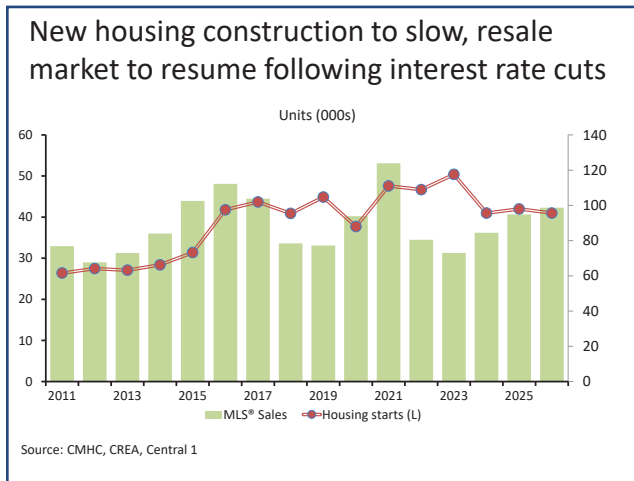
Modest employment growth is expected to persist in B.C. during the coming years, attributed to both the weaker economy and consistently high wage levels. After a lull last year, employment in B.C. gained traction and surpassed the stagnant national performance in March. However, the provincial unemployment rate has consistently hovered above 5.0 per cent since last April, driven by labor force expansion outpacing employment growth. With the government set to tighten immigration policies, the economy is anticipated to gradually absorb the excess labor force. Despite an anticipated uptick to 5.8 per cent in 2024, B.C.'s unemployment rate is forecasted to decline to 5.2 per cent in 2025 and notably drop to near four per cent in 2026, signifying a return to lower unemployment levels and tighter labor market conditions. The services-producing industries, particularly the public sector, are likely to continue bolstering the labor market. Additionally, an uptick in hiring is anticipated with the completion of major projects in the surrounding area. However, the sustainability of this momentum as a long-term employment opportunity remains uncertain.

Housing Market Outlook

The housing market is poised for adjustments, with lower mortgage rates likely to drive increased housing transactions into the second half of the year, contingent on interest rate cuts. However, housing construction is expected to slow due to the lagged impact of persistently high interest rates, contributing to declines in housing starts. The housing market's trajectory will also depend on factors such as new listings and inventory. While home sellers have become more active, testing the market ahead of the 2024 spring season, sales growth may outpace listings growth, tightening the market. Challenging affordability conditions are likely to restrain excessive price growth, preventing some potential buyers from entering the market.

B.C. households acutely sensitive to higher rates due to elevated debt





A significant component of B.C.'s housing market forecast in 2024-2026 is the introduction of the flipping tax, a key initiative outlined in the B.C. Budget 2024 as part of the Homes for People Plan. The flipping tax aims to curb speculative activities in the housing market by imposing a tax of 20 per cent on profit from residential property resales within the first two years of purchase. While the tax is expected to generate revenue for the government, its potential impact on the housing market and overall economic dynamics is subject to analysis and scrutiny.

The forecast for housing starts in B.C. suggests a continuation of this cautious trend. Starts are forecast to average near 41,000 units indicating a period of a cautious approach in the housing market, as stakeholders assess market conditions before resuming further developments again in 2026. The challenges remain in meeting the ongoing demand for housing driven by population growth. Moreover, underlying uncertainties persist, and further developments are delayed until the market rebounds.

Government budget and deficit

While B.C. Budget 2024 prioritized affordability and continued investment in critical sectors like health and education, concerns loom regarding the escalating deficits, mounting debt levels, and the sustainability of government expenditure in the long run. Projections indicate that the deficit is set to reach a record high of \$7.9 billion in the fiscal year 2024/25, following a \$5.9 billion shortfall in the current year. Similar levels are anticipated for 2025/26 at \$7.8 billion, and \$6.29 billion by 2026/27. These deficit projections are twice as high as those forecasted in Budget 2023.

In comparison to the size of the economy, the deficits projected for the upcoming fiscal year will surpass those witnessed during the pandemic-affected period of 2020/21 and are the largest seen in at least the last several decades. Balancing the budget and managing the debt burden pose significant challenges for the province amidst economic uncertainties and evolving fiscal conditions. With expenditure outpacing expected revenue growth, B.C. is expected to witness a surge in its debt over the coming years, leading to a greater portion of revenue being allocated to servicing the borrowing. This could potentially limit future spending on crucial priority areas.

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B.C. Key Indicators, % change

Indicator	2021	2022	2023	2024	2025	2026
Nominal GDP	15.8	11.0	2.9	3.7	5.0	5.2
Real GDP	7.1	3.8	1.0	1.1	2.8	3.3
Household consumption	7.0	4.0	1.0	0.4	3.1	3.8
Durables	13.0	-0.7	3.5	1.0	2.5	3.9
Non-durables	1.8	-3.1	-0.7	0.1	3.0	2.9
Services	7.2	8.5	0.6	0.4	3.3	4.0
Government consumption	6.2	4.1	2.8	1.6	1.3	1.3
Investment	11.3	-3.1	-2.3	-2.0	6.2	8.3
Residential	13.1	-11.7	-5.0	1.6	6.0	10.2
Non-Residential	9.1	4.7	-0.4	-6.1	6.6	7.8
Construction	7.8	7.5	0.5	-5.9	8.5	8.3
M&E	12.5	-2.7	-3.0	-6.5	1.0	6.0
Government Investment	7.8	3.9	4.0	5.0	-5.8	-6.5
Exports	6.4	6.4	1.8	0.2	2.1	2.6
Imports	8.8	8.0	1.3	0.9	3.2	3.1
Employment	10.1	3.5	1.6	1.8	1.7	1.9
Unemployment Rate	6.5	4.6	5.3	5.8	5.2	3.8
Population Growth	1.0	2.3	3.3	2.7	1.2	1.1
Immigration	34,388	83,200	66,200	58,000	55,000	55,000
Emigration	1,771	3,753	14,187	11,000	10,000	10,000
Net Interprovincial	25,376	26,069	-7,632	15,140	18,204	28,434
Net Non Permanent	-8,845	31,414	117,339	80,000	-10,000	-10,000
CPI	2.8	6.9	4.0	2.5	2.1	2.0
Housing Starts	47,627	46,664	50,400	41,000	42,000	41,000
CREA MLS Sales	123,962	80,508	73,071	84,500	94,900	98,700
CREA Average Price	927,408	996,933	971,152	981,000	1,025,000	1,076,000

Source, Statistics Canada, CREA, Oxford Economics, Central 1

Value added by Industry Group

	2021	2022	2023	2024	2025	2026
Agriculture, Forestry, Fishing and Hunting	1.4	-1.8	-10.0	0.2	1.0	1.9
Mining, Quarrying, and Oil and Gas Extraction	13.8	3.8	5.2	3.8	6.1	3.7
Utilities	0.9	4.3	-1.5	1.8	1.9	0.6
Construction	8.0	4.7	2.2	0.0	2.7	2.3
Manufacturing	4.6	3.3	-7.9	6.7	4.8	3.1
Services	7.1	3.9	2.1	1.3	2.7	3.4
Wholesale Trade	7.5	-2.2	-1.6	1.1	3.0	4.5
Retail Trade	7.8	-1.3	-1.2	0.8	2.6	4.3
Information	7.0	3.9	1.2	-0.1	2.2	3.8
Finance and Insurance	3.6	1.5	1.3	0.9	3.0	3.6
Real Estate and Rental and Leasing	5.5	0.3	1.4	1.0	3.0	3.6
Professional, Scientific, and Technical Services	11.4	7.6	3.3	0.1	2.3	3.8
Management of Companies and Enterprises	-27.5	-22.0	2.3	2.5	4.8	4.7
Administrative and Support and Waste Management and Remediation Services	7.5	8.4	1.3	2.5	3.7	4.4
Educational Services	4.3	3.0	3.4	1.7	2.9	2.9
Health Care and Social Assistance	10.4	3.3	2.6	2.9	1.9	2.6
Arts, Entertainment, and Recreation	12.7	28.4	1.0	0.1	2.6	3.3
Accommodation and Food Services	16.1	19.9	3.1	2.3	4.0	1.8
Other Services (except Public Administration)	10.1	9.0	1.0	0.3	2.6	3.3
Public Administration	6.3	3.8	4.7	3.9	2.0	1.9

Source, Statistics Canada, CREA, Oxford Economics, Central 1

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