British Columbia: 2018–19 Outlook

MODERATING GROWTH, BUT CONTINUING STRENGTHS

- **After its extraordinary 2013–17 expansion averaging 3.6% annually, British Columbia's real GDP growth is expected to moderate to 2½% in both 2018 and 2019, still leading the other provinces alongside Alberta.**
- **As BC's consumer spending and housing activity cool, machinery & equipment (M&E) investment will be key to growth this year, and net exports should assist in 2019. While natural resources remain significant, other sectors, from advanced manufacturing to business services, are critical to BC's income growth.**
- **With much of the BC economy currently operating at capacity, nominal wage and price increases are expected to steepen.**

Consumer spending, after anchoring BC's robust advances over the last four years, is expected to slow from an estimated gain of over 4½% in 2017 to about 3% in 2018 and 2½% next year. Job creation of 3.7% in 2017—the largest jump since 1994—propelled household spending, building on a 3.2% employment advance in 2016. This year through July, full-time jobs growth is 0.9% y/y, down from last year's 3.9%. BC retail sales, which surged 7½% annually over 2014–17, are up only 5.0% y/y through May 2018, evidence of a more cautious consumer.

Increasing weekly wage gains are anticipated over the next 18 months, but rising inflation will likely leave consumers' purchasing power largely unchanged. Pushing up BC wages are widespread labour shortages, reflected in BC job vacancy rates of at least 4% over the four quarters to Q1–2018, higher than any other province. As well, the minimum wage is scheduled to rise more than 10% annually this year and again in 2019. Yet even with relatively high living costs, BC's weekly wages through May this year were still 6% and 17% lower than Ontario's and Alberta's, respectively, according to Statistics Canada's *Survey of Employment, Payrolls and Hours*.

BC's headline CPI inflation by late 2018 is expected to be close to 3.0%. Achieving greater affordability for housing and a range of other services is expected to be a multi -year provincial policy process, affecting BC's near-term attractiveness for workers and employers. BC's *2018 Budget* managed and extended the government's multiple commitments in order to retain modest annual surpluses through fiscal 2020–21 and still address its priorities of housing and child care affordability and availability. Near-term cost relief for residents has included constraints on provincial fees such as ferry fares, enhancements to *Fair PharmaCare*, and a 50% cut in *Medical Services Plan* premiums for 2018, en route to their elimination in 2020. To help finance these initiatives, new measures include an Employer Health Tax and a *Carbon Tax,* no longer revenue neutral, that will rise by $5 per tonne of carbon dioxide equivalent annually for four years, starting April 1, 2018.

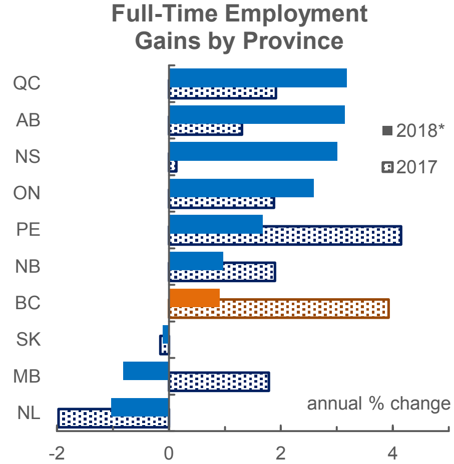
Price gains for higher-end single-detached homes have deflated, from an average annual pace of almost 21% during 2015–16, to expected increases well below 10% this year and next. This trend is reinforced by measures in the

CONTACTS

Marc Desormeaux
416.866.4733
Scotiabank Economics
marc.desormeaux@scotiabank.com

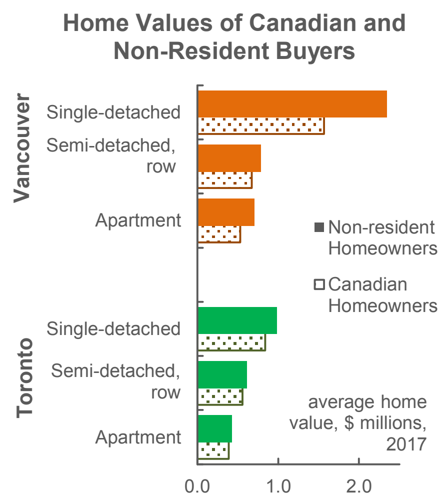
Mary Webb
416.866.4202
Scotiabank Economics
mary.webb@scotiabank.com

Chart 1



* Jan. - June. Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

Province's 30-point housing plan such as expanding the non-resident buyers' tax, introducing a speculation tax and raising levies on homes valued over $3 million (see BC Housing Outlook). Non-resident buyer activity in Vancouver in the single-detached market segment is reflected in a $775k price premium versus Canadian-owned homes (chart 2).

For homes at more moderate price points such as townhomes and apartments, the 15%–25% annual price jumps in BC's four largest cities during 2016–17 have extended into 2018 as the cumulative shortages of these unit types is only gradually remedied. Tight CMA apartment vacancy rates have pushed up rents and the supply of larger homes in multi-unit developments for families is only slowly expanding.

As consumption growth and housing activity moderate, business investment this year should be propelled by the continued upward trajectory in M&E purchases. The response to capacity constraints across multiple industries was signaled by Statistics Canada's *Capital & Repair Expenditures Survey*, indicating a nominal 2018 increase of almost 9.0% in private-sector M&E outlays for BC.

Non-residential construction activity is forecast to advance this year, but at a slower pace than machinery investment. A decrease in commercial building is expected to negate strengthening investment in industrial buildings, which it dominates by a factor of three (chart 3). Work on the Trans Mountain Pipeline Expansion is resuming and as the $1.1 billion John Hart hydroelectricity station replacement/upgrade is finished this year, the Province is proceeding with the $10.7 billion Site C hydro-electricity project for completion in 2025.

Also contributing to construction momentum is the provincial government's projected 23% jump in taxpayer-supported capital spending to $5.2 billion in fiscal 2018–19, a level that is then sustained through fiscal 2019–20. In response to the escalating capital, operating and maintenance expense of bridges, highways and transit and the concerns about rising traffic congestion despite these investments, mobility pricing—including decongestion charges—is being studied for the Lower Mainland.

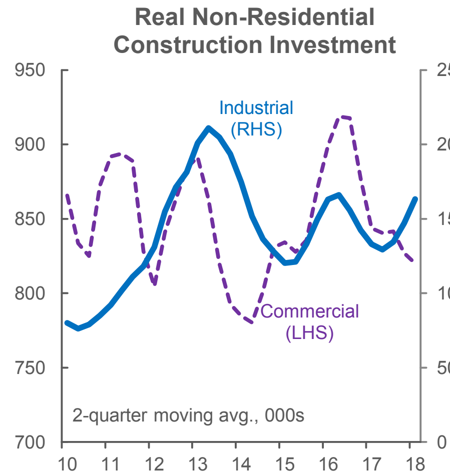
The expected drag from net export volumes this year, despite projected real export gains in the 2½% range, stems from the anticipated upswing in imports given still-strong consumption growth and rising machinery purchases. In 2019, with more moderate consumer goods and machinery demand, net exports are likely to once again boost BC's economic growth.

A vibrant tech sector should continue to support BC's domestic and export competitiveness across multiple sectors, including advanced manufacturing and business services. For information & communications technology specifically, activity in BC expanded by 29½% from 2010 to 2017, outpacing all other provinces (chart 4). Vancouver and Victoria house several high-tech satellites of major international corporations as well as rapidly expanding local firms.

Also bolstering BC's exports are the province's strong ties to Asia. Excluding oil & gas extraction, 42% of BC's 2017 merchandise export receipts were destined for Asia, by far the highest share of any province. China, plus Japan and South Korea dominate BC's merchandise export sales, but the Province and private-sector interests continue to develop other markets such as India (chart 5).

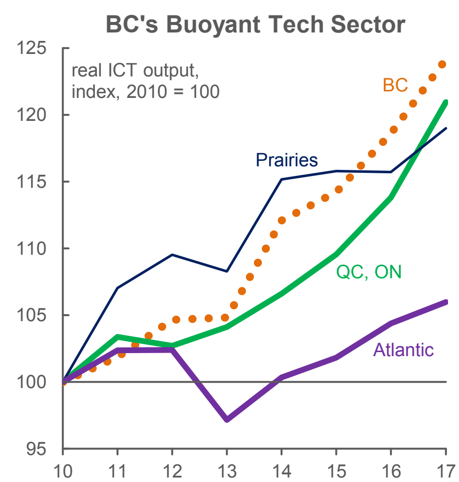
By sector, forest product export receipts will be boosted by near-record-high Western Spruce-Pine-Fir prices—up 49.5% y/y through July 2018 after the hefty 33% increase in 2017, benefitting from firmer US housing starts. Softwood lumber export

Chart 3



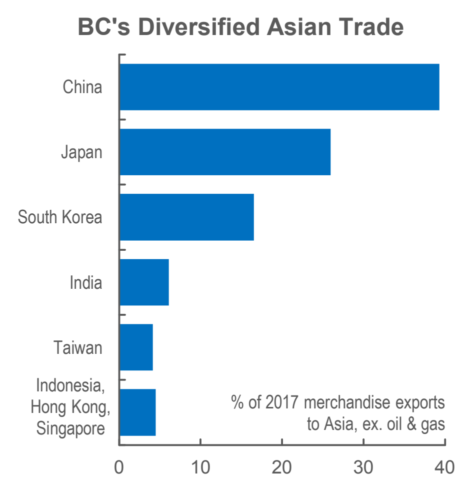
Sources: Scotiabank Economics, Statistics Canada.

Chart 4



Sources: Scotiabank Economics, Statitstics Canada.

Chart 5



Sources: Scotiabank Economics, Industry Canada.

volumes, however, are down 9.6% y/y through June and wildfires are again an issue this summer. Final US countervailing and anti-dumping duties on uncoated groundwood (which includes newsprint) announced in early August are lower than the preliminary determination but still sizeable.

Reopened mines are creating additional upside for metallic minerals. Exports should see a boost with copper-molybdenum and copper-gold mines back online after temporary wildfire-related closures last year. As well, the Myra Falls zinc-copper-lead mine reopened in early 2018 following facility upgrades. In Kitimat, upgrades to the aluminum smelting operations are helping BC weather the 10% US tariffs imposed on aluminum shipments as of June 1st.

For coal exports, primarily metallurgical coal used in steel production, the deceleration begun in the second half of 2017 is expected to continue this year. Global demand for metallurgical coal was stimulated last year by construction projects related to the summer's Chinese Communist Party convention.

As Canada's Pacific gateway, with broad provincial government support for international interaction, BC's transportation & warehousing activity should continue to expand, after the 2014–17 rise of 18.5% which led all other provinces. The Port of Prince Rupert completed its Fairview Terminal expansion last year, raising annual shipping capacity 1.35 million twenty-foot equivalent units (TEUs), a 46% rise over last year's throughput. Vancouver Port's throughput is up 5.1% y/y as of June, building on the 2017 record of 3.2 million TEUs. The proposed $2 billion Roberts Bank terminal upgrade would lift its annual capacity by 2.4 million TEUs. At the Vancouver International Airport, freight is up 10.9% y/y through June, and rapid air cargo growth is a key objective of the 20-year, $9 billion expansion.

Tourism, another source of services exports, continues to generate new investment. Though last year's sesquicentennial helped to attract 5.7 million international overnight visitors—an all-time high—further gains are forecast, with an expected assist this year from the Canadian dollar remaining below 80¢(US). The Port of Vancouver forecasts a healthy 6.2% increase in 2018 for cruise ship passengers, which builds on a 2% advance last year that resulted in the highest number of visitors since 2009.

Film & television production in BC in 2016–17 surpassed Ontario activity for the first time. Full-time equivalent positions in 2016–17 in this industry climbed 40% above the prior year.

Victoria, Kelowna and Abbotsford-Mission CMAs in the past four years have witnessed substantial inflows of businesses and residents from Vancouver as price pressures rendered the largest CMA less competitive for some types of activity. Victoria's employment is projected to climb by 1¼% in both 2018 and 2019 after last year's 4.3% gain and a 3.9% unemployment rate. In Abbotsford, full-time hiring has averaged a hefty 2.2% annually since 2014. The further expansion anticipated for BC's four largest cities, given factors such as Canada's rising international immigration targets through 2020, underscores interim recommendations for BC's Agricultural Land Reserve that prioritize "agriculture first".

In the wings for British Columbia is a potential final investment decision (FID) for the $40 billion LNG Canada project to ship LNG from Kitimat to Asian markets, bolstering interest in northeastern BC's extensive natural gas reserves. The project would accelerate BC's growth again, steepening the challenge of containing provincial cost pressures. BC's new framework for natural gas development emphasizes the protection of air, land and water, but repeals the LNG income tax and offers further incentives such as general industrial power rates to LNG Canada for an FID before December 1. LNG Canada and the smaller Woodfibre LNG development in Squamish await a federal decision on tariff exemptions for imports of the complex steel modules required for each terminal. Meanwhile, the $0.5 billion Ridley Island project to export up to 40,000 barrels of propane daily will be completed next year and a $0.3 billion propane facility is proposed for Prince Rupert with a mid-2020 service date.

British Columbia Profile, 2017

BC Population, July 1	4.8mn (13% of Cda)
annual % change	*1.3*
Vancouver CMA	2.6mn (53% of BC)
annual % change	*1.1*
Victoria CMA	377,400 (8% of BC)
annual % change	*1.2*
Abbotsford-Mission CMA	190,700 (4% of BC)
annual % change	*1.2*
Rest of BC	167,800 (35% of BC)
annual % change	*1.4*
Real GDP, C$ 2007 bn	249.1 (13.4% of Cda)
Per Capita Nom. GDP, $000	57.8 (99% of nat'l avg.)

Economic Outlook

	2010-16	16	17*	18f	19f
	annual % change except where noted				
British Columbia					
Real GDP	2.8	3.5	3.9	2.5	2.5
Nominal GDP	4.5	4.8	5.9	5.0	5.1
Employment	1.4	3.2	3.7	1.2	1.2
Unemployment Rate	6.6	6.0	5.1	4.8	4.8
Housing Starts, 000s	28	42	44	42	39
Canada					
Real GDP	2.1	1.4	3.0	2.2	2.0
Employment	1.3	0.7	1.9	1.2	1.0

Governance

Premier	John Horgan, NDP; supported by *Confidence Agreement* with BC Green Party
Seats in Legislature	41 of 87
Last Election	May 2017
Credit Ratings:	
Moody's	Aaa
S&P	AAA
Fitch	AAA
DBRS	AA(high)

* BC real GDP in 2017: by industry at basic prices. Sources for Tables: Scotiabank Economics, Statistics Canada, CMHC, BC Legislature, Rating Agencies.