BRITISH COLUMBIA - A housing-led growth slowdown

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British Columbia has been among Canada’s growth leaders over most of the past decade and preliminary data from Statistics Canada shows the provincial economy grew at its fastest pace since the recession in 2017. We expect somewhat slower, but still above-trend, growth to continue through 2018. Looking to 2019, British Columbia’s growth will slow toward the national average as a tight labour market curtails employment growth and impediments to investment and trade growth weigh on the outlook. After growing by an estimated 3.7% in 2017, we forecast the economy to grow by 2.3% in 2018 and 1.7% in 2019.

Part of the reason for British Columbia’s strong performance over the past several years is its housing sector. Over the past three years, residential investment has accounted for nearly one-third of British Columbia’s growth. Residential investment spending has been powered by population growth and tight supply. While those engines will remain in place, the recent pace of activity is unsustainable. New stringent mortgage rules and a host of new housing taxes introduced in Budget 2018, coupled with the market’s sheer lack of affordability in the face of rising interest rates will slow demand at a time when units under construction are at a record level, cooling investment going forward.

The outlook for non-residential investment is also dimmer this year. Preliminary indicators from Statistics Canada suggests that capital spending will be lower in 2018 and the recent furor over the Trans Mountain pipeline extension may cause firms to second guess other investments in the oil and gas sector. Squabbling between governments jeopardized the construction of the multi-billion dollar project which followed on the cancellation of other projects in the sector. Nevertheless, as this report goes to press the Trans Mountain pipeline seems likely to be built with the federal government buying the project, and investment will continue on a number of other major projects including Site C hydroelectric dam. Outside of the oil and gas utilities sector, investment in other sectors may suffer from concerns over trade. Countervailing and antidumping duties on softwood lumber, tariffs on aluminum and steel, and an uncertain outlook for NAFTA may affect investment planning.

Strong economic growth has been attended by impressive job creation and a declining unemployment rate which reached a ten-year low of 4.6% in December 2017. While job growth has slowed markedly so far in 2018, we expect labour markets to remain tight in the province keeping upward pressure on wages. Wages and employment will also be supported by government action including scheduled increases in the minimum wage and a strong profile for government spending. Young families will get some relief as the provincial government ramp up subsidies for childcare. This will help offset the blow from record gasoline prices driven in part by an increase in the carbon tax.