Economics | Forecast / Outlook Reports

Economic Analysis of British Columbia

Volume 43 • Issue 4 | ISSN: 0834-3980

central 1 Economics

B.C. Economic Review and Outlook 2024 to 2026

The economy faces new uncertainties heading into 2025 and beyond. The return of Donald Trump to the presidency will introduce a multitude of challenges, with potentially severe tariffs the most pressing short-term risk. Meanwhile, the domestic Canadian economy has softened as elevated interest rates have reverberated through household and business financial health, contributing to increased slack in labour market. Further headwinds from the federal government's pause in population will curb growth, although have less impact on inflation.

B.C. is not immune to these headwinds and has slowed this year. That said, the province has a couple of buffers to keep economic growth above that of the the national economy. Completion of major projects in the northern regions will lift production and/or exports of natural gas and electricity, while the province is more diversified in its export partners. Moreover, B.C. has consistently outperformed its peer provinces in recent years including 2023, providing a stronger launch point to limit some of the potential damage. B.C.'s labour market while deteriorating remains among the tightest in Canada, and wage growth is robust. Housing is forecast to pick up with lower rates, as is broader consumer spending, although housing starts and major capital project investment retreats.

B.C.'s economy is forecast to expand by close to 2.5 per cent in both 2025 and 2026 following this year's slowdown. The labour market is forecast to generate employment growth of 1.5 to 2.0 per cent with an unemployment rate below six per cent. However, risk remain to the downside given the unknowns of U.S. trade policy.

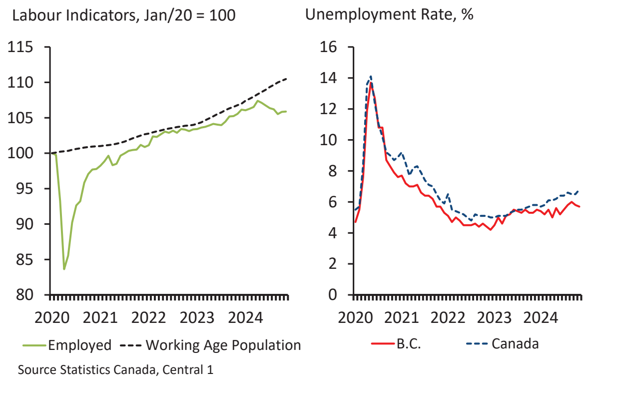
Economy indicators broadly decelerated in 2024

B.C. economic growth is forecast to average about 1.5 per cent this past year reflecting a broad-based slowdown consistent with the national picture despite the support of persistently high population growth. While wage growth has been strong, household spending has been pinched by elevated interest rates, high prices for non-discretionary items, and a softening job market. Businesses have felt a similar pinch of weaker domestic demand, softer exports, and political uncertainty. The public- sector has remained a key growth driver, although outperformance is not a particularly healthy outcome for the economy. Major projects which have been a key driver of recent years prosperity are at or near completion and slowed this past year.

This followed B.C.'s outperformance in recent years. The province reclaimed its position at the top of the growth pack in 2023 with an increase in real GDP of 2.4 per cent to nudge past its western neighbours. This followed growth of 4.0 per cent in 2022. Since 2019, B.C. has been by far the fastest growing of Canada's largest provinces with GDP 11 per cent higher than pre-pandemic levels, but B.C. led the way even in the decade prior. At the same time, gains masked significant imbalances within the economy. Big ticket projects such as the Site C dam, LNG Canada (alongside other smaller projects), public-private partnerships and large- scale investment in public infrastructure continued to support growth through 2023. Meanwhile, real government spending has continued to balloon with expenditures up 20 per cent from 2019.

2024 themes have been mixed but broadly slowed. On the labour market front, B.C. is on track for a modest two per cent population gain this year but masks some underlying weakness. Growth owes in part to weaker trends 2023 and momentum has sharply declined since mid-year. The latest data shows growth of less than 0.6 per cent year-over-year. The unemployment rate increased half a point over the past year but at below six per cent was well below the national average. Lower unemployment does speak to relative tightness in B.C.'s labour market but it is also the case that there is significant underemployment. A swelling population base has added to the labour supply, while worker optimism has also eroded and reflected in a drop in the labour force participation rate to the lowest level since the pandemic at 64.7 per cent pointing to a pool of discouraged workers.

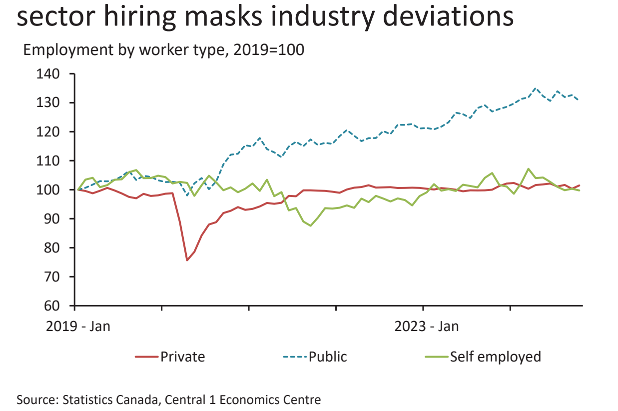
B.C. labour market wanes since mid-year, jobless rate still low



Job vacancy rates have fallen below pre-pandemic levels in most industries outside the public sector. While there have been no wide-spread layoffs, opportunities are scarce as businesses have been cautious in expansion as high interest rates and economic concerns weigh, while more businesses have also sputtered. This has particularly impacted younger workers and newcomers. Sectors such as professional services, hospitality, and consumer sectors have shown greater signs of weakness.

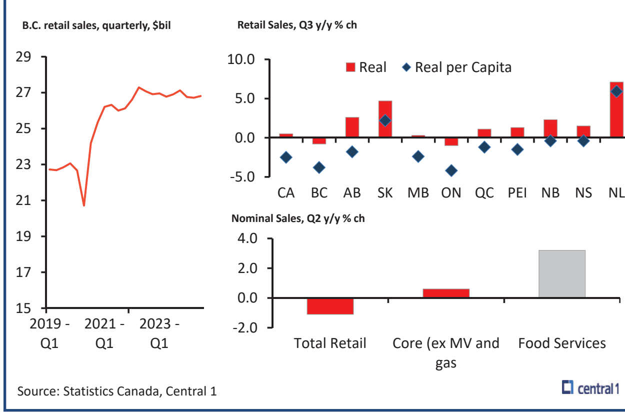
Weakness in the labour market has been a private-sector oriented story however as the public- sector continued to expand. Employment in the sector is up five percent over the year, and while driven by health services, growth has spread across various industries. Elevated spending on the part of governments has contributed growth in the economy, but also a ballooning public service and rising deficits. B.C. government full-time equivalents rose 5.3 per cent based on the September fiscal update for fiscal year 2024/25, and since 2019/20 was up 27 per cent. This divergence in public- private sector employment is not unique to B.C. but highlights disparities in growth.

Public-sector led hiring boom, weak private sector hiring masks industry deviations

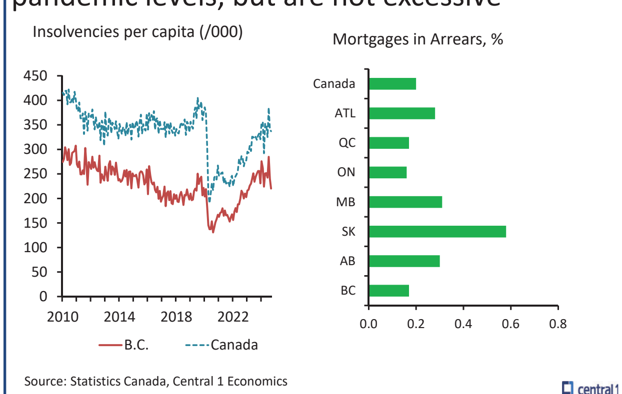


The challenges facing businesses are in part due to weaker consumer demand. Retail spending declined half a per cent this year over the past year, with real per capita spending down closer to 3.5 per cent which is weaker than most provincial peers. Excessive costs of housing, a high international student population share, and weak youth labour market have contributed to restraint. Services spending has been firmer, reflecting shelter needs from a rising population, and spending on travel and restaurants has held up. With the highest debt-to-income ratio in Canada, B.C. households are more susceptible to mortgage renewal risk over the next two years and may already cutting back in advance. That said, signs of financial stress have been modest with mortgages in arrears and consumer insolvencies far below national patterns, which we view as reflection of higher levels of net worth in the province due to long-term trends of rising home values and high financial assets which allows greater financial flexibility for households.

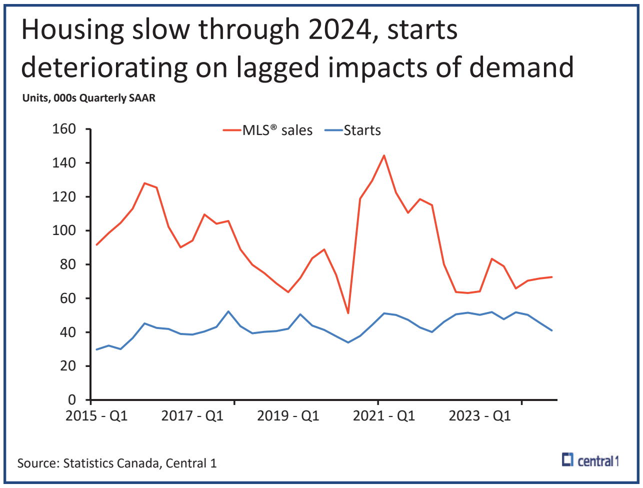
Retail tells a story, households hunker down



Canadian insolvencies return to pre-pandemic levels, but are not excessive



On the housing front, sales are stirring to end the year as recent interest rate cuts and pent- up demand lifts both sales and prices. Nevertheless, the sector was a drag on this year's growth with MLS® home sales in line with the weak pace in 2023. Prospective buyers were constrained by affordability as elevated mortgage rates and high home values limited financing availability across the province. Conditions have weighed on new construction with both housing starts and building permits down eight per cent reflecting the lagged effects of lower pre-sale for condominium units amidst tight financing conditions, policies to restrict foreign ownership, ban of short- term rentals and rising construction costs.



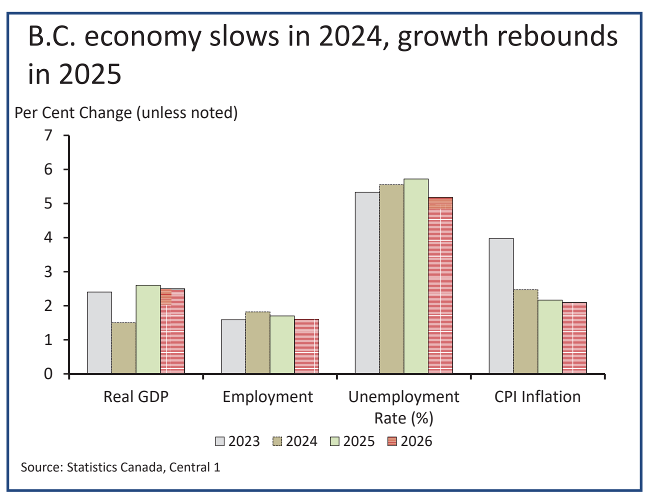
B.C.'s investment construction cycle has been driver of growth in recent years, and while still elevated, growth has cooled. Major projects in B.C.'s northern markets are at or near completion, led by Site C and LNG Canada, while the BC subway line is fully under construction pointing to elevated spend but declining growth. Robust health-related infrastructure spending is a growth driver. Non-residential structure has tracked about 3.7 per cent led by industrial and government activity, while commercial investment has declined in part due to weaker small business confidence and activity. Fixed capital investment can surprise given data limitations related to engineering and other public works spending but the current major project building cycle is likely at an end.

On the trade front, B.C.'s export sector faces considerable uncertainty given tariff threats from incoming Trump administration, adding to weakness observed in recent years. Dollar- volume international goods exports are down 1.7 per cent this year and on track to decline 2.5 per cent, adding to last year's forestry driven 13 per cent decline. The latter was primarily export price driven as real international goods exports fell 1.7 per cent, although interprovincial flow fell sharply by 7.1 per cent. Robust services growth, owing to exported professional services, technology, and tourism lifted overall 2023 real exports by 1.4 per cent.

2024 declines were driven by a 16 per cent decline in energy exports, offset by food products, metals, a surge in aircraft and transportation equipment and electronics. Lower energy exports were price driven as natural gas sales fell 50 per cent with real shipments down only one per cent. Electricity exports fell 12 per cent nominally but rose 19 per cent in real terms. Growth in other segments has provided offset. Coal exports rose 30 per cent on a 10 per cent increase in real volume, while forestry has seen a slight rebound of 3.5 per cent after declines of 26 and 5 per cent in the previous two years amidst large volatility in prices. Physical shipments are up marginally after two years of sharp reductions. Manufacturing sales are down 2.5 per cent aligning with trends in goods exports.

Outlook is cloudy as Trump risks rise, but B.C. likely to outperform

This forecast pegs B.C. GDP growth in 2025 at 2.6 per cent and closer to 2.5 per cent in 2026. B.C. is expected to outpace the national performance a whole even as consumer demand is curbed by weaker population growth. Declining interest rates are forecast to support consumption, the existing home market, and investment as the year progresses, although trade uncertainty is likely to weigh on the latter. Exports and industrial production will see a lift from completion of the LNG Canada terminal and the Site C dam, although the end of major project construction will drag on the construction cycle. Government spending growth is likely to slow as the provincial and federal government look to rein in deficits.



Monetary and government policies to both propel and dampen economy

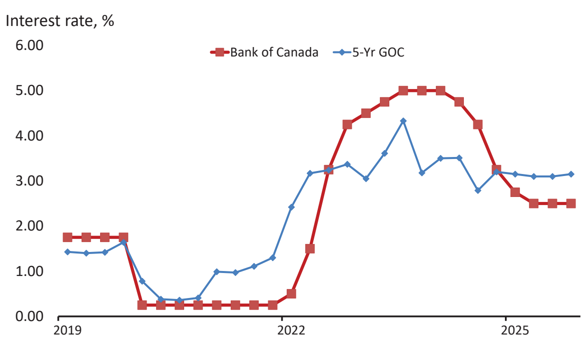
Underpinning this forecast are several broad macro-economic themes.

First, the Bank of Canada's current rate cutting cycle is expected to continue as it looks to reverse some of the massive hikes from recent years given significant strain on consumers and businesses. The economy has slowed and GDP per capita has declined for six consecutive quarters, while unemployment is rising, and inflation is well anchored at the mid-point of the Bank's control range. The Bank has cut at five consecutive meetings, including jumbo 50- point cuts at the last two. At 3.25 per cent, it is now at the top end of the estimated neutral rate. Further cuts are necessary to support growth and provide insurance against the uncertainty of future tariffs. We forecast the policy rate to be reduced to 2.50 per cent by the second quarter of 2025.

That said, the range of market forecasts is wide, with some calls for a 2.0 per cent terminal rate. In the absence of severe tariffs, Bank of Canada rate cuts will be limited by U.S. outperformance and firm inflation which will lead to a slower pace of U.S. Fed rate cuts. The U.S. economy remains solid with GDP tracking more than three per cent for Q4, rising employment and a low unemployment rate, while year-over-year inflation has stalled above target. U.S. growth is forecast to remain firm in 2025 and above two per cent, pointing to slower normalization of the Fed Funds Rate. The Bank of Canada will be balancing the need to spur the economy, and upside risks to inflation from a lower Loonie.

Stronger economic conditions south of the border will keep bond yields on firmer footing, limiting reduction in Canadian 2- and 5- year yields, as well as fixed mortgage rates.

Bank of Policy rate to decline to 2.5 per cent, bond yield declines limited

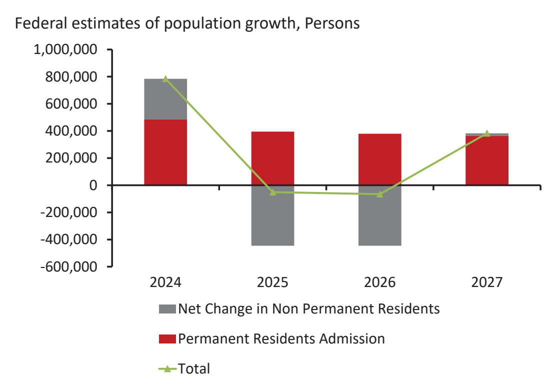


Source: Bank of Canada, Central 1

While rates are stimulative, the broader economy will be constrained by the federal government's U-turn on population policy, as it aims press pause on population growth and reverse some of the massive gains from the past two years through net outflow of non-permanent residents and reduced permanent residency. The federal government's target is to reduce the non-permanent resident share of the population to 5.0 per cent and its projection point to population contraction of 0.2 per cent annually through 2026. Annual declines are unprecedented in modern history but also follows a period of historic growth. Population growth will slow sharply, but we still view an outright decline as unlikely. While the data may point to a sharp outflow of non-permanent residents as visas expire, we expect there will be many that stay in the country. The economic ramifications will also lead to some carve outs for skilled workers on work visas. We expect population growth to slow to an average of about 0.5 per cent.

B.C.'s non-permanent resident share of population is highest in the country at 9.3 per cent and may be more exposed to the reduction in NPRs. That said, this is unlikely to be a uniform target across the country. Negative net non-permanent resident figures will continue to be offset by historically elevated permanent immigration. Flat population growth will contribute to weaker GDP growth in the economy, but also higher productivity and a tighter labour market.

Era of rapid population growth closes



Federal stimulus measures including the GST holiday, potential rebate cheques will provide a temporary lift to spending and growth in late- 2024 and early 2025 but will not have long lasting impacts for the economy.

B.C. to see modest growth in consumption, housing gains traction

Consumer spending is forecast to rise even as population growth slows over the forecast period. Lower interest rates are anticipated to fuel increased spending through 2025 through several channels. Interest rate sensitive purchases such items such as vehicles and housing will rise, with the latter triggering ancillary spending. Indebted households will feel some relief due to the lower rates and re-allocate some funds to spending. While a weaker period of population growth is an automatic constraint to consumer spending, rising real wages, and a natural increase in productivity from newcomers over the past two years will lift per capita spending. Newcomers take time to acclimatize to local labour markets and society, but income gaps do narrow. Indeed, low population growth could contribute to a more rapid tightening of the labour market.

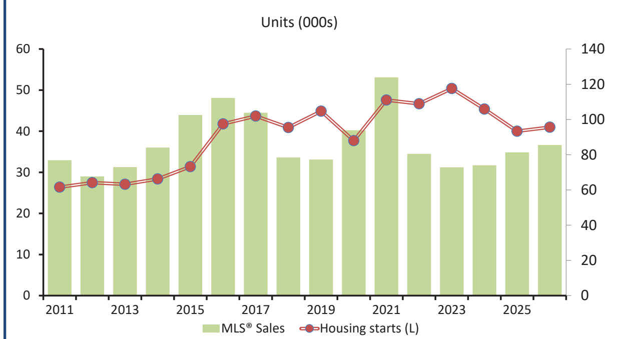
That said, the lagged effects of past rate hikes will still be a drag on households. CMHC estimates about 2 million fixed rate loans to be renewed in Canada over the next two years or about 40 per cent of mortgages, with about 80 per cent originating from the ultra-low-rate environment early in the pandemic. Many homeowners will face higher costs, but these are manageable given that many were stress tested, while wages have risen, equity is higher, and rates are falling faster than previously expected.

The housing market is also expected to gain traction and shift out of the current doldrums as affordability improves with rate cuts, just as rate hikes had the opposite effect over the past two years. B.C.'s housing market has already shown signs of rebounding in the late stages of 2024. Prices have remained elevated, and sales have tended to accelerate once fixed rates were cut, reflecting pent up demand on the sidelines. Low mortgage debt amongst younger households reflects not a deleveraging pattern, but lack of financing options. Buyers are impatiently waiting for entry points and seeing one emerge. Alongside rate relief, federal mortgage insurance and allowance of 30-year amortization products to first-time homebuyers will add to demand, particularly in pricier urban markets.

Affordability will remain challenging, but high savings, pent up demand and desire for homeownership are expected to lift home sales early in 2025 and push annual sales higher by 10 per cent with modest change into 2026. Rising demand contributes to a five per cent price increase in 2025 and three per cent in 2026.

B.C.'s housing shortage will be an ongoing challenge, and even with low population growth allowing some catch up, shortages will persist. Poor market conditions contributed to fewer housing starts this year and the lagged effects of low pre-sale transactions will constrain future construction. Lower construction will be particularly acute in the more affordable condominium market. B.C. housing starts have been surprisingly elevated in recent years, even with a forecast 10 per cent decline this year to 45,440 units. That said, further reductions are expected next year to 41,000 units before a rebound in 2026. B.C.'s housing shortage remains substantial even as population growth slows owing to the dynamics of current market conditions and future supply.

Home sales to rebound but starts to decline



Source: CMHC, CREA, Central 1

Domestically, government spending growth will slow as the provincial and federal governments adapt to political pressure curb spending and deficits.

Liquefied natural gas to lift exports, but risk from tariffs and federal policies

Industrial and investment conditions are expected to be mixed given the uncertainties related to U.S. trade policies. At this point, without tariffs, B.C. industrial production and goods export looks to rise. Demand from looks to be buoyed by a strong U.S. economy, while export capacity rises next year due to liquefied natural shipments with completion of LNG Canada. The project is estimated generate 1.8 billion cubic feet per day to be shipped to Asia markets. B.C. currently produces 6.7 billion, suggesting a substantial lift (20 per cent) to new production albeit with some shift from existing output to LNG to take advantage of higher prices. Higher LNG prices partly de-risks B.C.'s natural gas sector from low North American prices and excess supply. This marks a permanent upshift in B.C. exports. However, sectors like forestry will weaken with headwinds from combined countervailing and anti-dumping duties of 14 per cent already in effect this year, compounding challenges from mill closures, and harvest policies[1].

B.C. will suffer from any trade tariffs, but trade diversification shelters the provinces from some of the direct impacts. B.C. ships about 50 per cent of its international goods exports to the U.S. compared to 76 per cent for Canada as whole as the province is more diversified towards Asia-Pacific economies. Comparatively, this share is about 77 per cent in Ontario and 90 per cent in Alberta, with the latter due to crude oil exports. Additionally, B.C.'s resource driven economy provides some buffer against tariffs as natural gas and electricity sales are not easily substituted. That said, tariffs are additive to lumber duties. Further tariffs on these products will add to the pain for B.C. producers. The high tariff environment in 2017/18 contributed a massive cull in the industry and pivot of activity to the U.S. Tariffs will be borne in large part by U.S. consumers, but we would expect demand destruction and further sector losses. Consumer goods exports would also be hit hard. We would expect a weaker Canadian dollar to provide some modest cushion for Canadian products.

Services exports, while a smaller component of trade faces risks from both tariffs and policies to pause population growth. Specifically, impacts from the latter will be felt on post-secondary institutions which export education services and will reduce programming. Expect reduced activity, and lower capital investment in this sector. It is unclear if exports of professional services and other services would be subject to tariffs.

Capital investment is anticipated to slow down. Completion of major public and private projects will reduce engineering investment and public-sector spending. There is no clear replacement for major project investment dollars. Private sector investment should be buoyed by a lower interest rate environment but will depend on the state of business optimism and the outcome of Trump tariff policies. A weaker Canadian dollar would also limit capital investment spending.

1 https://www2.gov.bc.ca/gov/content/industry/forestry/competitive-forest-industry/softwood-lumber-trade-with-the-u-s

Labour market to record modest job gains

Modest expansion in B.C.'s economy lifts overall employment modestly over the next two years. Employment is forecast to rise 1.8 per cent this year, and average roughly the same in both 2025 and 2026. The unemployment rate is likely to hover near 5.7 per cent through 2025 before declining. While the labour force participation rate increases, the slow growth in population growth will constrain growth in the labour force. Wage growth is forecast to hold at a pace of around three per cent, with general inflation near two per cent.

B.C.'s population is forecast to slow but as noted, we expect reality to fall short of the government's intentions and population growth to still nudge higher by close to one per cent annually in 2025/26 which continues to provide mild support for consumer demand and services.

Bryan Yu
Chief Economist
byu@central1.com
604.742.5346
Mobile: 604.649.7209

B.C. Economic Forecast

Indicator	2023	2024	2025	2026
Nominal GDP	4.0	3.7	5.0	4.7
Real GDP	2.4	1.5	2.6	2.5
Household consumption	1.5	1.9	2.5	2.5
Durables	1.1	1.0	2.5	3.5
Non-durables	0.7	0.1	2.6	3.0
Services	2.3	2.7	2.5	2.0
Government consumption	6.9	1.6	1.3	1.3
Investment	-1.6	-1.8	1.1	2.5
Residential	-7.7	1.6	5.0	4.0
Non-Residential	3.8	-6.1	-3.0	1.0
Construction	6.2	-5.9	-3.0	1.0
M&E	-3.0	-6.5	1.0	1.0
Government Investment	22.0	5.0	-5.8	-6.5
Exports	1.4	0.2	2.1	2.6
Imports	1.0	0.9	3.2	3.1
Employment	1.6	1.8	1.7	1.6
Unemployment Rate	5.3	5.6	5.7	5.2
Population Growth	3.3	3.2	0.7	0.3
CPI	3.9	2.5	2.2	2.1
Retail Sales				
Housing Starts	50,490	45,441	40,000	41,000
MLS Sales (000s)	72.9	74.0	81.4	85.5
%ch	-9.3	1.5	10.0	5.0
MLS Average Price (000s)	971.8	981.5	1025.7	1066.7
%ch	-2.6	1.0	4.5	4.0