Keeping the lead after all

This BC economy just keeps on going. Not even a 40% correction in the Vancouver housing market seems to rattle it much. With so few signs of a slowdown out there at this stage, our previous forecasted growth rate of 1.9% for 2017 looked overly pessimistic. We have therefore boosted it to 3.0%, which keeps BC at the top of our provincial growth rankings for the third consecutive year. Yet we continue to expect that housing-related activity will contribute less to BC’s expansion. The softwood lumber trade conflict with the US is another restraining factor that will weigh on provincial exports and the manufacturing sector. For these reasons, our view is that growth will moderate from the supercharged rate of 3.6% in 2016—a 10-year high. We expect further moderation in 2018 to 1.8% when we see renewed downward pressure on the housing market emerging in the face of rising interest rates.

Hard pressed to find signs of a slowdown

It has become repetitive but still nice to say: the majority of economic indicators in BC continue to paint a vibrant economy that carries a lot of momentum. The labour market is on fire. Employment growth, at 3.6%, is spectacular—far stronger than in any other province. BC has the second-lowest jobless rate (5.6% as of May) in the country after Manitoba. Population growth is at a 7-year high thanks to wave of migrants coming from abroad and other provinces. Sales of provincial retailers, wholesalers, manufacturers and restaurants continue to grow briskly—still lead the country in annual growth or ranking close to the top. Residential construction activity remains exceptionally strong even though housing starts have come off their 23-year high recorded last year. Work on condo units started last year will take a while to complete.

Housing correction: is this it?

The latest news on the BC housing market indicates that last year’s downturn may have run its course. We see evidence that home resale activity in the Vancouver area, for example, has picked up this spring and that prices have begun to firm up again. Our view now is that the market will continue to recover gradually through the remainder of this year. This means that we no longer expect the housing sector to weigh on economic growth as much as we thought previously. Still, we see clouds forming over BC housing market again next year when we anticipate interest rates beginning to rise in Canada.

Major construction projects at risk?

The economic implications of the May 9 provincial election aren’t fully clear at this point but risks have increased for a couple of major capital projects in the province. The likelihood of a coalition government between the NDP and Green party puts into question the earlier nods given by the incumbent Liberal government to the $8.3 billion Site C hydroelectric dam and $7.4 billion Trans Mountain pipeline expansion. Under a pact signed at the end of May, an NDP-Greens coalition government would “employ every tool available” to stop the expansion of pipeline and ask for further regulatory review of the dam project. The risks to the economy of any delays or shelving of these projects are more about the medium to longer term prospects than an immediate hit. In both cases construction work was scheduled to be on a lower gear this year.